

News Release

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S&P Global South Korea Manufacturing PMI®

Steepest contraction in South Korea's manufacturing sector for six months

Key findings

Stronger declines in output and new orders

Input price inflation accelerates

Outlook for output at its highest since July 2022

South Korea's manufacturers signalled a stronger deterioration in the health of the sector at the end of the first quarter of 2023. Output and new orders both registered steeper declines. A number of firms suggested that weak domestic and global economic conditions had weighed on the sector. At the same time, cost pressures remained widespread as the rate of input price inflation accelerated for the first time in five months and came in well above the historical series average. Positively, a number of firms suggested that supply chain disruptions had eased, with the time taken to deliver inputs lengthening at the softest rate since November 2019. Moreover, business sentiment also edged up to push the overall degree of optimism to an eight-month high.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) dipped from 48.5 in February to 47.6 in March to signal a sustained contraction in South Korea's manufacturing sector. The rate of decline quickened to a moderate pace that was the sharpest since last September.

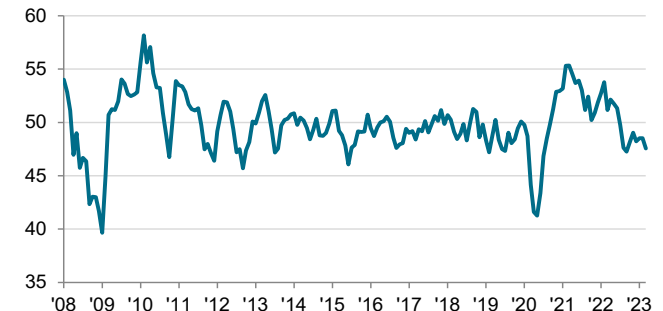
March data indicated an eleventh consecutive monthly decrease in output at South Korean manufacturers. Panel members largely attributed the decline to muted domestic and external demand conditions. As a result, the rate of reduction was the steepest recorded for five months.

At the same time, manufacturing companies registered a quicker reduction in new orders that was the fastest for three months. A number of firms mentioned that sustained economic weakness and poor client confidence had placed downward pressure on sales. Similarly, demand from abroad also fell at a quicker pace, extending the current sequence of contraction to 13 months.

In terms of prices, both input cost and charged price inflation accelerated on the month and remained historically sharp. Inflation across a range of inputs was mentioned by survey

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 10-23 March 2023.

Comment

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

"March PMI data signalled that South Korea's manufacturing sector remained mired in contraction territory. With rates of decline for output and new orders quickening to five and three-month highs respectively, latest survey data provides signs that the sector still has a way to go to overcome the current downturn.

"Concurrently, there was a fresh acceleration in cost inflation faced by goods producers, the first for five months. Firms often attributed higher input prices to increased raw material prices and a weakened exchange rate, a pattern that is widespread across the global economy as key export partners also battle inflation.

"Positively, South Korean manufacturers were buoyed by the softest deterioration in average vendor performance since November 2019, as the weakness in demand allowed suppliers to shore up their supply chains to ensure more timely delivery of inputs. Concurrently, firms were increasingly confident that the current situation would dissipate over the coming year, and this was reflected by manufacturers who signalled a solid degree of optimism that was the strongest since last July. Firms commonly expressed hopes that inflationary pressures and global economic weaknesses would subside and trigger a broad-based recovery in demand."

PMI®

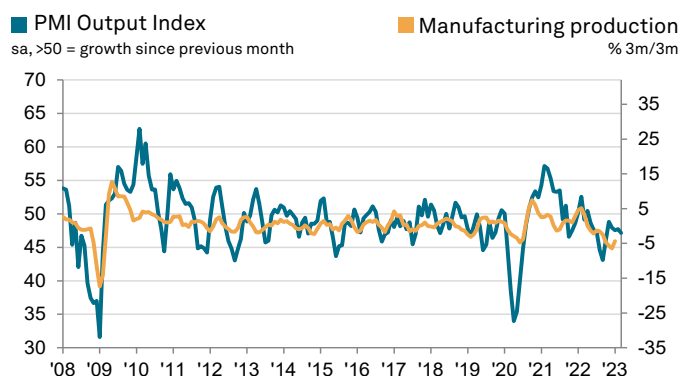
by S&P Global

members, with specific mentions of rising raw material prices and weakness in the won. As such, firms continued to partially pass increased input costs to their clients in the form of higher selling prices, which rose at a moderate pace.

Buying activity and inventory levels were also reflective of the South Korean manufacturing sector's demand climate. For the eighth time in as many months, input buying remained within negative territory and to the greatest extent for six months. Firms commonly associated the reduction in input purchases to lower output requirements. Meanwhile, pre-production inventory levels fell for the fifth time in six months and at the fastest pace since December, and the expansion in holdings of finished items eased to a marginal pace.

Employment levels lowered for the sixth time in seven months and at the joint-quickest pace since last November. The most recent round of job shedding was frequently linked to the non-replacement of voluntary leavers. The lack of demand also allowed firms to focus on working through outstanding work, with backlogs of work falling for the fifth month running.

Positively, the 12-month outlook for output strengthened in March. The overall degree of positive sentiment was solid overall and the strongest recorded since July 2022. Manufacturers attributed optimism to hopes that the impacts of higher prices and global economic weakness would ease over the coming year and provide a welcome boost to demand.



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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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