

HSBC South Korea Manufacturing PMI®

Slower growth of South Korea's manufacturing sector signalled in May

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 – slipped to 51.1 in May. That was down from April's 52.6 to signal a modest rate of growth that was the slowest since February.

Underlying the slowdown in growth of the manufacturing economy were weaker gains in both output and new orders. In both instances, rates of expansion were modest and, while a number of manufacturers commented that demand had improved, securing sales was reportedly a little tougher than in recent months.

This was the case both at home and abroad. Export sales rose for a fifth successive month, but at a modest pace that was the slowest since January. The US remained a source of export growth, but demand from China was reported to have suffered. A number of companies added that the weakness of the yen was improving the competitiveness of Japanese rival manufacturers.

A weaker yen did, however, help to reduce the price of imported goods from Japan. With copper, oil and raw material prices in general reported to have deteriorated, overall input costs were lowered to the greatest degree since July 2005. Manufacturers responded by lowering their own charges for a nineteenth successive month and to the most marked extent since April 2009.

Meanwhile, staffing levels continued to increase. Growth was again solid as firms sought to expand capacity and support production volumes. Extra capacity also helped firms keep on top of total workloads, with backlogs of work declining slightly for the first time since February.

Reflective of slower growth in production and sales in May, South Korean manufacturers pared their purchasing activity slightly following four months of expansion. Stocks of pre-production goods were also cut marginally, the thirteenth successive month that destocking has been recorded.

With demand for inputs slightly lower and reports of excess stock at vendors, average lead times for the delivery of inputs to South Korean manufacturers shortened in May. Moreover, the degree to which vendor performance improved was the best recorded since November 2009.

Comment

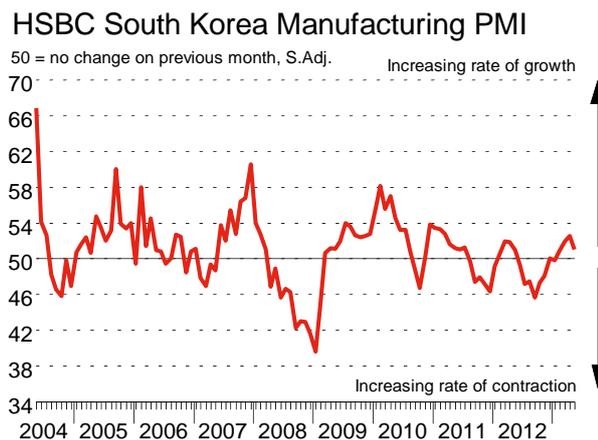
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

"Korea's manufacturing conditions indicate that a broader global rebound is required to drive Korea's recovery. Because external conditions remain fragile, domestic demand needs to strengthen further to support growth. This may support the Bank of Korea's surprise rate cut in May. Looking ahead, should global economic activity fail to pick up meaningfully as we expect, this may prompt policymakers in Seoul to deliver more easing measures."

Key points

- Output and new orders continue to rise but at slower rates
- Input prices down to sharpest degree for nearly eight years
- Employment rises at solid pace

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.

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