



HSBC Emerging Markets Insights 2010

HSBC   
The world's local bank



# Contents

<b>HSBC World View</b>	2
Stephen King and Phil Poole	
<b>The outlook for Asia</b>	4
Qu Hongbin and Frederic Neumann	
<b>The outlook for Brazil</b>	6
Andre Loes	
<b>The outlook for Mexico</b>	7
Sergio Martin	
<b>The outlook for Central and Eastern Europe</b>	8
Murat Ulgen	
<b>HSBC Purchasing Managers' Index data for 2009</b>	10
Chris Williamson, Markit Economics	

Stephen King and Phil Poole

# HSBC World View

January 2010

## Emerging market nations are the most important contributors to global economic growth

We have reached a tipping point in global economic affairs. No longer is it possible to argue convincingly that the US or European nations determine the agenda for the world economy as a whole. 2009 will surely go down as the year when we both uncovered the scale of the crisis in the developed world and celebrated the resilience of much of the emerging world in the face of what appeared to be a perfect economic storm. We found, in particular, that China was able to stand on its own two feet, capable of delivering rapid economic growth even while its export engine was badly misfiring.

The HSBC Emerging Markets Index, which measures economic activity across both manufacturing and services, provides ample proof of this distinction. Having fallen away in the second half of 2008 as the financial crisis spread its way around the world, the index began to show renewed signs of life in the second quarter of 2009, well ahead of the improvements which eventually followed in the developed world. While the US sneezed, Western Europe caught a cold and Japan flirted with pneumonia, many countries in the emerging world performed remarkably well. As always, there were one or two important exceptions: Russia is still struggling and many countries in Central and Eastern Europe suffered in the light of the already weak balance of payments positions. Others, however, benefited from the development of a virtuous circle supported, ultimately, by China.

Previous economic crises in the Western world have typically been associated with a sustained fall in commodity prices, reflecting a collapse in demand for raw materials. This time around, commodity prices have been remarkably resilient. In part, their strength reflects buoyant demand in China. China is still a poor country with the majority of its people still desperately short of the quality infrastructure – roads, railways, bridges, airports, schools, universities and hospitals – that is taken for granted in the developed world. As this infrastructure is put into place, China's appetite for raw materials will continue to grow. The effects were particularly noteworthy in 2009 given the shape of China's fiscal stimulus, which was largely aimed at infrastructure projects of one sort or another. The year ended with commodity prices advancing rapidly, boosting the export earnings of commodity-producing nations.

The winners from this process included many of the emerging nations – Brazil, Chile and the Middle Eastern oil producers spring to mind – and the major commodity producers within the developed world, most obviously Canada, Norway, Australia and New Zealand. Not surprisingly, investors have flocked to these markets in recent months: in some cases, interest rates have risen, in many cases currencies have strengthened and, in some cases, capital controls have been utilised to calm speculative froth. The losers include many of the Western nations: even with the credit crunch easing and with signs of recovery beginning to emerge, higher commodity prices will squeeze spending power, thereby limiting the pace of any further recovery.

It is difficult to overstate the importance of China. As China's influence expands, so trading patterns around the world will change. Already, countries in Latin America and Africa are recognising that their future prosperity depends not only on the health of the US and Western European nations but also on the performance of China. And, within China, change is afoot.

China held up extremely well during the global financial crisis but it is widely recognised that in order for China to maintain the pace of growth it needs to stimulate consumption to promote more balanced growth. In recent months it has become clear that the government is now acting. China will shift its public spending away from new construction to education and healthcare in 2010. This was one of the key decisions made at the leadership's annual policy meeting. With GDP growth having exceeded expectations in 2009 and still accelerating, policymakers are now focusing on ensuring that the recovery creates more balanced growth. Switching spending to education, healthcare and other areas of social welfare is seen as key to achieving this goal. Over 70 per cent of the RMB4trn stimulus package was put into infrastructure projects in 2009. We expect this ratio to come down to around 40 per cent in 2010, with the rest being spent on education, healthcare and other pro-consumption areas.

Chinese household savings are high in part because of limited state support for healthcare and education. With additional public spending planned in these areas in coming years, there is every chance that households will be able to reduce their "precautionary" savings, shifting China modestly away from the old export- and infrastructure-led growth model towards an expansion which, at the margin, will become more dependent on consumer spending. Consumer credit extension will also play its part. A slowdown in new infrastructure projects will cut into lending to this sector. We believe that consumer credit is likely to become the alternative engine for loan growth in the next few years. Demand is unlikely to be an issue. Recent progress on developing a national bureau of credit information and progress towards introducing a personal bankruptcy law should help remove the main roadblocks facing consumer credit in China. Meanwhile, China will increasingly be hoping to strike trade deals with other nations in renminbi, rather than dollar, terms, a pattern which was already becoming established in 2009.

Our Emerging Markets Index may provide plenty of good news on growth but it also suggests that inflationary pressures are beginning to return. In contrast to the Western world, where money supply growth has collapsed, debts are being repaid and domestic inflationary pressures are mostly absent, the Emerging Markets Index suggests that pricing power in parts of the emerging world is making an early return.

In many ways, this is not surprising. With only modest output losses during the crisis following the earlier boom conditions, emerging economies are operating closer to full capacity than their developed-world equivalents. Additionally, with interest rates in the Western world very low and with many emerging nations reluctant to undergo substantial currency appreciation, capital is increasingly likely to flow out of the Western world into emerging market assets, leading to higher commodity prices, surging real estate prices and further increases in stock market valuations. Indeed, since the trough in spring 2009, emerging market equities have almost doubled in value. The global portfolio reallocation is ongoing. When investors look for either growth or yield emerging markets stand out relative to the developed world as compelling investments. We expect this shift to continue.

While, then, risks in the developed world are mostly focused on an anemic recovery, debt hangovers and fiscal challenges, the risks in much of the emerging world are, if anything, biased towards rapid growth with renewed inflationary pressures. Nations will vary in how they deal with these pressures. Most will be looking to raise interest rates independently of any actions taken by the US Federal Reserve. We forecast that Korea and Taiwan will tighten in Q1, China, Brazil and Turkey in Q2, Mexico in Q3 and Russia in Q4. However, rate increases may be inconsistent with the desire to maintain some degree of currency stability. Some countries may respond by imposing capital controls or restrictions to limit exchange rate appreciation, an example of such measures being the IOF tax imposed on inward portfolio flows by Brazil late last year. Others may tolerate higher inflation rather than risk de-railing growth through tighter policy. Those which have the political strength may tighten fiscal policy as a substitute for higher interest rates. And some will try to suppress inflation through the use of subsidies to keep food and energy prices under control.

These choices reflect the growing pains of economic success. For many years, emerging nations have tied their monetary fortunes to the policies of the Federal Reserve. In a US-dominated global economy, this made perfect sense. Today, however, the emerging nations are the most important contributors to global economic growth: as a result, their policymakers will increasingly have to make decisions for themselves and not rely on choices made in Washington, Frankfurt or London.

**Stephen King, Group Chief Economist**

**Phil Poole, Global Head of Emerging Markets Research**

# The outlook for Asia

January 2010

## Domestic demand to drive Asian recovery

China's growth has rebounded strongly amid massive fiscal and monetary stimuli. This infrastructure-led recovery will likely be sustained into 2010, not least because the long-term railway and road projects won't fade overnight. We expect GDP growth to accelerate to 9.5 per cent this year, from 8.7 per cent in 2009. Continued investment into ongoing in-frastructure projects and strong housing sales imply that growth in fixed investment should stay above 20 per cent this year. Meanwhile, the filtering through of the second-round effects of stimulus measures should continue to support growth in the industrial sector.

Various PMI surveys across the Asian region have more broadly pointed to rising orders for industrial goods and services in recent months. Exports in 2009 ended on a strong note, already approaching peak levels seen before the crisis in economies such as Korea and Taiwan. Internal Asian trade is one of the main drivers of export recovery as the strength of China's economy, helped by the various stimulus measures, leads to increased demand for its neighbours' goods. With demand elsewhere in the world stabilising following earlier declines, exports should thus continue to underpin Asia's rebound over the next several quarters.

It would be wrong, however, to argue that Asia's recovery merely depends on improved export prospects. To date, domestic demand has provided the main lift to Asian growth, a theme that will continue over the coming years. According to various surveys, hiring intentions are now near a record high in most markets, with the exception of Japan. Tightening labour markets will ultimately feed through into rising incomes and strengthening consumption. Car sales are already soaring across the region, being especially buoyant in China, Vietnam, Taiwan and India. Greater spending power by consumers helps to reduce the dependence of markets in the region to demand in Western economies.

This is particularly true of China, where policymakers intend to shift stimulus spending from new construction to education and healthcare in 2010. This should create a more balanced growth in the coming year, with more of a contribution from consumer spending. China's government has initiated a healthcare reform with RMB850bn spending within the next three years. It has also committed to spend more on education and public housing in the coming years. We believe the jump in government spending on the social safety net, combined with surging consumer credit, will encourage consumers to loosen their purse strings and lower their savings rate (35 per cent) by five percentage points in the next three years.

The shift towards domestic consumption across Asia has helped push the share in the gross domestic product (GDP) of services, a decidedly domestic sector, beyond the manufacturing industry in virtually all the region's economies. Recent surveys of service establishments in India and China point to a further bounce in growth, with new orders and hiring intentions still at healthy levels. In short, domestic demand as well as exports should continue to expand over the current year, with the regional economy, excluding Japan, expected to grow by 7.9 per cent, the fastest pace in three years.

In China, inflation is likely to pick up, further reflecting excessive monetary growth and demand recovery. But the pace of the acceleration in inflation will still be manageable this year, considering that the recovery in global demand will be slow and there will still be excess capacity in the Chinese manufacturing sector. We do not expect any aggressive monetary tightening this year, with only gradual moves on both reserve requirements and, in the second half of the year, interest rates. Even if inflation picks up faster than expected, we believe that the most effective way to contain the overheating risk is to slow down the pace of new infrastructure projects.

Price pressures are also emerging elsewhere in Asia. Firms reported soaring input costs in recent months, and are gradually passing these on to consumers as well. In most countries, headline inflation has started to climb, driven especially by food and energy costs. As labour markets become tighter, rising wages may spill over into growing core price pressures, too. Many industries are already running at tight capacity utilisation rates, amplifying inflation risks. All of this suggests that the current year may come to resemble 2008, a year in which rising inflation over the first half ultimately spurred a tightening of monetary policy.

We expect central banks in all Asian markets, with the exception of Japan, to raise interest rates, even before their peers in the West have embarked on a tightening course. In essence, the trajectory of monetary policy between the East and the West will have to diverge, putting ever growing pressure on the region's exchange rates to appreciate.

**Qu Hongbin, Chief Economist, China**

**Frederic Neumann, Senior Asian Economist**

# The outlook for Brazil

January 2010

## Economic activity maintaining a vigorous pace

Brazil has been out of recession since the second quarter of 2009, and economic activity gained momentum in the second half of last year. The output index of the HSBC composite PMI registered 55.5 in the fourth quarter of 2009, signalling a pace of expansion similar to that seen before the onset of the global crisis. New orders and employment indices readings were also quite positive, at 55.8 and 53.3, respectively. The combination of the PMI with other high frequency data indicators suggests that economic activity in the beginning of 2010 should maintain a vigorous pace.

As a result, we may see Brazil back to its pre-crisis growth trend, with real GDP growth reaching 5.6 per cent in 2010. The pattern of growth should also replicate the experience of 2007-2008, with investment rising rapidly. Strong business confidence and credit expansion have already triggered the resumption of important investment activity, and momentum is growing, as infrastructure investment may anticipate the additional investment needs associated with the exploration of the pre-salt oil fields and the upcoming sporting events (World Cup in 2014 and the Rio Olympics in 2016).

Moving back to investment-led growth is desirable, as capacity limitations have been an important element explaining monetary policy cycles in Brazil. Although the pick-up in investments is likely to eventually ease these limitations, the closing of the output gap may lead the Brazilian Central Bank to start tightening in 2010. The increase in capacity utilisation and strong labour market performance point to inflation risks arising from the second half of the year onwards, and a forward-looking monetary policy committee should act accordingly.

Regarding external accounts, the resumption of strong growth should trigger an important deterioration of the current account deficit, as a result of the above mentioned capacity limitations and the breakdown of Brazilian imports – inputs for the industrial activity and capital goods are the main components of imports, making total imports very sensitive to an investment-led recovery. While the current account deficit is likely increase to almost USD50bn (from around USD20bn in 2009), we don't foresee any external financing constraints for Brazil in 2010. Positive growth and interest rate differentials are likely to generate enough inflow of capital to compensate for the current account deficit. Therefore, the Brazilian real should still show additional appreciation.

This smooth financing of external deficits will only materialise if investors feel comfortable with the sustainability of growth and stability. Thus, a key development to be monitored in 2010 is the performance of fiscal accounts. The deterioration of the primary fiscal surplus in 2009 has been a result of both the turn in the economic cycle, especially in industry – the fiscal burden is not uniformly distributed and industry is heavily taxed – and of the acceleration of public spending. While we don't expect the government to reduce the pace of spending in an electoral year, tax collection should improve strongly in 2010, as a result of the turn of the growth cycle, as well as the removal of some of the tax rebates granted in 2009. Therefore, we expect an improvement in the fiscal results in 2010 vis-à-vis the previous year.

**Andre Loes, Chief Economist, Brazil**

Sergio Martin

# The outlook for Mexico

January 2010

## Bright outlook

The Mexican economy experienced a drastic recession, which started in Q4 2008 and ended officially in Q3 2009. With recovery now under way, we estimate that Mexico will register real GDP growth of 3.6 per cent in 2010.

Mexico was hit harder than other Latin American countries, a reflection of its relatively close ties to the US. As the crisis developed, Mexico's manufacturing and non-manufacturing PMI surveys proved to be accurate and timely indicators of the deterioration in economic activity. These not only detected the beginning of the downturn in Q3 2008, but they also accurately confirmed the beginning of the recession in Q4 2008, posting their lowest levels since the series were first constructed. Encouragingly, the PMI surveys identified the return to economic growth in the second half of 2009.

While the PMI surveys suggest that the gains in economic activity lost steam to some extent in the fourth quarter of 2009, in general, the PMI surveys paint an optimistic view of the economy in 2010 given the strength of the new orders and production components. Moreover, the surveys have now surpassed the pre-crisis average levels seen in 2007, when Mexico's real GDP growth rate was 3.3 per cent. Their recent performance suggests the outlook for 2010 is bright, even allowing for the relatively high exposure to a US economy, which is still licking its wounds.

Finally, another significant finding is that in December 2009, the employment components in both the manufacturing and non-manufacturing indices were above the 50 point level for the first time in 17 months, thereby signalling that employment is moving into an expansionary phase. Until now, employment has been the missing link in the Mexican recovery story: this may be about to change.

**Sergio Martin, Chief Economist, Central America**

Murat Ulgen

# The outlook for Central and Eastern Europe

January 2010

## Continued recovery in manufacturing and services sectors

The PMI series in Central and Eastern Europe suggest continued recovery in manufacturing and service sectors. This recovery, while still broadly sustained, appears somewhat uneven across the region and may lose some momentum as the initial improvement in inventory cycle and fiscal stimulus efforts fade, both in individual countries and in Western Europe.

Looking ahead, this trend will likely continue in the first half of 2010 until a clearer and more favourable picture emerges during the remainder of the year. Another noteworthy trend is the persistent rise in input prices, in the main due to higher raw material costs. However, the still relatively weak level of demand has led to companies absorbing these increases in their margins and enacting cost-cutting measures. Thus, inflationary pressures at the core level remain benign.

In Russia, both the manufacturing and the services PMIs have, since August, been pointing to a resumption of growth. Yet, the improvement stalled for manufacturing in October and for services in November. Within manufacturing, recent evidence points to a deterioration of both new orders and new export orders. Altogether, this suggests that the industrial recovery is losing momentum. At the same time, the services PMI points to some further expansion, albeit at a much slower pace than before the crisis. Overall, the current phase of rapid economic recovery is coming to an end and the future pace of growth will moderate.

In Turkey, while the manufacturing PMI has pointed to recovery since May, the pace of expansion has been gradually losing steam since July. The Government's earlier stimulus measures were phased out between June and September due to underlying fiscal concerns. New orders have decelerated although export orders picked up in the summer and are still growing at a robust pace. Overall, we expect the recovery in the manufacturing sector to remain intact, although possibly with occasional slowdowns as the initial improvement in inventories moderates. The shift from domestic demand to export-led growth is still dependent on the pace of recovery in the Eurozone but, if sustained, would provide a better growth mix for Turkey given its chronic savings-investment imbalance.

In Poland, the Czech Republic and Hungary, regional PMIs broadly bottomed out in early 2009 following a rapid fall into recessionary territory at the tail-end of 2008. However, this process has been divergent across the countries: notably, the Czech Republic saw bigger initial losses reflecting an economic cycle closer in mood to that of the Eurozone. The PMI series in the Czech Republic and Poland improved consistently throughout last year but hovered around levels just below 50 in Q3 2009 before exceeding the break-even level only in November and December. Hungary, on the other hand, has been the laggard of the region, and has yet to assume a sustainable recovery trend, mimicking the cycle in domestic demand. Looking ahead, we expect the economic recovery to be more pronounced in CEE3 as the region already entered a stabilisation phase in Q3 2009. However, the impact of a fading fiscal stimulus during H1 2010 in Western Europe points toward the possibility of more moderate and uneven improvement. Given the relatively closed nature of its economy, Polish activity is likely to continue to outperform the region.

**Murat Ulgen, Chief Economist, Turkey**

# HSBC Purchasing Managers' Index data for 2009

## A consistent barometer in a changing global economy

Over the course of 2009, the global economy emerged from its deepest recession since the Second World War. Purchasing Managers' Index (PMI) data have provided a timely narration of the economic events which began with the unwinding of the sub-prime property market in the United States in 2007.

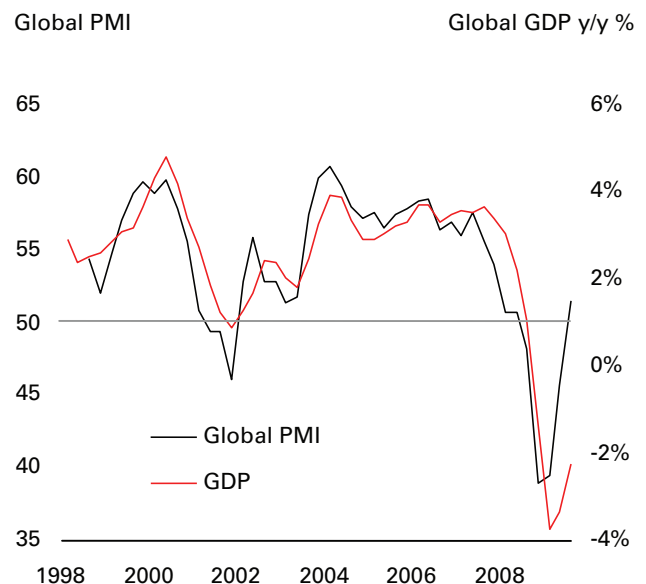
The first signs that economic growth was being affected by the crisis were provided by the global PMI data, derived from some 41 PMI surveys and covering 29 countries which account for around 83% of the world's gross domestic product (GDP). This indicator began to turn down in the summer of 2007, signalling an easing in the rate of global GDP growth (see chart 1). By June 2008, slower growth had turned into contraction. By late 2008, global PMI data had registered two consecutive quarters of decline, which is a commonly used definition of a recession. By February 2009, conditions seemed to be getting even worse, with global trade flows slumping at unprecedented rates. Japanese export volumes were contracting at an annual rate of 45%, for example, with even larger declines reported by several other Asian nations such as Taiwan and South Korea.

However, by this time, global PMI data had begun to turn up. Although still signalling severe economic contraction, the rate of decline was showing signs of easing. Were we already over the worst? The PMI data in fact suggest a nadir was reached in November 2008. The PMIs then beat economists' expectations by a wide margin in both March and April 2009 across both developed and emerging markets, including the US, the UK, Japan, China, Russia and India. The PMIs had even signalled a return to growth in both China and India in April. By August 2009, the surveys indicated that the world's economic output had returned to growth, just. By the final quarter of 2009, the rate of growth had accelerated to a pace not seen since late 2007. Armageddon had been avoided.

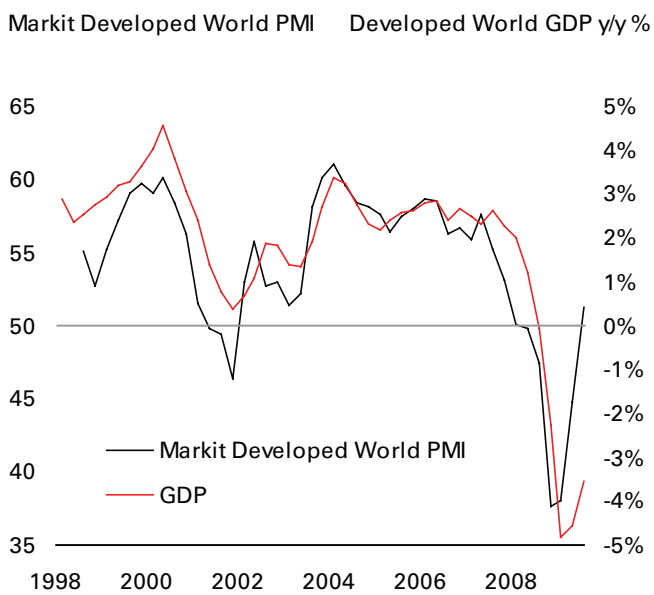
It is also now clear that emerging markets have played a key role in helping the world economy return to growth. PMI data show

that the global recession lasted for 14 months (between June 2008 and July 2009). Markit's index relating to the developed world showed a similar length of contraction. In contrast, the corresponding PMI data for emerging markets, the HSBC Emerging Markets Index, only signalled contraction for seven months. The emerging market decline did not start until October 2008, some five months after that of the developed world, and ended three months earlier, in May 2009. By the final quarter of last year, the HSBC Emerging Markets Index was running at a level consistent with emerging market GDP growing at an annual rate of almost 8% (see chart 1b). By comparison, the developed world PMI data are consistent with GDP growth of only around 1% (chart 1a).

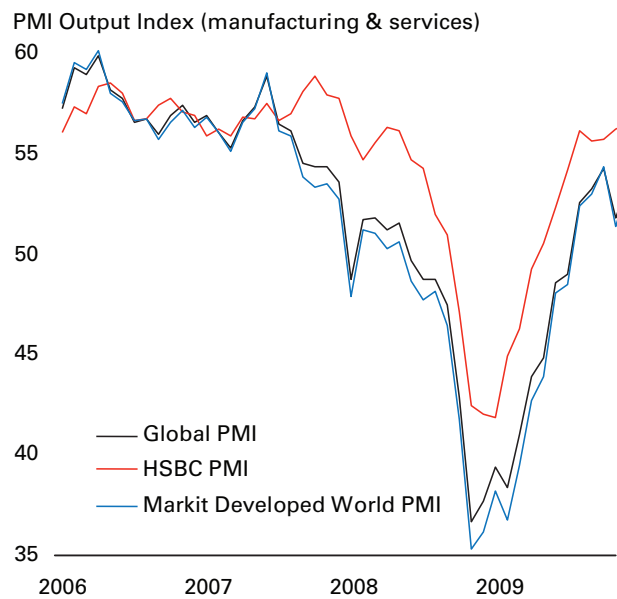
Chart 1: Global GDP



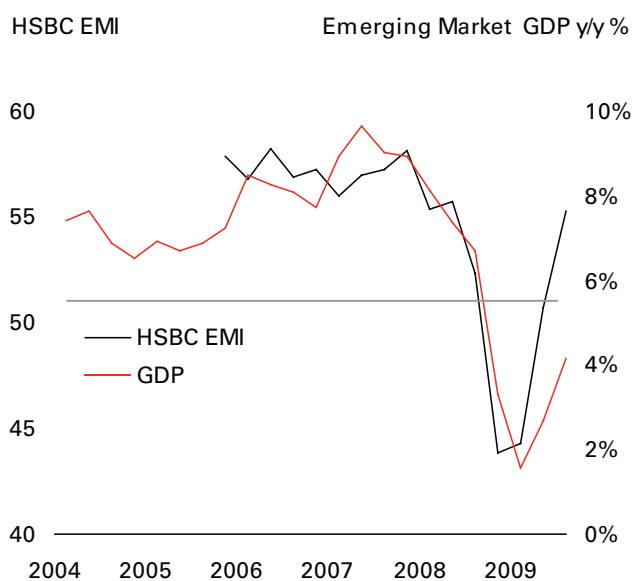
**Chart 1a: Developed Market GDP**



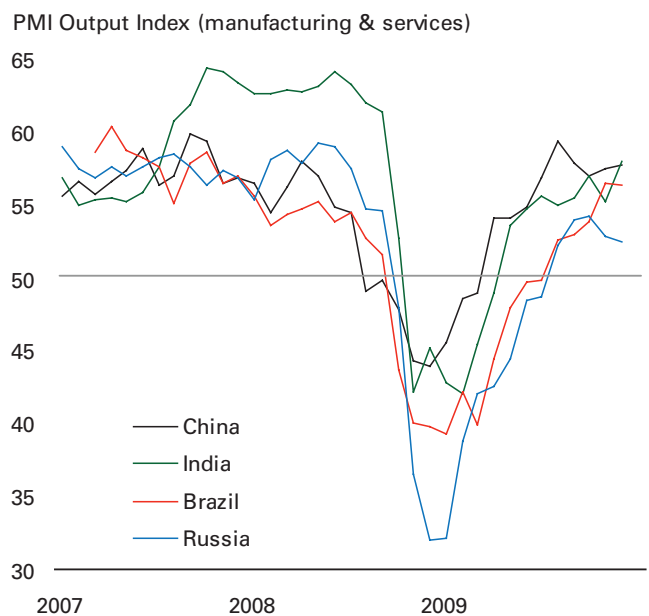
**Chart 2: EM v. DM output**



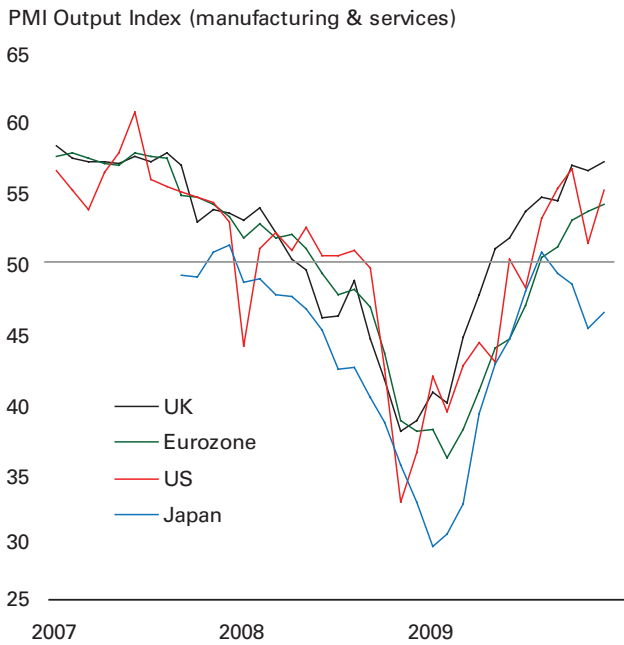
**Chart 1b: Emerging Market GDP**



**Chart 3: Emerging market output**



**Chart 4: Developed market output**



Looking deeper into the PMI data, at national level, reveals the key players in the global recovery. Within the largest emerging markets, China experienced the shallowest downturn (although India's contraction was shorter), while Russia's recession was the deepest by some margin (see chart 3). Russia is also notable in being the only major emerging country for which PMI data are showing worrying signs of growth having slowed again in the latter part of 2009.

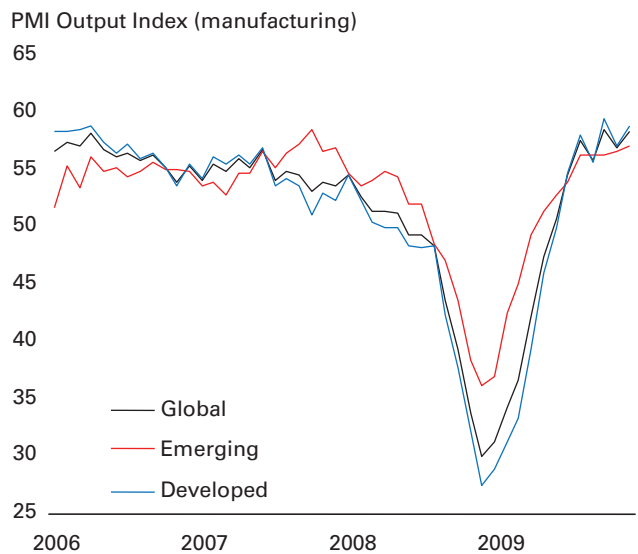
In the developed world, looking at the "G4" of the US, UK, Japan and Eurozone, Japan has suffered the most, with robust returns to growth signalled in the US and UK and a more subdued revival evident in the Eurozone (see chart 4). Of concern, Japan only saw one month of expansion last year, and runs the highest risk of a 'double-dip' recession.

**Trade Flows**

Key to the economic recovery has been the manufacturing sector and associated trade flows, as companies moved away from slashing their inventories at an unprecedented rate in late-2008 and early-2009. A closely-watched indicator of this inventory cycle was the ratio of the new orders and inventory indices from the PMI surveys (chart 18). This ratio provides an indication of the degree to which demand is growing relative to the amount of stock held by producers. A rising ratio indicates that producers will need to rebuild stock levels to meet sales. Globally, this ratio hit an all-time low in January 2009, bottoming-out first in emerging markets such as China. By August, the global ratio had struck a record high. Manufacturing was booming. By the end of last year, global manufacturing was increasing at an annual rate above 5%, according to comparisons of PMI data and historical trends in less-timely official data (chart 5a). Developed world manufacturing output growth, approaching 5% (chart 5b), was surprisingly buoyant, but paled in comparison to that seen in emerging markets, where the pace is estimated to have been well into double digits by the end of last year (chart 5c).

The role of exports and global trade flows in this manufacturing recovery have been crucial (chart 8a), with strong divergences evident between the emerging and developed worlds. Developed world exports were collapsing at an annual rate in excess of 25% at the height of the downturn (chart 8b), whereas the rate of contraction peaked at less than 5% in emerging markets, suggesting that trade between emerging nations helped to offset deteriorating demand from developed world export markets. The divergence continued up to the end of last year, with PMI data signalling a rate of expansion of around 15% in emerging markets exports – roughly double that seen for developed world exports.

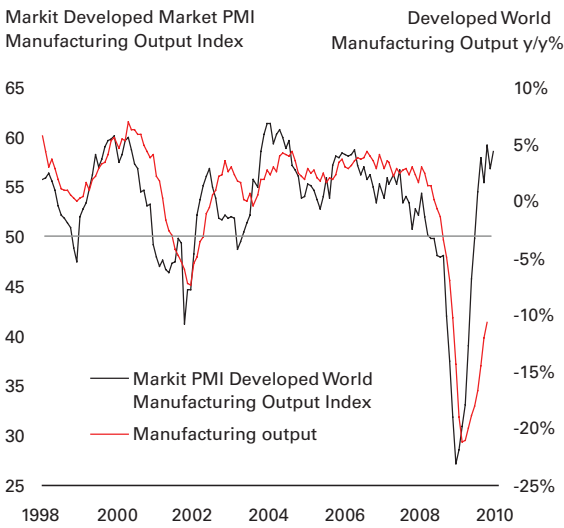
**Chart 5: EM v DM manufacturing**



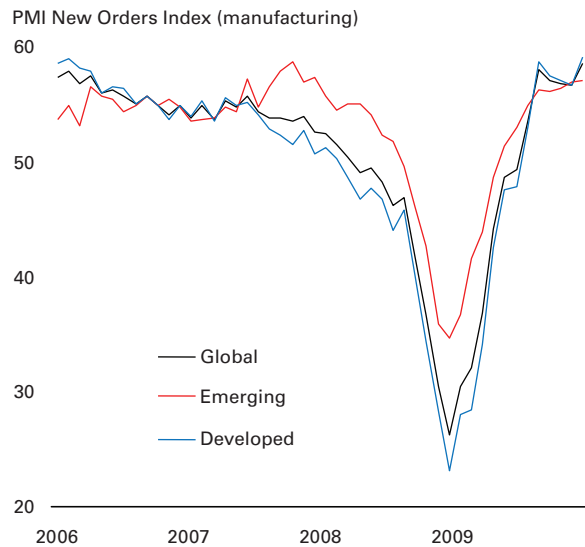
**Chart 5a: Global manufacturing**



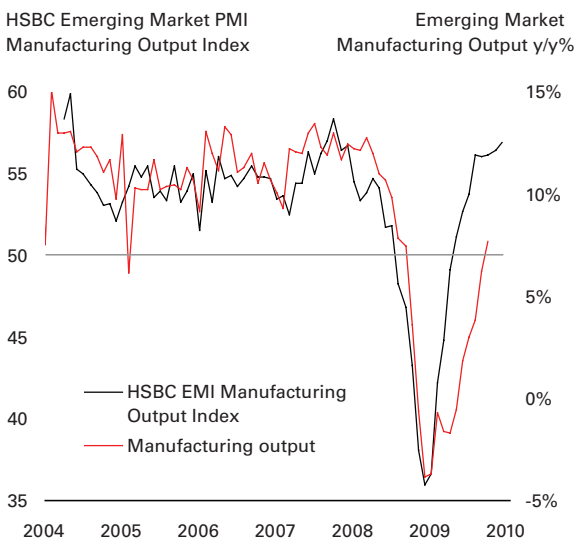
**Chart 5b: Developed Market Manufacturing**



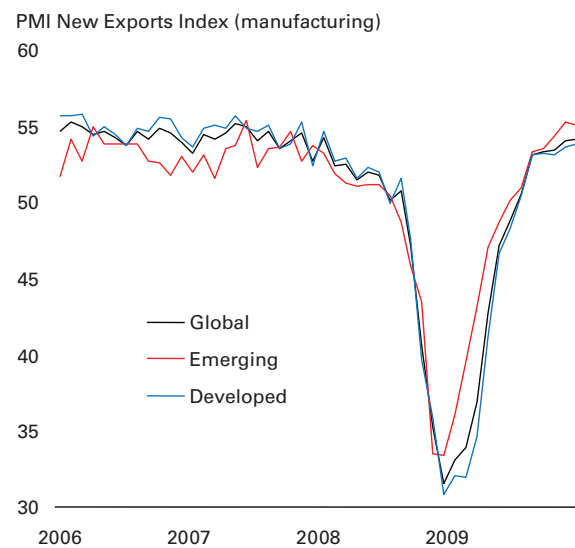
**Chart 7: New Orders (manufacturing)**



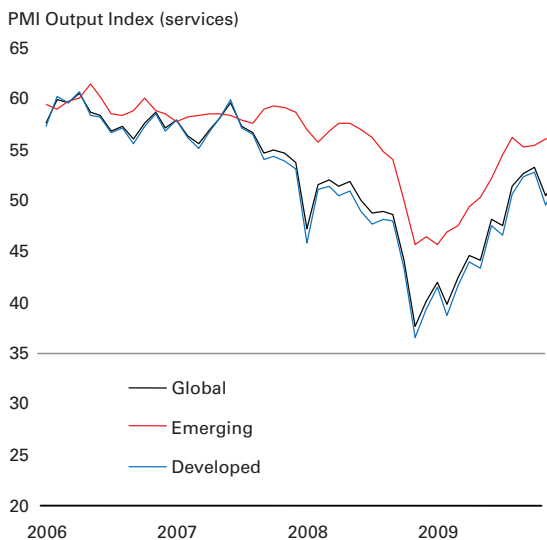
**Chart 5c: Emerging Market Manufacturing**



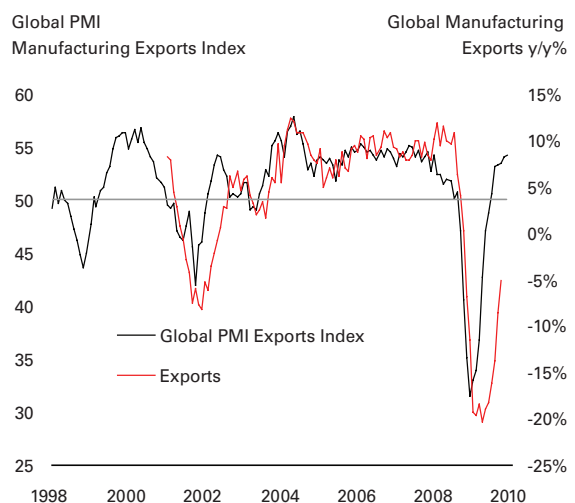
**Chart 8: EM v DM Exports**



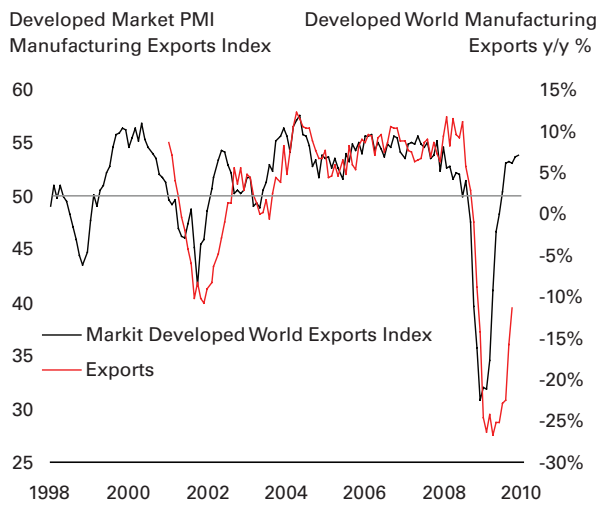
**Chart 6: Global services**



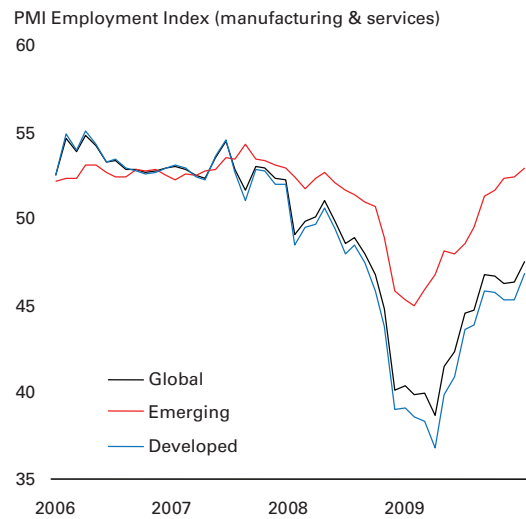
**Chart 8a: Global exports**



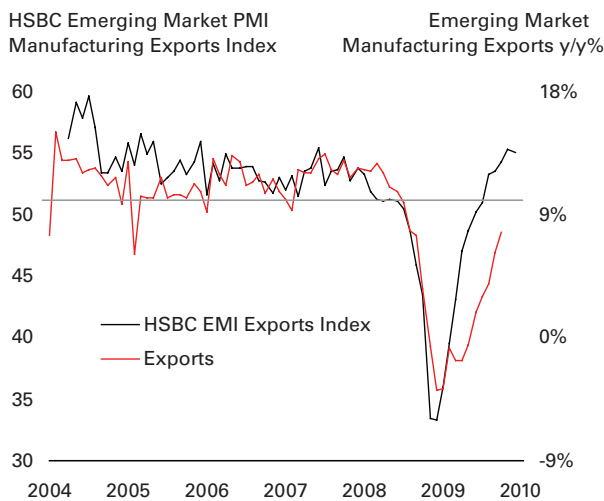
**Chart 8b: Developed Market Exports**



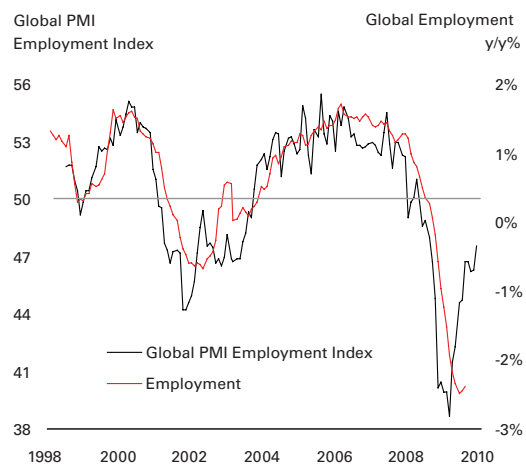
**Chart 9: DM v EM employment**



**Chart 8c: Emerging Market Exports**



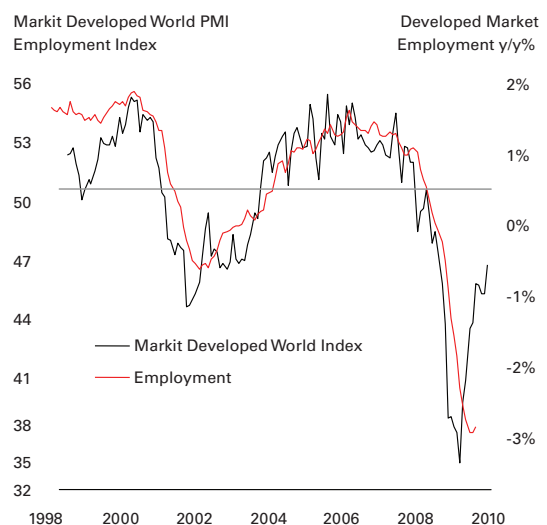
**Chart 9a: Global employment**



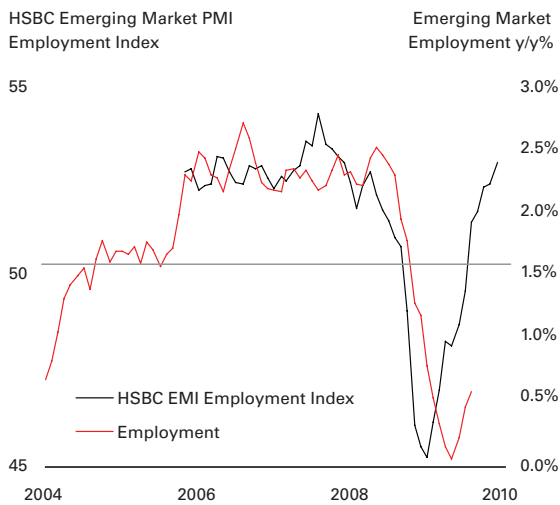
**Employment**

The difference in performance between emerging markets and the developed world has been even more acute for employment (charts 9 to 9c), which is also something that has in turn helped support service sector growth. Whereas companies in the developed world continued to shed staff in order to reduce overheads at the end of last year, employment growth in emerging market companies has accelerated sharply. In December, PMI data were consistent with annual growth of over 2% for emerging market employment compared to a 0.6% rate of decline in the developed world. This reflects greater optimism among emerging market firms that recoveries are sustainable, as well as the need to expand capacity in line with rising backlogs of work – which have also begun to rise again, yet are still falling in the developed world (chart 10).

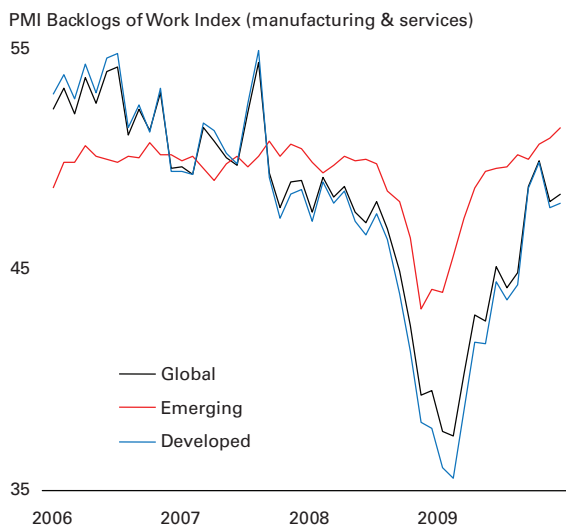
**Chart 9b: Developed Market Employment**



**Chart 9c: Emerging Market Employment**



**Chart 10: Backlogs of work**

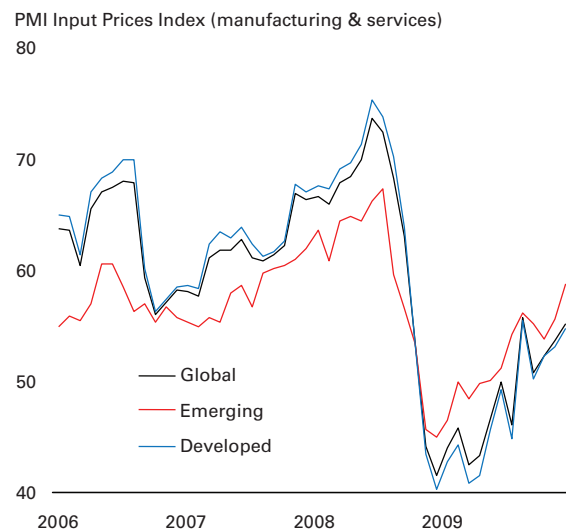


**Inflation**

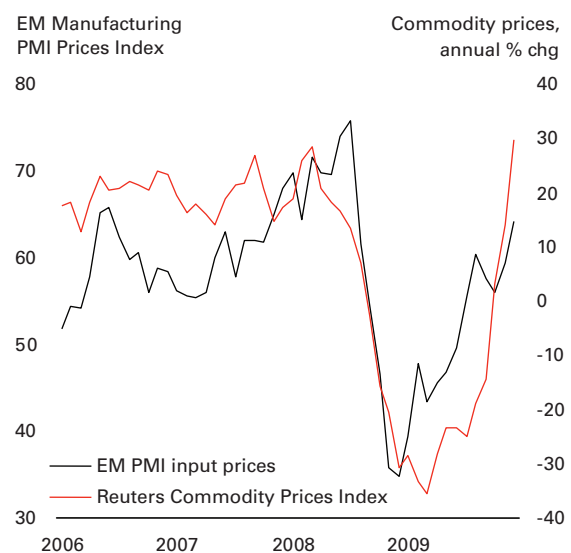
Rising backlogs of work point to the development of capacity constraints, and shortages of both goods and services helped raise pricing power among suppliers in the latter half of 2009. The inventory cycle has played a role here. Suppliers' delivery times have started to lengthen due to the fact that stock levels were cut very sharply during the downturn as firms (and their suppliers) sought to reduce overheads and hunker-down for a prolonged, deep recession (chart 17). Together with steep cuts in employment, this has meant capacity constraints have developed in recent months as companies have struggled to cater for rising demand in the short-term.

The impact on commodity prices of increased purchasing by manufacturers has been particularly dramatic. The amount of goods bought by emerging market manufacturers for use in production was growing at the fastest rate for over two years by the end of 2009, fuelling a surge in raw material prices. Oil doubled in price over the year. Copper – a benchmark commodity – rose 127%. The Economist's commodity price index ended the year on a new high, up 40% on a year ago – the fastest rate of increase since 1994, while Reuters' commodity price index was up 30%. Emerging market producers, due to their greater appetite for raw materials, consequently saw their input costs rise faster than manufacturers in the developed world during final months of 2009 (chart 11).

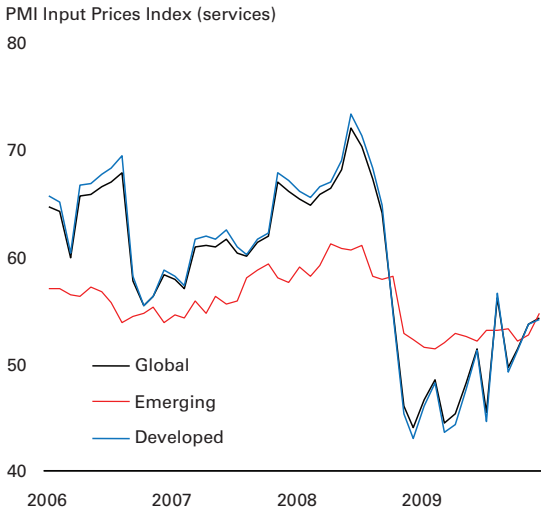
**Chart 11: Input prices**



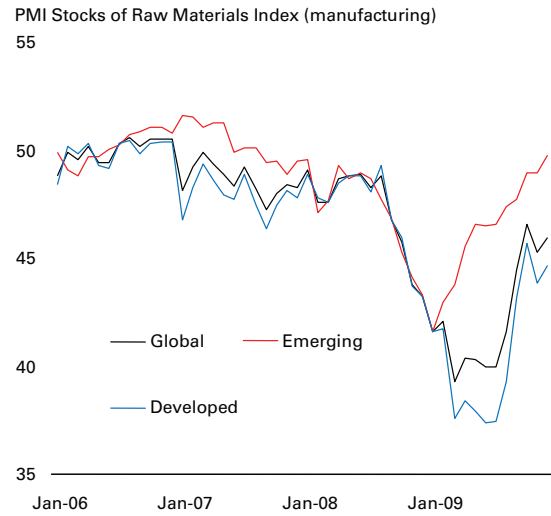
**Chart 12: Commodity Prices**



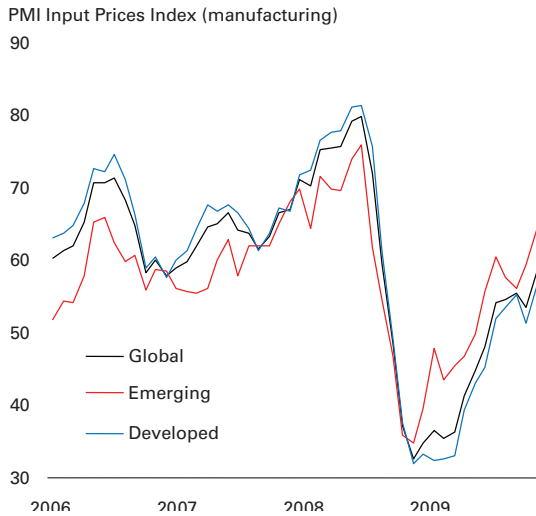
**Chart 13: Service sector costs**



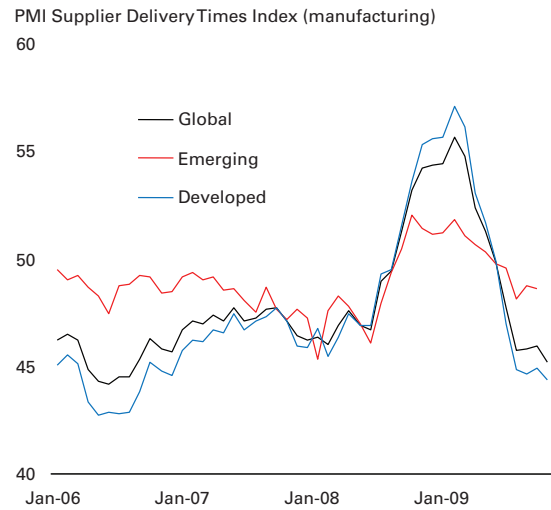
**Chart 16: Stocks of inputs**



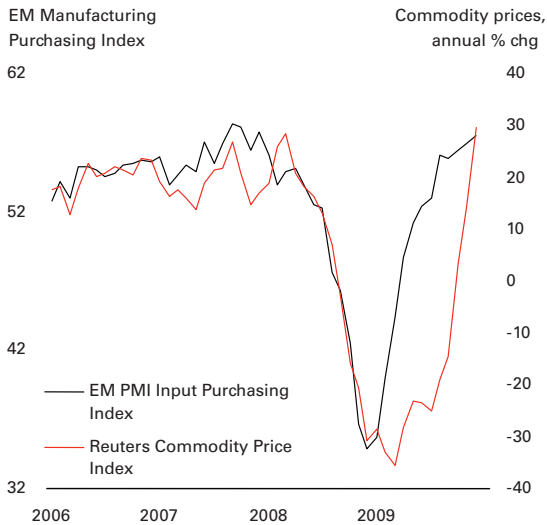
**Chart 14: Producer prices**



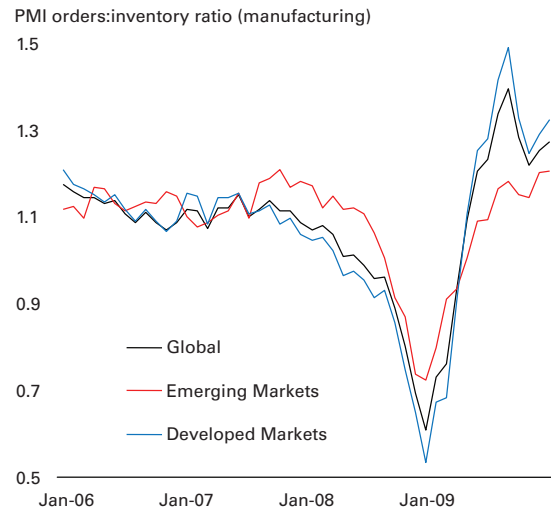
**Chart 17: Suppliers' delivery times**



**Chart 15: Purchasing and prices**



**Chart 18: Orders: inventory ratio**





## Background Information

### The Survey

The HSBC Emerging Markets Index (EMI) is a weighted composite indicator derived from national Purchasing Managers' Index (PMI) surveys in the emerging markets of Czech Republic, Hong Kong, Israel, Mexico, Poland, Singapore, South Africa, South Korea, Taiwan, Turkey and the increasingly important BRIC economies of Brazil, Russia, India and China. These surveys collectively track business conditions in over 5,000 reporting companies.

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.

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.

### Data Sources

Country/Region	Producer:
Brazil	Markit
Russia	Markit
India	Markit
China	Markit
South Korea	Markit

Taiwan	Markit
Hong Kong	Markit
South Africa	BER
Singapore	SIPMM
Israel	IPLMA
Turkey	Markit
Poland	Markit
Czech Republic	Markit
Mexico	IMEF/HSBC

### HSBC

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 8,500 offices in 86 countries and territories in Europe, the Asia-Pacific region, the Americas, the Middle East and Africa. With assets of US\$2,422 billion at 30 June 2009, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

For further information please visit [www.hsbc.com](http://www.hsbc.com)

### About Markit

Markit is a leading, global financial information services company with over 1,400 employees. The company provides independent data, valuations and trade processing across all asset classes in order to enhance transparency, reduce risk and improve operational efficiency. Its client base includes the most significant institutional participants in the financial market place. For more information, see [www.markit.com](http://www.markit.com)

### About 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 26 countries and key regions including the Eurozone and BRIC. 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.

#### WARNING

Whilst every effort has been made in the preparation of this report to ensure accuracy of the statistical and other contents, the publishers and data suppliers cannot accept any liability in respect of errors or omissions or for any losses or consequential losses arising from such errors or omissions. The information provided in this report is not intended as investment advice and investors should seek professional financial advice before making any investment decisions.







**[www.hsbc.com/emergingmarketsindex](http://www.hsbc.com/emergingmarketsindex)**

Issued by HSBC

We are a principal member of the HSBC Group, one of the world's largest banking and financial services organisations with around 8,500 offices in 86 countries and territories.

©HSBC Holdings, plc  
HSBC Holdings plc  
8 Canada Square  
London E14 5HQ.

©HSBC Bank plc 2010. All Rights Reserved.