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# HSBC South Korea Manufacturing PMI®

Slight improvement of operating conditions signalled in February

## Key findings:

- · Rises in new orders and employment signalled; strongest gain in new export orders for 19 months
- Output falls slightly amid some evidence of supply-side constraints
- Input price inflation up slightly, but competitive pressures lead to marginal fall in output charges

February's survey signalled a return to growth of the South Korean manufacturing sector as new order volumes increased modestly and employment was raised to a greater extent. Output continued to fall, albeit marginally and in part reflective of emerging supply-side constraints. Inventories were subsequently reduced slightly to help satisfy new and existing orders.

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 – recorded a level of 50.9 in February. Improving on January's 49.9, the PMI reached a nine-month high to indicate a slight improvement in manufacturing operating conditions.

A rise in new orders was the primary driver of the improved PMI reading. Modest growth was reported to reflect increased client demand, amid reports of the start-up of mass production of new models and products. Latest data suggested an improvement in demand for manufactured goods from abroad. New export orders rose for the second successive month, and to the sharpest degree for over a year-and-a-half.

In spite of a rise in new orders, output fell slightly during February. Panellists continued to report that economic conditions were challenging, which weighed on order book growth and subsequently production.

That said, anecdotal evidence also implied some constraints to production arising from supply-side delays. Vendor performance deteriorated for a fifth successive month amid a number of reports of poor weather and a rise in demand for inputs. Latest data indeed showed that purchasing activity amongst South Korean manufacturers rose for a second month in row, and at the sharpest pace for ten months.

Despite the rise in new orders and lower production, manufacturers were able to successfully keep on top of overall workloads. Backlogs of work were reduced in February for the ninth month in succession, albeit marginally. Companies commented that orders had been met directly out of stock wherever possible. As a result, inventories of finished goods fell slightly.

The modest growth of new orders encouraged companies to further add to their payroll numbers during August. Latest data showed that staffing levels rose for the third successive month and to the greatest degree since April 2011.

Finally, average input costs continued to rise in February, with the rate of inflation modest, but nonetheless the sharpest in four months amid a general rise in raw material prices. Conversely, competitive pressures weighted on manufacturers' own pricing power and led to a slight reduction in output charges during February.



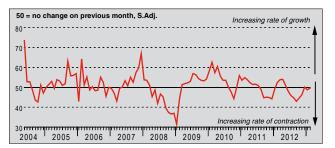
The HSBC South Korea *Purchasing Managers'* Index<sup>™</sup> (*PMI*<sup>®</sup>) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which 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<sup>™</sup> and *PMI*<sup>®</sup> 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.

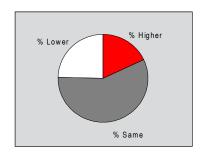




## **Output Index**

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



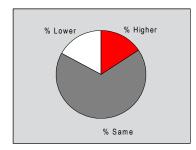


Output in South Korea's manufacturing sector fell for a second successive month in February, albeit at a marginal pace that was slower than in January. This was highlighted by the seasonally adjusted Output Index rising during the month, but remaining below the 50.0 no-change mark. A soft underlying trend in incoming new orders continued to weigh on output 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.

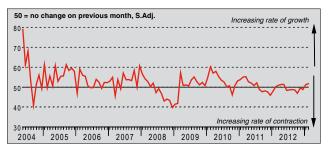


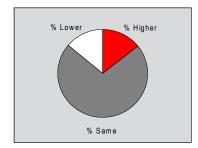


A modest increase in new order volumes was signalled by the seasonally adjusted New Orders Index for February. The index rose to a nine-month high and there were a number of reports that demand for components had increased as clients stepped up their own production of new models. A number of respondents continued to indicate, however, that underlying economic conditions remained challenging.

## New Export Orders Index

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



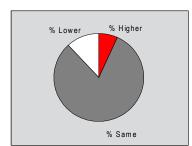


The seasonally adjusted New Export Orders Index rose for a second successive month in February to indicate a further increase in new export orders received by South Korean manufacturers. Although modest, the rate of growth was the sharpest for 19 months amid evidence of increased client demand from across Asia.

## Backlogs of Work Index

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



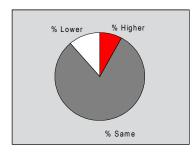


February's survey indicated that volumes of work outstanding continued to fall, albeit only modestly. The seasonally adjusted Backlogs of Work Index has now posted below the 50.0 no-change mark for nine months in succession. A number of companies reportedly reduced work outstanding by satisfying sales directly from existing inventory.

## Stocks of Finished Goods Index

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

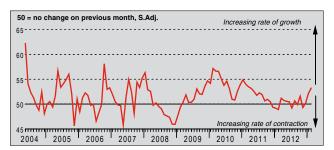


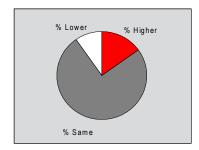


The seasonally adjusted Stocks of Finished Goods Index slipped below the 50.0 no-change mark during February to indicate a slight reduction in post-production inventories held by South Korean manufacturers. There was some evidence that stocks had been depleted to meet higher new orders and offset delays in production caused by the late delivery of inputs.

### Employment Index

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

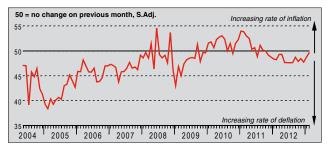


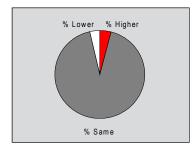


Manufacturing employment in South Korea's manufacturing sector continued to increase in February, the third successive monthly increase. Moreover, a rise in the seasonally adjusted Employment Index to a 22-month high pointed to a solid rate of growth. Of the 15% of panellists that reported an increase in payroll numbers, many reported adding personnel to production lines in advance of the start-up of new products.

## 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.



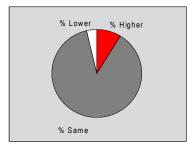


A slight decline in output charges was indicated by February's survey data, with the seasonally adjusted Output Prices Index recording just below the 50.0 no-change mark. Competitive pressures and recent sluggishness in underlying sales volumes encouraged discounting. Where output prices rose, companies blamed higher input costs.

## Input Prices Index

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

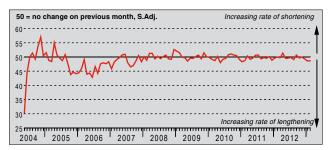


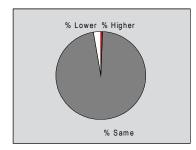


The seasonally adjusted Input Prices Index signalled a further increase in manufacturers' input costs during February. The rate of inflation was modest, but nonetheless the sharpest since last October with nearly 9% of the survey panel registering an increase in costs compared to January. Raw materials in general were reported to have risen in price.

## Suppliers' Delivery Times Index

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

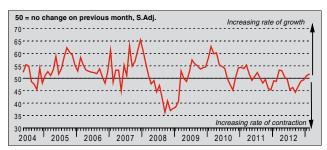


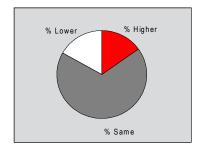


There was a further lengthening of average lead times signalled by February's survey data, the fifth in successive months. Higher demand and poor weather were noted as factors leading to the latest deterioration in vendor performance. Although modest, the latest lengthening of vendor delivery times was the steepest for over two years.

### Quantity of Purchases Index

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



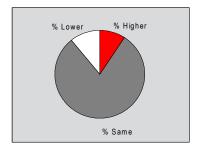


February's survey indicated that purchasing activity amongst South Korea's manufacturers continued to increase in February, the second successive month that growth has been recorded. Although modest, growth was the sharpest for ten months. Panellists reportedly increased purchasing activity in line with higher new orders and in anticipation of an increase in production volumes.

## 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 remained below the 50.0 no-change mark during February for the tenth month in succession. Efforts to minimise inventory holdings, supply-side delays and, in some cases, weak sales volumes were all reported to have led to stock depletion in the latest survey period. February's reduction was the sharpest since last September.

### 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. Warning

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