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 17 emerging economies, is now being published on a monthly basis rather than quarterly.

HSBC Emerging Markets Index

Emerging market growth picks up at start of Q4

Key points

- **HSBC Emerging Markets Index: 51.7** (prior 50.7)
- Strongest rise in Chinese goods exports for 11 months
- New South Africa PMI signals renewed growth

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, signalled the fastest rise in output in seven months in October. At 51.7, the EMI remained well below its long-run trend level of 54.0. But the latest figure represented an improvement on the trend shown over Q3 (50.3), the lowest of any quarter since Q1 2009 during the global financial crisis.

Both **manufacturing** production and **services** activity registered stronger rates of expansion in October, reaching six- and seven-month highs respectively.

China registered a stronger increase in output in October. Notably, **new export orders** at manufacturers rose at the fastest rate in nearly a year. Of the other largest emerging economies, **Russia** and **Brazil** posted sharper increases in activity, but **India** registered a fourth successive decline in output. Meanwhile, new PMI data for **South Africa** signalled a recovery in private sector growth, following a contraction in September.

New business growth across global emerging markets also rose at the strongest rate in seven months in October. This led to the first overall rise in **employment** in four months, and a stable trend in **backlogs of work**.

The rate of **input price** inflation eased in October, but was the second-fastest in eight months. **Output prices** rose for the third month running, but at a slower rate than in September.

HSBC Emerging Markets Index

Data summary

Country/region	Coverage	Index	Oct-13	Sep-13	Oct-12
Emerging Markets	**Composite***	**Output**	**51.7**	**50.7**	52.4
	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	51.2	50.5
India	Composite*	Output	47.5	46.1	53.5
Brazil	Composite*	Output	52.0	50.7	50.7
Russia	Composite*	Output	53.3	51.2	56.6

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

*Manufacturing & Services

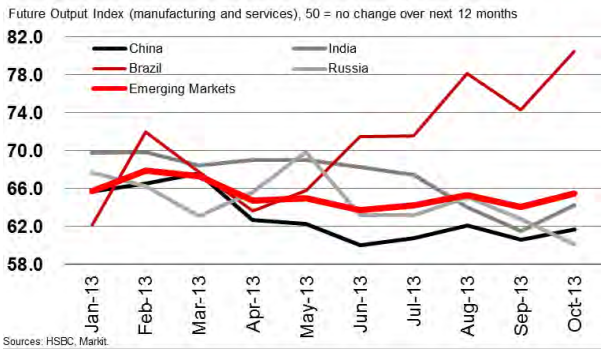
Sources: HSBC, Markit.

Business expectations

The **HSBC Emerging Markets Future Output Index** is a new series tracking firms" expectations for activity in 12 months" time. The index rebounded to a seven-month high in October, having hit a near-record low in September. Service sector business sentiment improved to an eight-month high, while the outlook for goods production was the weakest in three months. Among the largest emerging markets, **Brazil** registered the strongest sentiment, driven by buoyant services sector expectations. Output expectations also improved in **China** and **India**, but deteriorated in **Russia**.

See page 3 for more analysis on business expectations

Emerging Markets Future Output Index



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Comment

Simon Williams
HSBC Chief Economist, MENA

"After a soft summer, there are some grounds for cheer in the October EMI which shows growth in emerging market activity at its highest level since March 2013. The aggregate measures of emerging market output, new business and employment all printed above 50 and showed significant m-o-m gains for the third month in succession, suggesting that the bounce-back in activity and confidence is gaining speed. The survey also suggests that the pick up is broad based, with fifteen of the eighteen emerging markets covered by the PMI series showing an increase in m-o-m output.

The continued gains in China data are particularly encouraging, substantiating our view that fresh stimulus has helped growth find a floor. There are also strong October numbers in Brazil and Russia, with the latter recording its highest output growth number in a year. Though softening m-o-m, the strongest growth numbers continue to be recorded in high spending oil-rich economies of the Gulf. With tapering fears in abeyance for now and Europe out of recession, capital flows and external demand should support emerging market sentiment and performance through the year end.

Fragilities, however, remain. At under 52 points, the aggregate EMI headline score is up on its 2013 lows, but remains well below the 2010-12 average. Employment in both the manufacturing and service sectors remain subdued despite the gains in output, and price pressures persist. The pick-up in export orders, though of note, is patchy and looks lukewarm for this stage in the economic cycle. Our worries over emerging markets reliant on external funding for large fiscal and current account deficits persist despite reduced tapering fears. Indeed, of the "fragile-five" emerging market economies, Brazil and Indonesia recorded a modest pick-up in manufacturing activity from a low base, while Turkey and South Africa, decelerated and India contracted for a sixth consecutive month."

Pablo Goldberg
Global Head of Emerging Markets Research

"Positive start to Q4, with broad-based output growth and contained prices. Order and employment recovery suggests momentum should be sustained"

Regional tweets: www.twitter.com/HSBC_EMI_PMI

Simon Williams
HSBC Chief Economist, MENA

"Egypt finally stabilizing, but recovery will be laboured. High spending oil-states of the Gulf still showing strong growth, little inflation"

Frederic Neumann
Co-Head of Asian Economic Research

"Asia bouncing into the fourth quarter. Even Indonesia picked up speed. But employment is mixed amid still wobbly confidence"

Andre Loes
HSBC Chief Economist, LATAM

"Better 4Q start. Brazil and Mexico show mild industrial growth, but Mexican bounce looks more robust; Brazil strong on services."

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

"Better outlook for the region. The new composite South Africa PMI also looks good but we feel comfortable only with CEE's recovery"

Detailed data summary: Output Index

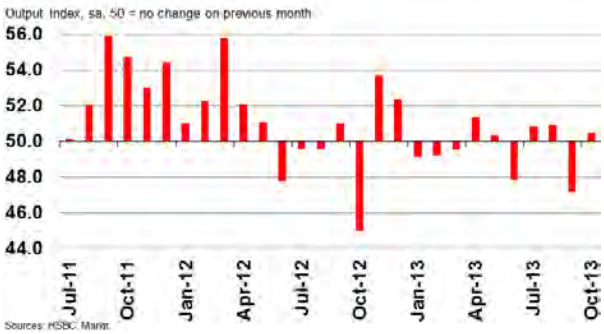
Country / region	Coverage	Jul-13	Aug-13	Sep-13	Oct-13
Emerging Markets	**Composite**	▼	▲	►	▲
Brazil	Composite	▼	▲	▲	▲
China	Composite	▼	▲	▼	▲
India	Composite	▼	▼	▼	▲
Russia	Composite	▼	▲	▼	▲
Emerging Markets	**Services**	▼	▲	▼	▲
Brazil	Services	▼	▼	▲	▲
China	Services	►	▲	▼	▲
India	Services	▼	▼	▼	▲
Russia	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*	▼	▲	▲	▼
South Africa	Private sector	▲	▲	▼	▲
United Arab Emirates	Private sector*	▲	▲	▲	▼

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

Sources: HSBC, Markit.

Chinese manufacturing export growth picks up

South African output stabilises



Manufacturing

Output at manufacturing plants in **China** increased for the third month running in October, and at the quickest pace since April. The expansion of output was accommodated by stronger client demand both at home and abroad, with new orders and new export orders rising at faster rates in October. Furthermore, it was the strongest expansion of new business from abroad in nearly a year, with a number of panellists citing greater demand from the US in particular.

South Korean manufacturing output grew in October, following a four-month sequence of contraction. Firms commonly attributed higher production to improvements in domestic economic conditions and expansions in demand from export markets such as the Middle East and Hong Kong. Meanwhile, output and new orders at **Taiwanese** manufacturers both rose at the fastest rates since March 2012.

The **Indonesian** manufacturing economy gained momentum in October. Production growth accelerated to the fastest since April, driven by a rebound in new work. Meanwhile, **Vietnam's** manufacturing sector experienced a return to output growth during October, as new orders rose at a survey-record pace.

October data indicated falling levels of production and new orders in the **Indian** manufacturing economy, as the internal business climate remained tough. However, there was some positive news on the export front as foreign orders grew for the first time since July.

Operating conditions across **Brazil's** manufacturing economy improved in October, albeit fractionally. Despite stagnant new orders and a faster decline in export business, output rose at the quickest pace since May.

Mexico's manufacturing sector continued to stagnate in October, with business conditions improving only slightly since September. Although new orders continued to rise at a modest pace, both output and employment fell over the month.

October data signalled a further increase in production at **Turkish** manufacturing firms. New orders also rose, although at a slightly slower pace, while workforce numbers increased at the sharpest rate in eight months.

The **Russian** manufacturing sector registered improving business conditions in October driven by a resurgence in domestic demand. The volume of new orders rose at the fastest rate in eight months, leading to the strongest growth of output in a year. Weak export inflows continued to weigh on the sector, however, contracting at the fastest rate in over four years.

A survey-record increase in new export business was the highlight of October"s survey of **Polish** manufacturers. This supported further strong growth of both total new orders and output. Meanwhile, **Czech** goods production rose at the strongest rate in two-and-a-half years, driven by a further robust increase in new orders. Moreover, firms increased headcounts at the fastest rate since September 2011.

Middle East

October data signalled a return to output growth in **Egypt's** non-oil producing private sector, ending a 12-month period of contraction. New order intakes continued to decline, but only marginally. Meanwhile, employment levels fell at a weaker pace and the rate of overall input cost inflation eased to the weakest in the series history.

Elsewhere in the Middle East non-oil private sector, the latest survey results signalled a slowing in output growth in **Saudi Arabia**, with the rate of expansion the second-weakest recorded in the 51-month survey history. Slower output growth was also recorded in the **United Arab Emirates**, but new export orders increased at a record pace.

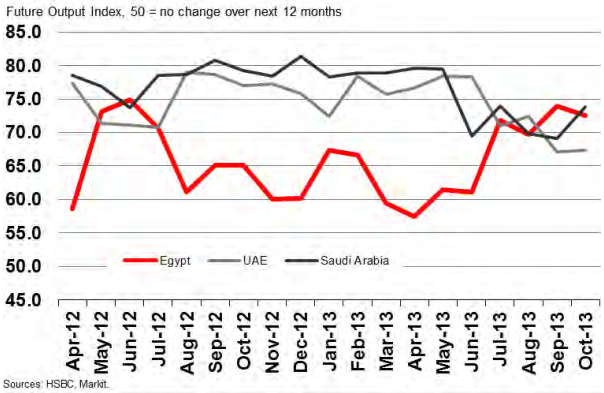
South Africa

HSBC"s new survey of the **South African** private sector signalled a marginal rise in activity in October, following a month of contracting output. New orders rose at the quickest rate since May. Anecdotal evidence suggested that improving market conditions and stronger consumer confidence both contributed to the rise in new business. However, respondents reported that unfavourable exchange rates and difficulties in European markets lead to a decline in export sales.

Business Expectations

Indonesia and **Vietnam** continued to register stronger manufacturing output expectations than all other economies surveyed in October. In contrast, the three weakest outlooks were held by goods producers in North East Asia, namely **South Korea**, **Taiwan** and **China**. **Mexican** manufacturers remained more confident than those in **Brazil**, while **Polish** and **Czech** goods producers held stronger expectations than their counterparts in **Russia**.

The 12-month outlook for private sector non-oil output in **Egypt** remained strongly positive in October, easing only slightly from September"s 15-month high. In contrast, expectations for non-oil activity in **Saudi Arabia** and the **United Arab Emirates** remained historically subdued.



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Notes to Editors:

The HSBC Emerging Markets Index (EMI) is a weighted composite indicator derived from *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
- South Africa
- 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 8,000 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 for Israel (produced by IPLMA) and Singapore (SIPMM). Markit does not have access to the latest figures for these surveys prior to publication.

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