News Release

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S&P Global South Korea Manufacturing PMI®

South Korean manufacturing sector remains in contraction in August

Key findings

Further falls in output and new orders

Output prices reduced further despite renewed cost pressures

Future Output Index improves to 14-month high

The South Korean manufacturing sector remained in contraction in August, according to the latest S&P Global PMI® data. Output, new orders, exports and purchasing all fell since July, while firms cut their output prices further despite a renewed increase in input costs. Although modest in strength compared with those seen during the pandemic and global financial crisis, the current sequences of falling output and new orders are the longest in the survey history, at 16 and 14 months respectively. More positively, employment was stable and the 12-month outlook for production was the best since mid-2022.

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.

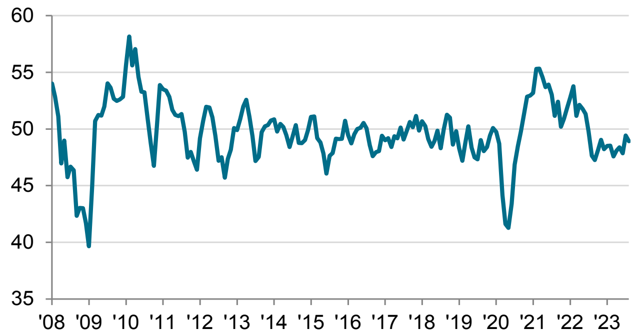
The PMI remained below the no-change mark of 50.0 in August, signalling a deterioration in overall business conditions and extending the current downturn to 14 months. The headline figure eased to 48.9, from July's 49.4, but this was consistent with only a modest rate of decline that was weaker than the average over the current sequence (48.4).

The sub-50.0 PMI reading in August wholly reflected the two largest components, new orders and output, which account for 55% of the weight in the PMI calculation. These contracted for the fourteenth and sixteenth consecutive months, respectively, the longest sequences for both variables in the survey history. The decline in new business accelerated during the month, but remained weaker than the trend shown since the second half of 2022. Anecdotal evidence linked falling demand and output to weaker domestic and export conditions. International orders fell, having previously risen slightly in July for the first time in 17 months.

With new orders falling, pressure on capacity continued to ease. Backlogs of work declined for the tenth month running,

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Data were collected 10-22 August 2023.

Comment

Trevor Balchin, Economics Director at S&P Global Market Intelligence, said:

"August PMI data signalled that South Korea's manufacturing sector saw a sustained deterioration in operating conditions in August. Output, new orders, exports and purchasing all fell during the month, with the key new business component registering a faster decline than in July.

"The current downturns in output and new work are the longest in the survey history, although much less severe than those registered during the pandemic and global financial crisis.

"Manufacturers continued to cut their prices to stimulate demand in August, even though input prices rose again following July's easing of cost pressures. Anecdotal evidence linked cost inflation to raw materials, oil prices, labour, electricity and the weaker exchange rate, although the overall increase in input prices was modest.

"Supply chain issues returned in August as shipping delays and semiconductor shortages were reported. Average lead times lengthened for the first time since March.

"There were positives to take from the latest results, however, as output expectations improved to the strongest in over a year and employment was stable."

PMI by S&P Global

and inventories of finished goods were depleted at the fastest rate since December 2021 as firms sold off excess stock.

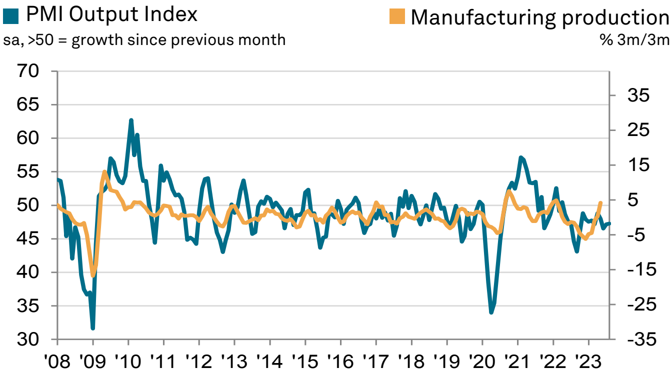
Weaker demand also resulted in a renewed decline in purchasing activity in August, following the first month-on-month increase for a year in July. Firms also reduced purchases in order to limit a build-up of input stocks, which rose for the fourth month running albeit only marginally.

Although demand for inputs fell, suppliers' delivery times lengthened for the first time in five months. This reportedly reflected shortages of raw materials and semiconductors, and shipping delays.

Supply shortages and delays explained a renewed increase in average input prices in August, despite the overall fall in demand. Anecdotal evidence also linked cost inflation to oil prices, labour, electricity and the weaker exchange rate. The rate of inflation was only modest, however, and well below the long-run survey average.

Although their input prices rose, manufacturers lowered their output prices for the fourth successive month in August. This reflected competitive pressures and client renegotiations. The rate of discounting was only modest, however.

Manufacturers were increasingly optimistic regarding the 12-month production outlook. Overall confidence was the strongest in 14 months in August, linked to an expected recovery in domestic and international demand. The improving outlook was reflected in a stable trend in employment during the month despite lower new orders, as the non-replacement of leavers was offset by new hires elsewhere.



Sources: S&P Global PMI, KOSTAT via S&P Global Market Intelligence.

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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.

About S&P Global

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We are widely sought after by many of the world's leading organizations to provide credit ratings, benchmarks, analytics and workflow solutions in the global capital, commodity and automotive markets. With every one of our offerings, we help the world's leading organizations plan for tomorrow, today.

About PMI

Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html.