

News Release

Embargoed until 0930 KST (0030 UTC) 01 September 2022

S&P Global South Korea Manufacturing PMI®

Downturn in manufacturing sector quickens in August

Key findings

Output and new orders fall at fastest pace since June 2020

Input prices rise at softest rate for 19 months

Business optimism sinks to ten-month low

South Korea's manufacturing sector continued to face challenging operating conditions midway through the third quarter. Both output and new orders fell at a sharper pace during August and at the fastest rates since June 2020, as firms cited concerns about the domestic and global economic outlook. Weaker demand conditions had a positive impact on price and supply pressures however, as South Korean firms commented that supply chain disruption, as measured by supplier delivery times, was at its lowest since November 2020. This in turn helped to ease inflationary pressures and contributed to the softest rise in input prices since January 2021. Meanwhile, manufacturers commented that business optimism had waned in August and was at the lowest level recorded for ten months.

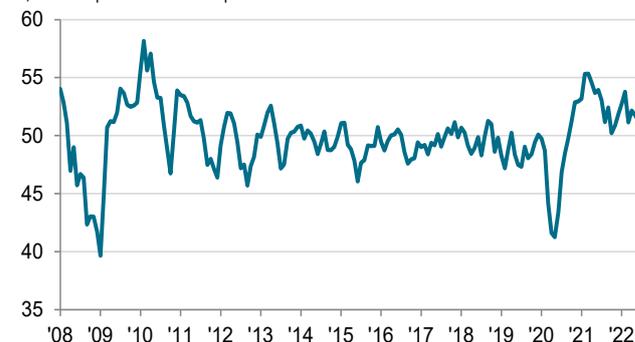
The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) fell from 49.8 in July to 47.6 in August. This signalled the sharpest deterioration in the health of the South Korean manufacturing sector since July 2020, with the underlying components of the headline index pointing to further weakness to come.

Both output and new order volumes fell at quicker rates in August, reflecting business concerns of a pending economic downturn, which weighed on production and demand. Both segments fell at a sharp pace that was the quickest since June 2020. Moreover, new export orders fell at the fastest pace since July 2020 amid weaker global economic conditions, exacerbated by the Ukraine war and zero-COVID policies in China.

Pressure on operating capacity also eased in August, as backlogs of work reduced for the first time since October 2020. The reduction in outstanding business provided a further indication of a weaker outlook over the coming months as a lack of new orders allowed firms to complete existing workloads. Concurrently, manufacturers noted a stabilisation in employment levels, ending a sequence of three consecutive declines.

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global.

Data were collected 12-22 August 2022.

Comment

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

"PMI data for August provided further evidence of a downturn in operating conditions at South Korean manufacturers. Contractions in both output and new orders accelerated on the month and were the fastest recorded since June 2020, pushing the headline index to the lowest level for 25 months. Firms often commented on concerns that the economy would continue to perform poorly amid weak demand and challenging global economic conditions.

"One timely benefit of deteriorating conditions is that a lack of demand allowed price and supply pressures to ease further. South Korean manufacturers reported that delivery times lengthened at the softest pace since November 2020 amid lower demand for materials, which along with lower prices for oil, contributed to the slowest rise in input prices for 19 months.

"That said, the outlook for output over the coming year dimmed in August as concern that the economic slowdown would deepen grew among manufacturers, while businesses also noted the lingering impact of inflation and the war in Ukraine. As a result, the level of positive sentiment eased to the lowest since October last year. Moreover, the latest S&P Global Market Intelligence estimates put growth in industrial production at 3.3% in 2022 and just 0.3% in 2023."

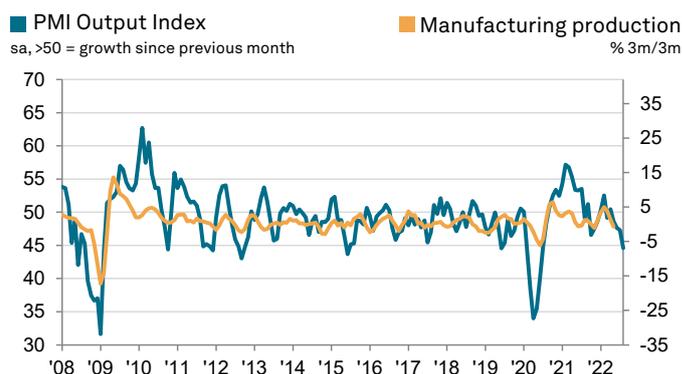
PMI®

by S&P Global

Latest survey data highlighted sustained, albeit softening supply side challenges facing South Korean manufacturers in August. Firms reported that the time taken to receive inputs lengthened at the softest pace since November 2020 as weaker demand conditions eased pressure on supply chains. At the same time, firms reported that the dip in output and new orders led to a build-up in stocks of both pre- and post-production inventories. The deterioration in operating conditions also contributed to a moderate reduction in purchasing activity, which saw a renewed fall that was the joint-fastest since June 2020.

Cost pressures eased sharply in the latest survey period, providing further evidence that inflationary pressures had passed their peak. The rate of input cost inflation remained marked, yet was the slowest since January 2021. Firms passed higher costs on to clients at a softer rate as a result, with the latest rise in output charges the softest for 18 months.

Looking forward, South Korean manufacturers remained optimistic regarding the year-ahead outlook for output in August. That said, the degree of confidence eased to the lowest since last October amid concern over a deeper economic slowdown and the long-term impacts of the war in Ukraine and zero-COVID policies in China.



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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