

HSBC Emerging Markets Index

Emerging markets growth hits two year high, says HSBC index

Key points

- **HSBC Emerging Markets Index jumps to 56.1 in Q4 2009.**
- **Strong China output growth to bolster Australian economy**
- **Index confirms emerging markets as leading global economic recovery.**
- **Manufacturing exports show largest gain for nearly five years.**
- **Emerging markets not reliant on developed economies.**

Summary

Manufacturing and services output in emerging market economies surged in the final quarter of 2009 at the fastest rate since Q4 2007, the latest HSBC Emerging Markets Index (EMI) shows. This leap in production, driven by exports and rising demand, positions emerging nations as leaders of the global economic recovery.

The improvement in emerging markets output was recorded predominantly in manufacturing where the Q4 increase in export orders was the largest since Q1 2005, signalling a strong revival in emerging market trade flows. The expansion of services activity, meanwhile, was the best since Q2 2008.

In the final quarter of 2009, the HSBC EMI rose to 56.1, up from 55.3 in the third quarter and significantly higher than a year ago when the index hit a trough of 43.8.

Stephen King, HSBC's Chief Economist, said: *"The data shows that the trend we first identified in October 2009 is gaining momentum - emerging nations are going from strength to strength and a global recovery is likely to be emerging markets-led. Drivers of the global economy continue to shift to the East and we are seeing emerging nations becoming increasingly dependent on each other rather than on the economies of developed countries."*

China is proving pivotal to the fortunes of emerging nations. Continued Chinese demand for commodities and other goods is keeping prices high, thereby bolstering the export earnings of other emerging nations. This, in turn, provides commodity-producing countries with a buffer against the economic vagaries of Western nations.

According to Frederic Neumann, HSBC's Senior Asia Economist: *"The surge of economic activity in emerging markets bodes well for the Australian economy in 2010. The continued demand for raw materials from emerging markets will help underpin Australia's ongoing export boom, providing a critical boost to the overall economy."*

"Indeed, leading indicators point to an ongoing acceleration of growth in China, Australia's largest export market as of October 2009. With the Chinese still ramping up demand, both local investment in the resource sector and shipments overseas will bolster the Australian economy and support economic growth."

Despite easing from the previous quarter, Chinese output growth remained robust in Q4. India came a close second where, like Brazil and Russia, growth also accelerated in Q4. Of the four largest countries in the emerging world, Russia posted the weakest growth but still reported its largest rise in overall activity since Q3 2008.

To meet this growth in activity, employment is picking up. Job creation in emerging markets hit a two-year high in Q4 with manufacturing again reporting a significantly stronger increase than services (a reaction to more aggressive job cutting by manufacturers earlier in the year). Chinese employment growth hit a record high, followed closely by Brazil. A more modest rise was reported in India, while employment continued to fall in Russia.

The HSBC EMI is calculated using the long-established PMI data produced by global financial information services company Markit. HSBC announced last year a partnership with Markit to sponsor and produce a number of emerging market PMIs.

The HSBC EMI will be released quarterly and is available via:

www.hsbc.com/emergingmarketsindex

The next HSBC EMI will be released on 9th of April 2010.

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Notes to Editors:

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.

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HSBC in Emerging Markets:

- HSBC's birthplace was in Hong Kong and Shanghai in 1865.
- HSBC is the largest international Emerging Markets bank.
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- HSBC is the leading international bank in mainland China:
 - in 2008 HSBC generated PBT of US\$ 319m in mainland China;
 - 99 outlets in 23 cities;
 - 7 Rural Banks opened.
- HSBC is the leading international bank in the Middle East.
- HSBC has over 4,000 offices across Latin America.
- HSBC's Global Banking and Markets strategy is emerging markets-led, financing-focused:
 - 47% of H109's record PBT of US\$ 6.3bn was generated in emerging markets;
 - won key industry awards including 'Best Emerging Markets Bank' from Euromoney.
- HSBC has the largest international Commercial Banking franchise:
 - 3.1m customers of which 53% are in emerging markets;
 - In H1 09 57% of PBT was from emerging markets.

About HSBC's data provider

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

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.

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