

HSBC Emerging Markets Index Press Release

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HSBC Emerging Markets Index

Weakness persists in emerging markets economic growth, says HSBC index

Key points

- **HSBC Emerging Markets Index falls to 54.3 in Q3 2010.**
- **Slowdown most pronounced in manufacturing.**
- **India bucks trend.**
- **Activity outlook darkens.**
- **Inflationary pressures ease further.**

Summary

The rate of economic growth in emerging markets fell for the second consecutive quarter in Q3, the latest HSBC Emerging Markets Index (EMI) shows.

The slowdown was most pronounced in manufacturing where output growth, though still in positive territory, was the lowest recorded for more than a year. Brazil, Russia and China all reported falls in growth rates. Brazil reported the lowest increase for five quarters; Russia saw growth drop sharply to a one-year low while China's expansion fell to its weakest in a year-and-a-half.

Of the major emerging market economies, only India maintained a robust rate of expansion, far outpacing other countries. India reported a strong output rise in Q3, considerable new business growth and was one of only two countries not to record a softening in new export orders.

In the third quarter of 2010, the HSBC EMI dropped to 54.3, down from 56.0* in the second quarter of the year and off from a peak of 57.5 in Q1 2010. However, it remains significantly higher than in Q4 2008 when the index hit a trough of 43.4.

Stephen King, HSBC's Chief Economist, said: *"The powerful export momentum seen earlier in the year is fading fast. And business expectations in services have fallen away quickly so that they are now at their lowest since the depths of the global financial crisis. The third quarter release suggests that the pace of economic recovery has faded more quickly in the emerging world than in either the US or the Eurozone."*

"However, the longer-term story remains compelling and the chances are that productivity-driven growth in the emerging nations will continue to outpace the rate of expansion in the developed world. Structurally, emerging nations are likely to remain in the driving seat of global growth."

*Please note that historical revisions to the headline index reflect the inclusion of both Saudi Arabia and UAE PMI data in the EMI calculation.

Emerging market output rose for the sixth successive quarter in Q3 but the rate of growth dropped to the slowest in five quarters and to a pace below the average seen prior to the financial crisis. Services growth was the lowest for a year but remained strong compared to manufacturing, where output growth fell below the long-run trend. The manufacturing output index has fallen six points since reaching a record high in Q1 this year.

It was not all bad news for manufacturing growth. There were pools of light in central and eastern Europe – growth reached a six-year peak in the Czech Republic and a four-year high in Poland. Manufacturing growth in Russia was solid, helping to offset a sharp downturn in services growth. And in the Middle East, where two new HSBC Purchasing Managers' Indices have been launched and included in the EMI for the first time this quarter, Saudi Arabia saw activity rise sharply while the United Arab Emirates posted a solid rise in output.

But clouds appear to be forming on the horizon. In the services sector, Q3 expectations about companies' activity levels in a year's time fell to the lowest since the height of the financial crisis. Chinese service providers were the least optimistic.

Output price inflation showed the smallest rise in 2010 to date, slowing in both manufacturing and services. However, manufacturers reported widespread supply chain delays, mainly in China and Russia, allowing suppliers to hike prices as demand exceeded supply.

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 10 January 2011.

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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, UAE, Saudi Arabia and the increasingly important BRIC economies of Brazil, Russia, India and China. These surveys collectively track business conditions in over 5,800 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.

HSBC Holdings plc:

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. Its international network comprises some 8,000 offices in 87 countries and territories in Europe; Hong Kong; Rest of Asia-Pacific; the Middle East; North America and Latin America. With assets of US\$2,418 billion at 30 June 2010, HSBC is one of the world's largest banking and financial services organisations. HSBC is marketed worldwide as 'the world's local bank'.

HSBC in Emerging Markets:

- HSBC's birthplace was in Hong Kong and Shanghai in 1865.
- HSBC is the leading international Emerging Markets bank.
- In 1H10, HSBC generated PBT US\$7.0bn in Asia, Latin America, and the Middle East.
- HSBC is the leading international bank in mainland China:
 - in 1H10 HSBC generated PBT of US\$1.28bn in mainland China;
 - 102 outlets in 25 cities;
 - 13 Rural Bank outlets opened.
- HSBC is the largest and most widely represented international bank in the Middle East.
- HSBC has one of the largest networks and the second largest international bank footprint in Latin America (15 countries in the region).
 - 5th largest bank in Mexico in terms of assets and 4th in terms of deposits
 - 6th international bank in terms of assets in Latin America
 - HSBC Brazil is the 6th largest bank in terms of assets and deposits
 - Euromoney Best Debt House, top player in Debt Capital Markets (Mexico, Latin America, Brazil)
- HSBC's Global Banking and Markets strategy is emerging markets-led, financing-focused:
 - 45% of 1H10's PBT of US\$5.6bn was generated in emerging markets;

www.hsbc.com/emergingmarketsindex

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- o won key industry awards including 'Best Global Emerging Markets Bank' from Euromoney.
- HSBC has the largest international Commercial Banking franchise:
 - o 3.5m customers of which 52% are in emerging markets;
 - o In 1H10, 62% of PBT was from emerging markets.

About HSBC's data provider

Markit:

Markit is a leading, global financial information services company with over 1,900 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 please 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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