

Press Release

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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 weakest in four months

Key points

- **HSBC Emerging Markets Index: 51.4** (prior 51.6)
- Manufacturing remains stronger than services

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, fell for the second month running in January to 51.4, from 51.6 in December. That signalled a slower increase in output across global emerging markets. The EMI reading in the opening month of 2014 was the lowest since last September, and below the 2013 average of 51.7.

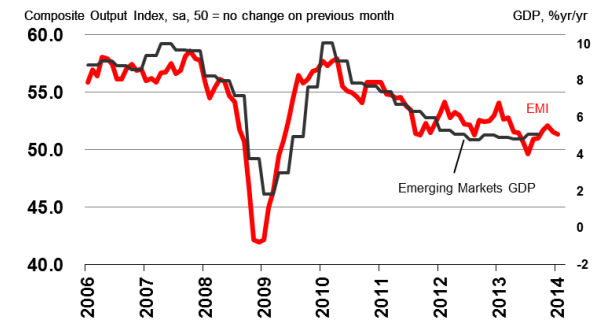
Manufacturing production rose at a pace little-changed from December, and one that was only slightly weaker than the historic eight-year average for the series. Slower expansions in China and Brazil, and falling output in Russia and Indonesia, were offset by stronger growth in India, Poland, Taiwan and Mexico.

Growth of **services** activity in the largest emerging markets slowed to a six-month low in January. India and Brazil both posted declines, while growth rates in China and Russia were weak.

New business growth in global emerging markets was little-changed from December, but slower than the average for the final quarter of 2013. **Backlogs** declined marginally for the first time in four months, and **employment** was broadly flat in January.

Inflationary pressures remained subdued. **Input** and **output prices** both increased at the slowest rates in six months. Moreover, manufacturing input prices in China declined for the first time since last July. In contrast, Turkish goods producers faced the steepest rise in input prices in nearly three years, linked to the weak currency.

HSBC Emerging Markets Index



Data summary

Country/region	Coverage	Index	Jan-14	Dec-13	Jan-13
Emerging Markets	Composite*	Output	51.4	51.6	54.1
	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	50.8	51.2	53.5
India	Composite*	Output	49.6	48.1	56.3
Brazil	Composite*	Output	49.9	51.7	54.9
Russia	Composite*	Output	49.6	52.5	54.8

- ▲ Above 50, rising
- ▼ Above 50, falling
- ▲ Below 50, rising
- ▼ Below 50, falling

*Manufacturing & Services

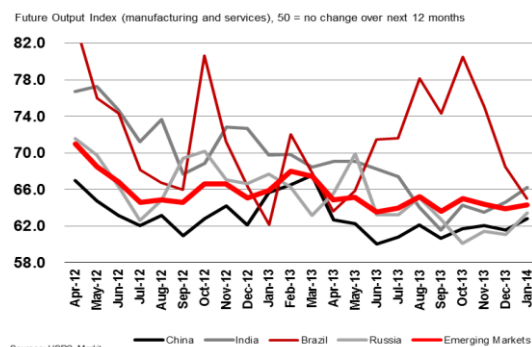
Sources: HSBC, Markit.

Business expectations

The **HSBC Emerging Markets Future Output Index** is a new series tracking firms' expectations for activity in 12 months' time. The index picked up in January, but was weaker than the 2013 average. Manufacturing sentiment hit a ten-month high, while the outlook in the service sector fell to a record low.

Among the largest emerging markets, **China** posted the strongest sentiment in ten months (manufacturing and services combined), but a weaker outlook than the remaining BRIC economies. **Brazilian** sentiment slowed to a nine-month low, while the Future Output Indexes for **Russia** and **India** picked up but remained historically weak. *Continued on page 3...*

Emerging Markets Future Output Index



Comment

Pablo Goldberg

Global Head of Emerging Markets Research

"Although both the aggregate Manufacturing and Services EMI deteriorated in January, they remain in expansion territory. Interestingly the future activity index shows a pick-up for manufacturing and a drop for services, suggesting expectations of an export-led recovery.

"Manufacturing PMIs are still showing economic resilience, although not without increasing divergence between countries. Among the winners, we have countries in a clear cyclical recovery that are being lifted by the improvement in the developed markets: Mexico, Poland and the Czech Republic. By contrast, PMIs decelerated in Turkey, Brazil, Russia and Indonesia. These are among the countries where deteriorating external balances have prevented monetary easing or forced tightening.

"Two positive indicators suggest there are reasons to stay moderately upbeat on the resilience of EM economic activity. First, new export orders have improved for many countries and, second, the forward-looking new orders-inventory mix continues to improve. On the negative side, the China manufacturing PMI has fallen below 50, which is bad news for many emerging markets. Moreover, a combination of activity and price PMIs suggests the room for further monetary easing has closed. Lastly, the employment PMI shows a deterioration across the board, which could eventually hurt domestic consumption."

Regional highlights: www.twitter.com/HSBC_EMI_PMI

Simon Williams

HSBC Chief Economist, MENA

"The oil-rich Gulf continues to shrug off broader EM weakness; for Egypt the road to recovery is a long and difficult one."

Frederic Neumann

Co-Head of Asian Economic Research

"China's export engine not firing up, but Taiwan is flying thanks to electronics. Encouraging bounce in Indonesia."

Andre Loes

HSBC Chief Economist, LATAM

"Mexican industry with solid acceleration at year start, while Brazil slows down, with contraction of its vast services sector."

Murat Ulgen

HSBC Chief Economist, CEE & Sub-Saharan Africa

"CEE leads the way with further improvement in manufacturing production. The rest of the region shows soft, if not weak performance"

Detailed data summary: Output Index

Country / region	Coverage	Oct-13	Nov-13	Dec-13	Jan-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

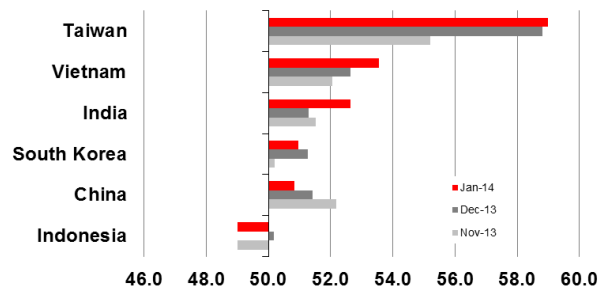
▲ 50, rising

*Non-oil

Sources: HSBC, Markit.

China slows as other Asian economies accelerate

Manufacturing Output Index, 50 = no change over previous month



Manufacturing

January data signalled a deterioration of operating conditions in **China's** manufacturing sector for the first time in six months. This reflected weaker expansions of both output and new business. Firms also cut staffing levels at the quickest pace since March 2009.

Output at **South Korean** manufacturers grew in January, albeit at a modest pace. New export orders rose for the fourth month running and at a sharper pace, attributed to higher levels of new orders from Europe, North America and Japan. Meanwhile, January saw a further solid improvement of operating conditions in **Taiwan's** manufacturing sector, with output and new business rising sharply.

Business conditions in the **Indonesian** manufacturing sector continued to improve at the start of 2014. Although output fell, incoming new business grew at the joint-fastest pace in the history of the series and new export orders increased for the first time since May 2013. Meanwhile, **Vietnamese** manufacturing growth gathered momentum, highlighted by the strongest rise in output since April 2011, and the fastest rise in purchasing activity in the survey's history.

Indian manufacturing moved into a higher gear in January, as new orders expanded at the quickest rate in ten months. Concurrently, exports grew at a solid pace and manufacturers raised their production for the third successive month. The rate of output growth was the strongest since February 2013.

In **Brazil**, the rate of production growth eased to the slowest since September 2013. New orders rose at the quickest pace in 11 months, however, despite a flat trend in new export business. January PMI data highlighted a positive start to 2014 for manufacturers in **Mexico**, with production and new business both rising at robust rates. Employment increased only fractionally, but stronger levels of input buying and efforts by companies to boost pre-production stocks provided signals that firms were more confident about the outlook.

Business conditions facing **Russian** manufacturers continued to deteriorate at the start of 2014 even after accounting for seasonal factors, with declines registered for output, new orders, exports, employment and purchasing activity. Meanwhile, inflationary pressures remained historically weak overall, despite the impact of the weaker ruble feeding through to import prices.

Further west, manufacturers in Poland and the Czech Republic fared better. The manufacturing upturn in **Poland** regained momentum, with output, new orders and purchasing all expanding at faster rates. Notably, the rate of workforce growth was the strongest since the survey started in June 1998. Inflationary pressures were subdued, in contrast to the **Czech Republic** where cost inflationary pressures remained sharp, reflecting the weaker koruna exchange rate. Czech manufacturing growth accelerated, with the fastest increases in output, new orders and input buying since April 2011. Moreover, the increase in new export business was one of the strongest on record.

Turkish manufacturing growth remained solid in January, but slipped further from November's peak. Firms faced sharp upward pressure on input costs during the month, linked to the weaker lira exchange rate. Output prices rose substantially as a result.

Middle East & Africa

Non-oil private sector output in **Saudi Arabia** rose at its strongest for 15 months in January. Providing a further fillip to output during January was a marked rise in new business. Latest data showed that new work rose to the sharpest degree since September.

The **UAE** non-oil private sector registered a sharp, but weaker rise in activity in January. Meanwhile, order intakes increased at the second-quickest pace in the series' history and workforce numbers rose at a slower pace than seen in December.

Egypt's non-oil private sector companies reported declines in both output and new orders in January, following growth in the previous two months. In contrast, new business from abroad increased for a third straight month.

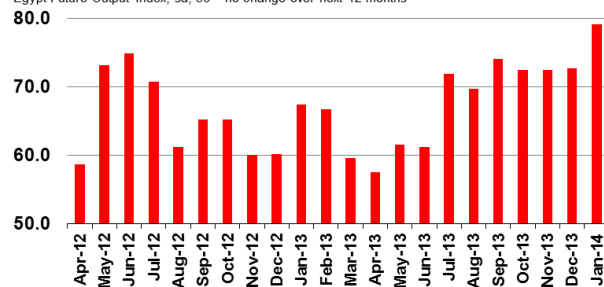
Private sector output in **South Africa** was flat in January. A similar pattern was evident for new business, which was weighed down by new export orders falling for a second consecutive month. Employment declined for the first time in four months.

Business Expectations

Chinese goods producers held the best output expectations in nine months at the start of 2014. That said, the China Manufacturing Future Output Index remained below those registered for all other manufacturing sectors covered. **South Korea, Turkey** and **Russia** were the next-lowest, while **Indonesia, Poland** and **Vietnam** were the most optimistic.

In **Egypt's** non-oil private sector, business expectations regarding the next 12 months were the strongest since the series started in April 2012. In contrast, **Saudi Arabia's** Future Output Index dropped to the lowest on record, and the **UAE** equivalent posted its third-lowest to date (but both indexes still signalled positive outlooks).

Egypt Future Output Index, sa, 50 = no change over next 12 months



Sources: HSBC, Markit.

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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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