HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

Embargoed until: 09:00 (SEOUL), 2 April 2012

HSBC South Korea Manufacturing PMI®

Further improvement in South Korean manufacturing business conditions in March

Key findings:

- PMI edges higher, but rate of growth remains modest
- Manufacturers remain cautious regarding holdings of stock
- Employment rises, largely due to expectations for further increases in new work intakes

March data pointed to a second consecutive monthly expansion of the South Korean manufacturing sector. An increase in new orders led to a rise in output and supported the overall strengthening of business conditions. Furthermore, employment increased for the first time in four months. A fractional rise in backlogs suggested that output was lifted broadly in line with requirements. Meanwhile, input prices increased again, while manufacturers remained unable to raise charges.

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 52.0 in March, up from February's reading of 50.7 to a one-year high. The latest reading signalled a stronger improvement in business conditions compared with the previous survey period. Nonetheless, the rate of expansion was moderate.

New orders received by South Korean manufacturers rose in March, with both domestic and international demand contributing to the overall increase. Some panellists also commented that new product launches had helped to boost sales. The rate of new business growth was modest, but broadly in line with the long-run trend. However, the expansion in new export orders was only marginal, restricted by relatively poor economic conditions in key markets.

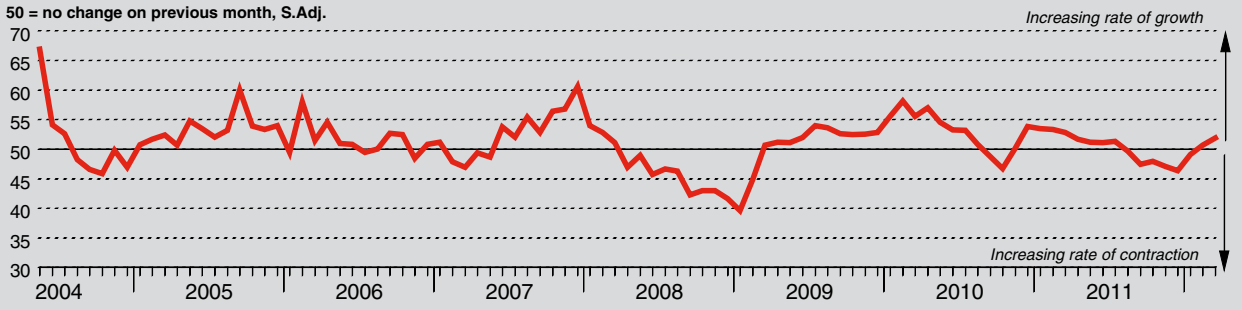
A solid rise in output was reported in March, reflective of the rise in overall new work intakes. A fractional increase in levels of outstanding business indicated that manufacturers were largely able to accommodate the latest growth in new orders. Finished goods stocks were depleted at a solid rate. Anecdotal evidence suggested that panellists had retained inventory reduction initiatives, and that existing stocks were utilised in order to partly fulfil order obligations.

March data signalled the first rise in employment since November 2011. While the current increase in new business was reported as a contributor to job creation, many respondents noted that expectations for growth of new business had also supported higher staffing levels.

South Korean manufacturers reported a rise in purchasing activity during March. A fractional lengthening in lead times was reported. Stocks of purchases were accumulated as a result of increased inventory requirements and a weaker than expected rise in new orders. However, as many companies preferred to work from existing inventories, the pace of accumulation was marginal.

Input prices faced by manufacturers in South Korea rose again in March. Higher raw material costs, particularly for oil, were cited as the main driver of inflation. However, the increase in costs was below the long-run series trend. Output prices fell for the fifth month running, but at a marginal pace. Strong competition and discounting to stimulate sales led to the deterioration in pricing power.

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



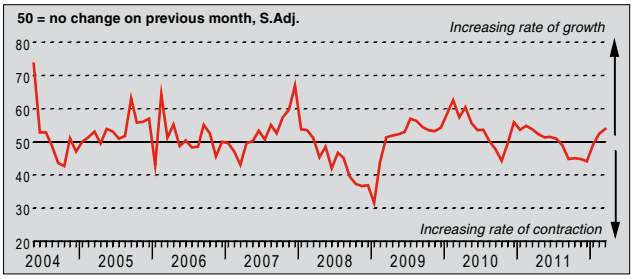
The HSBC South Korea *Purchasing Managers' Index*™ *(PMI®)* is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, 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.

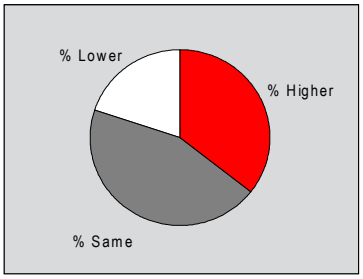
markit™

HSBC

Output Index

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

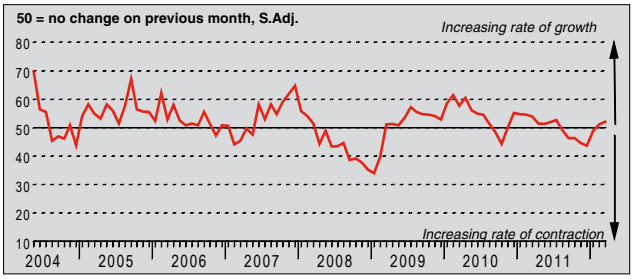


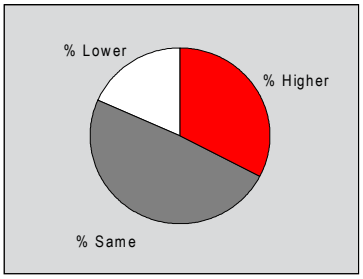


March data signalled a rise in output in the South Korean manufacturing sector, extending the sequence of sustained growth to two successive months. Moreover, with approximately 36% of respondents noting a higher level of production, the rate of growth accelerated to the fastest since March 2011. Panellists commented that an increase in new orders supported the latest expansion of 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.

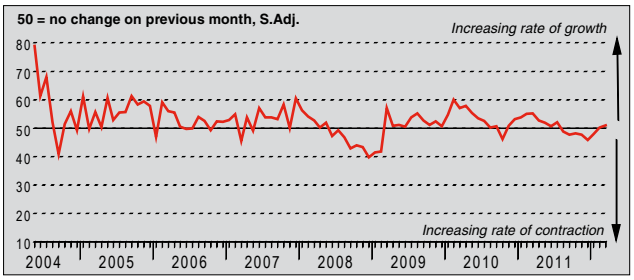


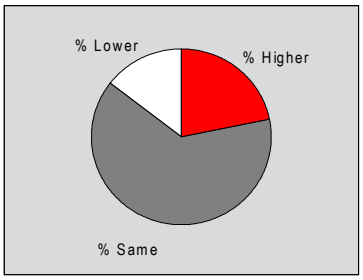


The seasonally adjusted New Orders Index posted above the 50.0 no-change threshold, signalling a rise in new business received by South Korean manufacturers during March. Anecdotal evidence suggested that improved client demand had led to the increase in new work intakes. Some panellists also noted that the launch of new products had boosted sales. Despite the latest growth in new orders being modest, it was faster than in the previous survey period, and broadly in line with the long-run series average.

New Export Orders Index

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

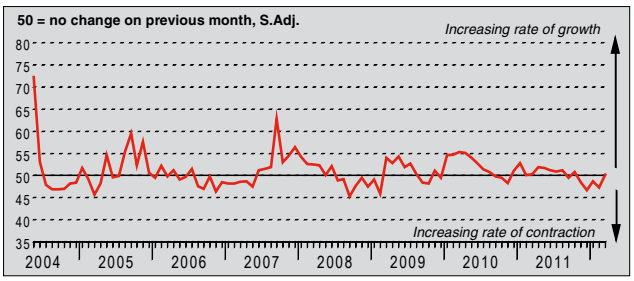


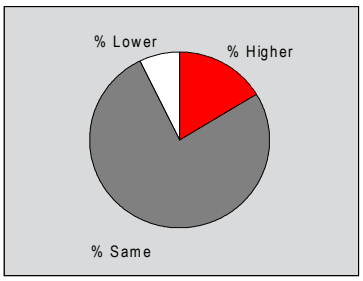


South Korean manufacturers reported an increase in new business received from export markets during March. The expansion was the second in consecutive months, with panellists commenting that the latest rise reflected strengthening client demand and new customer wins. However, the rate of growth was only marginal, with relatively poor economic conditions in key export destinations acting as a drag on the overall rate of expansion.

Backlogs of Work Index

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

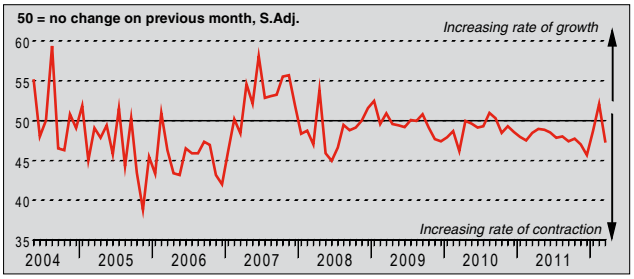


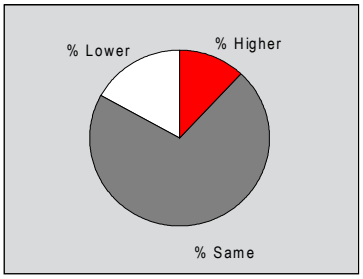


Backlogs of work at manufacturers in South Korea increased during March. Anecdotal evidence suggested that higher new business placed some pressure on operating capacity, ending a four-month period of depletion. However, with the seasonally adjusted Backlogs of Work Index posting only slightly above the 50.0 no-change threshold, the rate of accumulation was only fractional.

Stocks of Finished Goods Index

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

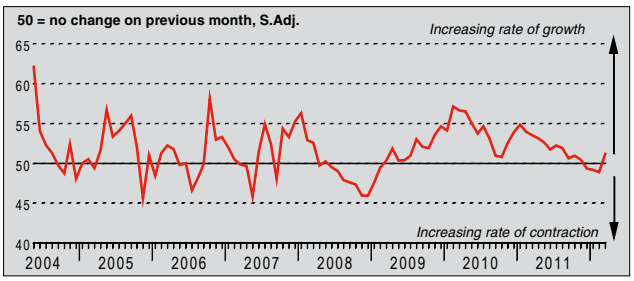


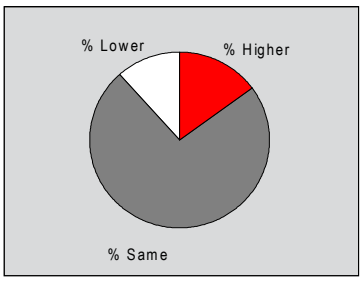


Stocks of finished goods held at manufacturers in South Korea fell solidly during March. This was in contrast to the moderate accumulation registered in February. Nonetheless, falling levels of post-production inventories have now been recorded in 17 of the last 18 months. Panellists noting a lower level of finished goods stocks generally reported that new order obligations had been fulfilled from existing inventories.

Employment Index

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

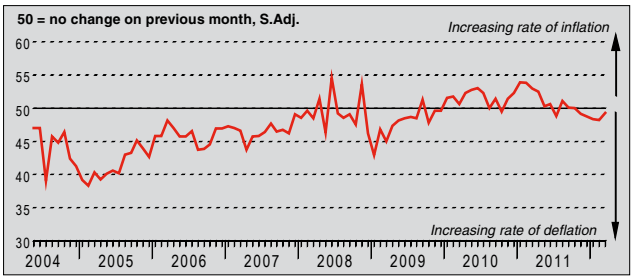


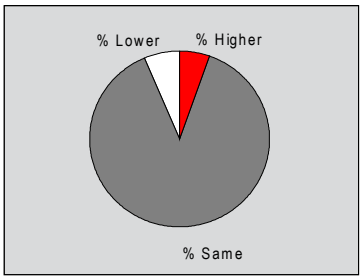


March data signalled a rise in employment in the South Korean manufacturing sector. This ended a three-month period of job cuts. However, with 15% of panellists registering an increase in staffing levels, compared with approximately 12% noting a fall, the rate of job creation was only modest. Respondents indicating a rise in employment commented that, while higher output requirements had in part contributed to the increase, job creation was largely supported by expectations for growth of new orders in the future.

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.

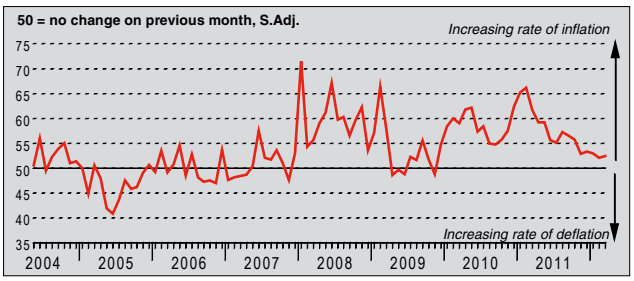


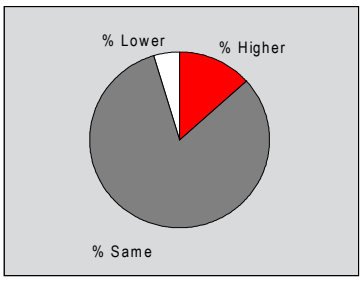


South Korean manufacturers reported a marginal reduction in their prices charged during March. Output prices have now fallen in each of the last five months, although the latest decrease was the slowest in this sequence. Where a decline in charges was registered (by approximately 7% of respondents), this was predominantly attributed to strong competition for new business and discounting in order to stimulate sales.

Input Prices Index

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

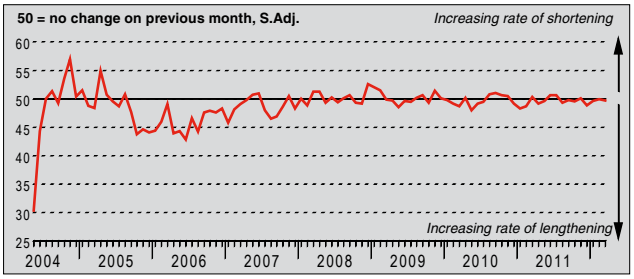


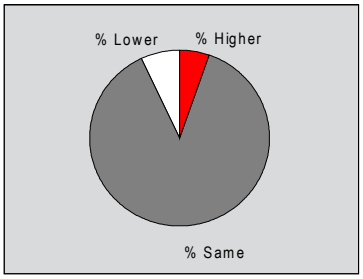


Input prices faced by manufacturers in South Korea rose for the twenty-eighth month running in March. Panellists cited higher raw material costs, particularly for oil, as the main driver of inflation. However, the latest increase in input prices was only modest and below the historical series average. Anecdotal evidence suggested that some suppliers had reduced their charges.

Suppliers' Delivery Times Index

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

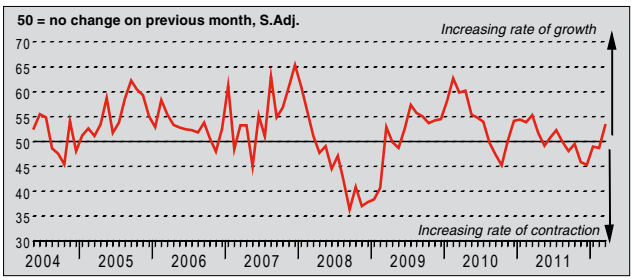


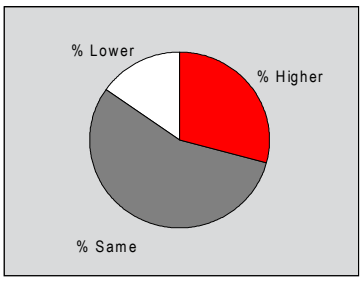


The seasonally adjusted Suppliers' Delivery Times Index posted fractionally below the 50.0 no-change threshold, signalling a negligible deterioration in vendor performance. This was highlighted by the majority of respondents (approximately 88%) noting that lead times were unchanged since February. Where a lengthening of suppliers' delivery times was indicated, this was attributed to increased purchasing activity and a lack of capacity at vendors.

Quantity of Purchases Index

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

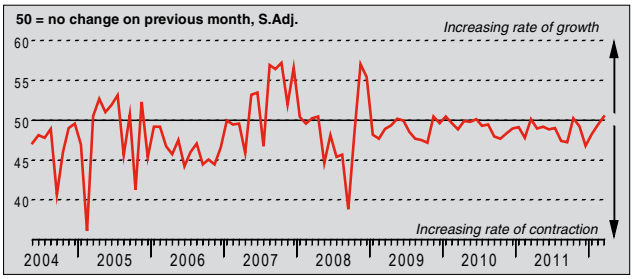


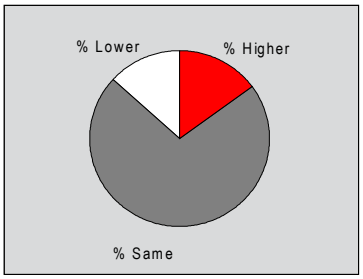


South Korean manufacturers reported a solid rise in their purchasing activity during March. This was the first increase in input buying since July 2011. Approximately 29% of panellists registered growth of purchase volumes in the latest survey period, commenting that this reflected expansions of both new orders and output requirements. However, the extent of the rise was restricted by initiatives to reduce stocks at some companies, alongside a further increase in raw material prices.

Stocks of Purchases Index

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





Stocks of purchases at manufacturers in South Korea were reported to have increased during March, ending a four-month sequence of depletion. Some panellists commented that pre-production inventories were boosted in order to meet higher output requirements. However, other respondents noted that the rise in new orders had been weaker than expected, leading to an increase in stocks. Nonetheless, with many companies still opting to work from existing inventories, the overall rate of accumulation was only slight.

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.

Warning