Press Release

Embargoed until: 00:01 (UK Time), 6th August 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 lose pace in July despite manufacturing pick-up

Key points

- **HSBC Emerging Markets Index: 51.7** (prior 52.3)
- Chinese manufacturing output growth at 16-month high
- Output expectations weaken

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, fell to 51.7 in July, from 52.3 in June, indicating slower output growth across global emerging markets. That said, the latest expansion was stronger than the average seen over the first half of 2014.

Weaker output growth in emerging markets mainly reflected a slowdown in the **service** sector, as **manufacturing** production rose at the fastest rate since March 2013. Manufacturing output growth accelerated in China, India, Indonesia, Taiwan, Russia and the Czech Republic. In contrast, Brazil, Turkey and South Korea posted further declines.

In line with the trend for activity, **new business** growth in emerging markets eased since June but was stronger than the average over the first half of the year. The volume of **outstanding business** declined marginally, having stabilised in June. Firms remained reluctant to take on more staff, as employment rose only fractionally. Manufacturing employment was largely unchanged from June.

Inflationary pressures remained subdued in July, despite **input price** inflation accelerating to a five-month high. **Output prices** continued to rise only marginally. Focusing on manufacturing, goods producers in Russia, Vietnam and India faced the steepest increases in input prices in July.

Business expectations

The outlook for global emerging markets weakened in July. The **HSBC Emerging Markets Future Output Index** tracks firms' expectations for activity in 12 months' time, and fell in the latest period to the second-lowest level since the series started in April 2012. This reflected weaker sentiment at service providers, as the outlook for manufacturing output brightened slightly. Of the four largest emerging economies, Brazil posted the strongest output expectations in July, followed by India.

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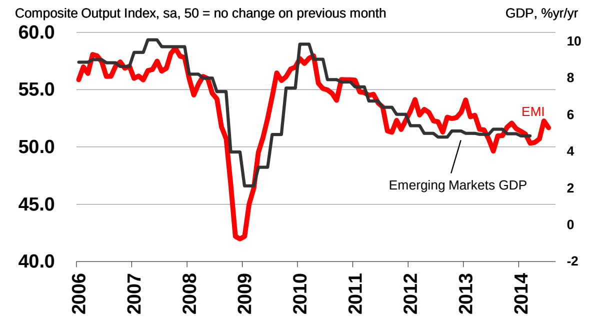
HSBC Emerging Markets Index



Sources: HSBC, Markit.

Data summary

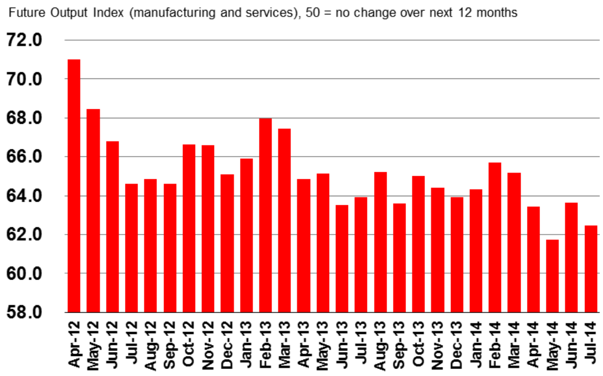
Country/region	Coverage	Index	Jul-14	Jun-14	Jul-13
Emerging Markets	**Composite***	**Output**	**51.7**	**52.3**	49.6
	Composite*	New Orders	▼	▲	▼
	Composite*	Backlogs	▼	▲	▼
	Composite*	Employment	▲	▲	▼
	Composite*	Input Prices	▲	▲	▲
	Composite*	Output Prices	▲	▼	▲
	Composite*	Future Output	▼	▲	▲
Emerging Markets	**Services**	**Activity**	▼	▲	▼
Emerging Markets	**Manufacturing**	**Output**	▲	▲	▼
China	Composite*	Output	51.6	52.4	49.5
India	Composite*	Output	53.0	53.8	48.4
Brazil	Composite*	Output	49.3	49.9	49.6
Russia	Composite*	Output	51.3	50.1	48.7

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

*Manufacturing & Services

Sources: HSBC, Markit.

Emerging Markets Future Output Index



Sources: HSBC, Markit.

Comment

Chris Williamson
Chief Economist, Markit

"Emerging market economic growth remains disappointingly feeble, especially when compared to the impressive upturn currently being seen in the developed world. Although the emerging markets have seen some improvement compared to the near-stagnation seen earlier in the year, the pace of growth is lacklustre and fell back in July from the 15-month high reached in June. In contrast, the pace of economic growth in the developed world accelerated in July to its fastest since May 2007.

"With global uncertainty and risk aversion being heightened by the Argentine default, the fighting in Gaza and worries about the possibility of an escalating situation in Ukraine, emerging market economic growth looks more likely to deteriorate than improve in coming months.

"An additional source of concern is the domestic economy in China, the weakness of which contributed to the stagnation of services sector growth in July. The slowdown suggests China's policymakers will seek further ways to stimulate growth to ensure the 7.5% growth target is reached this year.

"However, it's not just China that is struggling. Brazil saw business activity fall for a fourth straight month, India's renewed upturn lost momentum and Russian businesses look set for further challenges in coming months, despite its PMI hitting a seven-month high in July."

Regional highlights: www.twitter.com/HSBC_EMI_PMI

Murat Ulgen
Global Head of Emerging Markets Research

"Russia improves but it may not be sustainable after recent developments. Turkey, Poland and South Africa continue to disappoint"

Frederic Neumann
Co-Head of Asian Economic Research

"Asia is taking a step up, with output and trade accelerating. Good news - but it shouldn't deflect from structural issues likely to limit the recovery"

Andre Loes
HSBC Chief Economist, LATAM

"Brazil industry remains a drag, while services decelerate after the FIFA World Cup; Mexico manufacturing keep moderate expansion"

Simon Williams
HSBC Chief Economist, MENA

"Egypt disappoints again, but the boom goes on in the oil-rich Gulf"

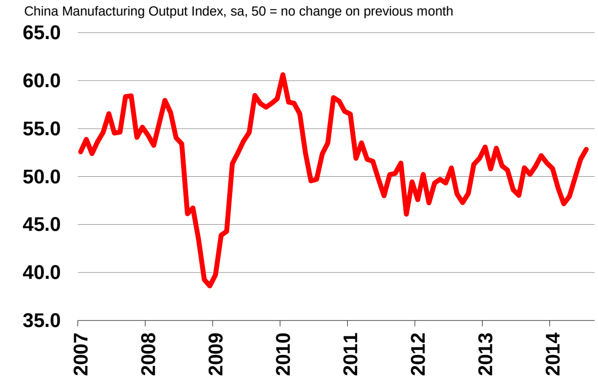
Detailed data summary: Output Index

Country / region	Coverage	Apr-14	May-14	Jun-14	Jul-14
Emerging Markets	**Composite**	▲ (green)	▲ (green)	▲ (green)	▼ (green)
Brazil	Composite	▼ (red)	▼ (red)	▲ (red)	▼ (red)
China	Composite	▲ (red)	▲ (green)	▲ (green)	▼ (green)
India	Composite	▲ (red)	▲ (green)	▲ (green)	▼ (green)
Russia	Composite	▼ (red)	▼ (red)	▲ (green)	▲ (green)
Emerging Markets	**Services**	► (green)	▼ (green)	▲ (green)	▼ (green)
Brazil	Services	▼ (green)	▲ (green)	▲ (green)	▼ (green)
China	Services	▼ (green)	▼ (green)	▲ (green)	▼ (black)
India	Services	▲ (red)	▲ (green)	▲ (green)	▼ (green)
Russia	Services	▼ (red)	▼ (red)	▲ (red)	▼ (red)
Emerging Markets	**Manufacturing**	▲ (black)	▲ (green)	▲ (green)	▲ (green)
Brazil	Manufacturing	▼ (red)	▼ (red)	▼ (red)	▲ (red)
China	Manufacturing	▲ (red)	▲ (red)	▲ (green)	▲ (green)
Czech Republic	Manufacturing	▲ (green)	▼ (green)	▼ (green)	▲ (green)
Indonesia	Manufacturing	▲ (red)	▲ (green)	▼ (green)	▲ (green)
India	Manufacturing	▼ (green)	► (green)	▲ (green)	▲ (green)
South Korea	Manufacturing	▼ (red)	▼ (red)	▼ (red)	▲ (red)
Mexico	Manufacturing	▲ (green)	▼ (green)	▲ (green)	▼ (green)
Poland	Manufacturing	▼ (green)	▼ (green)	▲ (green)	▼ (green)
Russia	Manufacturing	▲ (red)	▲ (red)	▲ (green)	▲ (green)
Turkey	Manufacturing	▼ (green)	▼ (green)	▼ (red)	▼ (red)
Taiwan	Manufacturing	▼ (green)	▲ (green)	▲ (green)	▲ (green)
Vietnam	Manufacturing	▲ (green)	▼ (green)	▼ (green)	▼ (green)
Egypt	Private sector*	▼ (red)	▼ (red)	▲ (green)	▼ (red)
Hong Kong	Private sector	▲ (red)	▼ (red)	▼ (red)	▲ (green)
Saudi Arabia	Private sector*	▲ (green)	▲ (green)	▲ (green)	▲ (green)
South Africa	Private sector	▼ (red)	▲ (red)	▼ (red)	▼ (red)
United Arab Emirates	Private sector*	▲ (green)	▼ (green)	▲ (green)	▼ (green)

▲ (green) Above 50, rising
▼ (green) Above 50, falling
► (green) Above 50, unchanged
*Non-oil
▲ (red) Below 50, rising
▼ (red) Below 50, falling
▲ (black) 50, rising
▼ (black) 50, falling

Sources: HSBC, Markit.

Chinese manufacturing shows stronger momentum in July



Sources: HSBC, Markit.

Manufacturing

Output and new orders in the **Chinese** manufacturing sector both rose at the strongest rates since March 2013, while new export work increased at the second-fastest pace in over three-and-a-half years. Purchasing activity rose solidly while job shedding eased for the second successive month and was only slight. Meanwhile, input price inflation accelerated to the strongest since last November. **Taiwanese** manufacturers also signalled a robust improvement in business conditions during July, with output, total new orders and new export orders all rising sharply. In contrast, output and new business in the **South Korean** goods-producing sector fell, although at slower rates than in June.

Indian manufacturing output rose at the fastest rate since February 2013 in July. New orders and exports also increased, but employment deteriorated fractionally. Inflationary pressures continued to emerge, particularly on the supply-side.

Indonesian manufacturing output rose at the fastest rate since the survey began in April 2011, supported by further growth of new orders. This was despite a slight drop in new export business during July. Meanwhile, in **Vietnam** both output and new orders increased at weaker rates. The rate of cost inflation remained sharp amid higher fuel prices and increased transport costs as a result of the enforcement of tonnage rules on trucks.

Survey data indicated a further solid contraction in **Brazilian** manufacturing production as output declined for a fourth successive month. Anecdotal evidence linked lower production to the football World Cup. The rate of output reduction was particularly robust in the intermediate goods sub-sector. Meanwhile, **Mexican** manufacturing output continued to rise, but at a slower rate. New order growth was supported by the second-fastest rise in new export business since April 2012.

New orders received by **Turkish** manufacturers fell for the third month running in July. That was the longest sequence of deterioration in over five years, and the rate of decline in the latest period was the fastest since August 2011. Output fell for the second month running.

July data signalled an improvement in **Russian** manufacturing business conditions at the start of the third quarter, ending a downturn that had lasted eight months. The main forces driving the recovery in the sector were a solid rise in output and growth in new orders. Inflationary pressures also eased and manufacturers raised their purchasing activity during the month. Less positively, new export business declined at the fastest rate since April 2009 and employment in the sector continued to fall.

The **Polish** manufacturing sector entered a new downturn in July. New orders fell, as did new export business, leading to a near-stagnation in output. In contrast, the **Czech** manufacturing sector registered a strong performance with output, new orders, exports, employment, backlogs and purchasing all rising at faster rates.

Middle East & Africa

Non-oil private sector output in **Saudi Arabia** increased in July at the steepest rate since February 2012, with new orders rising at the fastest pace in ten months. Meanwhile, new business from abroad also increased sharply.

Following the sharp rises seen in June, the **UAE** non-oil producing private sector continued to observe strong performances in output, new orders and new export orders in July. Generally, growth across the indices remained marked despite easing slightly from the previous month. In addition, job creation, purchasing activity and stocks continued to expand at solid rates.

Output, new orders and new export business in the **Egyptian** non-oil private sector all fell moderately during July. Meanwhile, input costs continued to increase, and at the fastest pace since April 2013. Firms raised their selling prices for the first time in three months as they sought to protect their margins from the rise in input costs.

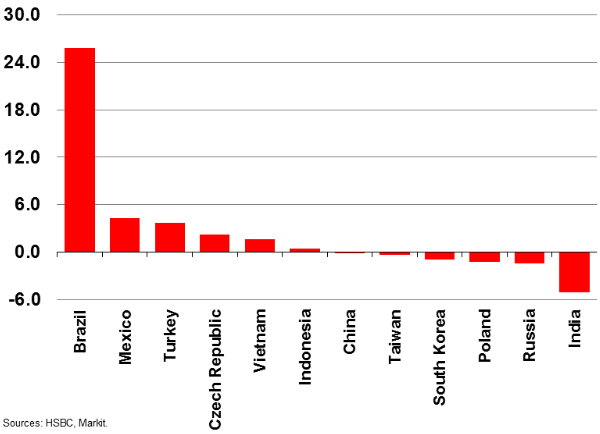
The recent strikes in **South Africa** weighed heavily on demand in July, resulting in marked declines in both output and new orders. The respective rates of contraction accelerated to the sharpest in the 37-month series history. Consequently, firms lowered their purchasing activity, with nearly one-in-three survey participants indicating a decline in buying.

Business expectations

Brazilian manufacturing sentiment rebounded strongly in July, as the Future Output Index recovered from June's record low to the highest since last November's record high. Manufacturing output expectations also improved in Mexico, Turkey, the Czech Republic, Vietnam and Indonesia.

Output expectations at Chinese goods producers were unchanged from June's 21-month low. India posted the strongest deterioration in manufacturing sentiment since June.

Manufacturing Future Output Index, change in Index since June



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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