

# HSBC South Korea Manufacturing PMI®

## Contraction in manufacturing sector eases in September

### 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 – rose from 47.5 in August to 49.7 in September. Whilst the index remained below the 50.0 no change mark separating growth from contraction, it was the highest in four months and close to 50.0 pointing to a near-stabilisation of business conditions.

South Korean manufacturing business conditions deteriorated for a fifth successive month in September according to the latest PMI data from HSBC. Growth was notably absent across many of the major indices, signalling a continuation of the deterioration of business conditions, which began in June. The overall rate of decline eased markedly since August however, and the latest data illustrated a marginal increase in manufacturing employment.

Output, new orders, and purchasing activity were virtually unchanged in September, registering only negligible declines. This contrasted with recent falls and signalled a broad-based change of direction in the trajectory of South Korea's manufacturing economy. Employment data supported this realignment, as the respective index inched above the 50.0 no change mark for the first time in four months.

Both manufacturing output and new orders remained broadly unchanged in September, following three-month sequences of decline. Anecdotal evidence indicated that growth initiatives and the commencement of new projects were offset to a degree by the negative impacts of industrial action by South Korea's trade unions.

The impact of strikes on manufacturing production was in turn commonly cited by respondents who saw a decline in purchasing activity in September. That said, the overall quantity of purchases was virtually unchanged. This was likely the result of firms' efforts to pre-empt anticipated increases in raw material prices which served to counterbalance the impact of the walkouts.

The effect of the anticipation of future price rises on firms' behaviour was explained to some extent by the number of manufacturers who reported that input-cost inflation was the primary factor behind their increased charges in September. Output prices rose for the first time in 23 months, and rising raw material costs were commonly cited as a key driver.

September also marked a second consecutive month of input cost inflation, and input prices rose at the fastest

pace for six months. Of the 10% of manufacturers surveyed who reported higher input prices, a number attributed the increases to rising prices for textile inputs, oil and base metals.

Meanwhile, September marked a third successive month of decline in stocks of purchases and an eighth consecutive month of post-production inventory depletion.

### Comment

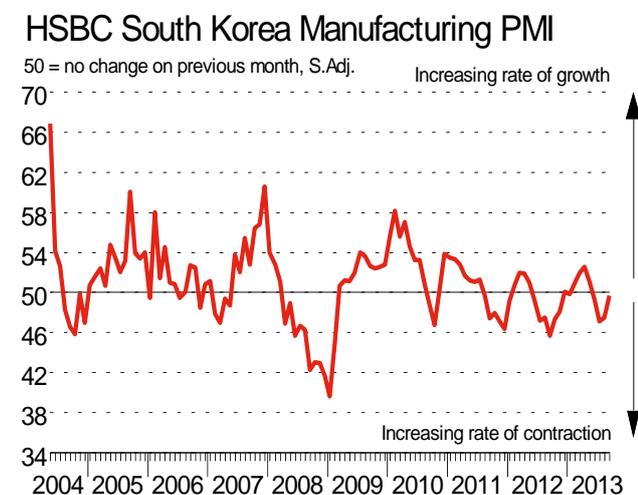
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

*"The stronger PMI shows that Korea's manufacturing sector remains on track for a recovery towards year end. But the pickup will be gradual because new orders received, especially on the external front, are still in contraction territory. Without a sustained increase in demand, it will be difficult for manufacturing employment to continue growing. Given Korea's current growth rate is still below potential, we expect the Bank of Korea to keep rates low for the time being at 2.50%."*

### Key points

- Output and new orders close to stability
- Employment increases for the first time in four months, albeit fractionally
- Charges rise for first time in nearly two years

### Historical Overview



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](mailto:fredericneumann@hsbc.com.hk)

Ronald Man, Economist  
Telephone +852-2996-6743  
Email [ronaldman@hsbc.com.hk](mailto:ronaldman@hsbc.com.hk)

Corporate Communications:

Han Na YI  
Telephone +822-2004-0992  
Email [hannayi@kr.hsbc.com](mailto:hannayi@kr.hsbc.com)

Hyon Jin Suh  
Telephone +822-2004-0882  
Email [hyonjinsuh@kr.hsbc.com](mailto:hyonjinsuh@kr.hsbc.com)

**Markit**

Claudia Tillbrooke, Economist  
Telephone +44-1491-461-039  
Email [claudia.tillbrooke@markit.com](mailto:claudia.tillbrooke@markit.com)

Caroline Lumley, Corporate Communications  
Telephone +44-20-7260-2047  
Mobile +44-781-5812162  
Email [caroline.lumley@markit.com](mailto: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*<sup>™</sup> (*PMI*<sup>™</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](mailto:economics@markit.com).

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*Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>®</sup>) 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](http://www.markit.com/economics)

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