

HSBC South Korea Manufacturing PMI™

Expansion of South Korean manufacturing sector slowest in four months in March, but remained solid

Summary

Business conditions in the South Korean manufacturing sector continued to strengthen in March, as the HSBC South Korea PMI posted 52.8. The latest reading was slightly lower than February's 53.4, but remained stronger than the long-run trend.

South Korean manufacturers reported a rise in new work intakes during March. This was the fifth successive month where overall new business increased, although the latest expansion was the weakest since November 2010. In contrast, the rate of new export order growth accelerated to the fastest in ten months.

Reflective of the weaker rise in overall new business, output increased at a slower rate than in the previous survey period. Nonetheless, backlogs of work at manufacturers in South Korea accumulated for a fourth consecutive month. Whilst the extent of the rise in outstanding business was only marginal, it indicated that a degree of pressure on operating capacity persisted.

Stocks of finished goods decreased during March, with panellists commenting that existing inventories had been utilised in order to fulfil new order obligations.

The sustained growth of both new orders and output supported a further increase of employment in the South Korean manufacturing sector. The rate of job creation slowed marginally, but the current sequence of expansion of staffing levels now stretches to more than two years.

March data signalled a marked rise in purchasing activity at manufacturers in South Korea. Moreover, the extent of the increase in input buying accelerated to the strongest since May 2010. Anecdotal evidence suggested that purchase volumes rose due to an increase in output requirements, but also as companies aimed to boost stock levels. Despite the rise in input buying, suppliers' delivery times were reported to have shortened slightly on average in the latest survey period.

Input costs faced by South Korean manufacturers increased substantially during March, driven by a further rise in raw material prices. Whilst the rate of input cost inflation slowed to a four-month low, it remained steep in the context of historical data and supported a solid increase in output prices.

Comment

Commenting on the South Korea Manufacturing PMI survey, Frederic Neumann, Co-Head of Asian Economic Research at HSBC said:

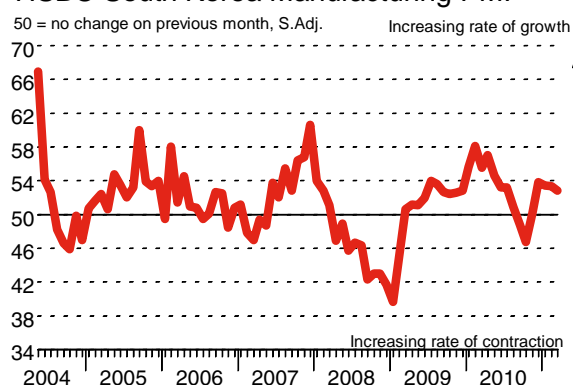
"Despite the evident global headwinds facing Korea, the economy continues to expand at a respectable pace. New orders and employment, while ticking down a little, remain in firm expansionary territory. New exports orders, in fact, picked up, presumably reflecting reviving activity in China after the end of the country's Lunar New Year holiday period. Somewhat reassuring for the central bank, both input and output price pressures eased a little into March, though not sufficiently to eliminate the need for further tightening."

Key points

- Weaker overall new order growth contributed to a slower rise in output.
- Fastest increase in new export business since May 2010.
- Inflationary pressures eased, but remained sharp.

Historical Overview

HSBC South Korea Manufacturing PMI



For further information, please contact:

HSBC

Frederic Neumann, Co-Head of Asian Economic Research

Telephone +852-2822-4556

Email fredericneumann@hsbc.com.hk

Corporate Communications:

Chi Hyang Chung

Telephone +822-2004-0951

Email chihyangchung@kr.hsbc.com

Hyon Jin Suh

Telephone +822-2004-0882

Email hyonjinsuh@kr.hsbc.com

Markit

Sarah Ledger, Economist

Telephone +44-1491-461-050

Email sarah.ledger@markit.com

Caroline Lumley, Corporate Communications

Telephone +44-20-7260-2047 / +44-781-581-2162

Email caroline.lumley@markit.com

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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