

# HSBC South Korea Manufacturing PMI®

## New orders fall for first time in three months

### Summary

South Korean manufacturers reported lower new orders for the first time in three months. Consequently output fell for the second month running, with both indexes posting at the lowest levels since August 2013. New exports orders continued to decline, with some panellists attributing this to a decrease in export business from China and Japan. In contrast, employment growth at South Korean goods producers increased for the seventh month running in May in a sign of optimism for future growth. Both prices charged and input prices continued to fall, which was linked to lower prices for raw materials such as copper. Vendor performance improved for the first time in four 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 49.5 in May, which indicated a deterioration in performance from April when the PMI registered 50.2.

South Korean manufacturers observed a deterioration in new orders in May. About 16% of panellists commented on reduced orders received in May compared to the situation one month ago, which many linked to slower economic growth. New exports recorded a further decline in May, which some firms blamed on economic slowdowns in some foreign markets.

South Korean manufacturers registered a decline in stocks of finished goods for the sixteenth consecutive month in May. Some manufacturers commented on weak new orders. Meanwhile, the volume of unfinished orders decreased for the fourth month running. Firms reduced their backlogs as a result of difficulties in securing new orders.

Despite the fall in output, employment growth was recorded for the seventh month running in May. Some South Korean manufacturers commented on changing their company structure leading to higher payroll numbers. That said, the rate of growth in employment eased since April.

Both input and output prices declined in May. South Korean manufacturers commented on increased pressure from clients to reduce their selling prices. A reduction in raw material prices due to the exchange rate was also mentioned as being one of the main reasons for the falls in both input prices and prices charged.

Purchasing activity declined in May, with the seasonally adjusted Quantity of Purchases Index posting below the 50.0 no-change mark for the first time in eight months. Firms attributed this to the decline in new orders. Consequently, stocks of purchases contracted for the eleventh month running.

### Comment

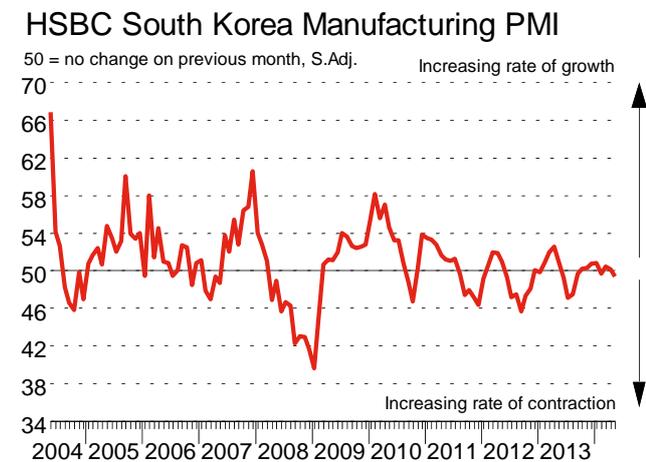
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

“Korea's economic outlook remains challenging. The contraction in manufacturing conditions reflected weak demand from both key overseas markets, most notably China, and the domestic economy. As manufacturers cut output for the second consecutive month, this may weigh on Korea's Q2 2014 industrial production and GDP figures. To support growth, we expect the Bank of Korea to keep rates low at 2.50% in June.”

### Key points

- New orders decline in May, and at fastest pace since August 2013
- Output and new export orders continue to decline
- Growth in employment eases to three-month low

### Historical Overview



Sources: HSBC; Markit

**For further information, please contact:**

**HSBC**

Frederic Neumann, Co-Head of Asian Economic Research  
Telephone +852-2822-4556  
Email [fredericneumann@hsbc.com.hk](mailto:fredericneumann@hsbc.com.hk)

Ronald Man, Economist  
Telephone +852-2996-6743  
Email [ronaldman@hsbc.com.hk](mailto:ronaldman@hsbc.com.hk)

Corporate Communications:

Jin Kyung LEE  
Telephone +82 2 2004 0952  
Email [jinkyunglee@kr.hsbc.com](mailto:jinkyunglee@kr.hsbc.com)

Hyon Jin Suh  
Telephone +822-2004-0882  
Email [hyonjinsuh@kr.hsbc.com](mailto:hyonjinsuh@kr.hsbc.com)

**Markit**

Amy Brownbill, Economist  
Telephone +44-1491-461-063  
Email [amy.brownbill@markit.com](mailto:amy.brownbill@markit.com)

Joanna Vickers, Corporate Communications  
Telephone +44207 260 2234  
E-mail [joanna.vickers@markit.com](mailto:joanna.vickers@markit.com)

**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).

**HSBC:**

HSBC is one of the world's largest banking and financial services organisations. With around 6,600 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 55 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 130 countries and territories.

**About Markit:**

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,000 people in 11 countries. For more information, please see [www.markit.com](http://www.markit.com)

**About PMI:**

*Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>®</sup>) 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](http://www.markit.com/economics)

The intellectual property rights to the HSBC South Korea Manufacturing *PMI*<sup>®</sup> provided herein are owned by or licensed to Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index<sup>™</sup> and PMI<sup>®</sup> are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited. HSBC use the above marks under license. Markit is a registered trade mark of Markit Group Limited.