

HSBC South Korea Manufacturing PMI®

South Korean manufacturing PMI signalled loss of growth momentum in May

Summary

Business conditions in the South Korean manufacturing sector strengthened for a seventh consecutive month in May, as the HSBC South Korea Manufacturing PMI® posted 51.2. However, the latest reading was down from April's 51.7 to a six-month low, and was below the long-run series average.

Manufacturers in South Korea reported a modest rise in incoming new business during May. However, the slowdown in the rate of growth continued, with the latest expansion the weakest since November 2010. The increase in new export business also eased since April, and was below the historical average for that series.

Subsequently, output growth slowed for a third successive month. However, a rise in backlogs of work suggested that the latest increase in production was not sufficient to meet the expansion in new orders. Stocks of finished goods were depleted for the eighth month running, as companies utilised existing inventories in order to help fulfil new order requirements.

May data signalled a twenty-seventh consecutive monthly rise in employment in the South Korea manufacturing sector. Further growth of new orders and output were cited as the main drivers of the increase in staffing levels. Whilst the rate of job creation eased since April, it remained above the long-run trend.

South Korean manufacturers reported a marginal reduction in purchasing activity during May. This was attributed to the slowdown in the expansion of output. Despite this, delivery times were indicated to have lengthened. That said, the vast majority of panellists noted that there was no change in lead times compared to the previous month.

Input costs faced by manufacturers in South Korea rose markedly in May, with the rate of inflation consistent with that recorded in April. Higher raw material prices remained the main driver of the rise in costs. In contrast, output prices were increased only slightly, and at the weakest pace in the current seven-month period of inflation. Panellists commented that competition for new business had prevented a sharper rise in charges.

Comment

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

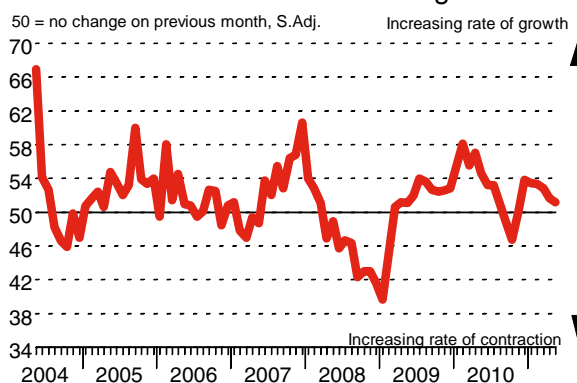
"Growth of Korea's economy continues to slow, which will ease pressure on the central bank to raise interest rates. With overseas demand cooling, Korea's highly trade dependent economy will likely expand at a below trend pace in the second quarter. The good news is that output price pressures are easing, which signals a much-needed stabilization in core inflation."

Key points

- Weaker growth of both new orders and output in May.
- Employment increased for twenty-seventh successive month, albeit at slower rate.
- Output prices rose at weakest rate in current sequence of inflation.

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 Manufacturing PMI 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.

HSBC:

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$180bn at 31 December 2010. We are headquartered in London. As 'The world's local bank', we combine the largest global emerging markets banking business and a uniquely cosmopolitan customer base with an extensive international network and substantial financial strength. HSBC operates through long-established businesses and has an international network of some 7,500 offices in 87 countries and territories in six geographical regions; Europe, Hong Kong, Rest of Asia-Pacific, the Middle East, North America and Latin America.

About Markit:

Markit is a leading, global financial information services company with over 2,000 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Purchasing Managers' Index™ (PMI®) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.

The intellectual property rights to the HSBC South Korea Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™ and PMI®* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.