HSBC *Purchasing Managers' Index*™ 2011 compiled by markit

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

HSBC South Korea Manufacturing PMI®

South Korean manufacturing sector conditions continue to deteriorate

Key findings:

- PMI posts 48.0, pointing to moderate worsening of business conditions
- Output and new orders both contract for third month running
- Backlogs and employment rise

October survey data, compiled by Markit for HSBC, signalled a deterioration in operating conditions in the South Korean manufacturing sector that was the third in successive months. The latest contraction was moderate, and softened slightly since September. New work intakes decreased at a solid rate, with output falling markedly. Backlogs of work rose, suggesting that the decline in output had been sharper than required, with employment also increasing. Meanwhile, input cost inflation slowed for a second consecutive month, but remained marked. Output prices were unchanged on the month.

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 48.0 in October, up from September's reading of 47.5. The latest reading pointed to a third successive worsening of business conditions in the South Korean manufacturing sector. However, the rate of deterioration slowed slightly since September.

Manufacturers in South Korea reported a solid reduction in new business received during October. The rate of contraction was consistent with that recorded in the previous survey period. New orders received from export markets also fell, but at a slower rate. Overall, anecdotal evidence suggested that softening global economic conditions had led to a reduction in demand.

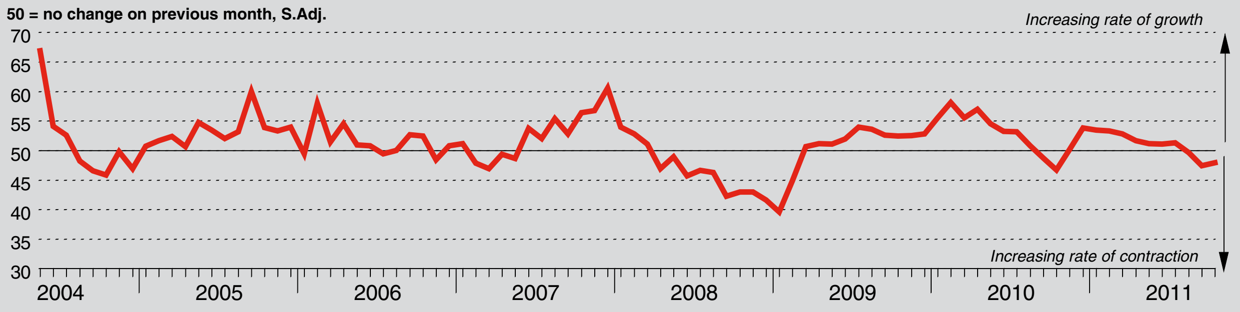
Output contracted markedly in October, although the rate of decline was slightly weaker than in September. Despite the fall in new business, backlogs of work rose marginally. This suggested that the drop in new orders had been weaker than expected. However, some panellists commented that initiatives to control stocks, alongside lower new work intakes, had led to the decrease in output. Subsequently, inventories of post-production goods were depleted.

October data signalled an increase in employment in the South Korean manufacturing sector. However, the rate of job creation was only marginal, with the majority of respondents indicating that staffing levels were unchanged since September.

Purchasing activity decreased for a second consecutive month in October, in line with lower output requirements. However, the latest reduction was only marginal. Despite this, a slight lengthening of suppliers' delivery times was indicated. Stocks of purchases increased during October, suggesting that purchase volumes had exceeded requirements. However, the accumulation was only slight.

Input prices continued to rise markedly in October. The rate of cost inflation slowed for a second successive month, but remained above the long-run trend. Higher raw material prices and unfavourable exchange rate variations were reported to be the main drivers of cost inflation. Output prices were unchanged since September. Panellists commented that attempts to pass on higher costs were offset by the need to keep charges low due to strong competition for new business.

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

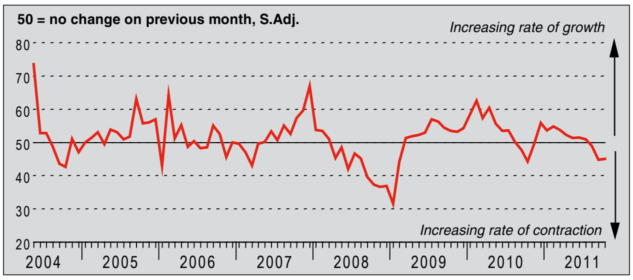


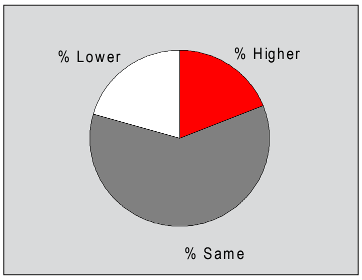
The HSBC South Korea *Purchasing Managers' Index™ (PMI®)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

HSBC The world's local bank

Output Index

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

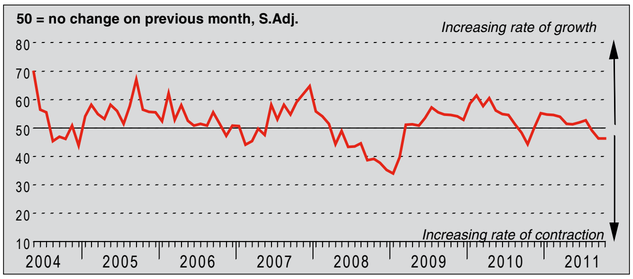


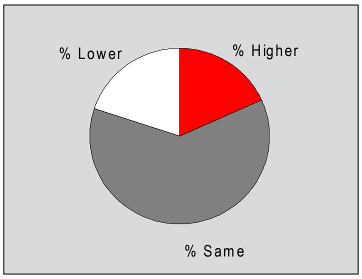


Output in the South Korean manufacturing sector contracted during October. With approximately 21% of panellists noting a lower level of production, the rate of decline was slightly weaker than in the previous survey period but remained marked nonetheless. Anecdotal evidence suggested that a further reduction in new business was the main driver of the decrease in output. However, some respondents noted that output was reduced in order to control stock levels. Production has now fallen for three 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.

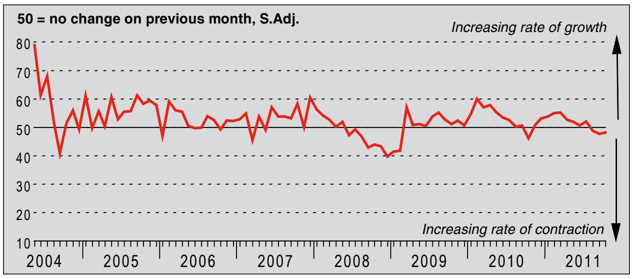


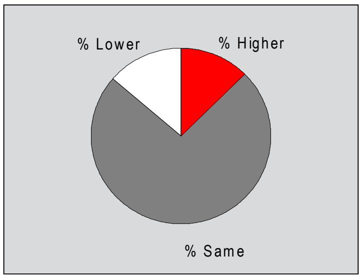


October data signalled a decline in new business received by manufacturers in South Korea, extending the sequence of sustained contraction to three months. The rate of reduction in new work intakes was solid, and unchanged from the previous survey period. Panellists commented that the latest fall in new work intakes reflected a softening in demand due to weakening economic conditions.

New Export Orders Index

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

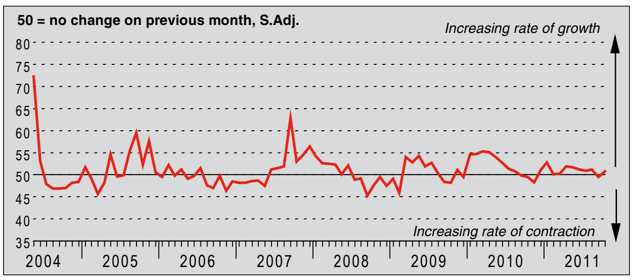


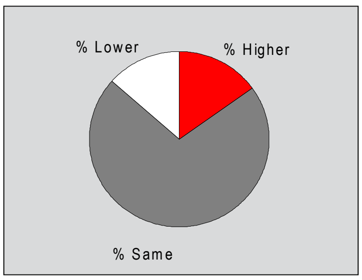


Manufacturers in South Korea reported a modest reduction in new business received from export markets in October. The rate of decline eased slightly since September, with approximately 14% of respondents recording a lower volume of new export orders compared with the previous survey period. Panellists cited weakened global economic conditions as the main contributor to the decrease in new export business.

Backlogs of Work Index

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

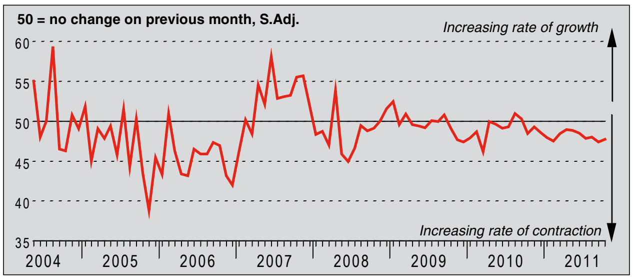


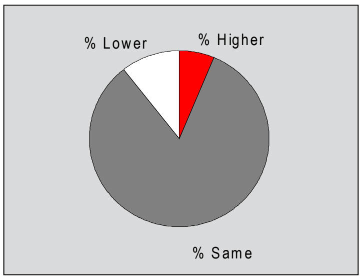


Backlogs of work at manufacturers in South Korea increased during October. This was in contrast to the reduction in outstanding business recorded in September, and was the tenth time in the past 11 months that an accumulation has been registered. This suggested that a degree of pressure on operating capacity existed, and that a sharper reduction in output was implemented than needed to reduce capacity in line with the fall in new orders.

Stocks of Finished Goods Index

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

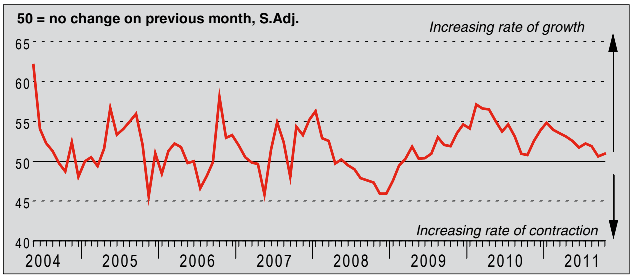


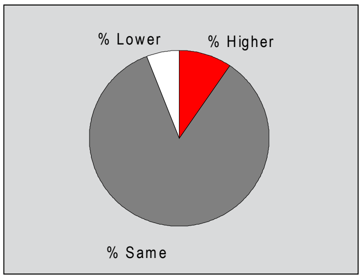


Stocks of finished goods at South Korean manufacturers fell for a thirteenth successive month in October. The rate of decline was slightly weaker than that recorded in September, but remained sharper than the long-run series trend. Panellists that noted a reduction in post-production inventories attributed this to initiatives to control stocks.

Employment Index

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

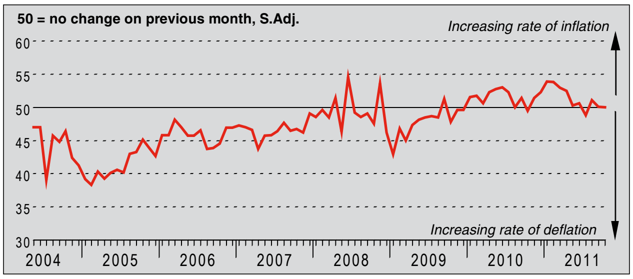


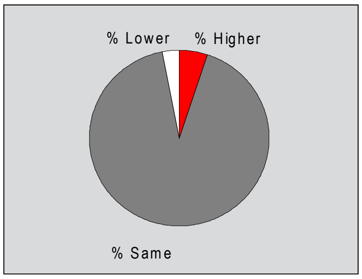


October data signalled a marginal increase in employment in the South Korean manufacturing sector, extending the sequence of sustained growth to 32 months. The rate of job creation was slightly stronger than in September, but below the historical average for the series, with only around 10% of respondents recording a rise in employment.

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.

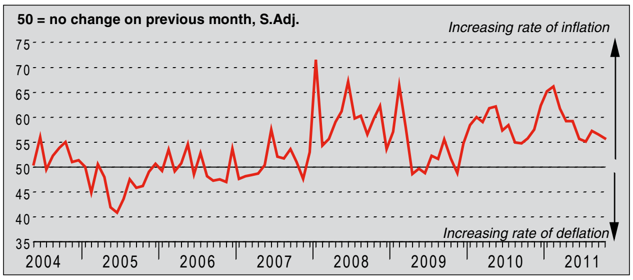


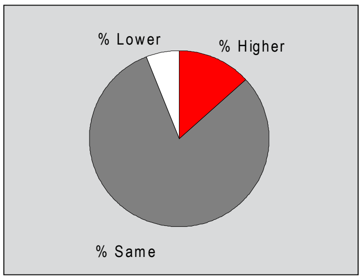


The seasonally adjusted Output Prices Index posted in line with the 50.0 no-change threshold in October, indicating that prices charged by South Korean manufacturers were unchanged since September. Highlighting this, the vast majority (approximately 92%) of respondents noted their output prices were the same as in the previous survey period. Where an increase in charges was recorded, this was driven by attempts to pass on higher input costs. However, this was offset by the need to keep output prices low due to strong competition for new business.

Input Prices Index

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

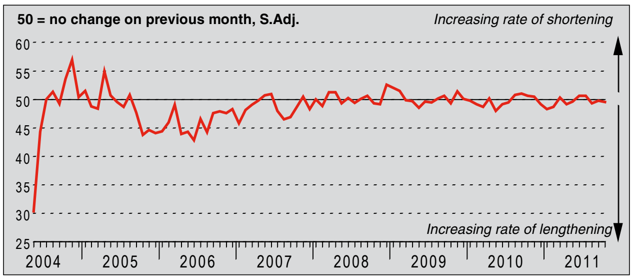


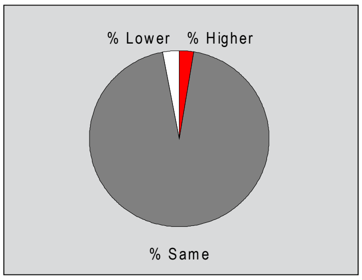


Input prices faced by manufacturers in South Korea increased in October. The rate of cost inflation was marked and faster than the long-run trend, but slowed to the weakest in three months. Approximately 13% of respondents noted a rise in input prices since September, attributing this to higher raw material prices and unfavourable exchange rate variations. Overall, input cost inflation has now been sustained for 23 consecutive months.

Suppliers' Delivery Times Index

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

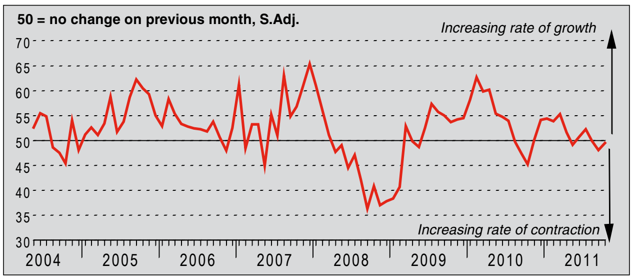


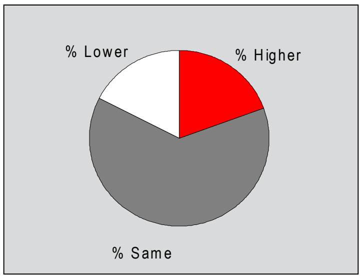


Manufacturers in South Korea reported a slight lengthening of suppliers' delivery times in October, continuing the trend of the last three months. However, in line with the marginal lengthening of lead times registered, the vast majority of respondents (approximately 94%) noted no change in vendor performance since September.

Quantity of Purchases Index

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

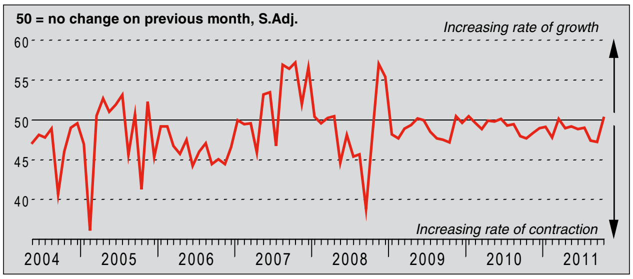


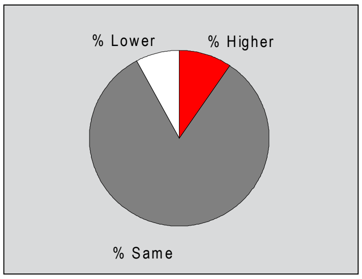


Purchasing activity at South Korean manufacturers decreased marginally during October. This was the second month running where a reduction in input buying was recorded, but the latest decline was weaker than in September. Panellists cited lower output requirements as the main contributor to the reduction in purchase volumes.

Stocks of Purchases Index

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





October data signalled a slight increase in pre-production inventories at South Korean manufacturers, with the seasonally adjusted Stocks of Purchases Index posting marginally above the 50.0 no-change threshold. This ended a six-month period where pre-production inventories had declined. A sharper decrease in output than purchase volumes was cited as the main driver of the overall rise in stocks, and offset attempts by some manufacturers to implement initiatives to reduce inventories.

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.