

## HSBC South Korea Manufacturing PMI™

December PMI signalled that growth of South Korean manufacturing sector regained momentum

### Summary

December survey data, compiled by Markit for HSBC, indicated a solid improvement of business conditions in the South Korean manufacturing sector. The HSBC South Korea PMI posted 53.9 in December, a solid improvement on November's 50.2. The latest reading signalled the fastest growth of the South Korean manufacturing sector in seven months, and was above the long-run series average.

After accounting for seasonal factors, new orders received by manufacturers increased markedly during December. Anecdotal evidence suggested that a general improvement in economic conditions had boosted demand, particularly in the domestic market. New export orders also increased solidly during the month, and at the strongest pace since June.

The growth in overall new orders supported a marked rise in output at manufacturing companies in South Korea. Despite this, backlogs of work increased in December, indicating that pressure on operating capacity had returned. Furthermore, stocks of finished goods fell as companies used existing inventories to partially meet new order obligations, as well as for stock reduction initiatives.

December data signalled a solid rise in employment in the South Korean manufacturing sector. Moreover, the latest increase in staffing levels was the sharpest in five months, reflecting marked growth of both new orders and output during the month. Employment has increased in each survey period since March 2009.

Having been broadly flat in November, purchasing activity at South Korean manufacturers rose during December. The expansion in production drove the increase in input buying. Subsequently, suppliers' delivery times were reported to have lengthened, as growth in purchasing activity placed pressure on capacity at vendors. Stocks of purchases continued to fall, despite the rise in input buying.

Input prices faced by manufacturers in South Korea increased substantially during December, driven by higher raw material costs. The latest input price inflation was the fastest since February 2009. Output prices also rose during the month. Whilst the increase in charges was marginal compared to that of costs, it was notably sharp in the context of historical data.

### Comment

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

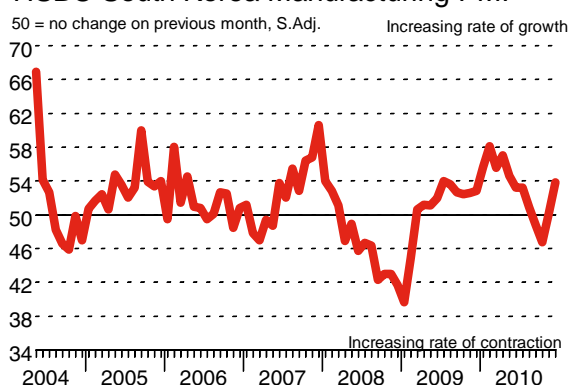
*"The Korean economy is ending 2010 on a strong note. With the global trade cycle firing up again, Korea especially stands to benefit. While exports are accelerating again after a recent lull, the labor market is strengthening as well, which should help underpin consumption spending for the coming quarters. Still, the Bank of Korea needs to heed growing price pressures: with both the input and output price indices up sharply, it is only a matter of time before official inflation readings begin to threaten the central banks target."*

### Key points

- New business increased markedly, with domestic demand noted to have improved.
- Job creation strongest in five months.
- Input cost inflation fastest in twenty-two months.

### Historical Overview

#### HSBC South Korea Manufacturing PMI



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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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