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HSBC South Korea Manufacturing PMI®

Manufacturing business conditions in South Korea deteriorate at fastest rate in nearly three years

Key findings:

- New orders and output both fall at sharper rates
- Job cuts recorded for first time since February 2009
- Further reduction in output prices, despite solid increase in input costs

December survey data, compiled by Markit for HSBC, signalled a further decline in output in the South Korean manufacturing sector. Moreover, the fall in production was the fastest in 34 months. Another marked decrease in new business and efforts to reduce stocks of finished goods led to the contraction in output. Nonetheless, spare capacity persisted in the sector, with backlogs falling and job cuts indicated. Meanwhile, input cost inflation accelerated slightly, while output prices decreased for the second month running.

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 46.4 in December, down from November's reading of 47.1. The latest figure pointed to a fifth successive month of worsening of business conditions. Moreover, the extent of the latest deterioration was the sharpest since February 2009.

Manufacturers in South Korea reported the fastest decline in new business in 34 months during December. This extended the current sequence of contraction to five months. Similarly, new export orders fell at a sharper rate. Panellists commented that worsening economic conditions, both at home and overseas, had dampened client demand.

Output also declined at a steeper rate, due to the decrease in new business and efforts to control stocks. Subsequently, post-production inventories were depleted at the fastest rate in three-and-a-half years. Meanwhile, backlogs of work were reported to have declined at a solid pace during December. This indicated that spare capacity persisted in the sector.

December data signalled the first reduction in employment in 34 months. Anecdotal evidence suggested that lower new orders and output, alongside the non-replacement of leavers, were the main contributors to the fall in staffing levels. However, the rate of job cuts was marginal, with the majority of respondents indicating no change in employment since November.

Reflective of contractions in both new business and production, purchasing activity decreased again in December. Some panellists also noted that input buying had been reduced to help control stocks. Subsequently, pre-production inventories were depleted at a solid rate. Despite the fall in purchase volumes, suppliers' delivery times lengthened in December due to the ongoing supply-chain impacts of floods in Thailand. However, the deterioration in vendor performance was only modest.

Input prices faced by manufacturers in South Korea increased solidly in December. Panellists cited higher raw material costs and unfavourable exchange rate variations as the main drivers of input price inflation. Nonetheless, the latest rise in costs was below the long-run trend. In contrast, output prices fell for the second month running, due to strong competitive pressures.

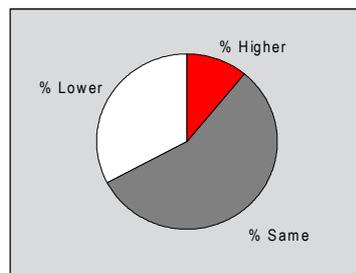
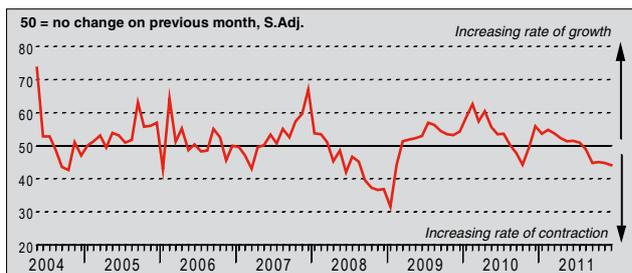
HSBC South Korea *Purchasing Managers' Index™ (PMI®)*



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.

Output Index

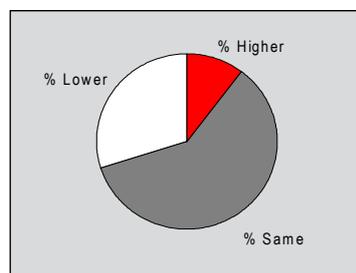
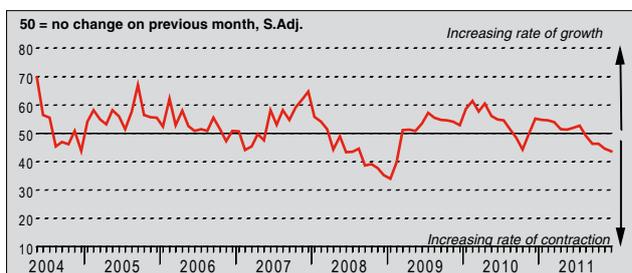
Q. Please compare your production/output this month with the situation one month ago.



December data signalled a further reduction in output in the South Korean manufacturing sector. The rate of contraction accelerated slightly since November, to the fastest in 34 months. Approximately one-third of panellists recorded a lower level of output in the latest survey period, commenting that this reflected a further decline in new business. Some respondents also noted that production was reduced in order to help control stocks of finished goods. Overall, output has decreased over each of the last five months.

New Orders Index

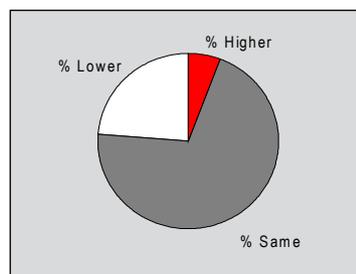
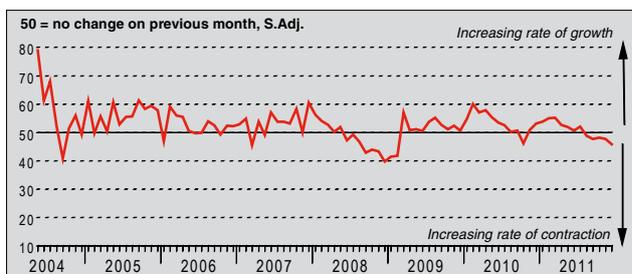
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



New orders received by manufacturers in South Korea fell during December. The latest decrease was the fifth in successive months and, with approximately 30% of respondents noting lower new work intakes, the sharpest over this period. Anecdotal evidence suggested that worsening economic conditions, both at home and overseas, had led clients to reduce their purchase volumes.

New Export Orders Index

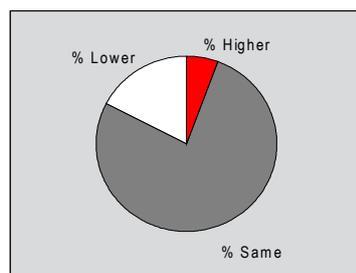
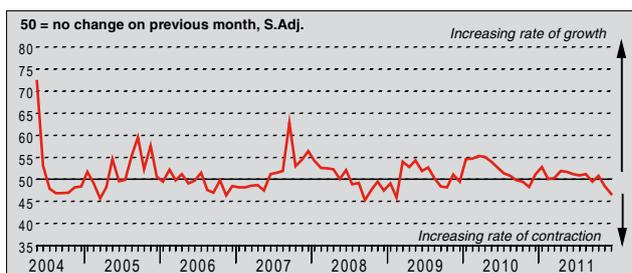
Q. Please compare the level of new export orders received this month with the situation of one month ago.



South Korean manufacturers reported a reduction in new business received from export markets in December. Panellists cited that deteriorating economic conditions abroad had damped client demand. The latest contraction in new export orders was marked, and the sharpest since February 2009. New business received from abroad has now decreased for five consecutive months.

Backlogs of Work Index

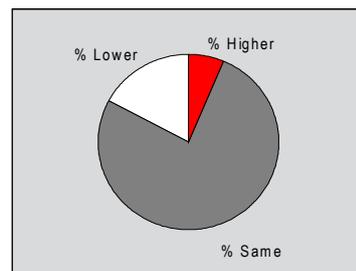
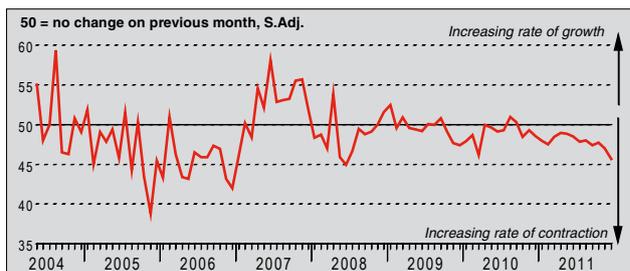
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in South Korea fell during December. This marked the third month in the last four where a reduction in outstanding business was recorded. With approximately 17% of panellists reporting a decrease in work-in-hand, the depletion was the sharpest in 34 months. Anecdotal evidence suggested that lower new order volumes had allowed backlogs to be reduced.

Stocks of Finished Goods Index

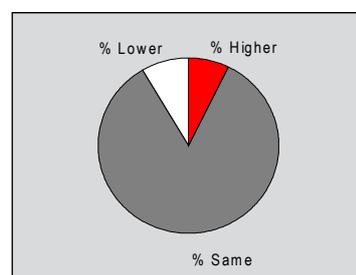
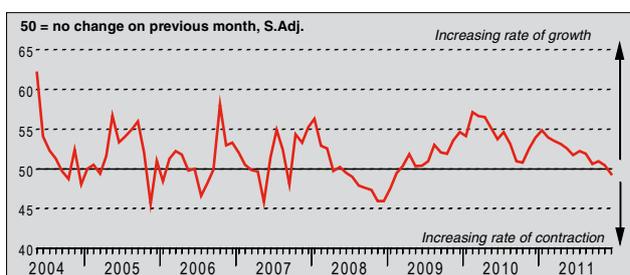
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods held at manufacturers in South Korea decreased markedly during December, extending the period of sustained decline to 15 months. The rate of depletion accelerated for a second consecutive month to the sharpest since June 2008. Panellists attributed the latest reduction in post-production inventories to a weaker demand environment, leading them to implement initiatives to lower holdings of stocks.

Employment Index

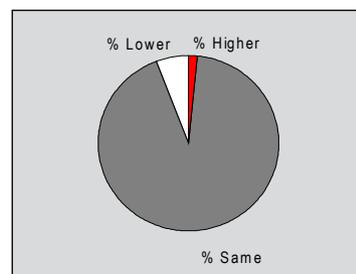
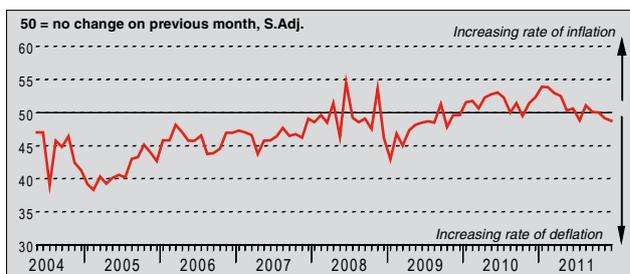
Q. Please compare the level of employment at your unit with the situation one month ago.



December data signalled a reduction in employment in the South Korean manufacturing sector. This ended a 33-month period of job creation. Anecdotal evidence suggested that the decline in staffing levels reflected lower volumes of new business, falling output and the non-replacement of leavers. However, the overall rate of job cuts was marginal, with the majority of respondents (approximately 84%) noting no change in employment since November.

Output Prices Index

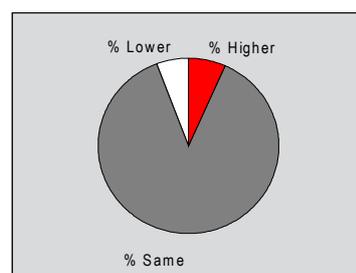
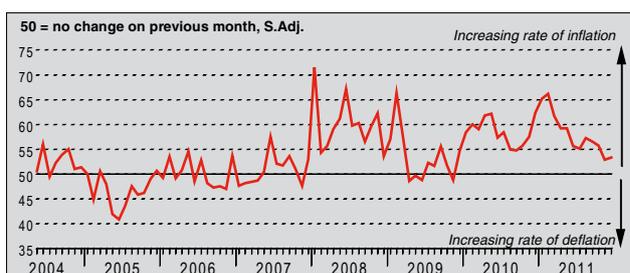
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



South Korean manufacturers reported a modest decrease in their prices charged during December. Panellists commented that the reduction in output prices reflected competitive pressures amid a weak demand environment. This was the second successive month where a fall in charges was registered, with the latest decline the sharpest since October 2009. Nonetheless, the rate of deflation was weaker than the long-run series trend.

Input Prices Index

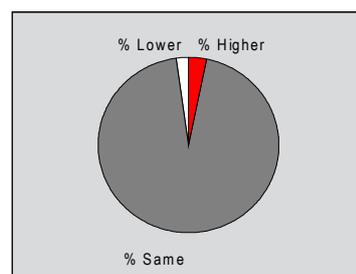
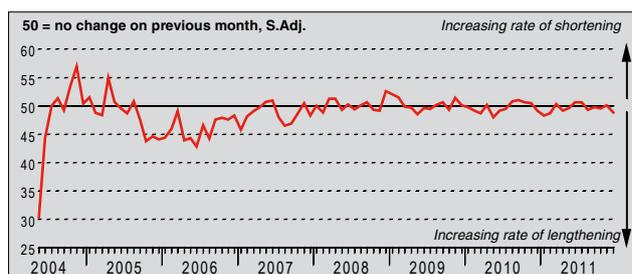
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Input prices faced by manufacturers in South Korea increased solidly during December, extending the sequence of sustained cost inflation to 25 months. Higher raw material prices and unfavourable exchange rate variations were cited as the main drivers of the rise in input prices. While the latest increase in costs was faster than in November, it remained below those seen earlier in the year and was weaker than the long-run series average.

Suppliers' Delivery Times Index

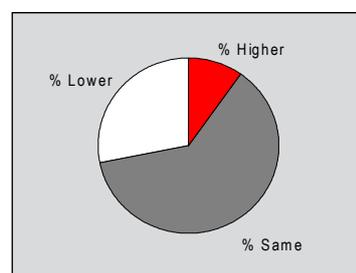
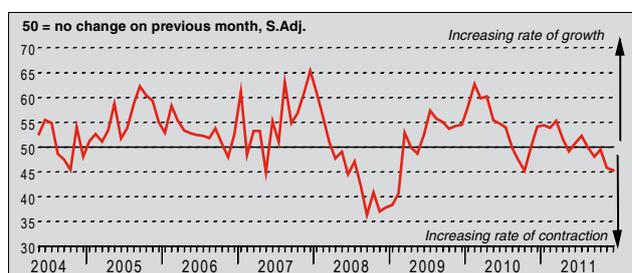
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted below the 50.0 no-change threshold in December, indicating a deterioration of vendor performance. Panellists attributed longer lead times to the supply-chain impact of floods in Thailand. However, the extent of the deterioration was modest, with the vast majority of respondents (approximately 95%) noting no change in lead times since November.

Quantity of Purchases Index

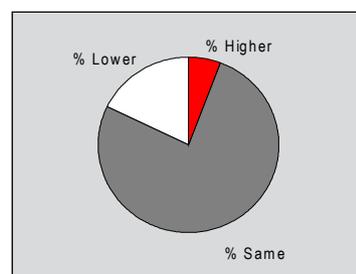
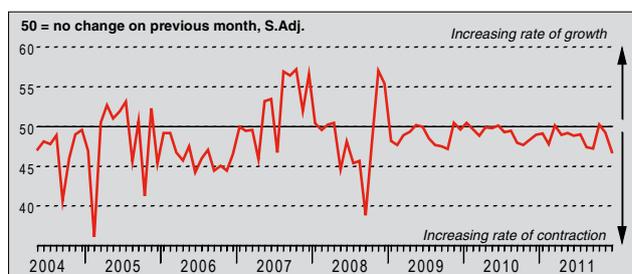
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



South Korean manufacturers reported a fourth successive monthly decline in purchasing activity in December. Moreover, the extent to which input buying fell was the sharpest in this period. Approximately 28% of respondents noted a reduction in purchase volumes during the month, citing contractions of both new orders and output as the main contributors. Many panellists also noted that input buying had decreased in order to help control stock levels.

Stocks of Purchases Index

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



Stocks of purchases held at manufacturers in South Korea fell for the eighth time in nine months in December. Approximately 18% of panellists recorded a decrease in pre-production inventories, attributing this to lower purchase volumes and the implementation of stock reduction initiatives. The rate at which stocks of purchases were depleted was solid, having accelerated from the previous survey period.

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.

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