

News Release

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S&P Global South Korea Manufacturing PMI®

Further contraction in South Korean manufacturing sector

Key findings

Sustained reductions in output and new orders

Backlogs of work fall at sharpest pace since July 2020

Softest rise in operating expenses for 27 months

South Korea's manufacturing conditions remained subdued during February. The latest PMI data pointed to further contractions in both output and new orders amid dampened global economic conditions and sustained price pressures commonly linked to exchange rate weaknesses. The lack of demand encouraged firms to work through their outstanding workloads to the greatest extent since July 2020. Positively, cost pressures continued to show signs of easing as the rate of input price inflation was at its softest since November 2020.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) was unchanged at 48.5 during February, indicative of a further deterioration in the health of the South Korean manufacturing sector. The rate of decline was only modest however.

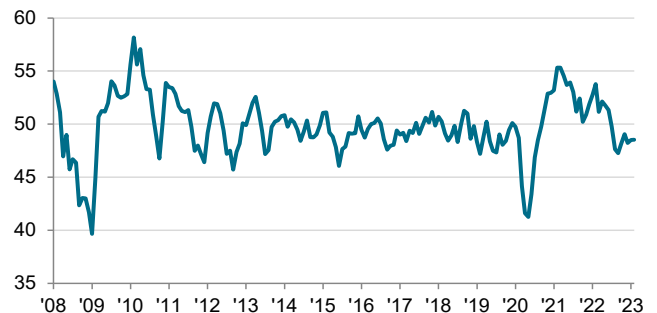
Contributing to the sub-50.0 headline reading was a tenth consecutive reduction in production volumes. The rate of decline was broadly similar to that seen in January and moderate overall. Lower output levels were frequently linked to subdued demand amid general economic weakness.

Order book volumes declined for the eighth month in a row in February, although the rate of reduction eased to the softest for three months. Subdued demand reportedly stemmed from weak domestic and global economic conditions and inflationary pressures, often caused by exchange rate weakness. As such, the latter was cited as a key driving force behind the latest drop in demand from overseas. New export orders have now fallen consistently for a year, though the rate of contraction was the softest since last November.

The current lull in demand led to a further reduction in outstanding business across the South Korean manufacturing sector. Backlogs of work fell at a sharp pace that was the strongest in just over two-and-a-half years. Concurrently, latest data pointed to a renewed reduction in employment levels, the fifth in six months as firms signalled

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 10-20 February 2023.

Comment

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

"PMI survey data for February continued to depict subdued operating conditions in the South Korean manufacturing sector. Both output and new orders contracted further, although positively the rate of reduction in the latter eased to a three-month low.

"Weaker business conditions and a lack of new work coming in allowed firms to increasingly clear their outstanding business, as backlogs of work were depleted to the greatest extent since July 2020. Moreover, manufacturers reported that the weaknesses in the sector also contributed to the steepest increase in holdings of finished items since November 2007 in the midst of reduced sales.

"On a more positive note, South Korean goods producers signalled softer albeit still sharp rises in prices midway through the first quarter. The rate of input price inflation eased to the softest since November 2020, with panel members commenting that certain materials including oil and semiconductors had eased in price. At the same time, business confidence regarding the 12-month outlook strengthened to a five-month high amid hopes of improved domestic and international demand conditions."

PMI®

by S&P Global

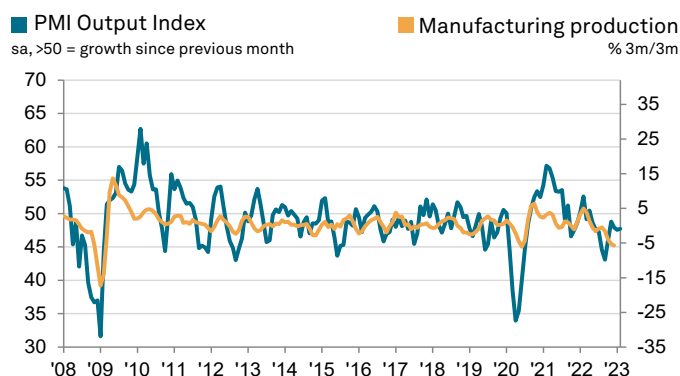
the non-replacement of voluntary leavers.

February data also pointed to a reduction in input buying for the seventh successive month. The rate of deterioration was only mild however and the softest in the current sequence. At the same time, holdings of pre-production inventories stabilised following four consecutive monthly declines, while stocks of finished goods rose at a solid pace that was the strongest since November 2007.

Meanwhile, latest data saw a further deterioration in vendor performance, though the rate of lead time lengthening eased from January and was the slowest since January 2020. Material shortages remained the key factor behind delivery delays, though there were some reports of easing transport and capacity shortages.

Turning to prices, inflationary pressures eased in the latest survey period. In fact, input price inflation decelerated for the fourth month running and was the softest since November 2020. That said, the rise in operating expenses remained sharp overall, and was frequently linked to a weak exchange rate and rising raw material prices. At the same time, the rate of output price inflation also softened, with the latest increase the second-weakest in 27 months.

Finally, confidence across South Korea's manufacturing sector strengthened in February amid hopes of a domestic and global economic recovery which would trigger new product launches and encourage new client acquisitions.



Sources: S&P Global, KOSTAT.

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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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