

Embargoed until 0930 KST (0030 UTC) 5 October 2020

IHS Markit South Korea Manufacturing PMI®

PMI rises to eight-month high amid expansion in output

Key findings

Output expands for the first time since January

New orders fall at weakest rate in eight months

Employment declines at faster pace as expectations moderate

Data were collected 11-22 September 2020.

September PMI® data provided further signs of a turnaround in momentum across the South Korean manufacturing sector. The deterioration in operating conditions slowed as firms registered growth in output for the first time in eight months. New orders fell further, although the pace of contraction eased to the slowest in the current sequence of decline. The rise in production led to an increase in input buying, although firms scaled back their stocks of purchases due to uncertain market conditions. Employment continued to weigh on the overall health of the sector as the pace of job cuts accelerated from the previous survey period. That said, firms remained optimistic regarding the outlook for production over the next 12 months.

Meanwhile, output prices fell further amid growing competitive pressures. This was despite an increase in cost burdens.

The South Korea Manufacturing Purchasing Managers' Index (PMI®) rose to 49.8 in September, up from 48.5 in August. The index reached its highest reading since January and was indicative of a weaker deterioration in operating conditions at South Korean goods producers.

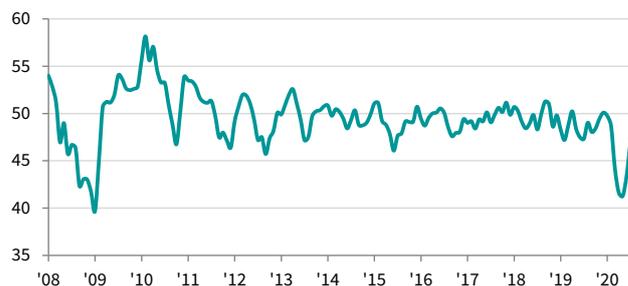
Goods producers recorded an upturn in production which was linked to greater demand from specific sectors such as autos, the reopening of client businesses and easing of lockdown restrictions following the worst of the coronavirus disease 2019 (COVID-19) outbreak.

According to survey respondents, domestic demand conditions remained challenging in September, with total order book volumes contracting, albeit slightly. At the same time, subdued export demand persisted, although the pace of contraction in new export orders eased to the slowest in the current eight-month sequence of decline.

September data indicated further cuts to manufacturing

continued...

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



Source: IHS Markit.

Comment

Commenting on the latest survey results, Shreeya Patel, Economist at IHS Markit, said:

"September data was encouraging for the South Korean manufacturing sector as it neared stabilisation after a lengthy period of contraction. Output returned to growth amid signs of improving demand conditions and some reports of the reopening of client businesses.

"However, not all is positive, as the virus continued to impact firms. The combination of rising cases across key export destinations and subdued domestic demand weighed on operating conditions.

"Although COVID-19 remains a key concern among goods producers, South Korean firms also faced logistical difficulties arising from the typhoon which contributed to a marked decline in vendor performance.

"South Korea's manufacturing sector showed signs of moving further away from April's nadir, but if subdued domestic and foreign demand persist the path towards recovery could be lengthy."

employment in South Korea, with staffing levels falling for the seventeenth month in a row. Lower workforce numbers were linked to retirements and voluntary resignations. Despite falling staffing levels, backlogs of work declined during September, which firms attributed to sufficient capacity to deal with current workloads.

Meanwhile, purchasing activity expanded for the second month running. Input buying was spurred by the reopening of businesses. That said, market uncertainty weighed on firms' decisions around inventory holdings, and stocks of purchases continued to be depleted.

Strains on supply chains resulted in longer lead times from vendors in September. Manufacturers commented on supplier capacity constraints, stricter COVID-19 restrictions and disruption from the typhoon.

On the price front, average cost burdens increased slightly in September. At the same time manufacturers in South Korea continued to discount their selling prices.

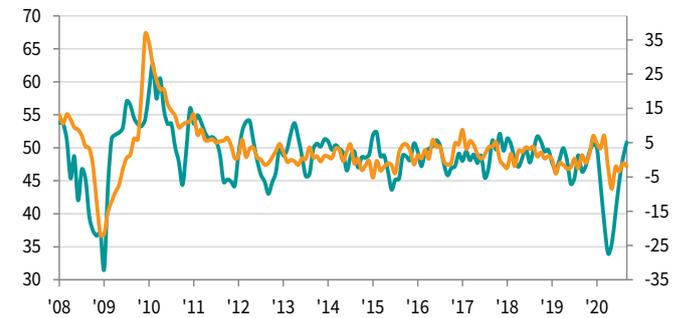
Finally, business expectations remained positive among South Korean goods producers, as firms continued to foresee a rise in output in the next 12 months. That said, uncertainty and the onset of a global economic downturn weighed on the degree of confidence.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%3m/3m



Sources: IHS Markit, KOSTAT.

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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.

September 2020 data were collected 11-22 September 2020.

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.
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