HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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

HSBC South Korea Manufacturing PMI®

Business conditions deteriorate further in South Korean manufacturing industry

Key findings:

- Production declines for third successive month
- Backlogs fall at fastest rate in survey history
- Fastest decline in new export orders since February 2009

The latest PMI data from HSBC indicated a further contraction in the South Korean manufacturing industry in August. The overall deterioration in business conditions slowed marginally since July, mainly reflecting weaker falls in output and new orders. In contrast, other measures indicated an acceleration in the rate of decline. Pre-production inventories shrunk at the fastest rate recorded since the global financial crisis in September 2008, whilst new export orders contracted at the sharpest pace recorded in 54 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 – indicated a deterioration in business conditions for the third successive month in August. Although the index did rise marginally from 47.2 in July to 47.5, it fell short of crossing the 50.0 no-change threshold which separates growth from contraction.

Both manufacturing output and new orders fell for the third consecutive month, though their rates of decline slowed marginally. Panellists attributed the fall in production to lower order volumes, which some linked to a domestic economic slowdown and weak demand. Contractions in shipbuilding and the construction industry also emerged from the survey as key factors behind August's diminished production.

Outstanding business fell at the fastest pace recorded since the survey began in April 2004. August marked the fourth month of decline, and one-fifth of all respondents reported lower levels of business outstanding. Respondents primarily blamed a general economic slowdown. Anecdotal evidence also suggested that falling order volumes and a contraction in the IT industry were key drivers of the record reduction in backlogs.

Employment fell for the third consecutive month, though the rate of decline eased marginally in August. Lower output levels were commonly cited by respondents as the primary cause of the reduction in staffing levels.

Input prices rose for the first time in five months in August. Inflation was largely attributed by panellists to increased raw material costs, in particular higher prices of fuel and steel products.

Output prices fell for the twenty-second consecutive month in August, though the rate of decline eased to the slowest recorded in the last four months. Increased international price competition was mentioned by respondents as a key driver of the fall in charges.

Suppliers' delivery times lengthened for the first time in five months in August, albeit marginally. Anecdotal evidence from the small percentage of respondents who recorded longer delivery times suggested that shipping delays were a key factor.

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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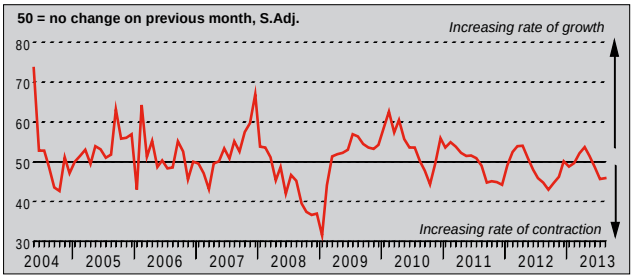
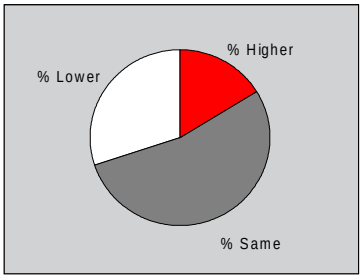
Output Index

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

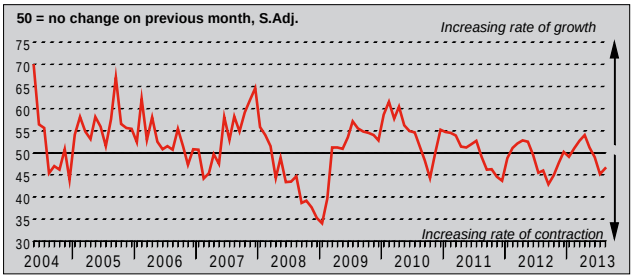


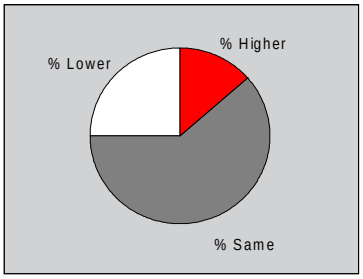


Manufacturing production in South Korea fell for the third consecutive month in August, though the pace of decline slowed marginally. Around 30% of respondents reported lower levels of output, compared with just over 16% reporting higher levels. Panellists commonly associated the decline in production with lower levels of orders, which some linked to a domestic economic slowdown. Additionally, a number of respondents specified a slump in the shipbuilding industry as a key factor behind diminished production in August.

New Orders Index

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

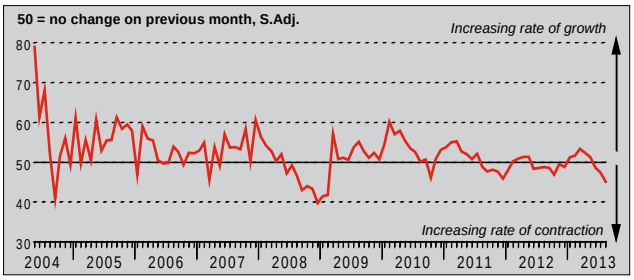


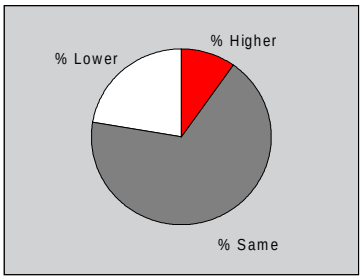


New orders followed a similar pattern to output in August, declining for the third successive month at a marginally slower pace. The index posted well below the average recorded over the series history, and one-quarter of respondents reported a decline in output. Anecdotal evidence suggested that a domestic economic downturn was the primary cause of the contraction in new business.

New Export Orders Index

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

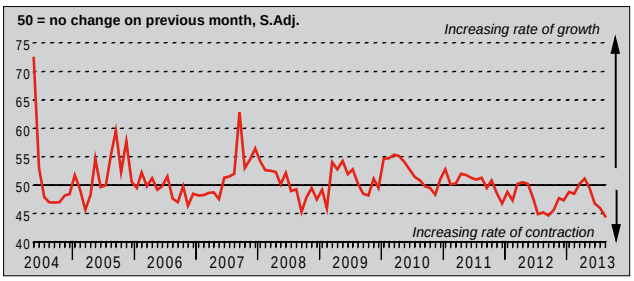


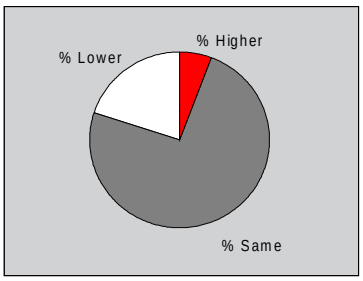


New export orders deteriorated for the third consecutive month in August, and at the sharpest pace recorded since February 2009. Those panel members reporting a decline reasoned that this was largely due to the global economic slowdown. A number also mentioned the negative impact of production localisation, particularly in China. In addition, political instability in Egypt was highlighted by some firms as reducing export demand from the Middle East.

Backlogs of Work Index

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

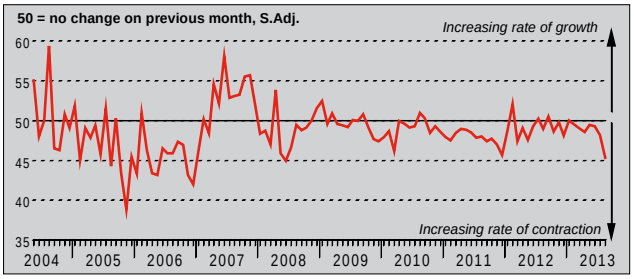


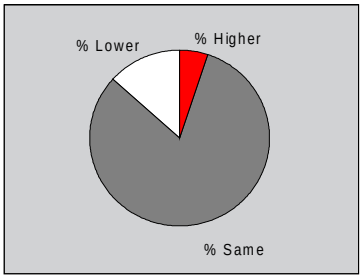


Backlogs fell at the fastest pace recorded since the survey began in April 2004. August marked the fourth month of decline, and one-fifth of all respondents reported lower levels of business outstanding. Anecdotal evidence suggested that falling order volumes and a downturn in the domestic economy, particularly in the construction and IT industries, were largely to blame for the fall in backlogs.

Stocks of Finished Goods Index

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

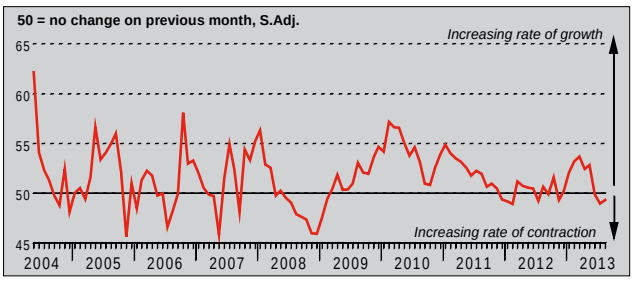


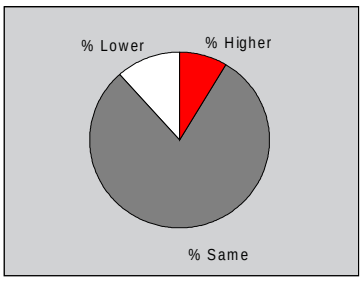


Stocks of finished goods declined for the seventh consecutive month in August, and at the fastest rate since June 2008. Around 13% of respondents reported a fall in their post-production inventories, compared with just over 5% reporting a rise. Reports from panellists suggested this was largely due to a downscaling of production in response to a fall in order volumes.

Employment Index

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

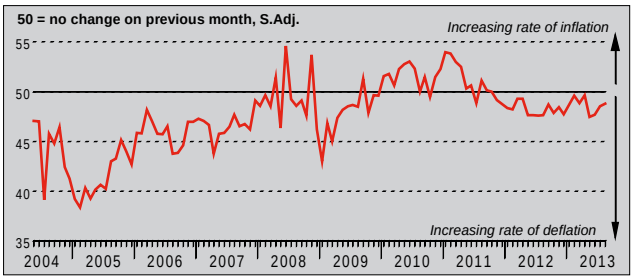


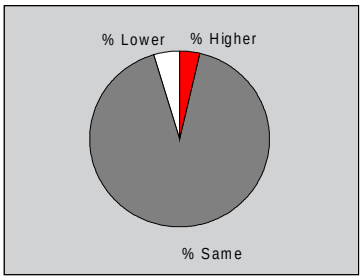


Manufacturing employment fell for the third consecutive month in August and, though the rate of decline eased, the index posted below the historical series average. Lower output and a poor economy were commonly cited by respondents as primary causes of the drop in staffing levels. That said, a number of respondents said the reduction in employment had been partially a result of natural turnover and retirements.

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.

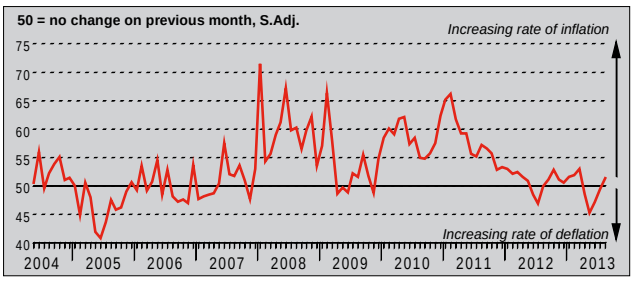


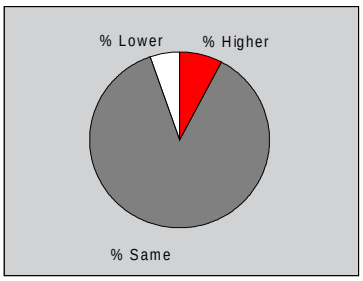


Output prices fell for the twenty-second consecutive month in August, though the rate of decline eased to the slowest recorded in the last four months. Anecdotal evidence indicated international price competition was a key driver of the fall in charges in August. Nearly 5% of respondents reported a fall in prices charged, compared with just under 4% recording an increase.

Input Prices Index

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

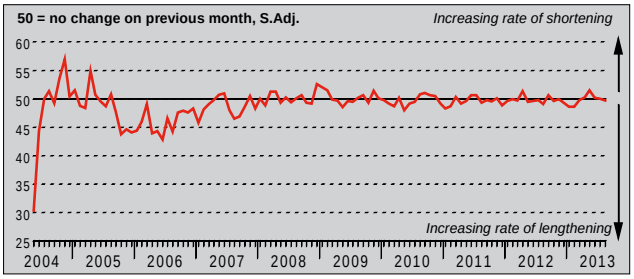


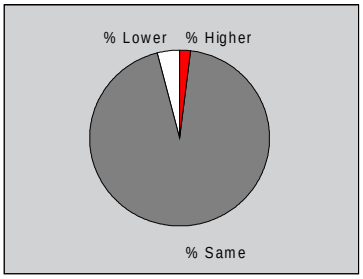


Input prices rose in August for the first time in five months, though the index posted below the historical series average. The rise in input costs was largely attributed by panellists to increased raw material costs, in particular higher prices of fuel and steel products. The rise in firms' costs may have been tempered slightly by the reduction in price of some metals, in particular a number of panellists mentioned a fall in the price of copper and nickel.

Suppliers' Delivery Times Index

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

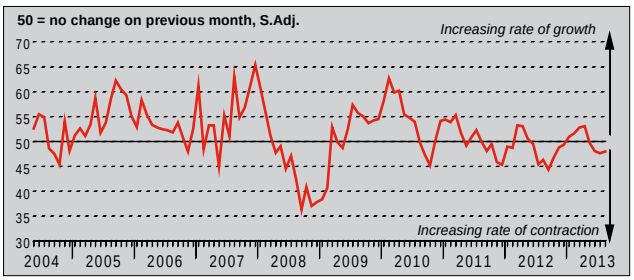


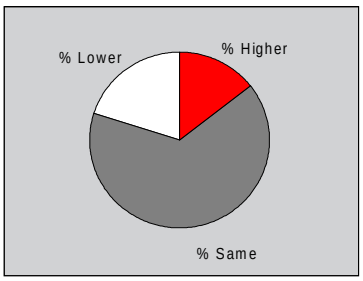


Suppliers' delivery times lengthened for the first time in five months in August, albeit marginally. Close to 94% of panellists reported no change in vendor performance, highlighting the neutrality of the index's level. Anecdotal evidence from the small percentage of respondents who recorded longer delivery times suggested that shipping delays were a key factor.

Quantity of Purchases Index

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

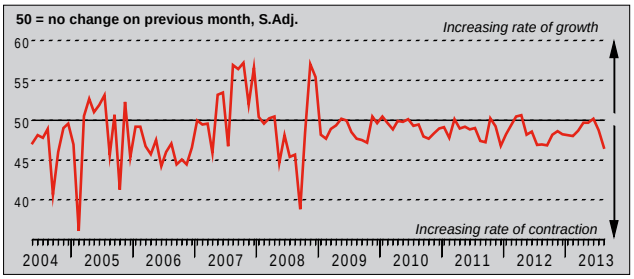


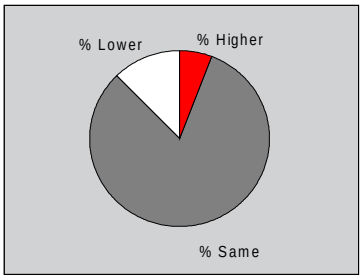


Purchasing activity fell for the fourth consecutive month in August. Respondents commonly cited a reduction in order volumes as a key factor, whilst some explained the fall in their quantity of purchases was a direct result of a domestic downturn and contraction of demand. In line with the trends shown for output and new orders, the rate of decline eased.

Stocks of Purchases Index

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





Stocks of purchases fell for the second consecutive month in August, and at the fastest rate recorded since September 2008. A number of respondents reported that reductions in sales volumes and a slowdown in the domestic economy were key factors. Around 12% of panellists recorded a decline in their pre-production inventories, compared with just under 6% reporting an increase.

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