HSBC South Korea Manufacturing PMI®

Slight deterioration of operating conditions signalled in June

Summary

The HSBC South Korea *Purchasing Managers' Index*TM (*PMI*[®]) posted below the 50.0 no-change mark in June. Falling from 51.1 in May to 49.4, the headline index signalled a marginal deterioration in operating conditions for the first time since January.

Both production and new order volumes were down in June, the first such falls for four and five months respectively. Rates of deterioration were modest in both cases, with anecdotal evidence suggesting that the decline in order books had led to lower production.

Panellists commented that demand from major clients had fallen at a time when economic uncertainty was heightened. The weakness of the Japanese yen was again noted by some panellists as a factor reducing their relative competitiveness in export markets. Foreign sales were down modestly for the first time in 2013 so far.

With a softer trend in incoming new business reported in June, South Korean manufacturers were again able to make inroads into their levels of work outstanding. Latest data showed that backlogs had declined for the second month running and at the fastest pace since last October. Cuts to work outstanding were achieved in spite of broadly no change in employment. Stagnation of employment in June followed six months of solid payroll growth.

Manufacturers responded to weaker market conditions by reducing their charges for a twentieth successive month in June. The degree of discounting was again solid, and little- changed on May's four-year record. Competitive pressures were reported to have weighed on pricing power, while a third consecutive monthly reduction in input prices also encouraged manufacturers to lower their charges. Panellists reported that crude oil and associated inputs had dropped in price over the month.

Meanwhile, on the purchasing front, companies signalled a reduction in buying activity for the second consecutive month. The modest decline was reflective of lower production and new order volumes during June, with the latest fall in input buying sharper than May's fractional decline.

Despite the steeper fall in buying, a fractional rise in stocks of purchases was signalled over the month, the first such rise for 14 months. In contrast, warehouse inventories were marginally down as manufacturers sought to minimise the costs associated with holding excess inventory at their plants.

Comment

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

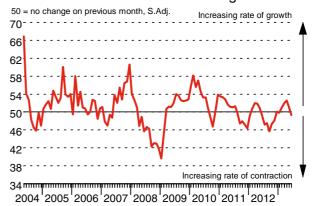
"Korea's weaker manufacturing conditions are reflective of sluggish demand and, to some extent, sustained weakness in the yen. If the downward trend is sustained, this will likely prove negative for Korea's growth outlook and put pressure on policymakers in Seoul to deliver more stimulus. Furthermore, with growth in China expected to be slower this year, which dampens demand for Korean goods, we have revised our 2013 Korea GDP growth forecasts down to 2.4% from 3.0%."

Key points

- Headline PMI slips below 50.0 no-change mark for first time since January
- Marginal reductions of output and new orders recorded
- Employment stagnates following six months of growth

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' IndexTM (PMITM)* 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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