

# HSBC South Korea Manufacturing PMI®

## Sharpest deterioration in operating conditions since February 2009

### Summary

The HSBC South Korea *Purchasing Managers' Index*™ (PMI®) – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – recorded a reading below the 50.0 no-change mark that separates growth from contraction for a fourth month in succession during September. Moreover, recording 45.7, down from 47.5 in the previous month, the PMI indicated the steepest deterioration in operating conditions since February 2009.

Output and new orders both fell at marked rates in September. The decline in production was the steepest since January 2009, while new order levels deteriorated to the greatest extent for 43 months. There were a number of reports that lost working days due to strikes in the automobile industry had played a role in driving output and orders lower.

However, the underlying business environment was reported to be tough, both at home and abroad. New export order volumes declined for a fourth month in a row, although the rate of contraction was again modest. Europe and the Middle East were cited as areas of demand weakness.

South Korea's manufacturers again made significant inroads into their work outstanding in September. The rate of contraction was the sharpest recorded in the survey history, as falling levels of incoming new orders provided manufacturers with the opportunity to concentrate on clearing outstanding work.

Companies were also able to add to their stocks of finished goods during the month. Although marginal, the rise in warehouse inventories was only the third increase registered in the past two years.

In contrast, stocks of purchases were again cut markedly. That was despite the sharpest reduction in purchasing activity since February 2009 as difficult economic conditions and weak underlying demand led manufacturers to reduce their buying. With reduced pressure on vendors, suppliers' delivery times shortened marginally for the first time since April.

The generally weaker economic climate restricted inflationary pressures during September. Although input prices rose during the month (the first instance since May), the rate of increase was only modest. Meanwhile, competitive pressures and weaker demand led to an eleventh successive monthly reduction in average output charges.

Finally, manufacturers signalled little change in employment levels in September, maintaining the recent trend. Any staffing cuts generally reflected a response to poor underlying trends in output and new orders.

### Comment

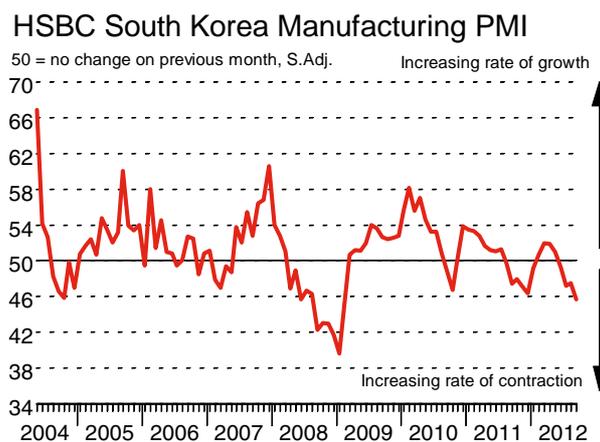
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

*"Without further support from policymakers in Seoul, conditions in Korea may slip back to 2009 levels. True, recent stimulus packages implemented in Korea's main overseas markets will lift demand for Korean goods. But, it takes time for the full benefits to filter through. For now, there is a greater need to support domestic demand within Korea. We expect a 25bp policy rate cut by the Bank of Korea in October."*

### Key points

- New orders and output both fall at sharpest rates since early 2009
- Strikes in automobile industry exacerbate demand weakness
- Manufacturers able to clear work outstanding to greatest extent in survey history

### 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](mailto:economics@markit.com).

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