HSBC *Purchasing Managers' Index*™ 2012

compiled by markit

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HSBC South Korea Manufacturing PMI®

Production falls at fastest rate in eight months

Key findings:

- New orders contract at sharp rate
- New export orders decrease for third month running
- Falling output prices signalled

In line with falling new orders and new export orders, South Korean manufacturers signalled a decrease in output during August. The latest fall in production, combined with an increase in staffing levels, led to a contraction in backlogs of work. Meanwhile, pre- and post-production inventories were intentionally depleted. Although input prices remained constant, manufacturers reduced their output prices in an attempt to increase sales.

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 47.5 in August, broadly in line with the reading of 47.2 in July and pointing to a further deterioration in the health of the South Korean manufacturing sector.

Output contracted at the fastest pace in eight months amid reports of a strike in the auto sector. Moreover, respondents stated that the global recession had adversely affected production.

Total new business fell and, although sharp, the rate of contraction was slower than in July. New export business also decreased, though at a slight rate. Panellists stated that weaker domestic demand and a downturn in the global economy had both fed through to the latest contraction in order book volumes.

Staffing levels at manufacturing firms in South Korea increased during August. However, the pace of expansion was only slight and the index posted below its long-run average. According to respondents, workforces were increased as manufacturers forecast an improvement in the wider economy over the upcoming year.

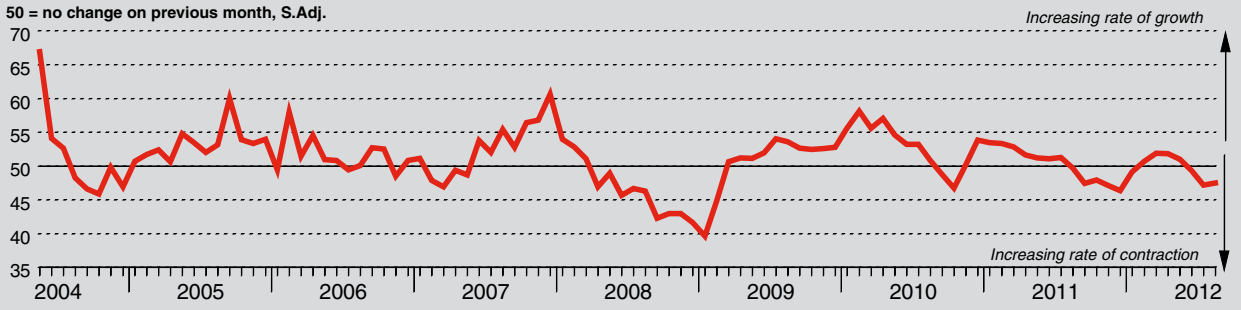
With employment expanding and demand weakening, backlogs of work were depleted at a sharp rate. Almost a fifth of the surveyed panel reported lower volumes of work-in-hand (but not yet completed).

Stocks of finished goods in the South Korean goods-producing sector decreased during August. Pre-production inventories also fell, and at a faster pace than post-production inventories. Stocks of purchases had fallen in each of the past four months.

Purchasing activity at manufacturing firms in South Korea decreased for the third successive month in August. The rate of contraction was solid, but eased from that recorded in July. Meanwhile, average lead times lengthened in the latest month, marking a four-month sequence of deterioration in vendor performance. That said, the rate of increase remained slight and the index posted above its long-run trend.

Manufacturing companies in South Korea signalled no change in input costs during August, as 91% of the surveyed panel reported constant input prices. On the other hand, output prices decreased for the tenth successive month as manufacturers attempted to attract more business. The rate of decrease in factory gate prices was moderate, and broadly similar to that seen in July.

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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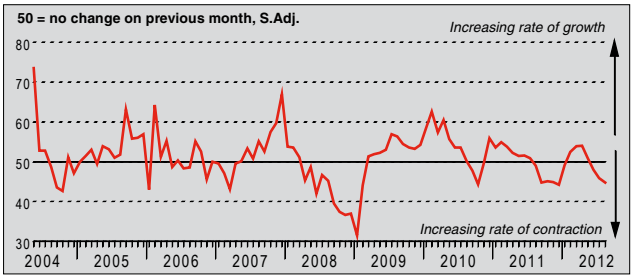
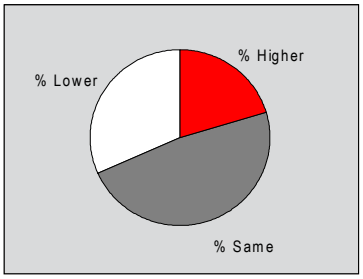
Output Index

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

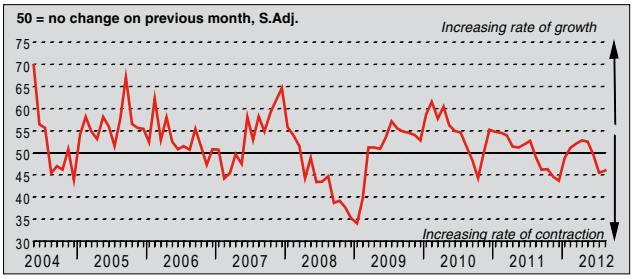


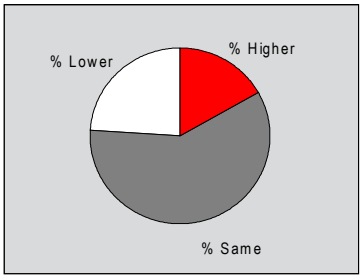


Production at manufacturers in South Korea fell during August, amid reports of a persistent downturn in the global economy. Moreover, it was reported that weaker demand and a strike in the automobile sector had also negatively affected output. The rate of contraction was steep and the fastest since December 2011.

New Orders Index

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

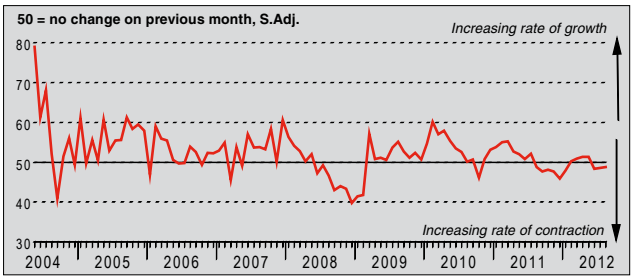


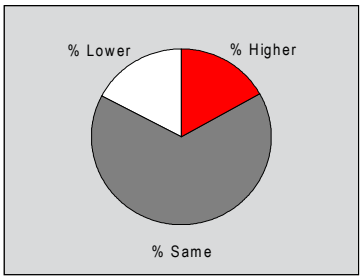


Manufacturing companies in South Korea recorded a third successive monthly decrease in new orders during August. Although new total business contracted at a solid pace, it was slower than that recorded in July. Anecdotal evidence suggested that the deterioration in the health of the global and domestic economies led to the latest decline in new orders. Additionally, a strike of automobile manufacturers was reported to have contributed to falling order book volumes.

New Export Orders Index

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

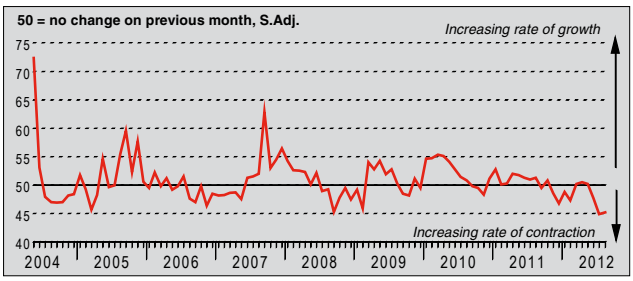


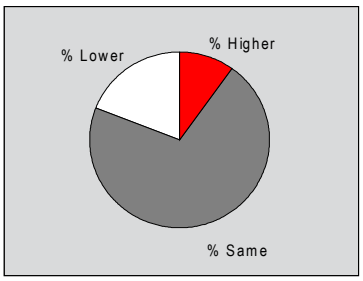


New export orders at South Korean manufacturers fell in August, extending the current sequence of contraction to three months. With approximately 17% of respondents signalling lower new export orders, but 66% reporting no change, the rate of decline was only slight. Panellists stated that new export business decreased as the global economic recession persisted and demand weakened.

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 in the South Korean manufacturing sector decreased in August. The pace of contraction was sharp, but slower than that recorded in July. In contrast to exactly 19% of respondents signalling lower volumes of work-in-hand (but not yet completed), almost 10% reported an accumulation in backlogs of work. It was stated by respondents that a decreasing number of orders had eased pressures on capacity.

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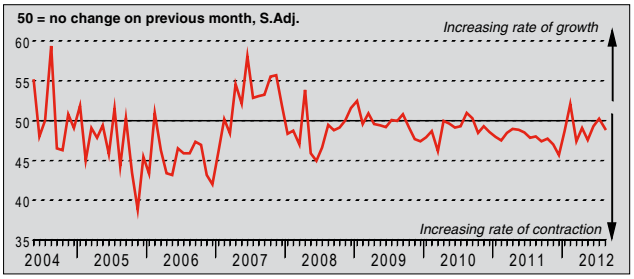
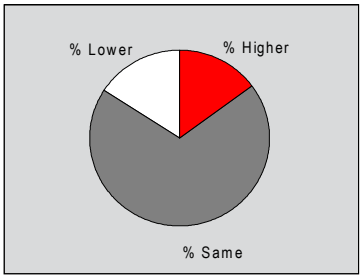
Stocks of Finished Goods Index

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

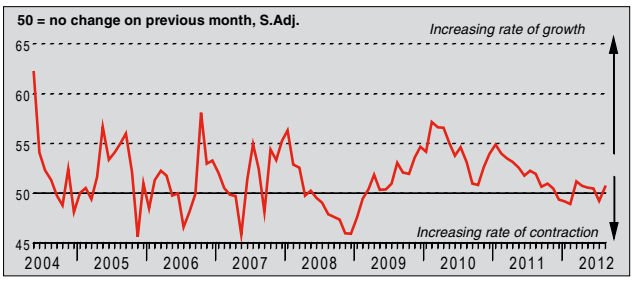


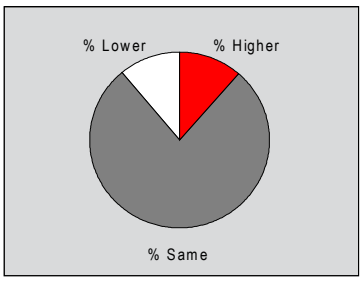


Post-production inventories at manufacturing companies in South Korea decreased in August. The rate of depletion was slight and the seasonally adjusted Stocks of Finished Goods Index posted just above its long-run average. Anecdotal evidence suggested that stocks of finished goods were intentionally depleted in order to keep costs of inventory management down.

Employment Index

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

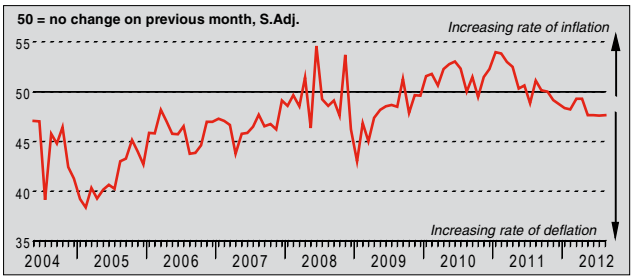


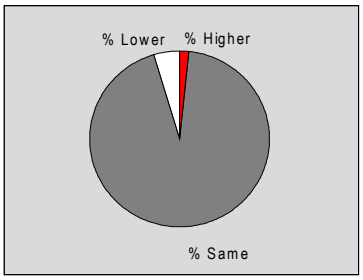


Job creation was recorded in the South Korean goods-producing sector during August amid reports of a positive outlook for the global economy in the upcoming year. Moreover, respondents stated that staffing levels had increased to offset recent resignations. The overall pace of expansion in payroll numbers during the latest month was only slight, however.

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.

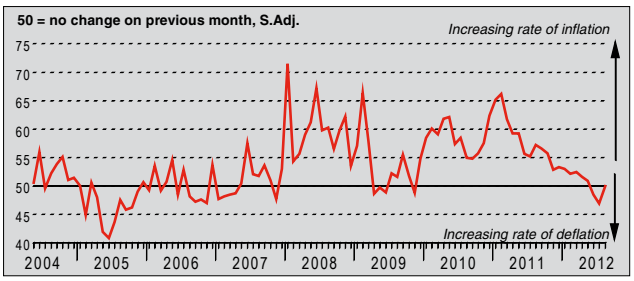


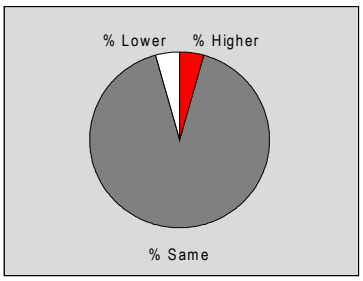


South Korean manufacturers signalled a decrease in output prices during August. Charges have fallen in each of the past ten months, with the pace of the latest decline being moderate and in line with that recorded in July. Whereas almost 5% of respondents stated that factory gate prices were lower, the vast majority (93.7%) reported no change. Among other factors, weaker demand was cited as a reason leading to the latest drop in charges.

Input Prices Index

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

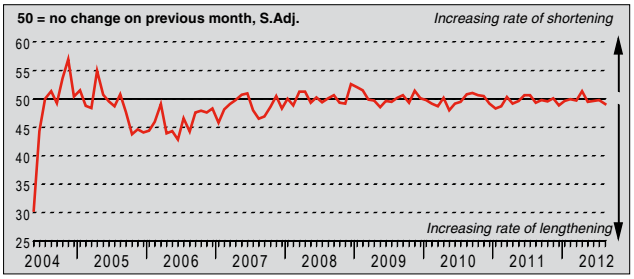


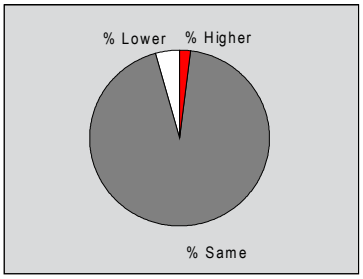


Input costs at manufacturing firms in South Korea remained constant during August, ending a two-month period of falling prices. Moreover, the seasonally adjusted Input Prices Index posted below its long-run average. Approximately 91% of the surveyed panel stated that input costs had not changed from July.

Suppliers' Delivery Times Index

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

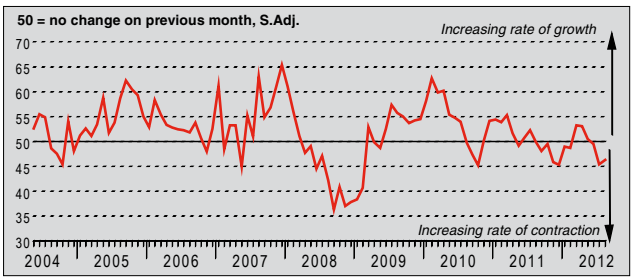


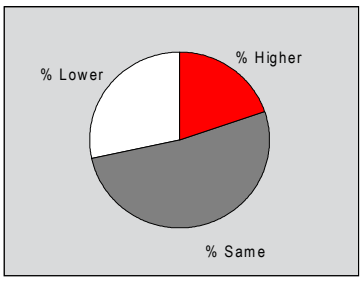


Average lead times at South Korean manufacturing firms lengthened in August, extending the current sequence of deterioration in vendor performance to four months. However, the pace of lengthening was only slight and the seasonally adjusted Suppliers' Delivery Times Index posted above its long-run average.

Quantity of Purchases Index

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

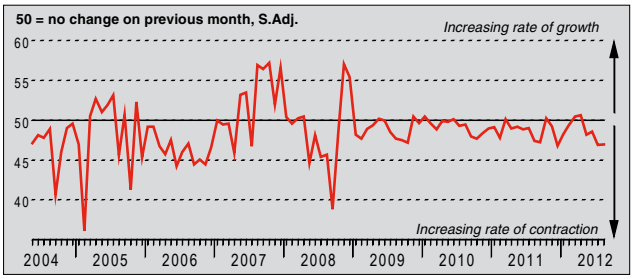


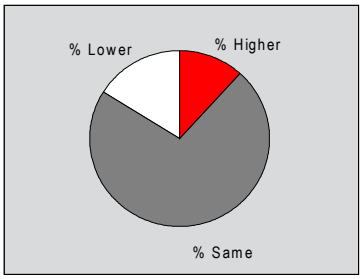


Manufacturers in South Korea signalled a fall in purchasing activity during August, marking a three-month sequence of decline. The pace of contraction was solid, but slower than that seen in July. According to panellists, input buying dropped as the global recession led to decreases in sales volumes.

Stocks of Purchases Index

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





Pre-production inventories at South Korean manufacturing firms fell in August. The pace of depletion was solid and the seasonally adjusted Stocks of Purchases Index posted below its long-run average. Whereas approximately 16% of the surveyed panel stated that stocks of purchases were lower, almost 12% signalled higher pre-production inventories.

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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