HSBC South Korea Manufacturing PMI®

Further improvement in South Korean manufacturing business conditions in March

Summary

Business conditions in the South Korean manufacturing sector improved during March. This was highlighted by the HSBC South Korea Manufacturing PMI® posting 52.0, up from February's reading of 50.7 to a one-year high. The latest reading signalled a stronger improvement in business conditions compared with the previous survey period. Nonetheless, the rate of expansion was moderate.

New orders received by South Korean manufacturers rose in March, with both domestic and international demand contributing to the overall increase. Some panellists also commented that new product launches had helped to boost sales. The rate of new business growth was modest, but broadly in line with the long-run trend. However, the expansion in new export orders was only marginal, restricted by relatively poor economic conditions in key markets.

A solid rise in output was reported in March, reflective of the rise in overall new work intakes. A fractional increase in levels of outstanding business indicated that manufacturers were largely able to accommodate the latest growth in new orders. Finished goods stocks were depleted at a solid rate. Anecdotal evidence suggested that panellists had retained inventory reduction initiatives, and that existing stocks were utilised in order to partly fulfil order obligations.

March data signalled the first rise in employment since November 2011. While the current increase in new business was reported as a contributor to job creation, many respondents noted that expectations for growth of new business had also supported higher staffing levels.

South Korean manufacturers reported a rise in purchasing activity during March. A fractional lengthening in lead times was reported. Stocks of purchases were accumulated as a result of increased inventory requirements and a weaker than expected rise in new orders. However, as many companies preferred to work from existing inventories, the pace of accumulation was marginal.

Input prices faced by manufacturers in South Korea rose again in March. Higher raw material costs, particularly for oil, were cited as the main driver of inflation. However, the increase in costs was below the long-run series trend. Output prices fell for the fifth month running, but at a marginal pace. Strong competition and discounting to stimulate sales led to the deterioration in pricing power.

Comment

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

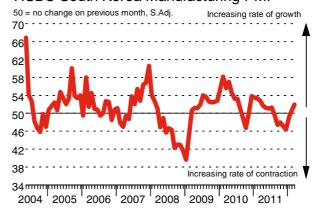
"Don't get carried away. While Korea's PMI rose again in March, further upward momentum requires expectations of higher new orders to materialise. Therefore, the sector remains vulnerable to external conditions. We expect global growth to pick up gradually and, in turn, Korean manufacturing conditions to improve step-by-step. The Bank of Korea is likely to maintain its accommodative stance for now, before potentially resuming its normalisation process towards the end of the year."

Key points

- PMI edges higher, but rate of growth remains modest
- Manufacturers remain cautious regarding holdings of stock
- Employment rises, largely due to expectations for further increases in new work intakes

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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