

HSBC South Korea Manufacturing PMI®

Stabilisation in South Korean manufacturing business conditions

Summary

The HSBC South Korea *Purchasing Managers' Index*™ (PMI®) – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – registered 50.1 in December. That was an improvement on November's 48.2 and the highest reading since May. However, being barely above 50.0, the PMI suggested that operating conditions were little changed since the previous month.

Following six months of continuous decline new order volumes increased in the latest survey period. However, the rate of growth was only slight, with respondents commenting that underlying demand conditions remained fragile and economic conditions weak. This was particularly the case in export markets. New export orders fell during December for the seventh successive survey period.

With the underlying trend in incoming new orders remaining weak, backlogs of work continued to fall during December. The rate of decline was again solid, accelerating slightly since the previous survey period. With little need to recruit additional staff, employment levels were subsequently broadly unchanged.

An uncertain economic outlook continued to impact on inventory decisions during the latest survey period, with manufacturers choosing to pare both stocks of pre- and post-production goods. Panellists signalled a preference for low stock holdings at a time of weak underlying trends in output and new orders.

Purchasing activity also continued to decline in December, albeit slightly. Input buying has now fallen for seven successive months. Suppliers' delivery times, meanwhile, deteriorated slightly at the end of 2012. Poor weather was noted in some instances to have impacted negatively on vendor performance.

Input price inflation was sustained during the latest survey period, albeit at a slight pace. December marked the fourth month in a row that input costs have risen. Some manufacturers reported higher food and scrap iron prices, but others commented on lower prices paid for raw materials available on international markets.

Discounting of output charges was sustained in December as manufacturers cut their tariffs to stimulate sales.

Comment

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

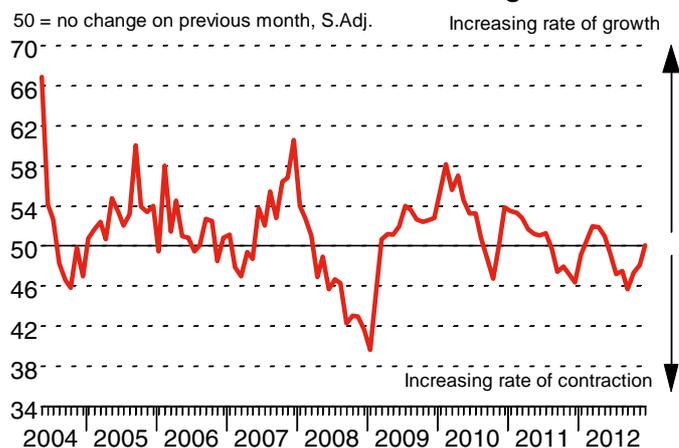
"The first improvement in Korean manufacturing conditions since May indicates that Korea is poised for a recovery next year. New orders have increased, lifting production and employment. We believe the upward momentum can be sustained at a gradual, but meaningful, pace on the back of stronger external demand. As such, this will reduce the pressure on the Bank of Korea to deliver further monetary easing."

Key points

- Negligible rises in output, new orders and employment all recorded
- Uncertain outlook leads to further destocking
- Discounting sustained as manufacturers seek to stimulate sales

Historical Overview

HSBC South Korea Manufacturing PMI



Sources: Markit, HSBC.

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 +852-2996-6743
Email ronaldman@hsbc.com.hk

Corporate Communications:
Han Na Yi
Telephone +822-2004-0992
Email hannayi@kr.hsbc.com

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

Markit

Paul Smith, Senior Economist
Telephone +44-1491-461-038
Email paul.smith@markit.com

Caroline Lumley, Corporate Communications
Telephone +44-20-7260-2047
Mobile +44-781-5812162
Email caroline.lumley@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:

HSBC is one of the world's largest banking and financial services organisations. With around 6,900 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 60 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 84 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 221,000 shareholders in 134 countries and territories.

About Markit:

Markit is a leading, global financial information services company with over 2,300 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

The intellectual property rights to the HSBC South Korea Manufacturing PMI® provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. *Purchasing Managers' Index™* and *PMI®* are trade marks of Markit Economics Limited, HSBC use the above marks under license. Markit and the Markit logo are registered trade marks of Markit Group Limited.