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## HSBC South Korea Manufacturing PMI™

South Korean manufacturing output expanded at strong rate in February.

### Key findings:

- Growth of new export orders accelerated.
- Employment increased for twenty-fourth successive month.
- Input price inflation accelerated further.

February survey data, compiled by Markit for HSBC, signalled a solid improvement in business conditions in the South Korean manufacturing sector. The overall rate of expansion was broadly unchanged from that indicated in January, as a faster increase in output was offset by new order growth easing slightly. A mild rise in backlogs indicated that operating capacity was constrained to a degree, with staffing levels subsequently increasing again. Meanwhile, input prices rose at the fastest rate in two years as inflationary pressures intensified.

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 53.4 in February, little changed from January's 53.5. The latest reading signalled a strengthening of business conditions in the South Korean manufacturing sector that was greater than the long-run series average.

A marked rise in incoming new business received was reported during February, although the latest expansion slowed slightly to the weakest since November 2010. In contrast, growth of new orders received from overseas markets accelerated to a nine-month high. Nonetheless, the rise in overall new business was stronger than the historical average for the series and supported

a further rise in output.

February data signalled a slight increase in backlogs of work at manufacturing companies in South Korea. This indicated that a degree of pressure on operating capacity persisted. However, growth was weaker than in the previous survey period and below the long-run trend.

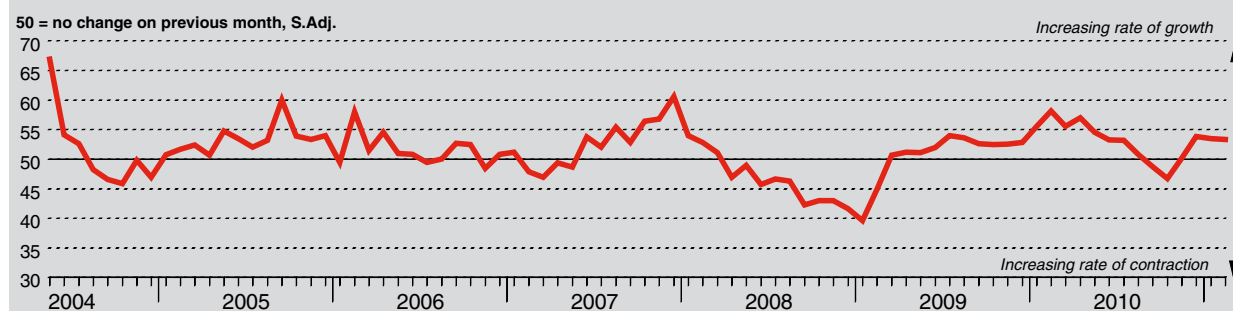
Stocks of finished goods fell solidly in February, as existing inventories were utilised in order to partially fulfil new order requirements.

Reflective of sustained growth of both new orders and output, employment in the South Korean manufacturing sector rose during February. The rate of job creation was solid, but eased since January.

Purchasing activity increased for a fourth successive month in February, as manufacturers aimed to accommodate higher production requirements. Some panellists also noted that they had increased purchasing volumes, as they expect input costs to rise further over the coming months. Subsequently, suppliers' lead times lengthened again, as higher input buying and shortages of materials led to delivery delays.

Input cost inflation intensified during February, driven by further rises in raw material prices. The extent to which input costs increased was the fastest since February 2009, and notably strong in the context of historical data. Despite this, the rate at which output prices rose was broadly unchanged in the month, with competition for new business preventing a larger increase.

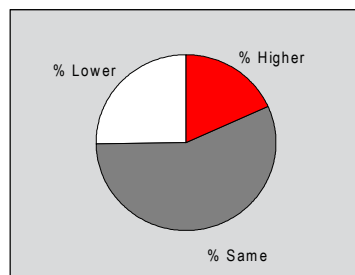
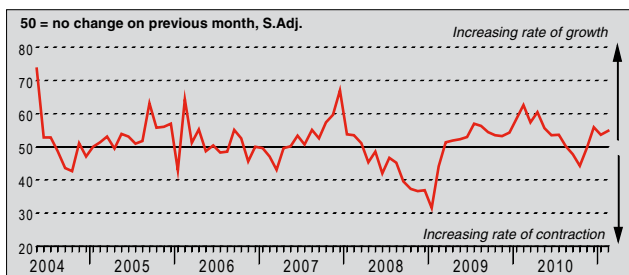
HSBC South Korea Purchasing Managers' Index (PMI™)



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

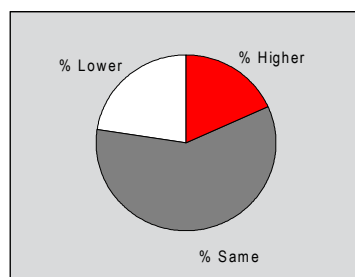
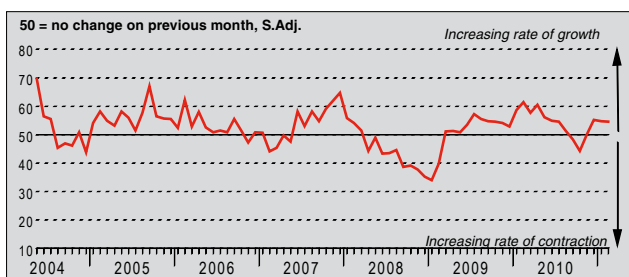
Q. Please compare your production/output this month with the situation one month ago.



After allowing for seasonal factors, output in the South Korean manufacturing sector increased markedly in February. Moreover, the rate of growth accelerated since January to the second-strongest since May 2010, and was also above the long-run average for the series. Panellists reporting a rise in production attributed this to a further expansion of incoming new business. Output growth has now been recorded for three successive months.

## New Orders Index

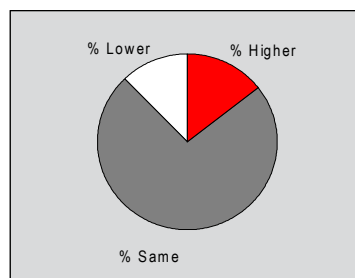
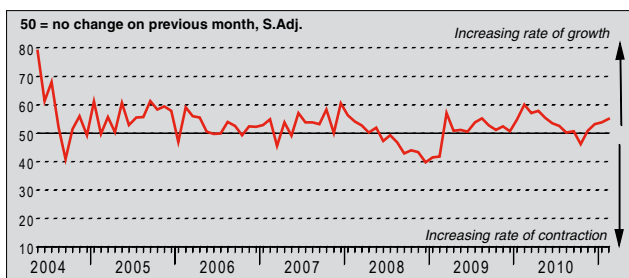
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



The seasonally adjusted New Orders Index posted above to 50.0 no-change threshold in February, signalling a rise in incoming new business received by manufacturers in South Korea. Panellists commented that a general improvement in economic conditions had helped to lift demand. The latest expansion in new business volumes slowed slightly during the month, but the pace was broadly in line with the average recorded over 2010.

## New Export Orders Index

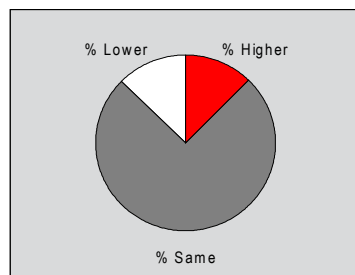
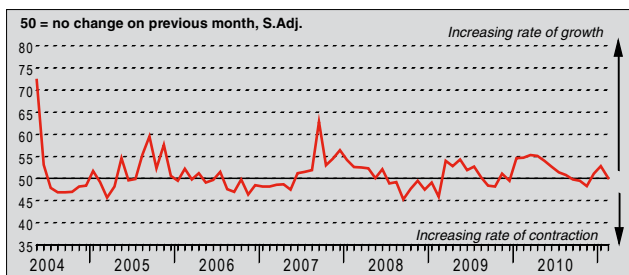
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturers in South Korea reported a marked rise in new orders received from overseas markets during February, extending the sequence of sustained growth to four months. Anecdotal evidence suggested that ongoing improvements in global economic conditions had led to the latest expansion in new export business. The rate at which new export orders increased accelerated to the strongest in nine months, and was above the historical average for the series.

## Backlogs of Work Index

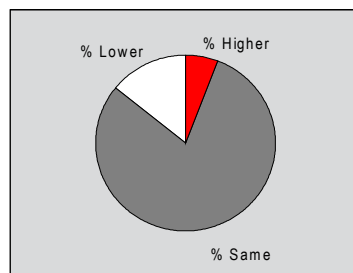
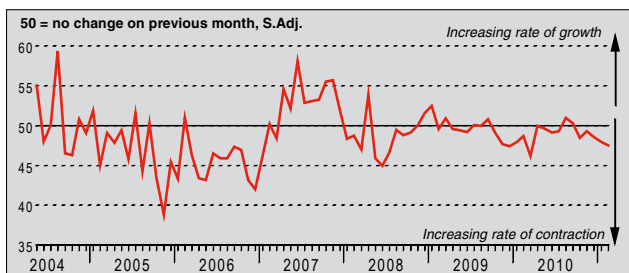
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturing companies in South Korea increased in February. Panellists reporting a rise in outstanding business attributed this to higher new order volumes and workloads. Although the extent to which backlogs accumulated was marginal, work-in-hand has now increased in each of the last three months - indicating that a degree of pressure on operating capacity persisted.

### Stocks of Finished Goods Index

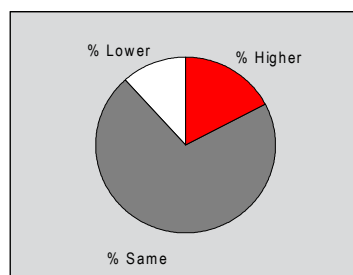
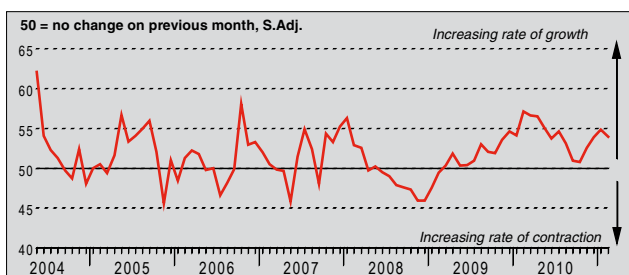
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



February data signalled a modest reduction in stocks of finished goods held at manufacturers in South Korea. Approximately 14% of panellists indicated that post-production inventories were lower than in the previous month, commenting that existing stocks had been utilised in order to partially fulfil new order requirements. The latest decrease in finished goods stocks was the strongest in the current five-month sequence of decline.

### Employment Index

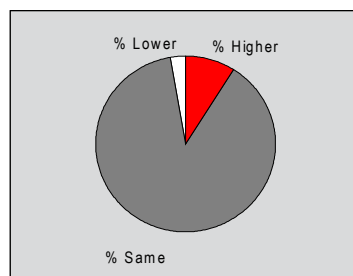
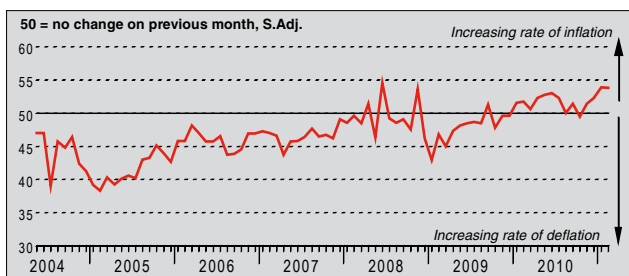
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the South Korean manufacturing sector increased solidly during February, with growth now recorded in each of the last twenty-four months. Anecdotal evidence suggested that sustained growth of both incoming new business and output had led to the rise in staffing levels, with some companies indicating that they expect new orders to increase further over the coming months. The rate of job creation was slightly weaker than in the previous survey period, but remained above the long-run trend for the series.

### Output Prices Index

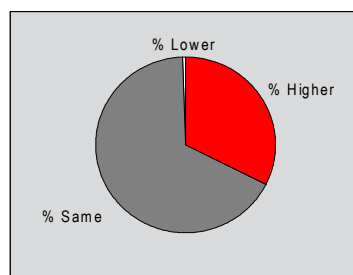
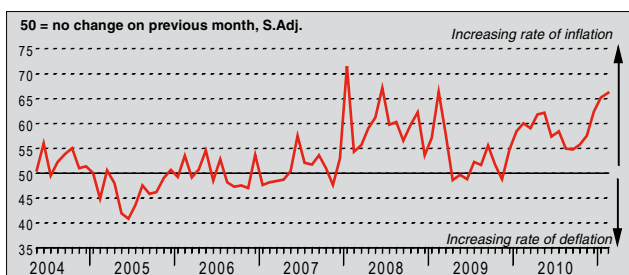
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Manufacturers in South Korea increased their output prices in February for a fourth successive month. Panellists commented that a further rise in input costs had led them to increase their charges. The rate of output price inflation was broadly unchanged since January (a thirty-one month high), and markedly above the long-run series average (which indicates a reduction in charges).

### Input Prices Index

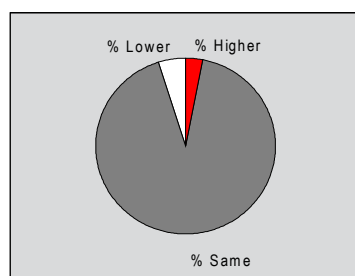
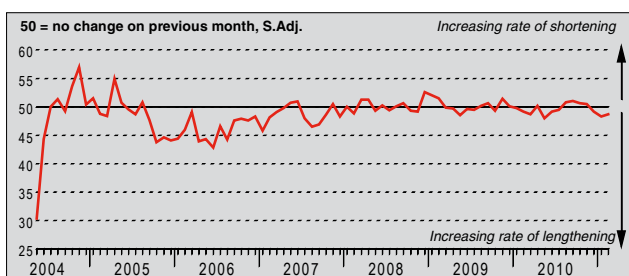
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input costs faced by manufacturers in South Korea increased substantially in February, with cost inflation now recorded for fifteen consecutive months. Moreover, with approximately 32% of panellists recording higher costs, the extent of the latest rise in input prices was the fastest since February 2009, and notably strong in the context of historical data. Respondents attributed February's increase in costs to a further rise in raw material prices.

## Suppliers' Delivery Times Index

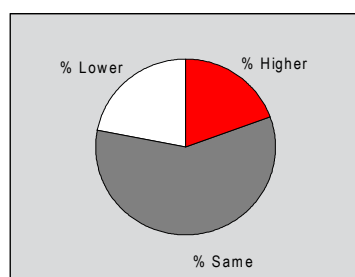
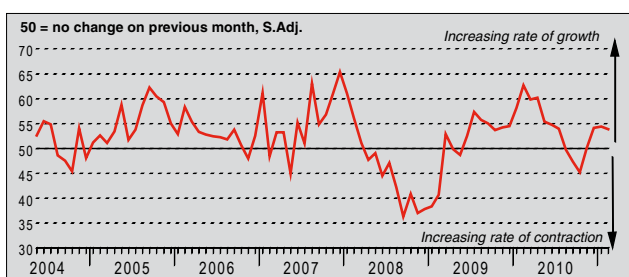
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



South Korean manufacturers reported a modest lengthening of suppliers' delivery times during February. An overall deterioration of vendor performance has now been indicated in each of the last three months, with increased purchasing activity and shortages of materials at suppliers reportedly contributing to the latest delays. However, the extent to which lead times lengthened was slightly weaker than in January, and in line with the historical average. This reflected a slower rise in input buying.

## Quantity of Purchases Index

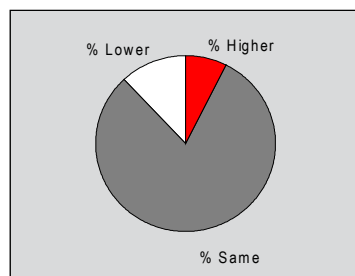
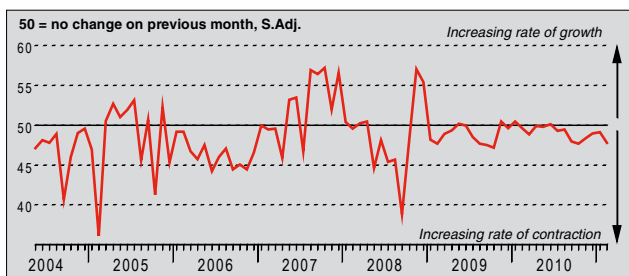
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at manufacturing companies in South Korea increased solidly during February, reflecting sustained growth of both new orders and output requirements. Some panellists also noted that they expect input costs to rise further, and therefore increased their purchasing volumes in anticipation of this. However, the latest rise in input buying was slightly weaker than that indicated in January. Nevertheless, purchasing activity has increased for four months running, with the latest rise above the long-run series average.

## Stocks of Purchases Index

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



February data signalled a reduction of stocks of purchases held at manufacturers in South Korea. Exactly 12% of panellists indicated that inventories were lower compared to the previous survey period, citing stock reduction initiatives and reduced purchasing activity as the primary contributors. Pre-production inventories have now decreased for eight successive months, with the latest decline was the second-fastest in this period.

## 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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