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HSBC South Korea Manufacturing PMI™

Business conditions in the South Korean manufacturing sector deteriorated in September.

Key findings:

- Weak domestic demand impacted on intakes of new work.
- Employment increased amid expectations of demand growth.
- Input price inflation sustained for tenth successive month.

September survey data, compiled by Markit for HSBC, indicated an overall deterioration in business conditions in the South Korean manufacturing sector. This was the first such decline in nineteen months and was driven by a contraction in new orders received, which negatively impacted on output. Despite this, employment rose in September, as manufacturers remained upbeat over new business expectations. Meanwhile, input prices continued to rise due to higher raw material costs. Output prices also increased, although the extent of the rise was limited by strong competition for new business.

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 48.8 in September, down from August's reading of 50.9. The fall in the headline PMI below the 50.0 neutral level indicated that business conditions in the South Korean manufacturing sector had worsened during the month – the first contraction recorded since February 2009.

New order volumes were reported to have declined during September, following eighteen months of growth. Panellists commented that domestic demand had been poor during the month, resulting in the overall decrease in new work. New

export business rose, albeit only marginally.

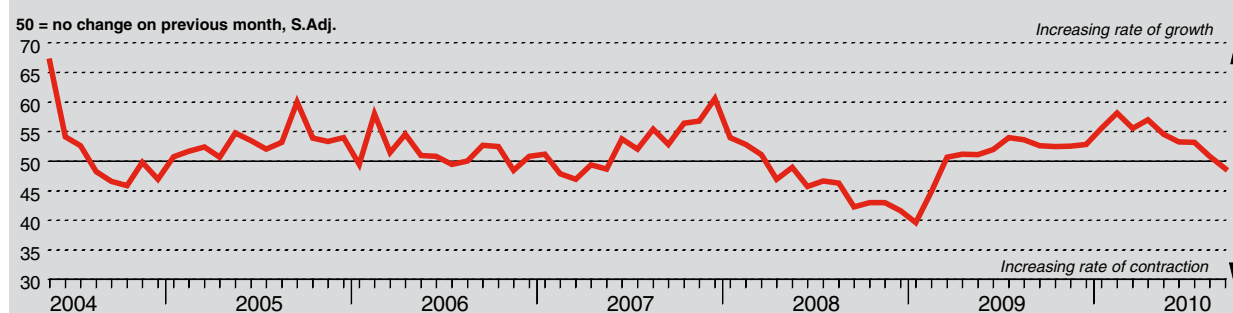
The overall decline in incoming new business led to a contraction in output during the month. Backlogs of work at manufacturers in South Korea were also reported to have decreased, ending an eight-month period of growth. This suggested that pressure on operating capacity had eased due to the reduction in new orders. Stocks of finished goods increased during September, but only slightly.

Despite decreases in both new orders and output, employment in the South Korean manufacturing sector increased during September. Panellists commented that they expect forthcoming new projects to commence and new orders to rise, and were therefore increasing capacity in advance of requirements. However, the latest rise in employment was the weakest in fourteen months.

September data signalled a reduction in purchasing activity at manufacturers in South Korea. This reflected a decrease in output and also shortages of supplies at vendors. Subsequently, lead times improved for the second successive month.

Input prices faced by manufacturers in South Korea increased markedly during September, predominately driven by higher raw material costs. Input price inflation has now been sustained for ten consecutive months. Output prices also rose during the month, although the extent of the increase was limited due to competition for new business.

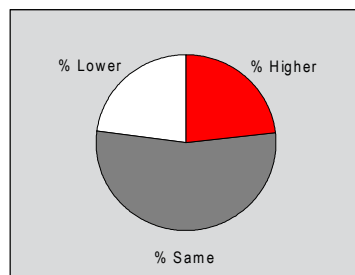
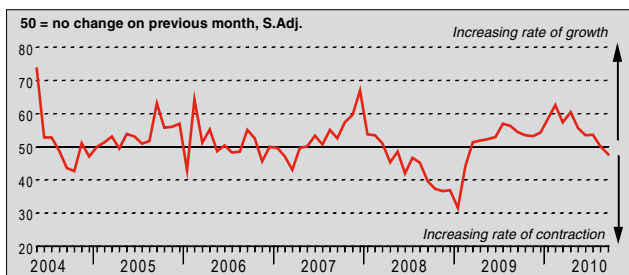
HSBC South Korea Purchasing Managers' Index (PMI™)



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.

Output Index

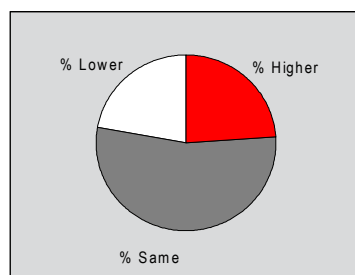
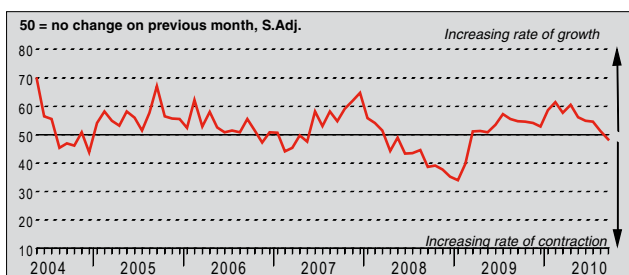
Q. Please compare your production/output this month with the situation one month ago.



After allowing for seasonal factors, manufacturers in South Korea reported a reduction in output during September. This was the first contraction recorded since February 2009, and was in contrast to the sharp growth seen at the start of the year. Approximately 23% of panellists indicated that output was lower than in the previous month, attributing this to a decline in incoming new business and initiatives to control stocks. Additionally, some respondents noted that there were shortages of materials which had limited production.

New Orders Index

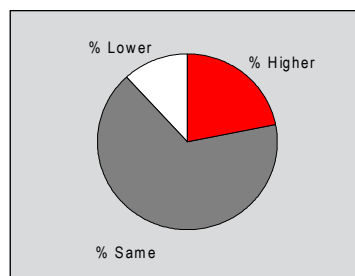
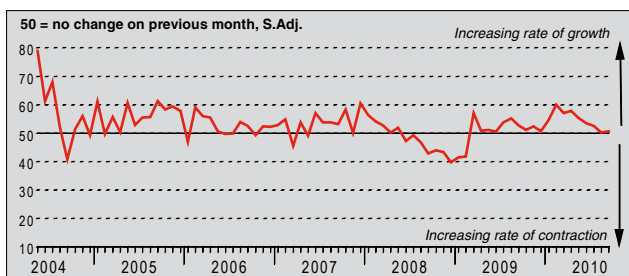
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



September data signalled a moderate fall in incoming new business received during September. The contraction in new work intakes followed eighteen months of increasing new order volumes. Anecdotal evidence suggested that the fall in new work intakes during the month reflected a general reduction in demand. Notably, many panellists noted that poor domestic demand (amid concerns over the health of the economy) had contributed to the contraction in incoming new business received.

New Export Orders Index

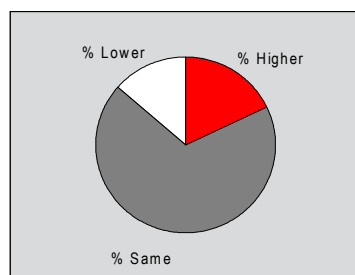
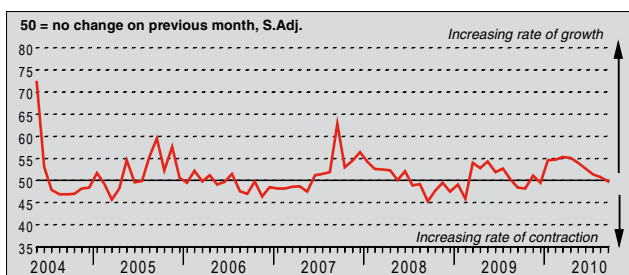
Q. Please compare the level of new export orders received this month with the situation of one month ago.



South Korean manufacturers reported a marginal rise in incoming new business received from export markets during September. The rate at which new export orders rose was slightly faster than that recorded in August, but remained below the long-run average for the series. Approximately 22% of panellists indicated that new export business was higher than in the previous month, and attributed this to a general improvement in international demand.

Backlogs of Work Index

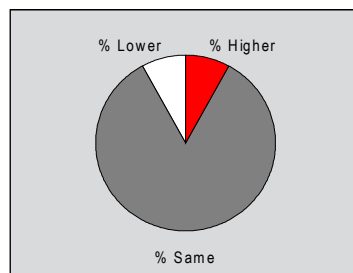
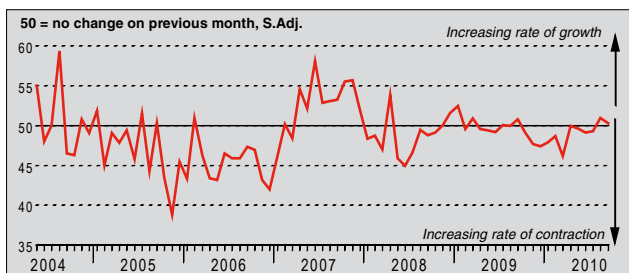
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The seasonally adjusted Backlogs of Work Index posted fractionally below the 50.0 no-change threshold during September, signalling a negligible reduction in the level of outstanding business at manufacturers in South Korea. This was the first decrease in backlogs recorded since December 2009, and indicated that pressures on production capacity had started to ease. Panellists commented that this reflected a contraction in new order volumes during the month.

Stocks of Finished Goods Index

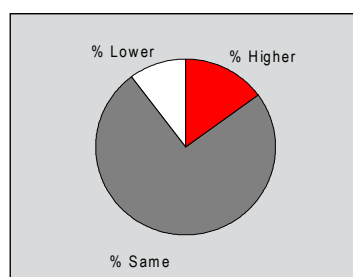
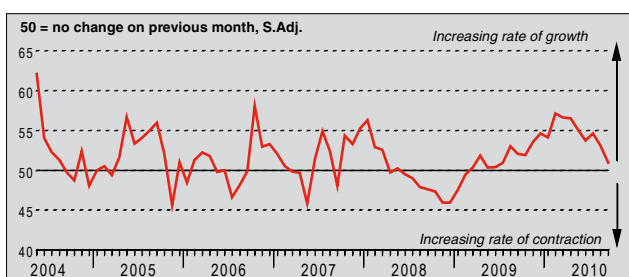
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in South Korea reported a slight increase in stocks of finished goods during September. Where a rise in post-production inventories was indicated, this was attributed to a decrease in incoming new business. This was the second successive month where a rise in finished goods stocks was recorded. However, the latest increase was lower than that indicated in August. Approximately 84% of respondents noted that post-production inventories remained unchanged during the month.

Employment Index

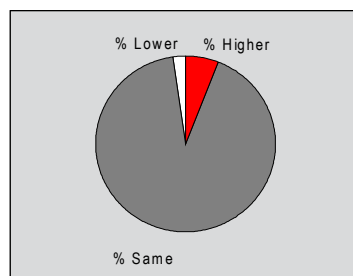
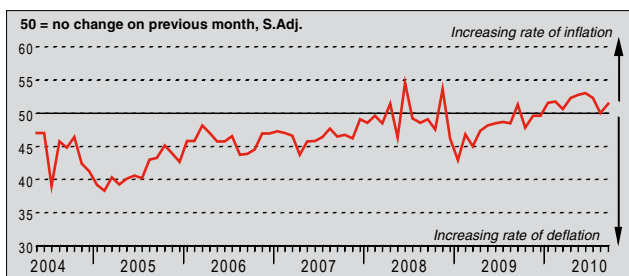
Q. Please compare the level of employment at your unit with the situation one month ago.



September data signalled a marginal rise in employment within the South Korean manufacturing sector, despite contractions in both new orders and output. Where a rise in staffing levels was indicated, this was attributed to expectations of forthcoming new projects. However, reflective of the decline in output, the latest increase in employment was the weakest in fourteen months. Overall, headcounts have risen for nineteen successive months.

Output Prices Index

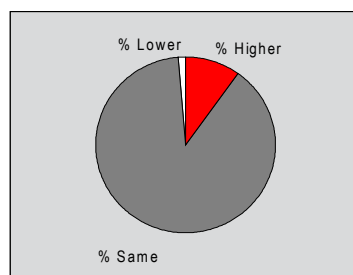
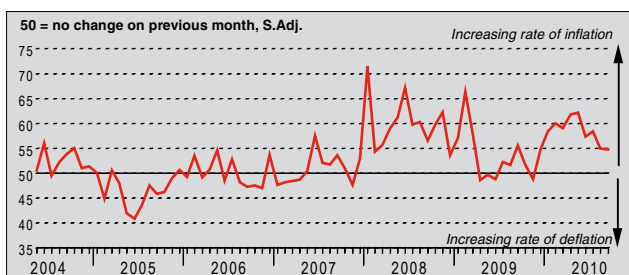
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



South Korean manufacturers reported a modest rise in output prices during September. Charges have risen in eight of the past nine months. Anecdotal evidence suggested that the latest rise in charges reflected a further increase in input prices. However, the extent of the rise was limited by strong competition for new business.

Input Prices Index

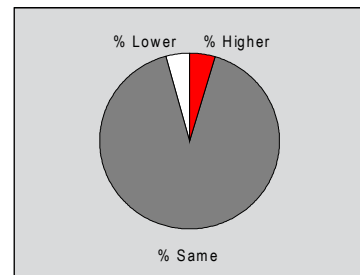
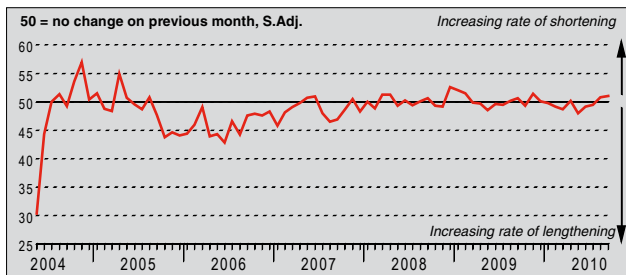
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in South Korea increased markedly during September, with panellists attributing the latest rise in costs to higher raw material prices and unfavourable exchange rate variations. September's rate of input price inflation was broadly unchanged from that reported in the previous month, and remained above the long-run average for the series. Input costs have now increased in each of the last ten months.

Suppliers' Delivery Times Index

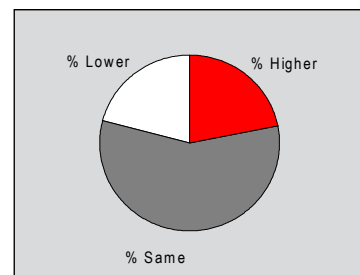
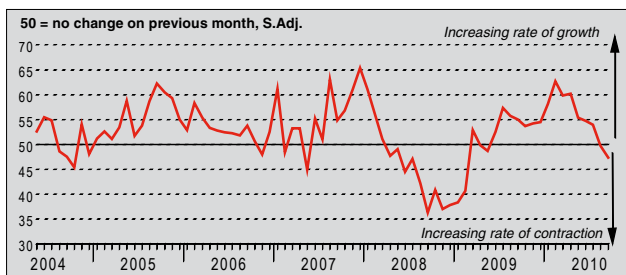
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in South Korea noted that suppliers' delivery times had improved during September, citing reduced purchasing activity as the main contributor to shorter lead times. Some panellists also noted that vendors had increased their operating capacity. This was the second successive month where an improvement in lead times was reported. However, the extent to which lead times reduced was marginal. Highlighting this, the majority of panellists (approximately 91%) indicated that delivery times were unchanged since August.

Quantity of Purchases Index

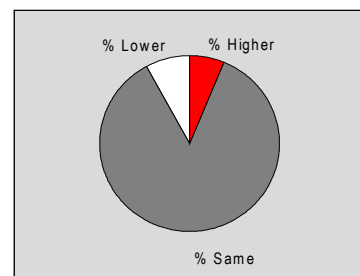
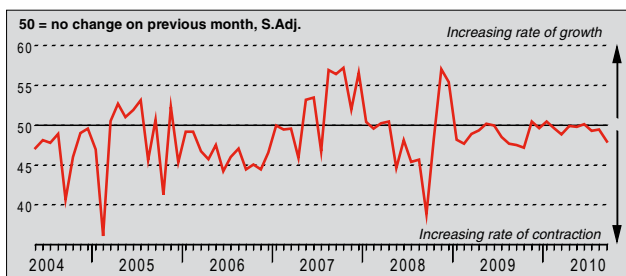
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



After allowing for seasonal factors, September data signalled a reduction in purchasing activity at manufacturers in South Korea. This was the second successive month where input buying decreased, following a fourteen-month period of growth. Where a decline in purchasing activity was reported, this was attributed to contractions in both new orders and output. However, some panellists also noted that there was insufficient stocks of materials at suppliers, which also negatively impacted in input buying.

Stocks of Purchases Index

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



South Korean manufacturers reported a modest decrease in stocks of purchases during September. This was the third consecutive month where pre-production inventories fell, with the latest decrease the strongest in this sequence. Moreover, the latest decline in stocks of purchases was faster than the long-run average for the series. Panellists indicating lower levels of pre-production inventories attributed this to stock reduction initiatives and reduced purchasing activity.

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.

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