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## HSBC South Korea Manufacturing PMI®

August data signal contraction of South Korean manufacturing output for first time in nine months

### Summary

Business conditions in the South Korean manufacturing sector deteriorated slightly in August. The HSBC South Korea Manufacturing PMI® posted 49.7 in August, below the 50.0 threshold that separates expansion from contraction. Furthermore, down from 51.3 in July, the latest reading pointed to the first deterioration in ten months.

New orders received by manufacturers in South Korea decreased during August. The rate of decline was marginal, but ended a nine-month period of growth. Panellists commented that a general weakening of demand had led to the reduction in new work intakes, with some respondents also noting that their clients were reducing output. Similarly, new business received from export markets also decreased.

Reflective of the reduction in overall new orders, output at South Korean manufacturers fell during August. Despite this, backlogs of work increased, with the rate of accumulation broadly unchanged over the last three months. This suggests that the decrease in production offset the fall in new business received during the month. Finished goods stocks were reported to have depleted modestly during August.

August data signalled an increase in employment in the South Korean manufacturing sector, despite contractions of both output and new orders. Panellists noting a rise in staffing levels commented that new projects are expected to start and an overall increase in new work intakes is anticipated. Nonetheless, the rate of job creation in the sector was weaker than those seen in the first five months of 2011.

Purchasing activity at South Korean manufacturers was unchanged from the previous survey period in August. Despite this, delivery times lengthened, in contrast to the improvement recorded in June and July. Stocks of purchases were depleted, with panellists citing stock reduction initiatives as the main contributor.

Input prices faced by manufacturers in South Korea increased during August, driven by higher raw material costs. The rate of input price inflation was the fastest in three months and strong in the context of historical data, despite being weaker than those seen at the start of 2011. Output prices also rose, albeit at a marginal rate as strong competition for new business limited the extent of the increase. Nonetheless, the rise was in contrast to the reduction recorded in July.

### Comment

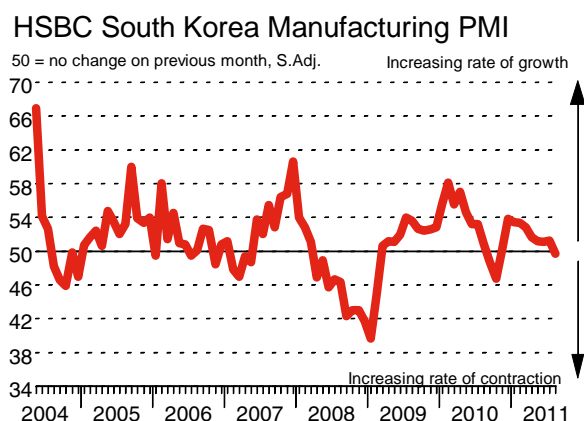
Commenting on the South Korea Manufacturing PMI survey, Frederic Neumann, Co-Head of Asian Economic Research at HSBC said:

*"Global financial volatility and the slowdown of demand in the West is beginning to feed through into Korea's manufacturing sector. While companies remain optimistic enough to continue hiring, the drop in new orders suggests that the Korean economy will deliver sub-par growth for the coming months. A particular challenge for the Bank of Korea is the rebound in input and output price pressures in August, partly reflecting inclement weather during the month. But rising growth risks, rather than lingering inflation, should guide monetary policy officials for the time being."*

### Key points

- Production decreases as new orders fall
- Employment continues to rise
- Input costs and output prices both increase

### 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 industry contribution to South Korean GDP. 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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