

Embargoed until: 09:00 (SEOUL), 1 November 2010

HSBC South Korea Manufacturing PMI™

Further contraction of South Korean manufacturing output recorded in October.

Key findings:

- Overall new order volumes fell at marked rate.
- Employment rose, but at weakest pace since June 2009.
- Output prices cut for first time in ten months.

October survey data, compiled by Markit for HSBC, signalled a second successive overall monthly deterioration in business conditions in the South Korean manufacturing sector. A marked decline in incoming new business led to a further reduction in output, while a decrease in backlogs suggested that spare production capacity persisted. Nonetheless, employment increased marginally, with some companies expecting conditions to improve over the coming months. Meanwhile, input prices rose again, whilst output prices fell slightly due to 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 snapshot 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 46.7 in October, down from September's reading of 48.8. This was the second consecutive month where the headline PMI posted below the 50.0 neutral level, indicating that overall business conditions in the South Korean manufacturing sector had worsened.

October data signalled a reduction in new orders received by manufacturers in South Korea. The pace at which new work intakes fell was marked, and in contrast to the long-run series

average (which indicates solid growth). New export orders were also reduced during the month, with panellists attributing this to weaker global economic conditions.

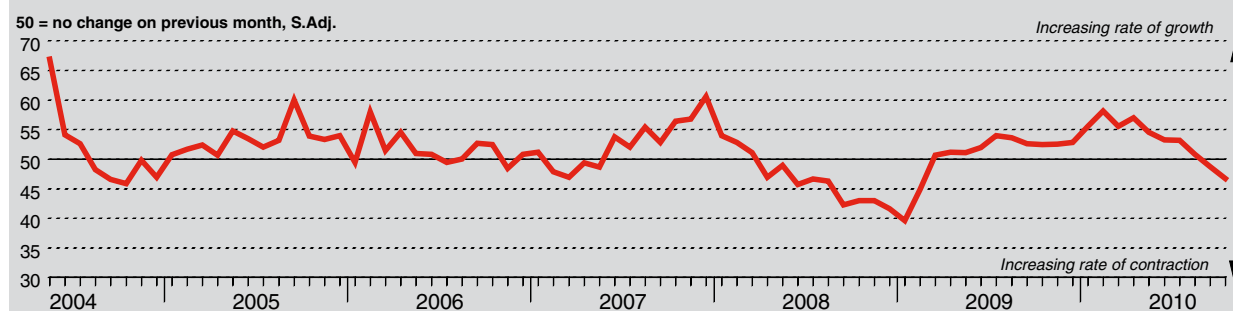
Output was reported to have decreased again during October, reflective of the decline in new business. Nonetheless, backlogs of work fell for a second straight month, suggesting that a degree of spare capacity persisted. Panellists also indicated that finished goods stocks had contracted, as inventories were utilised to meet current order obligations.

Employment at South Korean manufacturers rose during October, despite contractions in production and new business. Some companies noted that they expect conditions to improve going forward, although weaker growth in headcounts compared to recent months also reflected the current slowdown in the sector.

October data signalled a reduction in purchasing activity at South Korean manufacturers. This was attributed to lower output requirements. Subsequently, suppliers' delivery times improved.

Input prices faced by manufacturing companies in South Korea increased markedly during October, driven by rising raw material costs. Moreover, the rate of inflation was the fastest in three months. In contrast, output prices fell for the first time since December 2009 due to strong competition for new business.

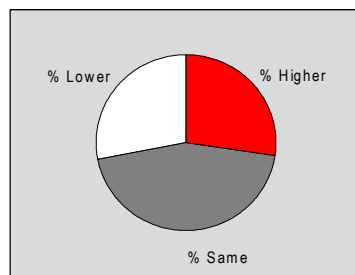
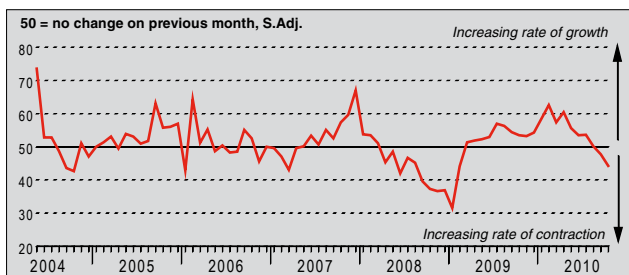
HSBC South Korea Purchasing Managers' Index (PMI™)



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.

Output Index

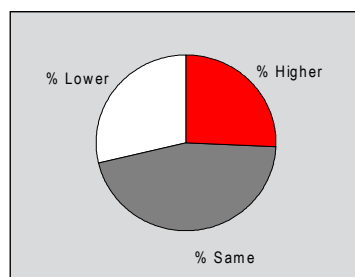
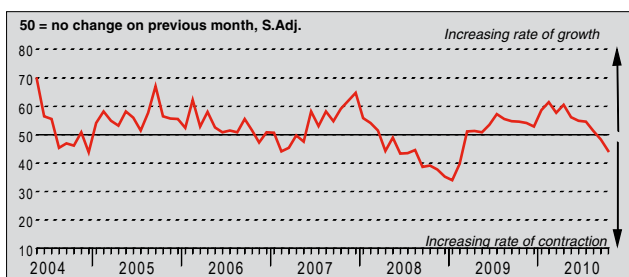
Q. Please compare your production/output this month with the situation one month ago.



South Korean manufacturers reported a decrease in output during October, extending the current sequence of decline to two months. Moreover, the contraction in production was marked, and the sharpest since February 2009 (when survey data started to improve after the steepest downturn in the series history). Panellists commented that the latest reduction in output was driven by a decrease in incoming new business.

New Orders Index

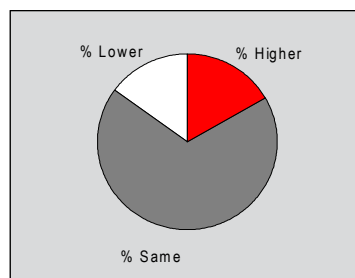
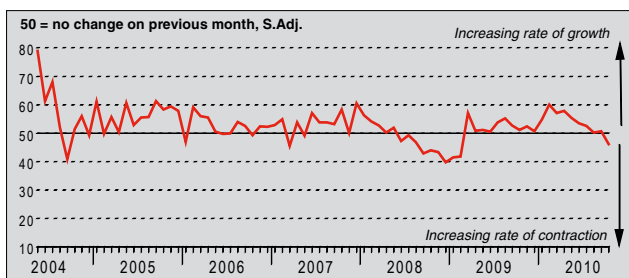
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



October data signalled a marked decline in incoming new business received by manufacturers in South Korea. Moreover, the rate at which new order volumes contracted was sharper than in the previous survey period, and in contrast to the long-run average for the series (which signals solid growth). Anecdotal evidence suggested that the latest decrease in incoming new business, which was the second in successive months, was driven by weaker demand as concerns over the health of the global economy continued.

New Export Orders Index

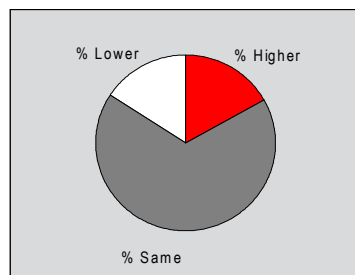
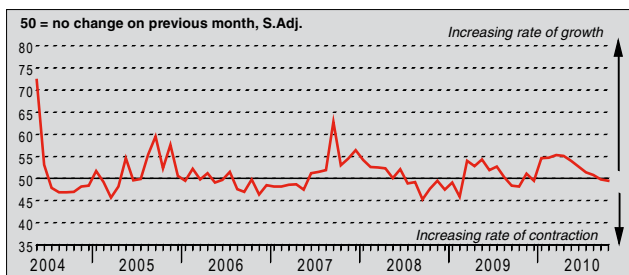
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index posted below the 50.0 no-change threshold during October, signalling a decline in incoming new business received from overseas. This was the first reduction in new export orders since February 2009, with panellists commenting that weaker global economic conditions had driven a decrease in demand. Moreover, the rate at which new export orders contracted was solid, and sharp in the context of historical data.

Backlogs of Work Index

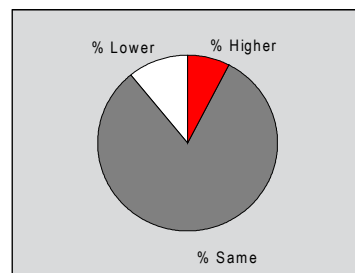
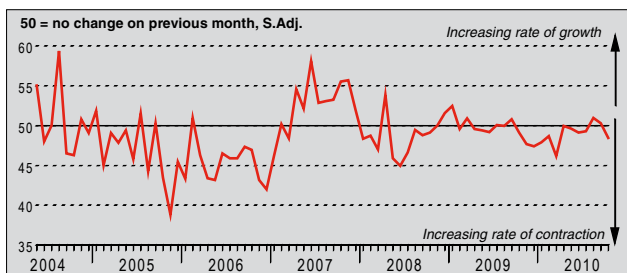
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in South Korea fell during October, with panellists attributing this to a further contraction in incoming new business, leading to excess production capacity. The latest reduction in outstanding business, whilst marginal, was slightly faster than that indicated in September. Furthermore, the decline in backlogs was the second in consecutive months, and followed an eight-month period where outstanding business had increased.

Stocks of Finished Goods Index

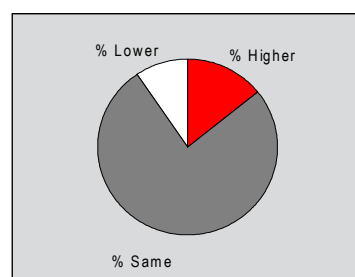
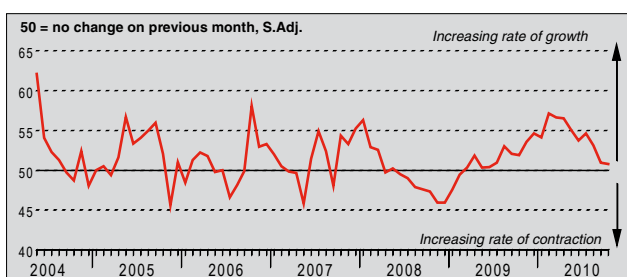
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



October data signalled a modest reduction in stocks of finished goods held at manufacturers in South Korea, with anecdotal evidence suggesting that companies were using existing inventories to meet order obligations. The fall in stocks was in contrast to the previous two survey periods where marginal rises in post-production inventories were reported. However, the rate at which finished goods stocks fell was slower than the long-run average for the series.

Employment Index

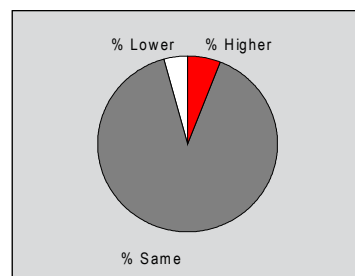
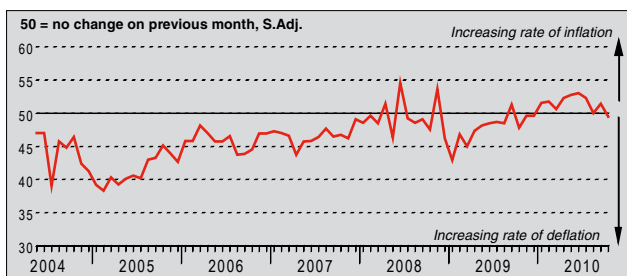
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment within the South Korean manufacturing sector increased marginally during October. This was the twentieth successive month where a rise in staffing levels was recorded, with some panellists confident that orders will rise in the coming months. However, the pace at which headcounts increased eased for the third successive month, to the slowest since June 2009, reflective of current weakness in output and new business.

Output Prices Index

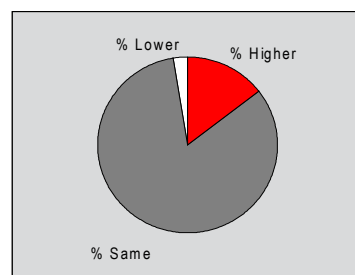
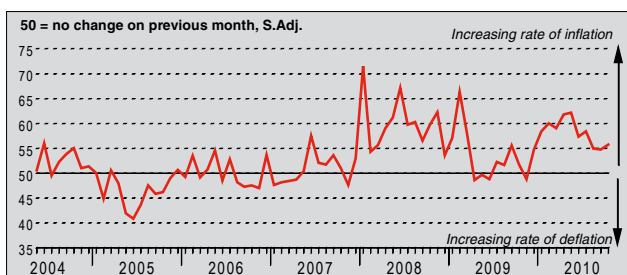
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted slightly below the 50.0 no-change threshold in October, signalling a marginal reduction in charges. This was the first month since December 2009 where a fall in output prices had been indicated, although the extent of the decrease was slow in the context of historical data. Panellists commented that charges were reduced due to strong competition for new business.

Input Prices Index

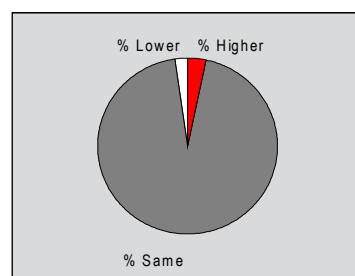
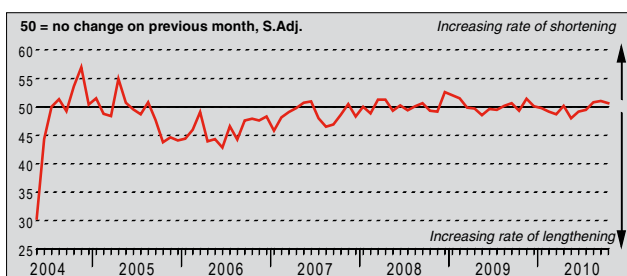
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturing companies in South Korea increased markedly during October. Moreover, the rate of input cost inflation accelerated since September to the strongest in three months, and was sharp in the context of historical data. Approximately 15% of panellists indicated that costs had increased during the month, and largely attributed this to higher raw material prices. However, some respondents also noted that unfavourable exchange rate variations had negatively impacted on costs.

Suppliers' Delivery Times Index

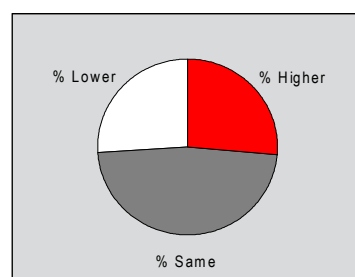
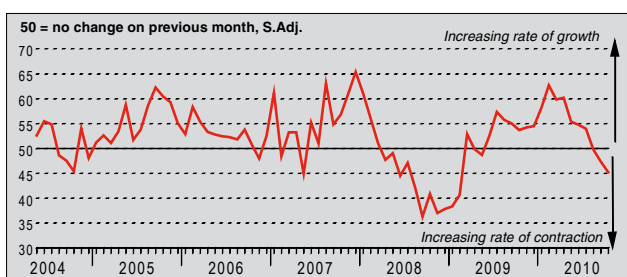
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



October data signalled that suppliers' delivery times had improved during the month. This was the third consecutive month where lead times were reported to have shortened, with anecdotal evidence attributing this to a further reduction in purchasing activity. However, in line with the marginal improvement in suppliers' delivery times recorded, the vast majority of panellists (approximately 94%) indicated that vendor performance was unchanged during the month.

Quantity of Purchases Index

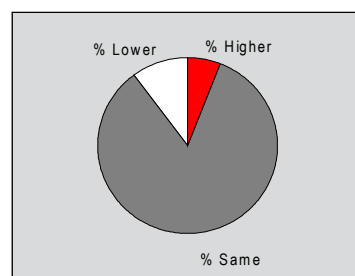
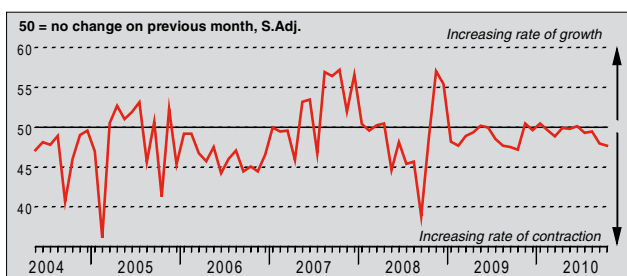
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index posted below the 50.0 no-change threshold in October, signalling a reduction in input buying at manufacturers in South Korea. Moreover, the rate of decline accelerated for a second successive month to the strongest since February 2009. Panellists commented that lower production requirements led to the decrease in purchasing activity, with some respondents also noting that they were aiming to deplete existing stocks.

Stocks of Purchases Index

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



Manufacturing companies in South Korea reported a solid reduction in stocks of purchases during October. Anecdotal evidence suggested that the decline in pre-production inventories reflected lower output requirements, and therefore companies were looking to implement stock reduction initiatives. Pre-production inventories have now decreased for four straight months, with the latest decline faster than the long-run series average.

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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