

Press Release

Embargoed until: 00:01 (UK Time), 6TH June 2014

Note: The HSBC Emerging Markets Index, a weighted composite indicator derived from national HSBC Purchasing Managers' Index™ (PMI™) reports in 17 emerging economies, is now being published on a monthly basis rather than quarterly.

HSBC Emerging Markets Index

Emerging markets remain stuck in low gear in May

Key points

- **HSBC Emerging Markets Index: 50.6** (prior 50.4)
- Output stabilises in China and India
- Russian private sector contracts further

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, continued to indicate weak output growth across global emerging markets in May. The EMI posted 50.6, from 50.4 in April, the highest in three months but well below its eight-and-a-half year long-run trend level of 53.8.

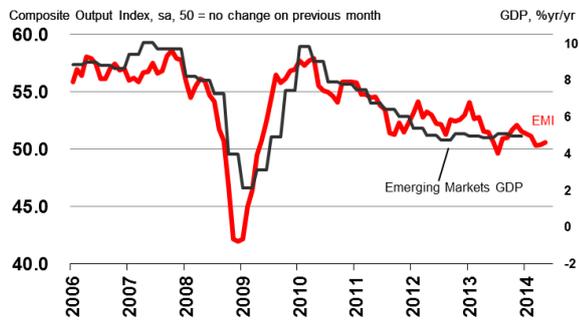
Manufacturing output rose for the first time in three months, albeit at a weak rate. In the **service** sector, activity increased at the slowest rates since July 2013.

Among the largest emerging markets, **China** posted a fractional increase in output for the first time in four months, while **India** posted the most notable growth since June 2013 – but still a weak pace nonetheless. **Brazilian** output was largely stagnant, while **Russian** private sector output fell at the fastest rate since May 2009.

New business increased at a slightly faster pace in May, but the rate of growth was still only on a par with the weak average for 2014 so far. **Backlogs** fell for the fifth month running, albeit only marginally. Meanwhile, employment declined further, and at the strongest rate since June 2009.

Inflationary pressures remained subdued in May, with **input price** inflation unchanged from April's ten-month low. **Prices charged** increased at the strongest rate in five months, albeit only marginally overall.

HSBC Emerging Markets Index



Sources: HSBC, Markit.

Data summary

Country/region	Coverage	Index	May-14	Apr-14	May-13
Emerging Markets	Composite*	Output	50.6	50.4	51.5
	Composite*	New Orders	▲	▲	▼
	Composite*	Backlogs	▲	▲	▲
	Composite*	Employment	▼	▼	▲
	Composite*	Input Prices	▶	▶	▼
	Composite*	Output Prices	▶	▶	▼
	Composite*	Future Output	▼	▼	▲
Emerging Markets	Services	Activity	▼	▶	▲
Emerging Markets	Manufacturing	Output	▲	▲	▼
China	Composite*	Output	50.2	49.5	50.9
India	Composite*	Output	50.7	49.5	52.0
Brazil	Composite*	Output	49.8	49.9	51.2
Russia	Composite*	Output	47.1	47.6	51.0

▲ Above 50, rising
▼ Above 50, falling
▶ Above 50, unchanged

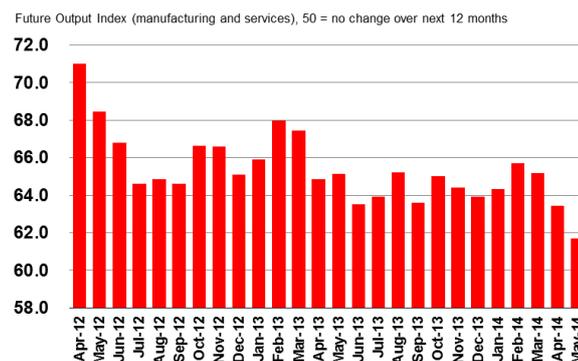
▲ Below 50, rising
▼ Below 50, falling

*Manufacturing & Services
Sources: HSBC, Markit.

Business expectations

The **HSBC Emerging Markets Future Output Index** tracks firms' expectations for activity in 12 months' time. The index fell sharply to a new low in May, with sentiment in the service sector notably weak. **Brazil** continued to post the weakest output expectations among the four largest emerging economies, in contrast to February and March when it held the strongest outlook. **China's** Composite Future Output Index hit a new low in 26 months of data collection for the series. **Russia** posted an improvement since April, but the 12-month outlook remained relatively weak. **Indian** output expectations were in line with the trend shown over 2014 so far. *Continued on page 3...*

Emerging Markets Future Output Index



Sources: HSBC, Markit.

Comment

Chris Williamson

Chief Economist, Markit

"An ongoing near-stagnation means the emerging markets are, as a whole, underperforming the developed world to the greatest extent ever recorded by the PMI surveys."

"The EMI reading of 50.6 in May compares with a developed world PMI equivalent of 55.4. While the former points to an ongoing languor that has plagued the emerging markets over the past year, the developed world has moved into a higher gear and is now enjoying its strongest growth for just over three years."

"Disappointing performances continued to be seen across the four largest emerging markets in May. The only good news is that China and India both returned to growth, although in both cases the rate of expansion was only very weak. Brazil and Russia meanwhile continued to contract."

"While South America's largest economy is only seeing business activity decline at a marginal rate, the speed of the downturn in Russia has picked up to the steepest since the height of the global financial crisis five years ago, raising the risk that Russia is sliding into another potentially deep recession."

Regional highlights: www.twitter.com/HSBC_EMI_PMI

Frederic Neumann

Co-Head of Asian Economic Research

"Things look a little brighter in Asia, even with China stuck below the waterline. Indonesia's record high PMI is especially reassuring."

Andre Loes

HSBC Chief Economist, LATAM

"LatAm at a sluggish pace, with second consecutive contraction of activity in Brazil and decelerating Mexico manufacturing."

Murat Ulgen

HSBC Chief Economist, CEE & Sub-Saharan Africa

"The story is the same from April, big economies from Russia, Turkey to South Africa show further softening if not weakening in May."

Simon Williams

HSBC Chief Economist, MENA

"Softening in the Gulf, but oil-rich states continue to boom. Ongoing stagnation in Egypt marks scale of challenge faced by new regime."

Detailed data summary: Output Index

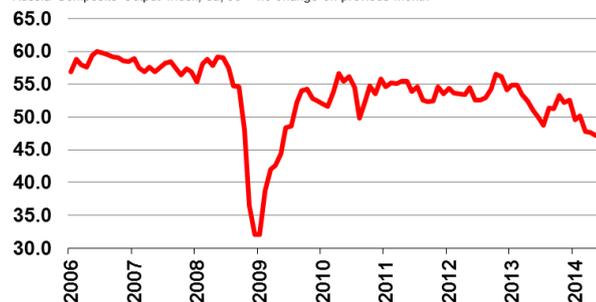
Country / region	Coverage	Feb-14	Mar-14	Apr-14	May-14
Emerging Markets	Composite	▼	▼	▲	▲
Brazil	Composite	▲	▲	▼	▼
China	Composite	▼	▼	▲	▲
India	Composite	▲	▼	▲	▲
Russia	Composite	▲	▼	▼	▼
Emerging Markets	Services	▲	▼	▶	▼
Brazil	Services	▲	▲	▼	▲
China	Services	▲	▲	▼	▼
India	Services	▲	▼	▲	▲
Russia	Services	▲	▼	▼	▼
Emerging Markets	Manufacturing	▼	▼	▲	▲
Brazil	Manufacturing	▲	▲	▼	▼
China	Manufacturing	▼	▼	▲	▲
Czech Republic	Manufacturing	▲	▼	▲	▼
Indonesia	Manufacturing	▲	▼	▲	▲
India	Manufacturing	▲	▼	▼	▶
South Korea	Manufacturing	▼	▲	▼	▼
Mexico	Manufacturing	▼	▼	▲	▼
Poland	Manufacturing	▲	▼	▼	▼
Russia	Manufacturing	▲	▼	▲	▲
Turkey	Manufacturing	▲	▼	▲	▼
Taiwan	Manufacturing	▼	▼	▼	▲
Vietnam	Manufacturing	▼	▲	▲	▼
Egypt	Private sector*	▲	▼	▼	▼
Hong Kong	Private sector	▲	▼	▲	▼
Saudi Arabia	Private sector*	▼	▼	▲	▲
South Africa	Private sector	▲	▼	▼	▲
United Arab Emirates	Private sector*	▲	▲	▲	▼

▲ Above 50, rising
 ▼ Above 50, falling
 ▶ Above 50, unchanged
 ▲ Below 50, rising
 ▼ Below 50, falling
 ▲ 50, rising
 *Non-oil

Sources: HSBC, Markit.

Russian private sector downturn accelerates in May

Russia Composite Output Index, sa, 50 = no change on previous month



Sources: HSBC, Markit.

Manufacturing

Operating conditions in **China's** manufacturing sector deteriorated only marginally in May. Output contracted at a fractional pace, while new orders stabilised after a three-month sequence of decline. New export orders rose at the quickest pace in over four years.

Taiwanese manufacturing output growth edged up slightly in May and was solid overall, supported by a further rise in total new work. In contrast, **South Korean** manufacturers reported lower new orders for the first time in three months. Consequently, output fell for the second month running. New exports orders continued to decline, with some panellists attributing this to a decrease in export business from China and Japan.

Manufacturers across **Indonesia** registered a survey-record rise in new orders in May, leading companies to scale up production. Business conditions in the **Vietnamese** manufacturing sector also strengthened in May, with output increasing for the eighth consecutive month amid another solid expansion in new business. There was further evidence that new transportation rules impacted on the sector, with suppliers' delivery times lengthening at a record pace and input prices rising sharply.

Production at **Indian** manufacturers continued to rise in May. Growth of both total new orders and new export business accelerated over the month, leading to further job creation across the sector.

The business climate in **Turkey's** manufacturing sector was largely stagnant in May. Output was little-changed from April and new orders fell marginally, the first contraction since July 2013. Bright points from the latest survey included further increases in new export orders and employment, albeit at slower rates than in April. Meanwhile, rates of inflation for input and output prices eased further from January's peaks.

Brazilian manufacturers scaled down output in May due to a further fall in new orders. Furthermore, the drop in production was the most pronounced for over two-and-a-half years. Anecdotal evidence highlighted an increasingly difficult economic climate and weaker domestic demand. In contrast, the **Mexican** manufacturing sector continued to expand in May as companies scaled up both production and employment in response to rising inflows of new work.

Russian manufacturing output fell further in May, as did employment and new export orders, but total new work increased for the first time since last November. Prices charged for final manufactured goods rose at the strongest rate since April 2011.

The **Polish** manufacturing sector edged closer to stagnation in May. Growth of both output and new orders slowed for the third successive month to weak rates, and new export orders fell for the first time since May 2013. The latest survey data also highlighted further falls in both input and output prices. In contrast, the **Czech** manufacturing sector continued to gain momentum, aided by the fastest rise in new business since January 2011.

Middle East & Africa

May's survey indicated the continued expansion of the **Saudi Arabian** non-oil producing sector. Output growth picked up to a three-month high, but new business expansion eased to the slowest since September 2011.

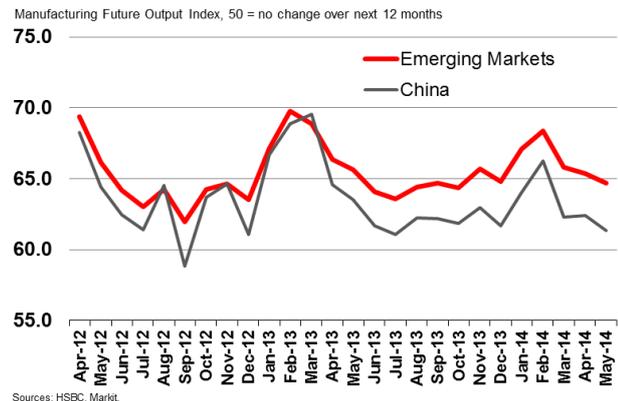
The **UAE's** non-oil producing private sector companies reported further sharp increases in output and new orders, with the respective rates of growth easing only slightly since April.

Egyptian non-oil producing private sector companies reported further declines in output and new orders in May, with both rates of contraction accelerating since April. Meanwhile, companies lowered their selling prices for the second time in three months and input costs increased at the slowest pace since last October.

South African private sector output and new orders declined again in May, as disruptions caused by mining strikes continued to weigh on demand. That said, the rates of contraction eased since April and were only marginal.

Manufacturing output expectations

The majority of manufacturing economies surveyed registered weaker output expectations in May compared with April. Most notably, **Chinese** goods producers registered the weakest sentiment in ten months, while those in **Vietnam** were the least optimistic in nearly a year. Likewise, sentiment hit six-month lows in **Poland** and **South Korea**, and a five-month low in **Taiwan**. Bucking the trend, **Russian** manufacturers held the strongest outlook for 12 months, while sentiment in the **Czech Republic** was close to March's record level.



In the Middle East, non-oil output expectations generally weakened in May. Notably, **Saudi Arabia's** Future Output Index hit a new record low since the series started in April 2012. The **UAE** posted the softest sentiment in the non-oil private sector since January. **Egypt** bucked the trend, with the Future Output Index among the highest registered in 26 months of data collection for the series.

For further information, please contact:

Lisa Baitup

HSBC Media Relations
Tel + 44 20 79910624
lisa.baitup@hsbcib.com

Simon Williams

Chief Economist, MENA
Tel +971 4 423 6925
simon.williams@hsbc.com

Murat Ulgen

Chief Economist, Central &
Eastern Europe & Sub-
Saharan Africa
Tel +44 20 7991 6782
muratulgen@hsbc.com

Frederic Neumann

Co-Head of Asian Economic
Research
Tel +852 2822 4556
Mob +852 6331 0731
fredericneumann@hsbc.com.hk

Andre Loes

Chief Economist, LATAM
Tel +55 11 3371 8184
andre.a.loes@hsbc.com.br

Notes to Editors:

The HSBC Emerging Markets Index (EMI) is a weighted composite indicator derived from *Purchasing Managers' Index™ (PMI™)* surveys in the following economies:

- China
- South Korea
- Taiwan
- Hong Kong
- Vietnam
- Indonesia
- India
- Brazil
- Mexico
- Turkey
- United Arab Emirates
- Saudi Arabia
- Egypt
- South Africa
- Russia
- Poland
- Czech Republic

The *Purchasing Managers' Index™ (PMI™)* surveys on which the EMI is based have become the most closely-watched business surveys in the world, with an unmatched reputation for accurately anticipating official data. The survey data are collected using identical methods in all countries, with survey panels stratified geographically and by International Standard Industrial Classification (ISIC) group, based on contributions to GDP. Around 8,000 firms are surveyed in total.

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, a 'diffusion' index is produced, which reflects the percentage of positive responses plus a half of those responding 'the same'. 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. All data are seasonally adjusted.

Data collected at the national level for manufacturing and services are then weighted together according to relative contributions to national or regional GDP to produce indicators at the national whole economy or aggregate emerging market level.

Note on revisions: The EMI figure is subject to one revision post-release. This reflects the addition, post-release, of manufacturing PMI data produced by third parties for Israel (produced by IPLMA) and Singapore (SIPMM). Markit does not have access to the latest figures for these surveys prior to publication.

HSBC Holdings plc:

HSBC is one of the world's largest banking and financial services organisations. With around 6,600 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 55 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by about 216,000 shareholders in 130 countries and territories.

Markit:

Markit is a leading global diversified provider of financial information services. We provide products that enhance transparency, reduce risk and improve operational efficiency. Our customers include banks, hedge funds, asset managers, central banks, regulators, auditors, fund administrators and insurance companies. Founded in 2003, we employ over 3,000 people in 11 countries. For more information, please see www.markit.com.

Markit Economics:

Markit Economics is a specialist compiler of business surveys and economic indices, including the *Purchasing Managers' Index™ (PMI™)* series, which is now available for over 30 countries and also for key regions including the Eurozone. The PMIs have become the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

Chris Williamson, Chief Economist
Telephone + 44 20 7260 2329
E-mail chris.williamson@markit.com

Joanna Vickers, Corporate Communications
Telephone +44 207 260 2234
E-mail joanna.vickers@markit.com

The intellectual property rights to the HSBC Emerging Markets Index 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 license. Markit and the Markit logo are registered trade marks of Markit Group Limited.