Embargoed until: 09:00 (SEOUL), 1 October 2013

HSBC South Korea Manufacturing PMI®

Contraction in manufacturing sector eases in September

Key findings:

- · Output and new orders close to stability
- Employment increases for first time in four months, albeit fractionally
- · Charges rise for first time in nearly two years

South Korean manufacturing business conditions deteriorated for a fifth successive month in September according to the latest PMI data from HSBC. Growth was notably absent across many of the major indices, signalling a continuation of the deterioration of business conditions, which began in June. The overall rate of decline eased markedly since August however, and the latest data illustrated a marginal increase in manufacturing employment.

Output, new orders, and purchasing activity were virtually unchanged in September, registering only negligible declines. This contrasted with recent falls and signalled a broad-based change of direction in the trajectory of South Korea's manufacturing economy. Employment data supported this realignment, as the respective index inched above the 50.0 no change mark for the first time in four months.

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 – rose from 47.5 in August to 49.7 in September. Whilst the index remained below the 50.0 no change mark separating growth from contraction, it was the highest in four months and close to 50.0 pointing to a near-stabilisation of business conditions.

Both manufacturing output and new orders remained broadly unchanged in September, following three-month sequences of decline. Anecdotal evidence indicated that growth initiatives and the commencement of new projects were offset to a degree by the negative impacts of industrial action by South Korea's trade unions

The impact of strikes on manufacturing production was in turn commonly cited by respondents who saw a decline in purchasing activity in September. That said, the overall quantity of purchases was virtually unchanged. This was likely the result of firms' efforts to pre-empt anticipated increases in raw material prices which served to counterbalance the impact of the walkouts.

The effect of the anticipation of future price rises on firms' behaviour was explained to some extent by the number of manufacturers who reported that input-cost inflation was the primary factor behind their increased charges in September. Output prices rose for the first time in 23 months, and rising raw material costs were commonly cited as a key driver.

September also marked a second consecutive month of input cost inflation, and input prices rose at the fastest pace for six months. Of the 10% of manufacturers surveyed who reported higher input prices, a number attributed the increases to rising prices for textile inputs, oil and base metals.

Meanwhile, September marked a third successive month of decline in stocks of purchases and an eighth consecutive month of post-production inventory depletion.



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.

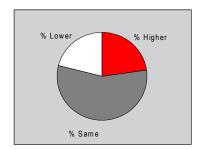




Output Index

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



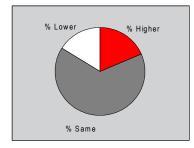


Manufacturing output was virtually unchanged in September, falling only fractionally in comparison to the decreases seen in June, July and August. Anecdotal evidence indicated that negative impacts on factory production from workers' strikes in the automobile industry were offset to some degree by a rise in smart phone orders and an increase in new projects.

New Orders Index

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

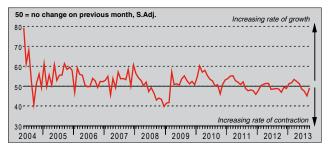


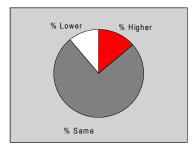


Like output, new orders barely changed in September, following a three-month period of decline. Although the seasonally adjusted New Orders Index registered below its historical series average, it was nevertheless the highest in four months. Nearly 19% of manufacturers received higher levels of new orders in September, compared with 16% who recorded a lower volume of 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.

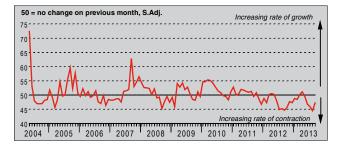


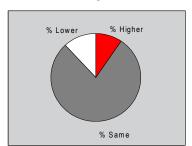


New export orders fell again in September, for the fourth consecutive month. The rate at which foreign demand fell eased considerably since August however, and was the weakest in the current sequence. Of the 11% of businesses which reported a decline in new export orders, a number attributed the contraction in foreign demand to economic downturns in their trading partners' economies.

Backlogs of Work Index

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



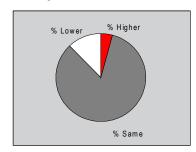


Outstanding business in the South Korean manufacturing sector fell for the fifth successive month. That said, the rate at which backlogs decreased was markedly slower than the fall in August (which was the fastest on record). Of the 12% of manufacturers who registered a decline in their levels of outstanding business, a fall in order quantity was commonly cited as a key driver.

Stocks of Finished Goods Index

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

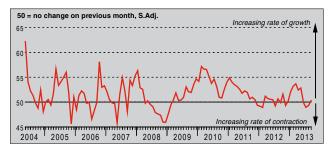


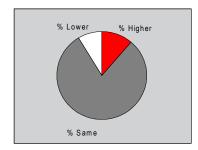


September marked an eighth consecutive month of post-production inventory depletion by South Korean manufacturers. The pace of reduction eased marginally since August, but the seasonally adjusted Stocks of Finished Goods nevertheless remained well below its historical series average. Anecdotal evidence largely attributed the latest depletion to a combination of factors, including a lacklustre production as well as strategic efforts to minimise stock.

Employment Index

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

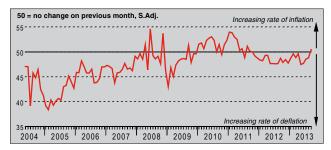


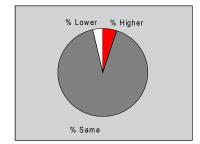


Payroll numbers at South Korean manufacturers rose in September for the first time in four months, though the degree of expansion was only fractional. Around 11% of respondents reported an increase in employment, compared with fewer than 9% who recorded a fall. Anecdotal evidence suggested the minor rise in recruitment was due to tentative optimism regarding anticipated order volumes over the coming months.

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.

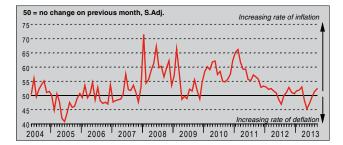


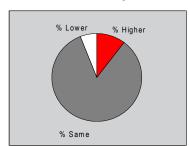


Output prices rose for the first time in 23 months in September, though the rate of inflation was only marginal. Exactly 5% of respondents reported an increase in their prices charged, compared with fewer than 4% who recorded a decline in the output prices. The need to pass on input price inflation resulting from rising raw material costs was commonly cited as a key driver, as well as escalating wages and increases in international market prices.

Input Prices Index

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

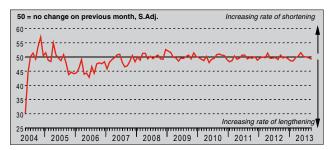


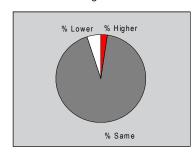


Input costs rose for the second consecutive month in September, and at the fastest pace for six months. Over 10% of manufacturers surveyed reported an increase in their input prices compared with just 6% who saw a decline in costs. Anecdotal evidence indicated that increases in the prices of textile inputs, oil, and base metals were key drivers of September's cost-inflation.

Suppliers' Delivery Times Index

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

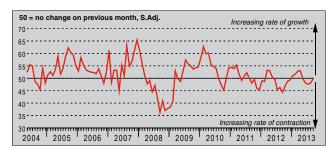


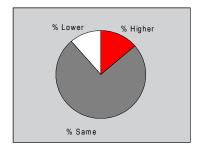


Vendor performance deteriorated marginally for the second consecutive month in September, at a slightly faster pace than in August. Exactly 5% of respondents reported a lengthening of suppliers' delivery times, compared with just over 2% who reported faster times. A number of panellists attributed slower delivery times to industry-wide anticipation of rising costs for specific materials, which led to a run on some inputs in September.

Quantity of Purchases Index

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



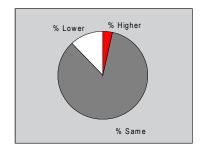


Purchasing activity stabilised in September, following a three-month sequence of decline. The seasonally adjusted Quantity of Purchases Index posted a reading below the series historical average, however, anecdotal evidence indicated that trade union industrial action and strategic efforts to reduce stocks were offset to a degree by efforts to pre-empt anticipated increases in raw material prices.

Stocks of Purchases Index

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





Depletion of pre-production inventories at South Korean manufacturers continued for the third successive month in September. The rate at which stocks of purchases fell eased fractionally, but was nevertheless faster than the historical series average. Only 3% of respondents reported an increase in their stocks of purchases, compared with 12% who recorded a decline.

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.