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HSBC South Korea Manufacturing PMI™

Expansion of South Korean manufacturing sector sustained for third successive month in January.

Key findings:

- New export orders grew at fastest rate since May 2010.
- Staffing levels increased markedly.
- Input prices rose at strongest rate in fourteen-month period of cost inflation.

January survey data, compiled by Markit for HSBC, signalled solid growth of the South Korean manufacturing sector. However, the rate of expansion slowed slightly, as the increase in new order volumes eased. Staffing levels rose again, but backlogs continued to accumulate, suggesting that pressures on operating capacity remained. Inflationary pressures grew further, with rises in both input and output prices notably strong in the context of historical data.

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 53.5 in January, falling slightly from December's 53.9. Nonetheless, the latest reading signalled a strengthening of business conditions in the South Korean manufacturing sector. Moreover, growth was greater than the long-run series average.

January data signalled a marked rise in new business received by manufacturers in South Korea, with panellists attributing this to ongoing improvements in global economic conditions. The rate of new order expansion slowed slightly, but remained strong in the context of historical data. New export business also increased during the month, and at the fastest pace since May 2010.

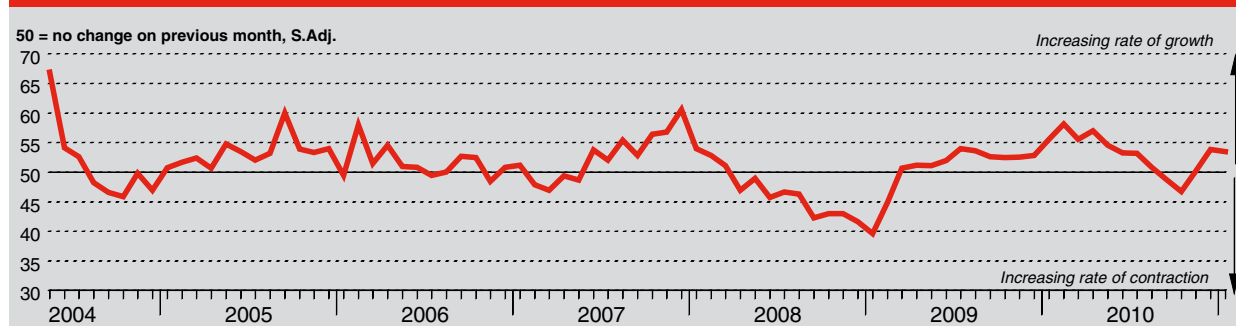
Output in the South Korean manufacturing sector rose solidly during January. However, reflective of slower overall new order growth, the pace of production expansion was weaker than in the previous survey period. That said, backlogs of work were reported to have accumulated for a second consecutive month, and at a rate that was above the long-run trend. This suggested that pressure on operating capacity persisted.

South Korean manufacturers indicated that staffing levels had increased during January. Moreover, the latest rise in employment was the strongest in eight months. Panellists commented that job creation was driven by sustained growth of new orders and output.

Reflective of higher production requirements in January, purchasing activity at South Korean manufacturers increased, and at a marked rate. Subsequently, suppliers' delivery times lengthened, as increased input buying put pressure on operating capacity at vendors. Despite the rise in purchasing activity, pre-production inventories decreased slightly, as companies utilised existing stocks to help fulfil output requirements.

Input costs faced by manufacturing companies in South Korea continued to increase during January. The rate of input price inflation was substantial, and the fastest in the current fourteen-month sequence. Output prices increased at the second-strongest pace in the series history, although this remained weaker than the rise in costs.

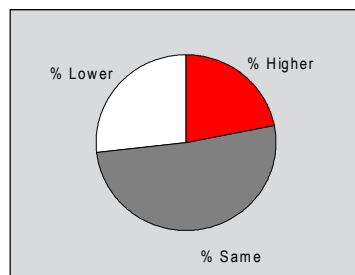
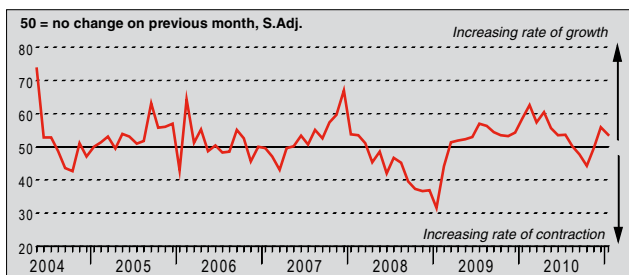
HSBC South Korea Purchasing Managers' Index (PMI™)



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

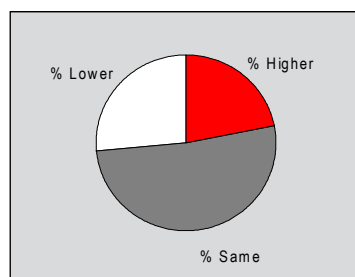
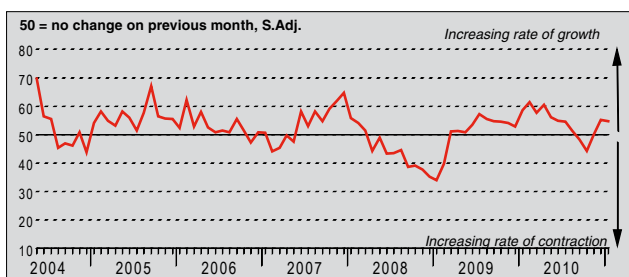
Q. Please compare your production/output this month with the situation one month ago.



Manufacturers in South Korea reported a solid rise in output during January. Panellists noting an increase in production generally attributed this to higher new order volumes. The latest rise in output was the second in successive months, and stronger than the long-run average for the series. However, the rate of growth slowed from the eight-month high recorded in December.

New Orders Index

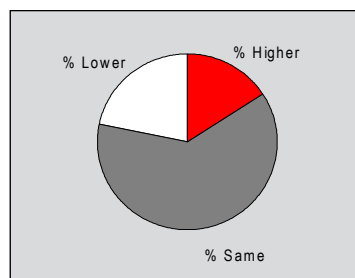
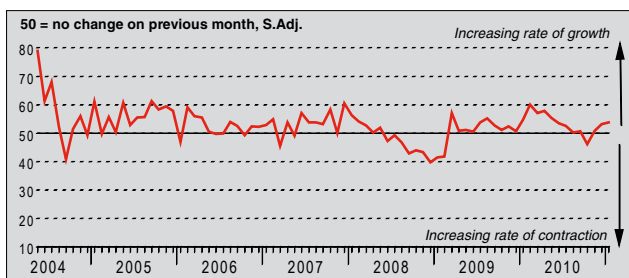
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



January data signalled a marked rise in incoming new business received by South Korean manufacturing companies, extending the sequence of sustained growth to three months. Anecdotal evidence suggested that ongoing improvements in global economic conditions had boosted new order intake during the month. The rate of new business expansion slowed slightly from December's seven-month high, but remained strong in the context of historical data.

New Export Orders Index

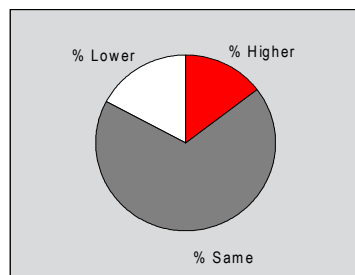
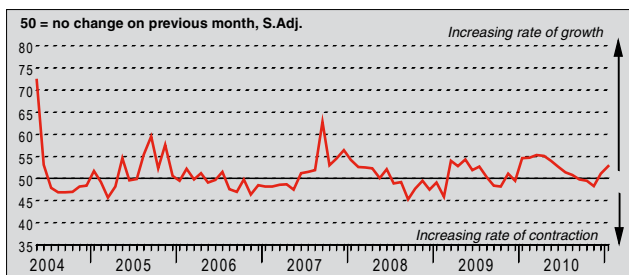
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by manufacturers in South Korea increased solidly during January. Moreover, the rate of expansion accelerated for the second successive month to the strongest since May 2010. Panellists commented that stronger global economic conditions had supported a rise in demand amongst clients located in overseas markets. The latest increase in new export business was the third in consecutive months.

Backlogs of Work Index

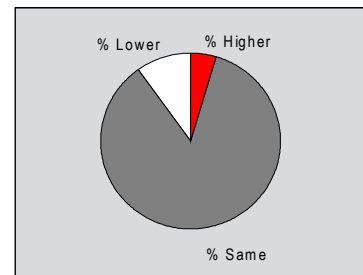
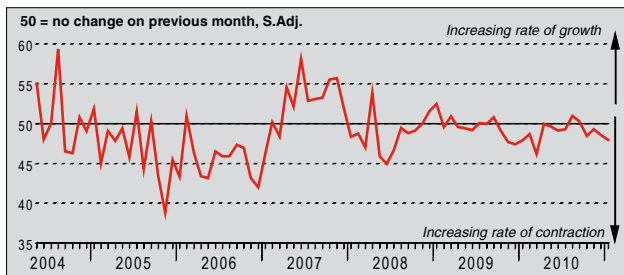
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturing companies in South Korea increased solidly during January, indicating a degree of pressure on operating capacity in the sector. Anecdotal evidence suggested that the latest rise in output had not been sufficient to meet growth in new orders. Outstanding business has now increased for two months running, with January's accumulation the strongest in seven months and above the long-run trend.

Stocks of Finished Goods Index

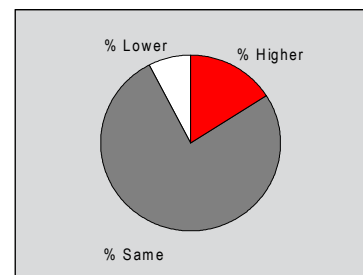
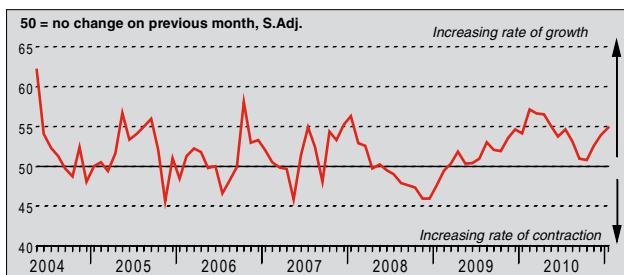
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in South Korea reported a modest reduction in stocks of finished goods during January. Post-production inventories have fallen in each of the last four months, with the latest depletion the strongest over this period. Panellists commented that existing stocks were used in order to partially fulfil order requirements. However, the majority of respondents (approximately 85%) indicated that finished goods stocks were unchanged during the month.

Employment Index

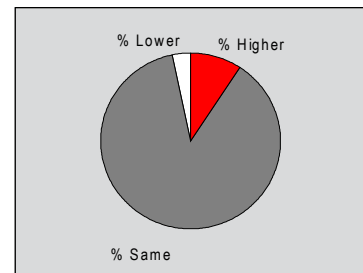
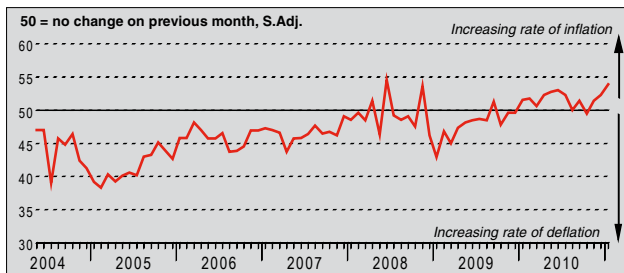
Q. Please compare the level of employment at your unit with the situation one month ago.



January data signalled a marked rise in employment in the South Korean manufacturing sector, with panellists attributing this to sustained growth in new orders and output. Job creation has now been sustained for twenty-three successive months, with the latest increase in staffing levels the sharpest since May 2010 and above the historical average for the series.

Output Prices Index

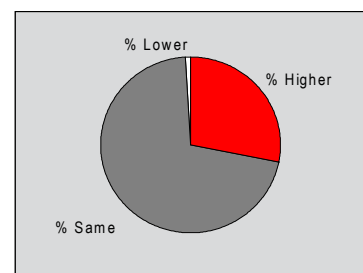
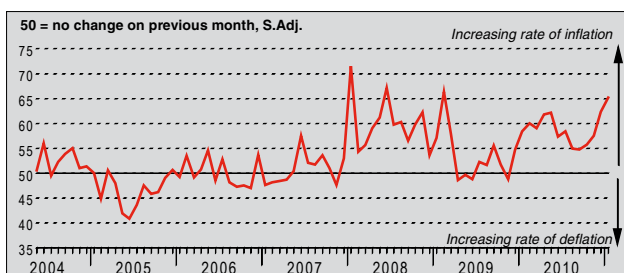
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



South Korean manufacturers reported a marked rise in their charges in January. The rate of output price inflation accelerated since December to the second-strongest in the series history. Panellists commented that higher input costs had led to the rise in charges. However, the increase in output prices remained relatively modest compared to that of costs, with the majority of respondents (approximately 87%) indicating that charges were unchanged since December.

Input Prices Index

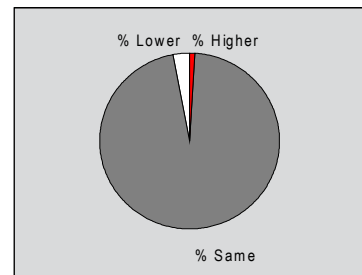
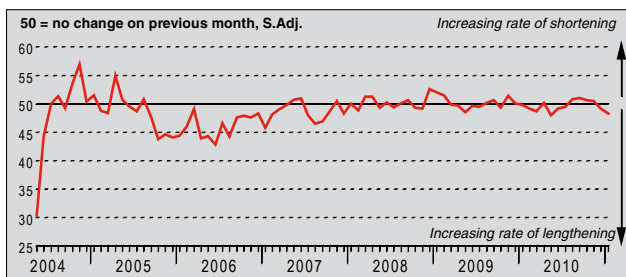
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in South Korea increased substantially during January, with input cost inflation now recorded in each month since December 2009. Moreover, the latest rise in input prices was the fastest over this sequence, and markedly above the long-run average for the series. Approximately 28% of panellists indicated that costs had increased compared to the previous month, attributing this to higher raw material prices.

Suppliers' Delivery Times Index

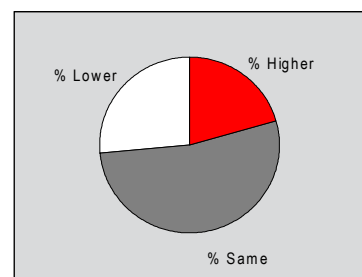
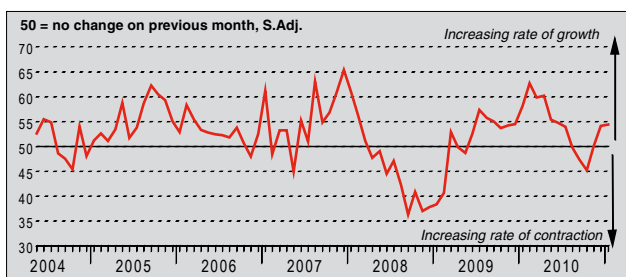
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Suppliers' delivery times were reported to have lengthened modestly during January. Panellists attributed this to increased purchasing activity, which placed pressure on operating capacity at vendors. This was the second month running where longer lead times were reported, with the latest deterioration slightly sharper than the long-run series average. Nonetheless, reflective of the modest nature of the lengthening in delivery times, the majority of panellists (96%) indicated that vendor performance was unchanged during the month.

Quantity of Purchases Index

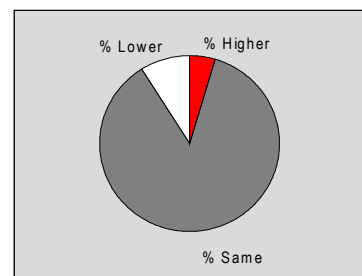
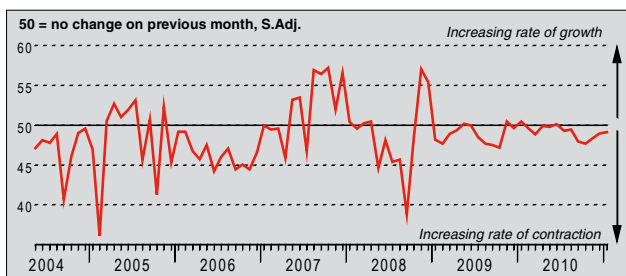
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



January data signalled a marked rise in purchasing activity at manufacturers in South Korea. Input buying has now increased in each of the last three months, with the latest expansion the strongest since June 2010 and above the long-run trend for the series. Anecdotal evidence suggested that higher new order volumes, and therefore output requirements, had led to the rise in purchasing activity during the month.

Stocks of Purchases Index

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



Manufacturers in South Korea reported a marginal reduction in stocks of purchases during January. Pre-production inventories have decreased in each month since July 2010, but the latest contraction was the weakest in five months and slower than the historical average for the series. Panellists indicating a reduction in pre-production inventories commented that this reflected the utilisation of stocks to help fulfil increased output requirements.

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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