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# HSBC South Korea Manufacturing PMI®

PMI up on September low, but operating conditions continue to deteriorate in October

## Key findings:

- Slower falls in output and new orders signalled
- Manufacturers add to payroll numbers to greatest degree for over a year
- Rise in input costs, but output charges cut again

October's survey indicated a further deterioration of manufacturing operating conditions in South Korea, with output and new orders both continuing to fall. However, rates of contraction eased since September, while there was a return to modest employment growth.

The latest prices data pointed to ongoing pressure on margins, with input cost inflation accelerating to a nine-month high but average output charges cut at a sharper pace.

The HSBC South Korea *Purchasing Managers' Index<sup>TM</sup> (PMI®)* – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – registered below the 50.0 no-change mark for a fifth successive month in October to indicate another month of sub-par manufacturing performance. However, a rise in the headline index to 47.4, from 45.7, pointed to a slower rate of contraction when compared with September's 43-month record.

Production volumes were down for a fifth successive month in October and, despite easing, the rate of contraction was again marked. Panellists principally blamed lower new order volumes for the reduction in output, with a difficult economic environment reportedly weighing on client demand and sentiment. New orders deteriorated both at home and abroad. Export sales fell for a fifth successive month, and the rate of contraction accelerated to the sharpest in ten months. Lower demand from the key export markets of China, Europe and the US was reported by the survey

panel.

As incoming new orders continued to fall over the month, South Korea's manufacturers were again able to make inroads into their work outstanding. Backlogs of work were down for a fifth month in a row, with the rate of contraction again marked. Inventories of finished goods were also pared as panellists sought to minimise stock holdings given the difficult economic environment.

Purchasing activity was also lowered in October as manufacturers responded to lower output and new orders. Stocks of purchases were also subsequently lowered modestly, the sixth successive month that a fall in inventories had been registered.

Nonetheless, some manufacturers retain hopes of an improvement in demand and output trends in the coming months. This was highlighted by an increase in employment levels during October. Although modest, growth was the strongest seen since August 2011.

Input prices rose for a second successive month during October. Inflation reflected a general increase in raw material prices, and overall input costs rose to the sharpest degree of 2012 so far. However, strong competitive pressures and the weak demand environment prevented companies from passing on higher costs to their clients. Output charges were reduced in October, maintaining the trend that has been apparent over the past 12 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. 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.

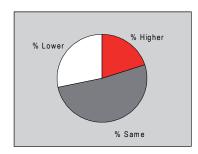




### **Output Index**

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

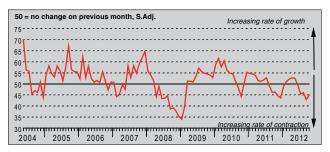


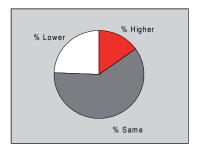


The seasonally adjusted Output Index remained below the 50.0 no-change mark in October, extending the current period of contraction to five months. Despite rising since the previous month – indicating a slower rate of contraction – the degree to which production was cut remained marked. Panellists overwhelmingly attributed the reduction in manufacturing output in the latest survey period to lower volumes of incoming new orders.

#### New Orders Index

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

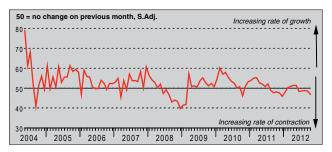


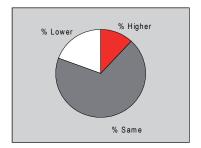


October's survey indicated that new orders placed with South Korean manufacturers continued to fall in October. The latest fall extended the current period of contraction to five months. Although weaker than in September, when new orders declined to the greatest degree since February 2009, the latest decline was nonetheless marked. Poor economic conditions, both at home and abroad, weighed on demand for South Korean manufactured goods in October.

# New Export Orders Index

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



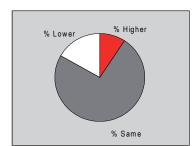


New export orders fell in October, extending the current period of contraction to five months. Moreover, a fall in the seasonally adjusted New Export Orders Index to a ten-month low indicated an acceleration in the rate of decline as over 19% of the survey panel recorded a decline in foreign sales compared with levels seen in September. Demand levels from the key export regions of China, Europe and the US were all reported to have fallen in the latest survey period.

# Backlogs of Work Index

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



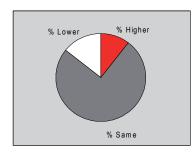


The seasonally adjusted Backlogs of Work Index posted below the 50.0 no-change mark for a fifth successive month in October to indicate a further decline in levels of business outstanding held by South Korean manufacturers. Around 17% of the survey panel signalled a contraction in work outstanding, compared with 9% that indicated growth, with those recording a decline generally blaming a lack of incoming new order volumes.

## Stocks of Finished Goods Index

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



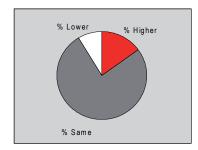


October's survey indicated mild destocking at warehouses in South Korea's manufacturing sector as signalled by the seasonally adjusted Stocks of Finished Goods Index registering below the 50.0 no-change mark. The modest fall followed marginal growth in September, and the latest index reading was the lowest since May. A number of panellists reported deliberate efforts to keep stocks to a minimum given the difficult economic environment.

#### **Employment Index**

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



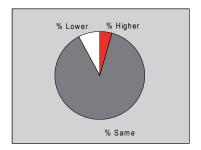


Following stagnation in September, manufacturers in South Korea indicated a modest rise in employment levels during October. Growth was signalled at 15% of survey panellists, compared with declines at 9%. Some companies recruited in anticipation of increases in orders and production requirements in the coming months.

# 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.

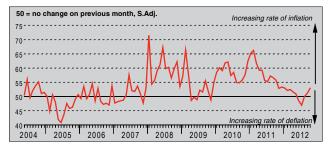


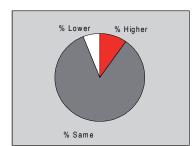


The seasonally adjusted Output Prices Index remained below the 50.0 no-change mark in October, extending the current period of deflation to 12 months. Moreover, the degree to which output prices were cut was slightly faster than in the previous survey period. A combination of competitive pressures and deteriorating demand were reported to have led to lower output charges during October.

# Input Prices Index

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



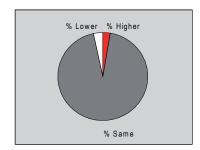


Following September's modest rise in average input costs, inflation was maintained in October. Moreover, the increase in input costs was solid and the fastest in nine months, as nearly 10% of the survey panel recorded a rise in average prices paid since September. Where inflation was registered, panellists generally blamed a rise in general raw material prices.

# Suppliers' Delivery Times Index

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

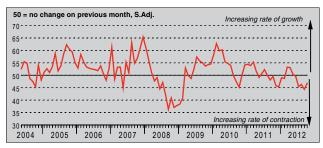


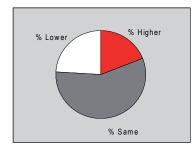


Lead times for the delivery of ordered inputs to South Korean manufacturers lengthened slightly during October, following a marginal improvement in the previous month. Of those manufacturers that indicated a deterioration in vendor performance, a number blamed stock shortages and reduced supply for a worsening of vendor performance.

## Quantity of Purchases Index

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

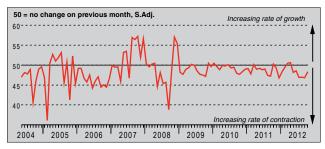


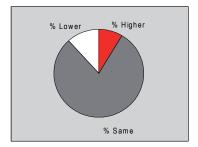


The seasonally adjusted Quantity of Purchases Index remained well below the 50.0 no-change mark during October to indicate a marked reduction in purchasing activity at South Korean manufacturers. Nearly a quarter of the survey panel signalled a decline in purchasing activity, generally attributing the contraction to a decline in new orders and lower production requirements.

# Stocks of Purchases Index

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





South Korean manufacturers continued to lower their stocks of purchases during the latest survey period. October data marked a sixth successive month that inventories of raw materials and semi-manufactured goods had been lowered. That said, the rate of contraction weakened in October to the slowest since June. Panellists indicated a preference for holding minimum stock levels at a time of falling orders and production.

## 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<sup>TM</sup> ( $PMI^{(0)}$ ) 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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