

Press Release

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Note: The HSBC Emerging Markets Index, a weighted composite indicator derived from national HSBC Purchasing Managers' Index™ (PMI™) reports in 16 emerging economies, is now being published on a monthly basis rather than quarterly.

HSBC Emerging Markets Index

Broad-based slowdown in emerging markets growth in February

Key points

- **HSBC Emerging Markets Index: 52.3** (prior 53.8)
- Weaker increases in output across China, India and Brazil
- Future output expectations improve

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the *PMI™* surveys, fell from 53.8 in January to 52.3 in February. That was the lowest figure since August 2012 and indicated a moderation in economic growth in global emerging markets.

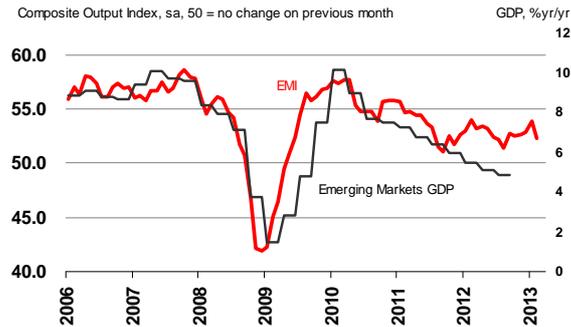
Data broken down by broad sector showed that the slowdown in the pace of expansion was broad-based across **service providers** and **manufacturers**. Goods production rose at the slowest rate since November, while services activity growth eased to a six-month low.

Among the largest economies covered, growth rates slowed in **China, India** and **Brazil** in February. Moreover, softer increases in output were evident in both the manufacturing and services sectors of these countries (except for India, where goods production growth accelerated).

New business growth in emerging markets slowed to a six-month low in February, and was also weaker than the trend shown over the course of 2012. All four BRIC economies registered slower increases in new business since January. Meanwhile, **employment** rose at the weakest rate in three months.

The rate of **input price inflation** in emerging markets accelerated to a ten-month high in February, with broadly similar increases seen in manufacturing and services. Meanwhile, **prices charged** for goods and services rose for the sixth successive month, albeit at a modest rate.

HSBC Emerging Markets Index



Data summary

Country/region	Coverage	Index	Feb-13	Jan-13	Feb-12
Emerging Markets	Composite*	Output	52.3	53.8	54.0
	Composite*	New Orders	▼	▲	▲
	Composite*	Backlogs	▼	▲	▲
	Composite*	Employment	▼	▼	▲
	Composite*	Input Prices	▲	▲	▲
	Composite*	Output Prices	▲	▲	▲
	Composite*	Future Output	▲	▲	n/a
Emerging Markets	Services	Activity	▼	▲	▲
Emerging Markets	Manufacturing	Output	▼	▲	▲
China	Composite*	Output	51.4	53.5	51.8
India	Composite*	Output	54.8	56.3	57.8
Brazil	Composite*	Output	52.9	54.9	55.5
Russia	Composite*	Output	54.9	54.8	53.7

▲ Above 50, rising
▼ Above 50, falling
▶ Above 50, unchanged
▲ Below 50, rising
▼ Below 50, falling
▶ Below 50, unchanged

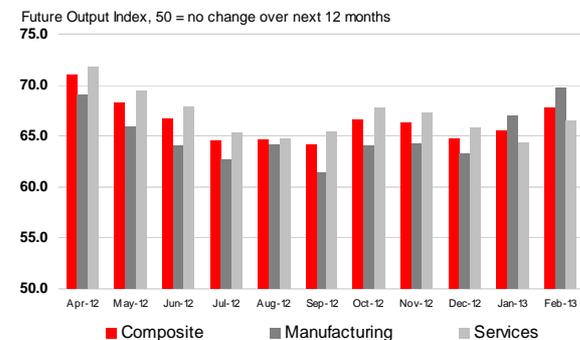
*Manufacturing & Services

Business expectations

The **HSBC Emerging Markets Future Output Index** is a new series tracking firms' expectations for activity in 12 months' time. The Index rose for the second month running in February, to its highest since May 2012. This was largely driven by improving sentiment in the manufacturing sector, where the Future Output Index was the highest in 11 months of data collection to date. Business expectations at service providers were the strongest in three months.

See page 3 for national analysis of business expectations

Emerging Markets Future Output Index



Comment

Murat Ulgen

HSBC Chief Economist, Central and Eastern Europe and Sub-Saharan Africa:

"Emerging Market economies continued to expand in February but the pace of growth lost steam. The slowdown appears to be broad-based across manufacturing and services, with BRIC activity moderating after a promising start to the new year. The February EMI report suggests the softening in new orders was felt across the BRIC economies, particularly for new export orders in the manufacturing industry. The improvement in employment conditions was weak and marginally slower than the previous two months. The fall in the index shows that for now growth is still the big issue for emerging markets and that for many economies, inflation is set to remain a secondary issue.

"We see two scenarios here. Either the emerging markets will wobble along, buffeted by worries in the developed world, be it US fiscal issues, lingering structural and political challenges in the Eurozone, or the continued deluge of capital inflows, set to be boosted further thanks to Japanese monetary stimulus. In that scenario, external headwinds may restrain the mighty EM growth engine. Alternatively, the current slowdown will prove temporary as the inventory cycle works its way through and improved underlying fundamentals bring back the days of strong growth.

"For now, we lean towards the second scenario. In fact, expectations of 'future output' by EM businesses, specifically by manufacturers, improved sharply in February as a sign of strong sentiment. Our hopes are mainly pinned on China, Asia and commodity producers in the Middle East, as LatAm and CEEMEA are yet to show more convincing strength."

Pablo Goldberg

Global Head of Emerging Markets Research

"A pickup in external headwinds suggests concerns might move from inflation to growth. The emerging world needs China to keep a strong pace of expansion."

Regional tweets

www.twitter.com/HSBC_EMI_PMI

Murat Ulgen

HSBC Chief Economist, CEE & Sub-Saharan Africa

"Benign inflation offers room for stimulus in CEE and Germany's resilience could help though only Russia and Turkey are doing well."

Simon Williams

HSBC Chief Economist, MENA

"Middle East oil producers are powering on, but Egypt's pain continues with high inflation now compounding the problem of weak growth."

Frederic Neumann

Co-Head of Asian Economic Research

"Softer Asian growth likely temporary. China's New Year weighed on activity, but new order to inventory ratio suggests output to hold up in coming months."

Andre Loes

HSBC Chief Economist, LATAM

"Expanding, but weaker than previous month. Mexico feeling the US moderation, while Brazil converges to a mild growth speed."

Detailed data summary: Output Index

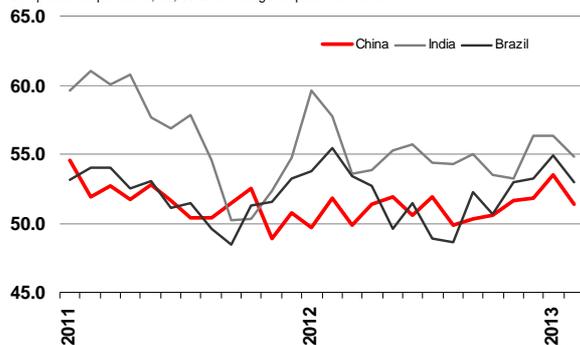
Country / region	Coverage	Nov-12	Dec-12	Jan-13	Feb-13
Emerging Markets	Composite	▲	▲	▲	▼
Brazil	Composite	▲	▲	▲	▼
China	Composite	▲	▲	▲	▼
India	Composite	▼	▲	▶	▼
Russia	Composite	▼	▼	▲	▲
Emerging Markets	Services	▼	▲	▲	▼
Brazil	Services	▲	▲	▲	▼
China	Services	▼	▼	▲	▼
India	Services	▼	▲	▲	▼
Russia	Services	▼	▼	▼	▲
Emerging Markets	Manufacturing	▲	▲	▲	▼
Brazil	Manufacturing	▲	▼	▲	▼
China	Manufacturing	▲	▲	▲	▼
Czech Republic	Manufacturing	▲	▼	▲	▲
Indonesia	Manufacturing	▼	▲	▼	▲
India	Manufacturing	▲	▲	▼	▲
South Korea	Manufacturing	▲	▲	▼	▲
Mexico	Manufacturing	▲	▲	▲	▼
Poland	Manufacturing	▲	▲	▲	▼
Russia	Manufacturing	▼	▼	▲	▼
Turkey	Manufacturing	▼	▲	▲	▼
Taiwan	Manufacturing	▼	▲	▲	▼
Vietnam	Manufacturing	▲	▼	▲	▼
Egypt	Private sector*	▲	▼	▲	▲
Hong Kong	Private sector	▲	▲	▲	▼
Saudi Arabia	Private sector*	▼	▲	▼	▲
United Arab Emirates	Private sector*	▼	▲	▼	▲

▲ Above 50, rising
▼ Above 50, falling
▶ Above 50, unchanged
▲ 50, rising
▲ Below 50, rising
▼ Below 50, falling
▶ Below 50, unchanged
*Non-oil

Monthly focus point:

Growth slows in China, India and Brazil

Composite Output Index, sa, 50 = no change on previous month



Manufacturing

The rate of expansion in **China's** manufacturing sector eased in February. New orders rose for the fifth successive month, but at a modest pace. New export orders also increased at a fractional rate.

Brazilian manufacturing output increased for the sixth successive month, as companies stepped up production in response to rising levels of new work. Manufacturers generally cited improved domestic conditions as the main spur to growth, although some firms also benefited from a modest increase in new export orders.

The expansion of **Mexico's** manufacturing sector continued in February. However, the rate of growth was the slowest for over a year as both output and new orders increased at weaker rates. Manufacturers meanwhile took a cautious approach to hiring. The rate of input cost inflation was the fastest since last June.

Reflective of higher levels of total new business, production in the **Indian** manufacturing sector rose during February. The pace of growth was solid, and faster than that seen in January. Purchasing activity expanded at the quickest rate in nine months.

Output in the **South Korean** manufacturing sector fell slightly during February. Companies continued to report challenging economic conditions, although new orders increased and firms raised purchasing at the fastest rate in ten months, suggesting higher output in the coming months. Meanwhile in **Taiwan**, output growth nearly stagnated as new orders rose only slightly.

In South East Asia, goods production in **Vietnam** fell for the first time in four months, while a flat trend was registered in **Indonesia**. Moreover, new export orders declined in both countries.

Growth momentum in the **Russian** manufacturing sector was broadly maintained in February. Domestic markets drove new business growth as new export orders stagnated, continuing the flat underlying trend shown since the second half of 2012.

Poland's manufacturing economy remained in contraction in February as both output and new business continued to fall. Factory gate prices declined at the fastest rate since July 2009 as companies attempted to stimulate demand. Meanwhile in the **Czech Republic**, business conditions showed signs of recovery as new orders increased for the first time since March 2012.

February data signalled a further rise in output and new orders at **Turkish** manufacturing companies, while payroll numbers increased further. Moreover, firms raised their prices at the fastest rate since October 2011.

In the Middle East, manufacturing data derived from PMI non-oil economy surveys in **Saudi Arabia** and the **United Arab Emirates** indicated sustained output growth in both countries in February. That said, new business expansion weakened to the slowest in seven and 14 months respectively. Meanwhile in **Egypt** production fell for the fourth month running, albeit at the slowest rate since November.

Business expectations

Country/region	Coverage	Index	Feb-13	Jan-13
Emerging Markets	Composite*	Future Output	▲	▲
Emerging Markets	Services	Future Activity	▲	▼
Emerging Markets	Manufacturing	Future Output	▲	▲
China	Composite*	Future Output	▲	▲
India	Composite*	Future Output	▶	▼
Brazil	Composite*	Future Output	▲	▼
Russia	Composite*	Future Output	▼	▲

▲ Above 50, rising ▲ Below 50, rising
▼ Above 50, falling ▼ Below 50, falling
▶ Above 50, unchanged ▶ Below 50, unchanged

*Manufacturing & Services

Brazil's combined manufacturing and services economy registered the strongest degree of positive sentiment in four months in February and the highest among the BRICs, in contrast to January when sentiment had weakened.

Chinese business expectations brightened again in February, with the strongest degree of positive sentiment since April 2012, the first month of data collection for the combined manufacturing and services future output series.

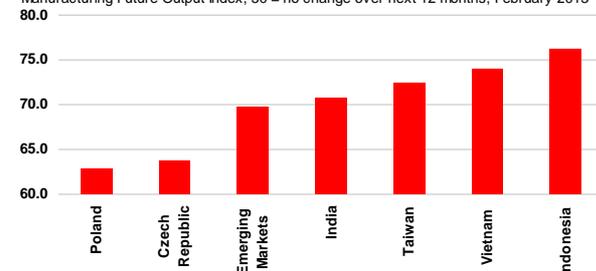
In contrast, the 12-month output outlook moderated in **Russia** to the weakest in six months, while the strength of business expectations was unchanged since January in **India**.

In the Middle East, non-oil private sector business expectations were strongly positive in **Saudi Arabia** and the **United Arab Emirates**. Private sector companies in **Egypt** also forecast output growth over the next 12 months.

Manufacturing output expectations for the next 12 months improved in January in the majority of economies surveyed. **Mexico, Indonesia** and **Vietnam** held the strongest overall expectations among the economies covered by manufacturing PMI surveys. The weakest outlooks were registered in **Poland** and the **Czech Republic**.

Manufacturers in Asia more upbeat than competitors in Central Europe

Manufacturing Future Output Index, 50 = no change over next 12 months, February 2013



Further analysis

For more PMI survey findings, please visit

<http://www.hsbc.com/hsbc-com/news-and-insight/emerging-markets>

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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 following economies:

- China
- South Korea
- Taiwan
- Hong Kong
- Vietnam
- Indonesia
- India
- Brazil
- Mexico
- Turkey
- United Arab Emirates
- Saudi Arabia
- Egypt
- Russia
- Poland
- Czech Republic

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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