

HSBC South Korea Manufacturing PMI®

Production falls at fastest rate in eight months

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. PMI readings above 50.0 signal an improvement in business conditions, while readings below 50.0 signal deterioration. The PMI registered 47.5 in August, broadly in line with the reading of 47.2 in July and pointing to a further deterioration in the health of the South Korean manufacturing sector.

Output contracted at the fastest pace in eight months amid reports of a strike in the auto sector. Moreover, respondents stated that the global recession had adversely affected production. Total new business fell and, although sharp, the rate of contraction was slower than in July. New export business also decreased, though at a slight rate. Panellists stated that weaker domestic demand and a downturn in the global economy had both fed through to the latest contraction in order book volumes.

Staffing levels at manufacturing firms in South Korea increased during August. However, the pace of expansion was only slight and the index posted below its long-run average. According to respondents, workforces were increased as manufacturers forecast an improvement in the wider economy over the upcoming year.

With employment expanding and demand weakening, backlogs of work were depleted at a sharp rate. Almost a fifth of the surveyed panel reported lower volumes of work-in-hand (but not yet completed).

Stocks of finished goods in the South Korean goods-producing sector decreased during August. Pre-production inventories also fell, and at a faster pace than post-production inventories. Stocks of purchases had fallen in each of the past four months.

Purchasing activity at manufacturing firms in South Korea decreased for the third successive month in August. The rate of contraction was solid, but eased from that recorded in July. Meanwhile, average lead times lengthened in the latest month, marking a four-month sequence of deterioration in vendor performance. That said, the rate of increase remained slight.

Manufacturing companies in South Korea signalled no change in input costs during August, as 91% of the surveyed panel reported constant input prices. On the other hand, output prices decreased for the tenth successive month.

Comment

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

"Korea's manufacturing sector remains weak, even if conditions are not deteriorating as sharply as before. Demand from home and abroad continues to contract, prompting local firms to reduce output further. With the Chinese economy yet to show signs of a meaningful recovery, policymakers in Korea need to support domestic demand as trade levels remain suppressed. We expect the Bank of Korea to deliver one more 25bp rate cut in September."

Key points

- New orders contract at sharp rate
- New export orders decrease for third month running
- Falling output prices signalled

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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