

Nikkei South Korea Manufacturing PMI[®]

Manufacturing sector begins 2018 in expansionary territory

Key points:

- Quickened pace of output growth underpinned by higher new orders
- Employment declines for a fifth month in succession
- Output prices rise at fastest pace in almost seven years

Data collected January 12th – 23rd

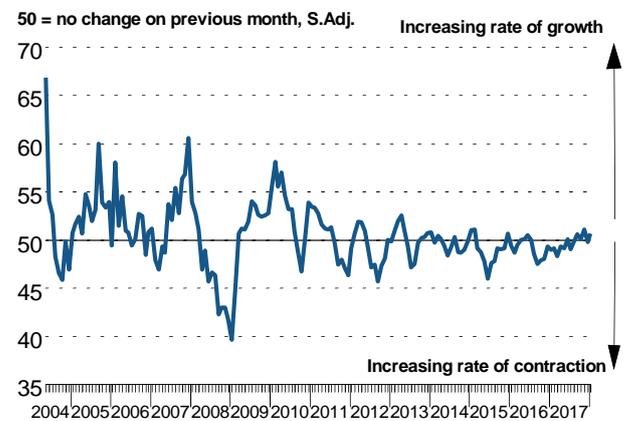
A mild improvement in the South Korean manufacturing sector was observed during January. Production was expanded modestly in line with relatively solid increases in both domestic and foreign demand. That said, firms did not raise employment amid reports of higher labour costs. In turn, lower staffing levels coincided with an increased level of outstanding work.

Clearly buoyed by stronger sales and output, business confidence increased to a 33-month high.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – rose to 50.7 in January from 49.9 in December to signal a mild improvement in operating conditions for South Korean manufacturing firms. In comparison to the trend observed across 2017, latest survey data indicated a relatively solid expansion.

Production was expanded modestly in January, thereby reversing the slight decline recorded in the final month of 2017. Panellists indicated that stronger demand from both new and existing clients had prompted them to raise output. New order receipts increased for the eighth month in succession and at the joint-quickest pace since April 2013 (on a par with August 2014, September 2017 and November 2017). According to anecdotal evidence, demand from both domestic and overseas customers had risen. In turn, new export orders increased for the first time since August amid greater sales to Australia, China and Southeast Asia. Moreover, the rate of growth was the quickest in 13 months.

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Sources: Nikkei, IHS Markit

As a result of greater order intakes, post-production inventories were reduced to alleviate pressure on the production line. Stocks of finished goods were depleted at the quickest rate since October. In line with greater output requirements, firms raised input buying at a moderate pace. Some companies noted that purchasing activity was raised in anticipation of further raw material price hikes.

Input prices increased sharply during January, with inflation accelerating markedly on the previous month. In fact, the rise was the fastest since January 2017. Panellists frequently mentioned that higher operating expenses were a result of commodity price hikes and greater labour costs due to the minimum wage increase. Consequently, South Korean manufacturers increased output charges in January. Selling prices were increased to the greatest extent since February 2011, on a par with March of the same year.

Anecdotal evidence also suggested that the increase in the minimum wage discouraged firms from raising employment. Job shedding in the South Korean manufacturing sector was maintained in January, thereby continuing a trend which has been apparent since September. In line with fewer

new staff hires, backlogs of work were accumulated slightly during January.

Lastly, business optimism strengthened to a 33-month high. Expectations of a stronger economy and greater sales were cited as reasons to be confident.

Comment:

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

“South Korea’s manufacturing sector brushed off the disappointing December reading in January, returning to expansionary territory. Although only mild, the rate of improvement in operating conditions was solid relative to data observed across 2017.”

“Output increased modestly amid stronger demand from domestic and overseas customers, particularly in Australia and Asia. This bears positivity for trade amid potential downside risks arising from renegotiations of the bilateral trade deal with the USA (KORUS).”

“That said, the accelerated rate of new order growth did not coincide with job creation. Reports suggest that the minimum wage increase, which came into effect at the start of 2018, discouraged firms from hiring new staff. Concurrently, the impact of the aforementioned increase in tandem with rising commodity prices led to a sharp rise in input prices. To offset this, firms raised output prices at the joint-fastest rate since February 2011.”

-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.

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