

Nikkei South Korea Manufacturing PMI®

Operating conditions worsen at weaker rate

Key points:

- Headline PMI posts only just below the crucial 50 no-change mark
- Both output and new orders decline at softer rates
- Charges decrease at sharpest rate in six-and-a-half years

Summary:

September PMI data pointed to a general slowdown in the contraction of the South Korean manufacturing sector. Both production and new orders decreased at slower rates and were modest overall. As a result, buying activity at South Korean goods producers fell at a softer pace.

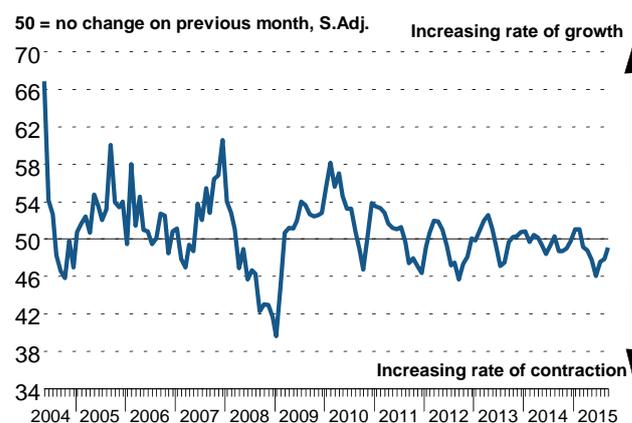
Meanwhile, employment declined, albeit at the weakest rate in the current six-month sequence of reduction. On the price front, input and output prices both decreased, with the latter falling at the fastest rate in 78 months.

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 49.2, up from 47.9 in August, thereby indicating a softer rate of decline in operating conditions at South Korean manufacturers. The latest reading reflected weaker contractions in four out of the five components, with the exception of suppliers' delivery times which was unchanged from the prior month.

New orders in the South Korean manufacturing sector declined for the seventh straight month in September. However, the rate of contraction eased to the weakest rate in the current sequence of decline. Where total new orders decreased, a number of panellists mentioned poor sales from both domestic and international clients, while some commented on unstable economic conditions.

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Sources: Nikkei, Markit

Consequently, manufacturing production contracted in September, stretching the current period of falls to seven months. However, similar to new orders, output declined at the slowest pace since April.

Continuing the trend observed since March, new orders from abroad decreased. According to a number of survey respondents, reduced trade volumes with China led to a reduction in exports, while some commented on poor global economic conditions.

Alongside declines in production and new orders, buying activity decreased for the seventh month running in September. However, the rate of contraction eased to the weakest in five months.

Lower raw material costs, particularly oil-related products and metals, was cited as the key driver behind reduced purchasing prices. Although moderate, the rate of decline was the fastest since April. Subsequently, charges decreased as manufacturers benefited from reduced input costs. Furthermore, the latest fall was the sharpest since March 2009.

Comment:

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

“Latest survey data pointed to a weaker deterioration in operating conditions in the South Korean manufacturing sector. Production, new orders, employment and stocks of purchases all contracted at weaker rates. Meanwhile, both input and output prices declined as panellists reported cheaper raw material costs, particularly oil-related products and metals. Moreover, selling prices declined at the fastest rate in six-and-a-half years.

“In contrast to total new orders, new export orders declined at a faster rate in September. Several surveyed participants mentioned a fall in trade volumes with China as the key driver behind the fall in international demand.”

-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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