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

HSBC South Korea Manufacturing PMI®

Sharpest deterioration in operating conditions since February 2009

Key findings:

- · New orders and output both fall at sharpest rates since early 2009
- · Strikes in automobile industry exacerbate demand weakness
- · Manufacturers able to clear work outstanding to greatest extent in survey history

September's survey indicated a further deterioration in manufacturing operating conditions in South Korea. Both output and new orders declined to the greatest degree since early 2009, with declines exacerbated by strikes in the automobile industry. Purchasing activity fell at a similarly marked pace, which helped support a marginal improvement in vendor performance.

The HSBC South Korea *Purchasing Managers' IndexTM (PMI®)* – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – recorded a reading below the 50.0 no-change mark that separates growth from contraction for a fourth month in succession during September. Moreover, recording 45.7, down from 47.5 in the previous month, the PMI indicated the steepest deterioration in operating conditions since February 2009.

Output and new orders both fell at marked rates in September. The decline in production was the steepest since January 2009, while new order levels deteriorated to the greatest extent for 43 months. There were a number of reports that lost working days due to strikes in the automobile industry had played a role in driving output and orders lower.

However, the underlying business environment was reported to be tough, both at home and abroad. New export order volumes declined for a fourth month in a row, although the rate of contraction was again modest. Europe and the Middle East were cited as areas of demand weakness.

South Korea's manufacturers again made significant inroads into their work outstanding in September. The rate of contraction was the sharpest recorded in the survey history, as falling levels of incoming new orders provided manufacturers with the opportunity to concentrate on clearing outstanding work.

Companies were also able to add to their stocks of finished goods during the month. Although marginal, the rise in warehouse inventories was only the third increase registered in the past two years.

In contrast, stocks of purchases were again cut markedly. That was despite the sharpest reduction in purchasing activity since February 2009 as difficult economic conditions and weak underlying demand led manufacturers to reduce their buying. With reduced pressure on vendors, suppliers' delivery times shortened marginally for the first time since April.

The generally weaker economic climate restricted inflationary pressures during September. Although input prices rose during the month (the first instance since May), the rate of increase was only modest. Meanwhile, competitive pressures and weaker demand led to an eleventh successive monthly reduction in average output charges.

Finally, manufacturers signalled little change in employment levels in September, maintaining the recent trend. Any staffing cuts generally reflected a response to poor underlying trends in output and new orders.



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.

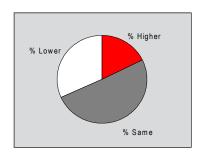




Output Index

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



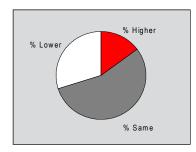


Manufacturing output in the South Korean manufacturing sector continued to fall during September. Latest data marked the fourth successive month that production has declined, and the rate of contraction accelerated to the steepest since the start of 2009. Around 32% of the survey panel reported a decline in output, with poor economic conditions impacting on new order volumes and subsequently production. A number of firms also commented that strikes in the automobile sector had affected 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.

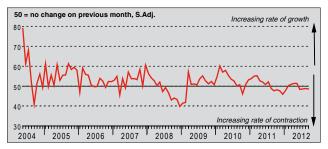


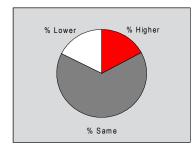


Volumes of new orders placed with South Korea's manufacturers fell again during September, extending the current period of contraction to four months. The rate of decline was steep and the sharpest since February 2009. Panellists reported that economic conditions were generally unfavourable, particularly at home were strikes in the automobile industry exacerbated demand weakness.

New Export Orders Index

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



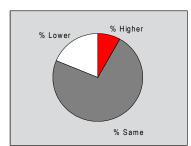


The volume of new export orders placed with South Korean manufacturers fell for a fourth successive month in September. The degree to which foreign sales deteriorated was again modest, however, and considerably weaker than the decline in overall order books. Panellists reported lower demand in export markets, particularly Europe and the Middle East.

Backlogs of Work Index

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



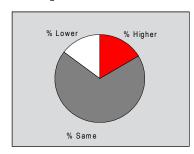


Backlogs of work fell for a fourth successive month in September. Moreover, the degree to which work outstanding was reduced accelerated to the sharpest in the survey history, as companies were able to clear any outstanding contracts at a faster rate given the poor trend in levels of incoming new orders. Around 19% of the survey panel recorded a decline in backlogs.

Stocks of Finished Goods Index

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

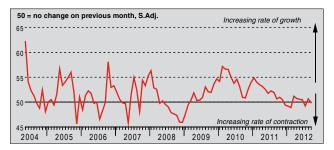


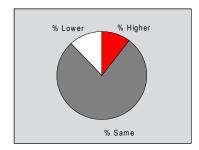


Stocks of finished goods rose slightly during September, following a slight contraction in the previous month. Panellists reported that weaker-than-forecast sales during the month had led to an unexpected rise in inventory levels. Around 17% of the survey panel signalled an increase in inventories, compared to 15% that recorded a fall. The net rise in stocks was only the third recorded in the past two years.

Employment Index

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



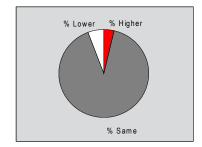


Payroll numbers in the South Korea manufacturing economy were little-changed in the latest survey period as signalled by the seasonally adjusted Employment Index which registered a reading close to the 50.0 no-change mark. Where a reduction in staffing levels was signalled, panellists generally reported the non-replacement of leavers or forced redundancies in line with poor trends in output and new orders.

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.

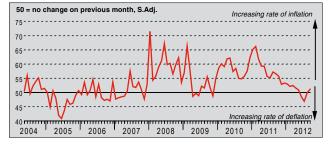


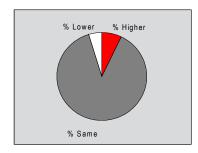


The seasonally adjusted Output Prices Index remained stuck below the 50.0 no-change mark in September to signal further deflation of average output charges. The modest reduction was the eleventh in consecutive months, albeit the slowest since April as higher input costs gave companies less room to offer discounts. Where a fall in average output charges was signalled, manufacturers reported competitive market conditions and weakened demand as factors.

Input Prices Index

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

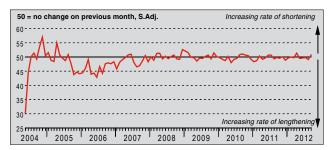


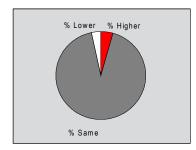


A modest increase in average input prices was signalled during September. The rate of inflation was modest and the first recorded increase in input costs since May. Higher oil prices were noted as a factor pushing up input costs overall, while others blamed abnormal weather conditions as having an inflationary impact. However, a number of panellists commented that the economic slowdown was keeping a lid on input price pressures.

Suppliers' Delivery Times Index

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

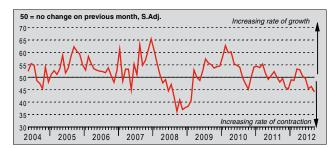


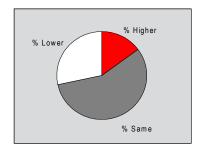


Average lead times for the delivery of inputs shortened slightly in September, the first such instance of an improvement in supplier performance since April. Lower order volumes for vendors were the principal factor underpinning the shortening of lead times, according to the latest anecdotal evidence provided by panellists. Others added that suppliers were working hard to deliver ahead of schedule.

Quantity of Purchases Index

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



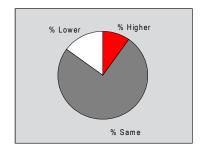


South Korean manufacturers lowered their purchasing activity for a fourth successive month in September. Furthermore, the rate of contraction accelerated to the sharpest since February 2009. Poor economic conditions, strikes in the automobile sector and weaker underlying demand were all noted as factors leading to a reduction in purchasing activity.

Stocks of Purchases Index

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





Manufacturers depleted their stocks of purchases for a fifth successive month in September, with the rate of decline broadly unchanged at a marked pace. Around 15% of the survey panel registered a fall in inventories of raw materials and semi-manufactured goods. Some panellists reported that reducing inventories was deliberate and aimed at lowering the need for purchasing.

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. Warning

The intellectual property rights to the HSBC South Korea Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. $Purchasing Managers' Index^{7}$ and PMI^{9} 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.