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IHS Markit South Korea Manufacturing PMI®

South Korean manufacturers remain under pressure, but confidence improves

Key findings

Weakness in demand weighs on production volumes

Exports dip back into contraction amid intense trade tensions

Business confidence picks up to 16-month high

Latest survey data showed South Korea's manufacturing sector remained under pressure at the start of the fourth quarter. Demand conditions across both domestic and external markets were weak, with panellists indicating that trade tensions and slower global growth had harmed exports. Employment was reduced further in October, while firms cleared their inventories at a sharper pace in order to keep a lid on costs.

Meanwhile, output charges were cut as firms sought to stimulate sales and boost competitiveness despite increased cost pressures. Nonetheless, business confidence strengthened when compared to September.

The South Korea Manufacturing Purchasing Managers' Index™ (PMI®) posted 48.4 in October, from 48.0 in September, to signal challenging operating conditions for South Korean goods producers at the start of the fourth quarter. Although the headline index increased, it remained subdued by historical comparisons and extended the current sequence of deterioration to six months.

As has been the case for the past year, South Korean manufacturers trimmed their production volumes in October. The decline was moderate overall, albeit slower than in the previous month. Panellists linked the contraction in output to domestic economic weakness and unfavourable demand conditions.

A reduction in new order intakes was signalled by the latest survey data. A challenging investment climate was reportedly compounded by broad-based weakness across both domestic and external markets. Trade tensions between the US and China, as well as between Korea and Japan, were mentioned as hindrances to export sales. Consequently, new business from foreign clients fell in October following the brief stabilisation

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South Korea Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Joe Hayes, Economist at IHS Markit, said:

"Latest survey data highlight the impact that difficult external conditions, which prompted the Bank of Korea into cutting rates, are having on the South Korean economy.

"Spillover effects into the domestic economy have become increasingly apparent, with many firms indicating that weak domestic economic conditions are weighing on output and demand.

"The slump in exports remains the true Achilles heel, however, with headwinds coming from all directions. As well as US-Sino trade frictions, tensions with Japan and a stagnating European economy have significantly dented order book volumes at South Korean manufacturers.

"Firms are trying to bolster sales by reducing prices, although so far this has been to little benefit. A weak outlook and deflationary risks open the door for further policy easing."

seen in September.

In order to boost competitiveness and sales, manufacturers dropped their output prices in October. The last time charges were raised was just under a year ago, highlighting the efforts by firms to stimulate demand. Discounting came despite latest survey data showing a ninth successive month-on-month rise in operating expenses.

Despite the difficulties facing manufacturers in South Korea, business confidence improved in October to a 16-month high. New product launches, particularly in electronics and automobiles, helped lift sentiment. That said, the level of optimism remained weak relative to the long-run average.

Elsewhere, latest survey data highlighted a strong drive towards cost cutting, with firms clearing their existing stocks of both inputs and finished goods at accelerated rates. In some cases, inventories were run down and used to fulfil incomplete orders, contributing to a fourteenth successive monthly decline in backlogs of work in October. With capacity pressures easing, firms reduced employment levels. There were some reports of automation leading to job losses.

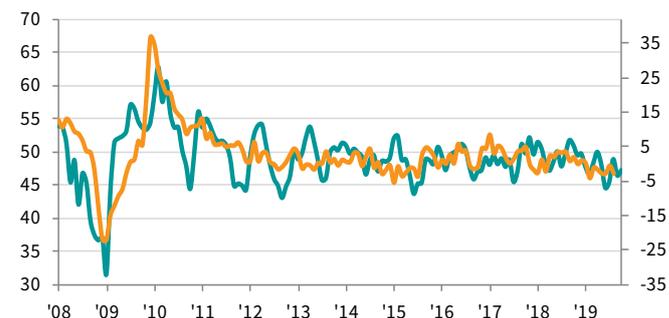
Finally, weak inflows of new business led South Korean manufacturers to reduce purchasing activity in October. Lower input demand led to efficiency gains at suppliers, with vendor performance improving for a second month in a row.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%3m/3m



Sources: IHS Markit, KOSTAT.

Contact

Joe Hayes
Economist
IHS Markit
T: +44 1491 461 006
joseph.hayes@ihsmarkit.com

Bernard Aw
Principal Economist
IHS Markit
T: +65 6922 4226
bernard.aw@ihsmarkit.com

Joanna Vickers
Corporate Communications
IHS Markit
T: +44-207-260-2234
joanna.vickers@ihsmarkit.com

Methodology

The IHS Markit South Korea Manufacturing PMI® is compiled by IHS Markit from responses to monthly 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.

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.

October 2019 data were collected 11-23 October 2019.

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

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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. To learn more go to ihsmarkit.com/products/pmi.html.