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## HSBC South Korea Manufacturing PMI™

South Korean manufacturing business conditions improved marginally in November.

### Key findings:

- New export orders rose marginally.
- Employment increased for twenty-first successive month.
- Stronger input price inflation drove charges higher.

November survey data, compiled by Markit for HSBC, signalled a slight strengthening of business conditions in the South Korean manufacturing sector. A negligible rise in new business ended a two-month period of decline. Despite this, output fell slightly and backlogs continued to decline, suggesting that spare capacity persisted. Nonetheless, employment increased, and at the fastest pace in three months. Meanwhile, input price inflation accelerated during the month, with charges also rising.

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 50.2 in November, up from October's twenty-month low of 46.7. The improvement signalled by the latest figure was only slight, and weaker than the long-run average for the series.

The seasonally adjusted New Orders Index posted fractionally above the 50.0 no-change threshold in November, signalling a negligible rise in new work intakes. New export business increased marginally, in contrast to the previous survey period where a solid reduction was recorded.

November data indicated that output fell in the South Korean manufacturing sector, signalling that the negligible rise in overall new order volumes was insufficient to boost production.

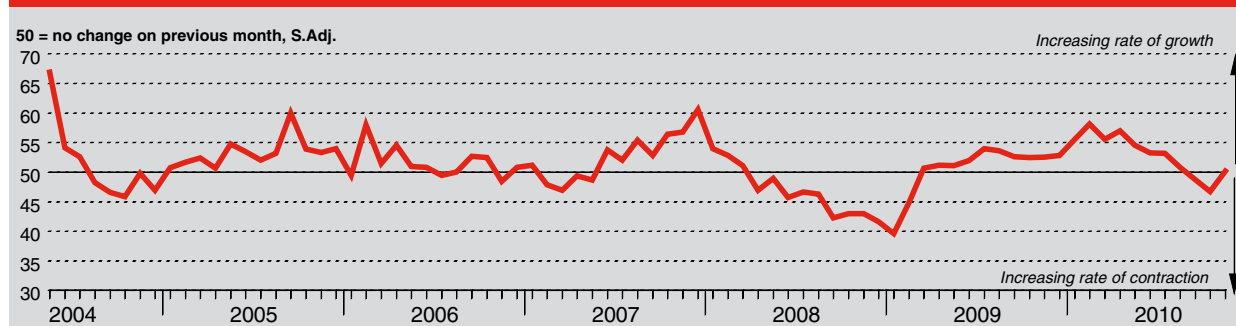
Moreover, backlogs of work decreased and at a stronger rate than in the previous survey period. This suggested that spare capacity at manufacturers persisted, with panellists attributing this to the recent reduction in new work intakes. Finished goods stocks were also depleted during the month, albeit at a weaker rate than in October.

South Korean manufacturers indicated that employment at their companies increased during November. Furthermore, the latest rise in headcounts was the strongest in three months. Panellists reporting an increase in staffing levels commented that this reflected a rise in new orders.

Suppliers' delivery times shortened during November. This was the fourth successive month where an improvement in vendor performance was indicated, although the latest shortening in lead times was the weakest in this period. This was in line with a slight rise in purchasing activity during the month. Nonetheless, stocks of purchases fell further in November, as many manufacturers continued to indicate that they were implementing inventory reduction initiatives.

Input prices faced by manufacturers in South Korea increased markedly in November, with the latest rise in costs the fastest in four months. Higher raw material prices were cited as the main driver of input cost inflation. Subsequently, charges also rose, in contrast to the previous month. However, the extent of output price inflation was restricted by strong competition for new business.

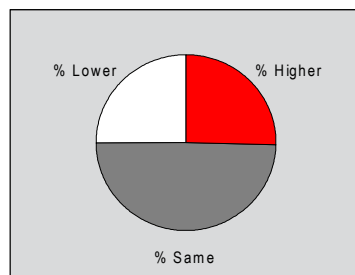
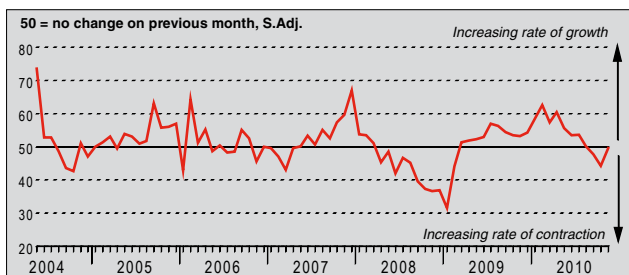
HSBC South Korea Purchasing Managers' Index (PMI™)



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

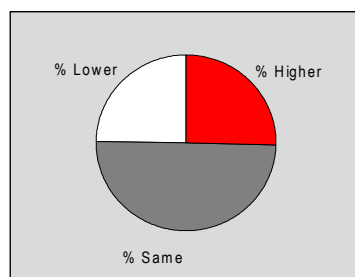
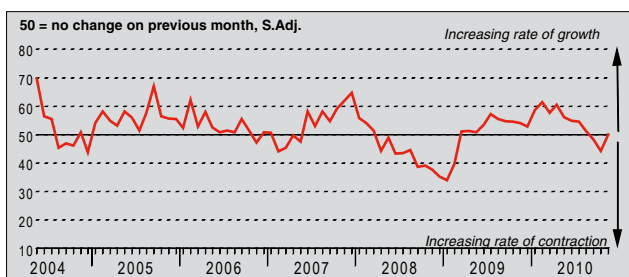
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index posted slightly below the 50.0 no-change threshold in November, signalling a marginal contraction in production. Panellists reporting a fall in output attributed this to lower new order volumes (approximately 25% of respondents noted that new business had been reduced in the month). This was the third successive month where a decline in output was recorded, although the latest reduction was the weakest in this period. This reflected the broadly flat month-on-month change on new work intakes.

## New Orders Index

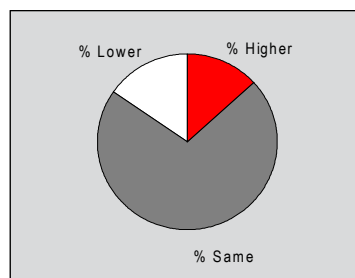
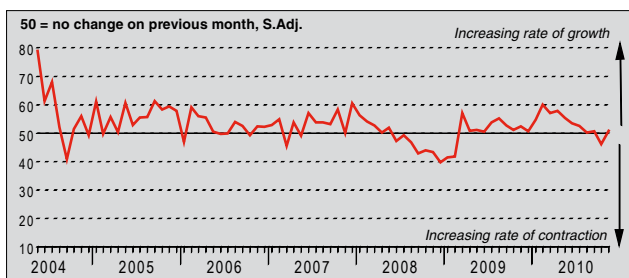
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



After accounting for seasonal factors, manufacturers in South Korea reported a negligible rise in new orders during November. The fractional increase in new business remained below the long-run average for the series, but ended a two-month period where new work intakes had contracted. Anecdotal evidence suggested that improving economic conditions, particularly domestically, had boosted demand. However, the overall economic environment was reported to have remained fragile, therefore limiting the rise in new business.

## New Export Orders Index

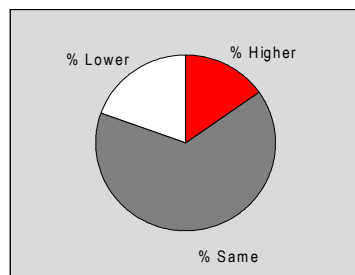
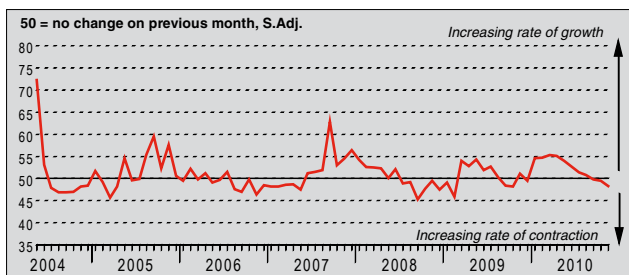
Q. Please compare the level of new export orders received this month with the situation of one month ago.



November data signalled a marginal rise in incoming new business received by South Korean manufacturing companies from overseas markets. This was in contrast to the previous month, where a solid reduction in new export orders was reported. Anecdotal evidence suggested that the rise in new export business reflected ongoing improvements in global economic conditions. The latest expansion in new export orders was the strongest since July.

## Backlogs of Work Index

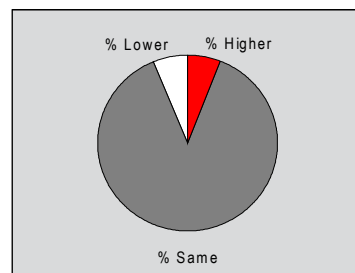
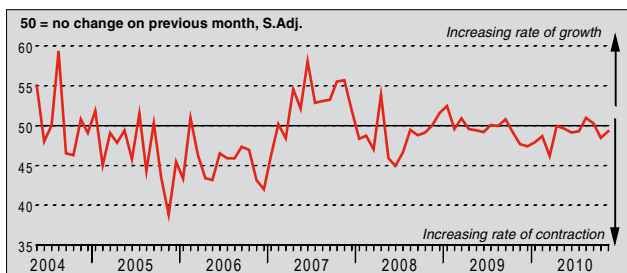
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in South Korea decreased moderately during November, with the sequence of sustained decline now extending to three months. Moreover, the latest reduction was the fastest in this sequence, suggesting that spare operating capacity persisted. Approximately 20% of panellists indicated that outstanding business had decreased during the month, and attributed this to falls in new order volumes seen in recent months.

### Stocks of Finished Goods Index

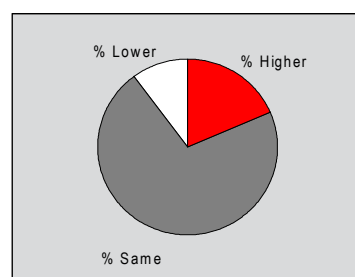
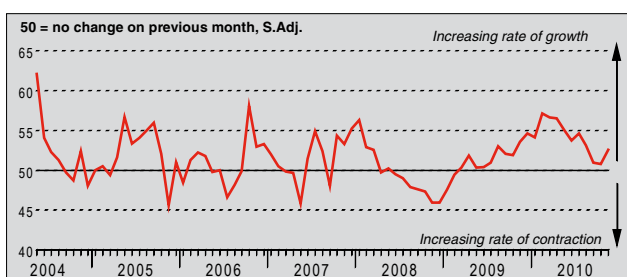
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in South Korea reported a marginal reduction in stocks of finished goods in November. This was the second successive month where post-production inventories decreased. However, the rate of decline slowed since October, and was weaker than the long-run average for the series. Moreover, the majority of panellists (approximately 88%) indicated that post-production inventories were unchanged from the previous month.

### Employment Index

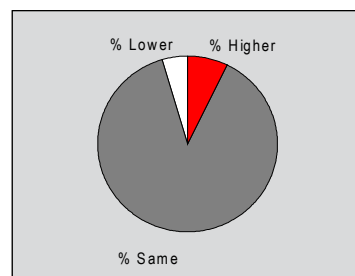
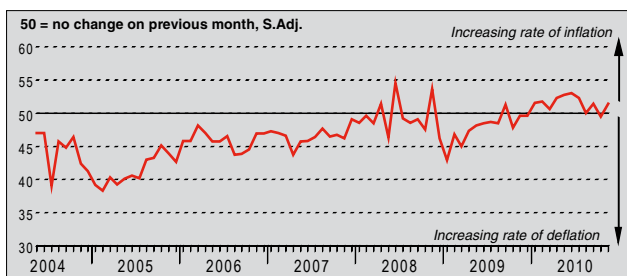
Q. Please compare the level of employment at your unit with the situation one month ago.



November data signalled a solid rise in employment in the South Korean manufacturing sector. Approximately 19% of panellists indicated that staffing levels had increased at their companies, and commented that this reflected a rise in workloads during the month. Headcounts have risen continuously since March 2009, with the latest increase the strongest in three months.

### Output Prices Index

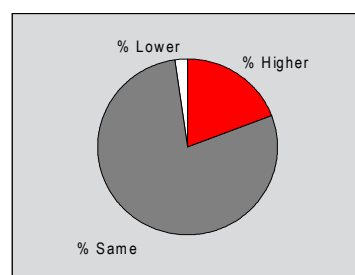
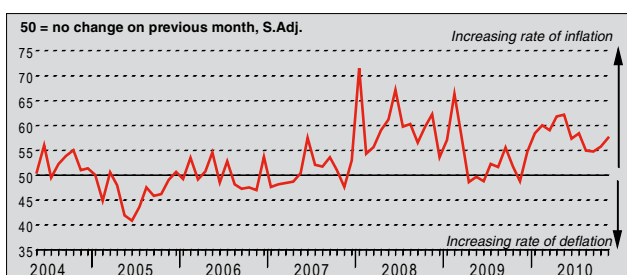
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



South Korean manufacturing companies increased their output prices during November, in contrast to the previous survey period where charges fell. Panellists commented that the rise in output prices reflected a further increase in input costs. However, strong competition for new business prevented a sharper rise in charges. Subsequently, the increase in output prices was only modest, with the majority of respondents (approximately 88%) indicating that charges were unchanged during the month.

### Input Prices Index

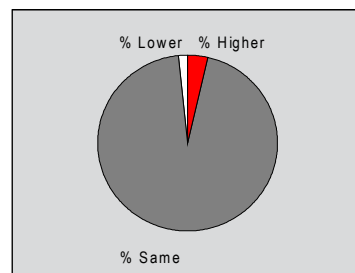
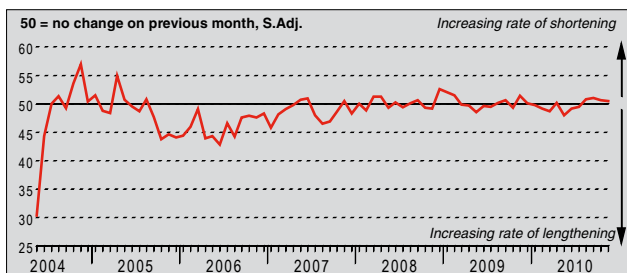
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in South Korea increased markedly during November. Input cost inflation has now been recorded in each month since December 2009, with the latest rise in costs the strongest in four months and faster than the long-run series average. Anecdotal evidence suggested that higher raw material prices had driven the latest increase in input prices.

## Suppliers' Delivery Times Index

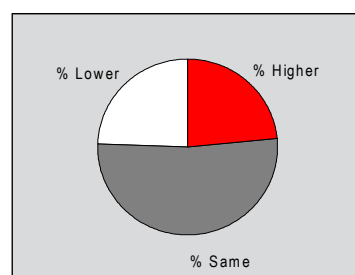
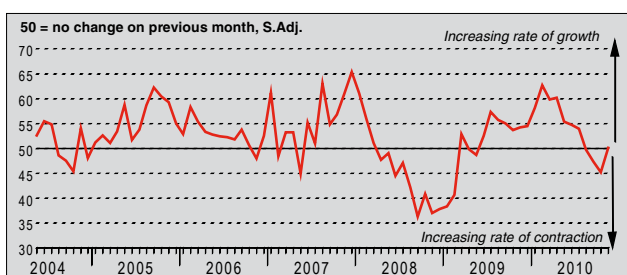
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in South Korea reported a marginal shortening in suppliers' delivery times during November. This was the fourth successive month where vendor performance improved. The latest shortening in lead times was attributed to declines in purchasing activity reported over the previous three months. However, the vast majority of panellists (approximately 95%) indicated that delivery times were unchanged during the month.

## Quantity of Purchases Index

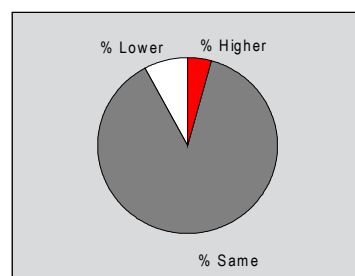
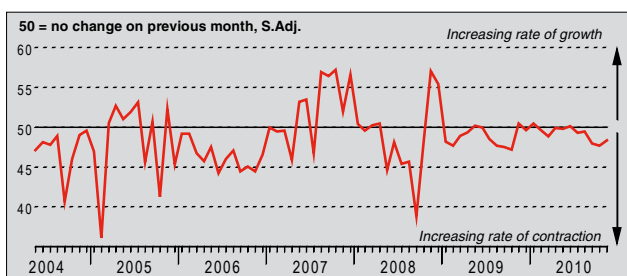
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index posted fractionally above the 50.0 no-change threshold in November, signalling a slight rise in input buying. This ended a three-month period where purchasing activity had decreased. Panellists reporting a rise in input buying commented that this reflected an increase in incoming new business received during the month. However, many companies noted that stock reduction initiatives remained in place due to recent reductions in new order volumes, which limited purchasing activity.

## Stocks of Purchases Index

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



November data signalled a modest reduction in stocks of purchases at manufacturers in South Korea. Panellists commented that policies had been implemented to decrease inventories, following a decline in new business in recent months. However, the latest reduction in stocks of purchases was the weakest in three months. Reflecting this, the majority of panellists (approximately 88%) indicated that pre-production inventories were unchanged since October.

## 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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