HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 09:00 (Seoul), 2 September 2013

HSBC South Korea Manufacturing PMI®

Business conditions deteriorate further in South Korean manufacturing industry

Summary

The HSBC South Korea Purchasing Managers' IndexTM (PMI[®]) – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – indicated a deterioration in business conditions for the third successive month in August. The index rose marginally from 47.2 in July to 47.5, mainly reflecting weaker falls in output and new orders. In contrast, other measures indicated an acceleration in the rate of decline. Pre-production inventories shrunk at the fastest rate recorded since the global financial crisis in September 2008, whilst new export orders contracted at the sharpest pace recorded in 54 months.

Both manufacturing output and new orders fell for the third consecutive month, though their rates of decline slowed marginally. Panellists attributed the fall in production to lower order volumes, which some linked to a domestic economic slowdown and weak demand. Contractions in shipbuilding and the construction industry also emerged from the survey as key factors behind August's diminished production.

Outstanding business fell at the fastest pace recorded since the survey began in April 2004. August marked the fourth month of decline, and one-fifth of all respondents reported lower levels of business outstanding. Respondents primarily blamed a general economic slowdown. Anecdotal evidence also suggested that falling order volumes and a contraction in the IT industry were key drivers of the record reduction in backlogs.

Employment fell for the third consecutive month, though the rate of decline eased marginally in August. Lower output levels were commonly cited by respondents as the primary cause of the reduction in staffing levels.

Input prices rose for the first time in five months in August. Inflation was largely attributed by panellists to increased raw material costs, in particular higher prices of fuel and steel products.

Output prices fell for the twenty-second consecutive month in August, though the rate of decline eased to the slowest recorded in the last four months. Increased international price competition was mentioned by respondents as a key driver of the fall in charges.

Suppliers' delivery times lengthened for the first time in five months in August, albeit marginally. Anecdotal evidence from the small percentage of respondents who recorded longer delivery times suggested that shipping delays were a key factor.

Comment

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

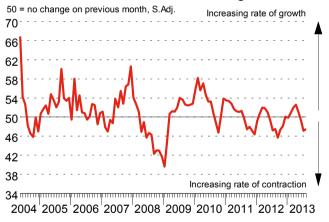
"Korea's economic outlook remains challenging, with manufacturing conditions contracting for the third consecutive month. The sharper fall in new export orders suggest that Korea's trade-led recovery will likely be delayed. With government spending also expected to fall for the remainder of this year, as much was frontloaded, this will exert downward pressure on growth. We expect Korea to grow 2.4% in 2013."

Key points

- Production declines for third successive month
- Backlogs fall at fastest rate in survey history
- Fastest decline in new export orders since February 2009

Historical Overview

HSBC South Korea Manufacturing PMI



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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