HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC South Korea Manufacturing PMI®

PMI points to fastest deterioration in manufacturing since December 2011

Key findings:

- Production and new orders fall sharply
- Backlogs fall at survey-record pace
- Input prices fall at fastest rate since November 2006

South Korean manufacturing output contracted for the second consecutive month in July following a sharp contraction in new orders. Charges fell at the fastest rate in over three years as companies competed to attract more business. Meanwhile, the previous period of job creation ended with a marginal decline in workforces. Survey data also indicated the steepest drop in input prices since late-2006.

The HSBC South Korea *Purchasing Managers' Index*™ *(PMI®)* is 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 PMI registered 47.2 in July, down from 49.4 in June and pointing to a further deterioration in the health of the manufacturing sector.

Production fell solidly at manufacturing firms in South Korea during July. The pace of contraction was the fastest recorded since December 2011. Panellists attributed lower production to the global economic slowdown.

New orders declined at the fastest pace since December 2011. Moreover, new export business decreased for the second successive month amid reports of downturn in the international economic climate. In line with falling new order volumes, backlogs of work dropped during July. Data signalled that the latest contraction was the quickest since the survey started in April 2004.

Prices charged by South Korean manufacturers in July fell modestly. Output prices have fallen in each of the past nine months, and the rate of decline in July was the fastest since April 2009. Manufacturers reportedly reduced factory gate prices in line with decreasing prices for raw materials. Approximately 9% of respondents signalled lower output prices, in contrast to 3% indicating higher charges.

Meanwhile, input prices fell solidly and for the second successive month. According to manufacturers, prices had fallen as a result of negotiations with suppliers.

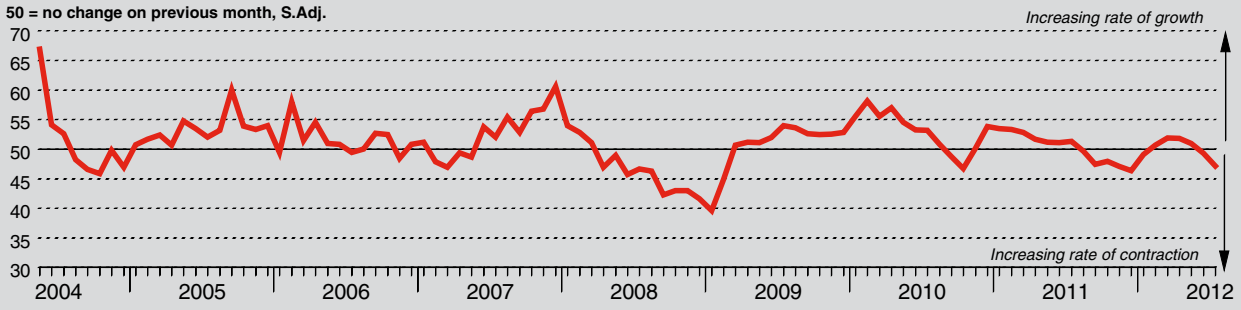
Post-production inventories were accumulated slightly, with the index posting just above the no-change benchmark of 50.0. That said, this was the first accumulation of stocks of finished goods since February. In contrast, pre-production inventories were intentionally depleted in an attempt to reduce storage costs, it was reported.

Workforces at manufacturing firms in South Korea fell during July. The latest data adjusted for seasonal factors pointed to the first contraction in employment since February albeit at a marginal rate. Firms reported that following resignations, no new recruitment had been carried out as the global economy continued to deteriorate.

Average lead times increased slightly at manufacturers in South Korea, extending the current lengthening period to three months.

Finally, purchasing activity decreased substantially during July. This was the quickest decline in seven months. Companies linked the latest reduction to weaker demand.

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.

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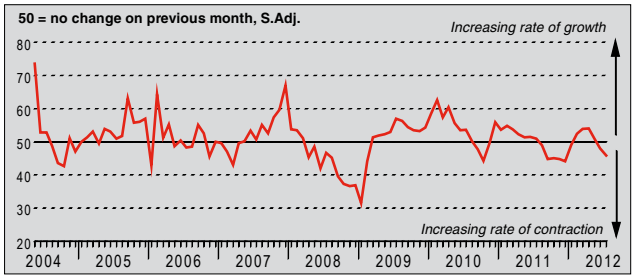
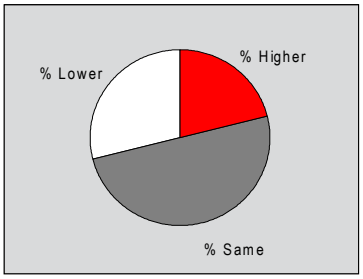
Output Index

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

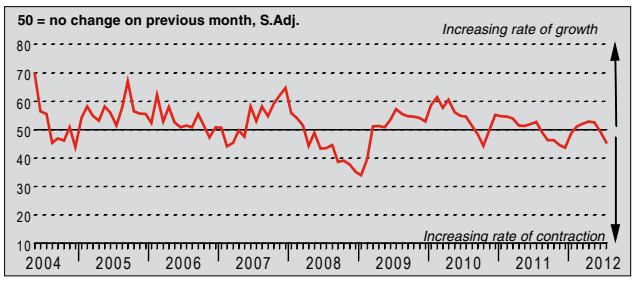


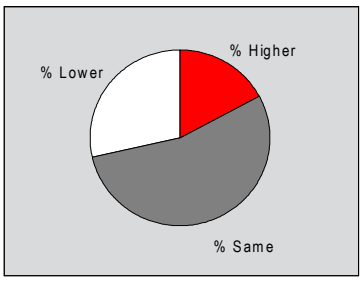


Production in the South Korean manufacturing sector contracted for the second successive month during July. The pace of contraction was solid, and the quickest since last December. Anecdotal evidence suggested that output fell as demand weakened. There were also reports that the current economic slowdown led to a decline in output volumes.

New Orders Index

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

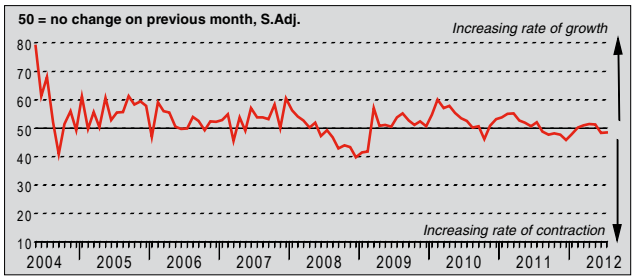


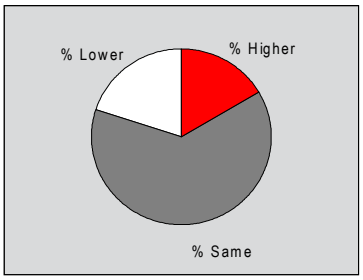


Manufacturers in South Korea signalled a solid reduction in new orders during July. The latest survey pointed to the fastest decline in new order book volumes since December 2011. Respondents indicated that the uncertain outlook for the international economy had resulted in lower new business. Almost 29% of panellists reported lower new order book volumes, in contrast to 17% indicating growth.

New Export Orders Index

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

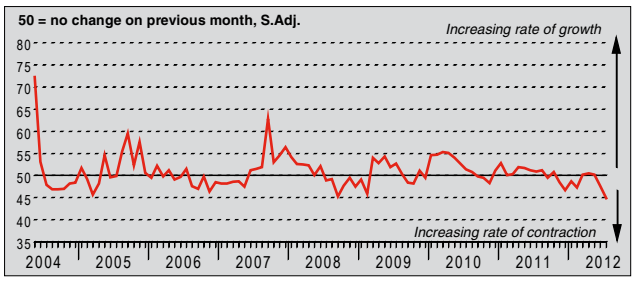


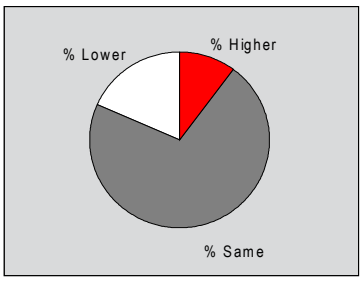


New export orders at manufacturing companies in South Korea fell in July. However, the pace of contraction was only modest and broadly in line with that seen in June, as signalled by the seasonally adjusted New Export Orders Index. According to manufacturers, new export contracts dropped mainly due to the weakening international economic climate.

Backlogs of Work Index

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





The volume of outstanding business at South Korean manufacturing firms fell in July. Moreover, the contraction was the fastest since the series began in April 2004. Approximately 18% of firms reported lower outstanding orders, compared with 10% indicating increases. Panellists stated that backlogs of work decreased as production fell.

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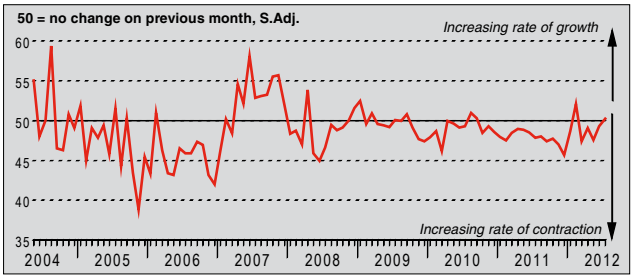
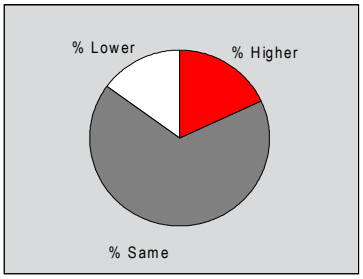
Stocks of Finished Goods Index

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

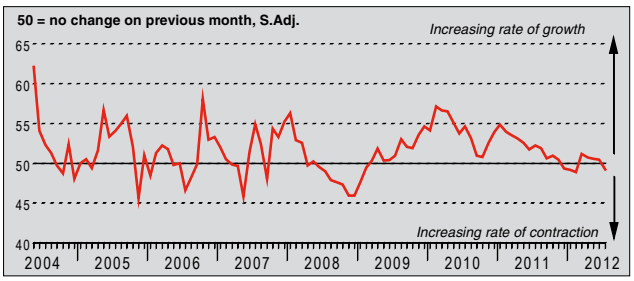


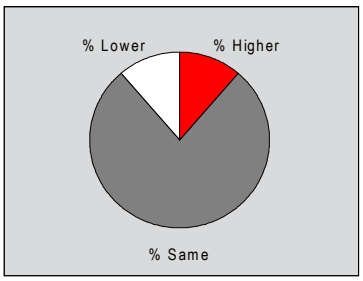


Manufacturers in South Korea accumulated stocks of finished goods during July. Although the pace of increase was only slight, it was the first recorded since February. According to respondents, post-production inventories rose mainly as a result of shipment delays. Approximately 18% of respondents signalled higher stocks of finished goods, in contrast to 15% reporting a depletion.

Employment Index

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

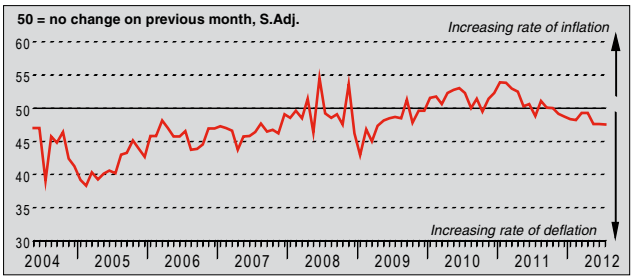


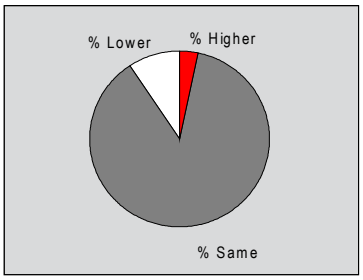


Workforces at firms in South Korea fell marginally during July. The latest contraction in employment ended a four-month sequence of job creation as signalled by the Employment Index adjusted for seasonal factors. Anecdotal evidence suggested that, due to the current economic slowdown, resignations and retirements had not been replaced.

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.

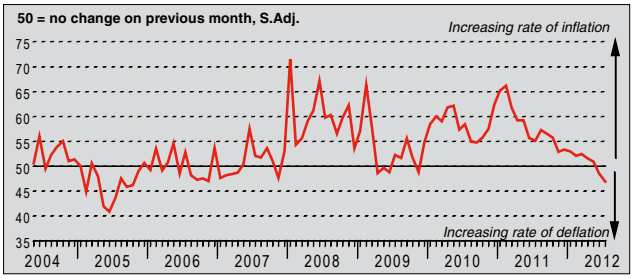


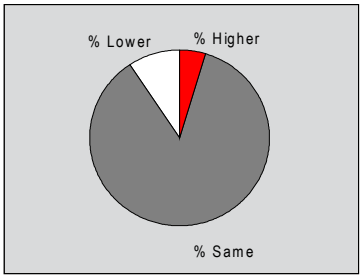


Manufacturers in South Korea reduced their output prices in July, amid reports of requests from clients. Moreover, companies suggested that charges were lowered in line with decreasing raw material prices. Factory gate prices have fallen in each of the past nine months, and the latest decline was the fastest since April 2009.

Input Prices Index

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

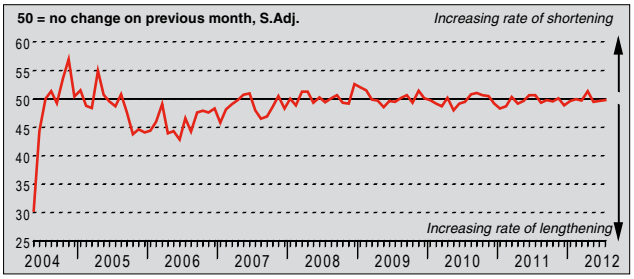




Input costs at manufacturing firms in South Korea fell for the second successive month. The pace of decline was marked, and the quickest since November 2006. According to respondents, prices of major raw materials had fallen in the latest month. Moreover, it was cited that manufacturers had asked suppliers to lower their prices.

Suppliers' Delivery Times Index

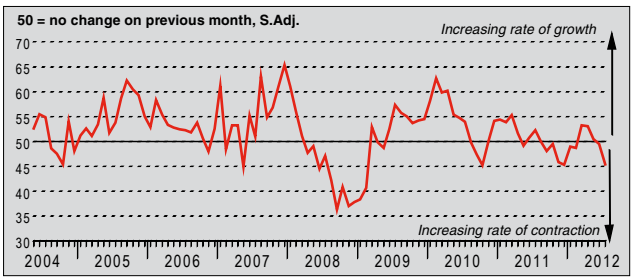
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.

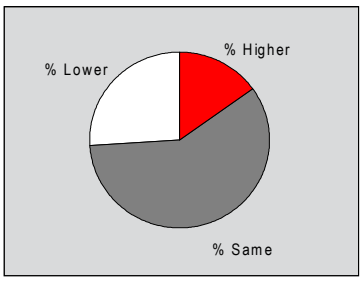


Average lead times lengthened slightly in the South Korean manufacturing sector during July. Vendor performance deteriorated for the third successive month, following an improvement in April. However, the seasonally adjusted Suppliers' Delivery Times Index was above its long-run average. Panellists signalled that striking truck drivers had affected vendor performance.

Quantity of Purchases Index

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

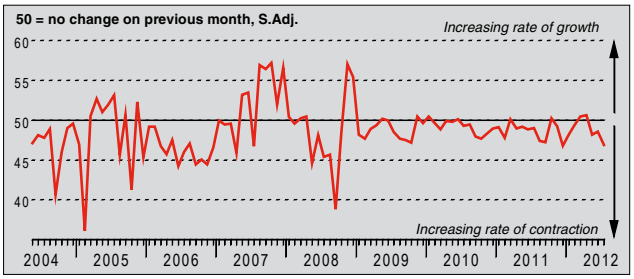


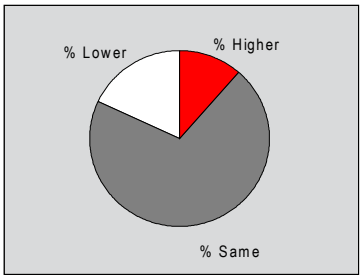


Purchasing activity at manufacturing firms in South Korea fell during July. The pace of contraction was substantial, and the quickest in seven months. Approximately 26% of firms reported lower input buying, in contrast to 15% signalling higher purchasing activity. Companies linked the latest reduction to decreasing sales volumes.

Stocks of Purchases Index

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





Pre-production inventories in the South Korean manufacturing sector during July fell. The latest contraction was the fastest recorded since December last year. Respondents reported that pre-production inventories were depleted intentionally in order to control storage costs. Moreover, due to weaker demand some companies decided to reduce their stocks of purchases.

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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