HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

Embargoed until: 09:00 (SEOUL), 1 February 2013

HSBC South Korea Manufacturing PMI®

South Korean manufacturing sector holds steady at start of 2013

Key findings:

- Headline PMI signals little change in manufacturing conditions
- Output and new orders fall, but staffing levels increase
- Modest rise in input costs, but output charges cut again

There was little overall change in manufacturing operating conditions during January, according to latest survey data from HSBC. Although output, new orders and input stocks continued to fall, staffing levels rose markedly and supplier delivery times lengthened again. Input prices rose modestly, but competitive pressures meant output charges were again cut – suggesting margins and profitability remained under pressure.

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 49.9 in January. That was slightly down on December's 50.1 and suggests operating conditions were little-changed around the turn of 2013.

Latest data indicated a modest fall in manufacturing output. With the exception of a negligible rise during December, production volumes have been falling since mid-2012, reflective of sustained weakness in new orders.

January's survey indicated a marginal fall in new orders received as poor economic conditions had an adverse impact on demand. This was especially the case in domestic markets as modest growth in new export orders was signalled in January. Export growth was registered for the first time in eight months as new product launches and success in securing new clients was reported.

New export orders rose despite reports of a weaker US dollar (relative to the Korean won) during the latest survey period. Such currency movements did, however, place a restrain on input price inflation in January. Although input costs continued to rise, the rate of increase was modest and remained well below the series average.

Meanwhile, competitive pressures continued to weigh on company pricing power at the start of 2013. Latest data indicated a fifteenth successive monthly reduction in output charges, although the rate of deflation was modest and the slowest seen since September.

Positive expectations for growth underpinned a solid increase in manufacturing employment levels in January, the second in succession. Extra capacity subsequently enabled companies to comfortably keep on top of their workloads. Backlogs of work were reduced for an eighth successive month, although the rate of contraction was modest and the slowest in the current sequence of contraction.

On the purchasing front, manufacturers increased their buying activity for the first time since last May, in some instances in anticipation of demand and production growth. That said, a number of manufacturers continue to signal a preference for running low inventories and "just-in-time" production practices. Despite the net increase in purchasing, stocks of raw materials and semi-manufactured goods were reduced again in January.

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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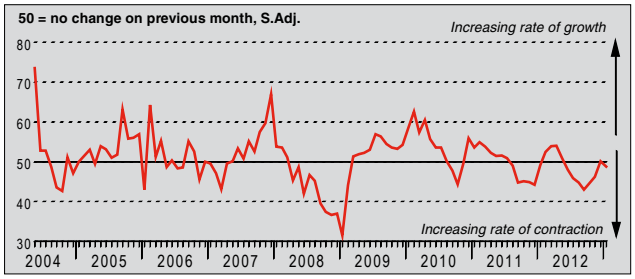
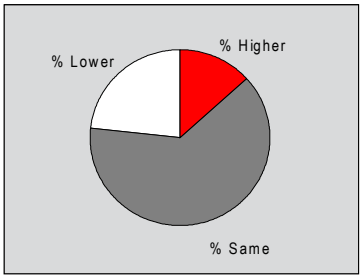
Output Index

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

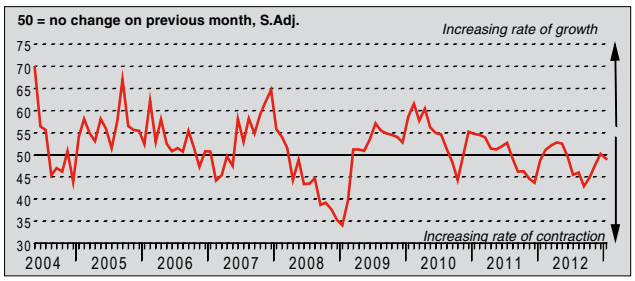


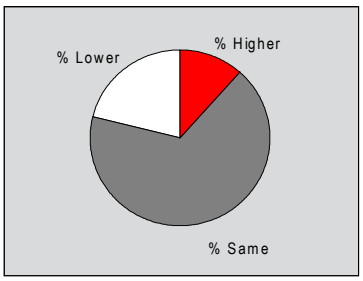


Having risen above the 50.0 no-change mark that separates growth from contraction in December, the seasonally adjusted Output index slipped back below 50.0 during January to indicate a modest fall in manufacturing output. Panellists widely reported that output weakness reflected a tough economic climate and depressed order book volumes.

New Orders Index

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

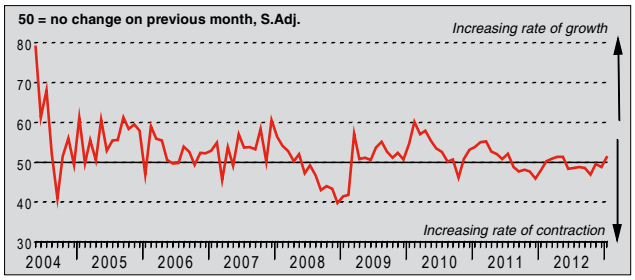


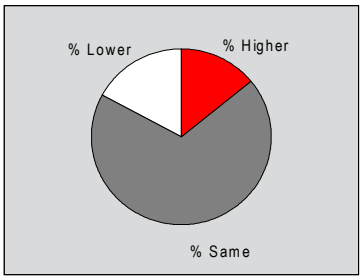


A slight fall in new order volumes was signalled by January's survey data as indicated by the seasonally adjusted New Orders Index which posted below the 50.0 no-change mark. Although marginal, the decline signalled at the start of the year was the seventh in the past eight months. There were a number of reports that poor economic conditions had adversely impacted on demand, particularly in domestic markets.

New Export Orders Index

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

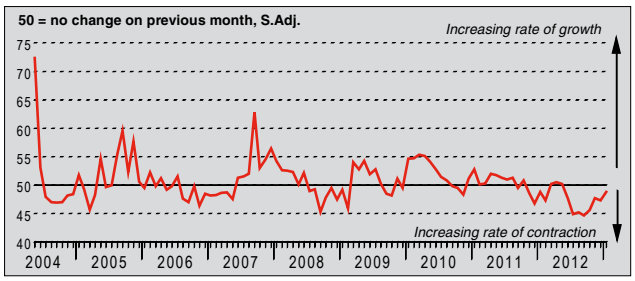


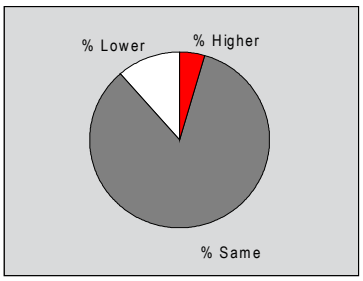


Volumes of new export orders increased in January. Growth was modest, and marked the first rise in new export sales for eight months with around 14% of the survey panel indicating expansion. Where an increase in exports was registered, panellists reported success in finding new clients. The release of new products also bolstered demand, while some panellists reportedly benefited from a lower US dollar value.

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 continued to be reduced during January, extending the current period of decline to eight months. However, by rising since December, the seasonally adjusted Backlogs of Work Index indicated an easing in the rate of contraction to the slowest recorded in the current sequence. Lower new order volumes enabled companies to keep on top of their workloads.

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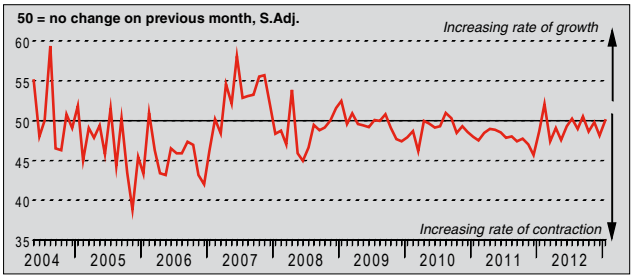
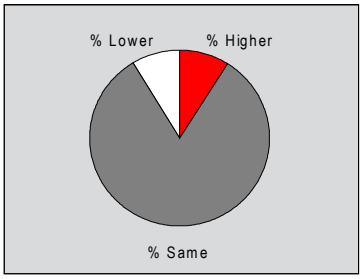
Stocks of Finished Goods Index

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

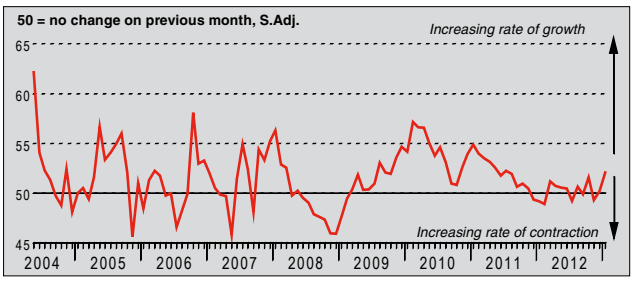


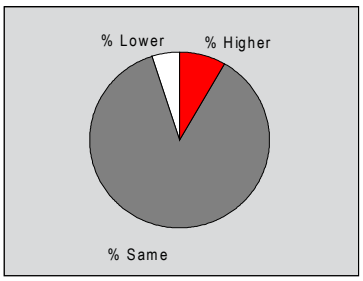


There was little change in finished goods inventories during January as indicated by the seasonally adjusted Stocks of Finished Goods Index recording a reading just above the 50.0 no-change mark. Where an increase in inventories was registered (at 9% of the survey panel), some panellists indicated that stocks had inadvertently increased due to weaker-than-forecast demand.

Employment Index

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

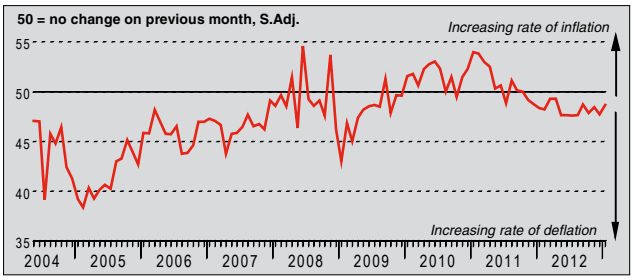


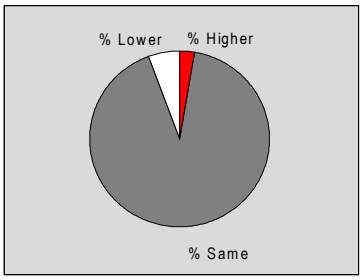


The seasonally adjusted Employment Index improved in January to an 18-month high. Remaining above the 50.0 no-change mark for the second consecutive month, the latest data pointed to a firmer increase in staffing levels, with companies reportedly adding to their payroll numbers in anticipation of output growth 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.

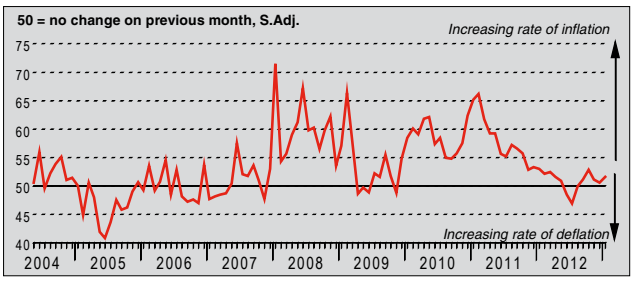


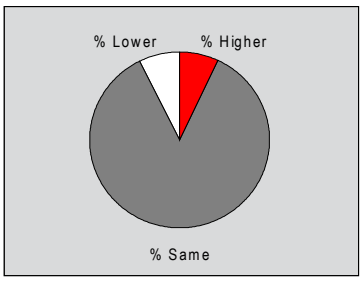


Output price deflation persisted during January, with the seasonally adjusted Output Prices Index recording below the 50.0 no-change mark for the fifteenth successive month. However, the degree to which output charges fell was modest and the slowest since September. Competitive pressures and a lack of domestic demand continued to weigh on company pricing power during the latest survey period.

Input Prices Index

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

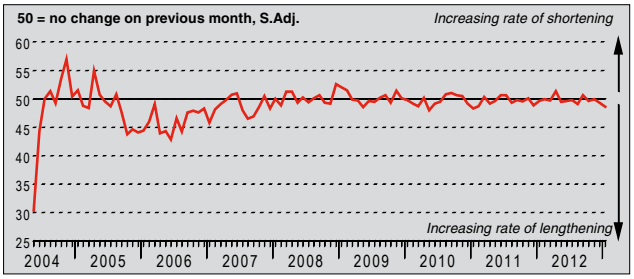


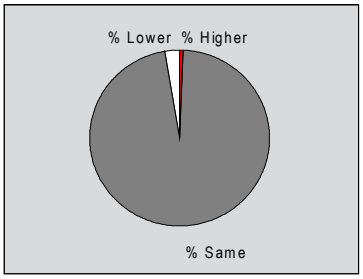


A modest increase in manufacturers' input prices was signalled during January, with 7% of the survey panel recording an increase in operating costs since the previous survey period. Where an increase in input costs was signalled, panellists attributed inflation to general rises in the prices of raw materials. A number of manufacturers suggested inflation was restricted by a drop in the value of the US dollar against the Korean won.

Suppliers' Delivery Times Index

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

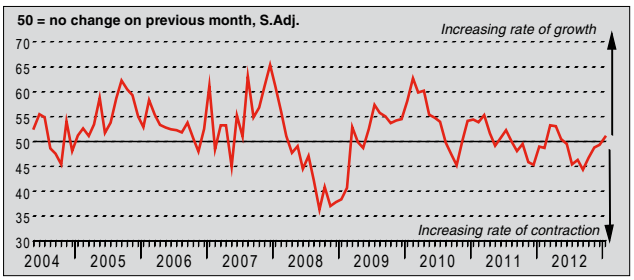


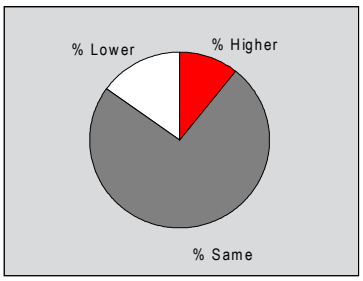


Average lead times for the delivery of inputs to South Korean manufacturers continued to lengthen during January. The degree to which vendor performance deteriorated was slightly quicker than during December, accelerating to the sharpest since February 2011. Where times lengthened, companies generally blamed delays on transportation network problems.

Quantity of Purchases Index

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

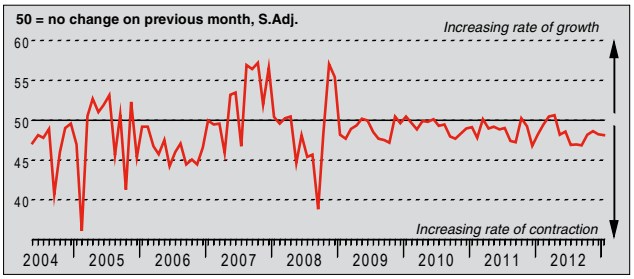


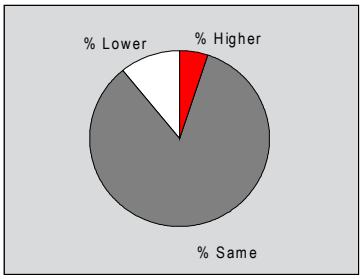


A modest increase in purchasing activity was signalled by January's survey data, the first such growth recorded since last May. A number of panellists commented that the buying of raw materials and semi-manufactured goods reflected anticipated increases in production and order book wins over the coming months.

Stocks of Purchases Index

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





The seasonally adjusted Stocks of Purchases Index registered below the 50.0 no-change mark in January, extending the current period of contraction to nine months. Around 11% of the survey panel reported that inventories had fallen as they continued to operate "just-in-time" production practices to avoid the costs of holding excess stock at their plants.

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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