

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

## Output and employment decline in October

### Key points:

- Business conditions improve only fractionally
- Job losses continue amid falling production
- Cost burdens rise sharply

Data collected October 12<sup>th</sup> – 23<sup>rd</sup>

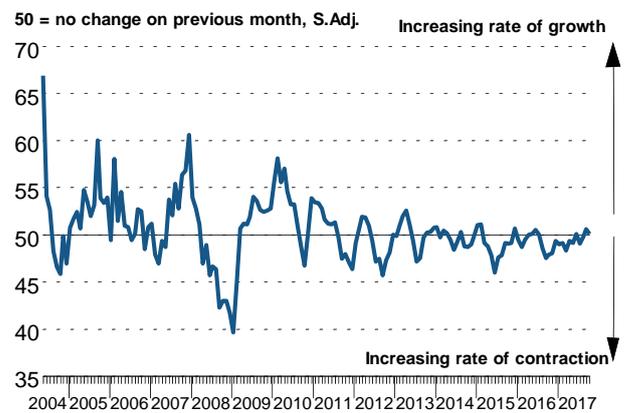
A fractional improvement in South Korean manufacturing sector business conditions was signalled by October data. Following a rise in September, output contracted marginally in the latest survey period. Weaker production was accompanied by firms reducing their staffing levels for a second month in a row. That said, incoming new business grew at a moderate pace. On the price front, input costs increased sharply, while output charges rose slightly.

Businesses maintained an upbeat outlook regarding future output in October, with the level of positive sentiment increasing following September's ten-month low.

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 – edged lower to 50.2 in October, from 50.6 in September. Overall, the headline PMI signalled a fractional improvement in the health of South Korea's manufacturing sector. That said, this was the first time since July 2016 that the index has posted above the 50.0 no-change threshold for two months in succession.

Incoming new business rose for a fifth consecutive month in October, albeit at a slightly softer pace than that seen in September. Evidence provided by panellists highlighted that new customers and products boosted new orders. In contrast, new export orders declined amid reports of weaker demand from China. Despite higher new orders, output contracted in October, albeit at a fractional rate. Some panellists reported that demand conditions had weakened, particularly in the automobile industry.

### Nikkei South Korea Manufacturing PMI



Sources: Nikkei, IHS Markit

The combination of higher new orders and falling output led firms to use post-production inventories to meet order book volumes. Consequently, stocks of finished goods declined in October. The rate of depletion was moderate, but quicker than that seen in September.

South Korean manufacturers continued to observe rising cost burdens in October. Input price inflation was sharp, accelerating to a nine-month high. Panellists widely reported raw material price hikes as a key factor behind higher input costs. In turn, firms passed on part of this cost burden to customers, as prices charged by manufacturers increased marginally.

Rising costs of production also impacted capacity pressures across the South Korean manufacturing sector. According to anecdotal evidence, orders were received ahead of schedule due to rising raw material prices. Backlogs of work were accumulated at a modest pace in October.

Despite the rise in outstanding work, businesses reduced their staffing levels for a second consecutive month. The rate of job shedding was moderate, but quicker than in September.

Businesses remained optimistic regarding future output volumes in October. Moreover, confidence strengthened following September's ten-month low.

Panellists forecast that the South Korean economy will improve over the coming 12 months, spurring on production.

**Comment:**

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

*“October data signalled a slight improvement in the South Korean manufacturing sector following a relatively strong September headline figure.*

*“Firms opted to fulfil higher new orders with their stocks of finished goods, rather than generate output on the production line. As a result, output declined, while the rate of job shedding quickened marginally.*

*“The mild influx of new business was linked to sharp input cost inflation arising from hikes to raw material prices. Orders were received ahead of schedule in anticipation of further cost pressures, as customers attempt to hedge against a continuation of the current inflationary trend.”*

-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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