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HSBC South Korea Manufacturing PMI®

Manufacturing output and new orders contract at fastest rate in nine months

Key findings:

- Headline PMI slips to lowest level since September 2012
- July marks 21 consecutive months of falling output prices
- Manufacturing employment down at fastest rate for 17 months

The South Korean manufacturing industry contracted further in July. A domestic economic slowdown and unfavourable foreign exchange conditions were reportedly the root causes of lower levels of production, new orders and employment.

The HSBC South Korea *Purchasing Managers' IndexTM (PMI[®])* – a composite indicator designed to provide a single-figure snapshot of the health of the manufacturing sector – dropped for the third consecutive month, falling from 49.4 in June to 47.2 in July. This two-month deterioration follows four months of improvements.

The latest data showed manufacturing output contracted in July at the fastest pace for nine months. Manufacturers reported sluggish economic conditions to be the primary factor behind falling production volumes.

In line with output, new orders fell for the second consecutive month and at the sharpest rate recorded since October 2012. A number of panellists cited the weakening of certain domestic sectors, in particular the construction and telecommunications industries, as the main drivers behind this latest decrease in levels of new business.

Employment fell at the sharpest rate since February 2012, which was anecdotally attributed to the reduction in order volumes and sluggish domestic economy.

Backlogs of work also decreased, and the rate of depletion quickened to the steepest in nine months. Again, a fall in new orders was highlighted as the main contributory factor.

New export orders followed a similar pattern to output, falling again in July and at the fastest pace recorded for nine months. Falling demand from the Americas and China was mentioned by some manufacturers as a key factor. Furthermore, respondents highlighted the increased level of price competition posed by Japan due to the weak yen, and a number reported losing orders on account of this.

Meanwhile, deflation of output prices continued and July marked the twenty-first consecutive month of falls. Manufacturers reported that an intensification of price competition had been the main impetus behind this continued decline. Input prices also fell, though to a lesser extent, marking their fourth consecutive month of reduction. This was largely attributed to the falling costs of certain raw materials such as aluminium and copper.

Weaker order volumes resulted in the third consecutive month of cuts to purchasing activity, which decreased at an accelerated pace in July. Stocks of finished goods also fell, and did so at the sharpest pace reported in the current six-month sequence of decline.



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.

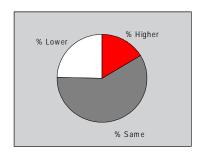




Output Index

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



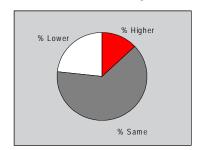


Manufacturing output fell in July for the second consecutive month. The latest data showed the rate of decline had accelerated since June and was the sharpest recorded in nine months. Anecdotal evidence attributed the fall in production to a sluggish economy combined with a slight reduction in consumption, specifically a contraction in demand for telecommunications products.

New Orders Index

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

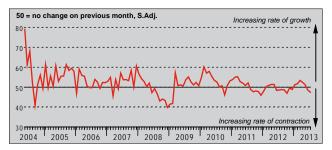


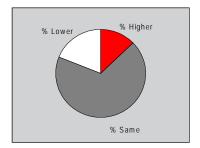


Similarly to output, new orders fell for the second successive month and at a notably accelerated pace. The rate of contraction was the sharpest recorded since October 2012. A number of panellists felt the slowing of the domestic economy was responsible for the reduction in new business. Respondents also commented on the impact of a slowdown in certain sectors, specifically within the IT industry.

New Export Orders Index

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



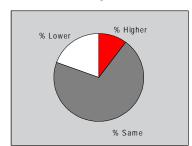


New export orders fell again in July and the rate of decline was the fastest recorded for nine months. South Korean manufacturers partially attributed the decline in foreign demand to the weakness of the yen and a number noted they had lost out on orders to Japanese firms as a result of their worsened competitive position. Respondents also mentioned falls in order volumes from China and the Americas as key factors behind the reduction of new export orders.

Backlogs of Work Index

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

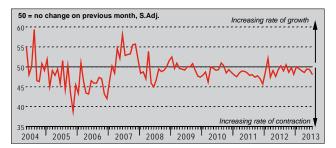


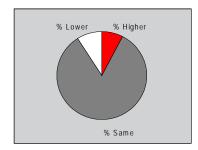


Backlogs of work within the South Korean manufacturing sector fell for the third consecutive month in July, and at a marginally accelerated pace. Like output and new orders, this was the sharpest decline seen since October 2012. Panellists reported the primary cause to be a reduction in the volume of orders, though a number specified the slump in the construction industry as a further contributory factor.

Stocks of Finished Goods Index

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

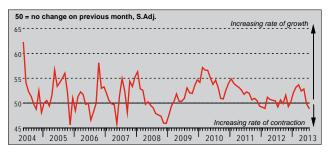


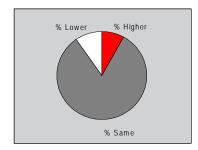


Stocks of finished goods fell for the sixth consecutive month in July and the rate of depletion in the South Korean manufacturing sector was the sharpest recorded in the current sequence of decline. Survey respondents cited the falling volume of export orders and the sluggish domestic economy as key drivers of the trend.

Employment Index

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





The rate of decline in manufacturing employment was the fastest recorded for 17 months in July. Payroll numbers contracted for the second successive month and the index posted below the historical average for the series. Anecdotal evidence suggested the contraction in work force numbers was a direct result of lower order volumes and internal restructuring processes.

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.

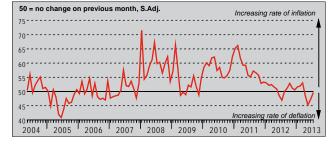


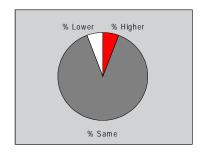


Output prices fell again in July, marking the twenty-first successive month of decline, though they did so at the slowest pace since April. A number of respondents reported that lower output prices resulted from an intensification of competition within the South Korean manufacturing industry. Around 7% of panellists reduced their charges, against 2% that increased output prices.

Input Prices Index

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

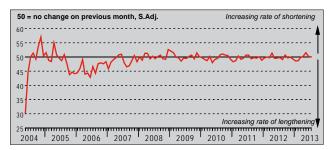


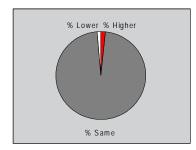


Input prices fell again in July, though at the slowest pace in the current four-month sequence of decline. That said, the index posted considerably lower than the series average. Anecdotal evidence from the 6% of manufacturers reporting lower input costs indicated the falling price of some raw materials such as aluminium and copper goods.

Suppliers' Delivery Times Index

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

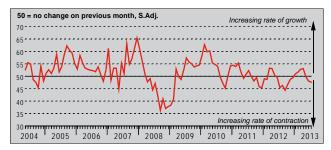


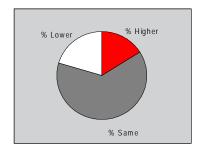


Suppliers' delivery times within the South Korean manufacturing sector recorded broadly no change in July, in line with its trend of recent years. On the one hand, those respondents that noted slower delivery times in July, blamed shipment delays and supply chain complications, whilst the few manufacturers who reported faster times attributed improved vendor performance to falling demand for inputs.

Quantity of Purchases Index

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

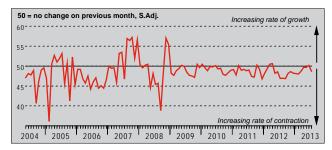


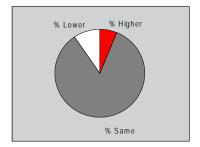


Purchasing activity fell for the third consecutive month in July, and registered an accelerated pace of decline. The index posted below the historical series average and fell to a nine-month low. Anecdotal evidence indicated this contraction was a result of weaker order volumes and a rise in the price of certain inputs leading some manufacturers to minimise their stock levels.

Stocks of Purchases Index

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





Stocks of purchases were depleted once more in July after rising for the first time in 14 months in June. Respondents reported that this was largely due to the fall in order volumes, although some also noted that the reduction in pre-production inventories was a strategic decision aimed to minimise the need for stock management.

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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