HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

Embargoed until: 09:00 (SEOUL), 2 May 2013

HSBC South Korea Manufacturing PMI®

PMI improves in April to highest level in over two years

Key findings:

- Fastest rise in output for a year; total new order growth at 26-month high
- Backlogs increase further
- Input costs down for first time in nine months

South Korea's manufacturing sector continued to expand during April, with output, new orders and employment all rising at solid rates since the previous month. Economic conditions were reported to have strengthened, which supported an improvement in demand, particularly at home, where clients showed an increased willingness to purchase manufactured goods.

The survey also showed a modest reduction in input costs, the first net fall in nine months, as metal prices were reported to have declined. A number of companies passed their lower costs onto clients in the form of discounts, although the rate of reduction was marginal.

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 – continued to signal steadily improving operating conditions in April. The PMI recorded 52.6, up from 52.0 in March, and has now posted above the 50.0 no-change mark for three successive survey periods. Moreover, the latest PMI reading was the highest for 25 months.

Manufacturing output volumes increased for the second month in a row in April. Growth was solid and the highest seen for a year, as a wider improvement in economic conditions led to a similar sized rise in new orders. There were reports of an increase in demand from major clients. New product releases also supported total sales, which increased at the sharpest pace for 26 months.

Latest data implied that the domestic market was a key driver of growth. Export sales increased, but at a slower pace and one that was below the rate for total new orders. Where foreign orders rose, panellists signalled that China and Japan were key demand sources.

April's survey indicated some pressure on capacity, as backlogs of work rose at the fastest rate for 20 months. Manufacturers subsequently shipped directly out of stock wherever possible to try and satisfy order book requirements. Latest data showed stocks of finished goods declined at the sharpest pace of the year so far.

Higher new orders and increased production requirements also encouraged companies to add to their payroll numbers. April's survey signalled that staffing levels rose for a fifth successive month, and at a solid pace.

Purchasing activity also increased, with the rate of growth the sharpest for a year. That said, companies still pared inventories of inputs (albeit to a lesser extent than in previous months).

Finally, the latest survey showed a net fall in input costs for the first time in nine months. Precious and non-ferrous metals were reported to have declined in price since March. Manufacturers passed part of their lower costs onto clients via a reduction in output charges. There were some reports that ongoing discounting reflected efforts to maintain competitive pricing structures.

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

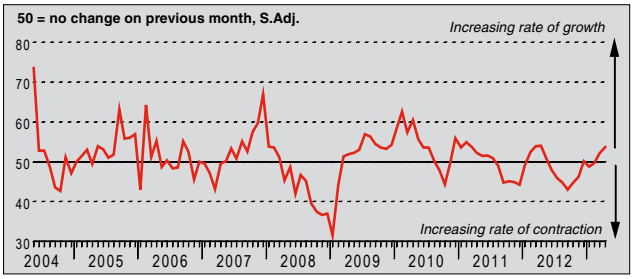
The HSBC South Korea *Purchasing Managers' Index*™ (*PMI*®) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output,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

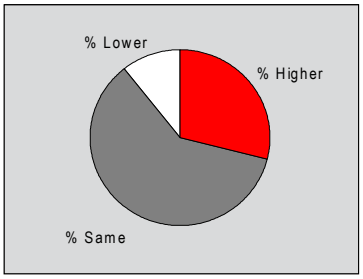
markit™

HSBC

Output Index

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

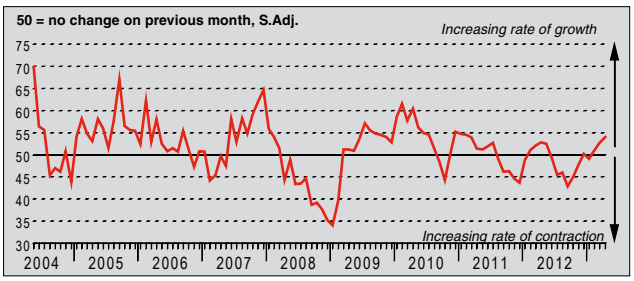


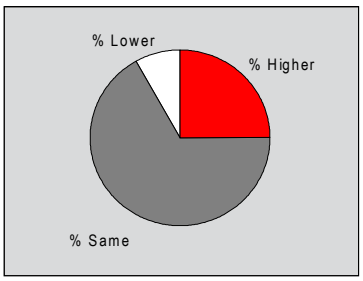


Manufacturing output in South Korea increased for the second successive month during April. Moreover, a rise in the seasonally adjusted Output Index pointed to a solid rate of expansion that was the highest since April 2012. Anecdotal evidence suggests that the primary driver of output expansion was an increase in new order volumes amid reports of a wider improvement in economic conditions.

New Orders Index

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

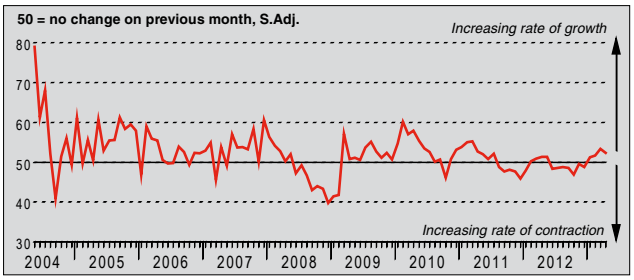


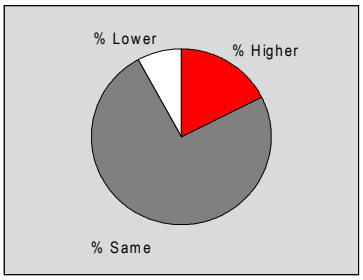


Amid reports of improved economic conditions, new orders placed with South Korea's manufacturers continued to increase during April. There was some evidence of a rise in demand from major clients, while manufacturers commented on success from the release of new products. Moreover, with the seasonally adjusted New Orders Index improving to a 26-month high, the rate of expansion signalled by the latest survey was marked.

New Export Orders Index

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

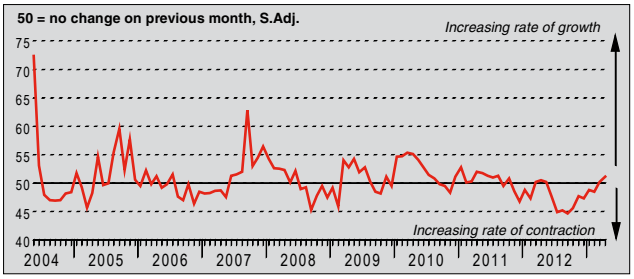


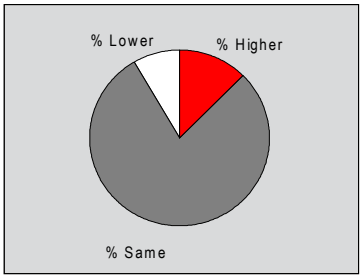


The seasonally adjusted New Export Orders Index remained above the 50.0 no-change mark in April, extending the current period of expansion to four months. Growth was solid, albeit a little slower than in March, when export sales rose at the sharpest pace for two years. Positive demand developments were noted in key export markets such as China and Japan.

Backlogs of Work Index

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



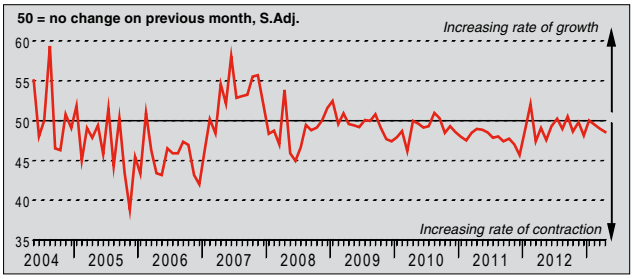


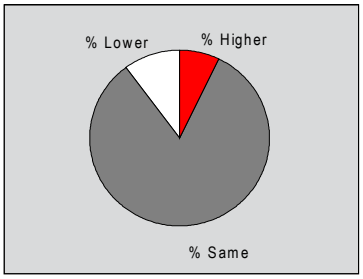
Modest growth of work outstanding was signalled by the latest survey, with backlogs of work rising for a second successive month. After accounting for seasonal factors, the Backlogs of Work Index rose to a 20-month high with around 13% of panellists registering a rise in backlogs since March. Higher sales volumes were the prominent factor leading to the latest rise in work outstanding.

All Intellectual Property Rights owned by Markit Economics Limited

Stocks of Finished Goods Index

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

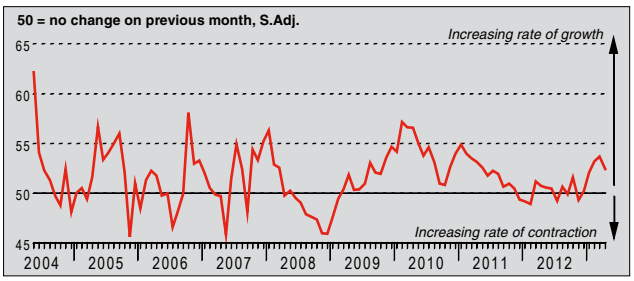


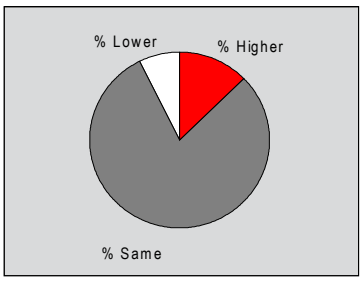


Inventories of finished goods held by South Korean manufacturers continued to decline in April as companies raised shipments to meet new and existing order book requirements. The modest reduction was the sharpest of the year so far, as signalled by the seasonally adjusted Stocks of Finished Goods Index dropping to a four-month low. Around 10% of the survey panel signalled a reduction in inventories.

Employment Index

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

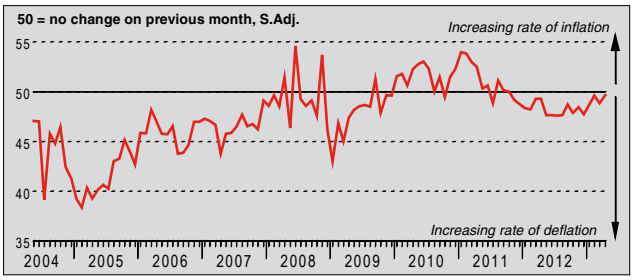


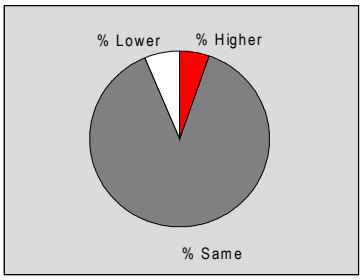


Manufacturers in South Korea continued to add to their payroll numbers during the latest survey period. Posting above the 50.0 no-change mark for the fifth successive month, the seasonally adjusted Employment Index indicated a solid rate of growth with around 13% of survey panellists indicating a rise in staffing levels since March. Reasons for growth included higher production requirements, the extension of specific business lines and a response to labour shortages at plants.

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.

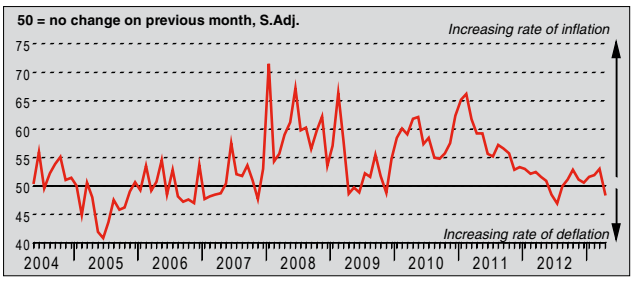


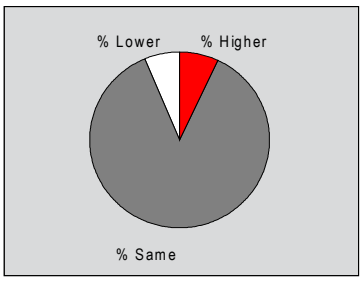


The seasonally adjusted Output Prices Index recorded below the 50.0 no-change mark in April. This signalled an extension to the current period of discounting to 18 months, although the net fall in charges was the weakest in this sequence. Panellists reported passing on lower input costs to their clients while others sought to improve competitiveness by offering discounts.

Input Prices Index

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

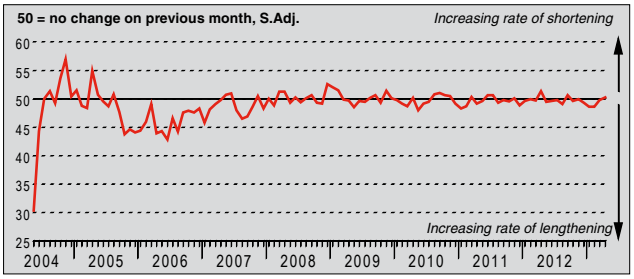


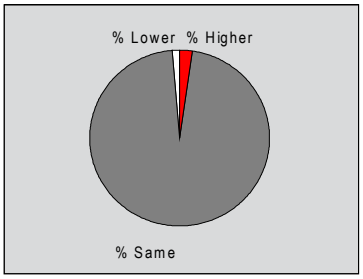


A modest drop in input prices was signalled by April's survey, as indicated by the seasonally adjusted Input Prices Index which slipped below the 50.0 no-change mark for the first time in nine months. Reductions in the price of precious metals were reported, while there was also evidence of a decline in the costs of aluminium, nickel and non-ferrous metals in general.

Suppliers' Delivery Times Index

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

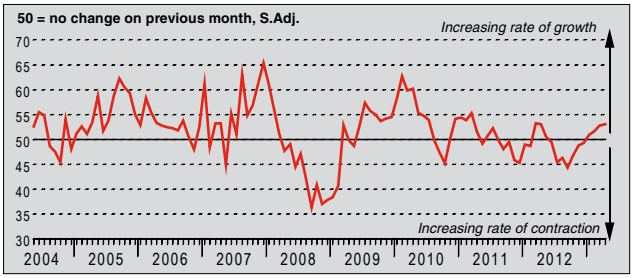


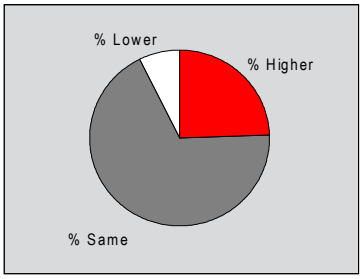


Average lead times for the delivery of inputs to South Korean manufacturers shortened during April, for the first time since last September. However, the degree to which lead times improved was marginal. Panellists reported that suppliers in general had sufficient capacity to deal with the present volumes of orders at their units.

Quantity of Purchases Index

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

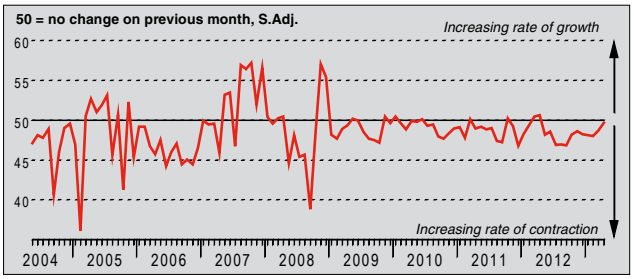


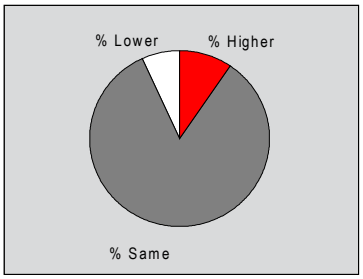


The seasonally adjusted Quantity of Purchases Index remained above the 50.0 no-change mark in April to signal further growth of purchasing activity amongst South Korean manufacturers. Moreover, the rate of increase was solid and accelerated for the third successive month to the sharpest for a year. Higher production requirements following a pick-up in sales led to the latest rise in input buying.

Stocks of Purchases Index

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





Inventories of purchases were down in April, but only slightly. After accounting for seasonal factors, the Stocks of Purchases Index recorded a 12-month high, with 84% of panellists indicating no change in inventory levels. Where a fall in stocks was recorded, this was linked by manufacturers to higher 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' 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.

Warning

The intellectual property rights to the HSBC South Korea Manufacturing PMI provided herein is owned by Markit Economics Limited. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without Markit's prior consent. Markit shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall Markit be liable for any special, incidental, or consequential damages, arising out of the use of the data. 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.