HSBC Purchasing Managers' Index™ 2010

compiled by markit

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HSBC South Korea Manufacturing PMI™

Growth of South Korean manufacturing sector slowest in seventeen months.

Key findings:

- New order and output expansions both weakened.
- Employment increased ahead of expected rises in output.
- Input price inflation lowest in eight months; charges unchanged since July.

August survey data, compiled by Markit for HSBC, indicated an improvement in business conditions in the South Korean manufacturing sector. However, the latest strengthening was weaker than that reported in July. This was driven by a slowdown in new order growth, which led to a negligible rise in output. Nonetheless, employment continued to improve, as manufacturers prepared for expected growth in output. Input prices continued to increase – although at a weaker pace – while charges were flat over the month.

The headline figure derived from the survey is the HSBC South Korea Purchasing Managers' Index™ (PMI™) – a composite indicator designed to provide a single-figure snap-shot of the health of the manufacturing sector. PMI readings above 50.0 signal an improvement in business conditions, while readings below 50.0 signal deterioration.

The HSBC South Korea PMI posted 50.9 in August, down from July's 53.2. Nonetheless, August was the eighteenth successive month where overall business conditions have strengthened. Whilst the latest PMI indicated growth within the South Korean manufacturing sector, the improvement was the weakest in seventeen months.

Incoming new business rose for an eighteenth successive month during August. However, the rate of new order growth eased to the slowest since May 2009, amid concerns over the stability of the ongoing global economic recovery. Similarly, the increase in new export business also weakened during the month, with the latest rise only negligible.

Output grew only slightly during August, reflective of the slowdown in overall new order expansion. Nonetheless, production has now increased continuously since March 2009.

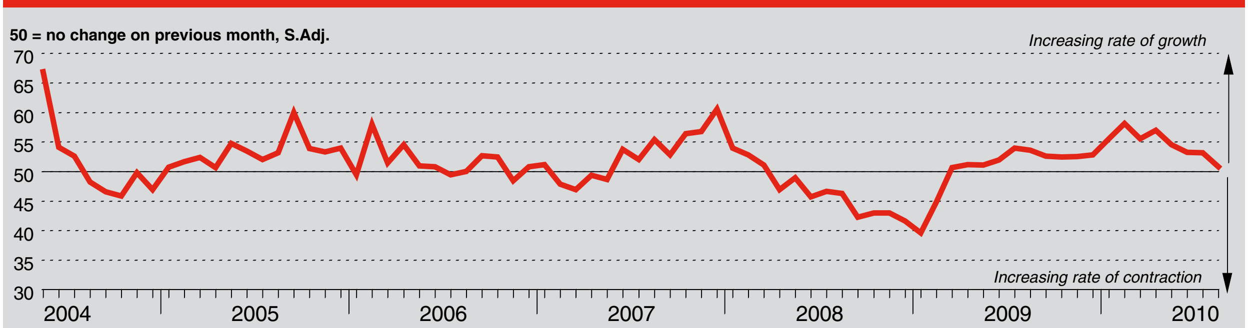
Backlogs of work expanded during August, reflecting shortages of some inputs. However, the increase in outstanding business slowed due to the weaker rise in new orders. Stocks of finished goods also grew, ending a three-month period where inventories had fallen.

Employment within the South Korean manufacturing sector increased for an eighteenth successive month in August. Panellists attributed the latest rise in staffing levels to expected growth in output. However, August's increase in headcounts was the lowest in ten months.

August data signalled a slight fall in purchasing activity at manufacturers in South Korea. Subsequently, suppliers' delivery times improved for the first time in four months. However, the extent to which lead times shortened was limited due to insufficient supplies of some raw materials.

Input prices faced by manufacturers in South Korean increased markedly during August, with input cost inflation now sustained for nine months. However, the rise in input prices slowed during the month to the weakest since December 2009. Output prices were unchanged since July, with anecdotal evidence suggesting that any rises due to higher costs were offset by reductions elsewhere, reflective of strong competition for new business.

HSBC South Korea Purchasing Managers' Index (PMI™)



The HSBC South Korea Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index.

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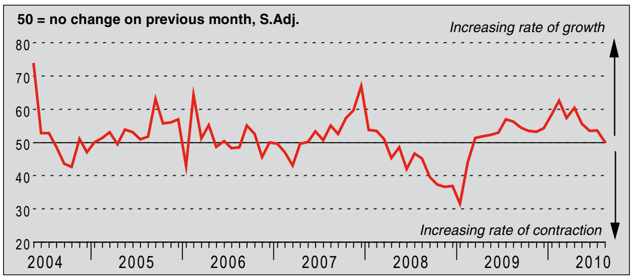
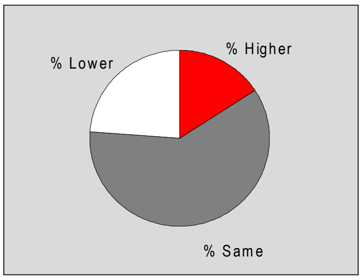
Output Index

Q. Please compare your production/output this month with the situation one month ago.

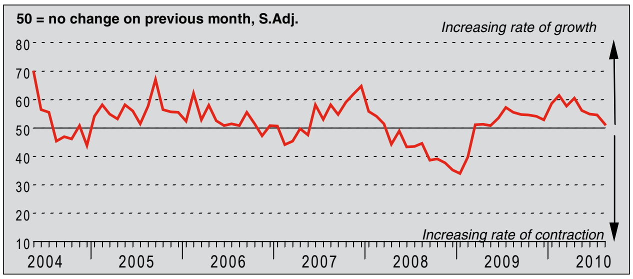


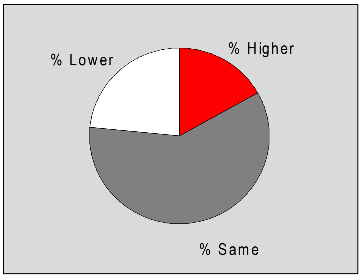


After allowing for seasonal factors, the Output Index posted slightly above the 50.0 no-change threshold in August. This signalled a negligible increase in output in the South Korean manufacturing sector, with growth now sustained for eighteen months. However, the latest increase in output was the slowest in the current period of expansion. Anecdotal evidence suggested that the weaker rise in production reflected a slowdown in new order growth.

New Orders Index

Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.

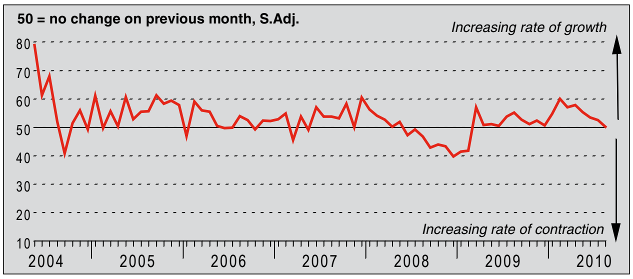


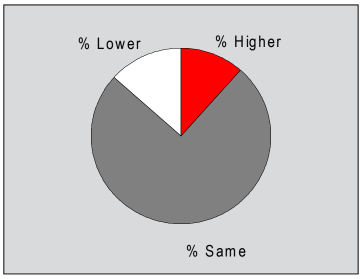


August data signalled a marginal increase in new orders received by manufacturers in South Korea. Rising levels of incoming new business have now been sustained since March 2009, although the latest increase was the slowest in fifteen months and lower than the historical average for the series. Panellists commented that the rise in demand had slowed during the month, partly due to concerns over the stability of the global economic recovery.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.

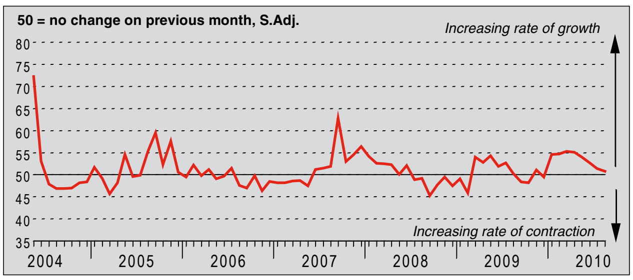


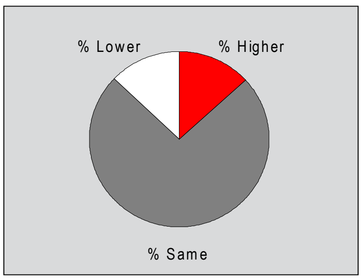


Manufacturers in South Korea reported a slight rise in new orders received from overseas during August, with growth sustained in each month since March 2009. However, the rate of expansion in new export orders slowed for a fourth successive month to the weakest in the current sequence. Anecdotal evidence suggested that concerns over the stability of the global economic recovery remained, alongside a reduction in new orders received from the US.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

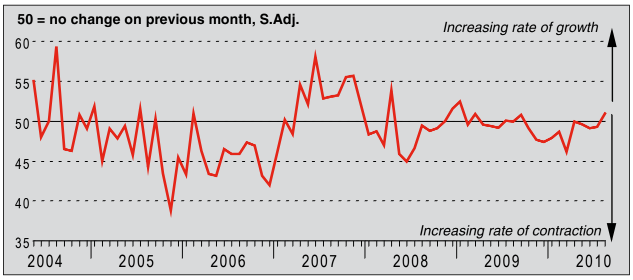


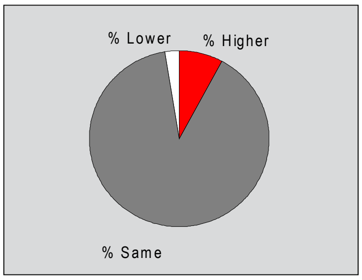


Backlogs of work at manufacturers in South Korea were reported to have increased marginally during August. Panellists noting an increase in outstanding business attributed this to difficulties in obtaining supplies. However, the rate at which backlogs accumulated slowed for a fifth successive month, and was lower than the long-run average for the series. This suggested that pressures on production capacity had eased, reflective of weaker new order growth.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.

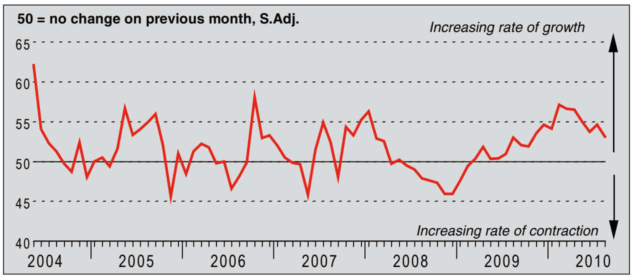


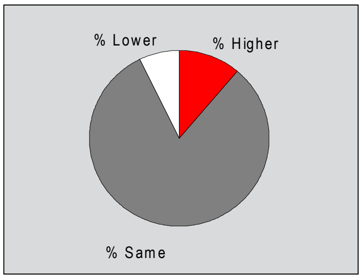


August data signalled a modest rise in stocks of finished goods at manufacturers in South Korea. This ended a three-month period where post-production inventories were reported to have fallen overall. Anecdotal evidence suggested that the rise in finished goods stocks reflected a further increase in output alongside a slowdown in new order growth. This was partly offset by some panellists noting that they had utilised stocks when meeting new order obligations.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.

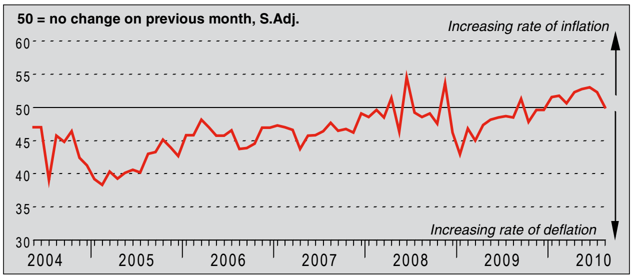


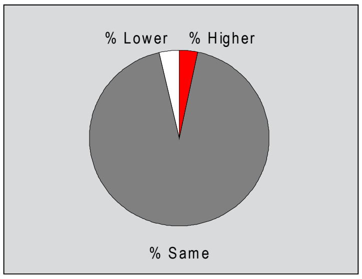


Employment within the South Korean manufacturing sector increased solidly during August, extending the sequence of job creation to eighteen months. Panellists commented that headcounts had increased ahead of expected growth in output. The latest rise in headcounts remained above the long-run average for the series, but slowed since July to the weakest since October 2009.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

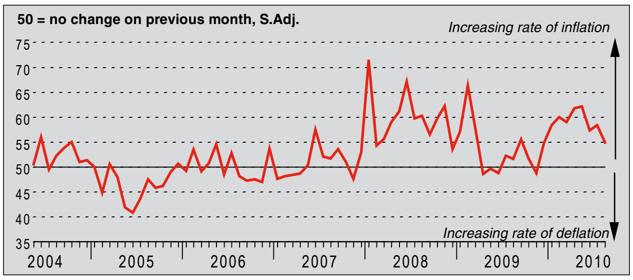


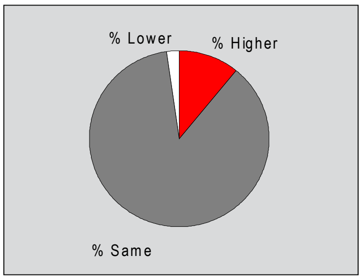


The seasonally adjusted Output Prices Index posted in line with the 50.0 no-change threshold during August, signalling that charges were unchanged since July. Where a rise in output prices was indicated, this was attributed to higher input prices. However, this was offset by strong competition for new business. Flat output prices during the month ended a seven-month sequence of rising charges (the longest period of sustained output price inflation in the series history).

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

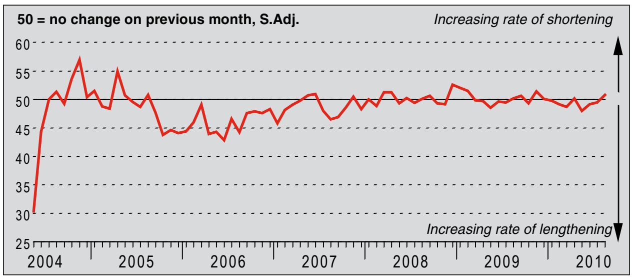


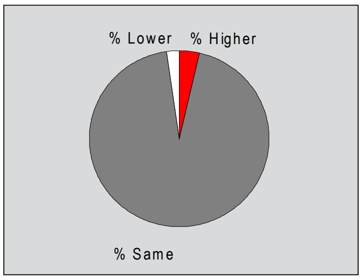


August data signalled a marked rise in input prices faced by manufacturers in South Korea. Input price inflation has been recorded over each of the last nine months, although the latest rise in costs was the weakest since December 2009. Nonetheless, it remained above the long-run average for the series. The latest increase in input prices was attributed to higher raw material prices, the short supply of items and unfavourable exchange rate variations.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

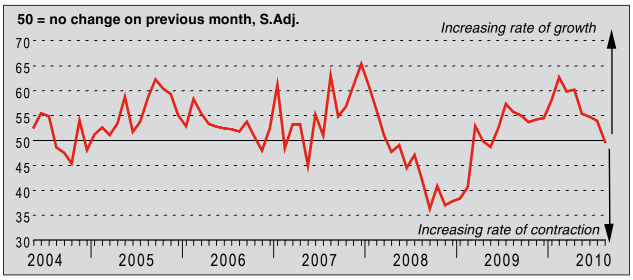


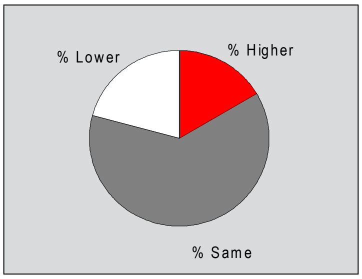


South Korean manufacturers reported an improvement in suppliers' delivery times during August. This followed a three-month period where vendor performance had deteriorated. Anecotal evidence suggested that shorter lead times reflected a slight fall in purchasing activity during the month. However, the extent of the improvement was limited, as some panellists noted that some materials were in short supply. Reflective of the marginal nature of the improvement, the vast majority of panellists (approximatelly 94%) indicated that delivery times were unchanged since July.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

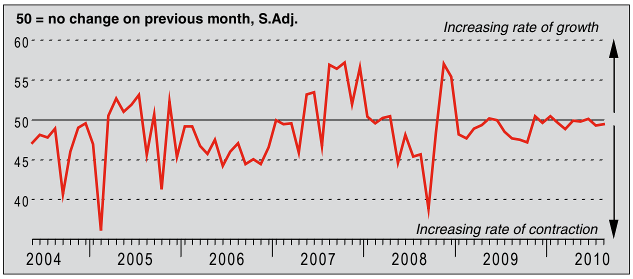


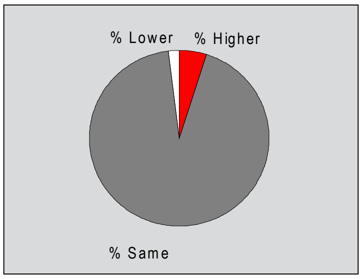


Purchasing activity at manufacturing companies in South Korea was reported to have fallen slightly during August. This was in contrast to the previous fourteen months where rises in input buying had been indicated. Panellists commented that the reduction in purchasing activity reflected lower growth in output and new orders. However, the extent of the decrease in input buying was limited, as some panellists still noted that output requirements had risen, whilst others commented that they were looking to increase stocks.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.





August data signalled a marginal reduction in stocks of purchases at manufacturers in South Korea. This was the second successive month where a decrease in pre-production inventories had been indicated. Anecdotal evidence suggested that the fall in stocks reflected reduced purchasing activity alongside initiatives to lower stocks. However, in line with the slight decline in inventories indicated, the vast majority of panellists (approximately 93%) noted that stocks of purchases were unchanged since July.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index 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 regional and industry contribution to South Korean Industrial Production. 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

Data collected prior to May 2009 are based exclusively on survey responses from companies operating in the electronics sector.

Warning