HSBC Purchasing Managers' Index™ Press Release

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HSBC South Korea Manufacturing PMI®

Manufacturing business conditions in South Korea deteriorate at fastest rate in nearly three years

Summary

Business conditions in the South Korean manufacturing sector worsened for a fifth successive month during December. This was highlighted by the HSBC South Korea Manufacturing *PMI*® posting 46.4, down from November's reading of 47.1. Moreover, the extent of the latest deterioration was the sharpest since February 2009.

Manufacturers in South Korea reported the fastest decline in new business in 34 months during December. This extended the current sequence of contraction to five months. Similarly, new export orders fell at a sharper rate. Panellists commented that worsening economic conditions, both at home and overseas, had dampened client demand.

Output also declined at a steeper rate, due to the decrease in new business and efforts to control stocks. Subsequently, post-production inventories were depleted at the fastest rate in three-and-a-half years. Meanwhile, backlogs of work were reported to have declined at a solid pace during December. This indicated that spare capacity persisted in the sector.

December data signalled the first reduction in employment in 34 months. Anecdotal evidence suggested that lower new orders and output, alongside the non-replacement of leavers, were the main contributors to the fall in staffing levels. However, the rate of job cuts was marginal, with the majority of respondents indicating no change in employment since November.

Reflective of contractions in both new business and production, purchasing activity decreased again in December. Some panellists also noted that input buying had been reduced to help control stocks. Subsequently, pre-production inventories were depleted at a solid rate. Despite the fall in purchase volumes, suppliers' delivery times lengthened in December due to the ongoing supply-chain impacts of floods in Thailand. However, the deterioration in vendor performance was only modest.

Input prices faced by manufacturers in South Korea increased solidly in December. Panellists cited higher raw material costs and unfavourable exchange rate variations as the main drivers of input price inflation. Nonetheless, the latest rise in costs was below the long-run trend. In contrast, output prices fell for the second month running, due to strong competitive pressures.

Comment

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

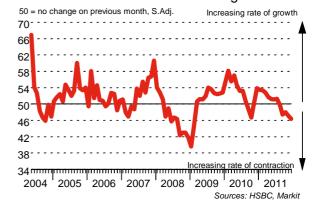
"Downside risks are materialising. A sharper drop in manufacturing activity over December confirms that Korea's economy is losing steam, with employment contracting over the month for the first time in almost three years. Continued declines in output prices, however, will keep the lid on headline CPI. In turn, policy makers should act preemptively to support the economy, and we expect the Bank of Korea to deliver a 25bp cut in 1Q 2012."

Key points

- New orders and output both fall at sharper rates
- Job cuts recorded for first time since February 2009
- Further reduction in output prices, despite solid increase in input costs

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.

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