# HSBC South Korea Manufacturing PMI®

# PMI improves in April to highest level in over two years

## **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 – continued to signal steadily improving operating conditions in the manufacturing sector during April. The PMI recorded 52.6, up from 52.0 in March, and has now posted above the 50.0 nochange mark for three successive survey periods. Moreover, the latest PMI reading was the highest for 25 months.

Manufacturing output volumes increased for the second month in a row in April. Growth was solid and the highest seen for a year, as a wider improvement in economic conditions led to a similar sized rise in new orders. There were reports of an increase in demand from major clients. New product releases also supported total sales, which increased at the sharpest pace for 26 months. Latest data implied that the domestic market was a key driver of growth. Export sales increased, but at a slower pace and one that was below the rate for total new orders. Where foreign orders rose, panellists signalled that China and Japan were key demand sources.

April's survey indicated some pressure on capacity, as backlogs of work rose at the fastest rate for 20 months. Manufacturers subsequently shipped directly out of stock wherever possible to try and satisfy order book requirements. Latest data showed stocks of finished goods declined at the sharpest pace of the year so far.

Higher new orders and increased production requirements also encouraged companies to add to their payroll numbers. April's survey signalled that staffing levels rose for a fifth successive month, and at a solid pace.

Purchasing activity also increased, with the rate of growth the sharpest for a year. That said, companies still pared inventories of inputs (albeit to a lesser extent than in previous months).

Finally, the latest survey showed a net fall in input costs for the first time in nine months. Precious and nonferrous metals were reported to have declined in price since March. Manufacturers passed part of their lower costs onto clients via a reduction in output charges. There were some reports that ongoing discounting reflected efforts to maintain competitive pricing structures.

#### Comment

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

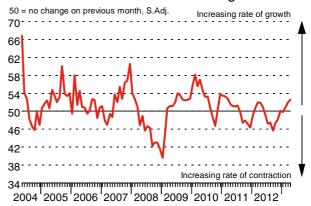
"The April PMI print is positive for Korea's economic outlook, following the stronger-than-expected 1Q 2013 GDP print. Higher new orders at home will prove valuable as the global economy may take a bit more time to fully recover. With a fiscal stimulus in the pipeline set to keep domestic demand firm, we believe Korea remains on track to post a meaningful recovery in 2013. Taken together, further strengthening in Korea's manufacturing conditions support our call that the monetary easing cycle in Korea is over."

# **Key points**

- Fastest rise in output for a year; total new order growth at 26-month high
- Backlogs increase further
- Input costs down for first time in nine months

## **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<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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#### **About PMIs:**

Purchasing Managers' Index™ (PMI®) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

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