

## HSBC South Korea Manufacturing PMI™

Expansion of South Korean manufacturing sector sustained for third successive month in January

### Summary

January survey data signalled growth of the South Korean manufacturing sector, with the HSBC South Korea PMI™ posting 53.5. Whilst the latest reading fell slightly from December's 53.9, the strengthening of business conditions was solid. Moreover, the expansion was greater than the long-run series average.

New business received by manufacturers in South Korea rose markedly in January, with panellists attributing this to ongoing improvements in global economic conditions. The rate of new order expansion slowed slightly, but remained strong in the context of historical data. New export business also increased during the month, and at the fastest pace since May 2010.

Output in the South Korean manufacturing sector rose solidly during January. However, reflective of slower overall new order growth, the pace of production expansion was weaker than in the previous survey period. That said, backlogs of work were reported to have accumulated for a second consecutive month, and at a rate that was above the long-run trend. This suggested that pressure on operating capacity persisted.

South Korean manufacturers indicated that staffing levels had increased during January. Moreover, the latest rise in employment was the strongest in eight months. Panellists commented that job creation was driven by sustained growth of new orders and output.

Reflective of higher production requirements in January, purchasing activity at South Korean manufacturers increased, and at a marked rate. Subsequently, suppliers' delivery times lengthened, as increased input buying put pressure on operating capacity at vendors. Despite the rise in purchasing activity, pre-production inventories decreased slightly, as companies utilised existing stocks to help fulfil output requirements.

Input costs faced by manufacturing companies in South Korea continued to increase during January. The rate of input price inflation was substantial, and the fastest in the current fourteen-month sequence. Output prices increased at the second-strongest pace in the series history, although this remained weaker than the rise in costs.

### Comment

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

*"Korean economy eased a little in January because of a mild slowdown in new order growth. However, new export orders and employment continued to accelerate. Overall, the economy is still on track to record robust growth in the opening quarter of the year. Meanwhile, the input prices and output prices sub-indices are both approaching their respective record highs, intensifying inflationary pressures. We therefore expect the Bank of Korea to further tighten monetary policy in coming months, as early as March."*

### Key points

- New export orders grew at fastest rate since May 2010.
- Staffing levels increased markedly.
- Input prices rose at strongest rate in fourteen-month period of cost inflation.

### 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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