

# HSBC South Korea Manufacturing PMI™

Growth of South Korean manufacturing sector slowest in seventeen months

## Summary

The HSBC South Korea PMI™ posted 50.9 in August, down from July's 53.2. Nonetheless, August was the eighteenth successive month where overall business conditions have strengthened. Whilst the latest PMI indicated growth within the South Korean manufacturing sector, the improvement was the weakest in seventeen months.

Incoming new business rose for an eighteenth successive month during August. However, the rate of new order growth eased to the slowest since May 2009, amid concerns over the stability of the ongoing global economic recovery. Similarly, the increase in new export business also weakened during the month, with the latest rise only negligible.

Output grew only slightly during August, reflective of the slowdown in overall new order expansion. Nonetheless, production has now increased continuously since March 2009.

Backlogs of work expanded during August, reflecting shortages of some inputs. However, the increase in outstanding business slowed due to the weaker rise in new orders. Stocks of finished goods also grew, ending a three-month period where inventories had fallen.

Employment within the South Korean manufacturing sector increased for an eighteenth successive month in August. Panellists attributed the latest rise in staffing levels to expected growth in output. However, August's increase in headcounts was the lowest in ten months.

August data signalled a slight fall in purchasing activity at manufacturers in South Korea. Subsequently, suppliers' delivery times improved for the first time in four months. However, the extent to which lead times shortened was limited due to insufficient supplies of some raw materials.

Input prices faced by manufacturers in South Korean increased markedly during August, with input cost inflation now sustained for nine months. However, the rise in input prices slowed during the month to the weakest since December 2009. Output prices were unchanged since July, with anecdotal evidence suggesting that any rises due to higher costs were offset by reductions elsewhere, reflective of strong competition for new business.

## Comment

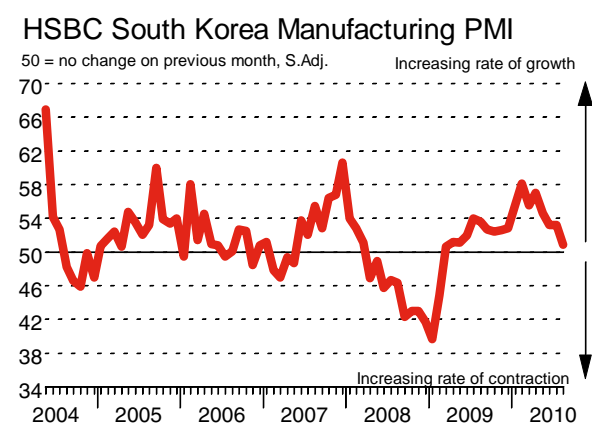
Commenting on the South Korea Manufacturing PMI survey, Song Yi Kim, Economist at HSBC in Asia said:

*"Amid growing concern over the global economic recovery, Korea's growth engine let off a little steam in August, as suggested by further a moderation in the HSBC South Korea Manufacturing PMI to 50.9 – a 17-month low. However, new orders and output remained above the neutral 50.0 level, while the employment index remained strong, suggesting that the manufacturing sector will continue to add jobs in the nation. Alongside the weak reading in the PMI, the input and output price indexes were lower than in July. This indicates that inflationary pressure, at least from the production side, is easing off. Given this, the Bank of Korea will likely keep the policy rate on hold for September."*

## Key points

- New order and output expansions both weakened.
- Employment increased ahead of expected rises in output.
- Input price inflation lowest in eight months; charges unchanged since July.

## Historical Overview



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**Notes to Editors:**

The HSBC South Korea Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on regional and industry contribution to South Korean Industrial Production. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index (PMI) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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