

Nikkei South Korea Manufacturing PMI[®]

Operating conditions worsen at solid pace

Key points:

- Headline PMI records second-weakest reading since August 2013
- Production and new orders fall
- Employment declines at fastest rate since November 2014

Summary:

Latest survey data indicated worsening operating conditions in the South Korean manufacturing sector. Production declined at a solid rate, alongside a decline in new orders. Concurrently, employment contracted at the fastest rate since November last year. Pressure from clients and increased competition led to a fall in charges. Meanwhile, input prices decreased, albeit at a marginal rate.

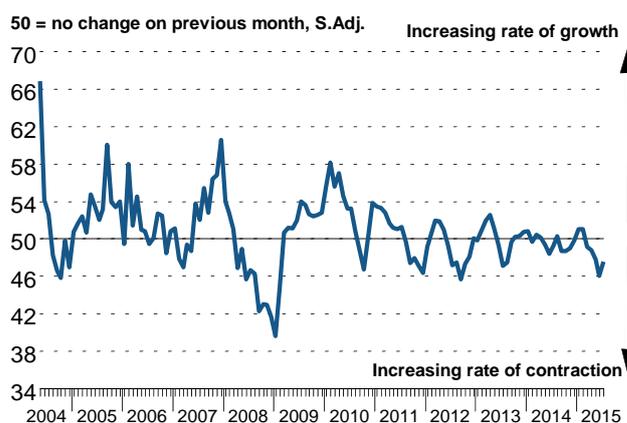
The headline Nikkei South Korea Manufacturing Purchasing Managers' Index[™] (PMI)[®] is a composite single-figure indicator of manufacturing performance. It is derived from indicators for new orders, output, employment, suppliers' delivery times and stocks of purchases. Any figure greater than 50.0 indicates overall improvement of sector operating conditions.

The headline PMI posted at 47.6 in July, up from 46.1 in June, but was nevertheless indicative of a solid decline in operating conditions at South Korean manufacturers. Moreover, the latest reading was the second-weakest in nearly two years.

The overall decline in the manufacturing sector reflected a solid decrease in production in July. Although slowing from June's 33-month record, the rate of decline was the second-fastest since October 2012. According to panellists, unstable economic conditions, reduced sales volumes and the MERS outbreak led to the latest contraction in output.

Driving the latest reduction in output was a further decline in new orders in July. Similar to production, the rate of decline eased from June's 33-month record, but was nevertheless faster than the average seen this year so far. Several survey participants mentioned reduced demand from both domestic and international clients as factors behind

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Sources: Nikkei, Markit

the latest contraction, while some commented on the MERS outbreak.

Subsequently, new orders from abroad contracted for the fifth straight month in July. Unstable economic conditions in key export countries was reported to have driven down international demand.

As a result of falls in both output and new orders, manufacturers cut back on their employment levels in July. Moreover, the rate of job shedding was the fastest since November 2014. According to anecdotal evidence, challenging economic conditions led companies to downsize and cut back on labour. Meanwhile, buying activity declined, albeit at a weaker pace than in the prior month.

On the price front, reduced raw material costs led to a decline in purchasing costs. That said, the rate of decrease was only marginal. Meanwhile, prices charged continued to fall, as reports of increased competition and price negotiations with clients helped to drive down selling prices.

Comment:

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

“Latest survey data signalled worsening operating conditions in July. Although easing from June’s 33-month record, the rate of decline in output remained solid. This was underpinned by a further contraction in new orders. According to anecdotal evidence, unstable economic conditions and the MERS outbreak led to the latest decline in new orders. Subsequently, employment levels declined at the quickest rate since November last year.

Meanwhile, reports of economic unrest in key export countries lead to a fall in international demand, as new orders from abroad declined for the fifth straight month.”

-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 Standard Industrial Classification (SIC) group, 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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