HSBC Emerging Markets Index Press Release
Embargoed until: 00:01 (UK), 10 October 2012

HSBC Emerging Markets Index Q3 2012

Recovery in emerging markets remains elusive in Q3 as sluggish global trade hits growth

Key points

- **HSBC Emerging Markets Index eases to 52.1 in Q3 2012 on Brazil and China weakness**
- **Emerging markets manufacturing output falls as developed world woes hit demand**
- **Service sector grows but at weakest level for one year as Brazil stagnates**
- **Services optimism for the coming year at weakest level since survey began in 2005**
- **Policy responses provide springboard for recovery, albeit delayed on earlier expectations**

Summary

Emerging market growth continued to moderate in the third quarter of 2012 as sustained expansion in service sector activity was offset by a fall in manufacturing as global demand softened, the HSBC Emerging Markets Index (EMI) shows.

The EMI slipped to 52.1, from 53.2 in the second quarter, with the rate of emerging market growth at its weakest for a year and its second-slowest since Q2 2009, when the global economy began to recover from the 2008 financial crisis. Despite continued growth, service sector expansion touched its weakest level for a year while manufacturing output declined marginally, at a similar rate to the previous contraction seen in the final quarter of 2011.

Among the four largest emerging economies, Brazil and China underperformed India and Russia in the third quarter. Brazilian private sector firms noted a broad stagnation in both manufacturing and services activity. Service sector output failed to expand for the first time in three years while flat manufacturing at least represented a stabilisation following a modest decline during the second quarter. Chinese output rose only marginally, a consistent trend since the second half of 2011, while goods production fell for the fifth successive quarter.

Growth rates stabilised at sub-par levels in both India and Russia although Russian manufacturing demonstrated some resilience, registering the strongest performance in six quarters in terms of output growth and outperforming the county's service sector for the first time since Q1 2011. In contrast, Indian manufacturing posted its worst quarter in 2012, although growth in the service sector accelerated slightly.

Dr Murat Ulgen, HSBC's Chief Economist for Central and Eastern Europe and sub-Saharan Africa, said: "Emerging economies are being impacted by the misery of the developed world as the deteriorating global trade cycle, weaker external demand and falling new export orders hit manufacturing output and the services outlook. The loss of momentum also partly stems from domestic policy choices for restraint after a very resounding recovery in late 2009 and 2010. The end result is disappointment as the emerging world, in particular China, continues to surprise to the downside.

So where do we go from here? We are still tempted to see the loss of momentum in the emerging world as cyclical, rather than structural. As such, monetary and fiscal stimuli will likely have an impact on activity although this may take longer than usual as the structural problems in the developed world continue to weigh on trade and undermine the confidence of consumers and businesses around the globe. The much vaunted recovery in emerging markets may be delayed as a result.

This is a world of diminished expectations and emerging markets still present better opportunities. The world's big central banks have thrown a safety net under the financial system with the provision of unprecedented liquidity and the massive expansion of their balance sheets. It may help stop things from getting worse in the developed world, but that safety net also gives emerging markets a good springboard. That assumes policymakers do not repeat the mistakes of excessive credit-driven growth in the West, keep their balance sheets clean and their economies competitive with access to cheaper global capital and investments in productivity-boosting areas."

New export orders for emerging markets manufacturers fell for the third successive quarter across the world's emerging markets, representing the strongest decline since Q1 2009. Combined with the slowest increase in service sector new business for four quarters, the overall pace of new business was the weakest since Q2 2009.

Looking ahead, although manufacturing was mainly responsible for third quarter weakness, the longer-term outlook for the services economy deteriorated to its lowest level since the survey began in 2005. Service sector sentiment moderated across all of the four largest emerging economies, with Brazil posting the most substantial deterioration quarter-on-quarter. This was in marked contrast to the second quarter, when service providers were at their most optimistic for two years. China's service providers were still the least optimistic overall in the third quarter, while their Indian counterparts were the most confident.

The latest EMI revealed the weakest input cost inflation in over three years as the average cost of inputs to manufacturers fell for the first time since Q2 2009, driven largely by China which saw a fourth successive quarterly decline in prices. In the service sector, input cost inflation was the slowest in 11 quarters, with China the weakest amongst the four largest emerging economies.

With the moderation in economic growth across the emerging world during the third quarter, emerging market companies continue to be reticent regarding employment growth. The average rate of employment growth across both sectors was the joint-weakest since workforces resumed their rise in Q3 2009. Overall workforce growth was centred on the service sector, where the rate of growth was in line with the modest trend of the last five quarters. Conversely, manufacturers continued to trim their workforce, marking a fourth consecutive quarter of marginal job shedding.

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

www.hsbc.com/emergingmarketsindex

Issued by HSBC Holdings plc © 2012
Registered Office and Group Head Office:
8 Canada Square, London, E14 5HQ, United Kingdom
Web: www.hsbc.com
Incorporated in England with limited liability. Registered number 617987

For further information, please contact:

HSBC

Karen Ward, Global Economist
Telephone +44 20 7991 3692
Email karen.ward@hsbcib.com

HSBC Media Relations

Jezz Farr
Telephone +44 20 7991 3124
Email jezz.farr@hsbc.com

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, Indonesia, Vietnam, UAE, Saudi Arabia and the increasingly important BRIC economies of Brazil, Russia, India and China. These surveys collectively track business conditions in over 8,000 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:

HSBC is one of the world's largest banking and financial services organisations. With around 6,900 offices in both established and faster-growing markets, we aim to be where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfil their hopes and realise their ambitions.

We serve around 60 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 84 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.

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HSBC Holdings plc are held by over 221,000 shareholders in 134 countries and territories.

About HSBC's data provider

Markit:

Markit is a leading, global financial information services company with over 2,300 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

www.hsbc.com/emergingmarketsindex

Issued by HSBC Holdings plc © 2012
Registered Office and Group Head Office:
8 Canada Square, London, E14 5HQ, United Kingdom
Web: www.hsbc.com
Incorporated in England with limited liability. Registered number 617987

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 over 30 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.

Chris Williamson, Chief Economist
Telephone + 44 20 7260 2329
E-mail chris.williamson@markit.com

Caroline Lumley, Corporate Communications
Telephone +44 20 7260 2047
E-mail caroline.lumley@markit.com

www.hsbc.com/emergingmarketsindex

Issued by HSBC Holdings plc © 2012
Registered Office and Group Head Office:
8 Canada Square, London, E14 5HQ, United Kingdom
Web: www.hsbc.com
Incorporated in England with limited liability. Registered number 617987