

HSBC South Korea Manufacturing PMI®

Tentative upturn in manufacturing sector led by solid export order growth

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 above the 50.0 no-change mark in October, following a four-month sequence of negative readings signalling deteriorating conditions in the South Korean manufacturing industry. The PMI rose to 50.2, a small improvement from September's reading of 49.7, indicating that operating conditions had broadly stabilised.

Modest growth in output and new orders was aided by a solid expansion in export demand. These positive signals were offset to a degree by a slight decline in payroll numbers and a further reduction in backlogs of work.

South Korean manufacturing output grew in October, following a four-month sequence of contraction. Panellists commonly attributed increases in production to improvements in domestic economic conditions and expansions in demand from export markets such as the Middle East and Hong Kong.

Like output, new orders also rose in October for the first time since May. Anecdotal evidence indicated that upturns in both domestic and global markets had greatly aided the rise in new business, and a number of respondents also reported benefiting from an increase in government investment.

Despite growth of new business and production, manufacturing employment fell further in October. A number of respondents attributed falling payroll numbers to cost cutting, resignations and moves towards automation of production lines.

Outstanding business at South Korean manufacturers also decreased in October, continuing a six-month sequence of decline. The pace at which backlogs of work diminished accelerated fractionally from September, but remained weaker than August's record rate.

Both charges and input prices fell in October, and the former did so at the sharpest pace in four months. Panellists attributed the decline in output prices in part to competitive pressure in domestic markets and a strengthening of the South Korean won, lowering the price of imported inputs. The reduction in input prices was commonly associated with the currency appreciation, and some respondents additionally cited reductions in international market prices of raw materials.

Comment

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

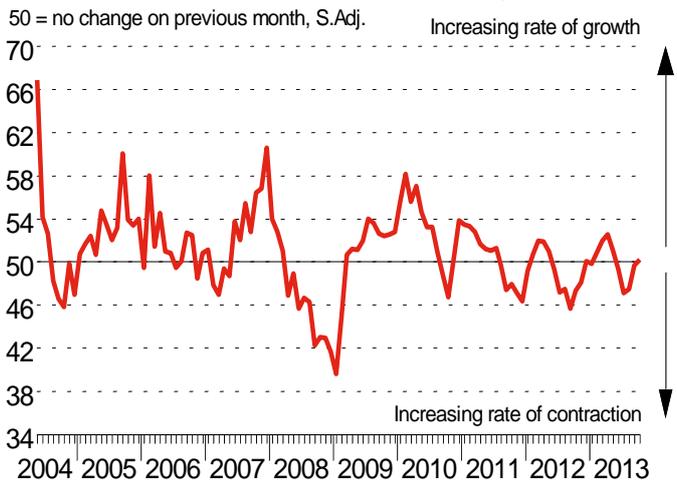
"Korea's manufacturing sector entered the final quarter of 2013 on a stronger note, with conditions improving over the month for the first time since May. This shows that Korea remains on track for a gradual recovery as it heads towards year-end, especially with orders picking up on the external front. But there is still scope for demand from China to rise further, which would provide a further boost to Korean shipments. We expect growth to be 2.7% in 2013, and rise to 3.2% in 2014."

Key points

- New export order growth at 31-month high
- Output expands for the first time in five months
- Marginal decline in employment

Historical Overview

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Sources: Markit, HSBC.

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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*[™] (*PMI*[™]) 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.

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