

HSBC South Korea Manufacturing PMI™

Business conditions in the South Korean manufacturing sector deteriorated in September

Summary

The HSBC South Korea PMI™ posted 48.8 in September, down from August's reading of 50.9. The fall in the headline PMI below the 50.0 neutral level indicated that business conditions in the South Korean manufacturing sector had worsened during the month – the first contraction recorded since February 2009.

New order volumes were reported to have declined during September, following eighteen months of growth. Panellists commented that domestic demand had been poor during the month, resulting in the overall decrease in new work. New export business rose, albeit only marginally.

The overall decline in incoming new business led to a contraction in output during the month. Backlogs of work at manufacturers in South Korea were also reported to have decreased, ending an eight-month period of growth. This suggested that pressure on operating capacity had eased due to the reduction in new orders. Stocks of finished goods increased during September, but only slightly.

Despite decreases in both new orders and output, employment in the South Korean manufacturing sector increased during September. Panellists commented that they expect forthcoming new projects to commence and new orders to rise, and were therefore increasing capacity in advance of requirements. However, the latest rise in employment was the weakest in fourteen months.

September data signalled a reduction in purchasing activity at manufacturers in South Korea. This reflected a decrease in output and also shortages of supplies at vendors. Subsequently, lead times improved for the second successive month.

Input prices faced by manufacturers in South Korea increased markedly during September, predominately driven by higher raw material costs. Input price inflation has now been sustained for ten consecutive months. Output prices also rose during the month, although the extent of the increase was limited due to competition for new business.

Comment

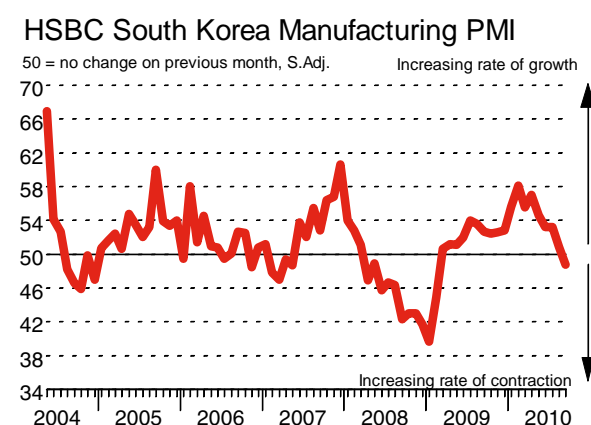
Commenting on the South Korea Manufacturing PMI survey, Song Yi Kim, Economist at HSBC in Asia said:

"A disappointing reading, no doubt. With the PMI headline reading sliding below the break-even level of 50 for the first time this cycle, third quarter GDP may be moderated, even if an outright contraction appears unlikely. The Chuseok holiday, which this year falls in September, and led to general work stoppage for at least a week in Korea, may have distorted the monthly reading somewhat, especially with regard to domestic activity. Nonetheless, the underlying trend does point to a contraction in the month. However, the economy appears merely to be pausing for breath, rather than collapsing. Meanwhile, the inflation pressure remains intact as price indices remained well above 50."

Key points

- Weak domestic demand impacted on intakes of new work.
- Employment increased amid expectations of demand growth.
- Input price inflation sustained for tenth successive month.

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.

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