

News Release

Embargoed until 0930 KST (0030 UTC) 02 June 2022

S&P Global South Korea Manufacturing PMI®

Manufacturing PMI signals softer improvement in May

Key findings

Production levels return to contraction territory

Delivery times extend to greatest extent for five months

Record increase in output charges

Businesses operating in the South Korean manufacturing sector indicated a sustained, albeit softer improvement in operating conditions midway through the second quarter of 2022. There was a renewed contraction in output levels which weighed on the sector however, as renewed COVID-19 restrictions in China and the ongoing war in Ukraine resulted in a further shock to already weak supply chains. As a result, supplier delivery times lengthened to the greatest extent since last December. Difficulties in sourcing and receiving raw materials were exacerbated by sustained shortages which continued to place pressure on cost burdens. Manufacturers increasingly chose to pass higher prices onto clients in an effort to protect margins, as output charges were raised at the strongest rate in the survey history.

At 51.8 in May, the seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) eased slightly from 52.1 in April, signalling a softer improvement in the health of the sector.

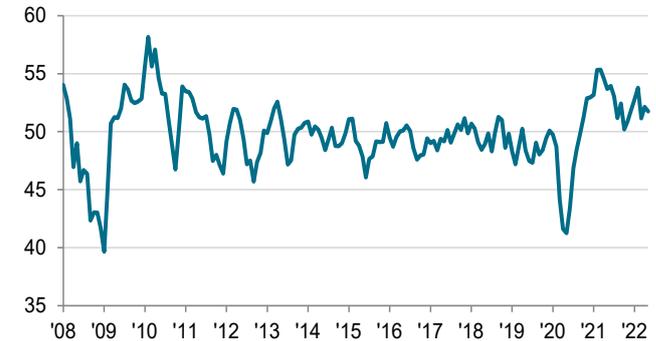
May data pointed to a second contraction in production levels in the past three months. While only mild overall, the rate of reduction was the strongest since last December. Firms commonly associated the renewed contraction to difficulty obtaining raw materials for production, with delays and shortages exacerbated by strict COVID-19 restrictions in China.

South Korean manufacturers signalled an expansion in new business for the twentieth consecutive month in May. The rate of growth quickened from April and was the fastest recorded since February. Panel members often commented that new business inflows were boosted by improved client confidence in domestic markets. On the other hand, foreign demand for South Korean manufactured goods fell for the third month running, led by weaker demand in China.

Despite continued growth in incoming orders, South Korean goods producers lowered employment levels for the first

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 12-23 May 2022.

Comment

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

"South Korean manufacturers signalled a softer improvement in operating conditions midway through the second quarter, according to the latest PMI data. The lower reading of the Manufacturing PMI came as firms reported a renewed reduction in output that was the quickest for five months. Positively, new order inflows remained in expansion territory and rose at the fastest pace for three months, though this was largely led by domestic sales as foreign demand remained subdued.

"Supply chain disruption continued to hinder growth in activity and demand in the manufacturing sector. Material shortages and rising input costs were exacerbated by delays in sourcing and receiving inputs, especially following the reimposition of strict COVID-19 measures in China as firms reported the sharpest deterioration in vendor performance since last December. Moreover, the latest rise in input costs pushed firms to raise output charges at a record pace in an effort to protect margins.

"Goods producers remained confident that output would rise over the coming 12 months, with firms citing a stronger degree of optimism in comparison to April. Positive sentiment was underpinned by hopes that the latest wave of the pandemic would end swiftly, while the disruption caused by the Russia-Ukraine conflict would also settle and in turn provide a boost to global supply chains and economic activity."

PMI®

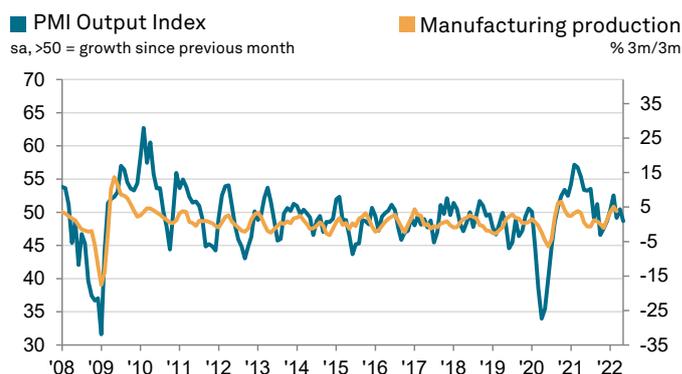
by S&P Global

time in six months in the latest survey period. The rate of job shedding was only marginal, though was the steepest recorded since January 2021. Anecdotal evidence suggested that the non-replacement of voluntary leavers was a key factor behind the fall. Concurrently, there was evidence of additional strain on existing capacity, as backlogs of work rose at the sharpest rate for 13 months.

Latest data pointed to a further rapid rise in input costs faced by South Korean manufacturers amid sharp rises in raw material prices, although the rate of input price inflation eased for the first time in four months. That said, the rate of factory gate inflation accelerated in May and was the steepest record in the survey history as firms increasingly passed higher cost burdens to clients.

South Korean manufacturing firms noted that growth of input buying continued in May, though the rate of growth slowed considerably to a five-month low as firms cited difficulty in sourcing and receiving raw materials due to delivery delays and supply shortages. As such, supplier delivery times extended to the greatest extent since last December, with disruptions exacerbated by pandemic restrictions in China. This also encouraged firms to increase efforts to stockpile raw materials, though delayed shipments meant holdings of inputs rose at a softer pace.

Looking ahead, manufacturers remained strongly optimistic regarding activity in the year ahead. Confidence stemmed from hopes that an end to the pandemic and the Russia-Ukraine war would trigger a broad recovery in the global economy and supply chains.



Sources: S&P Global, KOSTAT.

Contact

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

Joanna Vickers
Corporate Communications
S&P Global
T: +44207-260-2234
joanna.vickers@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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