

Press Release

Embargoed until: 00:01 (UK Time), 9th October 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 market growth in third quarter best since Q1 2013

Key points

- **HSBC Emerging Markets Index: 52.5** (prior 52.4)
- Chinese growth again driven by services
- Brazil posts higher output for first time in six months

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, edged up from 52.4 in August to an 18-month high of 52.5 in September. On a quarterly basis the EMI averaged 52.2 in Q3, the best since the first quarter of 2013.

Latest data signalled that **services** activity rose at a stronger rate than **manufacturing** output for the second month running. This was driven by the trend in **China**, as services activity in **Brazil, India** and **Russia** rose at either weak or marginal rates. Among goods producers, those in the **Czech Republic** posted the strongest growth in September, while declines were registered in **Brazil, South Korea** and **Poland**.

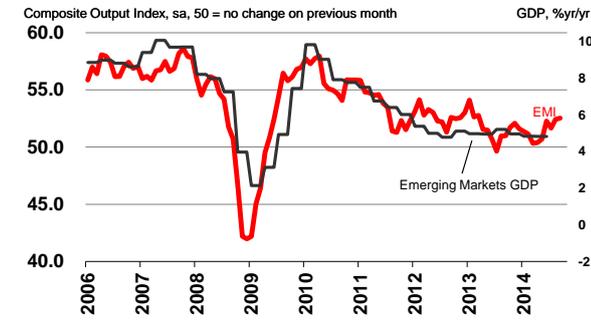
New business growth remained close to June's 15-month peak, but remained slower than the average over the nine-year series history. Consequently, **outstanding work** declined slightly for the third month running, and **employment** remained broadly unchanged.

Input price inflation slowed further to a 15-month low in September. Manufacturing continued to record weaker cost pressures than services, and four economies posted outright declines in manufacturing input prices, namely **China, Poland, Brazil** and **South Korea**. The strongest rate of manufacturing input price inflation was again registered in **Russia**, followed by **Turkey**. Russia also posted the strongest rate of service sector input price inflation.

Business expectations

The outlook for global emerging markets remained relatively weak in September. The **HSBC Emerging Markets Future Output Index** tracks firms' expectations for activity in 12 months' time, and was little-changed from August's three-month low at the end of the third quarter. Notably, output expectations in the **Russian** private sector were the weakest since the composite manufacturing and services series started in April 2012, surpassing the previous low set in March. *Continued on page 3...*

HSBC Emerging Markets Index



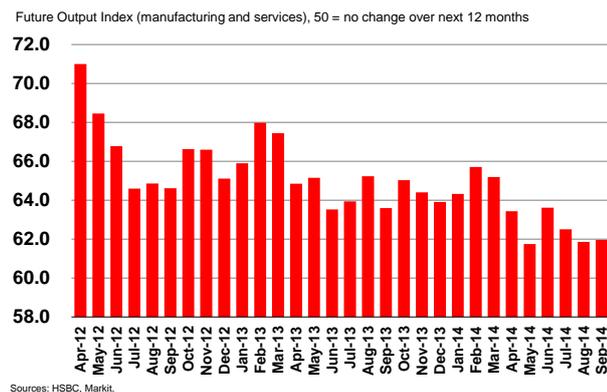
Data summary

Country/region	Coverage	Index	Sep-14	Aug-14	Sep-13
Emerging Markets	Composite*	Output	52.5	52.4	51.0
	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	52.3	52.8	51.2
India	Composite*	Output	51.8	51.6	46.1
Brazil	Composite*	Output	50.6	49.6	50.7
Russia	Composite*	Output	50.9	51.1	51.2

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

*Manufacturing & Services
Sources: HSBC, Markit.

Emerging Markets Future Output Index



Comment

Chris Williamson

Chief Economist, Markit

"The September PMI surveys found welcome signs of a renewed upturn in emerging market economies gaining traction, with business activity growing at the fastest rate for a year-and-a-half. The third quarter saw growth in China and India rise to the fastest since early-2013, and Brazil is showing signs of lifting out of its recession. The overall pace of growth remains only modest, however, especially in manufacturing, and well below pre-crisis rates, suggesting emerging markets remain something of a drag on global economic growth and trailing the average rate of expansion signalled by the PMI surveys in the developed world.

"Most notable is the improvement in China since the downturn seen earlier in the year, with manufacturers benefitting from a revival in exports and service sector companies also enjoying a strengthening of domestic demand, most likely arising from the government's mini-stimulus measures. The PMI suggests that economic growth in China picked up in the third quarter to the fastest since the first quarter of 2013.

"Growth eased in India in September but remaining much improved on earlier in the year. The average PMI reading in the third quarter was the highest for a year-and-a-half, pointing to a further acceleration of annual GDP growth from the 5.7% pace seen in the second quarter.

"There are also signs of Brazil pulling out recession. Business conditions improved, albeit only marginally, for the first time in six months in September, with an upturn in new orders hopefully paving the way for a further upturn in the fourth quarter. Brazil's GDP fell 0.6% in the second quarter after a 0.2% decline in the first three months of the year.

"Russia meanwhile continued to eke out marginal growth in September, but saw inflows of new business slow to near-stagnation, suggesting economic growth momentum is waning from an already lacklustre pace."

Regional highlights: www.twitter.com/HSBC_EMI_PMI

Murat Ulgun

Global Head of Emerging Markets Research

"Mixed picture in CEEMEA; Turkey and South Africa are doing better, Russia still faces headwinds from employment and export orders"

Frederic Neumann

Co-Head of Asian Economic Research

"Plenty of fog in Asia. Activity is slowing, but export orders are holding up. All eyes on China, where manufacturing is just above the water line"

Andre Loes

HSBC Chief Economist, LATAM

"Mexico accelerates manufacturing expansion; Brazil shows first overall expansion since March, though 3Q still displays a contraction"

Detailed data summary: Output Index

Country / region	Coverage	Jun-14	Jul-14	Aug-14	Sep-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

*Non-oil

▲ Below 50, rising

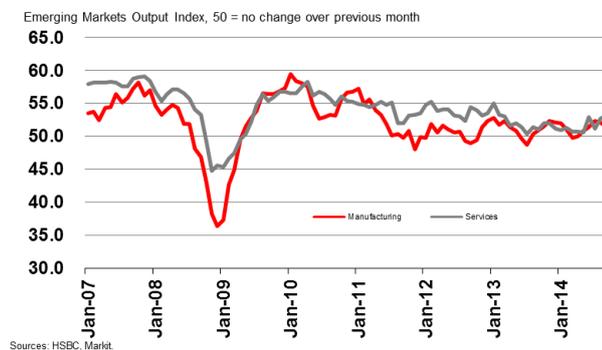
▼ Below 50, falling

▲ 50, rising

▼ 50, falling

Sources: HSBC, Markit.

Service sector growth continues to outpace manufacturing



Manufacturing

Chinese manufacturing production increased at a slower pace in September. Meanwhile, a slightly stronger expansion of new orders, largely driven by the strongest rise in new export work for four-and-a-half years, led to the quickest accumulation of backlogged work in 2014 so far.

Output, new orders and new export business in the **Taiwanese** manufacturing sector all continued to expand over the month, albeit at weaker rates than in August. Consequently, payroll growth eased to a modest pace, while backlogs of work rose at the slowest rate since June. **South Korean** manufacturing output fell for the sixth month in a row in September, and at a stronger rate. New orders fell for the fourth time in five months, and new exports orders registered the quickest decline since August 2013.

Indonesian manufacturing improved in September, driven by higher output and new orders, although employment fell at the fastest rate since March. Meanwhile, the rate of cost inflation accelerated sharply. A return to growth of new orders contributed to an improvement in the **Vietnamese** manufacturing sector in September. However, rates of growth in output and employment were only slight. **Indian** manufacturing output expanded for the eleventh consecutive month in September. However, the pace of growth slowed from August and was moderate overall.

As a result of the generally depressed state of the market and the upcoming election, production at **Brazilian** manufacturers declined at a moderate pace in September. Amid reports of weakening demand, new orders fell for the fifth time in the past six months. Meanwhile, manufacturing output growth in **Mexico** accelerated for the second month running, supported by the steepest rise in new orders since January. However, new export sales dipped for the first time in seven months and at the most marked pace since July 2013.

The **Russian** manufacturing sector continued to grow in terms of output and new orders in September. That said, the overall expansion lost momentum, as output rose more slowly and new order growth faced headwinds from a sharp fall in new export business. Moreover, employment fell further and firms cut purchasing activity for the first time since May.

PMI data signalled a deterioration in **Poland's** manufacturing economy in September. Production declined at the fastest rate since May 2013, as new orders fell for the fourth successive month. **Czech** manufacturers extended the current run of output growth to 18 months in September. The rate of growth strengthened since August, but was still down on the average pace shown throughout the first nine months of 2014.

Turkish manufacturing output rose at the strongest rate since March, as new business volumes stabilised having declined over the previous four months. That said, the rise in output was still modest overall, and supported by a further cut to backlogs of work.

Middle East & Africa

September data signalled a return to output growth at **South African** private sector companies. The pace at which activity rose was the sharpest in 21 months, with survey participants commenting on increased order intakes and improved conditions in the mining sector.

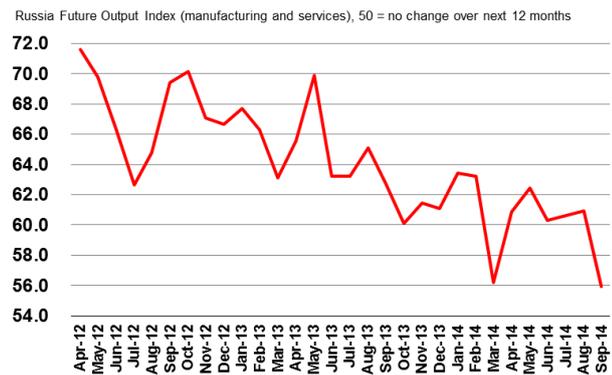
PMI data showed that new business in **Saudi Arabia's** non-oil economy rose at the strongest pace for 28 months in September, amid strong demand for goods and services. Notably, construction was reported by several panellists to be a key area of demand growth.

Activity in the **UAE's** non-oil producing private sector rose at the fastest pace since June during September, with companies commenting on increased order intakes.

September data signalled a further improvement in the health of **Egypt's** non-oil private sector, with output and new orders rising sharply. Higher business requirements in turn encouraged companies to take on additional workers, resulting in the first rise in staffing levels in nearly two-and-a-half years. Meanwhile, inflationary pressures eased, with both input and output prices rising at weaker rates.

Business expectations

Among the largest emerging economies covered, **Russia** posted the weakest output expectations in September. The Future Output Index fell to a new record low, just below that registered in March. Notably, service sector sentiment was the second-weakest since December 2008.



Sources: HSBC, Market

Output expectations at **Chinese** firms moderated from August's five-month high, and were softer than the average for 2014 so far.

Focusing on the manufacturing sector, **Indonesian** goods producers were by far the most optimistic in September, with the degree of sentiment hitting a new record high. Around 87% of firms expect growth of output at their units over the next 12 months. Manufacturing output expectations also rebounded notably in **Brazil**, to the second-highest on record.

In **South Africa**, private sector business expectations hit the highest since November 2012, linked to improving market conditions and export opportunities.

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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.

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