

Nikkei South Korea Manufacturing PMI®

Goods producers raise output at fastest pace in ten months

Key points:

- Modest rise in production the strongest since last November
- Employment growth accelerates to near five-and-a-half-year high
- Business confidence improves, but remains relatively weak

Data collected September 12th – 20th

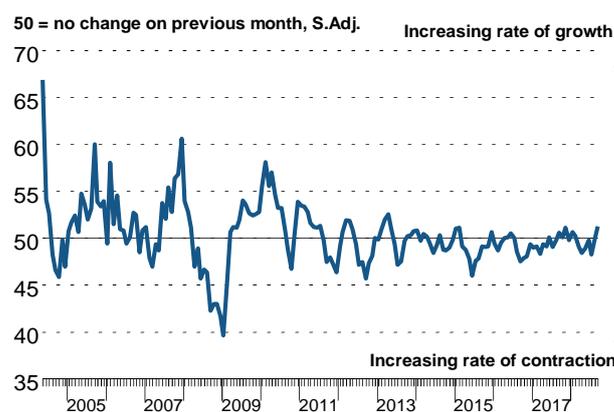
According to September's PMI survey, the South Korean manufacturing sector observed its first improvement in business conditions for seven months. The upturn was driven by a rebound in output growth, while order book volumes increased at a faster pace. Furthermore, positive sales and production trends encouraged firms to boost input buying and recruit new staff to the strongest extent since May 2013. Although business confidence strengthened, it remained relatively muted by historical standards.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance derived from five key survey indices – posted above the no-change mark of 50.0 for the first time since February in September. At 51.3, up from 49.9 in August, latest data signalled a mild improvement in operating conditions faced by South Korean goods producers.

The upturn was driven by greater production volumes. Output returned to expansionary territory in September, increasing at the fastest pace for ten months. Panellists attributed this rise to stronger inflows of new business. Indeed, the intake of new orders grew at a stronger rate than in August. That said, demand improved only mildly and was primarily driven by domestic markets, with export sales declining for a second successive month. According to anecdotal evidence, fewer orders were placed by clients in both China and Japan.

To support production line requirements, South Korean goods producers raised input purchasing in September. The rate of increase was the fastest since January and only the fourth time buying levels

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Sources: Nikkei, IHS Markit

have been raised this calendar year. Concurrently, employment was also raised to enhance operating capacities. In fact, the rate of job creation was the sharpest since May 2013. Some panellists also mentioned that staffing levels were raised to facilitate for greater R&D needs. Increased recruitment and strong output growth helped alleviate capacity pressures in September, as evidenced by a decline in backlogs of work.

Strong input demand exacerbated material shortages, however. The consequent effect was a lengthening of supplier delivery times in September. Input stocks were marginally lower compared to August, despite greater purchasing activity. Similarly, post-production inventories were also cut, with firms using output to fulfil orders instead of stockpiling goods.

Elsewhere, survey data signalled an intensification of cost pressures. The rate of input price inflation quickened amid reports of unfavourable exchange rate movements and raw material cost rises, particularly oil. In response, firms increased selling charges to partly offset profit margin erosion. The rate of increase was only mild, however.

Lastly, output expectations strengthened in September, but the degree of optimism remained relatively weak overall, with some firms anticipating weaker domestic and global economic growth.

Comment:

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

“Amid a backdrop of intensifying trade tensions, South Korea’s manufacturing sector showed a level of resilience during September’s survey period. Goods producers raised output at the strongest rate since last November, while manufacturing job creation rose to the fastest extent in almost five-and-a-half years, as firms continue to adjust to the various labour market reforms introduced at the beginning of the year.

“That said, latest data indicated further woes for the country’s exporters, with foreign demand reportedly declining due to weaker orders from China and Japan. An overall increase in new business suggests that current demand levels are being supported by the domestic market. Meanwhile, expectations of slower global growth weighed on business sentiment, with output expectations remaining relatively muted by historical standards.”

-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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