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IHS Markit South Korea Manufacturing PMI®

Signs of a turnaround in manufacturing conditions start to emerge in July

Key findings

Headline PMI reaches highest level since February

Output and new orders fall at much slower rates than in June

Stocks of finished goods rise to greatest extent since January 2009

Data were collected 13-23 July 2020.

July data pointed to a further easing in the downturn across the South Korea manufacturing sector, with the latest survey highlighting a turnaround from the low point seen during the second quarter of 2020. New orders fell at a notably slower pace during July, despite ongoing weakness in export sales. Moreover, production volumes dropped to the smallest degree since the current period of decline began in February.

Manufacturers nonetheless continued to report a severe impact on customer demand from the coronavirus disease 2019 (COVID-19) pandemic. There were also signs that business conditions had been softer-than-expected for some goods producers in July, as signalled by the fastest accumulation of finished goods inventories since January 2009.

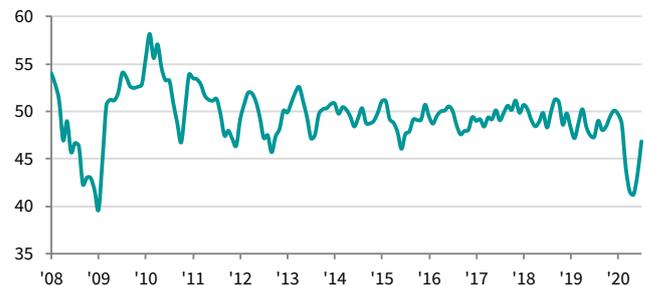
The headline South Korea Manufacturing Purchasing Managers Index™ (PMI®) posted 46.9 in July, up from 43.4 in June and the highest reading since February. The index continued to recover ground from its recent low (41.3 in May), but the latest reading was still much weaker than the long-run survey average.

South Korean manufacturers often attributed lower output in July to the impact of the COVID-19 pandemic and associated falls in export sales. Where growth was reported, some firms linked this to a gradual reopening of factory production among key clients (especially those in the automotive sector).

Survey respondents noted that efforts by customers to replenish inventories of critical components had a favourable impact on new orders in July. However, this was more than offset by reduced orders related to weak underlying economic conditions. Measured overall, new work dropped to the least marked extent since February. Subdued export sales persisted in July, with the latest reduction in new work from abroad outpacing that seen for total order volumes.

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South Korea Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Tim Moore, Director at IHS Markit, said:

"July data provides early signs of a turnaround across the South Korean manufacturing sector, despite the headline PMI staying below the neutral 50.0 mark. The output, new orders and employment components have all lifted from the lows seen in the second quarter of 2020, helped by reopening international supply chains and a gradual recovery in demand in key areas such as automotive production.

"Customer efforts to replenish critical inventories after disruptions through the COVID-19 pandemic had a favourable impact on order books in July, but this was more than offset by the drag on manufacturing sales from weak underlying global economic conditions.

"Perhaps the strongest signal that demand levels had fallen short of expectations was the largest rise in stocks of finished goods since the start of 2009. As a result, manufacturers maintained a bias towards price discounting and continued to take a cautious view on their staffing numbers."

Weaker-than-anticipated demand led to a sustained accumulation of finished goods inventories in July. The rise in post-production stocks was also the fastest for eleven-and-a-half years. In addition to a shortfall of orders, some manufacturers cited delays with the fulfilment of shipments to overseas clients amid global logistics challenges due to the COVID-19 pandemic.

Strains on international supply chains also resulted in longer lead-times from vendors in July. Manufacturers often commented on shortages of inventory and constrained capacity among their suppliers.

Average cost burdens increased slightly in July, which reversed the downward trend seen during the previous month. At the same time, manufacturers in South Korea continued to price discount, as signalled by a reduction in factory gate charges for the sixth consecutive month. Pressure on margins and ongoing spare capacity resulted in another round of job cuts. However, the rate of decline in employment eased slightly in July.

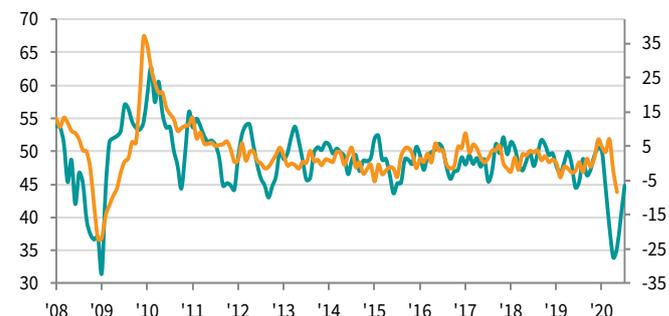
The proportion of manufacturers expecting a decline in output over the next 12 months (30%) once again exceeded those forecasting a rise (28%). That said, the gap continued to narrow in July. As a result, business expectations were much less downbeat than the low point seen in April.

PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%3m/3m



Sources: IHS Markit, KOSTAT.

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Methodology

The IHS Markit South Korea Manufacturing PMI® is compiled by IHS Markit from responses to monthly 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.

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.

July 2020 data were collected 13-23 July 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html