

# HSBC South Korea Manufacturing PMI®

## Manufacturing operating conditions deteriorate in September

### Summary

HSBC PMI® data compiled by Markit indicated a worsening in performance for South Korea's manufacturing sector in September. Output fell for the sixth month in a row, with the latest reduction the fastest recorded in three months. New orders declined from a previous month of growth, with one-fifth of panellists commenting on a reduction in comparison to August. Payroll numbers, meanwhile, remained in growth territory, although fractionally. Downward pressures on selling prices remained, while input prices fell for the first time in three months.

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 48.8 in September, down from 50.3 in August, indicating deteriorating operating conditions at South Korean manufacturers.

Central to the worsening business climate in September was a deteriorating order book situation. New orders fell for the fourth time in five months, recording the fastest rate of decline in three months. Furthermore, new exports orders fell, with the pace of decline the quickest since August 2013. Panellists blamed the latest fall in exports to worsening international trade.

A lack of incoming new work led to further declines in output and backlogs in September. South Korean manufacturing output fell for the sixth month running, and at the fastest rate since June. The decline in outstanding business quickened in September, with nearly 17% of surveyed firms noting a fall in comparison to August. Anecdotal evidence suggested that lower business at their units was partially a result of clearing old stock and a lack of pressure on capacity.

Consequently, the volume of inputs purchased and stocks of pre-production goods both declined in September, with purchases falling for the first time in three months.

Post-production inventories at South Korean manufacturers fell for the twentieth successive month in September. The pace of decline, however, was only slight.

Manufacturing employment in South Korea remained in growth territory for the eleventh month running in September. The rate of payroll number growth, however, was weak, with the vast majority (85%) of surveyed companies noting no change in comparison to the previous month.

The latest survey results indicated downward pressure on selling and input prices at South Korean manufacturers. Average input prices declined for the first time in three months, linked by firms to lower raw material costs. Output prices, meanwhile, declined for the twelfth successive month, recording the fastest rate of decline in five months. Panellists attributed the latest reduction to higher competition driving down charges and a drop in raw material costs.

### Comment

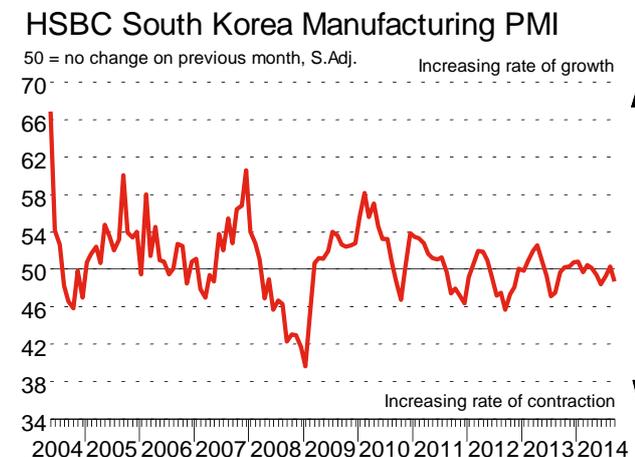
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

“Korea's manufacturing sector faced strong headwinds in September. The deterioration in new orders suggests that demand remains low, especially from China. This supports our cautious view on the strength of Korea's economic growth in 2014. Weak economic data may raise pressure on policymakers to support growth and we expect the Bank of Korea to keep its policy rate low at 2.25% in October.”

### Key points

- Headline PMI drops below 50.0 no-change mark
- Output declines further in September
- New orders fall for fourth time in five months

### 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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