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HSBC South Korea Manufacturing PMI®

Stabilisation in South Korean manufacturing business conditions

Key findings:

- Negligible rises in output, new orders and employment all recorded
- · Uncertain outlook leads to further destocking
- Discounting sustained as manufacturers seek to stimulate sales

A stabilisation of the South Korea manufacturing sector was signalled by December's survey. Output, new orders and employment were broadly unchanged, and new orders rose marginally – a considerable improvement on the picture of deterioration seen in preceding months. However, stock fell further as economic conditions remained fragile.

On the price front, input prices rose slightly but discounting of manufacturers' charges was sustained, reflective of weak underlying demand.

The HSBC South Korea *Purchasing Managers' Index*TM (*PMI*[®]) – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – registered 50.1 in December. That was an improvement on November's 48.2 and the highest reading since May. However, being barely above 50.0, the PMI suggested that operating conditions were little changed since the previous month.

Following six months of continuous decline new order volumes increased in the latest survey period. However, the rate of growth was only slight, with respondents commenting that underlying demand conditions remained fragile and economic conditions weak. This was particularly the case in export markets. New export orders fell during December for the seventh successive survey period.

With the underlying trend in incoming new orders remaining weak, backlogs of work continued to fall during December. The rate of decline was again solid, accelerating slightly since the previous survey period. With little need to recruit additional staff, employment levels were subsequently broadly unchanged.

An uncertain economic outlook continued to impact on inventory decisions during the latest survey period, with manufacturers choosing to pare both stocks of pre- and post-production goods. Panellists signalled a preference for low stock holdings at a time of weak underlying trends in output and new orders.

Purchasing activity also continued to decline in December, albeit slightly. Input buying has now fallen for seven successive months. Suppliers' delivery times, meanwhile, deteriorated slightly at the end of 2012. Poor weather was noted in some instances to have impacted negatively on vendor performance.

Input price inflation was sustained during the latest survey period, albeit at a slight pace. December marked the fourth month in a row that input costs have risen. Some manufacturers reported higher food and scrap iron prices, but others commented on lower prices paid for raw materials available on international markets.

Discounting of output charges was sustained in December as manufacturers cut their tariffs to stimulate sales.



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.

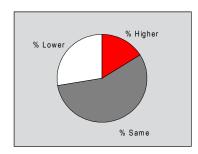




Output Index

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



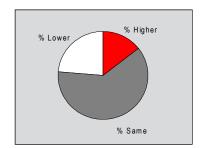


The seasonally adjusted Output Index was broadly in line with the 50.0 no-change mark in December, the first time that the index has not signalled contraction since May. The latest figure signalled a stable level of output. Where a rise in production was reported, the increase was linked to higher new order volumes, although a number of companies continued to report that economic conditions remained tough and demand fragile.

New Orders Index

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

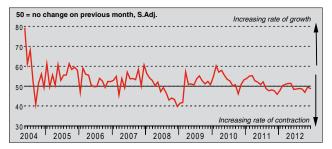


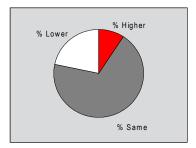


Higher volumes of incoming new business were registered in December, following a sustained period of contraction. However, the rate of growth was only marginal. New product launches and discounting were reported to have supported demand, although there were still a number of reports that the economy remained fragile and underlying demand weak.

New Export Orders Index

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

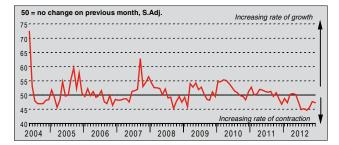


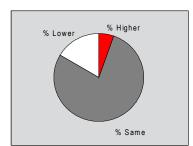


New export order volumes continued to decline in December, extending the current period of contraction to seven successive months. The rate of decline signalled by the seasonally adjusted New Export Orders Index was modest, but accelerated since November. Panellists principally blamed weak demand from foreign clients on a difficult global 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.



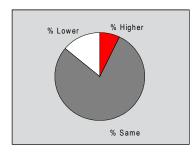


The seasonally adjusted Backlogs of Work index remained stuck below the 50.0 no-change mark for a seventh successive month in December to indicate a further deterioration in volumes of work outstanding at the end of 2012. Around 17% of the survey panel reported a fall in backlogs, generally attributing the contraction to a weak underlying trend in incoming new business.

Stocks of Finished Goods Index

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



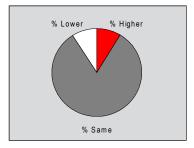


Inventories of finished goods fell for the third time in successive months during December. The rate of decline was modest, albeit the fastest in the current sequence of contraction. Inventories were largely reduced as part of efforts to better match warehouse inventories with the current level of demand. Around 14% of the survey panel signalled a decline in inventories during December.

Employment Index

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

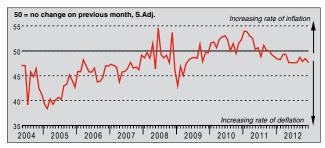


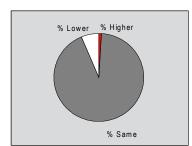


The seasonally adjusted Employment Index signalled a stable level in staffing numbers during December but, with the index broadly in line with the no-change mark. Broadly similar proportions of panellists signalled a rise as indicated a decline in staffing levels during the latest survey period. Where growth was registered, a number of respondents added staff in expectation of higher production requirements over 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.

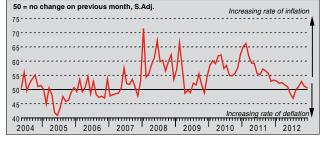


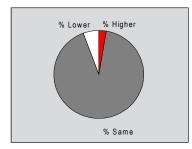


South Korea's manufacturers signalled a decline in output charges for the fourteenth month in succession. The degree to which charges fell was solid, accelerating since the previous survey period to the sharpest since August. Of the 6% of companies that lowered their average output charges, many reported that poor demand had led to discounting.

Input Prices Index

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

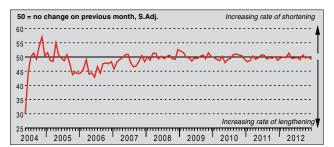


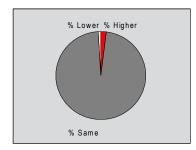


The seasonally adjusted Input Prices Index indicated a fourth successive monthly rise in input prices, although the rate of inflation was marginal and the slowest in this sequence. Whereas some panellists reported increases in the cost of food and scrap iron, others noted that the price of a number of raw materials available on international markets had declined.

Suppliers' Delivery Times Index

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

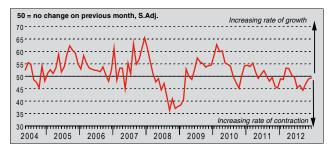


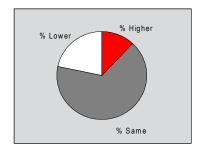


Average lead times for the delivery of inputs to South Korean manufacturers lengthened for the third successive month in December. The degree to which vendor performance deteriorated was again only marginal, as 97% of panellists indicated no change in times. Poor weather was noted by those respondents that signalled a deterioration in vendor performance over the month.

Quantity of Purchases Index

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



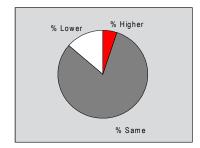


The seasonally adjusted Quantity of Purchases Index remained stuck below the 50.0 no-change mark in December for the seventh successive month. The rate of decline in purchasing activity signalled was, however, only marginal. Where a decline in buying activity was reported, panellists generally blamed the recent weakness in production and new order trends.

Stocks of Purchases Index

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





Inventories of raw materials and semi-manufactured goods continued to fall during December. The rate of deterioration accelerated since the previous survey period, but remained modest. Panellists that recorded a reduction in inventories indicated a preference to reducing their stocks of purchases at a time of uncertainty about the future direction of demand and production requirements.

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.

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