

Nikkei South Korea Manufacturing PMI[®]

PMI edges towards expansion territory

Key points:

- Production falls at a reduced rate
- New export orders rise for the first time since January
- Sharp increase in input costs

Data collected August 11th – 22nd

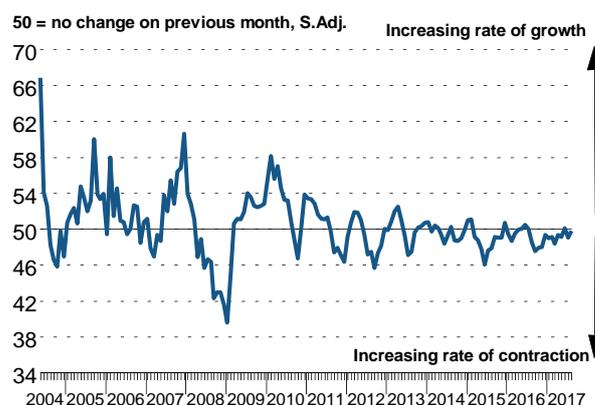
Business conditions worsened fractionally during August. Output continued to fall, although the rate of contraction weakened. Meanwhile, total new orders rose slightly for the third month running, buoyed by a return to growth of new export orders. Higher sales volumes were met directly from stocks, with a fall in inventories of both finished goods and purchases. Employment also rose in anticipation of an expansion of output.

Input costs rose sharply in August, following a fall in July. However, firms cut into their margins and modestly reduced selling prices, the fourth successive month in which a decline has been registered. Optimism among manufacturers strengthened.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] – a composite single-figure indicator of manufacturing performance derived from five key survey indices – remained just below the 50.0 no-change mark in August. Posting at 49.9, up from 49.1, the PMI signalled a fractional decline in business conditions for South Korean manufacturers. However, the rate of decline softened from July.

Manufacturing production declined in August for the thirteenth consecutive month. However, the rate of contraction softened and firms reported increases in total new sales. The modest growth of incoming new business was linked to improved domestic and foreign demand. While total new orders rose for the third month running, a marginal expansion of new export business was the first since January. This illustrated higher client demand from other Asian countries.

Nikkei South Korea Manufacturing PMI



Sources: Nikkei, IHS Markit

Lower output contributed to reduced purchasing activity, with firms instead opting to use existing stocks of raw materials and other pre-production inventories to produce manufactures and meet higher demand. Stocks of finished goods were also depleted at the fastest rate since January as firms attempted to satisfy higher levels of new orders.

Workforce numbers increased slightly again during August, with panel members citing the expected expansion of production volumes as a key reason for creating further jobs. However, backlogs of work declined for the second consecutive month. The lack of pressure on operating capacity highlighted the still sluggish market demand experienced by many firms.

A substantial increase in input prices was observed in August as a result of the weaker South Korean won and higher raw material prices. This represented a marked turnaround from a fall in input costs in July. Input price inflation was not, however, passed on to consumers in selling prices. Instead, prices charged by manufacturers fell slightly, extending the current sequence of deflation to four months.

Despite firms reducing their production, optimism improved from July and remained solid. Output was predicted to increase over the coming year by 31% of firms, with only 18% anticipating that it would fall. Positive sentiment reflected rising new orders and plans to expand production in the coming months.

Comment:

Commenting on the South Korean Manufacturing PMI survey data, **Paul Smith**, Director at IHS Markit, which compiles the survey, said:

“Following a sustained period of weakness, there were some green shoots of recovery in the South Korean manufacturing sector during August.

“Although output fell further, the rate of contraction was slower as new orders rose and export sales recorded some growth. Jobs also continue to be created amid positive expectations for the coming 12 months.

“However, unfavourable exchange rate movements led to a noticeable rise in input costs which has eaten into margins (charges fell again). Moreover, modest sales growth continues to be met directly from warehouses, with finished goods stocks declining in August to the greatest degree since January.

“Further new order wins plus a turn in the inventory cycle is clearly required for true recovery in the sector to take hold.”

-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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