

# Nikkei South Korea Manufacturing PMI<sup>®</sup>

## Manufacturing exports drop at fastest rate in over five years

### Key points:

- Marked drop in total new orders pulls headline PMI below 50.0
- Weak economic conditions drag exports down
- Business confidence at lowest since August 2016

Data collected November 12<sup>th</sup> – 22<sup>nd</sup>

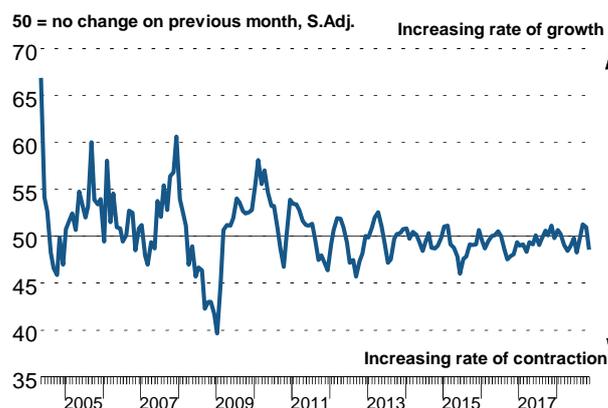
The demand environment faced by South Korean manufacturers turned unfavourable during November, with both total new sales and new export orders falling at relatively marked rates. Subsequently, firms responded by cutting production and employment, driving the headline PMI into negative territory for the first time since August. Concerns towards the economic outlook were also raised by some firms, with business confidence sliding to a 27-month low and stock levels being reduced.

Survey data also pointed to elevated cost pressures. Output prices were raised in November in response, but weak demand hampered the extent of the pass-through.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index<sup>™</sup> (PMI)<sup>®</sup> – a composite single-figure indicator of manufacturing performance derived from five key survey indices – fell from 51.0 in October to 48.6 in November, signalling a return to contraction for the South Korean manufacturing economy. The extent of the deterioration in business conditions was only modest, but the fastest in four months.

Contributing to the fall in the headline index was a relatively strong drop in total new business. New sales declined at the fastest rate in two years during November, with panellists attributing reduced workloads to weaker economic conditions, particularly in the automobile industry. Panellists also reported growth slowdowns at key trading partners as a factor driving exports to fall at the strongest pace for over five years. Weaker demand both domestically and externally encouraged firms to reduce production for the first time since August.

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Sources: Nikkei, IHS Markit

In line with these developments, future output expectations dropped to their weakest since August 2016. Although sentiment was positive overall, the level of optimism was only slight. Some panellists are anticipating business conditions to deteriorate, while others with exposure to the automobile sector were particularly concerned about the demand outlook.

Weaker optimism also led companies to downsize their stock levels. Inventories of both pre- and post-production items declined in November, with companies attributing the reduction to concerns about incoming order volumes. Furthermore, input purchasing was left unchanged since October.

Meanwhile, decreased new business inflows enabled South Korean manufacturers to clear outstanding work during the latest survey period. The rate of backlog depletion was the quickest since June. With output requirements falling, companies cut staffing levels in November, albeit only fractionally.

Elsewhere, goods producers were faced with further cost pressures. Input prices increased at a quickened rate during November, with inflation reportedly stemming from commodities, particularly metals, supplier price rises and greater labour costs. In response, output charges were raised, however the increase was only marginal, as anecdotal

evidence suggested that unfavourable demand conditions had limited the extent to which firms could pass on the rise in cost burdens.

**Comment:**

Commenting on the South Korean Manufacturing PMI survey data, **Joe Hayes**, Economist at IHS Markit, which compiles the survey, said:

*“PMI data for November provided further evidence that weaker global growth is harming South Korean exporters. According to the latest survey, manufacturing exports fell at the sharpest rate in over five years. Soft demand was also apparent domestically, as total new orders fell markedly.*

*“Anecdotes suggest panellists are becoming increasingly concerned about prospects for the automobile sector, with reports suggesting production cutbacks and reduced orders were in part reflective of a downturn in the industry.*

*“Other forward-looking indicators bode ill for the Korean goods producing sector, with stock and employment levels being pared back. In fact, the 12-month ahead outlook for output dipped to the lowest in over two years. Indeed, growth prospects for Q4 seem firmly tilted to the downside.”*

-Ends-

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## Notes to Editors:

The Nikkei South Korea Manufacturing *PMI*® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size, based on the industry contribution to GDP. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, and Transport. Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei South Korea Manufacturing *PMI*® is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from IHS Markit. Please contact [economics@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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