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## HSBC South Korea Manufacturing PMI®

South Korean manufacturing output contracts at sharpest rate in 11 months in September

### Summary

Business conditions in the South Korean manufacturing sector continued to deteriorate in September. This was highlighted by the HSBC South Korea Manufacturing PMI® posting 47.5, down from August's reading of 49.7. September's PMI pointed to the strongest deterioration in 11 months.

South Korean manufacturers reported a decline in new business received during September. The rate of decrease was solid, and accelerated since August. Similarly, new orders received from export markets also contracted, and at the fastest rate since October 2010. Anecdotal evidence suggested that customers had reduced order volumes as weakening economic conditions had impacted on their production levels.

Manufacturers commented that existing post-production inventories were utilised in order to control stock levels. Reflective of lower new business, and initiatives to reduce holdings of finished goods, panellists reported a marked contraction in output in September. Backlogs of work were depleted for the first time in ten months, but at a marginal rate.

Employment continued to rise in the South Korean manufacturing sector during September. However, the latest increase in staffing levels was the weakest in 27 months. The majority of respondents reported no change in employment at their companies.

Purchasing activity fell in September, in line with lower production requirements. Despite this, delivery times lengthened, albeit to a negligible extent. Stocks of purchases were reduced, reflective of initiatives to reduce holdings of pre-production inventories.

Input prices faced by manufacturers in South Korea increased at a marked rate in September. The rate of cost inflation eased slightly since August, but remained above the historical average for the series. Higher raw material prices were the main driver of the rise in input costs.

Output prices were also reported to have increased, although the rise was only fractional. Strong competition for new business restricted the extent to which manufacturers could pass on higher costs to clients.

### Comment

Commenting on the South Korea Manufacturing PMI survey, Ronald Man, Economist at HSBC in Asia said:

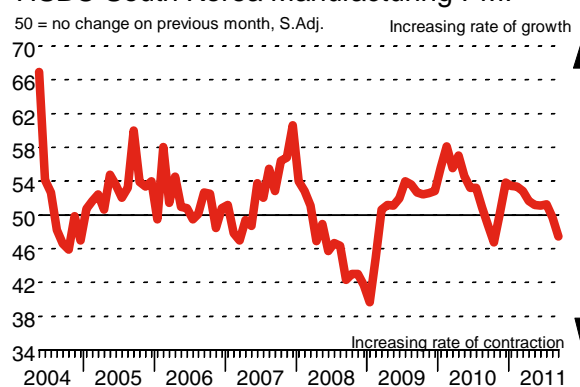
*"After a strong first half of the year, Korea's manufacturing sector is now heading into a prolonged slowdown. Continued declines in both output and new orders received were to blame. This reflects broader deceleration concerns with weakness in the West feeding into Asia. Luckily for the BoK, output prices have barely risen over the past month, easing pressure for rate hikes."*

### Key points

- Lower new order volumes and stock reduction initiatives lead to decline in production
- Employment growth weakest since June 2009
- Inflationary pressures ease slightly

### 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 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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