

News Release

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S&P Global South Korea Manufacturing PMI®

Manufacturing operating conditions broadly stabilise in September

Key findings

Softer reductions in output and new orders

Strongest rise in employment levels since May 2013

Input price inflation accelerates to eight-month high

South Korea's manufacturing sector saw a broad stabilisation in operating conditions at the end of the third quarter of 2023. Both output and new order volumes were scaled back at softer rates than those seen in August. That said, firms still indicated that depressed demand largely prevented a recovery getting underway. Nonetheless, firms took the opportunity to fill existing vacancies ahead of a predicted improvement in demand, with the rate of job creation at the strongest for nearly ten-and-a-half years. Cost inflation meanwhile accelerated sharply on the month, and reached the highest since January amid higher raw material prices.

The headline S&P Global South Korea Manufacturing 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, and has been compiled since 2004.

The headline reading was 49.9 in September, up from 48.9 in August and indicative of a broad stabilisation in the health of the sector. Moreover, the reading was the highest for 15 months. Although the figure was close to the neutral 50.0 threshold, it masked broader weaknesses in manufacturing conditions.

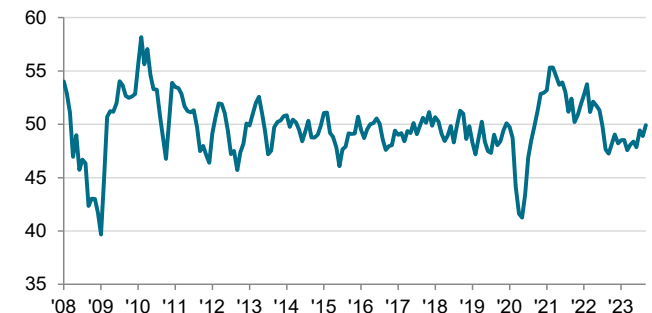
The strongest downward contribution came from a sustained moderate reduction in new orders. The rate of reduction eased only slightly from August and was reflective of sluggish demand in both domestic and international markets. As such, the rate of reduction in new export sales quickened in September to the fastest for three months.

For the seventeenth consecutive month, manufacturing output declined in September. The downturn softened from August to the slowest for five months, and was linked to falling new orders and weak economic conditions.

Positively, employment levels rose for the fourth time in five months during September, with manufacturers signalling that existing vacancies were being filled in advance of an

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Data were collected 12-21 September 2023.

Comment

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

"The health of the South Korean manufacturing sector was broadly stable at the end of the third quarter of the year, however this masked continued weaknesses in both production and demand. Output and new orders were scaled back further, while exports fell at the strongest pace for three months as firms continued to battle challenging market conditions.

"Manufacturers also noted a sharp acceleration in cost inflation in the latest survey period, with input prices rising at the strongest pace since January, owing largely to rising raw material, oil and electricity prices as well as a weaker currency. In order to protect margins, firms raised output charges for the first time in five months. At the same time, firms raised both purchases and holdings of inputs to hedge against further price rises.

"On a more positive note, there was a strong improvement from a labour perspective, as firms raised employment levels at the strongest rate in over a decade."

PMI®

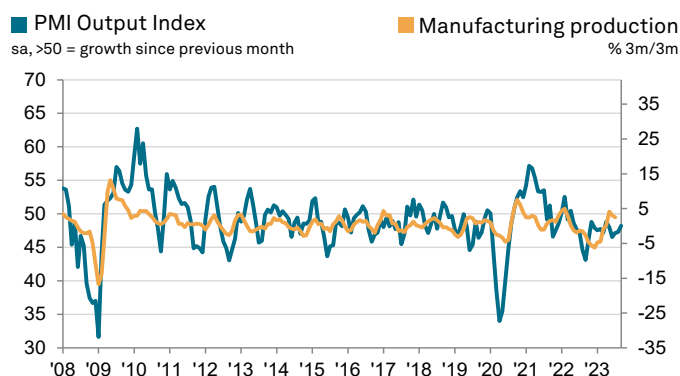
by S&P Global

eventual demand recovery. As such, the rate of job creation was the strongest recorded since May 2013. Goods producers signalled that capacity was used to reduce outstanding business, as indicated by an eleventh consecutive decrease in backlogs of work. However, some firms commented that outstanding orders were cleared due to weak demand.

September data signalled an acceleration in input price inflation, with purchase costs up at the steepest pace since the start of 2023. According to panellists, raw material prices, oil and electricity were all up in price, while exchange rate weakness was also mentioned. Subsequently, selling charges were raised for the first time in five months.

Despite lower output requirements, input purchasing rose for the second time in three months in September, and at the fastest pace for 14 months. Stocks of purchases increased at the strongest rate since April 2021, while stocks of finished goods were broadly unchanged. Some firms noted that additional purchases of inputs were made and stored in order to protect against further price rises. Finally, supplier delivery times lengthened for the second month running, albeit at a softer rate.

Finally, the 12-month outlook for output softened to a three-month low during September. Anecdotal evidence highlighted expectations that an alleviation of domestic and global economic headwinds would boost confidence and encourage new product launches. That said, firms noted concern about the timing of the recovery as demand conditions remained subdued.



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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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