# HSBC South Korea Manufacturing PMI®

# PMI up on September low, but operating conditions continue to deteriorate in October

## **Summary**

The HSBC South Korea *Purchasing Managers' Index*<sup>TM</sup> (*PMI*<sup>®</sup>) – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – registered below the 50.0 nochange mark for a fifth successive month in October to indicate another month of sub-par manufacturing performance. However, a rise in the headline index to 47.4, from 45.7, pointed to a slower rate of contraction when compared with September's 43-month record.

Production volumes were down for a fifth successive month in October and, despite easing, the rate of contraction was again marked. Panellists principally blamed lower new order volumes for the reduction in output, with a difficult economic environment reportedly weighing on client demand and sentiment. New orders deteriorated both at home and abroad. Export sales fell for a fifth successive month, and the rate of contraction accelerated to the sharpest in ten months. Lower demand from the key export markets of China, Europe and the US was reported by the survey panel.

As incoming new orders continued to fall over the month, South Korea's manufacturers were again able to make inroads into their work outstanding. Backlogs of work were down for a fifth month in a row, with the rate of contraction again marked. Inventories of finished goods were also pared as panellists sought to minimise stock holdings given the difficult economic environment.

Purchasing activity was also lowered in October as manufacturers responded to lower output and new orders. Stocks of purchases were also subsequently lowered modestly, the sixth successive month that a fall in inventories had been registered.

Nonetheless, some manufacturers retain hopes of an improvement in demand and output trends in the coming months. This was highlighted by an increase in employment levels during October. Although modest, growth was the strongest seen since August 2011.

Input prices rose for a second successive month during October. Inflation reflected a general increase in raw material prices, and overall input costs rose to the sharpest degree of 2012 so far. However, strong competitive pressures and the weak demand environment prevented companies from passing on higher costs to their clients. Output charges were reduced in October, maintaining the trend that has been apparent over the past 12 months.

#### Comment

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

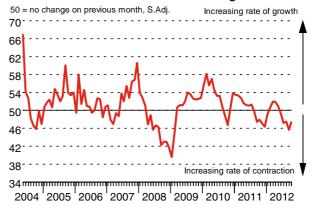
"Manufacturing conditions in Korea are showing signs of stabilisation. But the recovery remains fragile. Upward momentum is driven by expectations of higher demand over the coming months, keeping the industry vulnerable to external shocks. That said, provided recent stimulus filter through meaningfully across Korea and its key overseas markets, conditions in Korea's all important manufacturing sector may return to expansionary territory by year-end."

# **Key points**

- Slower falls in output and new orders signalled
- Manufacturers add to payroll numbers to greatest degree for over a year
- Rise in input costs, but output charges cut again

## **Historical Overview**

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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<sup>TM</sup> (PMI<sup>TM</sup>)* 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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