

HSBC South Korea Manufacturing PMI®

PMI rises to five-month high in November

Key findings:

- Slower falls in output and new orders indicated by latest survey data
- Slight fall in employment as manufacturers choose to not replace leavers amid uncertain outlook
- Modest input price inflation, but output charges cut again

South Korea's manufacturing sector continued to experience deteriorating operating conditions in November. Output, new orders and employment all fell since October, while inventories were cut amid an uncertain outlook.

On the price front, a modest increase in input costs was recorded, but output charges were reduced further as underlying market demand remained fragile.

The HSBC South Korea *Purchasing Managers' Index™ (PMI®)* – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – registered a reading of 48.2 in November. That was an improvement on October's 47.4 and a five-month high. However, by remaining below the 50.0 no-change mark, the PMI signalled a month-on-month reduction in operating conditions for the sixth survey period in a row.

Output and new order volumes continued to fall during the month, reflective of a difficult economic climate both at home and abroad. In each case, declines have been registered throughout the past six months, although the latest falls were both the slowest since June.

A similar pattern emerged for new export orders, with foreign sales down for a sixth month in succession, albeit at a reduced pace when compared to October. China and Japan were noted as sources of export weakness, although some panellists reported that tentative signs of recovery were providing some support to client demand in some foreign markets.

The soft underlying trend in total new orders enabled companies to clear their volumes of work outstanding at a solid pace in November. Evidence of excess capacity led a number of companies to not replace leavers at their plants. The result was a slight decline in manufacturing employment for the third time in the past five months.

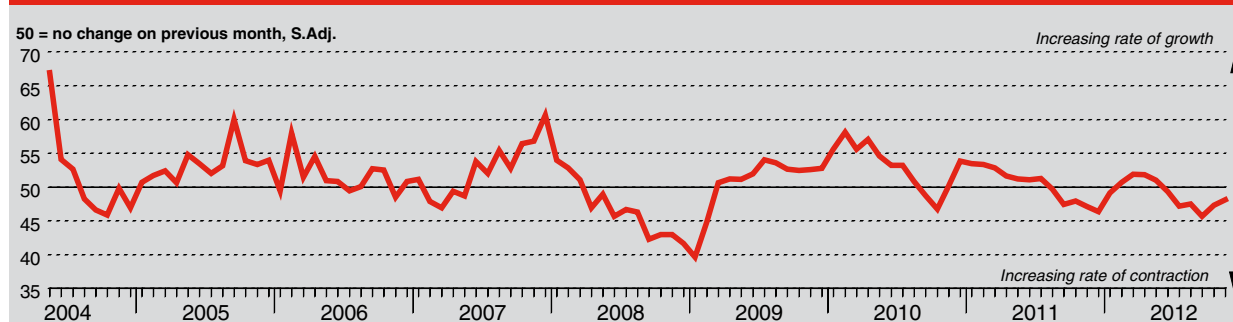
With workloads down and the outlook uncertain, South Korean manufacturers sought to streamline inventory holdings during the latest survey period. Latest data showed a marginal fall in stocks of finished goods and a modest decline of inventories of raw materials and semi-manufactured goods.

Manufacturers also chose to lower their purchasing activity in response to falls in new orders and output requirements. That said, the net reduction in buying was modest and the slowest seen since June.

Input price inflation remained muted during the latest survey period, with only a modest increase in purchasing prices that was the slowest in the current three-month sequence. Where a rise in input costs was seen, panellists often blamed higher raw material prices on international markets.

In contrast, prices charged by South Korean manufacturers continued to fall. The modest reduction reflected a reaction to weak underlying demand and specific requests from clients for lower prices.

HSBC South Korea Purchasing Managers' Index™ (PMI®)



Index Summary

(seasonally adjusted, 50 = no change on previous month)

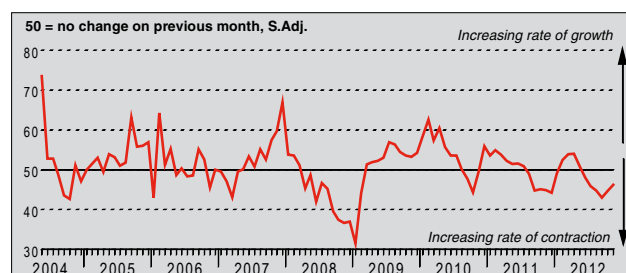
	PMI	Output	New Orders	Export Orders	Backlogs of Work	Finished Goods Stocks	Employment	Output Prices	Input Prices	Delivery Times	Quantity of Purchases	Stocks of Purchases
Sep'12	45.7	43.0	42.9	48.6	44.7	50.5	49.9	48.7	51.2	50.7	44.3	46.9
Oct	47.4	44.7	45.0	47.0	45.6	48.6	51.6	47.9	52.9	49.7	46.8	48.2
Nov	48.2	46.3	47.9	49.6	47.7	49.8	49.3	48.5	51.1	49.9	48.8	48.6

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Jun	22.3	54.7	23.0	-0.7	49.7	48.1
	Jul	21.0	50.0	29.0	-8.0	46.0	45.9
	Aug	20.3	48.0	31.7	-11.3	44.3	44.8
	Sep	17.7	50.5	31.8	-14.0	43.0	43.0
	Oct	20.0	51.7	28.3	-8.3	45.8	44.7
	Nov	18.3	57.3	24.3	-6.0	47.0	46.3

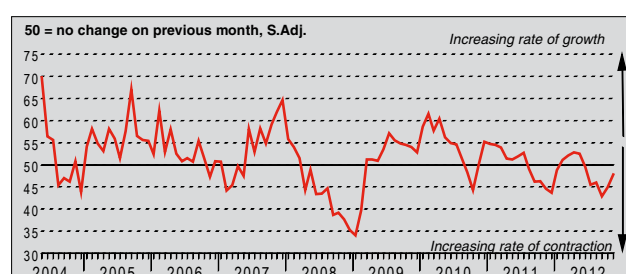


Manufacturing output in South Korea was reduced for a sixth successive month in November. However, a rise in the seasonally adjusted Output Index suggested that the rate of contraction had eased to the slowest since June. Of the 24% of survey respondents that signalled a decline in manufacturing output during the month, many blamed a lack of incoming new orders as the economic climate remained difficult.

New Orders Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Jun	19.6	58.8	21.6	-2.0	49.0	49.5
	Jul	17.1	54.4	28.5	-11.4	44.3	45.5
	Aug	16.8	59.2	24.0	-7.2	46.4	46.1
	Sep	14.8	55.3	29.9	-15.1	42.4	42.9
	Oct	15.1	60.6	24.3	-9.2	45.4	45.0
	Nov	14.9	68.6	16.6	-1.7	49.2	47.9

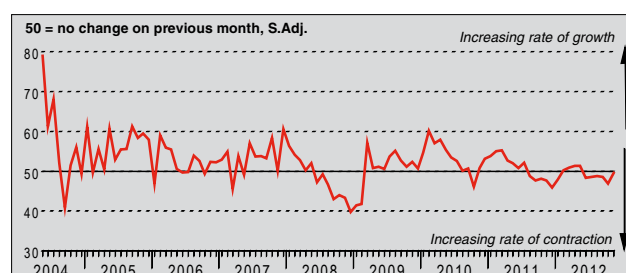


The seasonally adjusted New Orders Index remained below the 50.0 no-change mark that separates growth from contraction for a sixth month in succession in November. Although the net decline signalled was solid, the degree to which orders fell was the slowest since June. Where order books were reported to have declined, panellists in general blamed economic recession. Orders were reportedly down from both domestic and foreign clients in the latest survey period.

New Export Orders Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Jun	14.6	67.3	18.0	-3.4	48.3	48.4
	Jul	16.5	63.5	20.0	-3.5	48.3	48.6
	Aug	16.8	65.8	17.3	-0.5	49.8	48.8
	Sep	17.1	65.4	17.6	-0.5	49.8	48.6
	Oct	11.9	68.8	19.3	-7.4	46.3	47.0
	Nov	13.8	68.2	17.9	-4.1	47.9	49.6

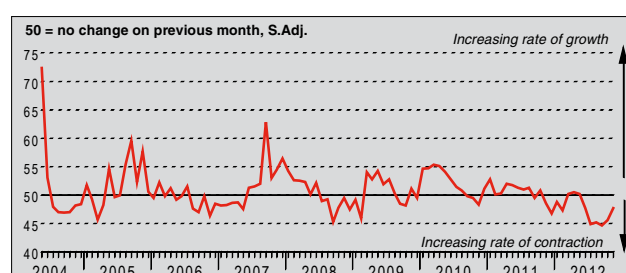


A net decline in new export orders was signalled by the latest survey, although the rate of decline was only slight and the slowest in the current six-month period of contraction. Where new export orders were reported to have fallen, panellists reported that China and Japan were sources of reduced overseas demand. In contrast, others commented that signs of economic recovery in some foreign markets had bolstered demand from clients.

Backlogs of Work Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Jun	11.5	74.9	13.6	-2.0	49.0	47.7
	Jul	10.2	71.3	18.4	-8.2	45.9	44.9
	Aug	9.9	71.1	19.0	-9.2	45.4	45.2
	Sep	8.2	73.1	18.7	-10.5	44.7	44.7
	Oct	9.2	74.0	16.8	-7.5	46.2	45.6
	Nov	7.8	77.6	14.6	-6.8	46.6	47.7

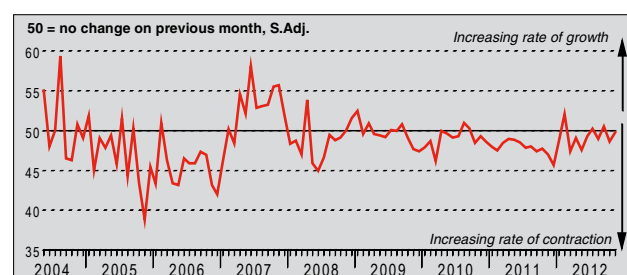


Backlogs of work continued to fall in November, maintaining the trend that has been apparent since June. The rate of contraction did, however, weaken to the slowest in five months. Around 15% of the survey panel reported a decline in work outstanding since the previous survey period, with many attributing the latest net reduction to lower new orders at their plants.

Stocks of Finished Goods Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Jun	11.3	75.7	13.0	-1.7	49.2	49.3
	Jul	18.1	66.9	15.0	3.1	51.5	50.3
	Aug	14.9	69.3	15.9	-1.0	49.5	49.0
	Sep	16.4	68.8	14.7	1.7	50.9	50.5
	Oct	10.5	75.3	14.3	-3.8	48.1	48.6
	Nov	8.1	83.4	8.4	-0.3	49.8	49.8

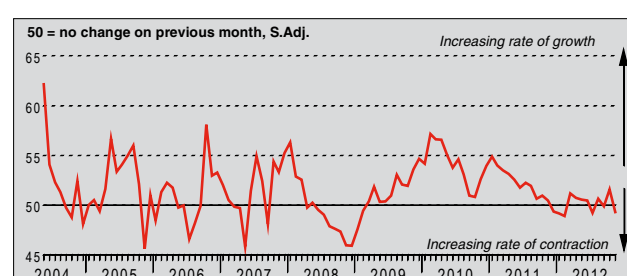


Inventories of finished goods held by South Korean manufacturers were little changed in November. This was highlighted by the seasonally adjusted Stocks of Finished Goods Index which registered a reading just below the 50.0 no-change mark that separates growth from contraction. Where a fall in warehouse stocks was reported, a number reported that stocks were reduced to levels more in tune with current and expected production trends.

Employment Index

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

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Jun	9.4	82.6	8.0	1.3	50.7	50.5
	Jul	11.3	77.3	11.3	0.0	50.0	49.2
	Aug	11.4	77.6	11.0	0.3	50.2	50.7
	Sep	10.4	77.6	12.0	-1.7	49.2	49.9
	Oct	15.0	76.3	8.7	6.3	53.2	51.6
	Nov	7.7	83.3	9.0	-1.3	49.3	49.3

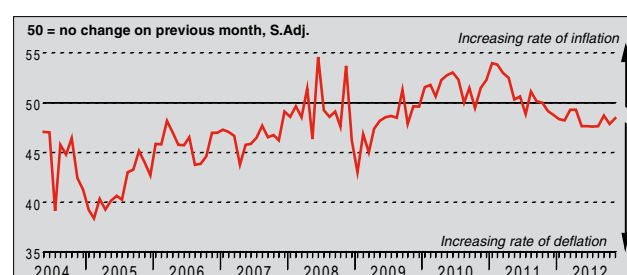


The seasonally adjusted Employment Index maintained its recent trend of fluctuating around the 50.0 no-change mark in November. Following modest growth in October, the latest survey signalled a slight contraction. There was evidence from the latest survey that staffing levels had been reduced through natural wastage, such as the non-replacement of leavers. This in turn reflected the ongoing downturn in new business levels.

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.

		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Jun	3.3	88.3	8.4	-5.0	47.5	47.7
	Jul	3.3	87.3	9.4	-6.0	47.0	47.6
	Aug	1.7	93.7	4.7	-3.0	48.5	47.7
	Sep	3.7	90.6	5.7	-2.0	49.0	48.7
	Oct	4.4	87.8	7.8	-3.4	48.3	47.9
	Nov	1.3	92.6	6.0	-4.7	47.7	48.5

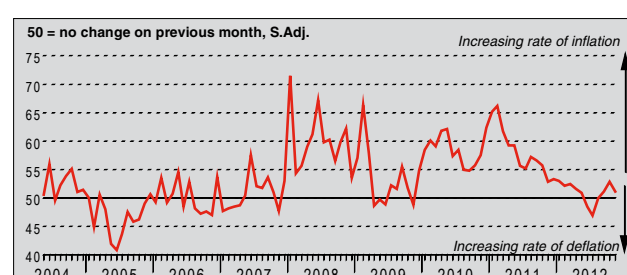


November's survey signalled that South Korean manufacturers continued to lower their output charges. Latest data marked the thirteenth successive month that output prices had fallen, although the rate of reduction weakened to a modest pace as the majority of respondents (93%) signalled no change. Poor sales volumes and specific requests from clients for lower prices led to the decline in output charges in November.

Input Prices Index

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

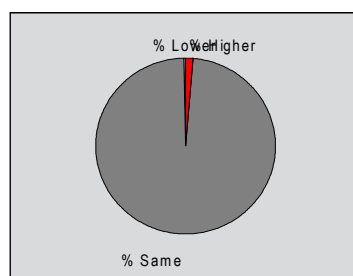
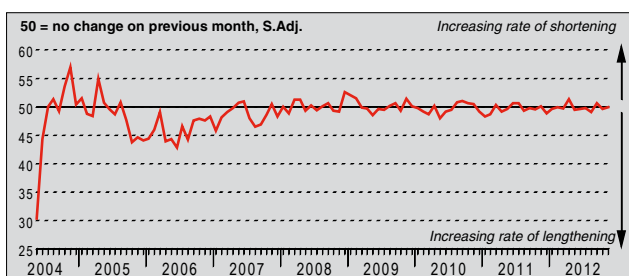
		Higher %	Same %	Lower %	Net +/-	Index	S.Adj. Index
2012	Jun	8.0	80.7	11.3	-3.3	48.3	48.5
	Jul	4.7	86.0	9.4	-4.7	47.7	47.0
	Aug	4.4	91.3	4.4	0.0	50.0	50.0
	Sep	7.1	88.2	4.7	2.4	51.2	51.2
	Oct	9.8	84.2	6.1	3.7	51.9	52.9
	Nov	3.0	91.3	5.7	-2.7	48.7	51.1



Input price inflation remained muted in November, as signalled by the seasonally adjusted Input Prices Index falling to a three-month low. Over 91% of the survey panel indicated no change in input prices since October. Of those respondents that recorded inflation, many blamed higher prices on general increases in the costs of raw materials on international markets.

Suppliers' Delivery Times Index

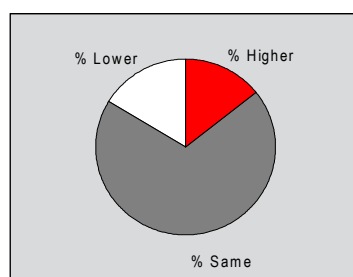
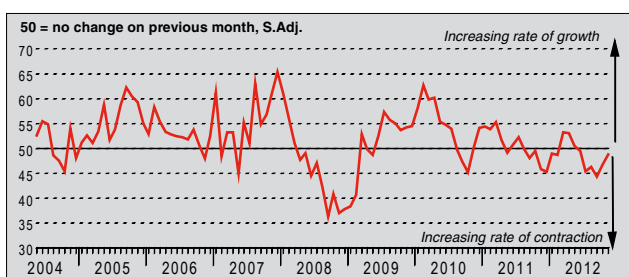
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



With over 98% of the survey panel reporting no change in supplier performance during November, the seasonally adjusted Suppliers' Delivery Times Index posted broadly in line with the 50.0 no-change mark – as it has mostly done throughout 2012. Where a deterioration in lead times was recorded, panellists largely blamed shortages of stocks at vendors.

Quantity of Purchases Index

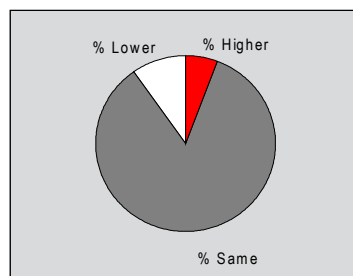
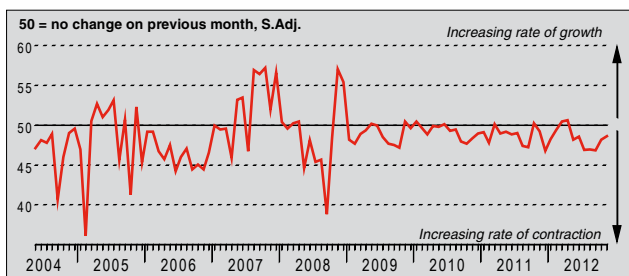
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index signalled a modest reduction in the purchasing activity of South Korean manufacturers in November. The index has now posted below the 50.0 no-change mark for six months in a row, although November's reading was the highest since June. Decreased orders and production volumes were widely noted as factors leading to a fall in buying activity.

Stocks of Purchases Index

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



Inventories of purchases held by South Korean manufacturers continued to be reduced in November, extending the current period of contraction to seven months. The modest decline, which was the slowest since June, was reported to reflect deliberate efforts to better align stock levels with lower production requirements following the ongoing drop in new order volumes.

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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