

Nikkei South Korea Manufacturing PMI[®]

Manufacturing sector remains in contraction at start of 2017

Key points:

- Operating conditions worsen at faster pace, driven by quicker falls in both output and new orders
- Input prices increase at sharpest pace in almost six years
- Newly-launched Future Output Index at seven-month high

Data collected January 12 – 24

The South Korean manufacturing sector started 2017 in contraction, with operating conditions deteriorating for the sixth consecutive month. Driving this were quicker falls in both output and new orders. Consequently, goods producers cut back on staff numbers, albeit at the weakest rate in the current five-month sequence of falling employment numbers. On the price front, input prices rose at the sharpest rate in nearly six years, leading to an increase in prices charged.

On a more positive note, the newly-launched Future Output Index signalled the strongest confidence towards the 12-month outlook since June 2016.

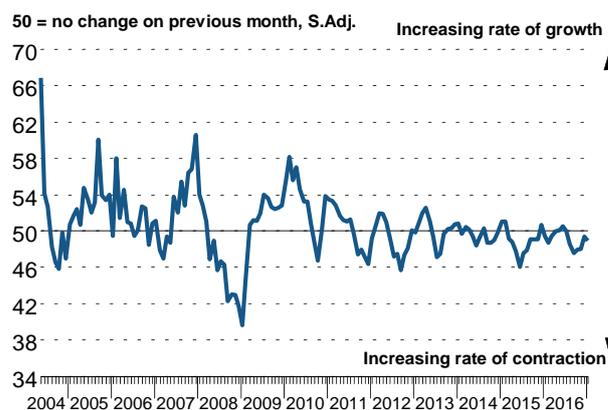
The headline Nikkei South Korea Manufacturing Purchasing Managers' IndexTM (PMI)TM – a composite single-figure indicator of manufacturing performance – posted 49.0 in January, down from 49.4 in December, signalling a sharper deterioration in operating conditions at South Korean manufacturers.

January data pointed to a quicker decline in production at South Korean goods producers. Although marginal, the rate of decrease was quicker than the average over 2016. According to panellists, unstable economic conditions and a fall in new work inflows led to a reduction in output.

New orders contracted for the eighth consecutive month in January. Firms mentioned a lack of consumer confidence as a factor behind the fall in incoming new orders. However, the rate of decline was fractional overall and slower than the average over the aforementioned period.

International demand broadly stabilised in January, after having rose at the sharpest rate in nearly two years at the end of 2016. Those respondents that

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Sources: Nikkei, IHS Markit

noted an expansion mentioned greater trade volumes with China and Japan, while those that registered a contraction commented on challenging global economic conditions.

Resulting from worsening operating conditions, firms cut back on staff numbers in January. However, the rate of job shedding was only fractional. Manufacturers also scaled back on input buying, offsetting the increase seen in December.

Correspondingly, stocks of both pre- and post-inventories were depleted, as goods producers made deliberate efforts to clear stocks.

Meanwhile, input prices at South Korean manufacturers rose at the quickest rate since February 2011. Greater cost burdens were attributed by firms to higher imported raw material costs stemming from unfavourable exchange rates. Consequently, prices charged increased at the quickest rate in over five-and-a-half years.

Despite a gloomy start to the year, manufacturers remained optimistic towards the outlook. Nearly one-quarter of the survey panel anticipate higher output over the coming year, compared to less than 14% that expect a decline. Forecasts of improved marketing activities, new product launches and greater international demand were all cited as factors behind the confidence.

Comment:

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

“The South Korean manufacturing sector remained in contraction at the start of 2017. Both production and new orders declined at sharper rates leading to further cut backs on both staff numbers and input buying. Meanwhile, cost inflationary pressures accelerated to a near-six year high, with many panellists blaming the unfavourable exchange rate as the key factor.

“On a more positive note, the newly-released Future Output Index signalled strong optimism towards output growth over the coming year. In fact, business sentiment reached a seven-month high, suggesting firms are positive towards the outlook.”

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)

Amy Brownbill, Economist
Telephone +44 1491 461 063
Email amy.brownbill@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922 4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Economist
Telephone +65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81 3 6256 7115
Email koho@nex.nikkei.co.jp

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, 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@ihsmarkit.com.

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