

HSBC South Korea Manufacturing PMI®

South Korean manufacturing sector holds steady at start of 2013

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 – registered 49.9 in January. That was slightly down on December's 50.1 and suggests operating conditions were little-changed around the turn of 2013.

Latest data indicated a modest fall in manufacturing output. With the exception of a negligible rise during December, production volumes have been falling since mid-2012, reflective of sustained weakness in new orders.

January's survey indicated a marginal fall in new orders received as poor economic conditions had an adverse impact on demand. This was especially the case in domestic markets as modest growth in new export orders was signalled in January. Export growth was registered for the first time in eight months as new product launches and success in securing new clients was reported.

New export orders rose despite reports of a weaker US dollar (relative to the Korean won) during the latest survey period. Such currency movements did, however, place a restraint on input price inflation in January. Although input costs continued to rise, the rate of increase was modest and remained well below the series average.

Meanwhile, competitive pressures continued to weigh on company pricing power at the start of 2013. Latest data indicated a fifteenth successive monthly reduction in output charges, although the rate of deflation was modest and the slowest seen since September.

Positive expectations for growth underpinned a solid increase in manufacturing employment levels in January, the second in succession. Extra capacity subsequently enabled companies to comfortably keep on top of their workloads. Backlogs of work were reduced for an eighth successive month, although the rate of contraction was modest and the slowest in the current sequence of contraction.

On the purchasing front, manufacturers increased their buying activity for the first time since last May, in some instances in anticipation of demand and production growth. That said, a number of manufacturers continue to signal a preference for running low inventories and

"just-in-time" production practices. Despite the net increase in purchasing, stocks of raw materials and semi-manufactured goods were reduced again in January.

Comment

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

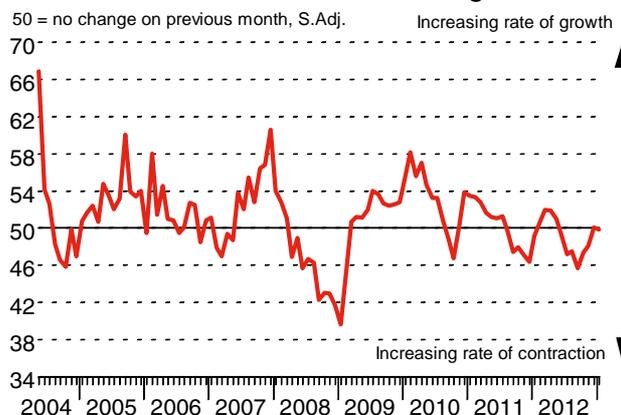
"Korea's latest manufacturing conditions highlight the country's dependence on trade. New export orders gained momentum and employment growth rose in anticipation of higher output over the coming months. However, the domestic economy remains weak and policymakers in Seoul will likely maintain an easing stance to keep domestic demand firm until 2H 2013, when export growth recovers meaningfully and generates an export-led recovery."

Key points

- Headline PMI signals little change in manufacturing conditions
- Output and new orders fall, but staffing levels increase
- Modest rise in input costs, but output charges cut again

Historical Overview

HSBC South Korea Manufacturing PMI



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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