

HSBC Emerging Markets Index Q1 2012

Emerging market growth gathers pace in the first quarter of the year as manufacturing activity rebounds

Key points

- HSBC Emerging Markets Index rises to 53.4 in Q1 2012 on both manufacturing and services growth
- Further expansion in service activity to three-quarter peak; optimism rebounds across the board
- Manufacturers see marginal growth for the first time in three quarters; China lags other BRICs
- Another quarter of input price inflation extends run of rising costs to three years
- Policymaker attention turns to promoting growth after period of quantitative tightening

Summary

Emerging market output rose at its fastest rate in three quarters in Q1 2012 as a resumption of manufacturing growth supplemented continued expansion in service activity, the HSBC Emerging Markets Index (EMI) shows.

Delivering some of the *bounceback-ability* highlighted in the previous report, the EMI rose to 53.4, from 52.4 in Q4 2011, reflecting a sustained expansion of activity at service providers, with growth reaching a three-quarter peak. Manufacturers meanwhile saw output increase for the first time in three quarters, albeit at a marginal rate.

Consistent with the trend throughout 2011, service activity outperformed manufacturing. Underperformance in China was the main drag on manufacturing. Manufacturers in the world's second-largest economy reported reduced production for the third quarter in a row, with the pace of decline the sharpest in that sequence and the index reading measuring trends in factory output among the lowest on record.

China was the only one of the big-four emerging markets to register lower manufacturing production in Q1. India saw output growth surge to a three-quarter high, while Brazil recorded a rise in production for the first time since Q2 2011. On a less positive note, Russia saw production growth ease to within touch of the nine-quarter low registered in Q3 2011. Meanwhile, demand for goods produced by emerging market manufacturers on global markets remained muted in Q1, with new export business falling marginally. Only India recorded growth of new export orders among the largest emerging markets.

Stephen King, HSBC's Chief Economist, said: *"The latest HSBC EMI underlines the relative immunity of emerging nations to the economic permafrost of the developed world. Emerging nations still have many years of economic "catch-up" ahead of them, suggesting that their growth rates – driven by continuous urbanisation alongside productivity gains linked to improved access to global capital – should remain significantly higher than in the west. They also have considerably more policy ammunition to deploy, including rate and reserve ratio cuts and, if necessary, fiscal stimulus.*

"Despite two successive quarters of strength, EMI remains at a relatively low level, thanks largely to further deterioration in Chinese export orders but also domestic demand as a result of attempts to tame inflationary pressures through quantitative tightening. Emerging market inflation has generally eased outside India, despite the return of higher oil prices, and policymakers are returning their focus to promoting growth over limiting inflation.

"Emerging nations still have to balance the risks of too little growth against the threat – if not yet the reality – of commodities-driven inflation. But the outlook remains encouraging with China, India, Brazil and Mexico all set to be top ten global economies by 2050."

Robust rates of growth in service activity were recorded in Brazil (fastest in almost four years), India (three-quarter high), and Russia. Meanwhile service sector business optimism for the next 12 months was the highest in one-and-a-half years, with confidence improving across the board, albeit still at weaker levels than series averages. Service providers in Brazil were the most optimistic since Q4 2007 about the one-year business outlook.

Another quarter of input price inflation in Q1 extended the current period of rising costs to three years, although this was more pronounced in services than manufacturing and in India over China. While firms passed on some of these charges to customers, the rate was only modest compared with rising costs. Manufacturers noted a second successive quarter of output price discounting while service providers reported a slight uptick in inflation. China was the only one of the big-four to record a reduction in overall selling prices in Q1.

The HSBC EMI is calculated using the long-established PMI data produced by global financial information services company Markit. HSBC announced a partnership in 2009 with Markit to sponsor and produce a number of emerging market PMIs.

The HSBC EMI is released quarterly and is available via:

www.hsbc.com/emergingmarketsindex

The next HSBC EMI will be released on 9 July 2012.

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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.

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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 32 countries and also for key regions including the Eurozone. 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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