HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC South Korea Manufacturing PMI®

Slower growth of South Korea's manufacturing sector signalled in May

Key findings:

- Output and new orders continue to rise but at slower rates
- Input prices down to sharpest degree for nearly eight years
- Employment rises at solid pace

South Korea's manufacturing sector suffered a slowdown in growth during May, with output and new orders both registering weaker increases than the previous month. Nonetheless, manufacturers continued to expand capacity, with employment raised for a sixth successive month.

On the price front, input prices continued to decline, and at the fastest pace since July 2005. Output charges also fell as manufacturers passed on lower input costs to their clients.

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 – slipped to 51.1 in May. That was down from April's 52.6 to signal a modest rate of growth that was the slowest since February.

Underlying the slowdown in growth of the manufacturing economy were weaker gains in both output and new orders. In both instances, rates of expansion were modest and, while a number of manufacturers commented that demand had improved, securing sales was reportedly a little tougher than in recent months.

This was the case both at home and abroad. Export sales rose for a fifth successive month, but at a modest pace that was the slowest since January. The US remained a source of export growth, but demand from China was reported to have suffered. A number of companies added that the weakness of the yen was improving the competitiveness of Japanese rival manufacturers.

A weaker yen did, however, help to reduce the price of imported goods from Japan. With copper, oil and raw material prices in general reported to have deteriorated, overall input costs were lowered to the greatest degree since July 2005. Manufacturers responded by lowering their own charges for a nineteenth successive month and to the most marked extent since April 2009.

Meanwhile, staffing levels continued to increase. Growth was again solid as firms sought to expand capacity and support production volumes. Extra capacity also helped firms keep on top of total workloads, with backlogs of work declining slightly for the first time since February.

Reflective of slower growth in production and sales in May, South Korean manufacturers pared their purchasing activity slightly following four months of expansion. Stocks of pre-production goods were also cut marginally, the thirteenth successive month that destocking has been recorded.

With demand for inputs slightly lower and reports of excess stock at vendors, average lead times for the delivery of inputs to South Korean manufacturers shortened in May. Moreover, the degree to which vendor performance improved was the best recorded since November 2009.

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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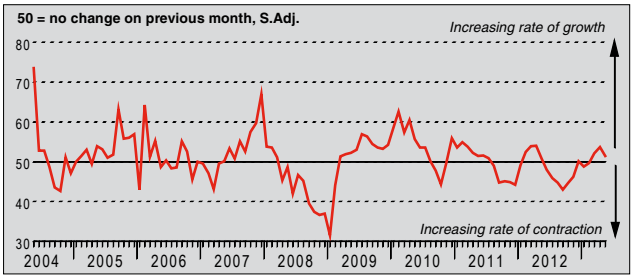
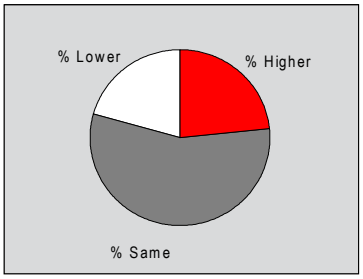
Output Index

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

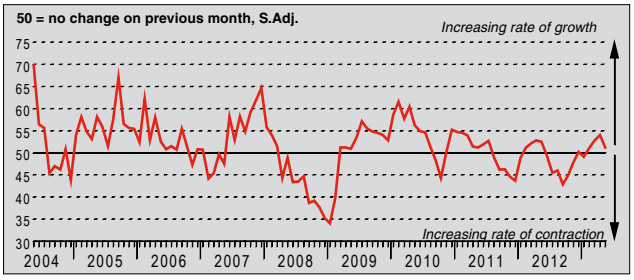


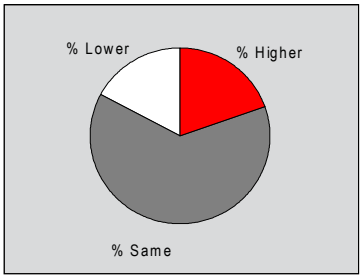


Growth of South Korea's manufacturing output was sustained into a third successive month during May, according to the latest data. However, the rate of expansion was modest and eased on April's recent high. Although manufacturers continued to report that new orders were increasing and supporting higher output, a similarly slower rate of sales expansion limited the degree to which production rose.

New Orders Index

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

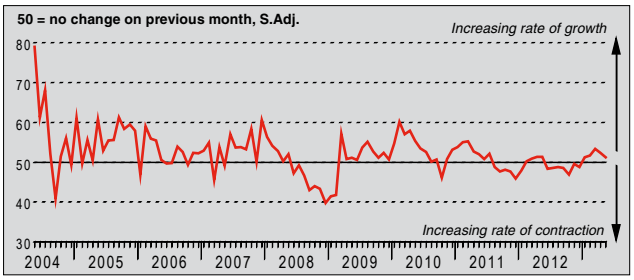


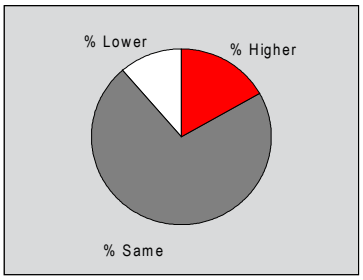


Following a solid and accelerated increase in new orders during April, South Korea manufacturers indicated that sales volumes continued to increase during May, but at a weaker pace. Panellists signalled that demand continued to show signs of recovery, but that operating conditions remained tough, particularly in domestic markets. Total new orders have now increased for four months in succession.

New Export Orders Index

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

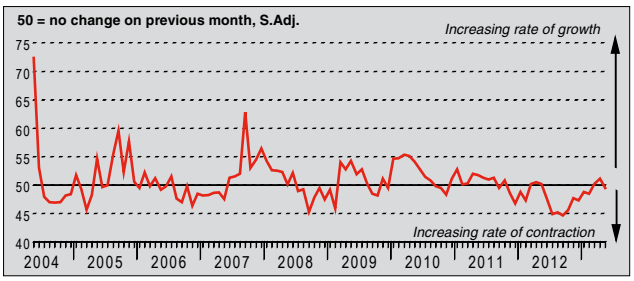


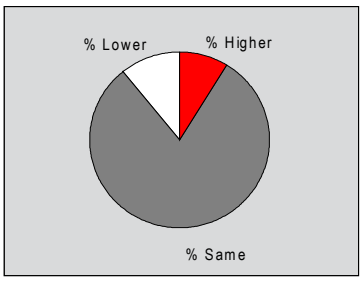


Volumes of new export orders placed with South Korea's manufacturers continued to increase during May, extending the current period of expansion to five months. Growth was, however, modest and the slowest since the start of the year. A number of panellists reported that demand from the US was firmer and a key source of overall growth. In contrast, demand from China was reported to have softened. Some panellists noted a decrease in competitiveness against Japanese companies due to the weakness of the yen.

Backlogs of Work Index

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





Following back-to-back growth in March and April, backlogs of work held by South Korea's manufacturing companies was slightly lower during May. The slight reduction in work outstanding signalled by the survey was reported to reflect the softening of sales growth. Manufacturers were reportedly able to keep on top of workloads by utilising any excess production to clear existing orders.

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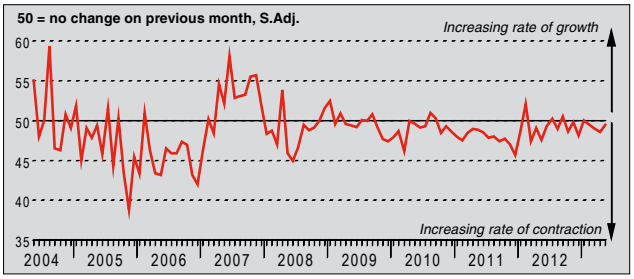
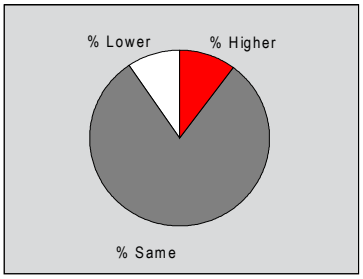
Stocks of Finished Goods Index

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

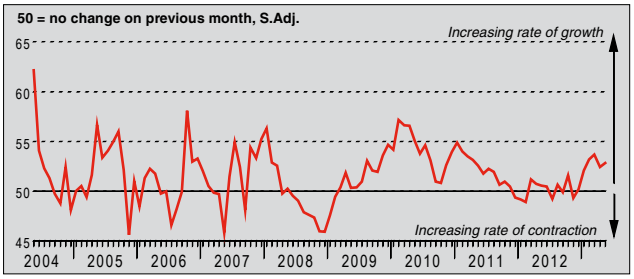


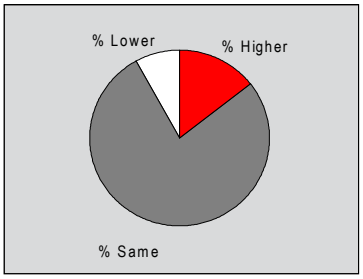


Stocks of finished goods were pared marginally for the fourth month in succession during May. The slight contraction was reported to be a reaction to slower sales growth and a deliberate effort to reduce any excess stocks. Around 80% of the survey panel signalled no change in inventories of post-production goods during May.

Employment Index

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

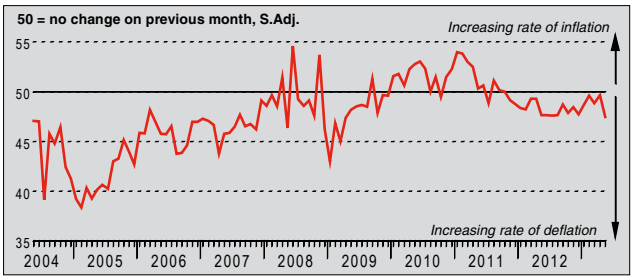


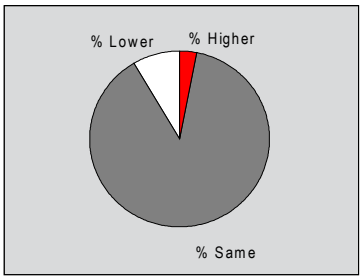


The seasonally adjusted Employment Index remained above the 50.0 no-change mark during May to extend the current sequence of employment growth to six months. Moreover, the degree to which payroll numbers were increased was solid and sharper than in April. Panellists reported efforts to increase capacity and support higher volumes of production.

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.

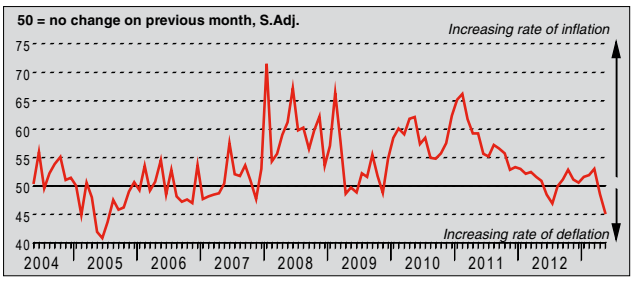


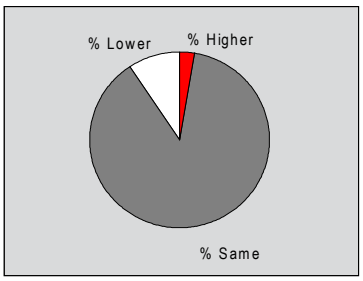


Deflation of output charges continued to be recorded during May. Output prices have declined for 19 successive months, and the latest decline was the most marked since April 2009. Lower output charges were reported to reflect the passing on of reduced input costs. Around 9% of the survey panel signalled a reduction in output prices.

Input Prices Index

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

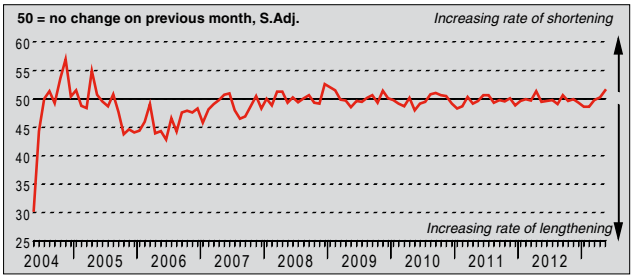


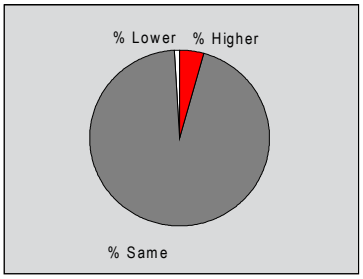


The seasonally adjusted Input Prices Index maintained its recent downward trend in May. Posting below the 50.0 no-change mark for the second month in succession, the index also indicated the sharpest fall in input costs since July 2005. The reduction in input costs was reported to be the result of a reduction in general raw material prices, with copper and oil mentioned in particular. A weaker yen was also reported to have reduced the cost of imported goods from Japan.

Suppliers' Delivery Times Index

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

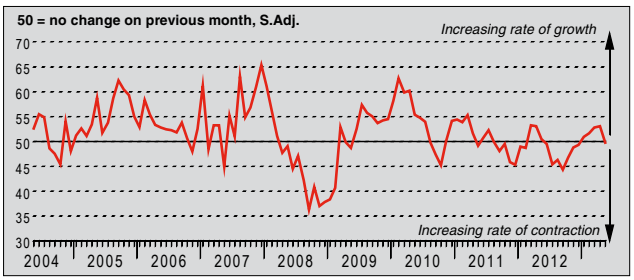


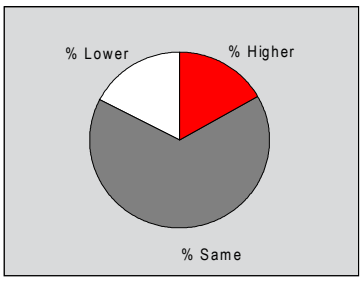


Average lead times for the delivery of inputs to South Korean manufacturers were reported to have shortened for a second month in succession during May. The modest improvement was the best recorded since November 2009 and was reported to reflect excess stock at vendors and, in some instances, a reduction in demand.

Quantity of Purchases Index

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

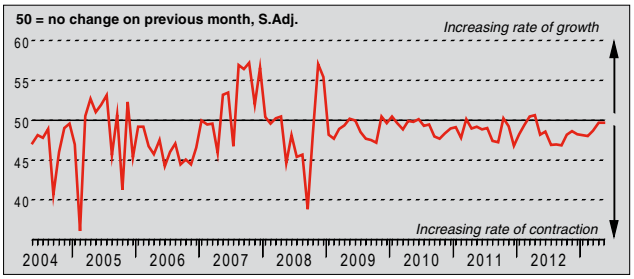


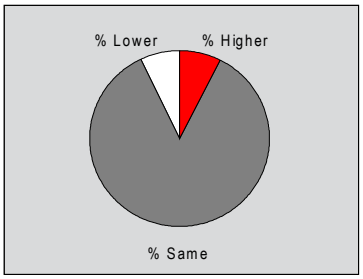


The seasonally adjusted Quantity of Purchases Index slipped just below the 50.0 no-change mark in May to indicate a marginal reduction in the purchasing activity of South Korea's manufacturers. The slight fall followed four consecutive months of growth and in part was the result of slower production and sales growth in May.

Stocks of Purchases Index

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





Inventories of pre-production goods were little moved in May, falling only slightly as indicated by the seasonally adjusted Stocks of Purchases Index registering fractionally below the 50.0 no-change mark. Where stocks were reported to have been pared, companies generally attributed the decline to slower production and sales growth.

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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