

Nikkei South Korea Manufacturing PMI®

Manufacturing conditions deteriorate at fractional pace

Key points:

- Production decreases, albeit slightly
- New order growth softens to five-month low
- Output prices raised at joint-quickest pace since March

Data collected December 5th – 13th

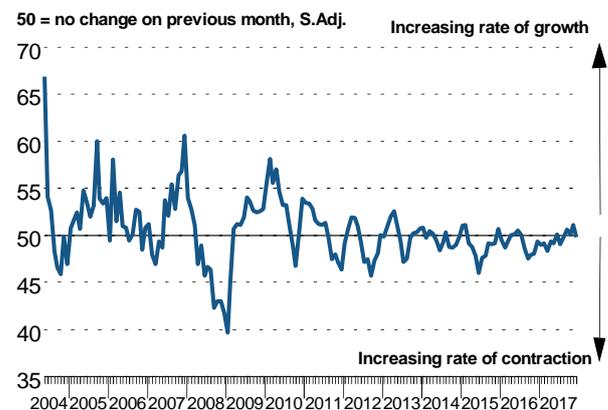
Business conditions for South Korean manufacturing firms worsened during December, albeit at a marginal rate. Production growth failed to gather momentum following November's 33-month high, as output contracted slightly. The pace of expansion in new orders eased to a five-month low, while new business from abroad contracted. In turn, backlogs of work declined, while firms reduced payroll numbers. Nonetheless, firms retained an optimistic outlook.

On the price front, selling prices were raised modestly. Meanwhile input cost inflation, despite decelerating, was strong.

The headline Nikkei South Korea Manufacturing Purchasing Managers' Index™ (PMI)® – a composite single-figure indicator of manufacturing performance derived from five key survey indices – edged lower to 49.9 in December from 51.2 in November. The headline PMI reading posted fractionally below the 50.0 no-change mark to indicate a marginal decline in South Korean manufacturing business conditions.

Output contracted slightly in December, thereby reversing the relatively sharp expansion in production observed in November. Firms suggested that the business environment had been unfavourable, which prompted them to reduce output. While new orders increased, the rate of growth eased to a fractional pace and the lowest since July. Meanwhile, new business from abroad declined for a fourth successive month, with reports from panellists mentioning reduced work from clients in China and Japan.

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Sources: Nikkei, IHS Markit

Firms remained reluctant to enhance operating capacities, with employment falling across the South Korean manufacturing sector for a fourth month in succession. According to anecdotal evidence, firms opted to not replace retiring staff amid lower production requirements. That said, outstanding work was cleared despite rising new orders and job shedding. Backlogs were depleted during December at a modest pace.

Operating expenses continued to rise during December. Manufacturers were particularly impacted by higher oil and metal prices among other raw materials. Consequently, firms increased output charges to counter the squeeze to profit margins. Selling price inflation was unchanged from the modest rate seen in November.

Meanwhile, reduced output and intensified cost pressures did not discourage firms from increasing purchasing activity. Firms boosted input buying in line with higher order book volumes. That said, the rate at which purchasing activity rose eased to a mild pace. Concurrently, firms indicated that input stocks were accumulated in preparation of greater orders. Pre-production inventory levels were increased for a second successive month.

Businesses retained positive expectations regarding future output in December. Although the degree of optimism eased, it remained strong

relative to the average over 2017 as a whole. Confidence was underpinned by planned new product launches and forecasts of higher new orders.

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 ended Q4 back in contractionary territory. Though business conditions only deteriorated slightly, it was a stark contrast to the relatively strong expansion observed in November.

“Growth in new orders eased to a five-month low, discouraging firms from raising output and adding to their payrolls.

“Nonetheless, with an elevated level of business confidence, firms appeared to be less concerned about pricing out their customers. Selling price inflation was unchanged on the month at the quickest pace since March despite a decelerated rate of input cost inflation.”

-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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