

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

### Manufacturing conditions worsen at marginal pace

#### Key points:

- Production declines at slowest rate in current five-month sequence of contraction
- New orders fall at softer pace, helped by a resumption of new export growth
- Cost inflationary pressures accelerate to 67-month high

Data collected December 6<sup>th</sup> – 14<sup>th</sup>

The latest survey data showed signs that the South Korea manufacturing downturn was easing, with both production and new orders declining only marginally. The slower decrease in new work inflows was partly helped by a boost in international demand, with new export orders expanding for the first time in five months. This encouraged goods producers to increase their buying activity at the sharpest rate in 22 months.

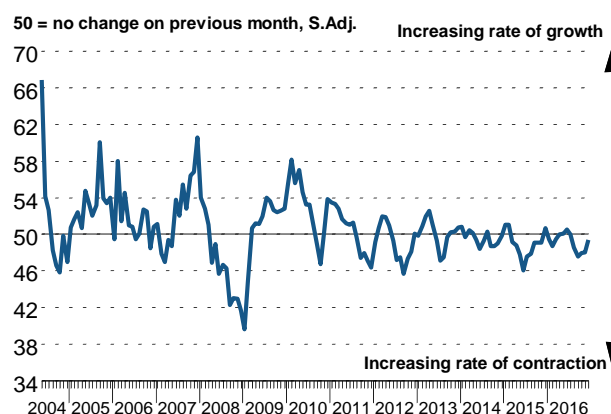
However, on a less positive note, employment declined at the quickest rate in over two years. On the price front, cost burdens rose to the greatest extent since May 2011, leading to an increase in charges for the first time in over three years.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index<sup>™</sup> (PMI)<sup>®</sup> 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 49.4 in December, up from 48.0 in November, signalling a weaker deterioration in operating conditions at South Korean manufacturers. Moreover, the latest reading was the highest since July. That said, the latest figure did not prevent the quarterly average from signalling the worst quarter since Q3 2015.

Production at South Korean manufacturers declined at the weakest rate in the current five-month sequence of contraction in December. Where output decreased, firms mentioned a challenging economy and a reduction in domestic demand.

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Sources: Nikkei, IHS Markit

Following a similar trend to output, new work inflows decreased at slowest pace since July. Data suggested that the key driver behind the fall in new orders was a decline in domestic demand as international demand increased for the first time since July.

New export orders rose at the sharpest rate in nearly two years during December. Firms mentioned greater trade volumes with India, Thailand, China and Europe. Other panellists also commented on improved advertising and new product launches.

Meanwhile, manufacturers increased their buying activity at the sharpest rate since February 2015. In contrast, goods producers continued to cut back on staffing numbers for the fourth month running.

Finally, greater raw material costs resulting from the weakness of the South Korean won led to a marked rise in input prices. As a result, charges rose at the quickest rate in 68 months.

*Continued...*

## Comment:

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

*“The end of 2016 showed signs that the South Korean manufacturing sector had come through the worst of its downturn. Both production and new orders declined at weaker rates, while international demand increased for the first time in five months. Moreover, international demand rose at the sharpest rate in nearly two years, helped partly by the weakness of the South Korean won against the US dollar.*

*“However, the weakness of the local currency did not bode well for manufacturers’ costs burdens, as greater imported raw material costs drove up input prices to the greatest extent in over five-and-a-half years.”*

-Ends-

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**For further information, please contact:**

**IHS Markit (About PMI and its comment)**

Amy Brownbill, Economist  
Telephone +44 1491 461 063  
Email [amy.brownbill@ihsmarkit.com](mailto:amy.brownbill@ihsmarkit.com)

Jerrine Chia, Marketing and Communications  
Telephone +65 6922 4239  
E-mail [jerrine.chia@ihsmarkit.com](mailto:jerrine.chia@ihsmarkit.com)

Bernard Aw, Economist  
Telephone +65 6922 4226  
E-mail [bernard.aw@ihsmarkit.com](mailto:bernard.aw@ihsmarkit.com)

**Nikkei inc. (About Nikkei)**

Ken Chiba, Deputy General Manager, Public Relations Office  
Atsushi Kubota, Manager, Public Relations Office  
Telephone +81 3 6256 7115  
Email [koho@nex.nikkei.co.jp](mailto:koho@nex.nikkei.co.jp)

**Notes to Editors:**

The Nikkei South Korea Manufacturing *PMI*<sup>®</sup> 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*<sup>®</sup> 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@ihsmarkit.com](mailto:economics@ihsmarkit.com).

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