

HSBC South Korea Manufacturing PMI®

Operating conditions worsen at South Korean manufacturers

Summary

Latest data signalled worsening operating conditions in the South Korean manufacturing sector. New orders declined for the second straight month, alongside a fall in production. Subsequently, manufacturers reduced their staffing levels in April, marking the end of a four-month period of growth. Meanwhile, downward pressures on both input and output prices were evident in April.

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 below the 50.0 no-change mark at 48.8 in April, thereby signalling worsening operating conditions in the South Korean manufacturing sector. Moreover, the latest reading was the weakest since October 2014.

Manufacturing production contracted for the second month running in April. The rate of decrease was modest overall, but nevertheless faster than the average over the past 12 months. According to anecdotal evidence, the fall in output was caused by unstable economic conditions and a fall in order volumes.

Similarly, new orders at South Korean goods producers decreased for the second consecutive month in April. Although only moderate, the rate of decline was broadly in line with March's reading, which was the fastest rate of decrease in over one-and-a-half-years. Several monitored firms commented on poor demand from both domestic and international clients leading to a drop in new work intakes.

Subsequently, new orders from abroad declined in April and at the quickest rate since October 2014. Firms linked the latest decrease to poor market conditions, with some commenting on reduced trade volumes with Europe and Russia.

Reflecting worsening operating conditions, employment levels at South Korean goods producers decreased for the first time this year in April. According to anecdotal evidence, a fall in sales volumes and a reduction in production requirements leading to the downsizing of businesses caused manufacturers to lower their workforce levels. Although fractional, the latest fall was only the third in the past year-and-a-half.

In line with falls in both output and new orders, buying activity at South Korean manufacturers declined for the second consecutive month in April, although at only a slight pace. Where purchasing activity decreased,

panellists mentioned a weak and unstable domestic economy. Consequently, stocks of purchases were depleted in April and at the quickest pace since July 2014.

On the prices front, input prices continued to fall, although at a slower rate than the previous month. Reports of cheaper raw material costs were commonly cited as the main factor behind the latest decline. Meanwhile, charges decreased at the fastest rate in over six years. According to surveyed firms, lower raw material costs, intensified competition and price negotiations with clients were the main drivers behind lower selling prices.

Comment

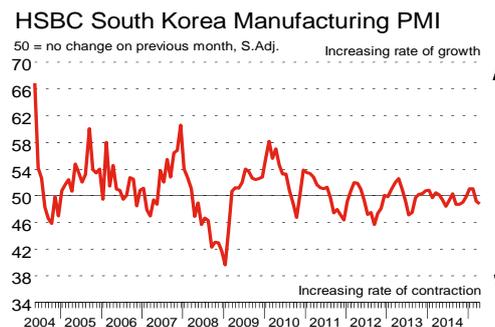
Commenting on the South Korea Manufacturing PMI® survey, Amy Brownbill, Economist at Markit Economics:

“Latest data signalled worsening operating conditions in the South Korean manufacturing sector. Both production and new orders contracted for the second straight month, with reports of an unstable domestic economy leading to poor demand conditions. Moreover, employment levels declined for the first time this year. Meanwhile, reports of cheaper raw material costs led to a further decline in input prices, while manufacturing charges declined at the fastest rate in over six years.”

Key points

- Headline PMI posts weakest reading since October 2014
- Output and new orders fall
- Employment levels decline for first time this year

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*[™] (*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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Purchasing Managers' Index[™] (*PMI*[®]) surveys are now available for 32 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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