HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC South Korea Manufacturing PMI®

Growth of South Korean manufacturing output eases to marginal rate

Summary

Growth of South Korean manufacturing output lost momentum in May, slipping to the weakest in the current four-month period of expansion. New order growth held up relatively well in comparison, with the latest increase only slightly weaker than in April. Meanwhile, goods producers added to their staff numbers on average, although the rate of job creation remained marginal. On the price front, output charges decreased to the greatest extent in more than three years, while input cost inflation eased to a marginal rate.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.0 in May, signalling a fourth successive month of improving operating conditions. However, the index lost ground for the second successive month, and was below the long-run average for the series of 51.3.

Manufacturing production rose further in May, largely reflective of greater inflows of new business. That said, the rate of expansion was only marginal, having eased from April's 14-month high. Additionally, the latest increase was the slowest in the current four-month period of growth.

Growth of incoming new business was recorded for a fourth month running in May. The pace of increase in new work eased slightly since April, but remained moderate nonetheless. May data also highlighted a further rise in new export business, albeit to a lesser extent than for overall new orders.

Job creation was recorded for a third successive month in the sector. However, the latest increase in staff numbers was only marginal, in part reflecting a near-stabilisation of backlogs of work at goods producers.

The amount of inputs purchased by firms increased during the month, although the pace of growth eased to only a marginal rate. Stocks of purchases decreased for the first time in three months as a result. Meanwhile, latest data highlighted a renewed deterioration in average vendor performance, albeit marginal.

The rate of input cost inflation in South Korea's manufacturing sector moderated to a marginal rate during May. Where average costs rose, companies commented on higher prices paid for raw materials. Muted input price pressures provided greater scope for firms to reduce their output charges in an attempt to retain clients and attract new business, with factory gate charges decreasing at the sharpest rate in 37 months.

Comment

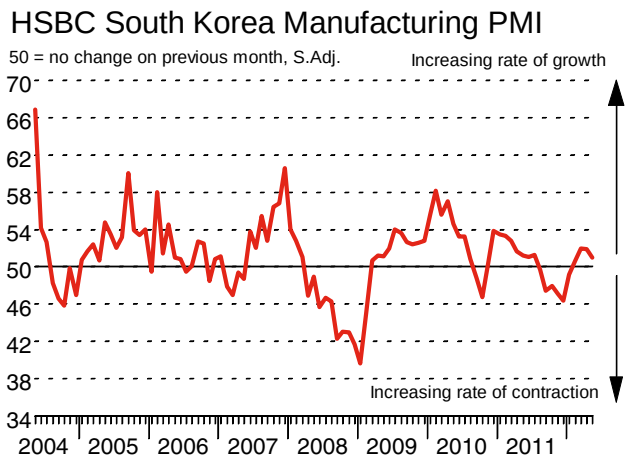
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

"Demand for Korean goods stays firm as new businesses from both domestic and external markets rose further. That said, slower output growth shows that Korean manufacturers remain cautious, partly reflecting the recent escalation of external uncertainties. We maintain our view that Korean fundamentals have strengthened significantly over the past few years, which will help the economy stay on track for a gradual recovery over the year."

Key points

- Factory output rises at slowest rate in current four-month period of growth
- Jobs growth remains marginal
- Output charges down at fastest rate in over three years

Historical Overview



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' 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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