

HSBC Emerging Markets Index Press Release

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HSBC Emerging Markets Index

Manufacturing powers emerging markets growth, says HSBC index

Key points

- **HSBC Emerging Markets Index jumps to 57.4 in Q1 2010.**
- **Emerging markets at vanguard of global economic recovery.**
- **Growth of output and new orders increased at sharpest rates since Q4 2007.**
- **Manufacturing output highest since data first available.**
- **Hints of inflationary pressures.**

Summary

Manufacturing output and new orders growth in emerging market economies recorded the highest expansion since Q2 2004, the latest HSBC Emerging Markets Index (EMI) shows.

The strong manufacturing result, combined with robust service industries data, reflects an economic outperformance compared to developed nations that reaffirms emerging markets as being at the vanguard of global economic recovery.

In the first quarter of 2010, the HSBC EMI rose to 57.4, up from 56.3 in the fourth quarter of 2009 and significantly higher than six quarters ago when the index hit a trough of 43.4. Manufacturing output rose to 58.6 from 56.5 and services business activity climbed to 56.5 from 56.1.

The improvement signalled the fourth consecutive quarterly increase in emerging markets manufacturing and service output and the fastest rate of expansion since the final quarter of 2007.

Stephen King, HSBC's Chief Economist, said: *"The latest HSBC EMI suggests that economic activity across the emerging nations is back to its best. And this performance is likely to continue. For North America and Europe, years of austerity lie ahead as nations attempt to regain control over fragile fiscal positions. Emerging nations mostly do not face the same constraints. However, the latest EMI readings also highlight future risks, most obviously stemming from inflationary pressures."*

Backlogs of work rose in Q1 2010, registering a slightly stronger increase compared to Q4 of last year. However, this growth is the largest seen in the four-and-a-half year history of the HSBC EMI series and suggests increasing numbers of companies will look to expand capacity in coming months. China reported the largest growth in backlogs as measured across both manufacturing and services, followed by Brazil.

And the rate of new orders for manufacturers continues to grow. The rate of expansion in Q1 was substantial, having accelerated to the most marked since Q2 2004. New export orders increased across nearly all countries/regions, with Russia the only exception. Strongest growth was recorded in Taiwan and Israel, followed by China, the Czech Republic, India and South Korea.

Inflation is still below that seen before the onset of the economic and financial crisis but average input costs rose to the greatest extent in six quarters during Q1 2010. The overall rise was led by manufacturing which saw input costs accelerate sharply from the previous quarter. As a result, overall output charges increased at the most marked rate since Q3 2008.

Mark McCombe, Chief Executive of HSBC in Hong Kong, said: *"Growth in India and mainland China is propelling activity in emerging markets. India posted the strongest gains in manufacturing and services output, closely followed by the Mainland. New exports also rose significantly in Taiwan and South Korea. And we can see that Hong Kong is at the centre of Asia's recovery. For example, the Hong Kong index (PMI) of new business from the Mainland is at a record high. We expect Hong Kong firms to step up capacity to keep pace with demand and take full advantage of Hong Kong's strategic position."*

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 quarterly HSBC EMI is available via: www.hsbc.com/emergingmarketsindex.

The next HSBC EMI will be released on 7 of July 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.
- In 2009, HSBC generated PBT US\$10.8bn in Asia, Latin America, and the Middle East.
- HSBC is the leading international bank in mainland China:
 - in 2009 HSBC generated PBT of US\$111m in mainland China;
 - 99 outlets in 23 cities;
 - 12 rural bank outlets 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:
 - 50% of 2009's record PBT of US\$10.48bn was generated in emerging markets;
 - won key industry awards including 'Best Global Bank' from Euromoney.
- HSBC has the largest international Commercial Banking franchise:
 - 3.1m customers of which 53% are in emerging markets;
 - In 2009, 57% of PBT was from emerging markets.

www.hsbc.com/emergingmarketsindex

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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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