

HSBC South Korea Manufacturing PMI®

PMI signals strongest improvement in business conditions for a year

Summary

Manufacturing business conditions in South Korea improved for the second month running in March, with the latest expansion the strongest in a year. Solid increases were reported for both output and new orders and this encouraged manufacturers to hire more staff – the rate of job creation was the strongest for over two years. On the price front, firms continued to reduce their selling prices in March, despite costs rising at the fastest pace in 14 months.

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 – rose to 52.0 in March, its highest reading in a year. The PMI, up from 50.9 in February, was consistent with a solid improvement in overall manufacturing business conditions.

The volume of new orders received by manufacturers increased for the second month running in March, with firms generally citing greater client demand. Moreover, the rise in total new orders was the strongest in 11 months, and continued to be supported by export work which rose at the fastest pace in two years.

Reflective of the increase in new work, firms raised production in March. This was the first increase in output for three months, with the rate of growth the strongest since April 2012. Meanwhile, backlogs of work were little-changed from one month previously, and stocks of finished goods were depleted further.

The quantity of inputs bought by monitored companies rose further during the latest survey period. Panellists generally linked growth to higher production requirements. Stocks of purchases meanwhile were depleted for the eleventh consecutive month, albeit at the weakest rate in this sequence.

Suppliers' delivery times lengthened again in March, partly reflecting leaner inventories at vendors. However, the latest increase in lead times was only marginal and the weakest in four months.

Manufacturing employment in South Korea increased for the fourth consecutive month in March. Approximately 14% of firms hired additional staff since February, with the overall rate of job creation solid and the strongest since February 2011.

Firms reduced their selling prices in March, continuing the trend that has been registered in each month since November 2011. However, the modest reduction in output charges was in contrast to higher input prices which rose at the strongest rate since January 2012.

Comment

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

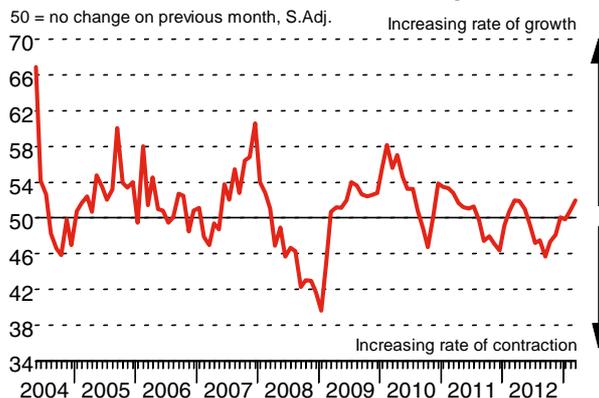
"Korea ended the first quarter on a solid note. New orders are flowing from both home and abroad, supporting job creation. Even with recent currency movements, manufacturers reported strong demand from both China and Japan. This shows that the global rebound is still driving growth in Korea. With government spending expected to provide an extra boost to domestic demand, we believe the monetary easing cycle in Korea is over."

Key points

- PMI points to solid improvement in overall operating conditions in March
- Growth rates for output and new order both at 11-month highs
- Employment increases at strongest rate since February 2011

Historical Overview

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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:
Han Na Yi
Telephone +822-2004-0992
Email hannayi@kr.hsbc.com

Hyon Jin Suh
Telephone +822-2004-0882
Email hyonjinsuh@kr.hsbc.com

Markit

Paul Smith, Senior Economist
Telephone +44-1491-461-038
Email paul.smith@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' 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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