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# HSBC South Korea Manufacturing PMI®

Slight deterioration of operating conditions signalled in June

#### Key findings:

- 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

A marginal deterioration in operating conditions within South Korea's manufacturing sector was signalled in June, led by concurrent declines in both production and new orders. Amid reports of a weakening of market conditions, employment levels stagnated and output price discounting intensified.

The HSBC South Korea *Purchasing Managers' Index<sup>TM</sup> (PMI<sup>®</sup>)* – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – 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.



The HSBC South Korea *Purchasing Managers'* Index<sup>™</sup> (*PMI*<sup>®</sup>) 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<sup>™</sup> and *PMI*<sup>®</sup> 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.



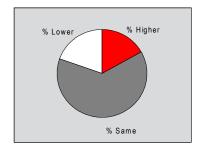


Having signalled three consecutive months of growth, the seasonally adjusted Output Index posted below the 50.0 no-change mark in June to indicate a fall in South Korean manufacturing output. The decline was modest, but nonetheless the sharpest of the year so far, as reduced new orders had an adverse impact on production volumes.

#### New Orders Index

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

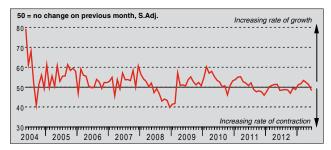


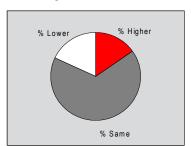


The seasonally adjusted New Orders Index slipped below the 50.0 no-change mark during June to signal a decline in new orders placed with South Korean manufacturers. Although slight, the decline in new orders was the first recorded since January with companies reporting that demand from major clients had fallen. Heightened economic uncertainty was reportedly having an adverse effect on market conditions.

# New Export Orders Index

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



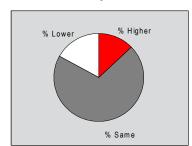


Following five months of consecutive growth, new export orders placed with South Korean manufacturers fell in June, although the net reduction was modest. There were reports of softening market demand. Some panellists blamed a weak yen for reducing competitiveness relative to Japanese rivals.

## Backlogs of Work Index

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



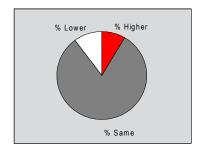


With new order volumes down in June, South Korean manufacturers were able to make inroads into their work outstanding. Backlogs declined for the second month running with the rate of contraction accelerating to the sharpest since last October. Around 17% of the survey panel reported a decline in backlogs at the end of Q2.

#### Stocks of Finished Goods Index

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

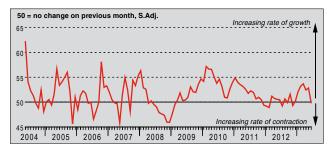


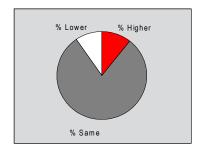


Inventories of finished goods held by South Korean manufacturers were lowered for the fifth month in a row. However, the seasonally adjusted Stocks of Finished Goods Index recorded fractionally below the 50.0 no-change mark to indicate only a marginal rate of decline. Panellists reported that destocking was largely deliberate and in response to a weaker trend in new orders.

#### **Employment Index**

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

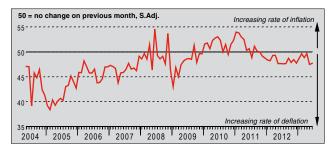


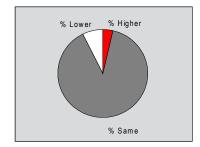


The seasonally adjusted Employment Index slipped fractionally below the 50.0 no-change mark in June, to signal that staffing levels were broadly unmoved at the end of Q2. The fractional decline followed six months of solid payroll growth. Stagnation was largely the result of a weaker trend in new orders observed in June.

## 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.

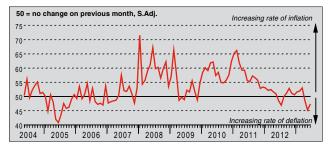


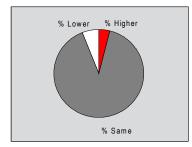


South Korean manufacturers indicated continued discounting of their prices during June. The seasonally adjusted Output Prices Index again signalled a solid rate of output charge deflation, with a combination of reduced input prices, strong competition and efforts to stimulate sales all reported to have driven discounting.

## Input Prices Index

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

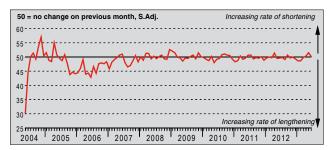


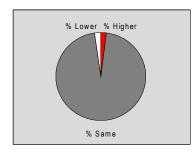


A third consecutive month of input price deflation was signalled by June's survey. The degree to which prices fell was, however, weaker than May's near eight-year record. Of the 6% of companies that recorded a fall in input prices, many reported paying lower prices for crude oil-related products.

#### Suppliers' Delivery Times Index

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



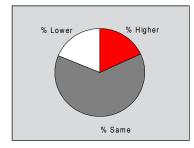


Average lead times for the delivery of inputs to South Korean manufacturers were broadly unchanged in June, improving only marginally since the previous month. Around 96% of the survey panel registered no change in average lead times during the latest survey period. Reduced demand for inputs was reported to have lowered pressure on vendor capacity.

#### Quantity of Purchases Index

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

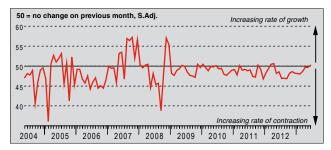


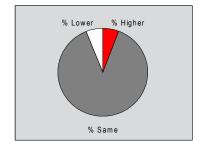


A second successive monthly fall in purchasing activity was signalled during June, as South Korean manufacturers reacted to reduced new order and production volumes by lowering their buying of inputs. Although modest, the reduction in purchasing activity was sharper than May's fractional fall. Just under 19% of the survey panel signalled a reduction in buying activity during June.

## Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index recorded slightly above the 50.0 no-change mark in June, to indicate a fractional increase in pre-production inventory holdings. Latest data marked the first net increase in inventories for 14 months, with growth in part reflective of excess stock following a reduction in production requirements during June.

#### 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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