

HSBC South Korea Manufacturing PMI®

South Korean manufacturing downturn eases in July

Summary

HSBC PMI® data compiled by Markit continued to indicate a downturn in South Korea's manufacturing sector in July. Output and new business fell, although at slower paces than observed in June. Backlogs and stocks of finished goods fell sharply due to a reduction in the number of new orders received. Payroll numbers, however, continued to grow in July. Downward pressure on selling costs remained, while input prices rose for the first time in six 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 49.3 in July, below the 50.0 no-change mark for the third month running and signalling worsening business conditions in the South Korean manufacturing sector. The PMI has been in negative territory four times this year, although the latest reading indicated only a marginal deterioration in performance compared to June. Moreover, the PMI rose for the first time since March.

Production at South Korean manufacturers fell for the fourth consecutive month in July, though at a weaker pace than in June. Surveyed panellists generally attributed the latest reduction of output to fewer new orders. Data suggested that sluggish domestic demand predominantly led to the fall in total new business, as new exports orders declined only fractionally. A weaker economy and poor business conditions was reported by a number of survey respondents.

Despite worsening market conditions, the volume of unfinished work fell for the sixth month running. Surveyed companies generally linked declines to decreased production. Similarly, stocks of finished goods continued to fall in July, with firms linking lower warehouse levels to decreased production and efforts to reduce storage costs.

Fewer new orders led manufacturers to deplete their stocks of purchases at a marked rate in July, reflective of efforts to lower inventories in line with weaker client demand. While purchasing activity rose for the first time in three months, the rate of increase was fractional.

In contrast to the reduction in new business, payroll numbers grew for the ninth month running. That said, the rate of employment growth was fractional and remained below the long-run series average for the fourth successive month.

Average input costs faced by South Korean producers rose for the first time since January. A number of monitored firms mentioned that reduced cost burdens were a result of lower raw material costs.

On the other hand, factory gate prices continued to fall during July. Anecdotal evidence suggested that charges were cut due to higher competition and to boost client demand.

Comment

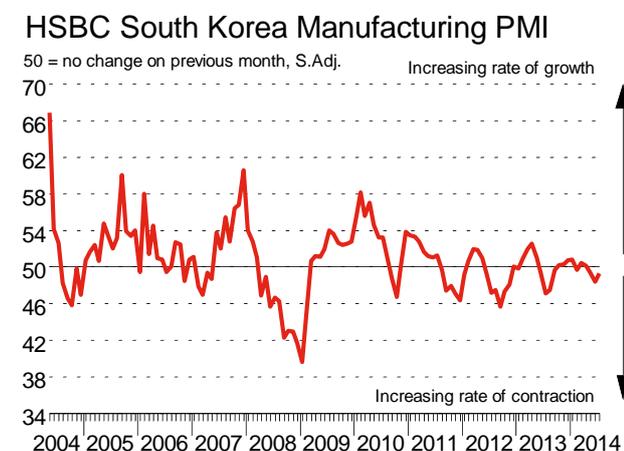
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

"Korea's manufacturing sector remains weak and this suggests that downside risks to Korea's economic outlook remain. We expect Korea's GDP to grow 3.4% in 2014. To support economic growth, the government announced a new stimulus package on 24 July and we expect the measures to help sustain, but not boost, domestic demand. Should data remain persistently weak, the Bank of Korea will face increasing pressure to deliver monetary stimulus."

Key points

- PMI remains below 50.0 but rises from previous month
- Output falls for fourth month running, albeit at a slower pace than in June
- Payroll numbers remain in growth territory

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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About PMI:

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

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