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HSBC South Korea Manufacturing PMI®

South Korean manufacturing output contracts at sharpest rate in 11 months in September

Key findings:

- Lower new order volumes and stock reduction initiatives lead to decline in production
- Employment growth weakest since June 2009
- Inflationary pressures ease slightly

September survey data, compiled by Markit for HSBC, signalled a second successive monthly deterioration in operating conditions in the South Korean manufacturing sector. Moreover, the latest contraction was solid, and the sharpest since October 2010. New business continued to decline, leading manufacturers to reduce holdings of inventories. Subsequently, output fell at a marked rate. Backlogs of work decreased, suggesting that previous pressure on operating capacity had subsided. Employment rose, albeit only marginally. Meanwhile, input costs increased at a marked, but slightly weakened rate, while output prices rose negligibly.

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 47.5 in September, down from August's reading of 49.7. This pointed to a further deterioration in overall business conditions that was strongest in 11 months.

South Korean manufacturers reported a decline in new business received during September. The rate of decrease was solid, and accelerated since August. Similarly, new orders received from export markets also contracted, and at the fastest rate since October 2010. Anecdotal evidence suggested that customers

had reduced order volumes as weakening economic conditions had impacted on their production levels.

Manufacturers commented that existing post-production inventories were utilised in order to control stock levels. Reflective of lower new business, and initiatives to reduce holdings of finished goods, panellists reported a marked contraction in output in September. Backlogs of work were depleted for the first time in ten months, but at a marginal rate.

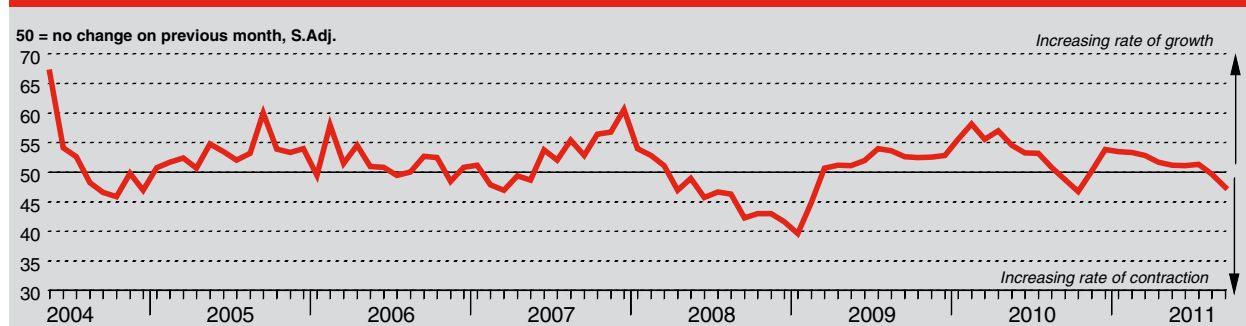
Employment continued to rise in the South Korean manufacturing sector during September. However, the latest increase in staffing levels was the weakest in 27 months. The majority of respondents reported no change in employment at their companies.

Purchasing activity fell in September, in line with lower production requirements. Despite this, delivery times lengthened, albeit to a negligible extent. Stocks of purchases were reduced, reflective of initiatives to reduce holdings of pre-production inventories.

Input prices faced by manufacturers in South Korea increased at a marked rate in September. The rate of cost inflation eased slightly since August, but remained above the historical average for the series. Higher raw material prices were the main driver of the rise in input costs.

Output prices were also reported to have increased, although the rise was only fractional. Strong competition for new business restricted the extent to which manufacturers could pass on higher costs to clients.

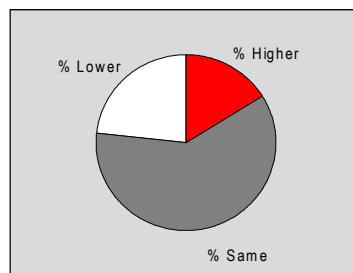
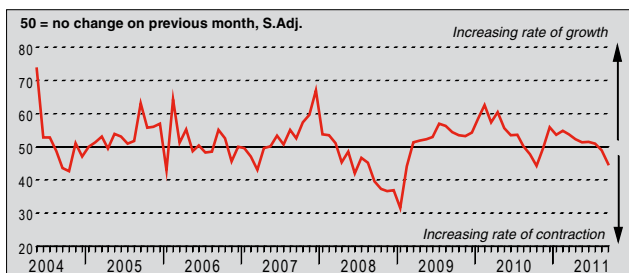
HSBC South Korea Purchasing Managers' Index™ (PMI®)



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

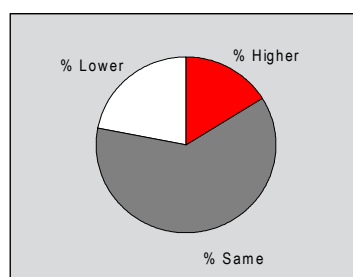
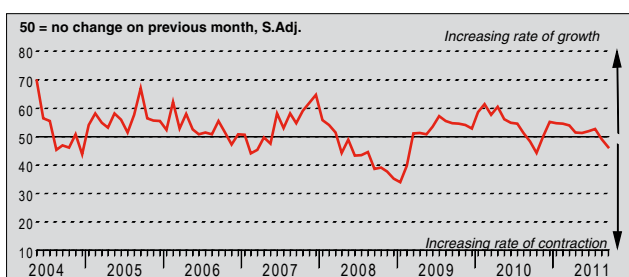
Q. Please compare your production/output this month with the situation one month ago.



Output in the South Korean manufacturing sector fell during September. Moreover, the rate of contraction was marked and the sharpest since October 2010. Approximately 23% of panellists indicated that production at their units was lower than in August, predominantly attributing this to a decline in new business received. Some respondents also noted that they were aiming to reduce stocks. The seasonally adjusted Output Index has now posted below the 50.0 no-change threshold, that separates expansion from contraction, for two successive months.

New Orders Index

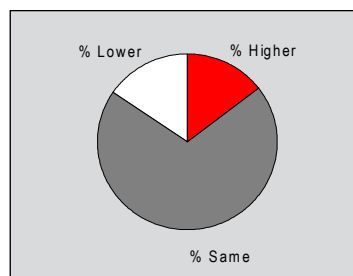
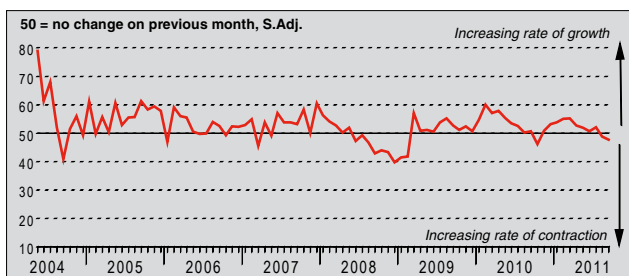
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



September data signalled a decline in new orders received by manufacturers in South Korea, extending the period of sustained decrease to two months. Moreover, the latest contraction was sharpest than that registered in August, and the fastest in 11 months. Approximately 22% of respondents noted a reduction in new business volumes during September, commenting that this reflected waning demand due to weaker economic conditions. Some panellists also noted that their clients were reducing output volumes.

New Export Orders Index

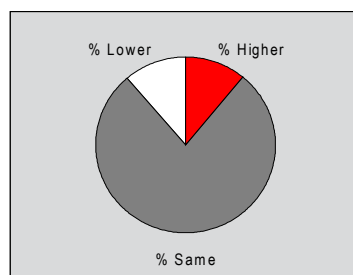
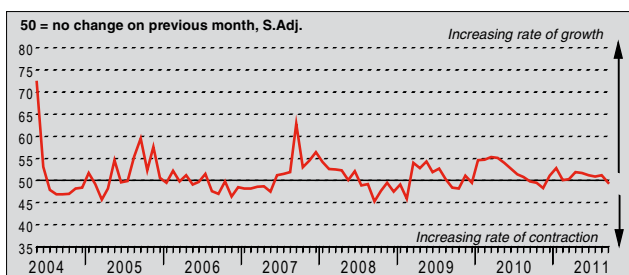
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Manufacturers in South Korea reported a reduction in new exports orders received during September. This was the second successive month where the seasonally adjusted New Export Orders Index posted below the 50.0 no-change threshold, which separates growth from decline. The rate of contraction accelerated since August to the fastest since October 2010. Anecdotal evidence suggested that customers had reduced their order rates in response to weakening global economic conditions and lower production requirements.

Backlogs of Work Index

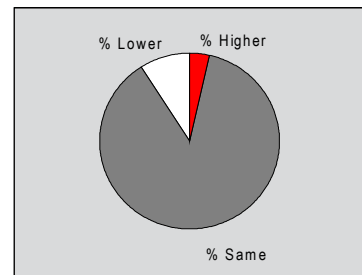
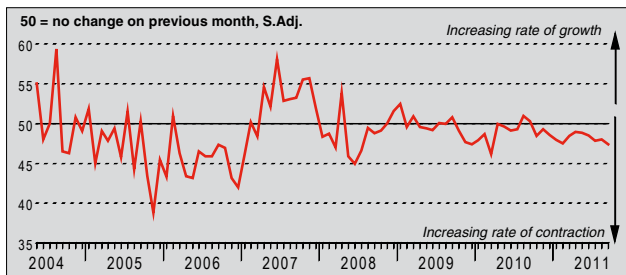
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in South Korea fell in September. The depletion was the first recorded since November 2010, indicating that previous pressure on operating capacity had subsided. Panellists commented that a further decline in new work intakes had resulted in the reduction in outstanding business. Nonetheless, the decline was marginal, with approximately 78% of respondents indicating that backlogs remained unchanged since August.

Stocks of Finished Goods Index

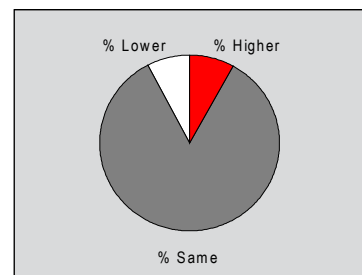
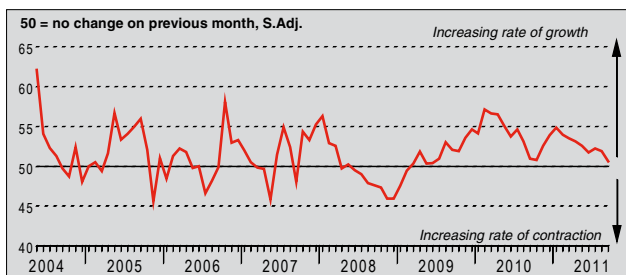
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



September data signalled a decline in stocks of finished goods held at manufacturers in South Korea. This was the twelfth consecutive month where a depletion in post-production inventories has been registered, with the latest decrease the sharpest in that period. Respondents noting a lower level of finished goods stocks attributed this to falls in new order volumes, which led them to reduce holdings of post-production inventories.

Employment Index

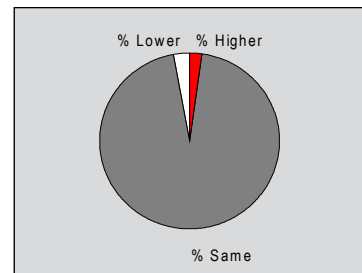
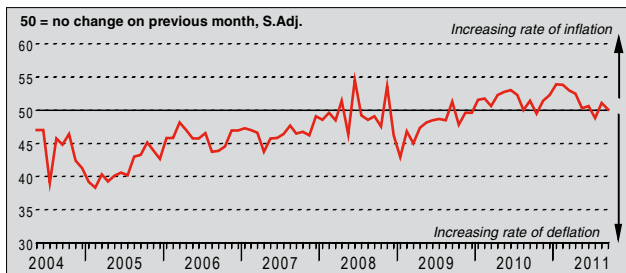
Q. Please compare the level of employment at your unit with the situation one month ago.



Employment in the South Korean manufacturing sector increased marginally during September, extending the sequence of sustained growth to 31 months. However, the rate of job creation in the latest survey period was the weakest since June 2009, as both new orders and output contracted. Approximately 84% of respondents noted that staffing levels were unchanged since August.

Output Prices Index

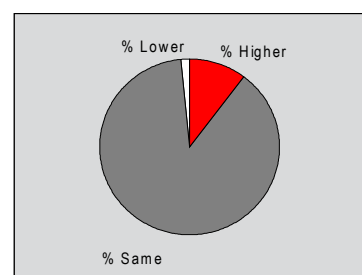
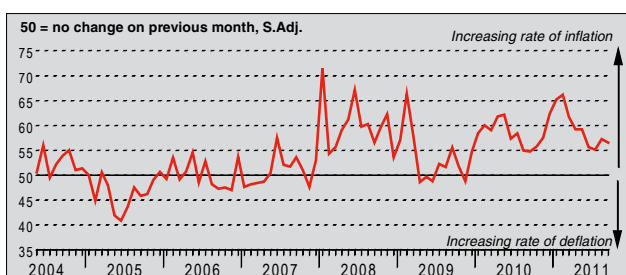
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted fractionally above the 50.0 no-change threshold in September, to indicate a slight increase in prices charged by South Korean manufacturers. Anecdotal evidence suggested that, while panellists aimed to pass on higher costs to clients, they were restricted by strong competition for new business. Reflecting this, the vast majority of respondents (approximately 95%) noted no change in their charges from the previous survey period.

Input Prices Index

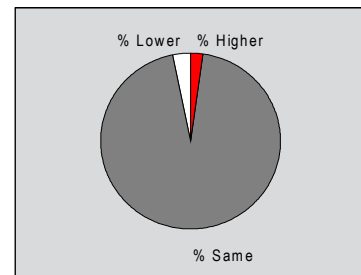
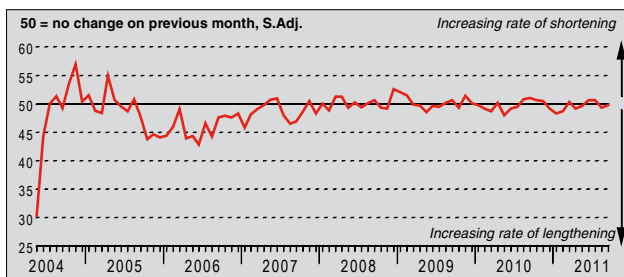
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Manufacturers in South Korea reported a marked increase in input costs during September. The rate of cost inflation slowed slightly since August, but remained stronger than those seen in June and July, and above the long-run series average. Anecdotal evidence suggested that further rises in raw material costs had led to the latest increase in input prices. Input cost inflation has been recorded in each month since December 2009.

Suppliers' Delivery Times Index

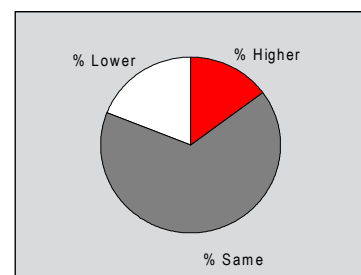
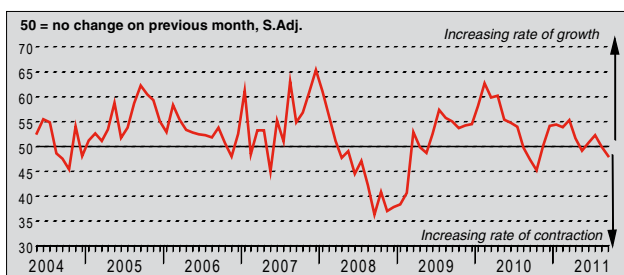
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



South Korean manufacturers reported a fractional deterioration in vendor performance in September, as indicated by the seasonally adjusted Suppliers' Delivery Times Index posting slightly below the 50.0 no-change threshold. Panellists noting an increase in lead times attributed this to shortages of certain materials at suppliers. This was largely offset by reduced demand for inputs, however, which eased pressure on vendors' operating capacity.

Quantity of Purchases Index

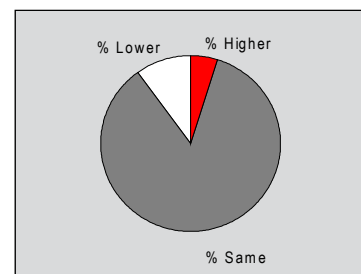
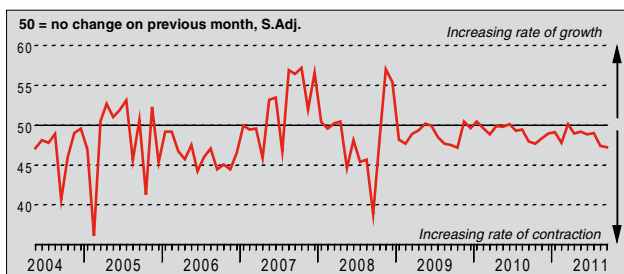
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



September data signalled a modest reduction in purchasing activity at South Korean manufacturers. This followed a stagnant level of input buying in August. Exactly 19% of respondents recorded a lower level of purchasing activity compared with the previous survey period, commenting that this predominately reflected a decrease in production requirements. However, some panellists also noted that they were aiming to reduce holdings of purchases.

Stocks of Purchases Index

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



Stocks of purchases held at manufacturers in South Korea decreased during September. Levels of pre-production inventories have now fallen in each month since April, with the latest decline the sharpest in this sequence. This was despite the reduction in purchase volumes. Anecdotal evidence suggested that stocks were depleted as companies looked to reduce holdings of pre-production inventories in response to the weaker demand environment.

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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