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HSBC South Korea Manufacturing PMI®

South Korean manufacturing business conditions improve for first time in seven months

Key findings:

- New business and output both return to growth
- Excess capacity persists as backlogs and employment continue to fall
- Fourth successive monthly reduction in output prices

February data pointed to marginal growth of the South Korean manufacturing sector. This was driven by expansion of both production and new orders. However, the improvement in overall business conditions was tentative, with spare capacity in the sector lingering. This was highlighted by further reductions in both employment and backlogs of work. Meanwhile, input cost inflation continued to slow. However, charges decreased for the fourth month running.

The headline figure derived from the survey is the HSBC South Korea *Purchasing Managers' Index*TM (*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 50.7 in February, up from January's reading of 49.2. This signalled the first improvement in business conditions since July 2011. Nonetheless, the latest figure pointed to only a marginal rate of growth.

South Korean manufacturers reported an increase in new business received during February, ending a six-month sequence of contraction. Nonetheless, the expansion was only marginal. Similarly, new export orders increased, but only slightly. Panellists commented that ongoing fragile economic conditions and strong competition for new business had limited the extent to which overall new work intakes increased.

Output at South Korean manufacturers rose in February, in line with higher new orders. However, a stronger depletion of backlogs of work suggested that productive capacity continued to exceed new business flows. Subsequently, stocks of finished goods were increased. However, some respondents noted that this reflected the need to boost inventories to accommodate gains in new business.

February data signalled a further reduction in employment in the South Korean manufacturing sector. While the rate of job cuts was marginal, losses have now been registered for three consecutive months. Lower staff levels were largely attributed to the non-replacement of leavers.

Purchasing activity declined in February despite the rise in production. Anecdotal evidence suggested that manufacturers had opted to utilise existing stocks of purchases. However, the rise in output led to a weaker reduction of pre-production inventories. Suppliers' delivery times were broadly unchanged.

Input prices faced by manufacturers in South Korea increased modestly during February. Higher raw material prices, particularly for oil-related products, were cited as the main driver of cost inflation. However, as suppliers lowered their prices for some inputs, the latest increase in input prices was the slowest in the current 27-month period of inflation. Charges decreased for the fourth successive survey period. Anecdotal evidence suggested that client negotiations and discounting in order to stimulate demand were the main contributors to the latest reduction in output prices.



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.

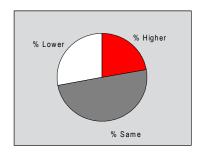




Output Index

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



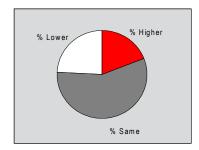


The seasonally adjusted Output Index posted above the 50.0 no-change threshold in February, signalling a rise in production at South Korean manufacturers. This followed six months where production had contracted. Panellists noting an increase in output attributed this to growth of new orders. The rate at which output expanded was modest, but slightly faster than the long-run series trend.

New Orders Index

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

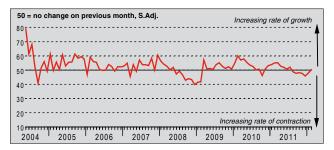


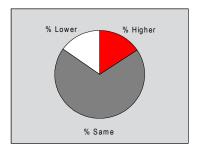


After accounting for seasonal factors, new orders received by manufacturers in South Korea were reported to have increased during February. Growth of new business was marginal, but ended a period of decline that started in August 2011. Anecdotal evidence suggested that improved demand had contributed to the expansion in new work intakes. However, fragile economic conditions weighed on the rate of growth.

New Export Orders Index

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



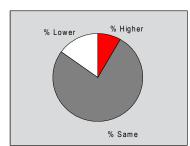


South Korean manufacturers reported a fractional increase in new export business received during February, as highlighted by the seasonally adjusted New Export Orders Index posting slightly above the 50.0 no-change threshold. Where a rise in new work intakes from abroad was indicated, this was attributed to a small recovery in demand. However, expansion was constrained by ongoing soft economic conditions in key export destinations, and strong competition for new business.

Backlogs of Work Index

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

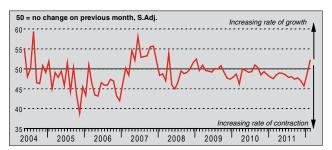


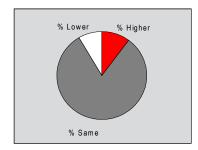


Backlogs of work at manufacturers in South Korea decreased during February, extending the sequence of sustained decline to four months. The rate of depletion was solid, and accelerated slightly since January. The reduction in outstanding business suggested that spare capacity persisted in the sector despite the latest rise in new orders.

Stocks of Finished Goods Index

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

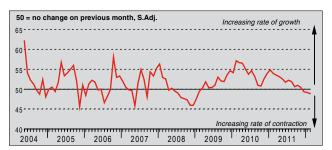


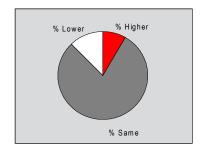


Stocks of finished goods at manufacturers in South Korea increased during February, following a 16-month sequence of depletion. Anecdotal evidence suggested that a rise in output had led to the accumulation of post-production inventories. Many panellists also noted that they had boosted stocks in order to accommodate the improvement in new business. Nonetheless, the extent to which inventories rose was modest, with the majority of respondents (approximately 81%) noting no change in finished goods stocks since January.

Employment Index

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

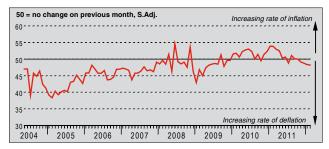


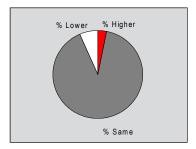


February data signalled a marginal decline in employment in the South Korean manufacturing sector. Job cuts have now been reported in each of the last three survey periods, with the latest decrease accelerating slightly to the sharpest in this sequence. Approximately 12% of respondents registered a reduction in staffing levels, predominantly attributing this to the non-replacement of leavers. However, in some cases, job cuts reflected reorganisations in line with lower output requirements.

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.

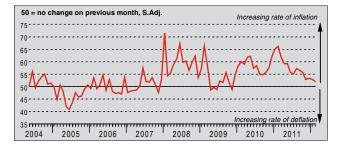


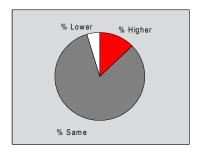


South Korean manufacturers reported a reduction in their prices charged during February, extending the period of sustained decline to four months. The extent to which output prices were decreased was modest, and broadly in line with that recorded in January. Panellists noting a reduction in charges commented that this reflected client negotiations and discounting in order to help stimulate demand.

Input Prices Index

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

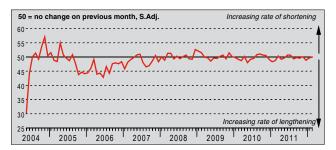


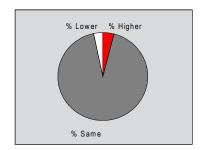


Input prices faced by manufacturers in South Korea increased during February. Higher raw material prices, particularly for oil-related products, were predominantly cited as the main driver of cost inflation. However, the rate at which input prices rose slowed for the third consecutive survey period to the weakest in the current 27-month sequence of inflation. Panellists noted that suppliers had reduced their charges for some inputs.

Suppliers' Delivery Times Index

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



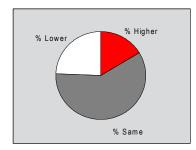


The seasonally adjusted Suppliers' Delivery Times Index posted negligibly below the 50.0 no-change threshold in February, signalling that vendor performance was broadly consistent with that seen in January. Highlighting this, the vast majority of respondents (approximately 93%) indicated that lead times were unchanged. Where a deterioration in vendor performance was registered, insufficient capacity at suppliers was cited as the main contributor.

Quantity of Purchases Index

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



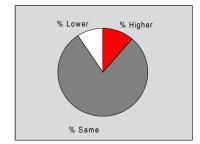


February data signalled a decrease in purchasing activity at manufacturers in South Korea. Approximately 24% of respondents noted a lower level of input buying, commenting that this reflected recent weak trends in production requirements and ongoing stock reduction initiatives. The rate at which purchase volumes fell was modest, but slightly faster than in the previous survey period.

Stocks of Purchases Index

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





South Korean manufacturers reported a marginal reduction in stocks of purchases during February. Pre-production inventories have now decreased for four successive survey periods, although the latest decline was the weakest in this sequence. Panellists noted that increased production requirements had helped to soften the rate of depletion in February.

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' IndexTM ($PMI^{(0)}$) 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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