

Nikkei South Korea Manufacturing PMI[®]

Production declines at sharpest rate since August 2015

Key points:

- Headline PMI posts lowest reading in six months
- New orders decline at quickest rate since November last year
- Solid decreases in both input and output prices

Summary:

Latest survey data pointed to a further deterioration in manufacturing operating conditions in South Korea. Manufacturing production declined at the fastest rate in six months, influenced by a drop in new orders for the second month in a row. Consequently, goods producers cut back on purchasing activity for the first time in three months. On the price front, both input and output prices decreased at robust, albeit slower, rates.

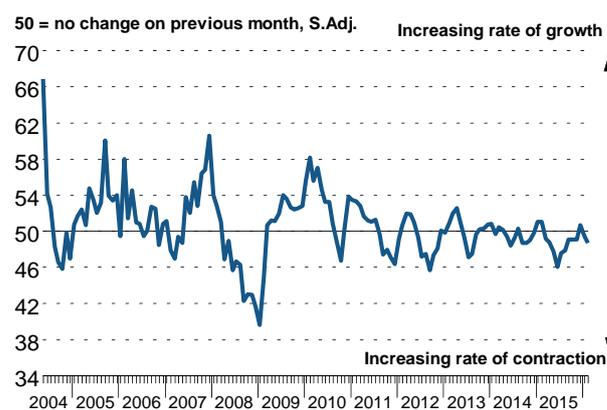
The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of sector operating conditions.

The headline PMI posted at 48.7 in February, down from 49.5 in January, thereby signalling a sharper worsening of operating conditions in the South Korean manufacturing sector. Moreover, the latest reading was the lowest since August last year. This was reflected in sharper contractions in output, new orders and stocks of purchases.

Production at South Korean manufacturers decreased at the quickest rate since August last year in February. According to panellists, reductions in new orders placed by both domestic and international clients led to the contraction in output.

Concurrently, total new orders decreased for the second month running in February. The rate of decline was broadly in line with the average seen over 2015. A number of monitored firms mentioned challenging economic conditions at both the domestic and global levels.

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Evidence of a fall in international demand was also shown in the survey data, as new export orders decreased in February, resuming the trend seen at the end of 2015. However, the rate of contraction was only marginal overall.

As a result of reductions in both new orders and production, buying activity at South Korean manufacturers decreased. Moreover, the rate of decline was the sharpest since August last year. Subsequently, volumes of pre-production items were depleted at the quickest pace in nine months.

Despite employment levels stabilising, volumes of unfinished work declined, highlighting ongoing spare capacity in the region. Surveyed participants mentioned reductions in production and new orders leading to less pressure on capacity and the clearing of backlogs.

Input prices decreased at a solid rate, with a number of firms commenting on lower raw material costs, particularly for oil- and metal-related products. Subsequently, manufacturers were able to reduce their charges. Price negotiations with clients was also cited as a factor driving down selling prices.

Comment:

Commenting on the South Korean Manufacturing PMI survey data, **Amy Brownbill**, Economist at Markit, which compiles the survey, said:

“The latest survey data pointed to worsening operating conditions in the South Korean manufacturing sector in February. Production contracted at the sharpest rate since August last year, suggesting the official rate of decline in manufacturing production will accelerate from December’s reading of -1.8% (year-on-year). Total new orders also declined at a quicker pace, helped by a decrease in new export orders.

“Consequently, manufacturers cut back on their buying activity and at the fastest rate since August last year. Meanwhile, both input and output prices declined at solid, albeit weaker, rates alongside reports of reduced raw material costs.”

-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, Transport.

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.

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 Markit. Please contact economics@markit.com.

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