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HSBC South Korea Manufacturing PMI®

Manufacturing output and new orders contract at the fastest pace in nine months

Summary

The HSBC South Korea *Purchasing Managers' IndexTM* (*PMI*®) dropped for the third consecutive month, falling from 49.4 in June to 47.2 in July. This two-month deterioration follows four months of expansion in the South Korean manufacturing industry. A domestic economic slowdown and unfavourable foreign exchange conditions were reportedly the root causes of lower levels of production, new orders and employment.

The latest data showed manufacturing output contracted in July at the fastest pace for nine months. Manufacturers reported sluggish economic conditions to be the primary factor behind falling production volumes.

In line with output, new orders fell for the second consecutive month and at the sharpest rate recorded since October 2012. A number of panellists cited the weakening of certain domestic sectors, in particular the construction and telecommunications industries, as the main drivers behind this latest decrease in levels of new business.

Employment fell at the sharpest rate since February 2012, which was anecdotally attributed to the reduction in order volumes and sluggish domestic economy.

Backlogs of work also decreased, and the rate of depletion quickened to the steepest in nine months. Again, a fall new orders was highlighted as the main contributory factor.

New export orders followed a similar pattern to output falling again in July and at the fastest pace recorded for nine months. Falling demand from the Americas and China was mentioned by some manufacturers as a key factor. Furthermore, respondents highlighted the increased level of price competition posed by Japan due to the weak yen, and a number reported losing orders on account of this.

Meanwhile, deflationary of output prices continued and July marked the twenty-first consecutive month of falls. Manufacturers reported that an intensification of price competition had been the main impetus behind this continued decline. Input prices also fell, though to a lesser extent, marking their fourth consecutive month of reduction. This was largely attributed to the falling costs of certain raw materials such as aluminium and copper.

Weaker order volumes resulted in the third consecutive month of cuts to purchasing activity, which decreased at an accelerated pace in July. Stocks of finished goods also fell, and did so at the sharpest pace reported in the current six-month sequence of decline.

Comment

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

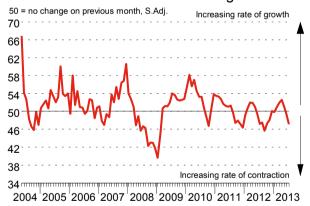
"Korea enters the second half of 2013 on a soft note. The sharper contraction in new orders is reflective of weaker demand for Korean goods, especially in electronics. With weaker manufacturing activity, growth will likely come under pressure in 3Q when government spending is set to diminish before external demand gradually picks up again. We maintain our below consensus 2013 GDP forecast of 2.4%."

Key points

- Headline PMI slips to lowest level since September 2012
- July marks 21 consecutive months of falling output prices
- Manufacturing employment down at fastest rate for 17 months

Historical Overview

HSBC South Korea Manufacturing PMI



Sources: Markit, HSBC.

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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

Claudia Tillbrooke, Economist
Telephone +44-1491-461-039
Email claudia.tillbrooke@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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