

News Release

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S&P Global South Korea Manufacturing PMI®

Softest contraction in South Korea's manufacturing sector for a year

Key findings

Softer reductions in output and orders amid increased exports

Employment levels rise at strongest pace since February 2022

Steepest fall in input prices for six years

South Korea's manufacturing PMI data signalled a softer deterioration in the health of the sector at the start of the second half of 2023. A slower reduction in output levels in July was accompanied by the slowest reduction in total new orders for a year, in part due to a renewed expansion in exports that was the first since February 2022. In response to the positive indications for demand conditions during July, manufacturers increased staffing levels for the third month in a row and at the steepest rate for nearly a year-and-a-half. Moreover, South Korean goods producers signalled a renewed reduction in input costs. Input prices fell for the first time in just over three years and at the fastest pace since July 2017.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) rose from 47.8 in June to 49.4 in July to signal a softer contraction in South Korea's manufacturing sector. The rate of decline in the health of the sector was marginal, and the softest for a year.

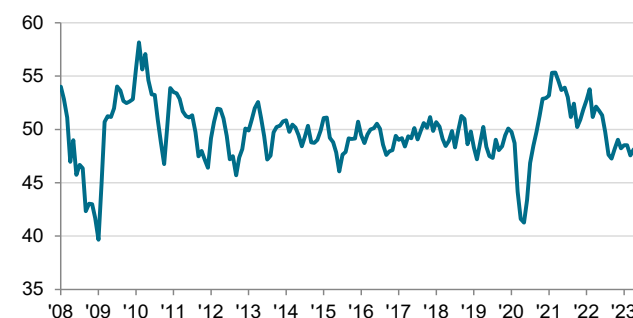
Manufacturing companies registered a reduction in output that was softer than that seen in June. Panel members largely attributed the decline to muted economic conditions. Despite softening on the month, the rate of decrease remained solid.

July data signalled a thirteenth consecutive monthly decrease in new orders. That said, the rate of decline eased to a modest pace that was the slowest for 12 months. A number of firms mentioned that domestic demand conditions were muted, although there were pockets of orders for newly launched products, particularly from overseas. As such, there was an increase in new export orders for the first time in nearly one-and-a-half years amid improved sales to key markets in the Asia-Pacific region and Europe.

Employment levels were raised for the third month in a row during July, and at the fastest pace for 17 months. The most recent round of job creation was frequently linked

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Data were collected 12-21 July 2023.

Comment

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

"July PMI data signalled that South Korea's manufacturing sector saw a softer deterioration in operating conditions at the start of the second half of 2023. The rates of decline in both output and total new orders slowed in comparison to June, with the latter seeing the softest reduction for a year amid a renewed expansion in foreign demand.

"Concurrently, firms took this as a signal to prepare for a gradual improvement in demand by taking on additional staff and raising purchasing activity in July. The rate of job creation was the steepest in nearly one-and-a-half years, while buying activity growth was at a one-year high.

"Positive signals were also evident on the price front. South Korean goods producers reported that operating expenses fell for the first time since June 2020. While the rate of decrease was only marginal, it was the strongest reported for six years and was largely attributed to a widespread reduction across raw material prices. The fall in cost burdens was also reflected in a sustained decline in output charges, extending the current sequence to three months. The reduction in factory gate charges was the steepest in nearly three years, with some firms also mentioning that strong market competitiveness persuaded manufacturers to reduce output prices."

PMI®

by S&P Global

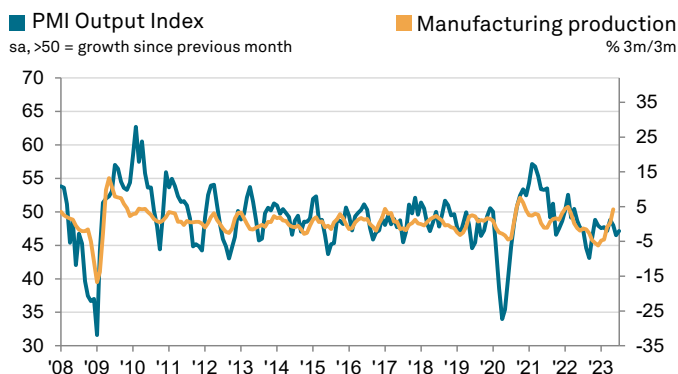
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to the hiring of additional capacity amid signs of demand stabilising. The extra capacity also allowed firms to continue to complete existing workloads, although the latest reduction in backlogs of work was the slowest since last November. A renewed fall was reported in holdings of finished items that was the steepest for 18 months, which indicated that orders were often fulfilled using existing stockpiles.

In terms of prices, both input costs and output charges reportedly fell in the latest survey period. The reduction in the former was the first since June 2020, and though marginal, was the sharpest recorded for six years. Survey members often attributed the reduction to a widespread reduction in raw material prices, which also allowed firms to reduce prices charged at the fastest pace since August 2020. However, some firms commented that market competitiveness also contributed to lower output charges in July.

In response to signs that demand may be starting to improve, buying activity at South Korean manufacturers was raised for the first time in a year. At the same time, pre-production inventory levels were raised for the third consecutive month and at the fastest pace since May 2022 as previously ordered inputs had been delivered and stored. Meanwhile, the extent to which delivery times shortened in July was the slowest in the current four-month sequence of improvement.

The 12-month outlook for output strengthened in July. The overall degree of positive sentiment was solid overall and the joint-strongest since July 2022. Manufacturers attributed optimism to hopes that improved demand conditions and new product launches would be paired with a sustained improvement in global economic conditions.



Sources: S&P Global PMI, KOSTAT via S&P Global Market Intelligence.

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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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