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HSBC South Korea Manufacturing PMI™

Expansion of South Korean manufacturing sector slowest in four months in March, but remained solid.

Key findings:

- Weaker overall new order growth contributed to a slower rise in output.
- Fastest increase in new export business since May 2010.
- Inflationary pressures eased, but remained sharp.

March survey data, compiled by Markit for HSBC, signalled solid growth of the South Korean manufacturing sector. The overall rate of expansion slowed for a third successive month, but remained above the long-run trend. Despite a stronger rise in new export orders, growth of overall new work intakes slowed, leading to a weaker expansion of output. Nonetheless, backlogs continued to accumulate, helping to support a further increase in staffing levels. Meanwhile, input cost inflation eased from the two-year high recorded in February, but remained steep and drove another rise in charges.

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 52.8 in March, slightly lower than February's 53.4. Nonetheless, the latest reading signalled a solid strengthening of business conditions in the South Korean manufacturing sector, with the extent of the improvement above the long-run trend.

South Korean manufacturers reported a rise in new work intakes during March. This was the fifth successive month where overall new business increased, although the latest expansion was the weakest since November 2010. In contrast, the rate of new export order growth accelerated to the fastest in ten months.

Reflective of the weaker rise in overall new business, output

increased at a slower rate than in the previous survey period. Nonetheless, backlogs of work at manufacturers in South Korea accumulated for a fourth consecutive month. Whilst the extent of the rise in outstanding business was only marginal, it indicated that a degree of pressure on operating capacity persisted.

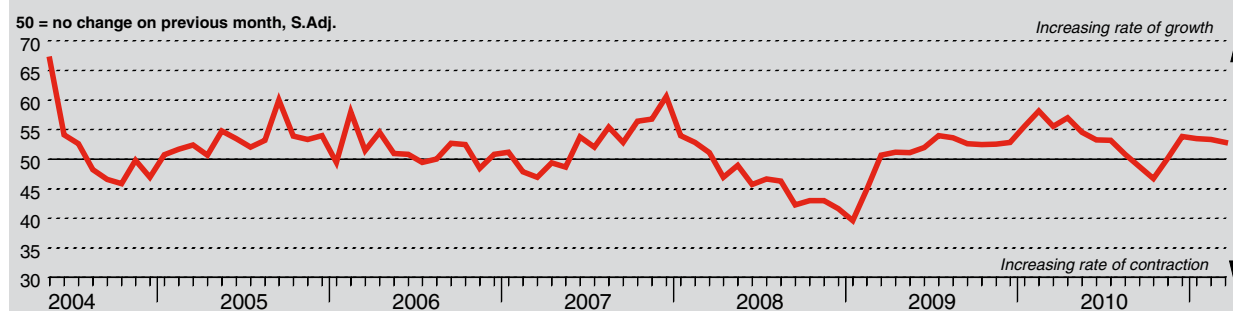
Stocks of finished goods decreased during March, with panellists commenting that existing inventories had been utilised in order to fulfil new order obligations.

The sustained growth of both new orders and output supported a further increase of employment in the South Korean manufacturing sector. The rate of job creation slowed marginally, but the current sequence of expansion of staffing levels now stretches to more than two years.

March data signalled a marked rise in purchasing activity at manufacturers in South Korea. Moreover, the extent of the increase in input buying accelerated to the strongest since May 2010. Anecdotal evidence suggested that purchase volumes rose due to an increase in output requirements, but also as companies aimed to boost stock levels. Despite the rise in input buying, suppliers' delivery times were reported to have shortened slightly on average in the latest survey period.

Input costs faced by South Korean manufacturers increased substantially during March, driven by a further rise in raw material prices. Whilst the rate of input cost inflation slowed to a four-month low, it remained steep in the context of historical data and supported a solid increase in output prices.

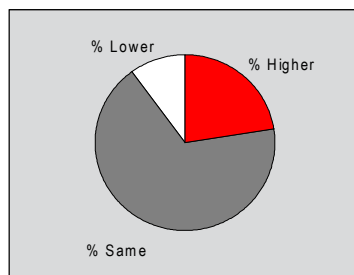
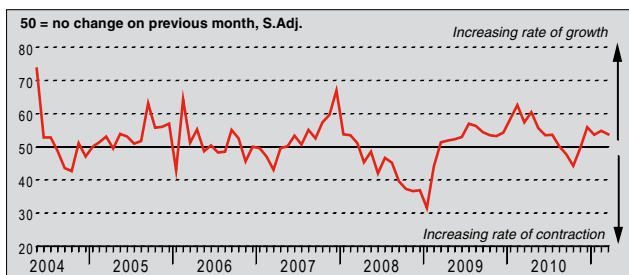
HSBC South Korea Purchasing Managers' Index (PMI™)



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

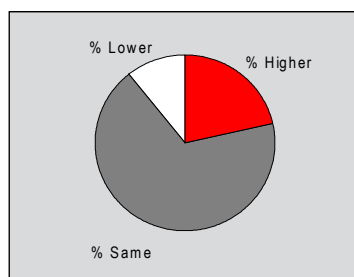
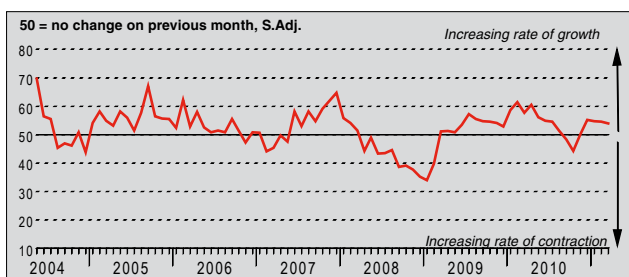
Q. Please compare your production/output this month with the situation one month ago.



March data signalled a solid rise in output in the South Korean manufacturing sector, extending the sequence of sustained growth to four months. Approximately 23% of panellists indicated that production at their factories was higher than in the previous month, attributing this to a further increase in incoming new business. The rate of output growth slowed marginally since February, but remained strong in the context of historical data.

New Orders Index

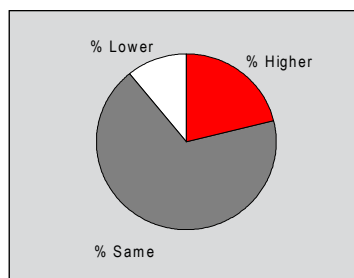
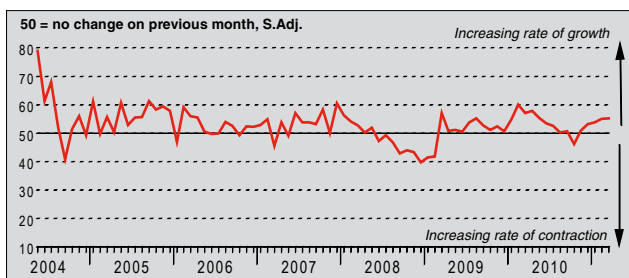
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



South Korean manufacturers reported a solid rise in incoming new business received during March. Anecdotal evidence suggested that there had been a general improvement in client demand as economic conditions continued to strengthen, alongside some reports of new products being launched. The rate of new business expansion slowed to the weakest since December 2010, but remained above the long-run series average. New orders have now increased for five successive months.

New Export Orders Index

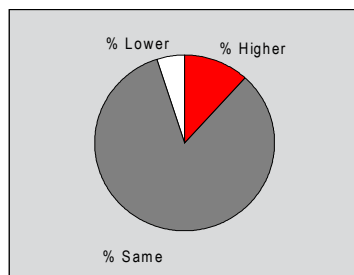
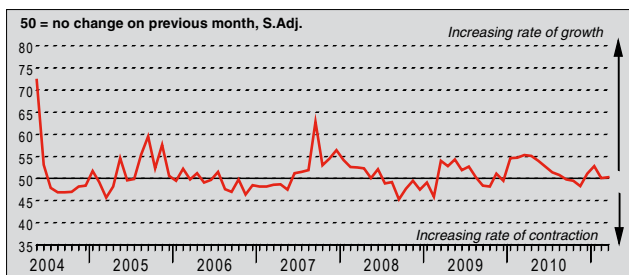
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by manufacturers in South Korea increased markedly in March. Moreover, the rate of expansion accelerated to the fastest since May 2010. Approximately 21% of panellists indicated that new business received from export markets was higher than in the previous survey period, attributing this to a general improvement in demand. Some companies also noted that they had won new clients during the month. New export orders have now increased in each of the last five months.

Backlogs of Work Index

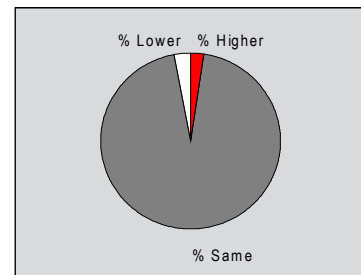
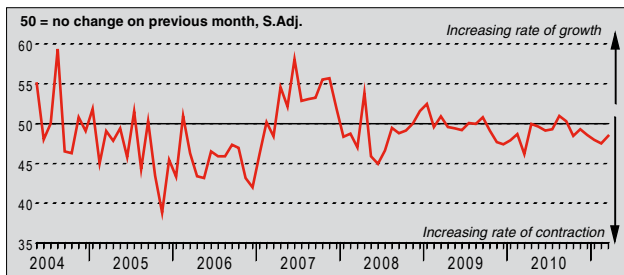
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



South Korean manufacturers reported an increase in backlogs of work at their units in March. Anecdotal evidence suggested that sustained growth of new orders had put pressure on production capacity, leading to the increase in backlogs. This was the fourth successive month where outstanding business had increased, although the latest accumulation was only slight and broadly in line with that recorded in February.

Stocks of Finished Goods Index

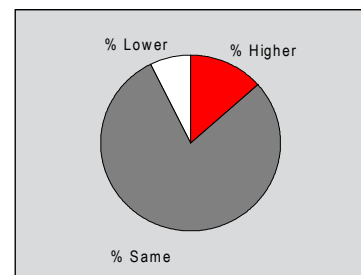
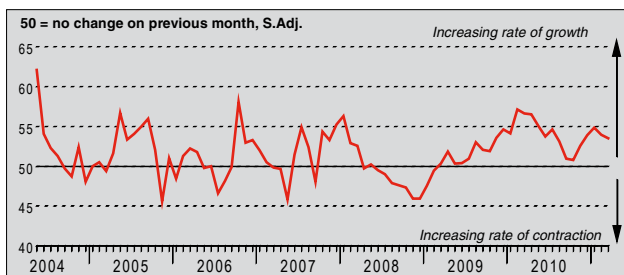
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods held at manufacturers in South Korea decreased in March. This was the sixth consecutive month where post-production inventories fell, although the rate of depletion was weaker than that indicated in February. Where a reduction in finished goods stocks was indicated, panellists commented that existing inventories had been utilised in order to partially fulfil new order obligations. However, in line with the mild rate of decline, the majority of respondents (approximately 95%) noted that post-production inventories were unchanged since February.

Employment Index

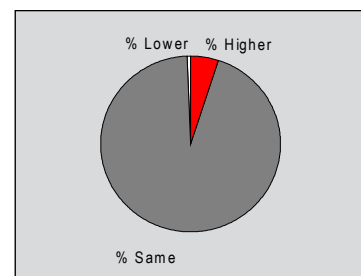
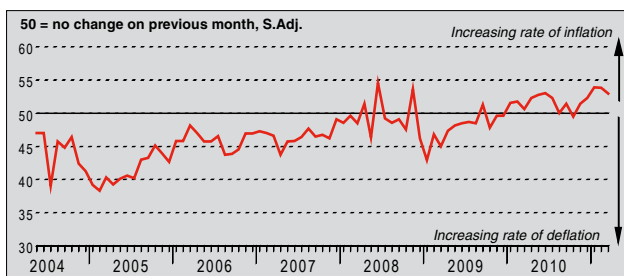
Q. Please compare the level of employment at your unit with the situation one month ago.



March data signalled a solid rise of employment in the South Korean manufacturing sector, extending the sequence of sustained growth to twenty-five months. Approximately 13% of panellists indicated that staffing levels at their factories had increased, citing sustained expansion of new orders and output as the main contributors to this. Whilst the rate of job creation slowed for a second successive month, it remained greater than the long-run trend.

Output Prices Index

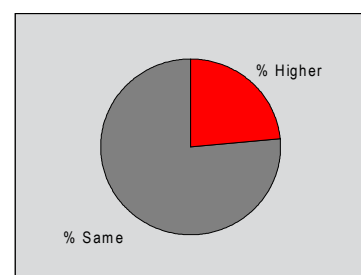
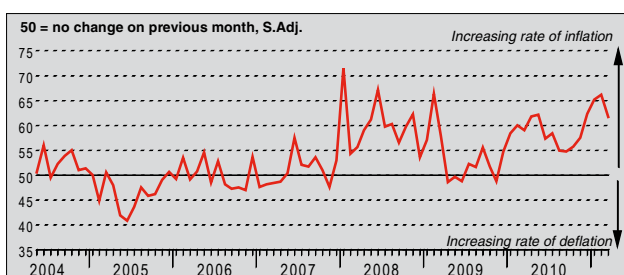
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



South Korean manufacturers reported a solid rise in output prices during March. Panellists commented that a further increase in input costs had led them to increase charges. Whilst the rate of output price inflation slowed since February, it remained notably sharp in the context of historical data. Charges have now increased for five months running.

Input Prices Index

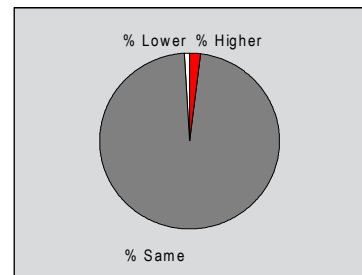
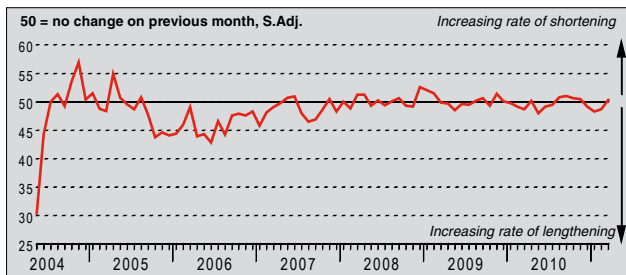
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in South Korea increased substantially during March. Approximately 24% of panellists indicated that costs were higher than in the previous survey period, attributing this to a rise in raw material prices. However, the rate of input price inflation slowed from February's two-year high to the slowest in four months. Nonetheless, the latest increase in costs remained notably stronger than the long-run series average.

Suppliers' Delivery Times Index

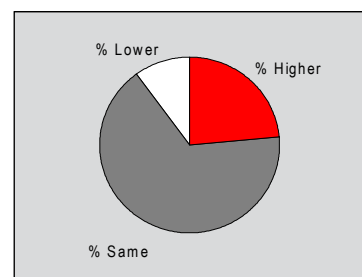
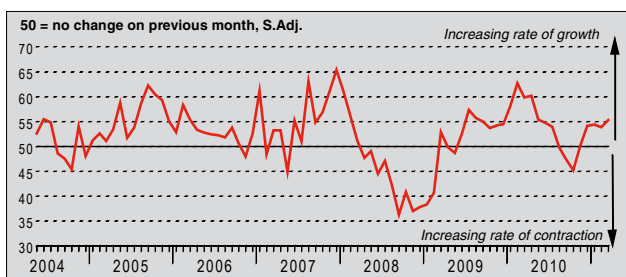
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in South Korea reported a slight shortening of suppliers' delivery times during March, despite a further rise in purchasing activity. This followed a three-month period where vendor performance had deteriorated. Panellists commented that the improvement in lead times reflected the fulfilment of requests for faster deliveries. However, in line with the slight improvement in lead times, the vast majority of respondents (97%) indicated that vendor performance was unchanged.

Quantity of Purchases Index

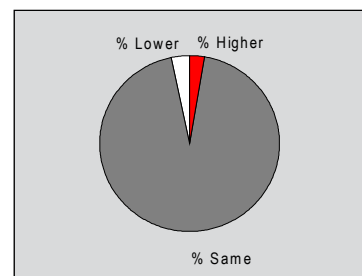
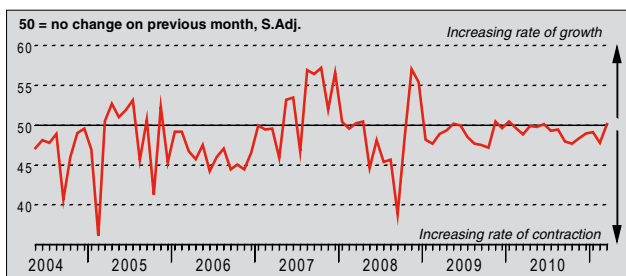
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at manufacturers in South Korea increased markedly during March. The extent to which input buying rose accelerated to the fastest since May 2010, and was strong in the context of historical data. Panellists reporting a rise in purchase volumes predominately cited increased orders and output requirements as the main contributors. However, some companies also noted that they were aiming to boost stock levels. Input buying has now risen in each of the last five months.

Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index posted fractionally above the 50.0 no-change level in March, indicating a slight increase in pre-production inventories held at manufacturers in South Korea. Anecdotal evidence suggested that the rise in purchase stocks reflected higher purchase volumes and initiatives to boost inventories. Whilst the increase in stocks was only slight, it was the first rise since June 2010.

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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