HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC South Korea Manufacturing PMI®

Slight improvement of operating conditions signalled in February

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 – recorded a level of 50.9 in February. Improving on January's 49.9, the PMI reached a nine-month high to indicate a slight improvement in manufacturing operating conditions.

A rise in new orders was the primary driver of the improved PMI reading. Modest growth was reported to reflect increased client demand, amid reports of the start-up of mass production of new models and products. Latest data suggested an improvement in demand for manufactured goods from abroad. New export orders rose for the second successive month and to the sharpest degree for over a year-and-a-half.

In spite of a rise in new orders, output fell slightly during February. Panellists continued to report that economic conditions were challenging, which weighed on order book growth and subsequently production.

That said, anecdotal evidence also implied some constraints to production arising from supply-side delays. Vendor performance deteriorated for a fifth successive month amid a number of reports of poor weather and a rise in demand for inputs. Latest data indeed showed that purchasing activity amongst South Korean manufacturers rose for a second month in row, and at the sharpest pace for ten months.

Despite the rise in new orders and lower production, manufacturers were able to successfully keep on top of overall workloads. Backlogs of work were reduced in February for the ninth month in succession, albeit marginally. Companies commented that orders had been met directly out of stock wherever possible. As a result, inventories of finished goods fell slightly.

The modest growth of new orders encouraged companies to further add to their payroll numbers during February. Latest data showed that staffing levels rose for the third successive month and to the greatest degree since April 2011.

Finally, average input costs continued to rise in February, with the rate of inflation modest, but nonetheless the sharpest in four months amid a general rise in raw material prices. Conversely, competitive pressures weighted on manufacturers' own pricing power and led to a slight reduction in output charges during February.

Comment

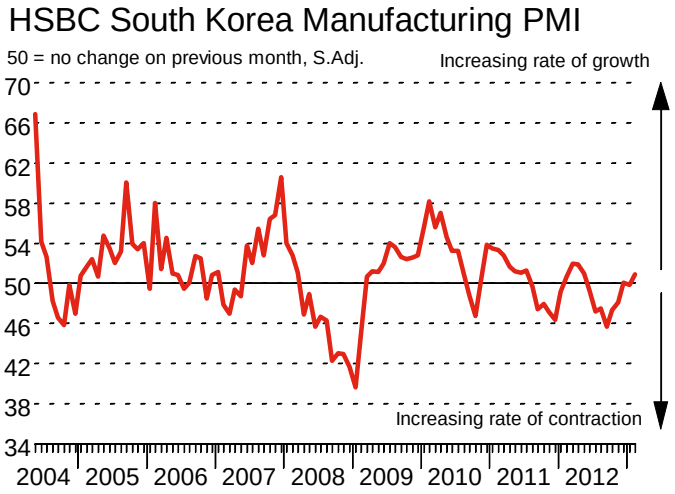
Commenting on the South Korea Manufacturing PMI® survey, Ronald Man, Economist at HSBC in Asia said:

"The improvement in Korea's manufacturing conditions supports our view that the economy remains on track to post a meaningful recovery in 2013. Most encouragingly, new export orders have picked up further and shows that Korea is benefiting from stronger external conditions. Household income will also rise as employment growth strengthens. Taken together, this reduces the need for further easing by the Bank of Korea. We believe the monetary easing cycle is over."

Key points

- Rises in new orders and employment signalled; strongest gain in new export orders for 19 months
- Output falls slightly amid some evidence of supply-side constraints
- Input price inflation up slightly, but competitive pressures lead to marginal fall in output charges

Historical Overview



Sources: Markit, HSBC.

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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.

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