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

HSBC South Korea Manufacturing PMI®

Growth of South Korean manufacturing output sustained for seventh successive month.

Key findings:

- New business expansion strengthened slightly, supporting further increase in production.
- Employment rose at slowest pace since October 2010.
- Input price inflation eased.

June survey data, compiled by Markit for HSBC, signalled a marginal improvement in business conditions in the South Korean manufacturing sector. The rate of growth was broadly unchanged from that recorded in May. New orders increased again, leading to an expansion of output. Nonetheless, backlogs of work continued to accumulate, indicating that a degree of pressure on operating capacity persisted. Despite this, the rate of job creation was the weakest in eight months. Meanwhile, input cost inflation slowed during the month. Output prices increased at a slightly faster pace than in May, but the rate of inflation remained marginal.

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 51.1 in June, indicating a mild strengthening of business conditions in the South Korean manufacturing sector. Growth has been sustained since November 2010. The latest expansion was broadly unchanged since May, and below the long-run series average.

A modest rise in incoming new business was reported by South Korean manufacturers in June. This extended the current period of expansion to eight months. While the rate of new order growth was slightly faster than that recorded in May, it was slower than the solid increases indicated in the first quarter. The rise in new export business slowed for the third straight month to the weakest in the current sequence of expansion.

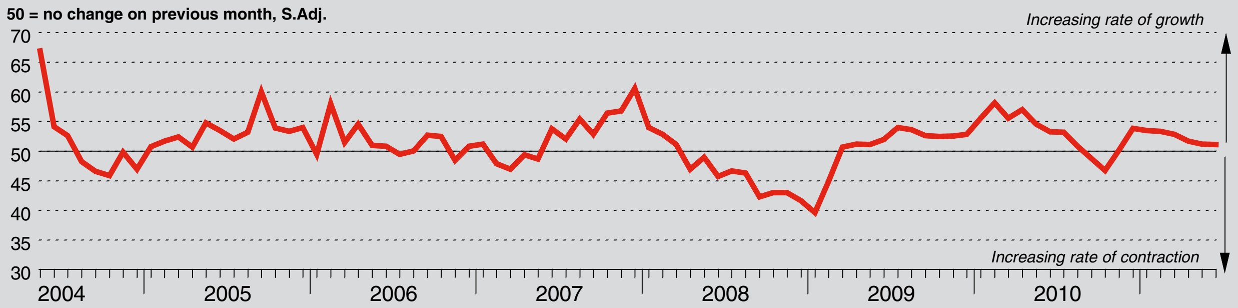
Production continued to increase in June. The latest rise was not sufficient to prevent a further accumulation of outstanding business, but June's increase in backlogs was weaker than that seen in May. Stocks of finished goods were depleted for the ninth month running, with panellists commenting that existing inventories were utilised in order to partially fulfil new order obligations.

June data signalled a further rise in employment in the South Korean manufacturing sector, supported by sustained growth of both new orders and output. However, the rate of job creation was the weakest since October 2010.

South Korean manufacturers increased their purchasing activity in June. This predominately reflected higher output requirements and, to a lesser extent, expectations of further rises in costs. Despite this, stocks of purchases continued to fall, as inventories were utilised in order to help fulfil production requirements. Delivery times were reported to have shortened, as vendors increased their operating capacity.

Input costs rose for the nineteenth successive month in June, as raw materials prices continued to increase. However, the rate of cost inflation slowed to the weakest since September 2010. Charges rose at a slightly faster rate than indicated in May, but the pace remained slower than that recorded at the start of 2011.

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

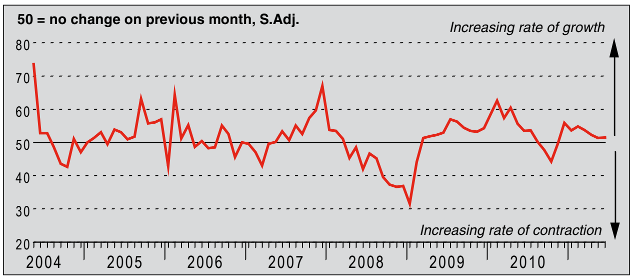


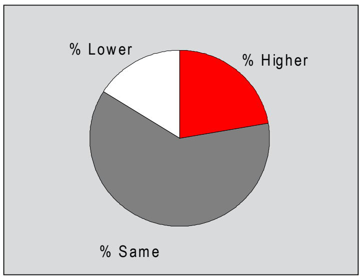
The HSBC South Korea *Purchasing Managers' Index*™ *(PMI®)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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.

The world's local bank

Output Index

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

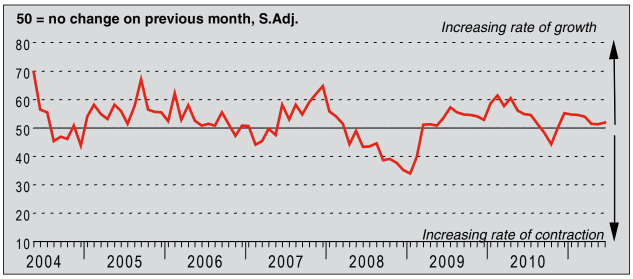


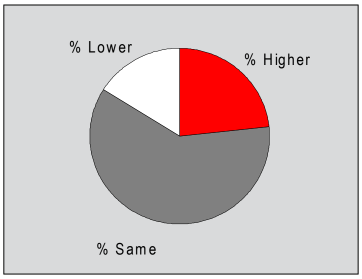


June data signalled a modest rise in output in the South Korean manufacturing sector, extending the sequence of sustained growth to seven months. The rate of growth was broadly unchanged from that reported in May and in line with the long-run series average, with approximately 22% of panellists noting an increase in production. Anecdotal evidence suggested that a further rise in new business supported the latest expansion in output.

New Orders Index

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

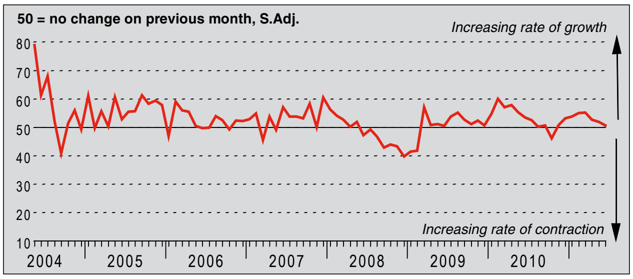


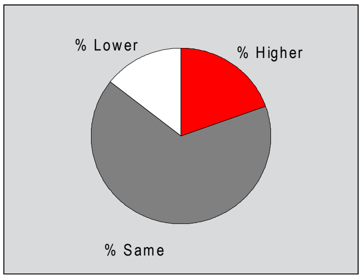


New orders received by manufacturers in South Korea increased modestly during June. The rate of expansion was the fastest in three months, but remained below the long-run trend. Where a rise in new business was indicated, this was attributed to a general improvement in demand – particularly domestically – as economic conditions continue to recover. New order growth has now been sustained since November 2010.

New Export Orders Index

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

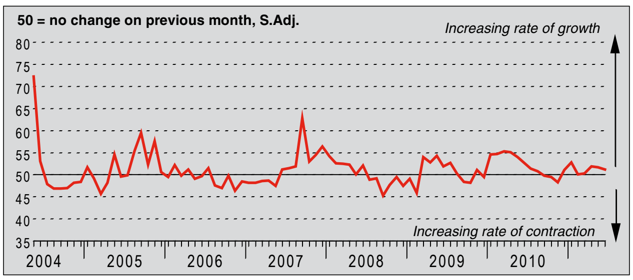


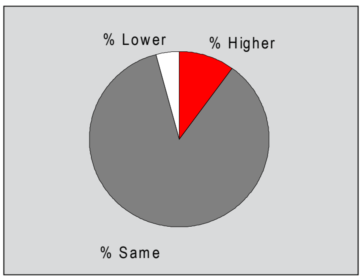


South Korean manufacturers reported a marginal rise in new export business received during June. Approximately 20% of respondents noted that new business received from overseas was higher than in the previous survey period. However, the rate of growth slowed for the third successive month to the weakest in the current period of expansion (which started in November 2010). Anecdotal evidence suggested that worsening economic conditions in some export countries had acted to dampen demand.

Backlogs of Work Index

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

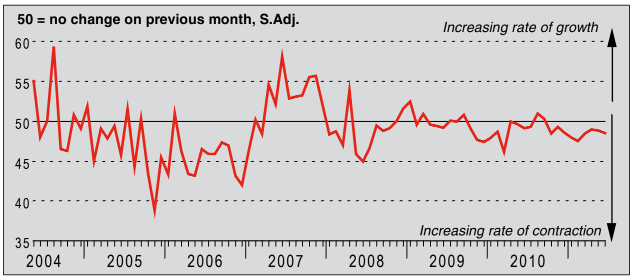


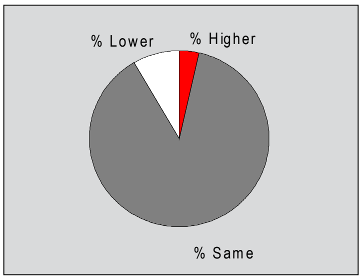


Backlogs of work at factories in South Korea increased modestly during June. Panellists cited further growth of new business as the main contributor to the accumulation of work-in-hand. The rate at which backlogs rose slowed for the second month running, and was in line with the historical average for the series. Outstanding business has now increased for seven successive months.

Stocks of Finished Goods Index

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

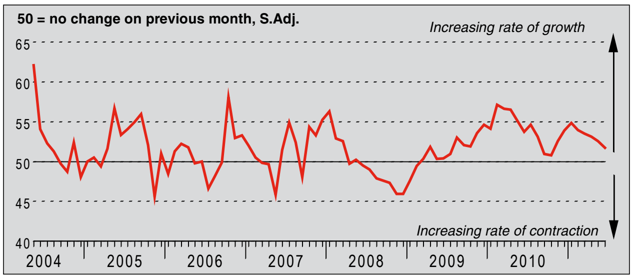


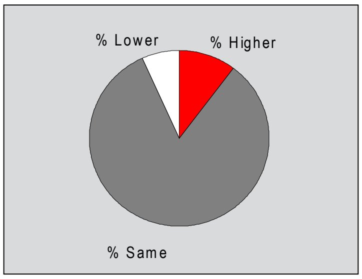


June data signalled a further decline in stocks of finished goods held at manufacturers in South Korea. Moreover, the rate of depletion was the fastest in three months and sharper than the long-run trend. Panellists reporting a reduction in post-production inventories commented that this reflected the utilisation of existing stocks to help fulfil new order requirements. Stocks of finished goods have now decreased in each month since October 2010.

Employment Index

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

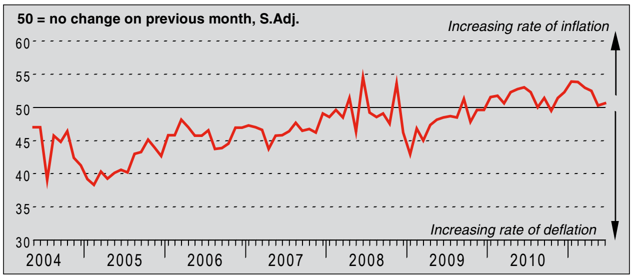




Employment in the South Korea manufacturing sector increased for the twenty-eighth successive month in June. Anecdotal evidence suggested that the rise in staffing levels reflected sustained growth of both new orders and output. However, the rate of job creation slowed for the fifth month running to the weakest since October 2010.

Output Prices Index

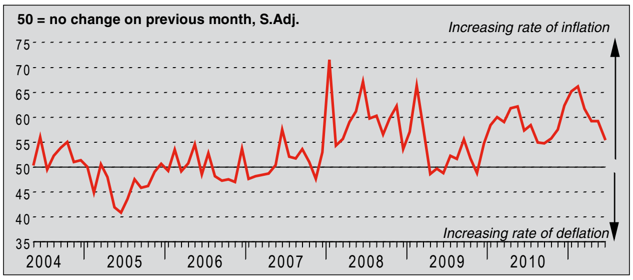
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

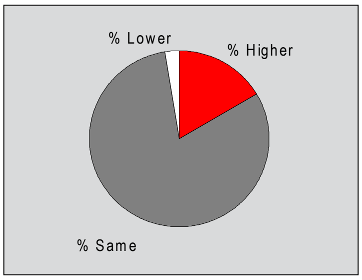


Prices charged by South Korean manufacturers increased marginally during June. The rate of output price inflation was slightly higher than that recorded in May, but was weaker than the solid rises seen in the first four months of 2011. Reflective of this, the vast majority of panellists (approximately 96%) noted that charges were unchanged over the month. Where an increase was indicated, this was attributed to a further rise in input costs.

Input Prices Index

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

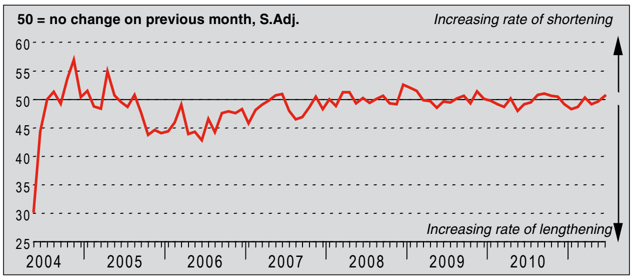




South Korean manufacturers reported a marked rise in their input costs during June. Approximately 17% of respondents noted that input prices were higher on average than in the previous survey period, citing a further increase in raw material costs as the main driver of inflation. Nonetheless, the latest rise in input prices was the weakest in nine survey periods, with the index falling for the fourth month running from the recent high recorded in February.

Suppliers' Delivery Times Index

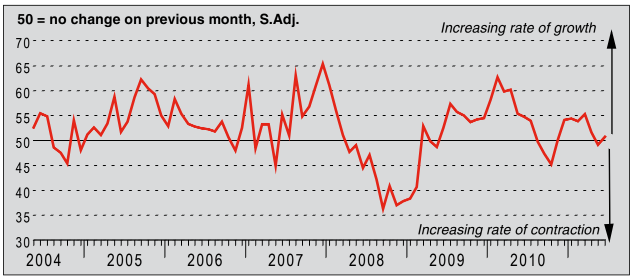
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

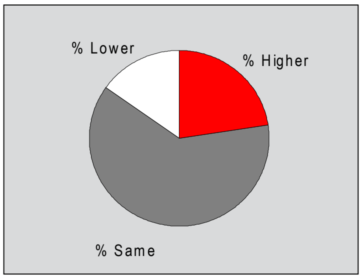


South Korean manufacturers reported a shortening of suppliers' delivery times in June, following a two-month period where vendor performance had deteriorated. Panellists commented that increased capacity at suppliers, as well as slower purchasing growth compared to the start of 2011, had led to the improvement in lead times. However, the extent to which vendor performance improved was marginal, with the vast majority of respondents (approximately 97%) indicating that delivery times were unchanged since May.

Quantity of Purchases Index

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

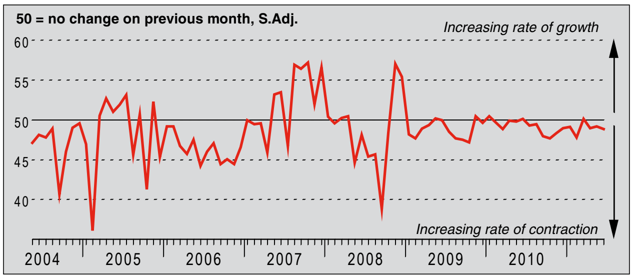


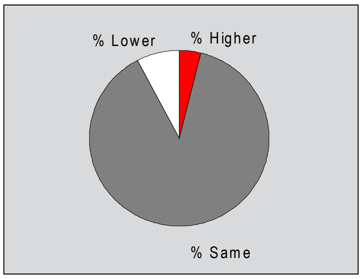


Purchasing activity at manufacturers in South Korea increased marginally during June. This was in contrast to the reduction seen in May, although higher levels of input buying have now been recorded in seven of the last eight months. Sustained growth of both new orders and output requirements were cited as the main contributors to the latest increase in purchasing activity, and to a lesser extent, further anticipated rises in input costs. Nonetheless, the rate of expansion was below the long-run series trend.

Stocks of Purchases Index

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





June data signalled a modest reduction in stocks of purchases held by manufacturers in South Korea, extending the sequence of sustained depletion to three months. Anecdotal evidence suggested that pre-production inventories were utilised in order to help fulfil production requirements. However, the extent of the decline was restricted, as other companies were looking to reinforce stocks. Subsequently, the majority of panellists (approximately 88%) indicated that their levels of pre-production inventories were unchanged since May.

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.

Warning