

Embargoed until: 09:00 (SEOUL), 1 June 2011

HSBC South Korea Manufacturing PMI®

South Korean manufacturing PMI signalled loss of growth momentum in May.

Key findings:

- Weaker growth of both new orders and output in May.
- Employment increased for twenty-seventh successive month, albeit at slower rate.
- Output prices rose at weakest rate in current sequence of inflation.

May survey data, compiled by Markit for HSBC, signalled a seventh successive monthly improvement in business conditions in the South Korean manufacturing sector. However, the latest growth was the second-slowest in this sequence, due to weaker rises in new orders and output. Nonetheless, the overall expansion supported a further increase in staffing levels. Furthermore, production capacity remained under pressure, as indicated by a rise in backlogs of work. Meanwhile, input costs continued to increase at a marked rate. Despite this, output price inflation slowed, reflective of 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 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 Manufacturing PMI posted 51.2 in May, indicating a modest strengthening of business conditions in the South Korean manufacturing sector that was the seventh in consecutive months. However, the latest reading was down from April's 51.7 to a six-month low, and was below the long-run series average.

Manufacturers in South Korea reported a modest rise in incoming new business during May. However, the slowdown in the rate of growth continued, with the latest expansion the weakest since

November 2010. The increase in new export business also eased since April, and was below the historical average for that series.

Subsequently, output growth slowed for a third successive month. However, a rise in backlogs of work suggested that the latest increase in production was not sufficient to meet the expansion in new orders. Stocks of finished goods were depleted for the eighth month running, as companies utilised existing inventories in order to help fulfil new order requirements.

May data signalled a twenty-seventh consecutive monthly rise in employment in the South Korea manufacturing sector. Further growth of new orders and output were cited as the main drivers of the increase in staffing levels. Whilst the rate of job creation eased since April, it remained above the long-run trend.

South Korean manufacturers reported a marginal reduction in purchasing activity during May. This was attributed to the slowdown in the expansion of output. Despite this, delivery times were indicated to have lengthened. That said, the vast majority of panellists noted that there was no change in lead times compared to the previous month.

Input costs faced by manufacturers in South Korea rose markedly in May, with the rate of inflation consistent with that recorded in April. Higher raw material prices remained the main driver of the rise in costs. In contrast, output prices were increased only slightly, and at the weakest pace in the current seven-month period of inflation. Panellists commented that competition for new business had prevented a sharper rise in charges.

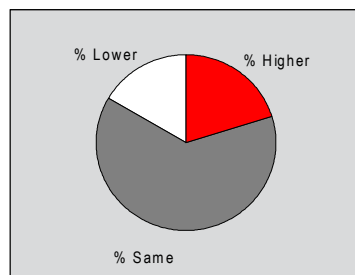
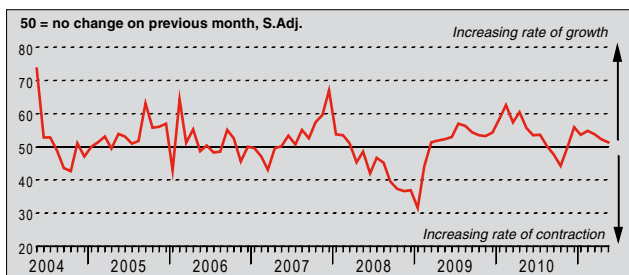
HSBC South Korea *Purchasing Managers' Index™ (PMI®)*



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. *Purchasing Managers' Index™* and *PMI®* are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

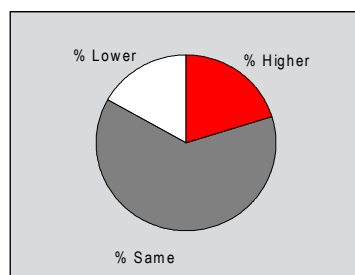
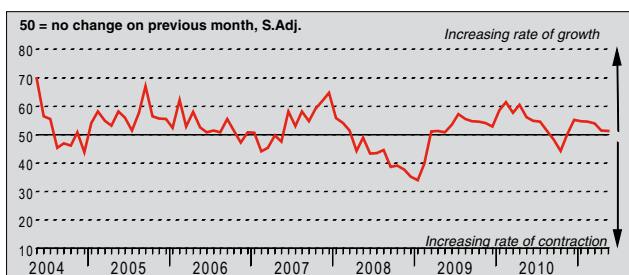
Q. Please compare your production/output this month with the situation one month ago.



Output in the South Korean manufacturing sector increased modestly during May, extending the sequence of sustained growth to six months. Approximately 20% of panellists noted a rise in production, attributing this to a further increase in incoming new business. However, the rate of expansion slowed for the third successive month to the weakest in the current sequence of rising output, and was in line with the historical average.

New Orders Index

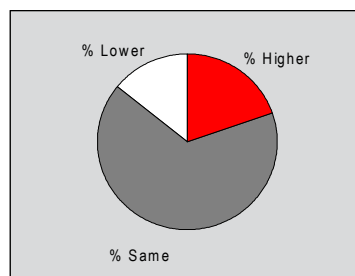
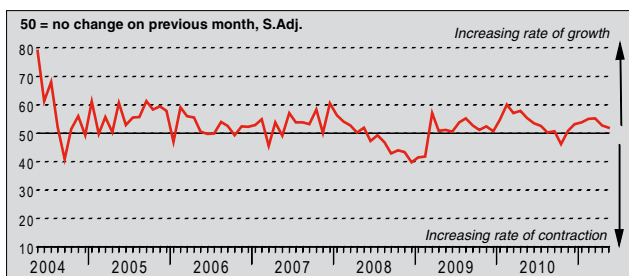
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



May data signalled a modest rise in new orders received by manufacturers in South Korea, with growth now recorded for seven successive months. Anecdotal evidence suggested that ongoing improvements in global economic conditions had helped to boost demand. However, the extent of the improvement was weaker than in previous months, with the index posting its lowest reading since last November.

New Export Orders Index

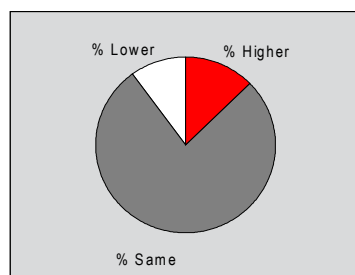
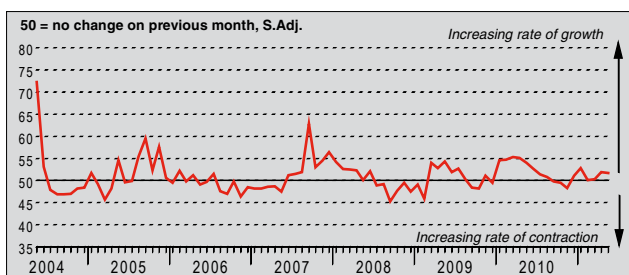
Q. Please compare the level of new export orders received this month with the situation of one month ago.



South Korean manufacturers reported a modest rise in new business received from export markets during May. Approximately 20% of respondents noted that they had received higher levels of new export orders compared to the previous survey period, commenting that this reflected growth of the global economy. However, the rate of expansion slowed for the second successive month and was weaker than the long-run trend. Nonetheless, new export business has now increased in each month since November 2010.

Backlogs of Work Index

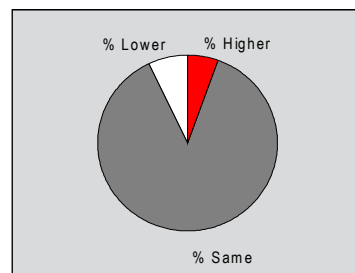
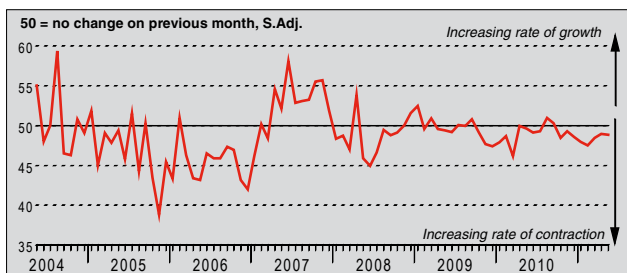
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at factories in South Korea increased for the sixth successive month in May, indicating that a degree of pressure on production capacity persisted. The rate of accumulation eased slightly since May, but remained above the historical average. Panellists commented that a further rise in new business had led to the latest increase in outstanding business.

Stocks of Finished Goods Index

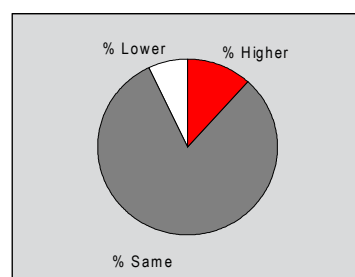
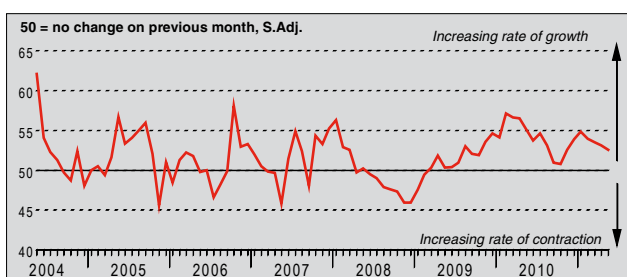
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Manufacturers in South Korea reported a reduction in stocks of finished goods during May, commenting that existing inventories were utilised in order to help fulfil order requirements. This was the eighth successive month where post-production inventories were depleted. Nonetheless, the rate of decline was marginal, with the majority of respondents (approximately 87%) indicating that stocks of purchases were unchanged from the previous survey period.

Employment Index

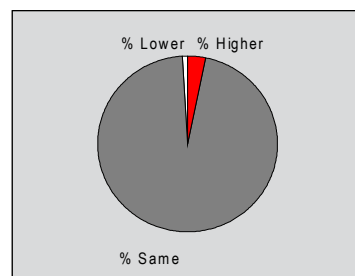
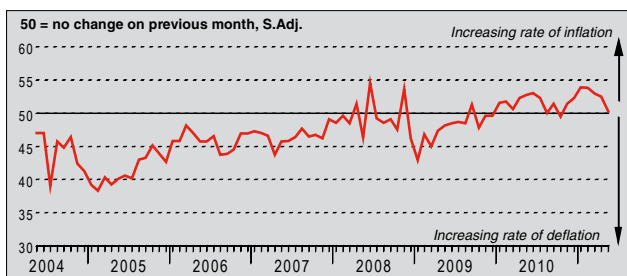
Q. Please compare the level of employment at your unit with the situation one month ago.



May data signalled a solid rise in employment in the South Korean manufacturing sector. Anecdotal evidence cited further growth of both new orders and output as the main drivers of the increase in staffing levels. However, some companies also noted that they anticipate a further expansion of production requirements over the coming months. The rate of job creation slowed for the fourth consecutive month to the weakest since November 2010, but remained above the long-run trend. Employment has now increased for twenty-seven straight months.

Output Prices Index

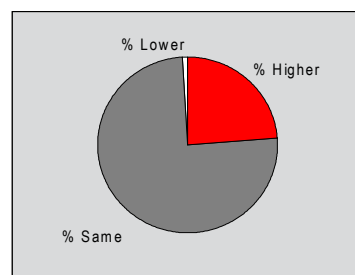
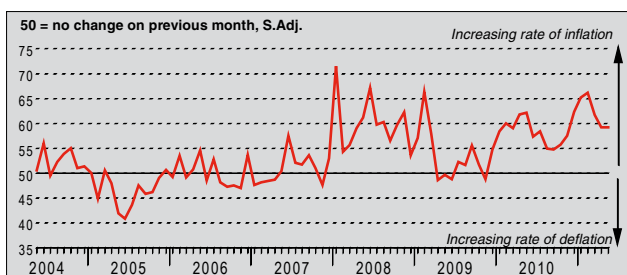
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted slightly above the 50.0 no-change threshold in May, signalling a marginal rise in manufacturers' charges. However, the latest increase in output prices was the weakest in the current seven-month sequence of inflation, with panellists commenting that competition for new business had prevented a sharper rise in charges. Highlighting this, the vast majority of respondents (96%) indicated that output prices were unchanged since April.

Input Prices Index

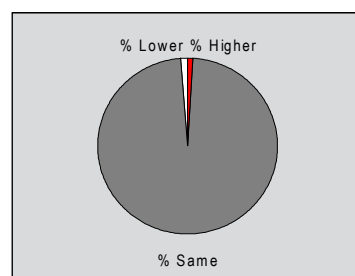
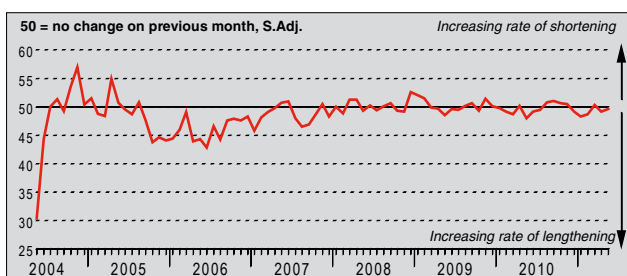
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in South Korea increased during May. Approximately 24% of panellists indicated that costs were higher than in the previous month, commenting that this reflected a further rise in raw material prices. Whilst the rate of input price inflation was unchanged since April (which was the weakest since November 2010), it was marked and remained strong in the context of historical data. Input costs have now risen for eighteen successive months.

Suppliers' Delivery Times Index

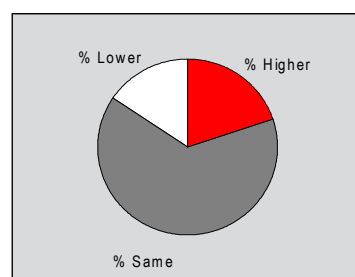
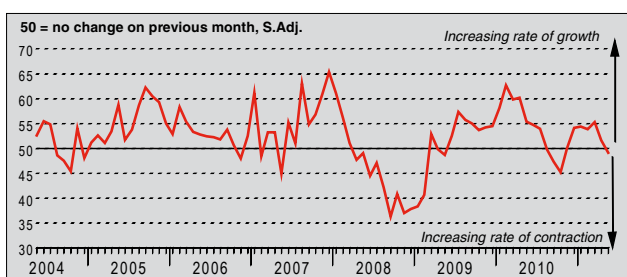
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Manufacturers in South Korea reported a lengthening of suppliers' delivery times during May. However, the overall deterioration in vendor performance was only slight, with the vast majority of panellists (approximately 98%) indicating that lead times were unchanged since April. Furthermore, the extent to which delivery times lengthened was weaker than the long-run series average.

Quantity of Purchases Index

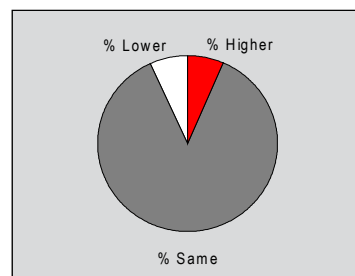
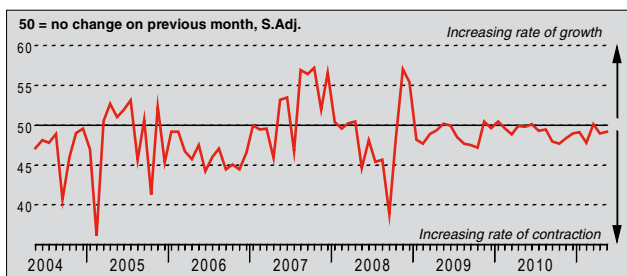
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index posted below the 50.0 no-change threshold in May, signalling a reduction in input buying at South Korean manufacturers. This ended a six-month period where purchasing activity had increased. Anecdotal evidence suggested that the slowdown in new order growth had primarily contributed to the fall in input buying. However, some panellists commented that they were also implementing initiatives to control stock.

Stocks of Purchases Index

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



Stocks of purchases held by manufacturers in South Korea fell for the second consecutive month in May. Panellists commented that existing inventories were utilised in order to help fulfil output requirements. However, the extent to which stocks of purchases fell was marginal and weaker than the historical average for the series.

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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