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## HSBC South Korea Manufacturing PMI®

July sees faster increase in South Korean manufacturing new orders

### Key findings:

- New business expansion at four-month high
- Further growth of output and employment
- Output prices fall for first time in nine months

July survey data, compiled by Markit for HSBC, signalled a further improvement of South Korean manufacturing business conditions, at a rate broadly unchanged since June. New orders expanded at the fastest rate in four months, but the pace at which output increased slowed. Subsequently, backlogs of work rose and job creation was sustained as pressure on operating capacity continued. Input cost inflation remained marked, while charges were reduced.

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 51.3 in July, with the index broadly consistent over the last three survey periods. The latest reading indicated a modest strengthening of business conditions in the South Korean manufacturing sector, but was slightly below the long-run trend (51.6). Nonetheless, overall growth has been sustained for nine successive months.

New business expansion accelerated to a four-month high in July, with growth now recorded in each month since November 2010. New export orders also increased during the month, with the latest rise also accelerating on the month. Manufacturers in South Korea noted that a general improvement in demand had

boosted overall new work intakes. Nonetheless, output growth slowed to the weakest in the current sequence of expansion.

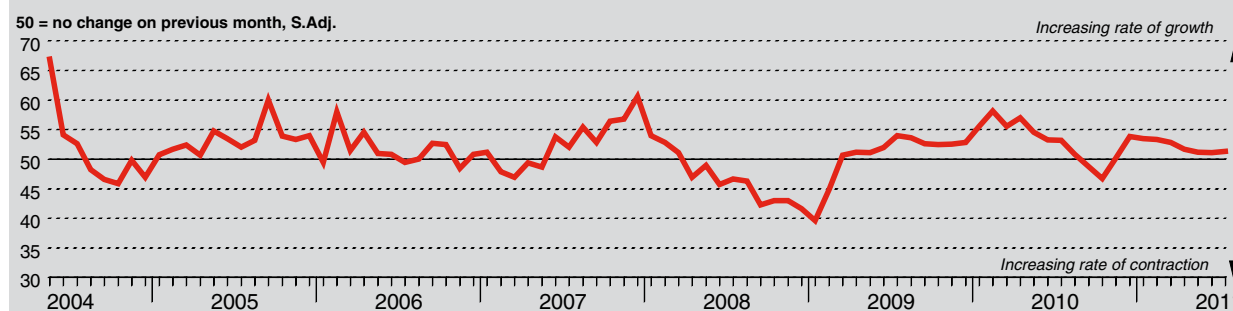
Backlogs of work at manufacturers in South Korea rose in July, signalling that pressure on production capacity persisted as new business volumes continued to increase. Furthermore, stocks of finished goods were depleted for a tenth month running, and at a rate faster than the historical trend. Panellists commented that existing inventories had been used to help fulfil order requirements.

Reflective of sustained growth of both new orders and output, employment in the South Korean manufacturing sector rose in July. Job creation has now been maintained for nearly two-and-a-half years.

Purchasing activity increased at a stronger rate than in June, mirroring the trend seen for new business. In spite of this, suppliers' delivery times shortened for a second month running. The improvement in vendor performance was, however, only marginal.

Rising raw material prices drove another increase in input costs faced by South Korean manufacturers in July. The rate of input cost inflation slowed slightly during the month, but remained marked and strong in the context of historical data. In contrast, prices charged fell for the first time in nine months. Panellists commented that strong competition for new business had led to the reduction in output prices.

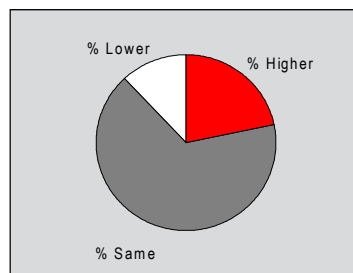
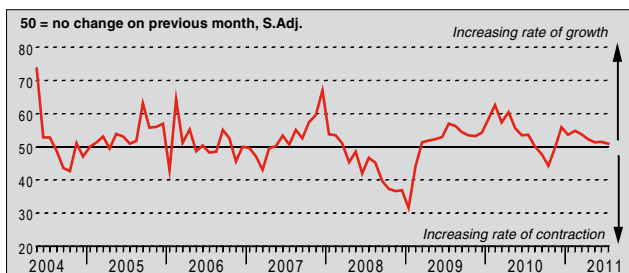
HSBC South Korea *Purchasing Managers' Index™ (PMI®)*



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. *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

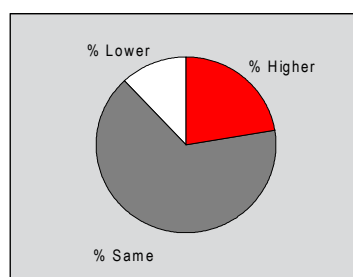
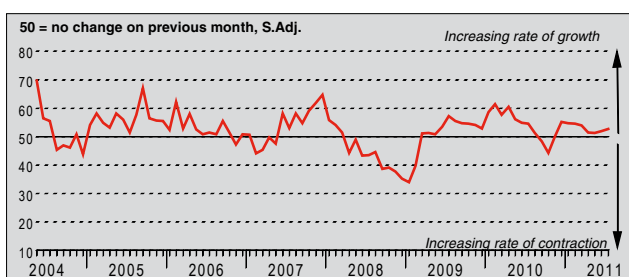
Q. Please compare your production/output this month with the situation one month ago.



July data signalled a rise in output in the South Korean manufacturing sector, extending the sequence of sustained growth to eight months. Approximately 22% of panellists noted that production was higher than in the previous survey period, attributing this to a further increase in new business. However, the rate of expansion slowed to the weakest in the current sequence of growth, and was below the long-run trend.

### New Orders Index

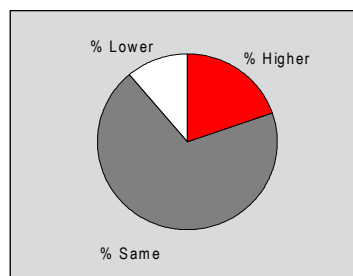
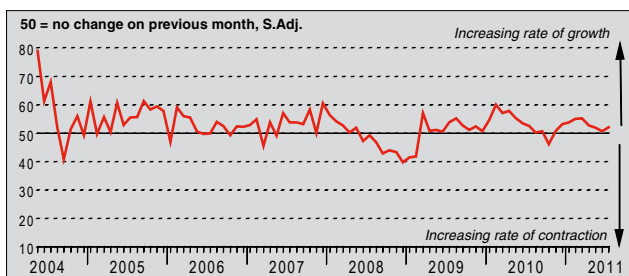
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



South Korean manufacturers reported a solid rise in incoming new business received during July. Moreover, the rate of expansion accelerated to a four-month high and was above the historical series average. Panellists noting a higher level of new orders compared to the previous survey period commented that this reflected a general improvement in demand. New work intakes have now grown in each month since November 2010.

### New Export Orders Index

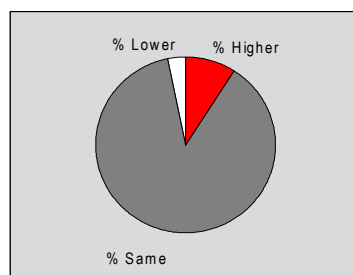
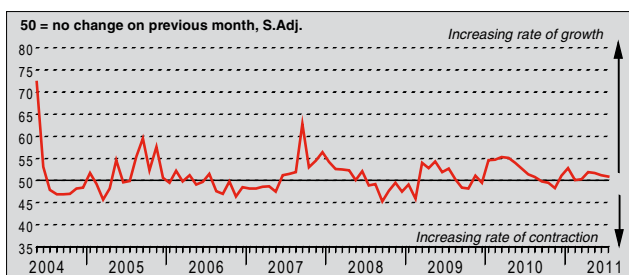
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export business received by manufacturers in South Korea increased modestly during July, with growth now recorded in each of the last nine months. Just under 20% of respondents noted a higher volume of new export orders in July, citing improved demand in export destinations. While the rate of expansion was the fastest in three months, it remained below the long-run series average.

### Backlogs of Work Index

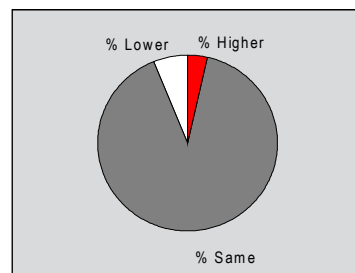
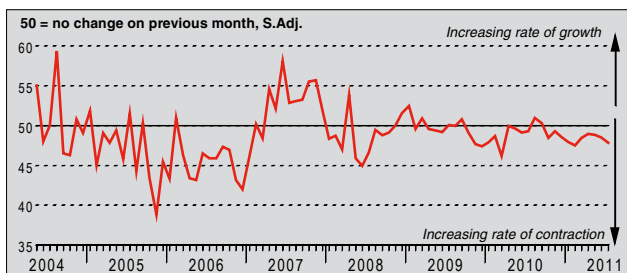
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at South Korean manufacturers increased marginally during July. Anecdotal evidence suggested that a solid rise in new work intakes had contributed to the latest accumulation in outstanding business, which was the eighth in successive months. Nonetheless, the rise in work-in-hand was the slowest since March, and slightly weaker than the historical trend.

### Stocks of Finished Goods Index

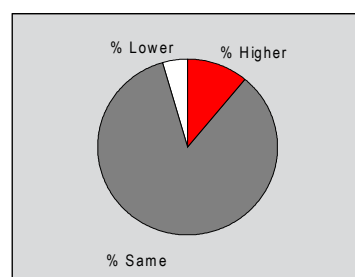
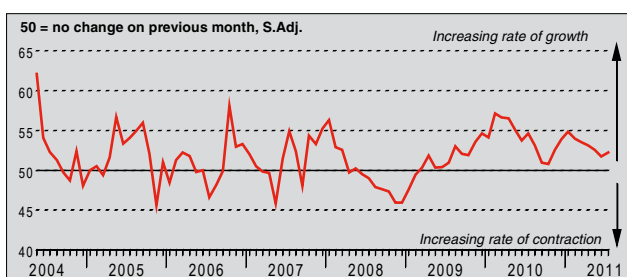
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



South Korean manufacturers reported a solid reduction in stocks of finished goods in July, with decreases now recorded for ten months running. Anecdotal evidence suggested that post-production inventories were depleted as they were used to complete outstanding orders. The latest decline in finished goods stocks was the fastest in five months, although the majority of panellists indicated that levels of inventories were unchanged since June.

### Employment Index

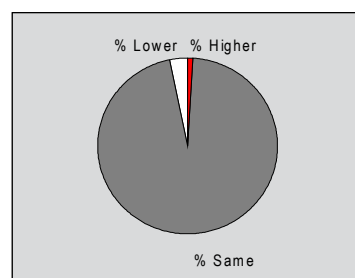
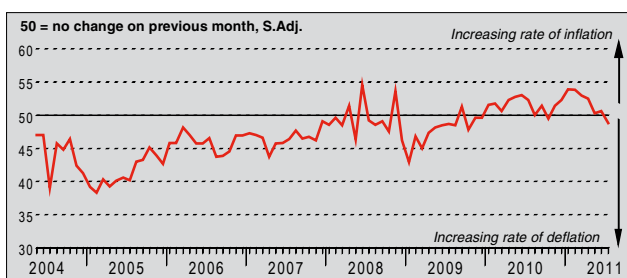
Q. Please compare the level of employment at your unit with the situation one month ago.



July data signalled a modest rise in employment in the South Korean manufacturing sector. Exactly 11% of respondents noted that staffing levels at their companies had increased, citing sustained growth of both new business and output as the main contributors. The rate of job creation regained some momentum from June's eight-month low and was broadly in line with the long-run series average. Employment has now increased in each month since March 2009.

### Output Prices Index

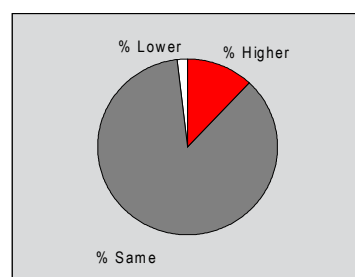
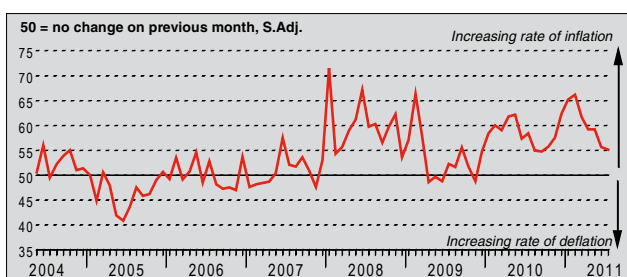
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by South Korean manufacturers decreased in July for the first time in nine months. Panellists commented that strong competition for new business had been the main driver of the fall in output prices. However, the reduction in charges was marginal and weaker than the long-run trend, with the majority of respondents (approximately 96%) noting that their output prices were unchanged since June.

### Input Prices Index

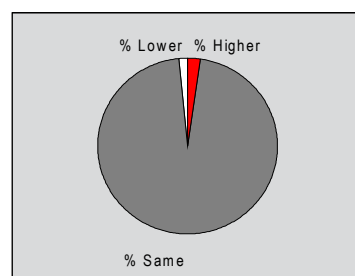
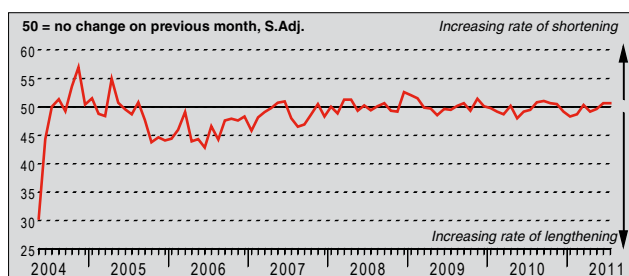
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in South Korea increased markedly in July, driven by higher raw material costs. The rate of input price inflation slowed for a second month to the slowest since September 2010. Nonetheless, the latest rise in costs remained strong in the context of historical data. Input price inflation has now been recorded for 20 successive months.

## Suppliers' Delivery Times Index

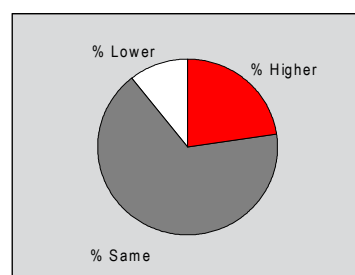
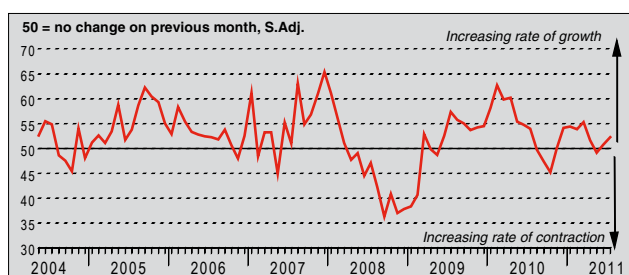
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



South Korean manufacturers reported a second successive monthly improvement in suppliers' delivery times in July. That said, the extent to which vendor performance improved was marginal and broadly unchanged since June. Reflective of the slight shortening of delivery times, the majority of respondents (approximately 96%) noted that vendor performance was consistent with that seen in the previous survey period.

## Quantity of Purchases Index

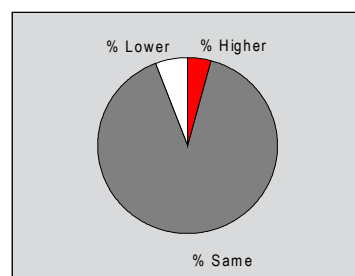
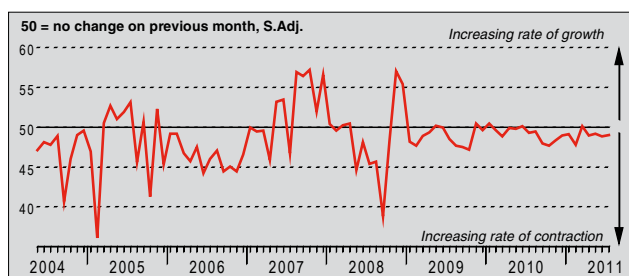
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at manufacturing companies in South Korea increased modestly during July. The seasonally adjusted Quantity of Purchases Index rose for a second consecutive month from the sub-50 level recorded in May, and was broadly in line with the long-run trend. Approximately 23% of panellists indicated an increase in their purchase volumes, commenting that this reflected growth of both new orders and output requirements.

## Stocks of Purchases Index

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



July data signalled a marginal decline in stocks of purchases held by manufacturers in South Korea. This was the fourth successive month where a decrease in pre-production inventories was indicated, with the rate of depletion broadly consistent over that period. Panellists recording a fall in stocks of purchases commented that they had utilised existing inventories to partly fulfil production 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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