HSBC South Korea Manufacturing PMI®

South Korean manufacturing business conditions improve for first time in seven months

Summary

Business conditions in the South Korean manufacturing sector improved for the first time since July 2011 during February. This was highlighted by the HSBC South Korea Manufacturing PMI[®] posting 50.7, up from January's reading of 49.2. Nonetheless, the latest figure pointed to only a marginal rate of growth.

South Korean manufacturers reported an increase in new business received during February, ending a sixmonth sequence of contraction. Nonetheless, the expansion was only marginal. Similarly, new export orders increased, but only slightly. Panellists commented that ongoing fragile economic conditions and strong competition for new business had limited the extent to which overall new work intakes increased.

Output at South Korean manufacturers rose in February, in line with higher new orders. However, a stronger depletion of backlogs of work suggested that productive capacity continued to exceed new business flows. Subsequently, stocks of finished goods were increased. However, some respondents noted that this reflected the need to boost inventories to accommodate gains in new business.

February data signalled a further reduction in employment in the South Korean manufacturing sector. While the rate of job cuts was marginal, losses have now been registered for three consecutive months. Lower staff levels were largely attributed to the non-replacement of leavers.

Purchasing activity declined in February despite the rise in production. Anecdotal evidence suggested that manufacturers had opted to utilise existing stocks of purchases. However, the rise in output led to a weaker reduction of pre-production inventories. Suppliers' delivery times were broadly unchanged.

Input prices faced by manufacturers in South Korea increased modestly during February. Higher raw material prices, particularly for oil-related products, were cited as the main driver of cost inflation. However, as suppliers lowered their prices for some inputs, the latest increase in input prices was the slowest in the current 27-month period of inflation. Charges decreased for the fourth successive survey period. Anecdotal evidence suggested that client negotiations and discounting in order to stimulate demand were the main contributors to the latest reduction in output prices.

Comment

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

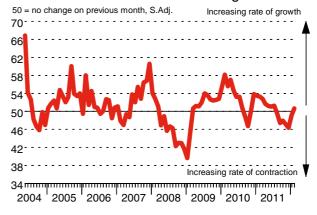
"At last, manufacturing conditions in Korea have improved. More importantly for policy makers, new orders have picked up, which suggests that demand for Korean goods are stabilising. But caution is warranted as new business has yet to translate into higher employment. In turn, the outlook for domestic demand and first guarter GDP growth remains weak."

Key points

- New business and output both return to growth
- Excess capacity persists as backlogs and employment continue to fall
- Fourth successive monthly reduction in output prices

Historical Overview

HSBC South Korea Manufacturing PMI



Sources: Markit, HSBC.





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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' IndexTM (PMITM)* 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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