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## HSBC South Korea Manufacturing PMI®

August data signal contraction of South Korean manufacturing output for first time in nine months

### Key findings:

- Production decreases as new orders fall
- Employment continues to rise
- Input costs and output prices both increase

August survey data, compiled by Markit for HSBC, signalled a slight contraction of the South Korean manufacturing sector. This was driven by a reduction in new business, which led to a decrease in output. Nonetheless, backlogs rose again, with employment also increasing on expectations of future growth of new orders. Meanwhile, input cost inflation accelerated to the sharpest in three months. Output prices also rose, but at a weak rate.

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 49.7 in August, pointing to a slight deterioration in overall business conditions. Furthermore, down from 51.3 in July, the latest reading pointed to the first contraction in ten months.

New orders received by manufacturers in South Korea decreased during August. The rate of decline was marginal, but ended a nine-month period of growth. Panellists commented that a general weakening of demand had led to the reduction in new work intakes, with some respondents also noting that their clients were reducing output. Similarly, new business received from export markets also decreased.

Reflective of the reduction in overall new orders, output at South Korean manufacturers fell during August. Despite this, backlogs of work increased, with the rate of accumulation broadly

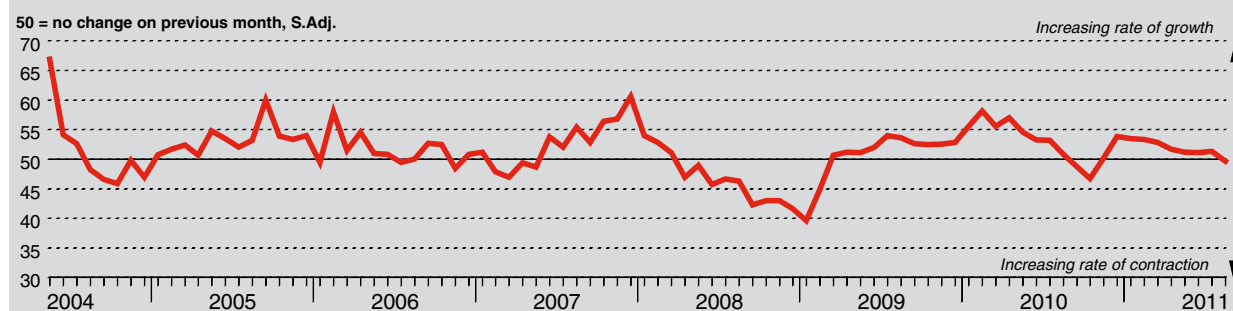
unchanged over the last three months. This suggests that the decrease in production offset the fall in new business received during the month. Finished goods stocks were reported to have depleted modestly during August, as manufacturers utilised existing stocks to help fulfil new order requirements.

August data signalled an increase in employment in the South Korean manufacturing sector, despite contractions of both output and new orders. Panellists noting a rise in staffing levels commented that new projects are expected to start and an overall increase in new work intakes is anticipated. Nonetheless, the rate of job creation in the sector was weaker than those seen in the first five months of 2011.

Purchasing activity at South Korean manufacturers was unchanged from the previous survey period in August. Despite this, delivery times lengthened, in contrast to the improvement recorded in June and July. Anecdotal evidence suggested that pressure on operating capacity at suppliers had led to the increase in lead times. Stocks of purchases were depleted, with panellists citing stock reduction initiatives as the main contributor.

Input prices faced by manufacturers in South Korea increased during August, driven by higher raw material costs. The rate of input price inflation was the fastest in three months and strong in the context of historical data, despite being weaker than those seen at the start of 2011. Output prices also rose, albeit at a marginal rate as strong competition for new business limited the extent of the increase. Nonetheless, the rise was in contrast to the reduction recorded in July.

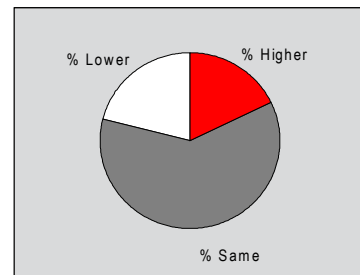
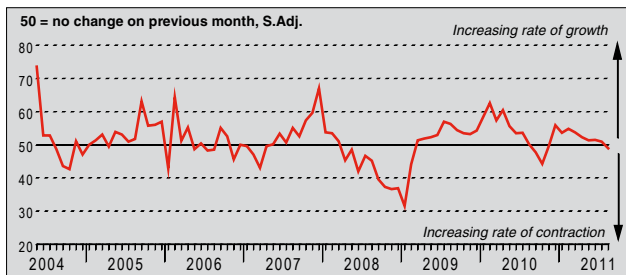
### HSBC South Korea Purchasing Managers' Index™ (PMI®)



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

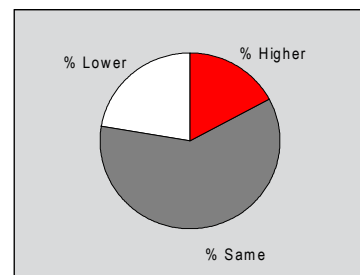
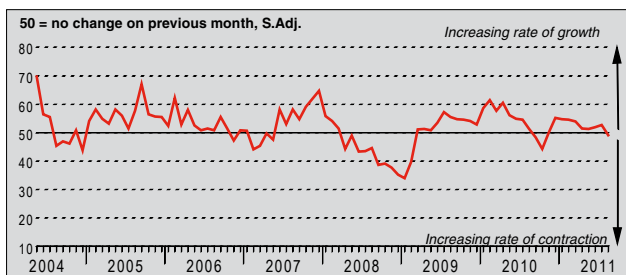
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index posted below the 50.0 no-change threshold in August, signalling a contraction of South Korean manufacturing production. The decrease in output was marginal, but ended an eight-month period of expansion. Exactly 21% of panellists noted a lower level of output compared with the previous month, mainly commenting that this reflected a reduction in new business volumes.

### New Orders Index

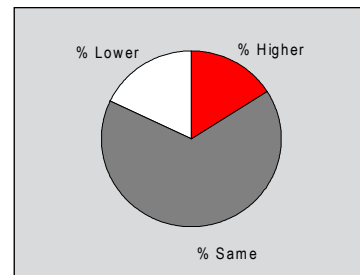
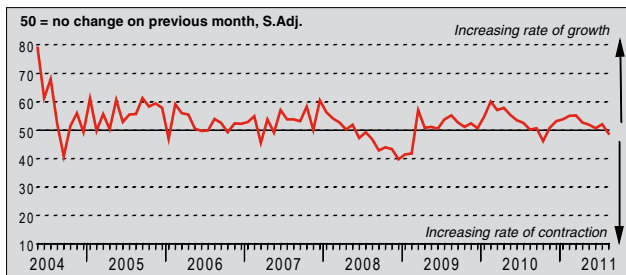
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



South Korean manufacturers reported a slight reduction in new orders received during August. Approximately 22% of panellists noted a lower level of new work intakes compared with July, citing a general weakening in demand as the main contributor, with some clients aiming to reduce their output. The overall contraction in new business was the first decrease recorded in ten months.

### New Export Orders Index

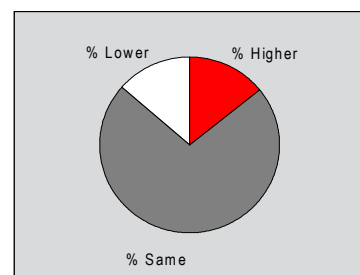
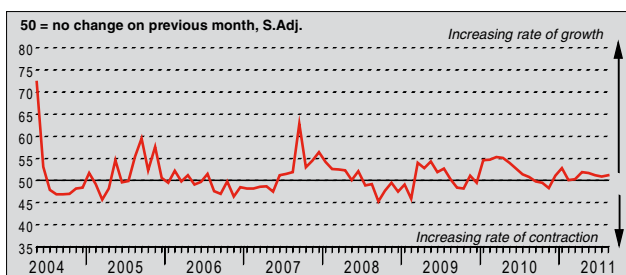
Q. Please compare the level of new export orders received this month with the situation of one month ago.



August data signalled a decrease in new export orders received by manufacturers in South Korea, with the decline the first since October 2010. The rate of contraction was modest, with approximately 18% of respondents noting a lower level of new export business compared with the previous survey period. Anecdotal evidence suggested that weakened demand in export destinations had led to the decrease in new work intakes.

### Backlogs of Work Index

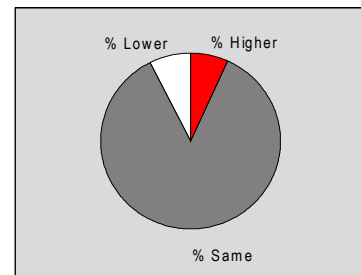
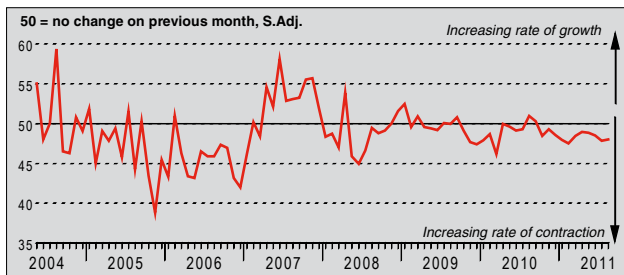
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work held at manufacturers in South Korea increased modestly during August. This suggested that, on average, the reduction in output offset any impact on capacity that the fall in new business may have had. Outstanding business has now increased in each of the last nine months, with the rate of accumulation broadly consistent over the last three months and in line with the long-run series trend.

## Stocks of Finished Goods Index

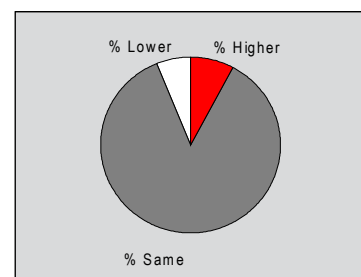
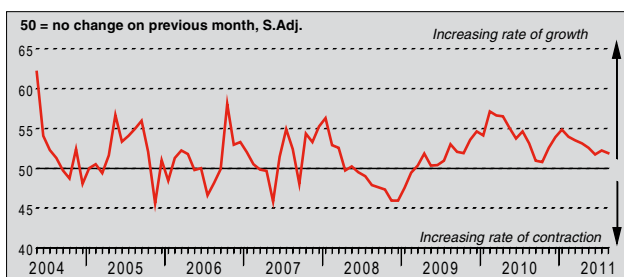
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



August data signalled a decline in stocks of finished goods held at manufacturers in South Korea. The latest depletion was the eleventh in successive months and, while modest, it remained faster than the historical average for the series. Nonetheless, approximately 86% of panellists noted that levels of post-production inventories were unchanged on the month. Where a reduction was indicated, respondents noted that existing stocks had been used to fulfil order requirements.

## Employment Index

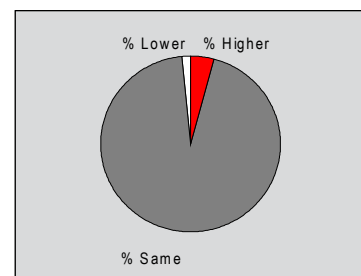
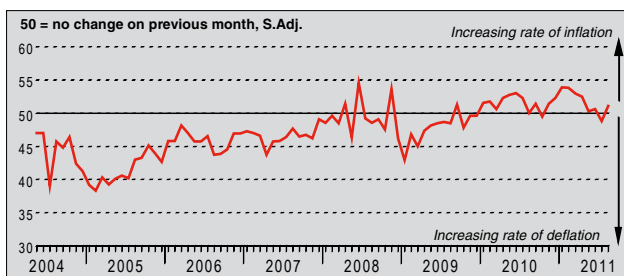
Q. Please compare the level of employment at your unit with the situation one month ago.



South Korean manufacturers reported a modest rise in employment during August. Panellists cited new projects that are expected to start in the near future and an anticipated increase in new business as being the main drivers of the rise in staffing levels. However, the rate of job creation slowed since July and was weaker than those seen in the first five months of 2011, as new orders contracted in the latest survey period. Nonetheless, the latest increase in employment extended the current sequence of expansion to two-and-a-half years.

## Output Prices Index

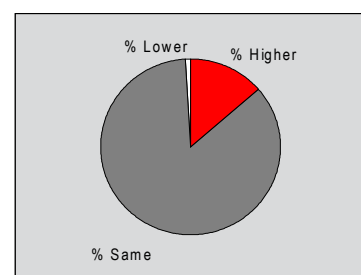
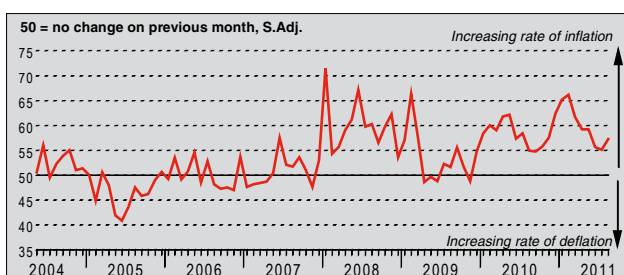
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output prices charged by manufacturers in South Korea increased during August. The rise was modest, but in contrast to the reduction signalled in July. Panellists noting higher charges compared with the previous survey period attributed this to rising input costs. However, the extent of the increase was limited by strong competition for new business. Overall, output prices have risen in nine of the last ten months.

## Input Prices Index

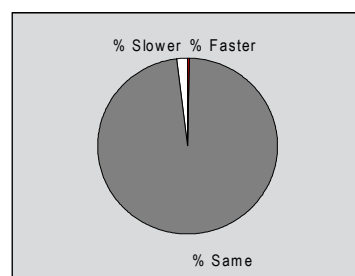
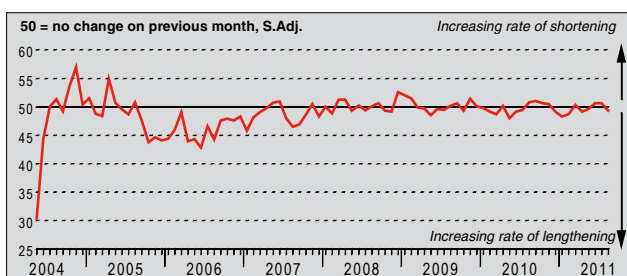
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in South Korea increased markedly during August, with cost inflation now recorded in each of the last 21 months. Approximately 14% of panellists reported a rise in input prices, attributing this to higher raw material costs. While the rate of input price inflation remained below the recent high recorded in February, it was nonetheless marked in the context of historical data, and the fastest in three survey periods.

## Suppliers' Delivery Times Index

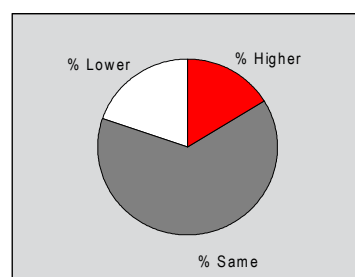
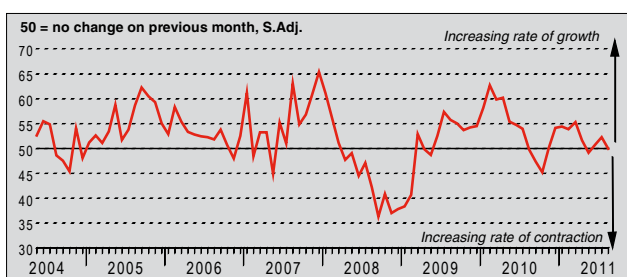
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



South Korean manufacturers reported a lengthening of suppliers' delivery times during August, ending a two-month period where vendor performance had improved. However, the extent to which supplier performance worsened was only marginal, with the vast majority of panellists (approximately 98%) indicating no change in delivery times since July. Where a deterioration was indicated, panellists commented that this reflected pressure on capacity at suppliers.

## Quantity of Purchases Index

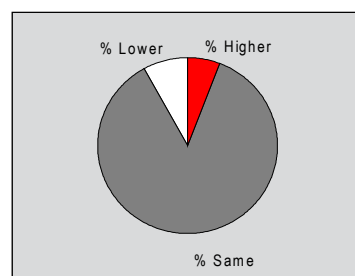
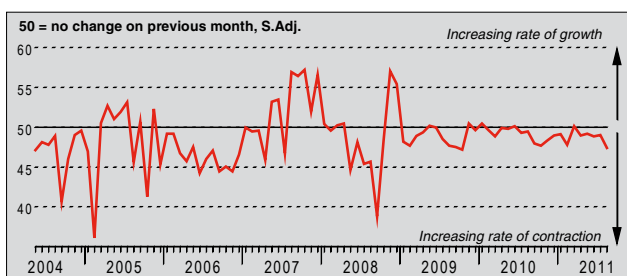
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index posted in line with the 50.0 no-change threshold in August, indicating that levels of purchasing activity at South Korean manufacturers were unchanged since July. Where an increase in input buying was reported, this was attributed to initiatives to increase stocks and a rise in new business. However, this was offset by other respondents noting that purchase volumes had decreased in line with lower output and new order volumes.

## Stocks of Purchases Index

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



Stocks of purchases at manufacturers in South Korea fell solidly during August. This was the fifth consecutive month where pre-production inventories were reduced, with the latest depletion the strongest in that period and faster than the historical series average. Panellists cited stock reduction initiatives as the main contributor to the latest decrease.

## 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 industry contribution to South Korean GDP. 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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