

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

## Manufacturing downturn continues

### Key points:

- Headline PMI up fractionally to 49.2 in February
- Production contracts further alongside moderate decline in new business
- Job cuts evident amid falling backlogs of work

Data collected February 09 – 20

South Korea's manufacturing sector continued to contract during February. Goods producers registered a further decrease in production after new business levels from both domestic and external clients declined. Subsequently, with a lack of new projects, companies continued to work through their backlogs of work, leading manufacturers to reduce workforce numbers for a sixth month in a row. Meanwhile, firms maintained their stock reduction policies during the month as both pre- and post-production inventories fell.

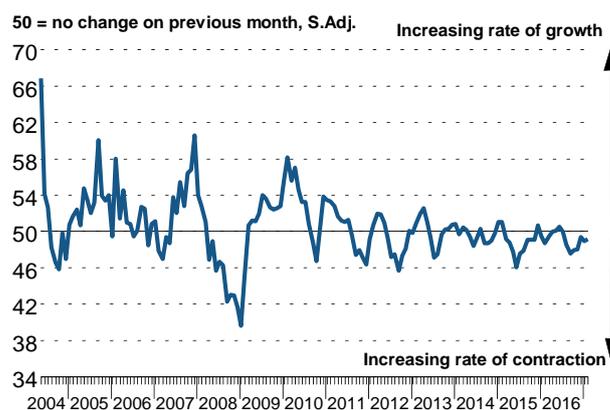
Operating conditions in South Korea's manufacturing sector deteriorated at a weaker pace in February, highlighted by the headline Nikkei Manufacturing *Purchasing Managers' Index*<sup>TM</sup> (PMI)<sup>TM</sup> – a composite single-figure indicator of manufacturing performance - rising fractionally to 49.2 from January's 49.0. Moreover, a decline in the health of the manufacturing sector has been evident in each of the past seven months.

Lower volumes of new business were evident in South Korea's manufacturing sector during February, with the rate of contraction quickening to the fastest for three months. In fact, the decrease in total new work was broad-based as new export orders declined following a two-month period of growth, with panel members linking this to weaker demand from clients located in Japan, China and the US.

Latest survey data pointed to a further reduction in South Korean manufacturing production in February, the seventh successive month which this has been the case. However, the rate of contraction eased to the weakest during this sequence and was only slight.

Continuing a trend which has been observed in every month for the past two years, South Korean

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Sources: Nikkei, IHS Markit

goods producers reported a further deterioration in their levels of outstanding business during February. Subsequently, firms lowered their employment further. According to anecdotal evidence, job shedding throughout the sector reflected a lower level of new business.

South Korean manufacturers lowered their buying activity in February, albeit at only a slight pace. Subsequently, levels of input stocks fell further with panel members also linking this to lower production demands.

Average cost burdens continued to rise at a substantial pace during February, with goods producers reflecting on unfavourable exchange rate movements. However, the rate of inflation eased from January's 71-month record. Moreover, firms raised their selling prices further. Output charges have now risen in every month since December last year, although the latest rate of increase was the weakest during this trend.

Manufacturers operating in South Korea remained confident that production would continue to grow over the next 12 months. That said, the level of positive sentiment fell since January and was weaker than the long-run average.

Finally, average lead times continued to lengthen in South Korea's manufacturing sector in February, albeit at a relatively slight pace.

## Comment:

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

*“February survey data provided little positive news on the current health of South Korea’s manufacturing sector, which remains in downturn amid further declines in output, new business and employment. Although manufacturers lowered production at the weakest rate for seven months, a return to growth in the absence of stronger demand seems unlikely since capacity pressures continued to alleviate. Backlogs of work have now deteriorated in every month for the past two years.*

*“Firms continue to lower their buying activity and are maintaining current stock reduction policies, and with workforce numbers also declining, goods producers appear to be positioning themselves to best cope with a substantial period of weakness over at least the next few months.”*

-Ends-

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**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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