HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC South Korea Manufacturing PMI®

Manufacturing output contracts for first time since January

Summary

The HSBC South Korea Purchasing Managers' Index™ (PMI®) is a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector. The PMI posted 49.4 in June, down from 51.0 in the previous month and pointing to the first deterioration in the health of the sector in five months.

Weaker domestic and international demand reportedly contributed to a lower output level in the manufacturing sector. Panellists also stated that a fragile economic climate affected South Korean manufacturers. Although the rate of decline was only moderate, the respective index was the lowest since December 2011.

Manufacturers experienced a contraction in order book volumes in June, ending a four-month period of expansion. Anecdotal evidence suggested that instability in the European market affected demand.

New export orders decreased in June, the first reduction since January. Falling order book volumes contributed to a contraction in backlogs, according to respondents. Moreover, increasing staffing levels was also a factor leading to a contraction in outstanding business.

The cost of inputs dropped modestly in June, (this was the first time that input prices had decreased since November 2009). Respondents stated that fuel, metal, raw materials and textile prices had fallen.

Manufacturers reportedly reduced charges in line with falling input costs, continuing the current eight-month period of decreasing output prices. Additionally, prices were reportedly reduced as supply exceeded demand in this period.

Inventories of purchases and finished goods were intentionally reduced by manufacturers in order to keep costs of stock management down. Stocks of finished goods fell, with the respective index posting below the 50.0 no-change mark for the fourth successive month. Meanwhile, stocks of purchases decreased for the second month in a row.

Suppliers' delivery times lengthened at firms in South Korea. With 3% of panellists reporting slower lead times and the vast majority posting no change, the pace of decline was only marginal. Low stock levels at suppliers was a cause of delayed lead times.

Manufacturers decreased the volume of raw materials and semi-manufactured goods purchased in June. Companies reportedly reduced purchasing activity in line with lower orders, both nationally and internationally.

Comment

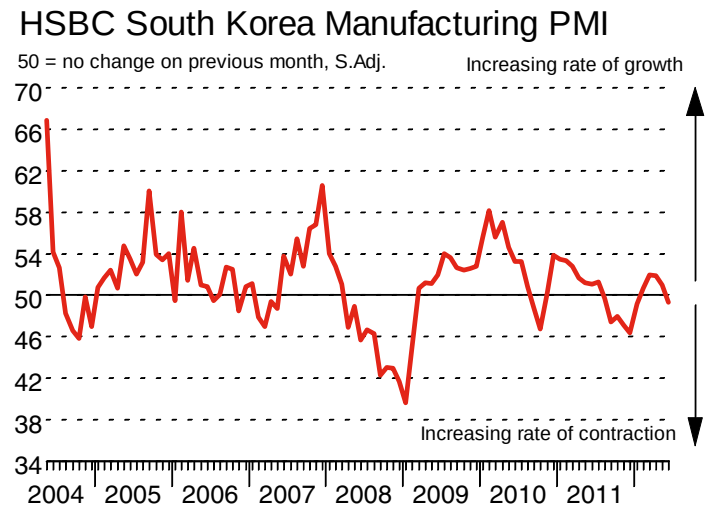
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

"Persistent global uncertainties continue to weigh on Korean manufacturing conditions. Should the slowdown in demand for Korean goods be sustained, manufacturing employment may start to contract. Policymakers must therefore support domestic activity to keep Korea on track for a gradual recovery this year, especially as external demand remains weak. We believe fiscal stimulus will prove more effective than monetary easing, given the Bank of Korea's policy rate is already accommodative."

Key points

- First sub 50.0 PMI reading for five months
- Falling output prices recorded for eighth successive month
- Order book volumes contract, ending a four-month period of expansion

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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