

## HSBC South Korea Manufacturing PMI®

July sees faster increase in South Korean manufacturing new orders

### Summary

Business conditions in the South Korean manufacturing sector strengthened modestly in July. The HSBC South Korea Manufacturing PMI® posted 51.3, above the no-change mark of 50.0. The latest figure has been broadly unchanged over the last three survey periods, and remained below the long-run trend. Nonetheless, overall growth has been sustained for nine successive months.

New business expansion accelerated to a four-month high in July, with growth now recorded in each month since November 2010. New export orders also increased during the month, with the latest rise also accelerating on the month. Manufacturers in South Korea noted that a general improvement in demand had boosted overall new work intakes. Nonetheless, output growth slowed to the weakest in the current sequence of expansion.

Backlogs of work at manufacturers in South Korea rose in July, signalling that pressure on production capacity persisted as new business volumes continued to increase. Furthermore, stocks of finished goods were depleted for a tenth month running, and at a rate faster than the historical trend. Panellists commented that existing inventories had been used to help fulfil order requirements.

Reflective of sustained growth of both new orders and output, employment in the South Korean manufacturing sector rose in July. Job creation has now been maintained for nearly two-and-a-half years.

Purchasing activity increased at a stronger rate than in June, mirroring the trend seen for new business. In spite of this, suppliers' delivery times shortened for a second month running. The improvement in vendor performance was, however, only marginal.

Rising raw material prices drove another increase in input costs faced by South Korean manufacturers in July. The rate of input cost inflation slowed slightly during the month, but remained marked and strong in the context of historical data. In contrast, prices charged fell for the first time in nine months. Panellists commented that strong competition for new business had led to the reduction in output prices.

### Comment

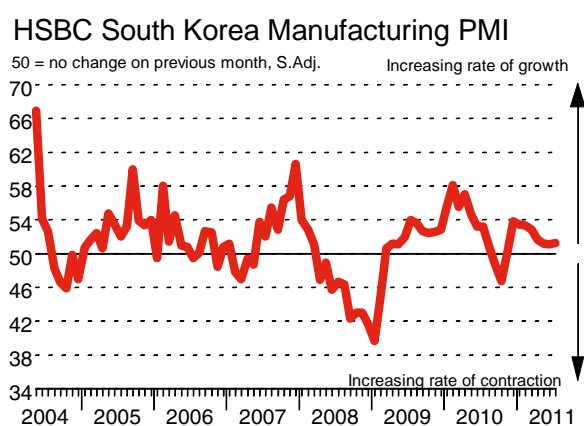
Commenting on the South Korea Manufacturing PMI survey, Frederic Neumann, Co-Head of Asian Economic Research at HSBC said:

*"Korea's economy is picking up a little speed at the beginning of the third quarter. Despite lingering uncertainties over global demand growth, the rise in new export orders suggests that Korean shipments should hold up well. Employment, too, continues to expand at a robust pace while the decline in inventories of finished goods bodes well for production going forward, especially in light of rising new orders. The Bank of Korea will also take heart from the fact that price pressures continue to ease, with the sequential drop in output prices in particular a sign that core inflation should stabilize in the coming months."*

### Key points

- New business expansion at four-month high
- Further growth of output and employment
- Output prices fall for first time in nine months

### Historical Overview



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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](mailto:economics@markit.com).

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