

News Release

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S&P Global South Korea Manufacturing PMI®

Sustained contraction in South Korean manufacturing sector

Key findings

Steeper reductions in production and demand

Business optimism dips to six-month low

Delivery times improve at greatest extent in over a decade

Manufacturing conditions in South Korea remained muted at the midpoint of 2023. The latest PMI data pointed to sustained contractions in both output and new orders amid subdued economic conditions at home and internationally, with rates of decline accelerating since May. Manufacturers also signalled that muted operating conditions had dampened their outlook regarding future output. Confidence in the year-ahead outlook dipped to the lowest level in 2023 to-date amid uncertainty regarding the timing of any recovery in demand as well as the likelihood of prolonged economic weaknesses.

The seasonally adjusted South Korea Manufacturing Purchasing Managers' Index (PMI®) dropped from 48.4 in May to 47.8 in June, indicative of a stronger deterioration in the health of the South Korean manufacturing sector. Business conditions have now declined on a monthly basis throughout the past year.

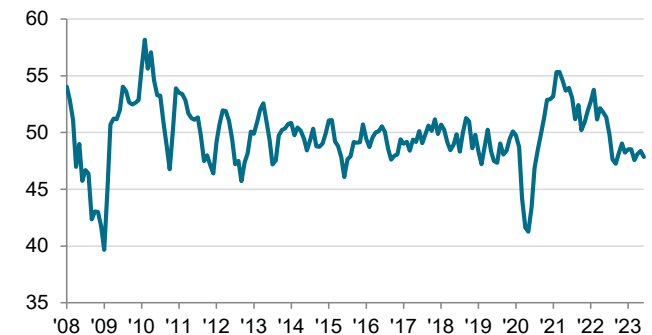
Contributing to the weaker headline reading was a fourteenth consecutive monthly decrease in production volumes. The rate of decline was solid and the strongest seen since October 2022. Lower output levels were frequently linked to the sustained weakness in economic conditions.

Order book volumes declined further in June, extending the current sequence of decline to a year. The rate of reduction was sharp and the strongest recorded in 2023 so far. Subdued demand reportedly stemmed from a weak domestic economy and sluggish international economic conditions. While new export orders fell at a softer pace than total new orders, the pace of decline was the quickest seen for five months amid muted demand in key markets including Asia and Europe.

The current lull in demand led to a further reduction in outstanding business across the South Korean manufacturing sector. Backlogs of work fell at a moderate pace that was the joint-strongest since February. Helping firms to complete existing work was a sustained increase in

S&P Global South Korea Manufacturing PMI

sa, >50 = improvement since previous month



Source: S&P Global PMI.

Data were collected 12-22 June 2023.

Comment

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

"PMI survey data for June indicated that operating conditions in the South Korean manufacturing sector remained muted at the midpoint of 2023. Both output and new orders contracted at quicker rates in June, with the reductions at their quickest for eight and six months respectively.

"Weaker business conditions, coupled with sustained reductions in purchasing and backlogs of work, contributed to a dampening in optimism regarding the year-ahead outlook for output. Business confidence eased to the weakest in 2023 to-date amid concerns that the current economic malaise would be more prolonged than previously expected.

"On a more positive note, South Korean goods producers indicated an improvement in suppliers' delivery times for the third month in a row. Lead times improved at the most marked extent in just over a decade amid weaker demand for inputs, although some firms highlighted improved raw material supply.

"The rate of input price inflation also continued to trend downwards, with the latest rise only fractional and the slowest in the current three-year sequence of rising expenses. This contributed to a further reduction in selling prices that was the steepest since September 2020."

PMI®

by S&P Global

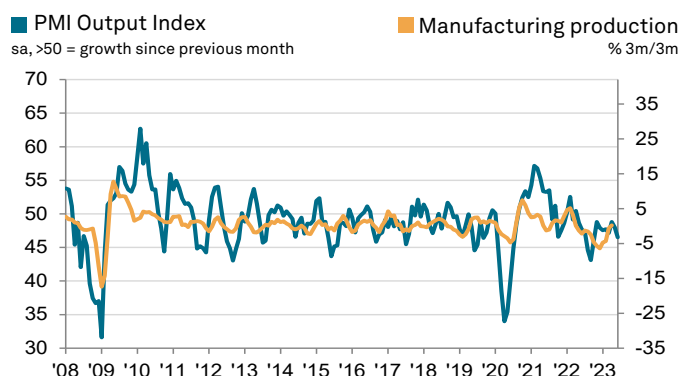
employment levels as existing vacancies were filled.

Latest data also pointed to a reduction in input buying for the eleventh consecutive month. The rate of deterioration was moderate, and the steepest seen in three months. At the same time, there was another increase in holdings of pre-production inventories that was the strongest since May 2022, while stocks of finished goods rose for the fifth time in the past six months.

June data saw a further improvement in vendor performance. The extent to which lead times shortened was the most marked since May 2013. Falling demand for inputs was the primary factor behind the improvement in June, although some firms signalled stronger raw material supply.

Turning to prices, cost inflationary pressures eased at the end of the second quarter. In fact, input price inflation decelerated to reach the softest since the current sequence began three years ago and was only slight. At the same time, factory gate charges were reduced for the second month in a row, with the latest decrease the quickest since September 2020.

Finally, confidence regarding output over the coming 12 months across South Korea's manufacturing sector weakened in June. Firms cited hopes that a domestic and international demand recovery would encourage new product launches and new business. However, there were concerns regarding the timing of any recovery and the possibility of a prolonged period of economic weakness.



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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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