

HSBC South Korea Manufacturing PMI®

Operating conditions improve at slightly stronger pace in December

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 to a seven-month high in December, posting a reading of 50.8, up from 50.4 in November. This was the third successive month in which the PMI signalled an improvement in operating conditions at South Korean manufacturers. Moreover, whilst the pace of improvement remained marginal, the PMI has steadily risen for five consecutive months from July's ten-month low.

The latest data indicated that production expanded for the third successive month in December, and the pace of output growth accelerated to a seven-month high. Panellists commonly attributed the latest increase in production to higher volumes of new orders and the promotion of new product lines.

New orders at South Korean manufacturers rose at a marginal pace in December, continuing a three-month sequence of expansion. A number of respondents attributed the latest increase in new business to higher export volumes.

Meanwhile, new export orders also rose for the third consecutive month, though the pace decelerated for the second month in succession. Respondents cited an expansion of demand from America, Japan and Taiwan and the introduction of new products to export markets as key drivers behind the latest increase in new export orders.

South Korean manufacturing employment increased in December, though the rate of growth eased from November. Some goods producers attributed higher payroll numbers to product diversification and department reorganisation, whilst others mentioned recruiting in anticipation of increased output in 2014.

Prices charged fell for the third consecutive month in December, and the pace at which they decreased quickened marginally from November. Anecdotal evidence suggested that increased competitive pressures and downturns in certain areas of the economy, such as textiles, were key drivers behind the latest reduction in output prices.

Conversely, input price inflation accelerated in December, as the seasonally adjusted Index hit a three-month high. Respondents attributed the latest increase to rises in the prices of ethylene, wire products and scrap metal. Other panellists cited product sourcing issues and the need to import parts and products which were difficult to purchase domestically.

Comment

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

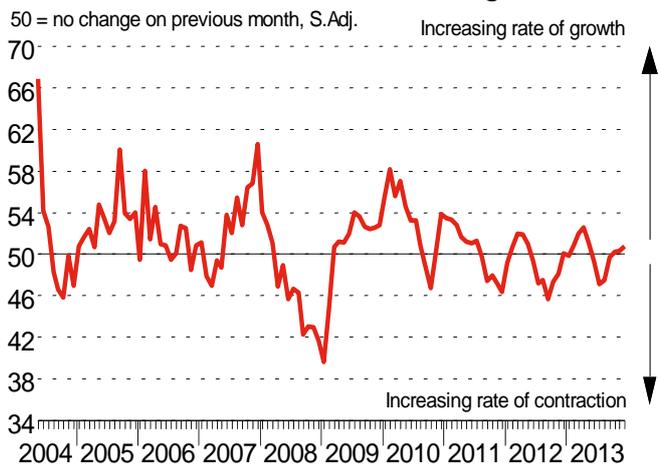
"Korea's economic prospects are slowly brightening. The stronger increase in manufacturing output suggests that growth will be sustained over the final quarter of the year, keeping the economy on track for a gradual recovery. But given demand from China has still not shown signs of picking up meaningfully, we believe the overall upswing in economic activity will be limited. We expect the Bank of Korea to keep rates low at 2.50% in 1H 2014 to support growth."

Key points

- Output expands at sharpest pace since May
- New orders grow for the third successive month, albeit at marginal pace
- Employment growth eases from November

Historical Overview

HSBC South Korea Manufacturing PMI



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*[™] (*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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