HSBC *Purchasing Managers' Index*™ Press Release

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

compiled by markit

HSBC South Korea Manufacturing PMI®

South Korean manufacturing sector conditions continue to deteriorate

Summary

South Korean manufacturing sector business conditions deteriorated again in October. This was highlighted by the HSBC South Korea Manufacturing *PMI®* posting 48.0. The latest reading pointed to a third successive worsening of business conditions in the South Korean manufacturing sector. However, up from September's reading of 47.5, the rate of deterioration slowed slightly.

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.

Comment

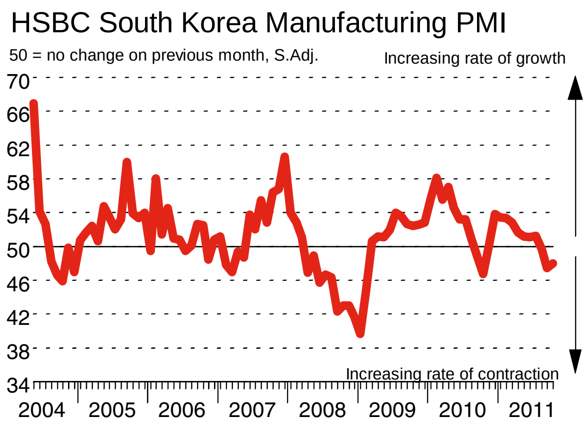
Commenting on the South Korea Manufacturing PMI survey, Ronald Man, Economist at HSBC in Asia said:

"Whilst uncertainty still hangs over Europe, the story in Korea is clearer. Korea's manufacturing sector remains on track for a soft landing. The rate of contraction in October has eased, with the PMI index heading back towards the 50 no-change level. No doubt, soft global demand will hold back new orders, but a tight labour market at home and resilient Chinese growth should help Korea's manufacturing sector push through the fourth quarter."

Key points

- 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

Historical Overview



markit

HSBC
The world's local bank

For further information, please contact:

HSBC

Frederic Neumann, Co-Head of Asian Economic Research
Telephone +852-2822-4556
Email fredericneumann@hsbc.com.hk

Ronald Man, Economist
Telephone +852-2996-6571
Email ronald.man@hsbcib.com

Corporate Communications:
Chi Hyang Chung
Telephone +822-2004-0951
Email chihyangchung@kr.hsbc.com

Hyon Jin Suh
Telephone +822-2004-0882
Email hyonjinsuh@kr.hsbc.com

Markit

Sarah Bingham, Economist
Telephone +44-1491-461-050
Email sarah.bingham@markit.com

Rachel Harling, Corporate Communications
Telephone +44-20-7064-6283 / +44-782-789-1072
Email rachel.harling@markit.com

Notes to Editors:

The HSBC South Korea Manufacturing PMI 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: 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

HSBC:

Headquartered in London, HSBC is one of the world's largest banking and financial services organisations and one of the industry's most valuable brands. We provide a comprehensive range of financial services to around 89 million customers through two customer groups, Retail Banking and Wealth Management (formerly Personal Financial Services) and Commercial Banking, and two global businesses, Global Banking and Markets and Global Private Banking.

Our international network covers 87 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. With listings on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 220,000 shareholders in 129 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 2,200 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information please see www.markit.com

About PMIs:

Purchasing Managers' Index™ (PMI®) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to www.markit.com/economics.