

# HSBC South Korea Manufacturing PMI®

## Marginal expansion of South Korean manufacturing industry

### Summary

South Korean manufacturers reported an expansion in output in March, with the seasonally adjusted index signalling a return to growth following a fall in February. New exports increased further, while growth of total new orders resumed. This led to a deterioration of stocks of finished goods and lower backlogs of work, as inventories were used to help fulfil orders. To keep up with increased output, South Korean manufacturers raised employment in March for the fifth month running with the highest rate of job creation since May 2013. Both output and input prices continued to steadily decline, with the anecdotal evidence stating that a fall in raw material costs had led to lower prices.

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 – posted a reading of 50.4 in March. This compared to 49.8 in February when a slight deterioration of business conditions was signalled.

Similar to output, new orders increased in March from a stagnation in February. Companies mentioned gains in incoming orders from both domestic and foreign firms. New export orders increased for the sixth month running, although the rate of growth in March was only marginal.

A fall in unfinished orders was recorded in March. Firms commented on a decrease in stock due to an increase in deliveries to clients. South Korean manufacturers registered a decline in stocks of finished goods for the fourteenth consecutive month in March. Firms commented on the use of inventories to help cope with the increase in incoming orders.

Employment increased for the fifth month running. The rate of job creation in March was the highest since May 2013 which, according to anecdotal evidence, was due to a combination of new incoming orders and rising output requirements.

Both input costs and prices charged continued to decline in March. Input prices decreased for the second month running, and at the fastest pace since June 2013, while selling prices have decreased in each of the past six months. The anecdotal evidence from both indexes suggested decreases in raw material prices to be one of the main causes of the price falls.

Purchasing activity rose in March for the sixth month running, which could in part be attributed to the increase in new orders. Meanwhile, suppliers' delivery times lengthened marginally for the second month running, following a brief period of stabilisation in January. Anecdotal evidence pointed to a difficulty for suppliers to keep up with higher demand for inputs.

Stocks of purchases at South Korean manufacturers contracted for the ninth month in a row. Latest data signalled a slower rate of decline. Firms reported having used inventories in order to help deal with new orders.

### Comment

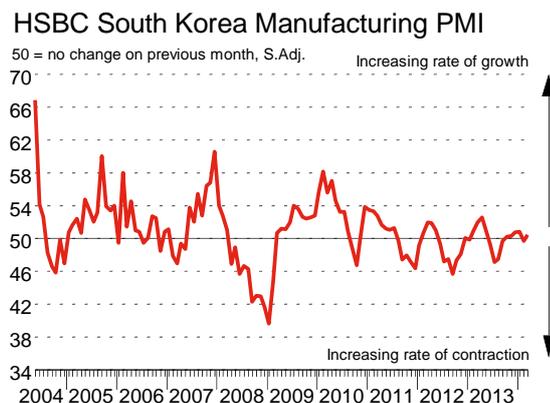
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

“Korea's stronger manufacturing conditions in March show that its economy remains on track for a gradual recovery. Economic growth is expected to be maintained in 1Q 2014, albeit a slower pace when compared with the previous quarter. One promising sign for the trade-dependent economy is stronger export orders from China, which is Korea's largest export market. We expect the Bank of Korea to keep its policy rate at 2.50% throughout 1H 2014 to support growth.”

### Key points

- Expansion in output observed in March following decline in February
- Employment rises for fifth month running
- Input and output prices continue to fall

### Historical Overview



Sources: HSBC; Markit

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### 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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