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HSBC South Korea Manufacturing PMI®

PMI signals strongest improvement in business conditions for a year

Key findings:

- PMI points to solid improvement in overall operating conditions in March
- Growth rates for output and new orders both at 11-month highs
- Employment increases at strongest rate since February 2011

Manufacturing business conditions in South Korea improved for the second month running in March, with the latest expansion the strongest in a year. Solid increases were reported for both output and new orders and this encouraged manufacturers to hire more staff – the rate of job creation was the strongest for over two years. On the price front, firms continued to reduce their selling prices in March, despite costs rising at the fastest pace in 14 months.

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 – rose to 52.0 in March, its highest reading in a year. The PMI, up from 50.9 in February, was consistent with a solid improvement in overall manufacturing business conditions.

The volume of new orders received by manufacturing companies in South Korea increased for the second month running in March, with firms generally citing greater client demand. Moreover, the rise in total new orders was the strongest in 11 months, and continued to be supported by export work which rose at the fastest pace in two years.

Reflective of the increase in new work, firms raised production in March. This was the first increase in output for three months, with the rate of growth the strongest since April 2012. Meanwhile, backlogs of work were little-changed from one month previously,

and stocks of finished goods were depleted further.

The quantity of inputs bought by monitored companies rose further during the latest survey period. Panellists generally linked growth to higher production requirements. Stocks of purchases meanwhile were depleted for the eleventh consecutive month, albeit at the weakest rate in this sequence.

Suppliers' delivery times lengthened again in March, partly reflecting leaner inventories at vendors. However, the latest increase in lead times was only marginal and the weakest in four months.

Manufacturing employment in South Korea increased for the fourth consecutive month in March. Approximately 14% of firms hired additional staff since February, while half as many reduced their workforces. Overall, the rate of job creation was solid and the strongest since February 2011.

Manufacturers reduced their selling prices in March, continuing the trend that has been registered in each month since November 2011. A number of companies commented that the decline reflected discounts offered to some clients.

However, the modest reduction in output charges was in contrast to higher input prices in the latest survey period. Higher raw material prices and unfavourable exchange rates contributed to the strongest rise in costs since January 2012.



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 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.

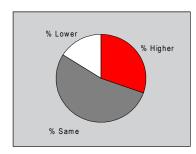




Output Index

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



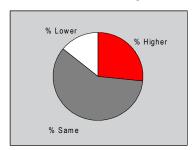


In contrast with declines reported in the previous two months, manufacturing output in South Korea increased in March. This was signalled by the seasonally adjusted Output Index rising above the 50.0 no-change mark that separates growth from contraction. Firms generally attributed higher production levels to increased new orders, particularly from key export markets. The latest index reading was the highest since April 2012 and signalled a moderate rise in output.

New Orders Index

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



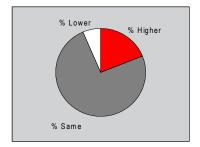


The volume of new orders received by South Korean manufacturing companies increased for the second consecutive month in March. Approximately 27% of firms reported an increase in new work (while 14% registered a reduction), and largely attributed this to a combination of greater client demand, both at home and abroad, as well as improving market conditions. Overall, the rate of new order growth was solid and the strongest in 11 months.

New Export Orders Index

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



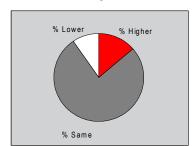


Following the trend that has been registered in each month of the year so far, the volume of new export orders placed at South Korean manufacturers increased in March. Greater demand in key export markets such as Japan and China was commonly cited by a number of monitored companies. Moreover, the rate of growth in new export work was solid and, having strengthened since February, the fastest in two years.

Backlogs of Work Index

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





Outstanding business at manufacturing firms increased in March. The rate of backlog accumulation was only marginal, however, with the seasonally adjusted Backlogs of Work Index registering only slightly above the 50.0 no-change threshold. Approximately 14% of panellists reported an increase in work-in-hand over the month, attributing this to recent growth of new orders.

Stocks of Finished Goods Index

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

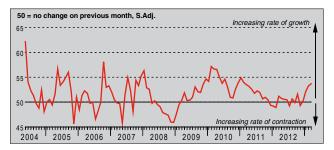


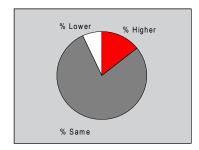


The seasonally adjusted Stocks of Finished Goods Index remained below the 50.0 no-change level in March, indicating a further depletion of finished goods inventories. Manufacturers have reduced their holdings of post-production goods in five out of the past six months. Although the rate of contraction was only marginal, it was stronger than that registered in February.

Employment Index

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



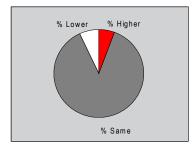


Manufacturing employment in South Korea rose for the fourth consecutive month in March. Approximately 14% of surveyed firms hired additional staff since February (while half as many reduced their workforces), largely linking this to increased workloads. Overall, the rate of job creation was solid and, having strengthened over the month, was the fastest since February 2011.

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.

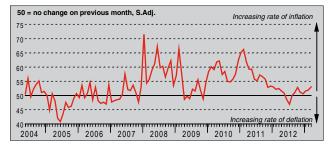




Average selling prices at manufacturing companies continued to decline in March. Output charges have fallen in each month since November 2011, with the latest reduction modest. A number of firms that discounted their output prices in the latest survey commented on customers' requests for lower charges.

Input Prices Index

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

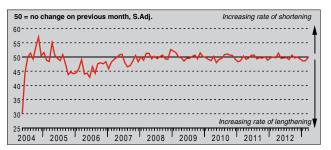


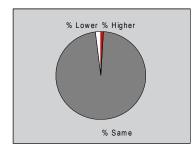


Input costs faced by manufacturers continued to increase in March, taking the current sequence of input price inflation to seven months. One-ineight firms recorded an increase in costs over the month, amid reports of higher raw material prices and unfavourable exchange rates. Overall, input prices rose solidly in March, with the rate of increase the fastest since January 2012.

Suppliers' Delivery Times Index

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



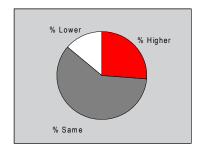


Lead times for inputs lengthened only marginally in March. This was signalled by the seasonally adjusted Suppliers' Delivery Times Index posting only fractionally below the 50.0 no-change level, and at a four-month high. The slight deterioration in vendor performance partly reflected leaner inventories at suppliers in the latest survey period.

Quantity of Purchases Index

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



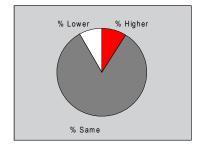


March data pointed to a third successive monthly rise in purchasing activity. Approximately 26% of surveyed firms bought a larger quantity of inputs in the latest survey period (while 14% reduced their purchases), linking the increases to higher production requirements. Overall, the rate of growth was solid and the strongest in almost a year.

Stocks of Purchases Index

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





Input inventories at manufacturers in South Korea were depleted for the eleventh month running in March. That said, the rate of contraction was only modest and the weakest in the sequence. Where stocks of purchases were reduced, a number of companies commented on higher production requirements, although other firms also mentioned leaner inventory 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' 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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