

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

## Employment declines at sharpest pace since late-2008

### Key points:

- Output and new orders continue to decline
- Firms cut jobs to the most marked extent in almost a decade
- Business confidence eases to a seven-month low

Data collected May 11<sup>th</sup> – 22<sup>nd</sup>

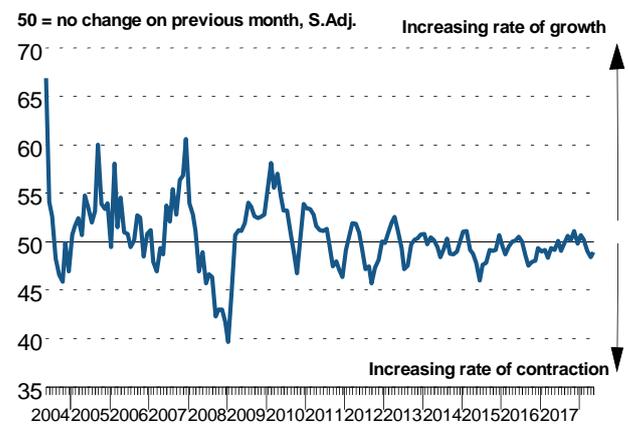
The health of the South Korean manufacturing sector deteriorated in May, according to latest survey data. New order receipts from both domestic and foreign clients declined, leading to a fall in production. Consequently, absent demand pressures motivated firms to cut staff numbers. In line with the decline in operating conditions, business confidence eased to a seven-month low. Nonetheless, firms increased selling charges at the fastest rate in four months amid greater input costs, particularly for oil and labour.

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 – recorded 48.9 in May, up from 48.4 in April, to signal a third successive month of deteriorating business conditions in the South Korean manufacturing sector. Although the latest decline was softer than that seen in the previous month, it was the second-greatest in 14 months.

As has been the case since March, survey data pointed to a decline in new order receipts during May. According to panellists, demand was weaker due to increased competition and fewer sales to existing clients. New work from overseas customers was also lower during the latest survey period. That said, the rate of decline softened noticeably from April and was only fractional. As a result of reduced new business inflows, South Korean goods producers cut back on output.

Due to lower production line requirements, staff numbers were reduced in May. There were also reports that the minimum wage hike introduced this year had encouraged job cuts to help reduce labour costs. The fall in employment was the fastest since

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Sources: Nikkei, IHS Markit

December 2008. Nonetheless, backlogs of work were cleared to a faster degree in the latest survey period. The rate of depletion accelerated to the joint-quickest in a year-and-a-half (on a par with March).

Despite absent demand pressures, capacity constraints at suppliers were evidenced by a lengthening of average lead times. In fact, vendor performance deteriorated to the greatest extent since September 2007 amid reports of raw material shortages.

Input prices were also reportedly impacted by shortages at suppliers. Cost burdens increased for a tenth consecutive month in May. Higher labour costs and greater raw material prices, particularly oil, were primarily linked to the rise in operating expenses. That said, the rate of increase was the softest seen across the current bout of inflation. In response, firms raised output prices to combat profit margin erosion. The rate of charge inflation, albeit only moderate, was the fastest in four months.

Looking ahead, South Korean manufacturers remained optimistic towards output over the forthcoming 12 months in May. Planned new product launches and forecasts of stronger demand were linked to upbeat sentiment. That said, the

degree of confidence was the lowest since October 2017 and eased for a fourth straight month.

**Comment:**

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

*“The South Korean manufacturing sector remained in contractionary territory during May, as has been the case in the past three survey months. The latest deterioration in overall business conditions was a result of declining manufacturing production and softer demand from both foreign and domestic clients. Panellists also mentioned that total output capabilities were somewhat restricted by cuts to workforces.*

*“Survey data pointed to a fall in employment. In fact, the rate of job shedding was the sharpest in almost a decade, with firms attributing layoffs to the minimum wage hike, highlighting the downside impact of President Moon’s labour market reforms. Furthermore, increased pay was reported as a factor driving up cost burdens. Indeed, with momentum in oil prices building, profit margins are likely to continue to come under further pressure. Businesses responded by raising prices at the fastest pace in four months. However, if weak sales continue, the extent to which costs can be passed on to clients may become limited.”*

-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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