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

Emerging market output edges higher in August

Key points

- **HSBC Emerging Markets Index: 50.7** (prior 49.5)
- Manufacturing output flat despite slight rise in Chinese production
- Business expectations at five-month high

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, recovered from July's post-crisis low in August, but signalled only a marginal rise in output across global emerging markets. The EMI rose from 49.5 to 50.7, the third-lowest figure in over four years. That said, it was the first rise in the headline figure since March.

Manufacturing output was flat in August, as a fractional rise in China was weighed down by declines in other Asian economies and Brazil. Growth of services activity remained weak.

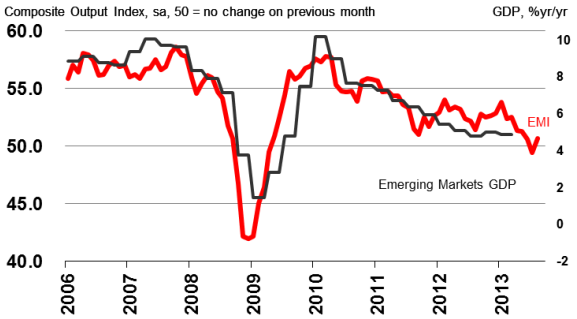
Of the four largest emerging economies, **China** and **Russia** posted mild increases in output following declines in July. **Brazil** registered a further marginal drop in activity, while **India** posted the steepest rate of decline since March 2009.

Growth of new business resumed following July's contraction. The rate of expansion was only marginal, however, with manufacturing new orders little-changed on the month.

Employment declined further in August. The manufacturing workforce shrank for the fourth month running, while service sector staffing declined for the first time in over four years, albeit marginally.

Inflationary pressures picked up slightly in August, with input prices increasing at the fastest rate in six months. Moreover, output prices rose for the first time in five months.

HSBC Emerging Markets Index



Data summary

Country/region	Coverage	Index	Aug-13	Jul-13	Aug-12
Emerging Markets	**Composite***	**Output**	**50.7**	**49.5**	51.4
	Composite*	New Orders	▲	▼	▼
	Composite*	Backlogs	▲	▼	▼
	Composite*	Employment	▼	▼	▲
	Composite*	Input Prices	▲	▲	▲
	Composite*	Output Prices	▲	▲	▼
	Composite*	Future Output	▲	▲	▲
Emerging Markets	**Services**	**Activity**	▲	▼	▼
Emerging Markets	**Manufacturing**	**Output**	▲	▼	▼
China	Composite*	Output	51.8	49.5	49.9
India	Composite*	Output	47.6	48.4	54.3
Brazil	Composite*	Output	49.7	49.6	48.6
Russia	Composite*	Output	51.4	48.7	53.0

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

*Manufacturing & Services

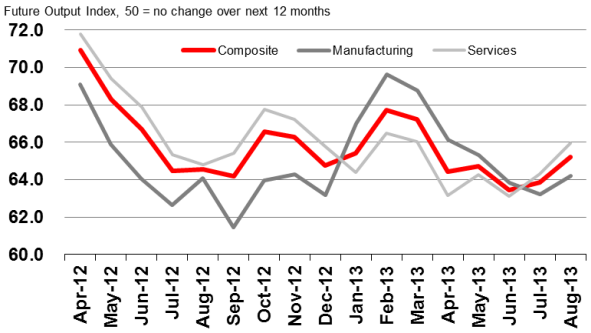
Sources: HSBC, Markit.

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 to the highest since March, but remained weaker than its historic 17-month trend level. Output expectations at manufacturers were slightly weaker than those at service providers. Among the four largest emerging economies, sentiment was strongest in Brazil and weakest in China.

See page 3 for more analysis on business expectations

Emerging Markets Future Output Index



Comment

Murat Ulgen
HSBC Chief Economist, CEE & Sub-Saharan Africa

"Emerging market activity turned positive again in August, after losing traction in every month since April, and experiencing outright contraction in July. This was due to modest improvements in business conditions in China and Russia, helping to offset a steep deterioration in India and a marginal worsening in Brazil. Manufacturing output was unchanged and services activity was soft, both following a similar diverging pattern within the BRIC club. Of particular concern was job shedding in Chinese service sectors at the fastest pace since late-2008, adding to an already deteriorating labour market trend in manufacturing over the past five month.

"Emerging economies are still faced with headwinds, which is evident in weak export orders, despite signs of life in the industrialised world. However, the fact that China's PMI is back above 50 is clearly welcome news, given Asia's ever greater dependence on the world's second-largest economy. China could show further improvement in the near term as the impact of targeted fiscal measures plays out in full and companies continue restocking.

Meanwhile, a group of large emerging economies including India, Indonesia, Brazil and Turkey is grappling with deeper supply-side problems, owing to low domestic savings, infrastructure bottlenecks and loss of competitiveness with rising unit labour costs. History suggests the resulting current account deficits generally unwind with a sharp retrenchment in domestic demand as the tides turn on cheap external funding. Regaining export competitiveness usually takes longer and requires stringent structural reform efforts. In sum, business is far from as usual in the emerging world and investors could become more selective."

Pablo Goldberg
Global Head of Emerging Markets Research

"EM economies fail to see a lift from stronger growth in developed markets. Weak domestic dynamics appears to be a stronger driver."

Regional tweets

www.twitter.com/HSBC_EMI_PMI

Simon Williams
HSBC Chief Economist, MENA

"No recovery yet for Egypt, but Gulf growth still strong despite political risk."

Frederic Neumann
Co-Head of Asian Economic Research

"Asian manufacturers can exhale amid better orders but FX turmoil showing in India and Indonesia, which aren't out of the woods yet."

Andre Loes
HSBC Chief Economist, LATAM

"Modest expansion in Mexico, while second month of overall contraction reinforces perspective of a 3Q fall in production in Brazil."

Murat Ulgen
HSBC Chief Economist, CEE & Sub-Saharan Africa

"CEE is piggybacking on eurozone recovery, looking better in comparison. Turkey faces headwinds as global liquidity deteriorates."

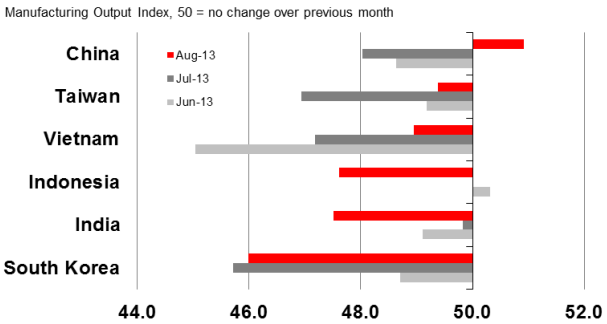
Detailed data summary: Output Index

Country / region	Coverage	May-13	Jun-13	Jul-13	Aug-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, falling
▲ Below 50, rising
▼ Below 50, falling
▲ 50, rising
*Non-oil

Sources: HSBC, Markit.

Asian manufacturing remains weak despite pick-up in China



Manufacturing summary

Chinese manufacturers signalled the first expansion of output in three months in August amid signs of improved market conditions. That said, the rate of growth was only slight. New orders increased marginally, but new export orders declined for the fifth consecutive month. Weak client demand in Europe and the US was said to be behind the latest reduction in new business from abroad.

Latest data signalled that operating conditions in **Taiwan's** manufacturing sector stabilised in August, following three months of deterioration. Output declined marginally, while new orders also decreased at a slower rate. Employment increased for the third month in a row.

In **South Korea**, manufacturing output and new orders both fell for the third consecutive month, though the rates of decline slowed marginally. Contractions in shipbuilding and the construction industry emerged from the survey as key factors behind diminished production.

Business conditions in the **Indian** manufacturing sector deteriorated during August for the first time in over four years, with both output and new orders falling at faster rates. New export orders also declined, ending an 11-month sequence of growth.

August data highlighted an overall deterioration in the **Indonesian** manufacturing sector, as output, new orders and export business all contracted. New export business contracted for the third month running, while payroll numbers fell at a survey-record rate. Meanwhile in **Vietnam**, August's survey signalled a near stabilisation of the manufacturing sector. Output and new orders continued to fall, but at marginal rates, while there was a survey-record increase in employment.

Brazilian manufacturing business conditions continued to deteriorate in August, with further declines in output and new orders reported by monitored companies. That said, the rate of contraction in production slowed to a fractional pace. In contrast, **Mexican** manufacturing business conditions improved, following a contraction in July. Both output and new orders increased over the month, albeit at weak rates.

The **Czech Republic's** manufacturing recovery gained momentum in August with a sharp rise in new orders, boosted by new export business. This led to a faster increase in production and sustained workforce growth. Conditions in the **Polish** manufacturing sector also improved with output, new orders, new export business and purchasing activity all growing at faster rates, while employment increased for the first time in 12 months. **Russian** goods producers fared less well, however. The downturn in manufacturing continued despite a pick-up in output. New orders rose modestly, but new export orders stagnated and employment declined at the fastest rate in four years.

PMI data signalled a third consecutive expansion in production at **Turkish** manufacturers in August, underpinned by a marginal rise in new business. New export orders also increased and purchasing activity rose, although only fractionally.

Middle East non-oil economy

Non-oil producing private sector firms in **Egypt** reported a sharp contraction in output in August. The decline in activity was in line with a substantial fall in incoming new business, which was commonly attributed to political instability and ongoing demonstrations in the country. New export orders also declined markedly, with the rate of decrease the second-strongest recorded in the series history. Concurrently, suppliers' delivery times worsened for the ninth month in succession.

August data signalled a further improvement in operating conditions faced by **Saudi Arabia's** non-oil producing private sector firms. Output rose at an accelerated pace, supported by a solid rise in new order intakes. The latest increase was partly driven by improved market conditions, and increased marketing and sales efforts. Meanwhile, client demand from foreign markets also strengthened.

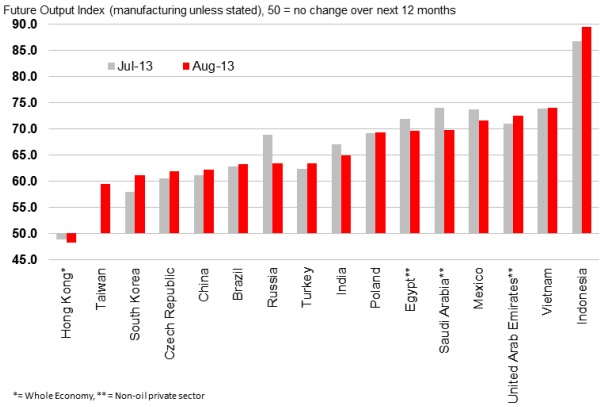
August data signalled accelerated output growth at non-oil producing private sector companies in the **UAE**. New orders continued to rise sharply, and workforce numbers increased for the twentieth month running.

Business Expectations

Output expectations strengthened at manufacturers across many emerging markets in August. In Asia, goods producers in the south east, namely **Indonesia** and **Vietnam**, were more optimistic than their counterparts further north in **China**, **South Korea** and **Taiwan**, although the latter posted the biggest improvement in sentiment of all economies since July. **Indian** manufacturing sentiment was also stronger than that seen in north east Asia.

Among the non-Asian economies covered, **Mexico** registered the strongest manufacturing outlook, followed by **Poland**, **Turkey**, **Russia** and **Brazil**.

In the Middle East, the 12-month outlook for non-oil private sector activity moderated in **Egypt**, reflecting political uncertainty. **Saudi Arabia** also registered weaker sentiment than in July, while confidence picked up slightly in the **UAE**.



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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. Around 7,500 firms are surveyed in total.

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.

Note on revisions: The EMI figure is subject to one revision post-release. This reflects the addition, post-release, of manufacturing PMI data produced by third parties, including Israel (produced by IPLMA), Singapore (SIPMM) and South Africa (BER), and non-manufacturing PMI data for Mexico (produced by IMEF). Markit does not have access to the latest figures for these surveys prior to publication.

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We serve around 55 million customers through our four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking. Our network covers 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America. Our aim is to be acknowledged as the world's leading international bank.

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