HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC South Korea Manufacturing PMI®

Tentative upturn in manufacturing sector led by solid export order growth

Key findings:

- New export order growth at 31-month high
- Output expands for the first time in five months
- Marginal decline in employment

The latest data indicated that business conditions in the South Korean manufacturing sector improved in October. However, the pace of expansion was only fractional, with the PMI only marginally above the 50.0 no-change mark that separates growth from contraction. Modest growth in output and new orders was aided by a solid expansion in export demand. These positive signals were offset to a degree by a slight decline in payroll numbers and a further reduction in backlogs of work.

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 – rose above the 50 no-change mark in October, following a four-month sequence of negative readings signalling deteriorating conditions in the South Korean manufacturing industry. The PMI rose to 50.2, a small improvement from September's reading of 49.7, indicating that operating conditions had broadly stabilised.

South Korean manufacturing output grew in October, following a four-month sequence of contraction. Panellists commonly attributed increases in production to improvements in domestic economic conditions and expansions in demand from export markets such as the Middle East and Hong Kong.

Like output, new orders also rose in October for the first time since May. Anecdotal evidence indicated that upturns in both domestic and global markets had greatly aided the rise in new business, and a number of respondents also reported benefiting from an increase in government investment.

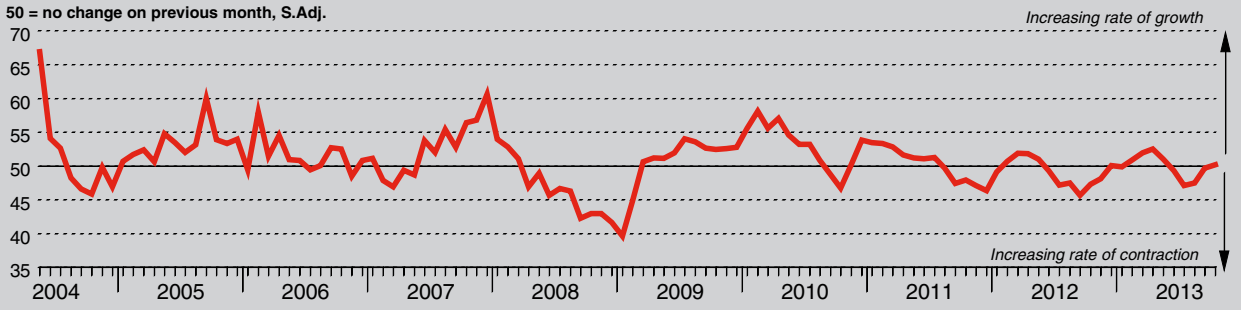
The rises in output and new orders were commonly cited by panellists as factors behind the growth in purchasing activity, which increased in October for the first time in six months.

Despite growth of new business and production, South Korean manufacturing employment fell further in October, though the rate of decline was only marginal. A number of respondents attributed falling payroll numbers to cost cutting, resignations and moves towards automation of production lines.

Outstanding business at South Korean manufacturers also decreased in October, continuing a six-month sequence of decline. The pace at which backlogs of work diminished accelerated fractionally from September, but remained weaker than August's record rate.

Both charges and input prices fell in October, and the former did so at the sharpest pace in four months. Panellists attributed the decline in output prices in part to competitive pressure in domestic markets and a strengthening of the South Korean won, lowering the price of imported inputs. The reduction in input prices was commonly associated with the currency appreciation, and some respondents additionally cited reductions in international market prices of raw materials.

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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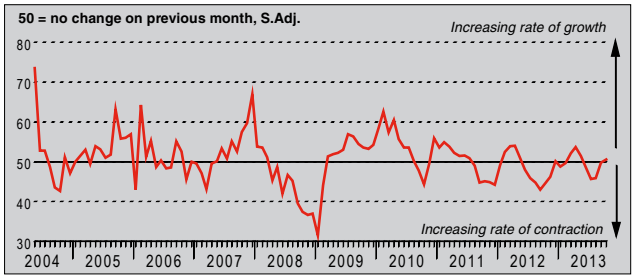
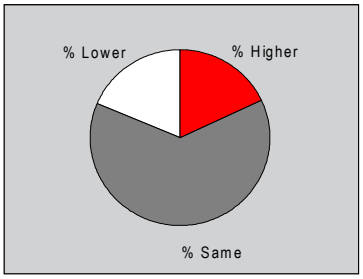
Output Index

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

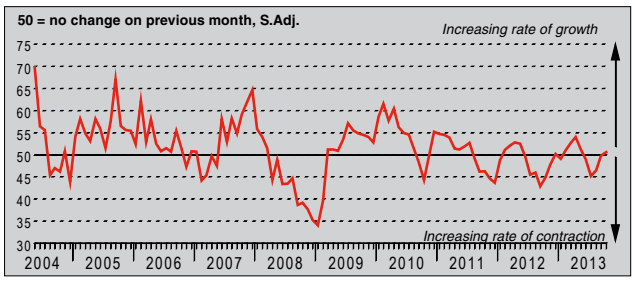


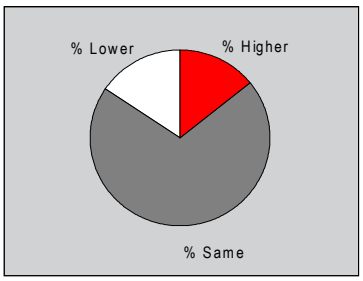


Output at South Korean manufacturers grew in October, following a four-month sequence of contraction. Improvements in domestic economic conditions, combined with expansions in demand from export markets such as the Middle East and Hong Kong, were commonly cited by panellists as contributory factors. That said, the rate of growth was only marginal.

New Orders Index

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

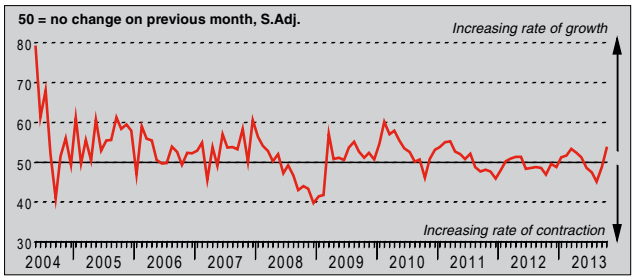


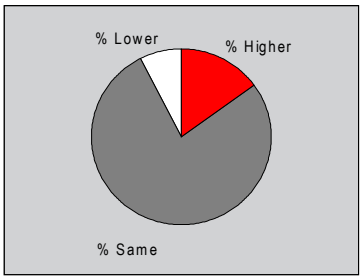


New orders followed a similar pattern to output, and rose in October following a four-month sequence of decline. In addition, although the rate of growth was modest, the seasonally adjusted New Orders Index posted above the historical series average. Anecdotal evidence indicated that upturns in both domestic and global markets greatly aided the rise in new business. Moreover, a number of respondents reported benefiting from an increase in public works.

New Export Orders Index

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

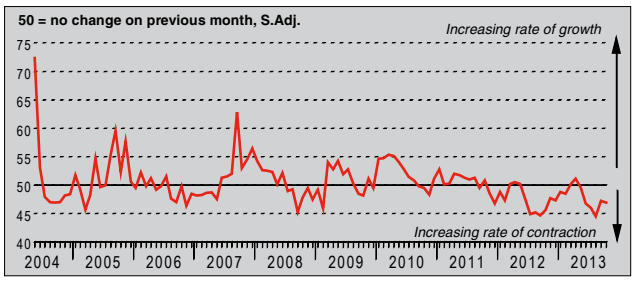


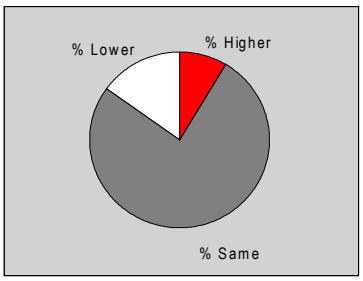


New export orders at South Korean manufacturing firms rose in October for the first time since May, mirroring the upturns seen in output and new orders. Moreover, the pace of expansion was the sharpest in 31 months and markedly sharper than that recorded for production and overall new business overall. Of the 15% of respondents who reported a rise, a number attributed growth to improving demand from the Middle East, America, Russia and South East Asia.

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 at South Korean manufacturers fell in October, continuing a six-month sequence of decline. The pace at which backlogs of work fell, accelerated fractionally from September, but remained weaker than August's record rate. Of the 15% of respondents who reported a reduction in work in hand, a number cited increases in production capacity as a contributory factor.

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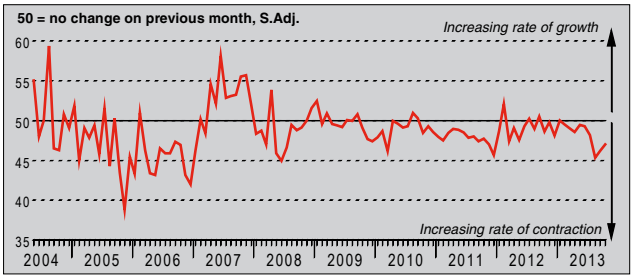
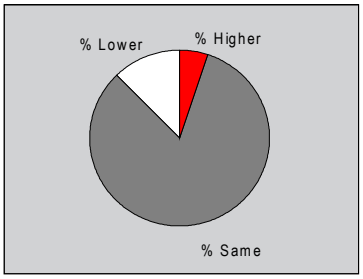
Stocks of Finished Goods Index

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

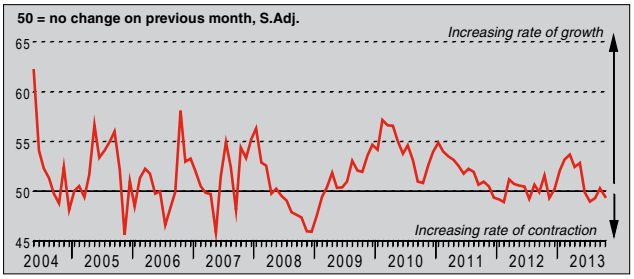


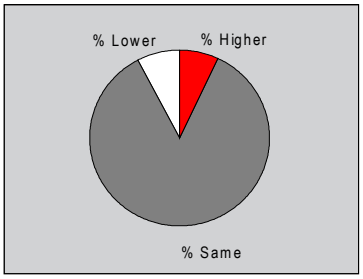


Stocks of finished goods at South Korean manufacturers were depleted for the ninth consecutive month in October. Though the rate of decline was sharper than the historical series average, it eased marginally from September. Only 5% of panellists reported an increase, compared with 12% that saw a decrease in post-production inventories in October.

Employment Index

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

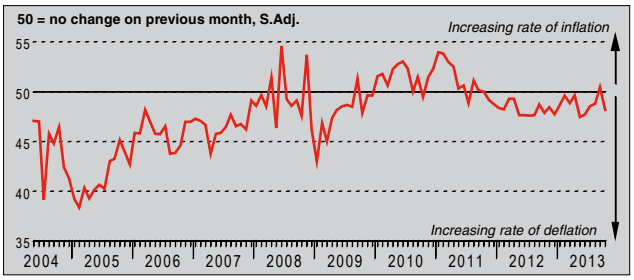


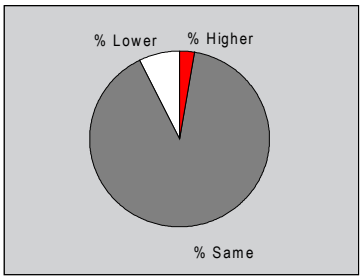


The latest data suggested South Korean manufacturing employment fell marginally in October, following a slight expansion in September. That said, the latest decline was only marginal, as was the case in June, July and August. Respondents commonly cited cost-cutting, resignations and moves towards automation of production lines as the leading causes.

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.

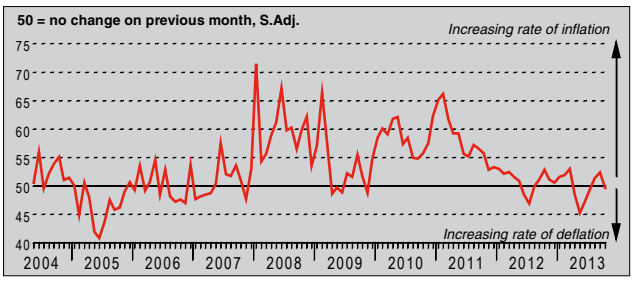


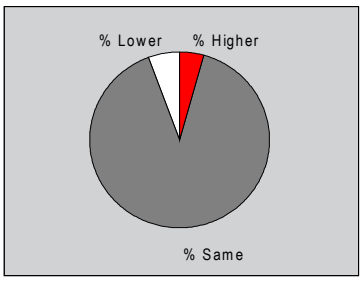


Charges fell in October at the sharpest pace in four months, following a marginal increase in September. That said, the pace of decline was relatively modest and the seasonally adjusted Output Prices Index for the South Korean manufacturing sector posted above the historical series average. Panellists attributed the decline in part to competitive pressure in domestic markets and a strengthening of the South Korean won (which lowered the price of imported inputs).

Input Prices Index

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

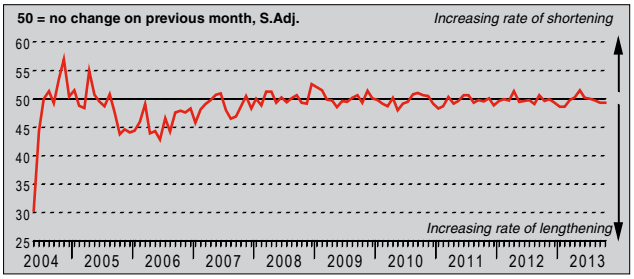


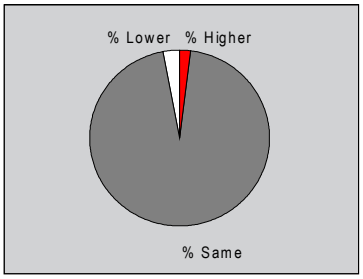


Input prices in the South Korean manufacturing sector fell fractionally in October, following a two-month sequence of growth. Just 4% of panellists reported an increase in their input-costs, compared with nearly 6% that saw a decline. Some respondents attributed the decrease to the appreciation of the South Korean won, whilst others cited reductions in international market prices of raw materials.

Suppliers' Delivery Times Index

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

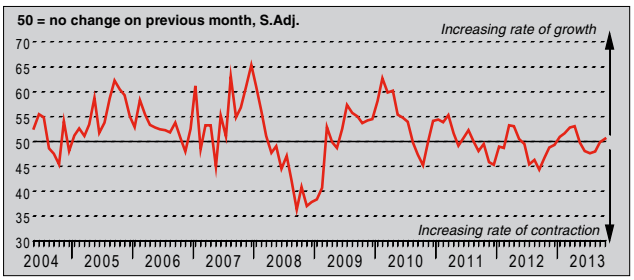


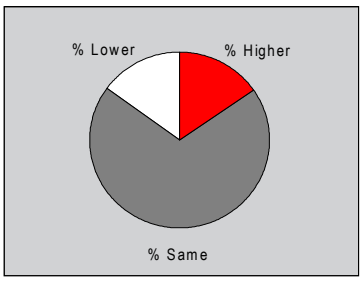


Suppliers' delivery times lengthened marginally in October for the third successive month. The rate at which lead times grew was exactly the same as that recorded in September, but fractionally weaker than the historical series average. Increases in order volumes and poor weather were among the causes listed by respondents as explanations for the most recent deterioration in vendor performance.

Quantity of Purchases Index

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

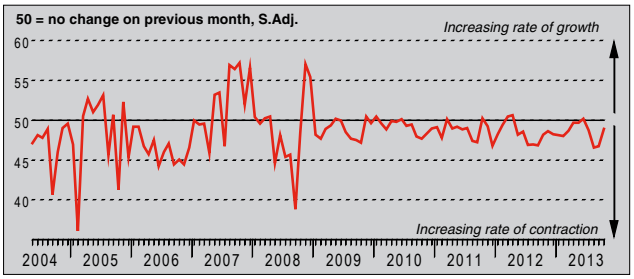


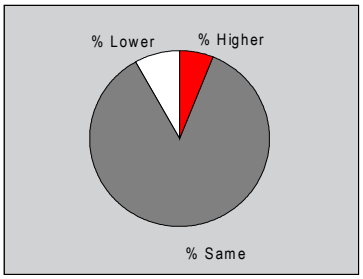


South Korean manufacturers' purchasing activity increased tentatively in October, as the seasonally adjusted index rose above the 50.0 no-change mark for the first time in six months. A number of respondents cited increases in production and sales as primary factors, whilst others mentioned a desire to secure raw materials prior to anticipated price increases in the near future.

Stocks of Purchases Index

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





Stocks of purchases at South Korean manufacturers fell for the fourth consecutive month in October, though the rate of depletion eased further from August. Around 8% of respondents reported a decline in pre-production inventories, compared with 6% who recorded growth. Increases in production and running out of existing stock were cited by a number of panellists as contributory factors.

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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