

HSBC South Korea Manufacturing PMI®

Growth of South Korean manufacturing output sustained for seventh successive month

Summary

Business conditions in the South Korean manufacturing sector strengthened marginally in June, as the HSBC South Korea Manufacturing PMI® posted 51.1. The latest figure was broadly unchanged from May's 51.2, and remained below the long-run series average. Growth has been sustained since November 2010.

A modest rise in incoming new business was reported by South Korean manufacturers in June. This extended the current period of expansion to eight months. While the rate of new order growth was slightly faster than that recorded in May, it was slower than the solid increases indicated in the first quarter. The rise in new export business slowed for the third straight month to the weakest in the current sequence of expansion.

Production continued to increase in June. The latest rise was not sufficient to prevent a further accumulation of outstanding business, but June's increase in backlogs was weaker than that seen in May. Stocks of finished goods were depleted for the ninth month running, with panellists commenting that existing inventories were utilised in order to partially fulfil new order obligations.

June data signalled a further rise in employment in the South Korean manufacturing sector, supported by sustained growth of both new orders and output. However, the rate of job creation was the weakest since October 2010.

South Korean manufacturers increased their purchasing activity in June. This predominately reflected higher output requirements and, to a lesser extent, expectations of further rises in costs. Despite this, stocks of purchases continued to fall, as inventories were utilised in order to help fulfil production requirements. Delivery times were reported to have shortened, as vendors increased their operating capacity.

Input costs rose for the nineteenth successive month in June, as raw materials prices continued to increase. However, the rate of cost inflation slowed to the weakest since September 2010. Charges rose at a slightly faster rate than indicated in May, but the pace remained slower than that recorded at the start of 2011.

Comment

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

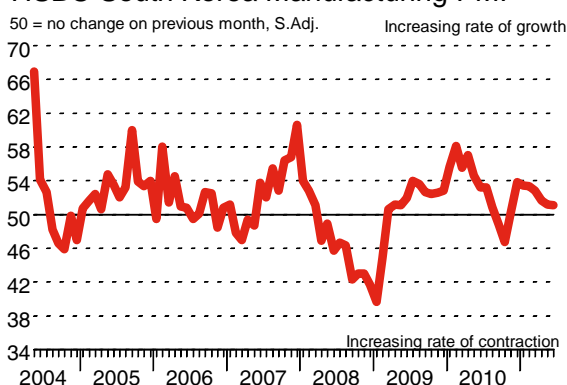
"Despite global headwinds, Korea's economy continued to expand at a steady pace in June. Export order growth is still slowing, but the domestic industry appears to be gearing up again with overall new order expansion picking up steam a little. This will alleviate concerns that the economy is experiencing something more severe than a soft-patch currently. Easing input price pressures are also a welcome development, although the slight acceleration in output prices suggests that core inflation will remain sticky over the coming months."

Key points

- New business expansion strengthened slightly, supporting further increase in production.
- Employment rose at slowest pace since October 2010.
- Input price inflation eased.

Historical Overview

HSBC South Korea Manufacturing PMI



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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.

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