

News Release

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S&P Global South Korea Manufacturing PMI®

Growth in manufacturing sector slows further in June

Key findings

Output levels fall at fastest pace for seven months

Renewed acceleration in input price inflation

Business expectations ease to softest since last October

South Korean manufacturers signalled a softer improvement in the health of the sector midway through 2022. Output fell at the fastest pace since last November amid a softer rise in new order inflows. Survey respondents often commented that material supply shortages and rising input prices had increasingly weighed on output and demand across the manufacturing sector. As such, supply chain disruption was at its worst for six months, while a fresh acceleration in input price inflation pushed the rise in average cost burdens to one of the sharpest in the survey history. Business optimism weakened as a result, with the level of positive sentiment at the lowest since October 2021.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) fell from 51.8 in May to 51.3 in June, indicative of an improvement in the health of the sector for the twenty-first month in a row. Nonetheless, the rate of growth was only modest and the slowest recorded since March.

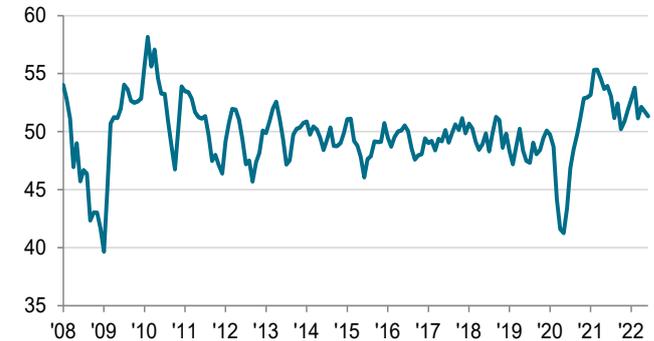
June data indicated a second successive fall in manufacturing output. The rate of contraction was solid and the sharpest recorded for seven months. Manufacturers attributed the decrease to higher material costs and supply shortages amid sustained logistical difficulties.

At the same time, businesses recorded a softer rise in new orders in the latest survey period. Panellists often commented that client confidence was dampened by rising raw material prices in the midst of supply shortages. Foreign demand meanwhile contracted for the fourth consecutive month in June, although the rate of decline eased to the softest in this sequence.

Manufacturers pointed to a fresh acceleration in input price inflation in June. Input price pressures have now increased consistently for two years, with the latest rise the joint fourth-quickest in the survey history. Businesses widely reported sharp rises in the cost of raw materials, notably

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 13-22 June 2022.

Comment

Usamah Bhatti, Economist at S&P Global Market Intelligence, said:

"June data provided evidence that price and supply pressures were actively hindering production and demand in the South Korean manufacturing sector. The latest Manufacturing PMI was the softest for three months and pointed to a modest expansion in operating conditions - a far cry from the strong levels of growth seen at this time last year."

"The deceleration came from a second successive reduction in output, which fell at the fastest pace since last November. At the same time, the rate of growth in new order inflows eased from the previous survey period, alongside a further reduction in foreign demand."

"Anecdotal evidence often noted that higher raw material prices and supply shortages amid sustained supply chain disruption were the key factors holding back activity. The impact of shortages contributed to a quicker rise in average cost burdens, which increased at the joint fourth-fastest pace in the survey history. Concurrently, firms reported that delivery delays had worsened as supplier delivery times lengthened to the fourth-greatest extent on record."

"South Korean manufacturers were increasingly concerned that the risks posed by ongoing shortages, disruptions and inflationary pressures would take longer to dissipate. As such, the degree of business optimism eased in June to the softest for eight months."

PMI®

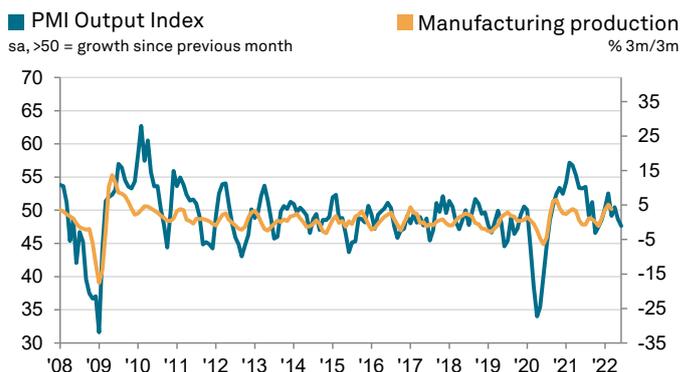
by S&P Global

fuel, grains and metals. Concurrently, South Korean goods producers sought to pass higher costs on to clients, although factory gate inflation eased for the first time in three months to the slowest since January.

Firms in the South Korean manufacturing sector also reported a further reduction in employment levels according to the latest data. Staffing levels fell for the second successive month as firms cited that weaker production requirements had discouraged them from taking on additional capacity. In line with the trend for new orders, backlogs of work increased at a moderate rate that was nonetheless the softest since March.

There was an expansion in purchasing activity for the twenty-third month in a row in June. That said, the rate of growth was the slowest in the current sequence, reflecting increased difficulty in receiving materials in a timely manner amid shortages and delivery delays. As such, supplier delivery times lengthened at a marked rate that was the fourth-strongest on record, which contributed to a stagnation in stocks of raw materials. Delivery and logistical delays also led to an expansion in holdings of finished items as firms struggled to source available capacity.

Looking forward, South Korean manufacturers remained optimistic regarding the year-ahead outlook for output in June. The degree of confidence eased from May however, and was the softest recorded for eight months. Firms predicted an end to the pandemic globally and easing of price and supply disruptions would allow for a broad-based boost to demand, however there was uncertainty regarding the timing of improvements.



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Survey methodology

The S&P Global South Korea Manufacturing PMI® is compiled by S&P Global from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP. Data collection began in April 2004.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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