

HSBC South Korea Manufacturing PMI®

Manufacturing production contracts at quickest pace since August 2013

Summary

Latest data highlighted worsening operating conditions in the South Korean manufacturing sector. Production declined at the fastest pace since August 2013, alongside a further fall in new orders. Subsequently, manufacturers reduced their staffing levels for the second successive month. Meanwhile, output and input prices both continued to fall, albeit at weaker rates.

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 at 47.8 in May, down from 48.8 in April, thereby signalling a faster rate of deterioration in operating conditions at South Korean manufacturers. Furthermore, the latest figure was the lowest since August 2013.

Reflective of an overall decline in operating conditions was a further fall in production. The rate of decline was the fastest in 21 months, with over one-fifth of survey participants noting lower output in comparison to the prior month. Some panellists attributed reduced output to challenging economic conditions, while others mentioned a slump in client demand.

The fall in production was underpinned by a further decline in new orders at South Korean manufacturers in May. Moreover, the latest contraction was the quickest since August 2013. According to anecdotal evidence, reduced demand from both international and domestic clients and a sustained period of worsening economic conditions led to the latest reduction in new orders.

Concurrently, new orders from abroad declined for the third month running in May. Although only modest, the rate of decline was broadly in line with April's six-month record. Survey participants mentioned lower trade volumes, particularly from China.

As a consequence of worsening operating conditions, manufacturers continued to shed workers. The latest contraction was modest overall, but nevertheless the fourth time in the past eight months where employment levels have declined. Meanwhile, backlogs of work were depleted for the third month running and at the quickest rate since November 2014.

In line with falls in both production and new orders, buying activity contracted in May and at the quickest rate in nearly a year. Firms scaled back purchasing activity in order to reduce inventory levels to reflect the decrease in new work intakes. Subsequently, stocks of

pre-production goods were depleted at the fastest rate since July last year.

On the price front, downward price pressures continued to weigh on South Korean manufacturers, as purchasing prices declined. However, the latest fall was the weakest in the current five-month sequence of input price decreases. Meanwhile, charges continued to fall, although at the slowest rate since December 2014. Where charges declined, firms mentioned price negotiations with clients and increased global competition driving down selling prices.

Comment

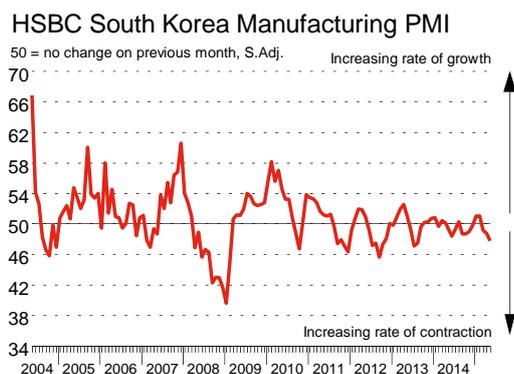
Commenting on the South Korea Manufacturing PMI® survey, Amy Brownbill, Economist at Markit Economics:

“Latest data highlighted a faster rate of deterioration in operating conditions at South Korean manufacturers. Production declined at the quickest pace since August 2013, alongside a further fall in new orders. Subsequently, manufacturers shed workers for the second straight month, marking the fourth time in which employment levels have fallen in the past eight months. Meanwhile, new orders from abroad declined, amid reports of lower trade volumes, particularly from China.”

Key points

- Headline PMI posts weakest reading in 21 months
- Output and new orders fall further
- Employment levels decrease for second straight month

Historical Overview



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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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About PMI:

Purchasing Managers' Index[™] (*PMI*[®]) surveys are now available for over 30 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics

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