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HSBC South Korea Manufacturing PMI®

Deterioration of South Korean manufacturing business conditions eases to marginal pace at start of 2012

Key findings:

- Output and new orders fall at weaker rates
- Spare capacity persists as backlogs and employment decrease
- Output prices reduced again

January data showed further contractions in output and new business in the South Korean manufacturing sector. However, the extent of the declines eased markedly since December, leading to only a marginal deterioration in overall business conditions. Nonetheless, signs of spare capacity persisted, with both backlogs and employment decreasing. Meanwhile, pressure on margins continued to be indicated, with output prices falling for the third month running while costs rose again.

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 49.2 in January, up from December's reading of 46.4. This signalled a sixth successive monthly deterioration in business conditions, but the latest figure pointed to only a marginal rate of decline.

South Korean manufacturers reported a further reduction in new business received during January, with decreases now registered in each month since August 2011. Continued reports of worsening economic conditions and reduced capacity at clients were reported by panellists as the main factors contributing to the decline in new work intakes. However, the latest contraction in new order volumes eased markedly since December. Similarly, the extent to which new export business

fell was weaker than in the previous survey period.

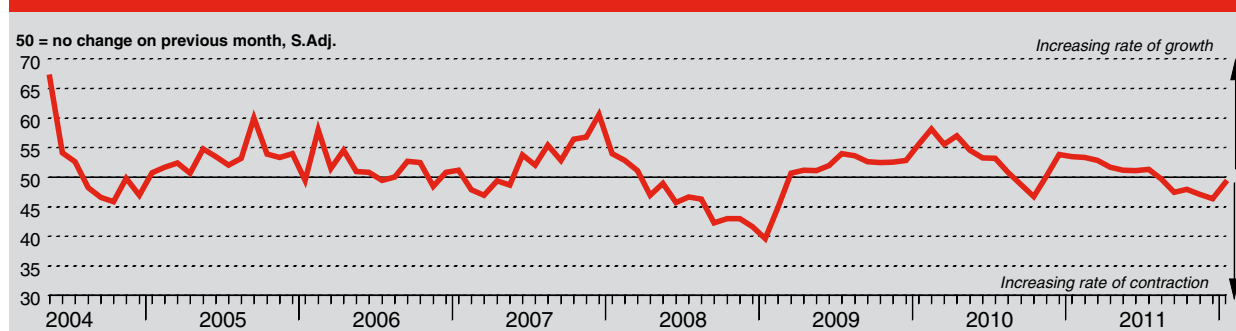
The rate at which output decreased slowed to a marginal rate in January that was the weakest in the current six-month period of contraction. Backlogs of work declined again, but the pace of depletion moderated. Nonetheless, this indicated that spare capacity within the sector persisted. Stocks of finished goods fell as manufacturers continued to pursue initiatives to reduce inventories.

January data signalled a second consecutive monthly reduction in employment in the South Korean manufacturing sector, reflective of lower new orders and ongoing excess operating capacity. Nonetheless, the rate at which jobs were cut remained marginal.

In line with weaker contractions in new business and output, purchasing activity decreased at a slower rate in January. Stocks of purchases were depleted at a moderate pace, as manufacturers continued to favour lower holdings of pre-production inventories. Suppliers' delivery times were broadly unchanged on the month.

Input prices faced by South Korean manufacturers rose at a solid rate in January. Higher raw material prices and unfavourable exchange rate variations were cited as the main drivers of cost inflation. However, output prices were decreased for the third successive month, largely in response to client requests for lower charges.

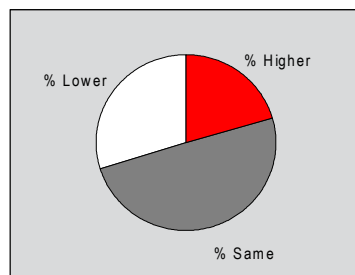
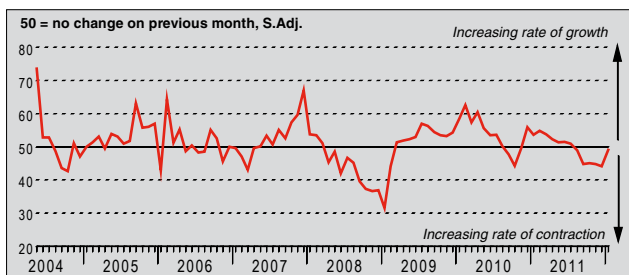
HSBC South Korea Purchasing Managers' Index™ (PMI®)



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

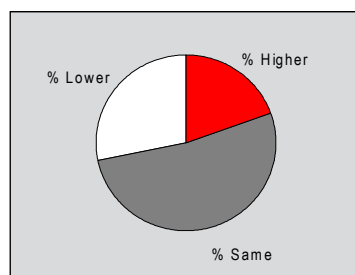
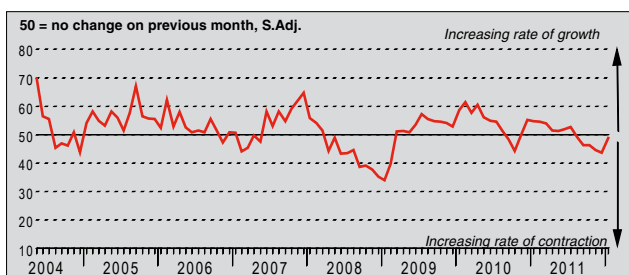
Q. Please compare your production/output this month with the situation one month ago.



January data signalled a slight reduction in output in the South Korean manufacturing sector. The latest decline was the sixth in successive months, although the rate of contraction eased markedly since December to the weakest in this sequence. Panellists commented that a slower reduction in new orders led to the weaker overall decline in output.

New Orders Index

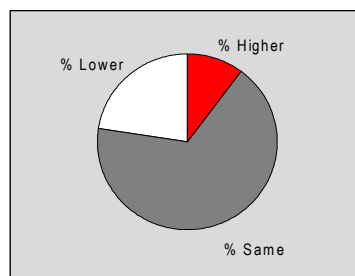
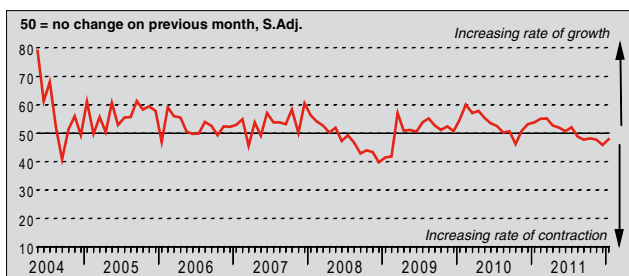
Q. Please compare the level of new orders received (South Korea and export) this month with the situation one month ago.



South Korean manufacturers reported a marginal reduction in new orders received during January. Anecdotal evidence suggested that worsening economic conditions and clients reducing their production capacity had led to the latest decrease in new orders. However, the pace of decline slowed notably on the month to the weakest since August 2011. Nonetheless, new business volumes have now fallen in each of the last six months.

New Export Orders Index

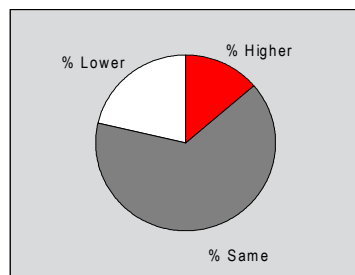
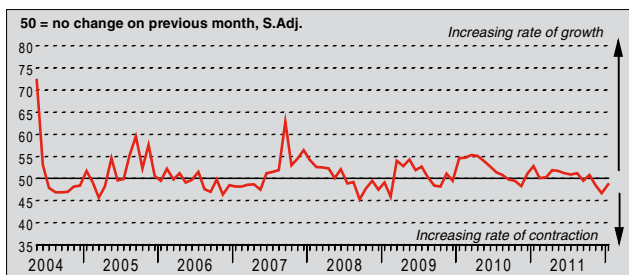
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by manufacturers in South Korea fell in January. New work intakes from export markets have now decreased in each month since August 2011. Poor economic conditions in overseas markets were cited as the main contributor to the reduction in new business. However, the rate of decline was modest, easing to a three-month low.

Backlogs of Work Index

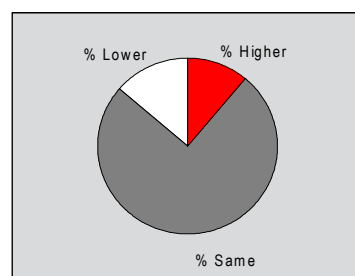
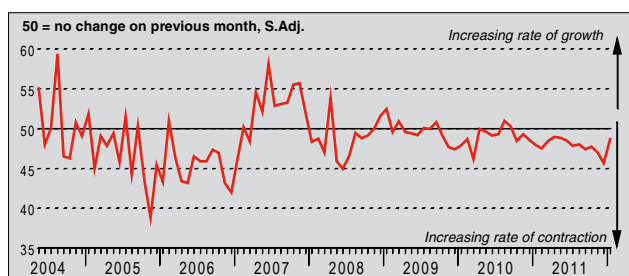
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work at manufacturers in South Korea decreased for a third consecutive month in January, indicating that spare capacity within the sector persisted. Panellists commented that a further reduction in new orders had contributed to the latest fall in outstanding business. However, the rate of depletion moderated since December and was marginal. This reflected a marked slowdown in new order contraction.

Stocks of Finished Goods Index

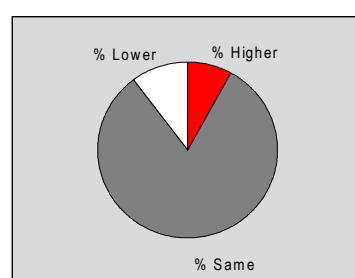
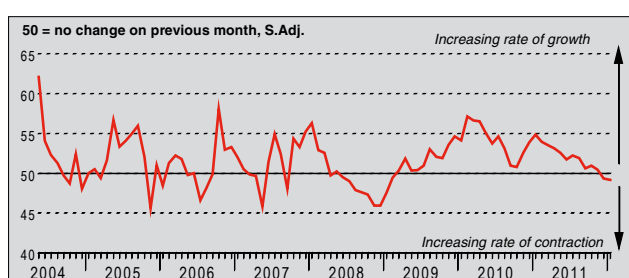
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Stocks of finished goods at manufacturers in South Korea decreased during January, extending the sequence of sustained decline to 16 months. However, with approximately 14% of respondents noting a lower level of post-production inventories, compared with 11% reporting a rise, the rate of depletion was modest. Those panellists indicating a fall in finished goods stocks attributed this to inventory reduction initiatives.

Employment Index

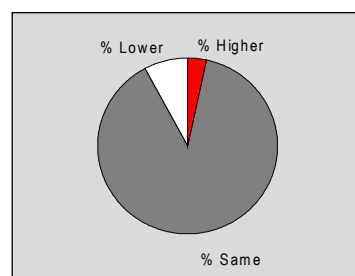
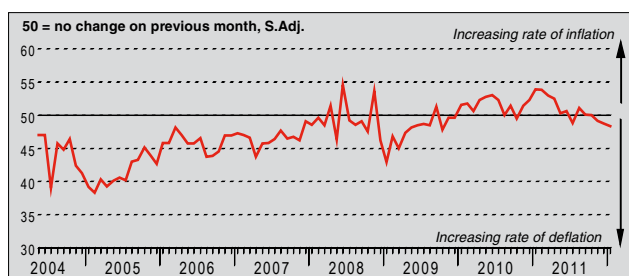
Q. Please compare the level of employment at your unit with the situation one month ago.



January data signalled a marginal reduction in employment in the South Korean manufacturing sector. This marked the second successive month of job cuts, although the rate at which staffing levels have decreased has been slight in both survey periods. This was highlighted by the majority of panellists (approximately 82%) noting no change in employment since December.

Output Prices Index

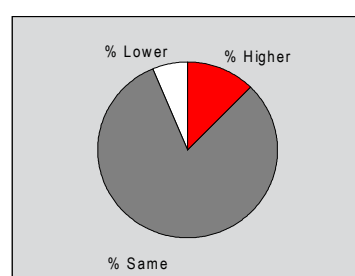
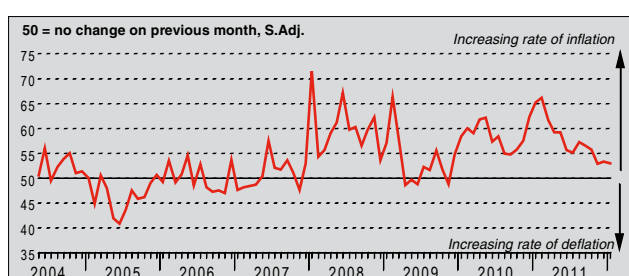
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by South Korean manufacturers fell in January, continuing the trend of the previous two months. The rate at which output prices were cut was modest, but the strongest in the current period of decline. Panellists recording a lower level of output prices since December commented that this reflected requests from clients to reduce charges, alongside lower raw material costs for some items that were passed on to customers.

Input Prices Index

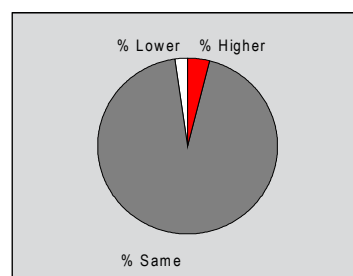
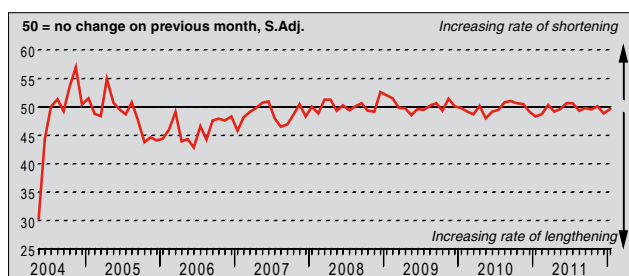
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



South Korean manufacturers reported a solid increase in input prices during January. The rate of cost inflation has been broadly similar over the last three survey periods, and remained weaker than the long-run series average. Higher raw material costs and unfavourable exchange rate variations were cited as the main drivers of input price inflation. However, this was partly offset by some reports that particular materials had been reduced in price.

Suppliers' Delivery Times Index

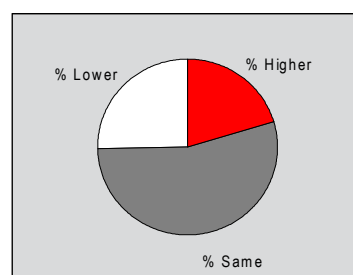
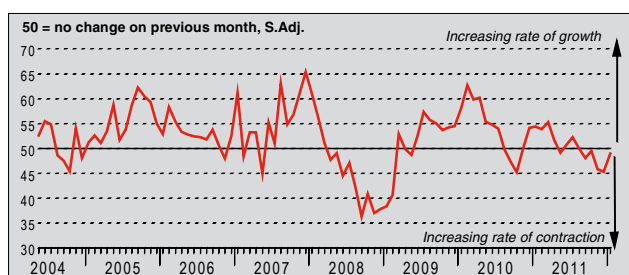
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The seasonally adjusted Suppliers' Delivery Times Index posted negligibly below the 50.0 no-change threshold in January, signalling a broadly flat level of vendor performance since December. Highlighting this, the vast majority of respondents (approximately 94%) indicated that lead times were unchanged on the month. Where a deterioration in vendor performance was noted, this was attributed to capacity constraints at suppliers.

Quantity of Purchases Index

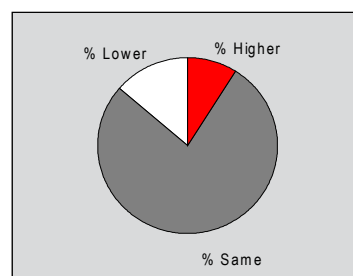
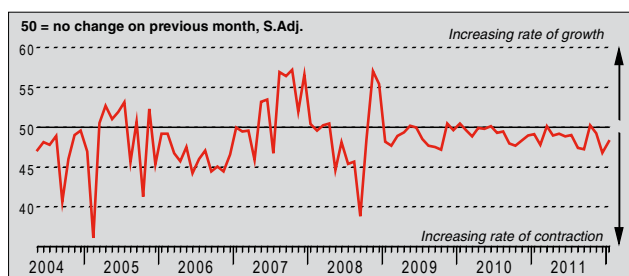
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity at South Korean manufacturers decreased for a fifth successive month in January. Lower production requirements were generally cited as the main factor behind the drop in input buying. However, in line with weaker reductions in both new orders and output, the rate at which purchase volumes declined was marginal and the second-slowest in the current period of contraction.

Stocks of Purchases Index

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



South Korean manufacturers reported a modest reduction in stocks of purchases during January. Approximately 14% of panellists noted a lower level of pre-production inventories, commenting that this predominantly reflected stock reduction initiatives. Nonetheless, the rate at which stocks of purchases were depleted eased since December, in line with a weaker decrease in input buying.

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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