

HSBC South Korea Manufacturing PMI®

Manufacturing output contracts for first time since January

Key findings:

- First sub 50.0 PMI reading for five months
- Falling output prices recorded for eighth successive month
- Order book volumes contract, ending a four-month period of expansion

Production in the South Korean manufacturing sector contracted moderately in June, and new orders also decreased. Panellists reported that output prices decreased in line with falling input prices and weaker demand. Inventories of finished goods and purchases were reduced in order to keep the cost of stock management down.

The HSBC South Korea *Purchasing Managers' Index™ (PMI®)* is a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector. PMI readings above 50.0 signal an improvement in business conditions, while readings below 50.0 signal deterioration. The PMI posted 49.4 in June, down from 51.0 in the previous month and pointing to the first deterioration in the health of the sector in five months.

Weaker domestic and international demand reportedly contributed to a lower output level in the manufacturing sector. Panellists also stated that a fragile economic climate affected South Korean manufacturers. Although the rate of decline was only moderate, the respective index was the lowest since December 2011.

Manufacturers experienced a contraction in order book volumes in June, ending a four-month period of expansion. Anecdotal evidence suggested that instability in the European market affected demand.

New export orders decreased in June, the first reduction since January. Falling order book volumes contributed to a contraction in backlogs, according to respondents. Moreover, increasing staffing levels was also a factor leading to a contraction in outstanding

business.

The cost of inputs dropped modestly in June, (this was the first time that input prices had decreased since November 2009). Respondents stated that fuel, metal, raw materials and textile prices had fallen.

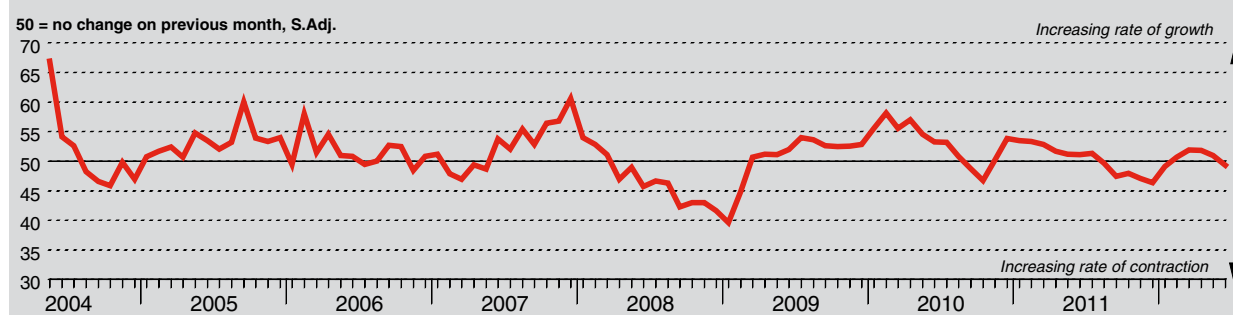
Manufacturers reportedly reduced charges in line with falling input costs, continuing the current eight-month period of decreasing output prices. Additionally, prices were reportedly reduced as supply exceeded demand in this period.

Inventories of purchases and finished goods were intentionally reduced by manufacturers in order to keep costs of stock management down. Stocks of finished goods fell, with the respective index posting below the 50.0 no-change mark for the fourth successive month. Meanwhile, stocks of purchases decreased for the second month in a row.

Suppliers' delivery times lengthened at firms in South Korea during June. With 3% of panellists reporting slower lead times and the vast majority posting no change, the pace of decline was only marginal. Low stock levels at suppliers was a cause of delayed lead times.

Manufacturers decreased the volume of raw materials and semi-manufactured goods purchased in June. Companies reportedly reduced purchasing activity in line with lower orders, both nationally and internationally. With exactly 20% of firms reporting lower input buying and 22% reporting an increase, the rate of decline was only slight.

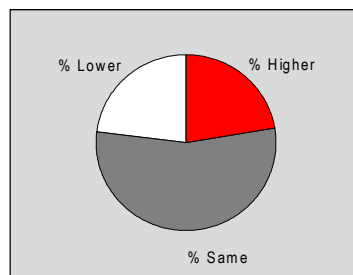
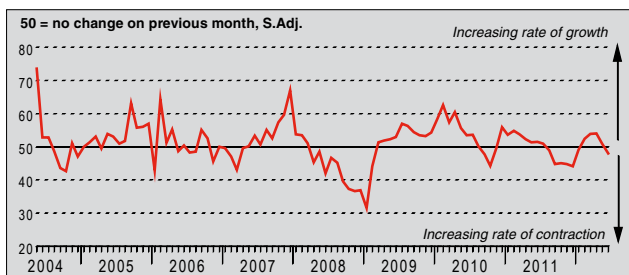
HSBC South Korea *Purchasing Managers' Index™ (PMI®)*



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

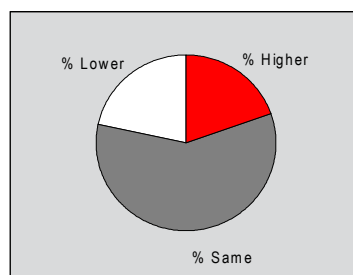
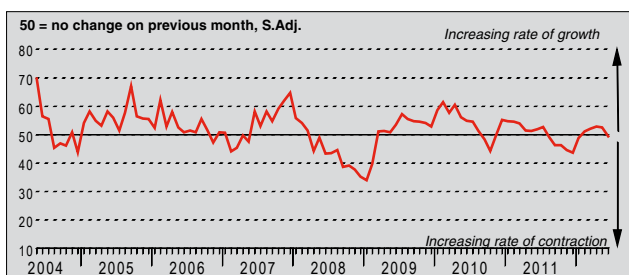
Q. Please compare your production/output this month with the situation one month ago.



Production at South Korean manufacturing firms contracted in June. The rate of change was moderate, but the Output Index adjusted for seasonal factors was the lowest since December 2011. Panellists stated that weaker demand both domestically and internationally caused a fall in output. Additionally, a fragile economic climate reportedly contributed to lower production levels.

New Orders Index

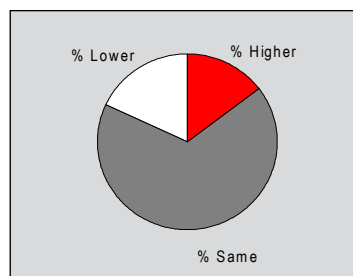
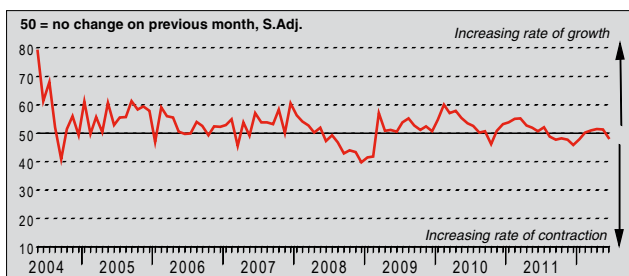
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



Order book volumes contracted slightly in June, ending a four-month period of expansion. Although almost 22% of manufacturers reported lower demand, 20% of firms stated that new orders increased. According to respondents, instability in the European market affected demand. Moreover, South Korean manufacturers stated that domestic orders had also decreased.

New Export Orders Index

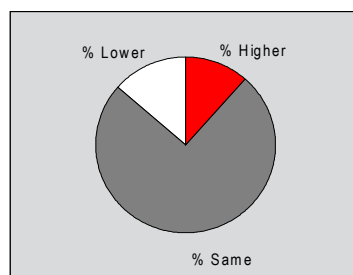
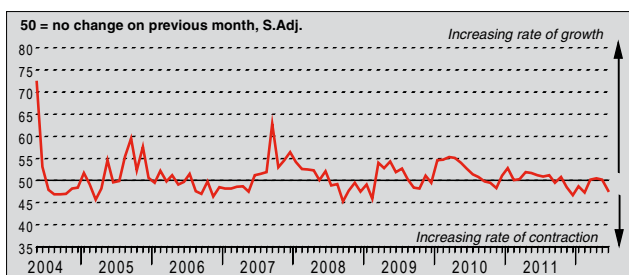
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index signalled that new export business at South Korean manufacturing firms decreased in June. Moreover the index was below its long-run average. Anecdotal evidence suggested that instability in the domestic and international economies contributed to a fall in export orders.

Backlogs of Work Index

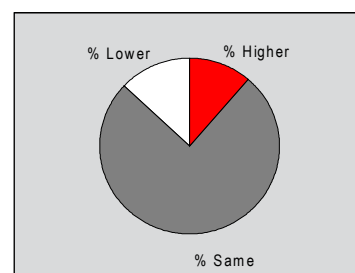
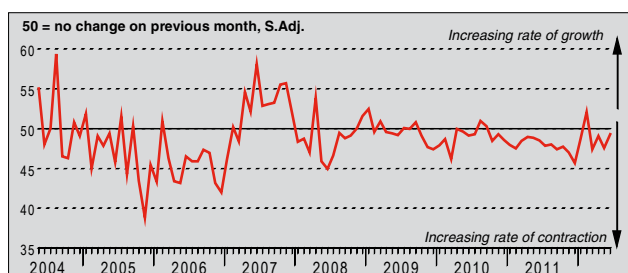
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



South Korean outstanding business contracted moderately in June, the first reduction in four months. An expansion in staffing levels combined with weaker demand, reportedly contributed to lower levels of backlogs. Approximately 14% of companies reported a decrease in outstanding work, while 12% of manufacturers stated that backlogs increased.

Stocks of Finished Goods Index

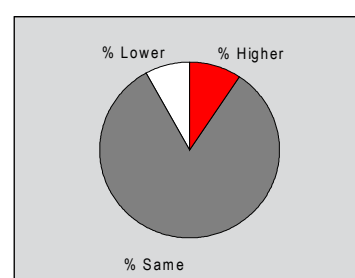
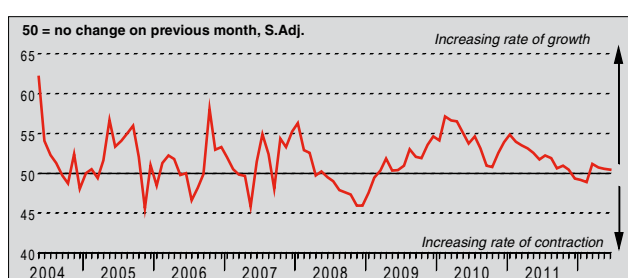
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods decreased in the South Korean manufacturing sector in June, the fourth successive month in which this has been the case. Panellists reportedly reduced inventories intentionally in order to keep costs of stock management down. The rate of contraction was moderate and the seasonally adjusted Stocks of Finished Goods Index was just above its long-run average.

Employment Index

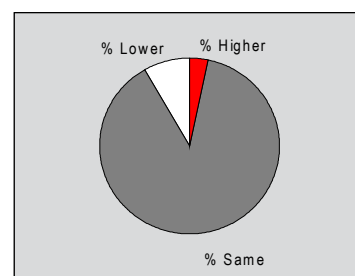
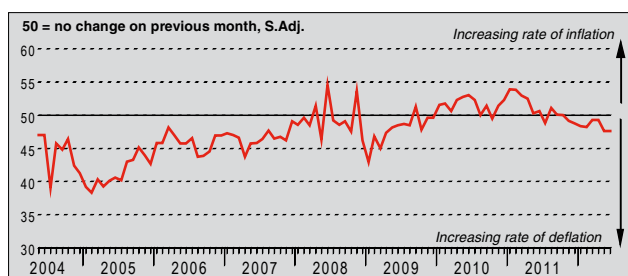
Q. Please compare the level of employment at your unit with the situation one month ago.



South Korean manufacturing workforce expanded slightly in June. However, the Employment Index adjusted for seasonal factors was the lowest in the current four-month sequence of job creation. More than 9% of firms reported higher employment, in contrast to exactly 8% of companies signalling a reduction in staffing levels. Anecdotal evidence suggested that the replacement of retired employees had contribute to rising staffing levels.

Output Prices Index

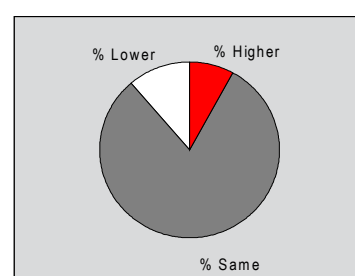
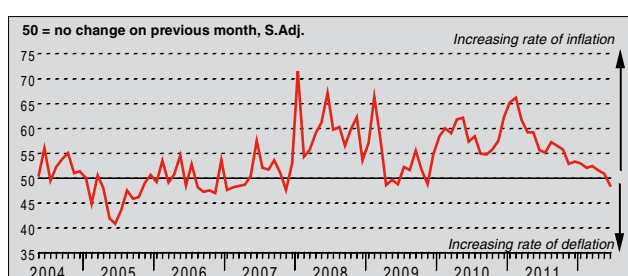
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Charges continued to fall at South Korean manufacturing firms in June. The rate of decline was only moderate but falling prices in this sector have now been recorded for eight successive months. Cheaper raw material costs was reported to have led to falling output prices. Panellists also stated that charges were decreased in order to boost sales.

Input Prices Index

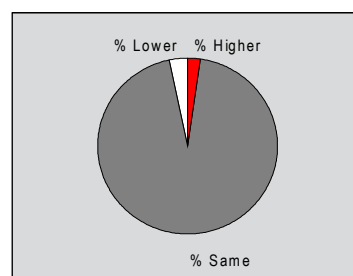
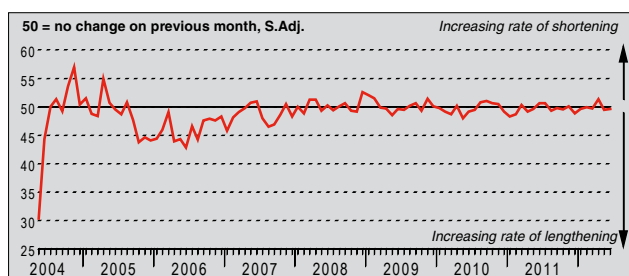
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices fell for the first time since November 2009 in the manufacturing sector in June. The rate of decrease was only modest but the seasonally adjusted Input Prices Index was below the long-run trend for the series. Among other factors, respondents stated that fuel, metal, raw materials and textiles prices had fallen.

Suppliers' Delivery Times Index

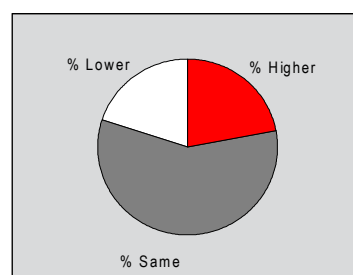
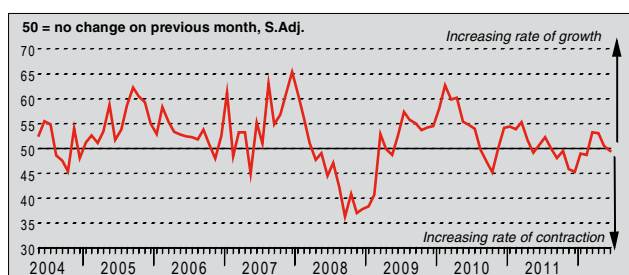
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Lead times lengthened in the South Korean manufacturing sector in June. The rate of lengthening, however, was only slight and the seasonally adjusted Suppliers' Delivery Times Index was above its long-run average. Approximately 3% of respondents stated that lead times were slower, but the vast majority (94.3%) of firms posted no change in delivery times. Low stock levels at suppliers was a factor delaying deliveries, according to panellists.

Quantity of Purchases Index

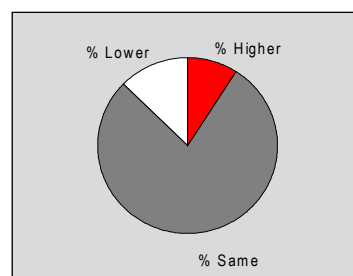
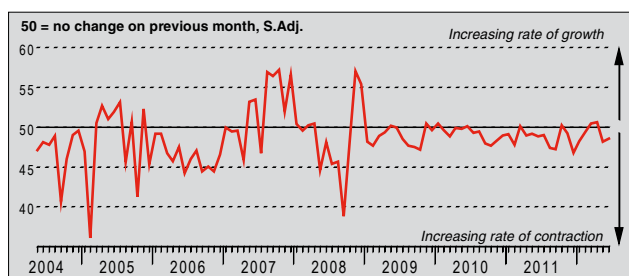
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity contracted at South Korean manufacturing companies in June. However, the rate of decline was only modest. The seasonally adjusted Quantity of Purchases Index was below its long-run trend. Manufacturers reportedly decreased purchasing activity in line with lower orders, both nationally and internationally.

Stocks of Purchases Index

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



South Korean stocks of purchases contracted slightly in June. Manufacturers reduced inventories in line with weaker demand. Additionally, panellists claimed to have reduced inventories in order to keep cost of stock management down. Stocks of purchases have now fallen in two successive months.

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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