

HSBC South Korea Manufacturing PMI®

South Korean manufacturing output rises at fastest rate since February 2011

Key findings:

- Output growth supported by stronger expansion of incoming new business
- Job creation recorded, albeit marginal
- Input cost inflation eases to 29-month low

April data showed manufacturing sector operating conditions improving for the third month in succession. Factory output rose at a solid rate, largely in response to continued growth of incoming new business. This in turn contributed to another month of job creation, albeit marginal, and a solid expansion of purchasing activity. Meanwhile, companies further reduced their output charges in April, despite a continued increase in average input costs.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.9 in April, a level indicative of a moderate improvement in manufacturing sector operating conditions. Moreover, the latest index reading was broadly unmoved on March's one-year high.

South Korean manufacturing production rose further in April, with the rate of expansion accelerating to the fastest in 14 months. Goods producers widely reported that output growth reflected greater inflows of new business. The rate of expansion in overall new orders accelerated during April, reaching its highest since March 2011. April data also signalled a continued increase in new export orders. Although modest, the latest rise in foreign order levels was the fastest in nine months. Anecdotal evidence suggested that new order growth reflected improved demand from both domestic and external clients.

Higher intakes of new business placed pressure on firms' operating capacity in April. Backlogs of work rose as a result, albeit at a marginal rate, while companies added to their staff numbers for the second month in succession. The rate of job creation in the sector was marginal, however, and slower than in March.

In line with higher output requirements, the amount of inputs purchased by goods producers rose in April. The rate of expansion remained solid, and stronger than the long-run series average. Consequently, stocks of purchases rose for the second successive month in April, although the rate of inventory accumulation was marginal. Despite the further rise in buying activity, average vendor performance improved for the first time in five months. Moreover, the rate of lead time shortening was the sharpest since November 2009.

Input price inflation in the South Korean manufacturing sector eased to only a modest rate. Moreover, the latest increase was the weakest in the current 29-month period of inflation. Higher fuel and raw material costs were cited as the main drivers of inflation. Companies, on balance, opted not to pass on higher costs to clients in April, with charges at the factory gate falling further. However, the rate of output price discounting remained marginal. Survey participants that reduced their average tariffs mentioned efforts to stimulate client demand. There were also reports of client requests for lower prices.

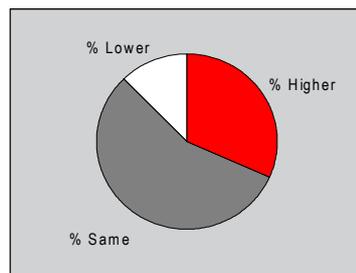
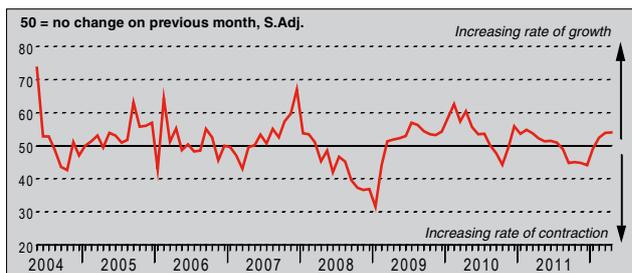
HSBC South Korea Purchasing Managers' Index™ (PMI®)



The HSBC South Korea *Purchasing Managers' Index™ (PMI®)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the *PMI* below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. *Purchasing Managers' Index™* and *PMI®* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

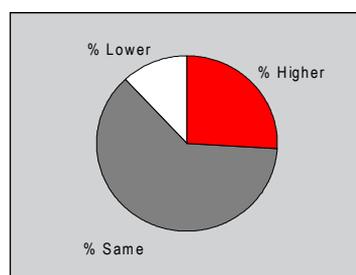
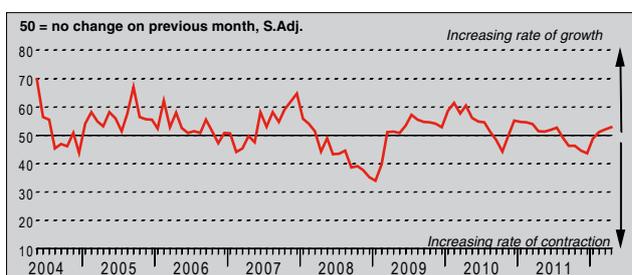
Q. Please compare your production/output this month with the situation one month ago.



April data pointed to another rise in manufacturing production, with the seasonally adjusted Output Index posting above the neutral level of 50.0 for the third month in succession. Growth of factory output was solid, and the sharpest since February 2011. Companies commented on higher intakes of new business from both domestic and external markets. There were also reports of better economic conditions and, in some cases, the introduction of new product lines.

New Orders Index

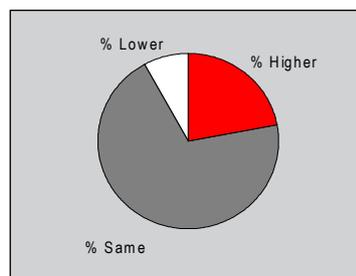
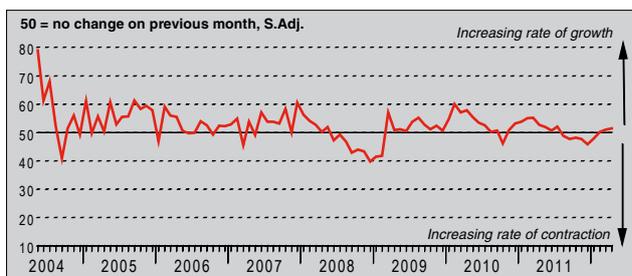
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



After adjusting for seasonal factors in April, the New Orders Index was at a level indicative of a solid expansion of incoming new business placed at South Korean goods producers. Moreover, the latest index reading was the highest in 13 months. The overall rise in new order volumes was the third in as many months. Anecdotal evidence provided by survey respondents suggest that growth of incoming new work reflected better underlying demand conditions.

New Export Orders Index

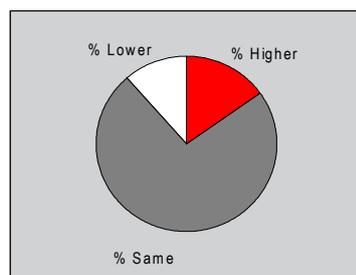
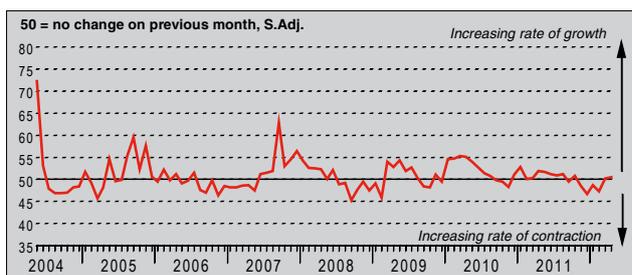
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The level of new export business received by South Korean goods producers increased for a third successive month in April. Although at a level indicative of only a modest rate of growth, the latest seasonally adjusted New Export Orders Index was the highest in nine months. Companies responding to the latest survey attributed the overall rise in new export orders to improved demand on global markets. Panellists mentioned China, Japan and the United States as sources of new export business.

Backlogs of Work Index

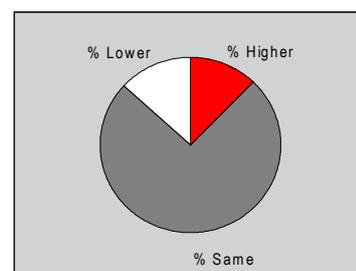
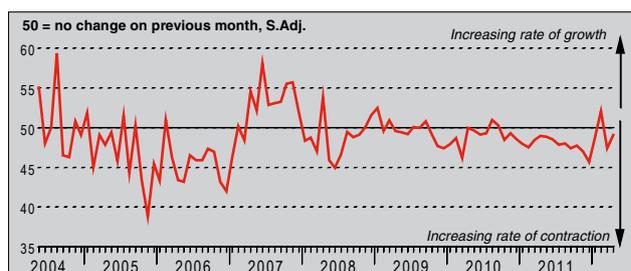
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



A further expansion of work-in-hand (but not yet completed) was recorded by April's survey. However, the rate of backlog accumulation remained marginal, with the majority of panellists (approximately 73%) recording no change in volumes of work outstanding from one month earlier. Around 15% of panellists mentioned a rise in unfinished business, which the majority linked to greater inflows of new orders and corresponding capacity pressures at their units.

Stocks of Finished Goods Index

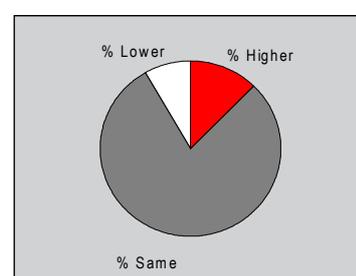
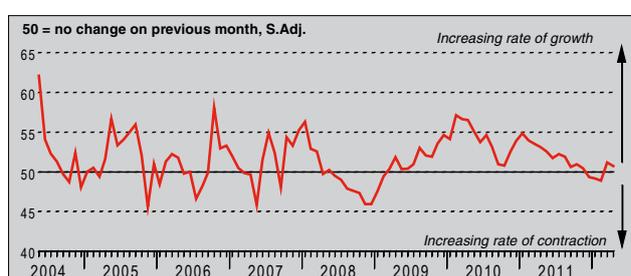
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Finished goods holdings in the South Korean manufacturing sector fell during April, extending the current period of decline to two months. The rate of reduction was marginal, however, and slower than in March. Survey participants suggested that destocking reflected a preference towards meeting new orders through stock depletion. Of those firms that noted a rise in inventory holdings (around 12%), a number linked this to a stronger expansion of output relative to new business.

Employment Index

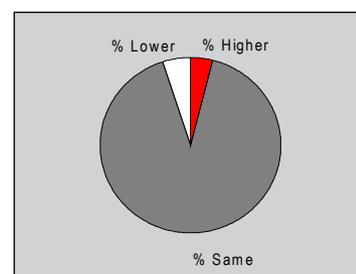
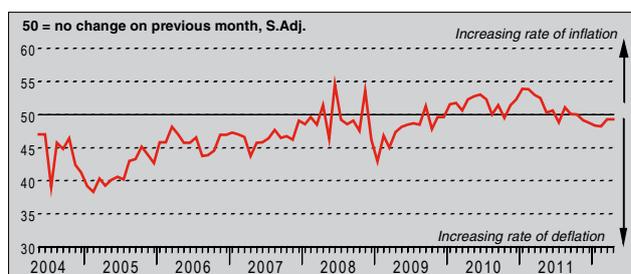
Q. Please compare the level of employment at your unit with the situation one month ago.



South Korean manufacturers continued to add to their staff numbers in April, albeit at a marginal rate. Greater inflows of new business encouraged goods producers to hire extra staff over the month. There were also reports of business expansion plans. Where a reduction in employment was registered, survey participants often linked this to downsizing of business operations. Some companies also commented on employee resignations and retirements.

Output Prices Index

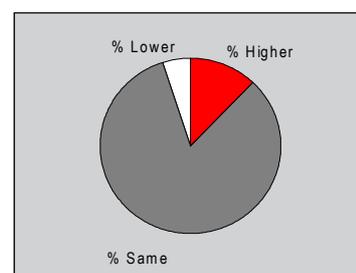
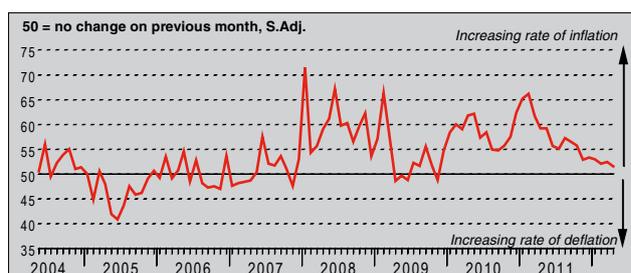
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



For the sixth month in succession, the seasonally adjusted Output Prices Index posted below the neutral level of 50.0 in April, highlighting another reduction in prices charged by goods producers. The rate of decline was marginal, however, with the vast majority of panellists (exactly 91%) reporting no difference in average tariffs since the preceding month. Moreover, the latest index reading was unchanged on March's five-month high.

Input Prices Index

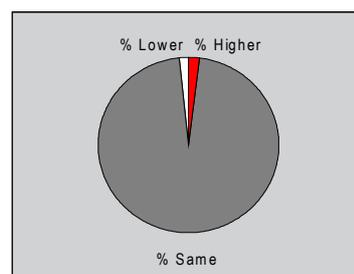
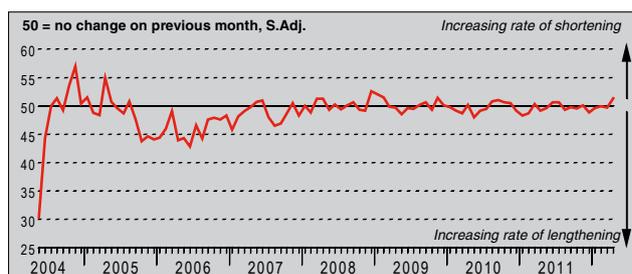
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input costs faced by South Korean goods producers increased for a twenty-ninth successive month in April, although the rate of inflation was the slowest over this period. Moreover, the latest increase in purchasing costs was only modest, and much weaker than that recorded one year previously. Anecdotal evidence provided by survey respondents suggested that inflation reflected higher raw material prices and, in some cases, increased fuel costs.

Suppliers' Delivery Times Index

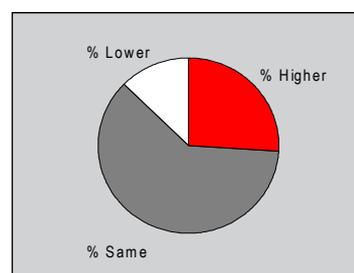
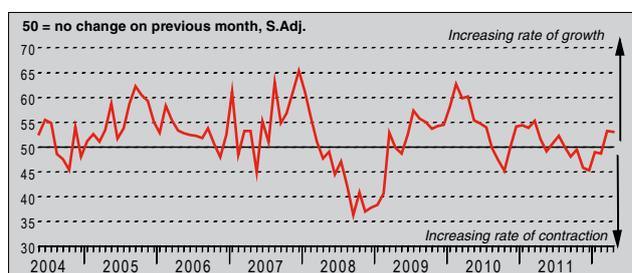
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



April data showed that the average time taken by vendors to deliver inputs to manufacturers shortened for the first time in five months. Although modest, the rate of improvement in supplier performance was the strongest since November 2009. Goods producers attributed the better supply side situation to sufficient availability of inputs at vendors. There were also reports of suppliers working longer hours.

Quantity of Purchases Index

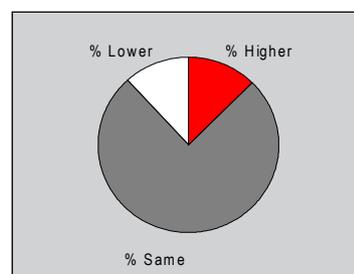
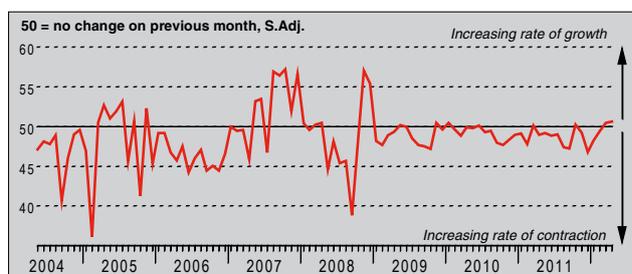
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity in the South Korean manufacturing sector continued to increase during April. The seasonally adjusted Quantity of Purchases Index remained at a level indicative of solid rate of expansion. Moreover, the latest index reading was above the long-run trend for the survey. Around 26% of panellists noted a rise in purchasing since March, compared with 13% that recorded a decline. Higher output requirements were cited by survey participants as the principal factor contributing to the overall increase in buying activity.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Inventories of raw materials and semi-manufactured inputs in the South Korean goods producing sector rose for a second successive month during April. Although marginal, the rate of stock accumulation was the sharpest in 40 months. Of those survey respondents that recorded a rise in stock levels (almost 13%), the majority attributed this to increased input buying.

Notes on the Data and Method of Presentation

The *Purchasing Managers' Index* 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

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