News Release

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S&P Global South Korea Manufacturing PMI®

Sustained but softer downturn in South Korea's manufacturing sector

Key findings

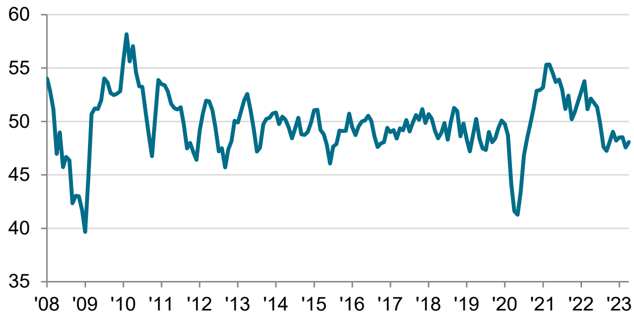
Joint-softest fall in output for a year

Delivery times shorten for the first time since October 2019

Slowest rise in input prices for 29 months

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-20 April 2023.

Firms operating in the South Korean manufacturing sector reported a further contraction at the start of the second quarter of 2023. Subdued demand conditions contributed to a twelfth successive fall in output, however the rate of reduction was the joint-softest seen for a year. Positively, panel members indicated that suppliers' delivery times had shortened for the first time in three-and-a-half years, providing further evidence of a gradual normalisation of supply chains. Moreover, improved supply chains and material availability contributed to a sustained softening in the rate of input price inflation. As a result, average cost burdens rose at the slowest pace since November 2020.

At 48.1 in April, the seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) rose from 47.6 in March to indicate a softer deterioration in the health of the sector, albeit one that was the tenth in as many months.

Central to the sub-50.0 headline reading was a further decline in new order inflows in April. Despite softening from March, the rate of reduction remained solid, with the fall often attributed to a weaker global economy and subdued client confidence. Both were also cited as reasons for the sustained and moderate reduction in new export orders in the latest survey period.

Mirroring current demand trends, firms cut back production in the latest survey period, although the reduction was the joint-slowest in the current 12-month sequence of contraction.

Companies readjusted spending plans in line with the picture for demand. Input buying decreased for the ninth consecutive month, which reportedly contributed to the steepest fall in pre-production inventories since last December. At the same time, firms used the lack of demand to raise holdings of finished goods in order to prepare for an eventual recovery of new orders.

Comment

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

"April PMI data provided further evidence that South Korean manufacturing firms continued to struggle in the face of the current global economic weakness. Subdued client demand both domestically and internationally were central to the latest deterioration and contributed to a solid reduction in new orders. Firms subsequently cut back production levels, input purchases and employment.

"There was more positive news on the price and supply front. Panel members signalled that the supply chain issues that plagued the sector over the last three years had gradually eased. This was evidenced by the first improvement in vendor performance since October 2019. Anecdotal evidence suggested that inputs were more readily available, with semiconductors mentioned in particular. This contributed to a further softening of cost pressures during April, as the rate of input price inflation eased to a 29-month low.

"Looking forward, confidence regarding the outlook for output over the coming year softened from the previous survey period due to uncertainty regarding the timing of the economic recovery. As a result, the degree of business optimism was at its lowest for four months."

Meanwhile, there was evidence of spare capacity in the South Korean manufacturing sector during April as backlogs of work fell for the sixth successive month. That said, the rate of depletion was at a three-month low. Anecdotal evidence suggested that the current lack of demand allowed firms to focus on working through outstanding business.

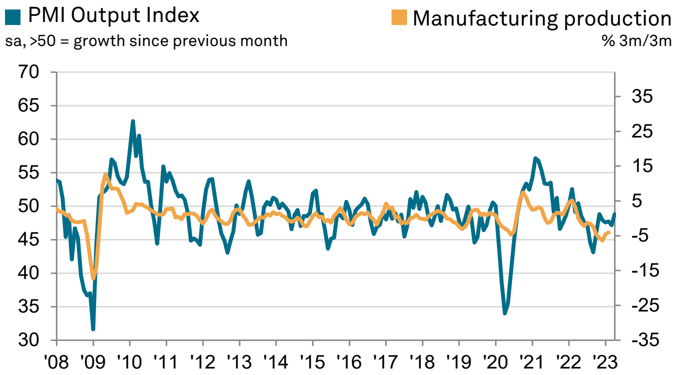
As has been the case for the past three months, workforce numbers at South Korean manufacturing firms decreased in April. Firms primarily linked the latest round of job shedding to the non-replacement of voluntary leavers, however some panellists commented that staffing levels were reduced as part of cost-cutting efforts.

That said, overall average cost burdens rose at a slower pace in the latest survey period. While still sharp overall, the rate of input cost inflation was the softest recorded since November 2020 amid reports of lower prices for some materials such as semiconductors. That said, higher oil prices and won weakness continued to push costs higher.

In response to weak demand however, firms looked to largely absorb higher costs and raised selling prices only fractionally. Some panellists commented that prices were reduced in an effort to stimulate sales.

Vendor performance improved for the first time since October 2019 at the start of the second quarter. Average lead times shortened marginally in April as companies commented on better availability of materials, notably semiconductors.

Finally, the outlook for output over the coming year remained positive. That said, the overall degree of confidence eased to the softest for four months. Firms were hopeful that economic conditions domestically and globally would improve although were uncertain regarding the timing of the recovery.



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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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.