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HSBC South Korea Manufacturing PMI®

Growth of South Korean manufacturing output eases to marginal rate

Key findings:

- Factory output rises at slowest rate in current four-month period of growth
- Jobs growth remains marginal
- Output charges down at fastest rate in over three years

Growth of South Korean manufacturing output lost momentum in May, slipping to the weakest in the current four-month period of expansion. New order growth held up relatively well in comparison, with the latest increase only slightly weaker than in April. Meanwhile, goods producers added to their staff numbers on average, although the rate of job creation remained marginal. On the price front, output charges decreased to the greatest extent in more than three years, while input cost inflation eased to a marginal rate.

After adjusting for seasonal factors, the HSBC *Purchasing Managers' Index*TM (PMI^{TM}) – a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy – posted 51.0 in May, signalling a fourth successive month of improving operating conditions. However, the index lost ground for the second successive month, and was below the long-run average for the series of 51.3.

Manufacturing production rose further in May, largely reflective of greater inflows of new business. That said, the rate of expansion was only marginal, having eased from April's 14-month high. Additionally, the latest increase was the slowest in the current four-month period of growth.

Growth of incoming new business placed at South Korean goods producers was recorded for a fourth month running in May. The pace of increase in new work eased slightly since April, but remained moderate nonetheless. May data also

highlighted a further rise in new export business, albeit to a lesser extent than for overall new orders. Survey participants generally commented on better demand from both domestic and global markets.

Job creation was recorded for a third successive month in the sector. However, the latest increase in staff numbers was only marginal, in part reflecting a near-stabilisation of backlogs of work at goods producers.

The amount of inputs purchased by South Korean manufacturing firms increased during the month, although the pace of growth eased to only a marginal rate. Stocks of purchases decreased for the first time in three months as a result. Meanwhile, latest data highlighted a renewed deterioration in average vendor performance, albeit marginal.

The rate of input cost inflation in South Korea's manufacturing sector moderated to a marginal rate during May. Moreover, the latest increase in purchasing costs was the weakest in the current period of inflation, which now extends to two-and-a-half years. Where average costs rose, companies commented on higher prices paid for raw materials. Muted input price pressures provided greater scope for firms to reduce their output charges in an attempt to retain clients and attract new business, with factory gate charges decreasing at the sharpest rate in 37 months. The latest decrease in selling prices was the seventh in as many months.



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 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.

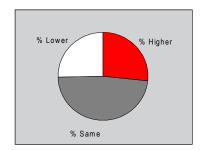




Output Index

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



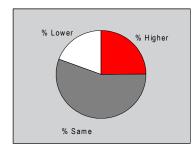


Manufacturing output in South Korea rose further during May. Of the 27% of firms that recorded a rise in production, the majority attributed growth to higher intakes of new business. However, the rate of expansion was only marginal, with the seasonally adjusted Output Index falling from April's 14-month high. Moreover, the latest increase in manufacturing production was the weakest in the current four-month period of growth.

New Orders Index

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

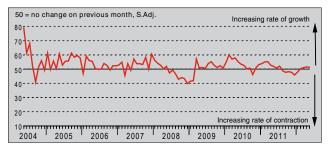


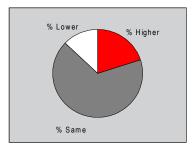


Incoming new business placed at South Korean manufacturing firms continued to rise in May. The rate of expansion in new work eased since April, and was moderate. Companies commented on firmer demand on both global and domestic markets. The latest increase in new order intakes was the fourth in as many months.

New Export Orders Index

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



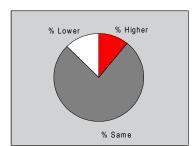


May data signalled another expansion of incoming new export business placed at South Korean manufacturing firms. Where a rise in new export orders was recorded, survey respondents predominantly linked growth to better demand on overseas markets. However, the seasonally adjusted New Export Orders Index was broadly unchanged at a level indicative of only a modest 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.



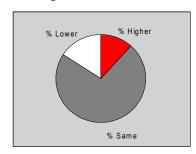


The seasonally adjusted Backlogs of Work Index signalled another rise in volumes of work-in-hand (but not yet completed) at South Korean goods producers. Where a rise in outstanding business was signalled, companies attributed growth to greater inflows of new business. The pace of backlog accumulation remained marginal, however.

Stocks of Finished Goods Index

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

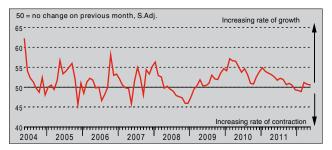


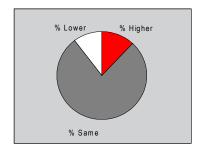


Holdings of post-production goods in South Korea's manufacturing sector decreased for a third successive month during May. Almost 16% of survey participants noted a reduction in stock levels, compared to 12% that recorded a rise. The rate of inventory depletion was moderate, and sharper than in April. Where a decline in post-production inventories was recorded, companies often linked this to softer growth of manufacturing output.

Employment Index

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



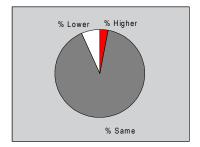


After adjusting for seasonal factors, the Employment Index signalled another month of job creation in the South Korean manufacturing sector. The latest increase extended the current period of growth to three months. That said, the latest index reading was consistent with only a marginal rate of employment growth.

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.



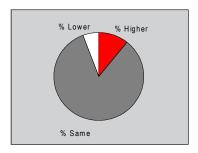


Prices charged by South Korean manufacturing firms for their final products decreased again in May, extending the current period of contraction to seven months. The rate of output price discounting was moderate, and the sharpest since April 2009. Companies reported reducing their output charges in an attempt to retain existing clients and attract new business.

Input Prices Index

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



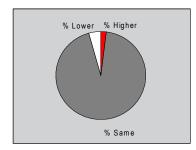


Average input costs faced by South Korean goods producers continued to rise in May. According to survey respondents, higher purchasing costs reflected increased prices paid for raw materials. However, the seasonally adjusted Input Prices Index was at a level indicative of a marginal rate of inflation. Moreover, the latest index reading was the lowest in 30 months.

Suppliers' Delivery Times Index

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





May data signalled a renewed deterioration in average vendor performance, with survey participants predominantly attributing this to a lack of supply at vendors. The rate of lead time lengthening was marginal, however, with the vast majority of panellists (around 94%) signalling no change in supplier performance since the preceding month.

Quantity of Purchases Index

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

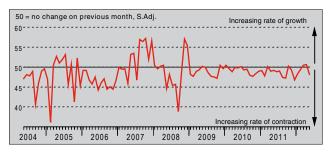


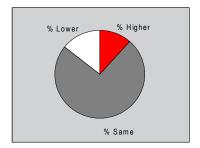


The rate of purchasing growth in the South Korean manufacturing sector eased to near-stagnation during the month. This followed solid expansions of input buying in March and April. Anecdotal evidence provided by survey respondents suggested that the slower rise in purchasing reflected softer growth of manufacturing output.

Stocks of Purchases Index

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





Holdings of pre-production goods in the South Korean manufacturing sector decreased during May, ending a two-month sequence of stock accumulation. Although only modest, the rate of inventory depletion was the fastest in 2012 so far. Companies generally attributed the reduction in stock levels to weaker growth of 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' 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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