

News Release

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S&P Global South Korea Manufacturing PMI[®]

Downturn in manufacturing sector sustained in May, but price and supply pressures ease

Key findings

Sharper reductions in output and new orders

Employment levels increase at strongest rate for 14 months

Output prices fall for first time since September 2020

South Korea's manufacturing sector remained in contraction territory midway through the second quarter of 2023, according to latest PMI[®] data from S&P Global. Both output and new order volumes were scaled back at quicker rates than those seen in April as economic weakness at home and internationally continued to weigh on production and demand. That said, the weakness in export sales eased in the latest survey period. More positive news came from the supply side, as manufacturers signalled a further improvement in supply chains that was the strongest in just over seven years. Price pressures also eased in May, as panel members signalled the slowest rise in average cost burdens since September 2020. As a result, output charges were lowered for the first time in 32 months as firms looked to stimulate sales.

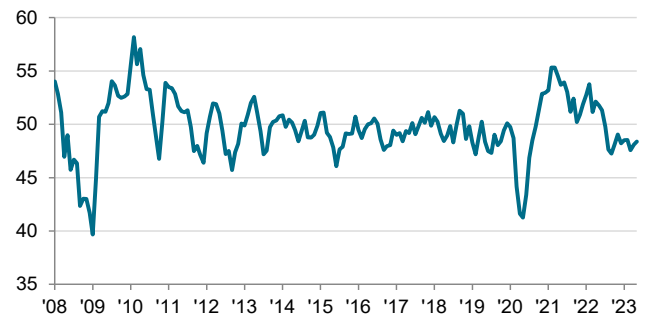
The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI[®]) ticked up from 48.1 in April to 48.4 in May, but remained below the 50.0 no-change mark. This indicated the eleventh consecutive monthly deterioration in the health of the South Korean manufacturing sector and one that was moderate overall.

The strongest downward contribution to the headline PMI came from a further sharp reduction in new orders, which was reflective of weak demand conditions in both domestic and external markets. That said, the rate of reduction in new export orders eased from that seen in May to the softest in the current 15-month sequence of decline.

For the thirteenth consecutive month, manufacturing output also declined in May. The downturn accelerated from April, but was modest overall. Anecdotal evidence suggested that falling new orders and weak economic conditions led to the drop in output.

Positively, there was a renewed rise in employment levels during May, with goods producers signalling that existing vacancies were being filled in advance of an eventual

S&P Global South Korea Manufacturing PMI
sa, >50 = improvement since previous month



Source: S&P Global.
Data were collected 12-22 May 2023.

Comment

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

"The deterioration in South Korean manufacturing conditions was sustained during May as production, new orders and exports remained in contraction territory. Moreover, the two largest components of the headline reading (output and new orders) fell at a sharper rate in the latest survey period as firms continued to battle challenging market conditions."

"Positively, there was an improvement on the price and supply side of the sector. From a labour perspective, firms ended a three-month sequence of decline by raising employment levels, with the rate of job creation the strongest since March last year."

"Manufacturers were also buoyed by improved supply chains with suppliers' delivery times shortening for the second month in a row, and to the greatest extent in just over seven years. That said, this was largely attributed to weak demand for inputs which alleviated pressure on suppliers."

"On the price side, input price inflation continued on its downward trend by easing to a 32-month low. This softening of cost inflation coupled with subdued demand encouraged South Korean manufacturers to lower output charges for the first time since September 2020, albeit only fractionally."

PMI[®]

by S&P Global

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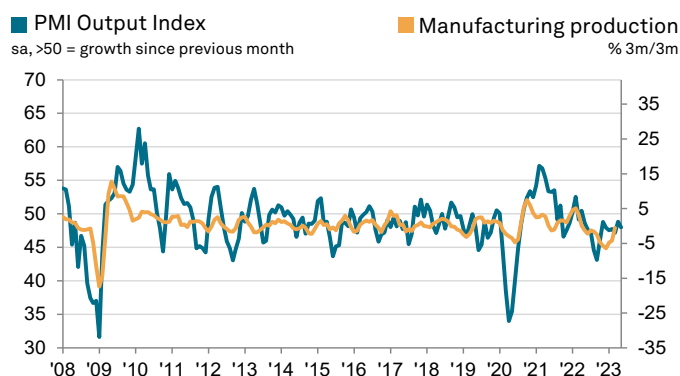
demand rebound. As such, the rate of job creation was the strongest recorded for 14 months. Manufacturers signalled that additional capacity was utilised to reduce outstanding business as signalled by a seventh successive decrease in backlogs of work. However, some firms commented that outstanding orders were cleared as a result of weaker demand.

In line with lower output requirements, input purchasing fell in May. Despite this, stocks of purchases ticked up for the first time in eight months. Meanwhile, stocks of finished goods were broadly unchanged. Some firms noted that a lack of new orders meant that unsold goods were kept in stock, but others reported having adjusted production downwards in response.

Lower demand also helped to further alleviate pressure on suppliers, as evidenced by a sustained shortening in delivery times. Lead times shortened to the most marked extent since April 2016.

Receding supply chain pressures fed through to input costs in the latest survey period, with operating expenses rising at the slowest pace since September 2020. According to panellists, falling oil and metal prices helped to alleviate some cost pressures. Subsequently, selling charges were lowered for the first time in 32 months as manufacturers looked to stimulate sales.

Finally, the 12-month outlook for output strengthened to a ten-month high during May. Anecdotal evidence highlighted expectations that an alleviation of domestic and global economic headwinds would boost client confidence. New product launches were also predicted to support output growth.



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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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