HSBC South Korea Manufacturing PMI®

PMI points to fastest deterioration in manufacturing since December 2011

Summary

The HSBC South Korea Purchasing Managers' IndexTM (PMI[®]) is a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector. PMI readings above 50.0 signal an improvement in business conditions, while readings below 50.0 signal deterioration. The PMI registered 47.2 in July, down from 49.4 in June and pointing to a further deterioration in the health of the manufacturing sector.

Production fell solidly at manufacturing firms in South Korea during July. The pace of contraction was the fastest recorded since December 2011. Panellists attributed lower production to the global economic slowdown.

New orders declined at the fastest pace since December 2011. Moreover, new export business decreased for the second successive month amid reports of a downturn in the international economic climate. In line with falling new order volumes, backlogs of work dropped during July. Data signalled that the latest contraction was the quickest since the survey started in April 2004.

Prices charged by South Korean manufacturers fell modestly in July. Output prices have fallen in each of the past nine months, and the rate of decline in July was the fastest since April 2009. Manufacturers reportedly reduced factory gate prices in line with decreasing prices for raw materials.

Meanwhile, input prices fell solidly and for the second successive month. According to manufacturers, prices had fallen as a result of negotiations with suppliers.

Post-production inventories were accumulated slightly, with the index posting just above the no-change benchmark of 50.0. That said, this was the first accumulation of stocks of finished goods since February. In contrast, pre-production inventories were intentionally depleted in an attempt to reduce storage costs, it was reported.

Workforces at manufacturing firms in South Korea fell during July. The latest data adjusted for seasonal factors pointed to the first contraction in employment since February, albeit at a marginal rate. Firms reported that, following resignations, no new recruitment had been carried out as the global economy continued to deteriorate.

Average lead times increased slightly at manufacturers in South Korea, extending the current lengthening period to three months.

Comment

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

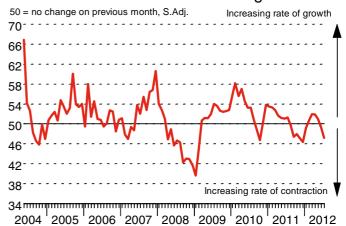
"Weak economic conditions forced a sharp contraction in new orders for Korean goods. In turn, further deterioration in Korea's manufacturing sector calls for more support from policy makers. On the monetary front, we expect the Bank of Korea to deliver one more 25bp policy rate cut this quarter. On the fiscal front, greater government spending should be allocated towards sustaining employment growth, especially in light of the recent slowdown in household consumption."

Key points

- Production and new orders fall sharply
- Backlogs decline at survey-record pace
- Input prices fall at fastest rate since November 2006

Historical Overview

HSBC South Korea Manufacturing PMI



Sources: Markit, HSBC.





For further information, please contact:

HSBC

Frederic Neumann, Co-Head of Asian Economic Research

Telephone +852-2822-4556

Email fredericneumann@hsbc.com.hk

Ronald Man, Economist
Telephone +852-2996-6743
Email ronaldman@hsbc.com.hk

Corporate Communications:

Chi Hyang Chung

Telephone +822-2004-0951

Email chihyangchung@kr.hsbc.com

Hyon Jin Suh

Telephone +822-2004-0882

Email hyonjinsuh@kr.hsbc.com

Markit

Pollyanna De Lima, Economist Telephone +44-1491-461-075

Email pollyanna.delima@markit.com

Caroline Lumley, Corporate Communications

Telephone +44-20-7260-2047

Mobile +44-781-5812162

Email caroline.lumley@markit.com

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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