

News Release

Embargoed until 0930 KST (0030 UTC) 01 August 2022

S&P Global South Korea Manufacturing PMI®

Manufacturing conditions deteriorate for first time since September 2020

Key findings

Quicker fall in output amid renewed decline in new orders

Delivery times lengthen at slowest rate since March

Business confidence falls to nine-month low

Sustained price and supply pressures continued to hinder the South Korean manufacturing sector at the start of the third quarter of 2022. Output volumes fell at the fastest pace for nine months as manufacturers continued to report that material shortages and rising costs had impacted demand in the sector and placed additional strain on capacity. Moreover, demand faltered during July, as new orders fell into contraction territory for the first time since September 2020. That said, there were signs that supply pressures in particular had peaked, as delivery times lengthened at the second-softest rate for almost a year. Strong inflationary pressures meanwhile weighed on business confidence in July, as manufacturers were the least optimistic regarding the year-ahead outlook since October 2021.

At 49.8 in July, the seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) fell from 51.3 in June, indicative of a deterioration in the health of the sector. The decline was the first since September 2020, though only fractional overall.

July data pointed to a third consecutive decrease in manufacturing output. The contraction quickened from June and was the sharpest recorded since last October. Firms commonly associated lower output with rising raw material prices amid sustained shortages which made input procurement challenging.

South Korean manufacturers signalled that incoming orders declined in July. The reduction was the first in nearly two years, yet was only fractional overall as demand was affected by supply issues and rising costs. Concurrently, new export orders fell at the quickest rate for three months amid concerns about the economic impact of the Ukraine war and COVID-19 policy in China.

Manufacturers noted that input buying continued to rise in July, with the rate of growth quickening to a three-month high. At the same time, stocks of pre-production items were

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 12-21 July 2022.

Comment

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

"South Korean manufacturers reported that strong inflationary pressures and sustained supply chain disruption had hindered production and demand at the start of the third quarter. The headline PMI fell below the neutral 50.0 threshold for the first time since September 2020 amid the first reduction in new orders since this point as well as the quickest reduction in output levels for nine months.

"Higher prices for inputs including fuel, metals and semiconductors meant that the disruption was broad-based across the manufacturing sector. That said, the rate of input price inflation eased to a four-month low in a tentative sign that price pressures had peaked, although cost inflation remained well above the long-term average.

"Moreover, manufacturing firms noted that delivery delays had continued to soften in the latest survey period, as the latest lengthening of supplier delivery times was the second-slowest for a year.

"Positive sentiment remained marked in July, although headwinds from ongoing inflationary issues increasingly weighed on optimism which fell to the lowest since last October. Some business also reported concerns regarding the prolonged fallout from the Russia-Ukraine war, as well as the impact of zero-COVID policies in China."

PMI®

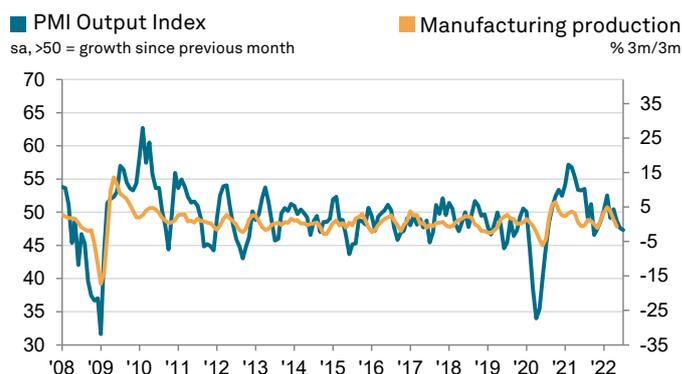
by S&P Global

raised for the fourth time in five months, while holdings of finished goods were lifted for the second successive month. Firms often commented that additional purchases of inputs and stockpiling of finished items were reflective of efforts to mitigate further price rises and material shortages, as delivery delays were still widespread. That said, supplier delivery times lengthened at the softest pace since March.

Latest data pointed to a further rise in input prices faced by South Korean manufacturers. This extended the current sequence of inflation to 25 months, though costs rose at the softest pace for four months. Businesses widely reported sharp rises in the cost of inputs amid higher raw material prices, notably for fuel, metals and semiconductors. At the same time, output prices increased at a marked, albeit softer rate as firms sought to pass higher input prices on to clients.

Pressure on operating capacity eased in the latest survey period, despite firms signalling a third consecutive reduction in employment levels. The rate of job shedding was moderate, and the strongest for 22 months. Firms often attributed this to the non-replacement of voluntary leavers. Manufacturers also signalled a softer rate of backlog accumulation in July, in line with the stagnation in new orders, however some also commented that material shortages had contributed to unfinished workloads.

Looking ahead, South Korean goods producers were optimistic regarding the outlook for activity over the coming year, amid hopes that price pressures and supply shortages would ease and drive demand higher. Positive sentiment eased to the lowest since October 2021 however, amid concerns about the impact of inflationary pressures and the Ukraine war.



Contact

Usamah Bhatti
Economist
S&P Global Market Intelligence
T: +44-1344-328-370
usamah.bhatti@spglobal.com

SungHa Park
Corporate Communications
S&P Global Market Intelligence
T: +82-2-6001-3128
sungha.park@spglobal.com

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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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