

HSBC Emerging Markets Index Press Release

8 July 2010

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Emerging markets economic growth softens, says HSBC index

Key points

- **HSBC Emerging Markets Index slips to 55.8 in Q2 2010.**
- **Fragile developed markets hit emerging markets exports.**
- **Drop in manufacturing output growth balanced by expansion in services.**
- **Services employment growth at two-and-a-half year high.**
- **Inflationary pressures ease.**

Summary

Manufacturing growth in the emerging markets slowed sharply from a record pace set in Q1 of this year, the latest HSBC Emerging Markets Index (EMI) shows.

Although output remains above the long-term average, it is below the average seen before the financial crisis. This easing reflects a moderation in the rate of growth of new orders, especially for manufacturing exports. And with developed nations showing few signs of domestic demand and about to enter a period of fiscal retrenchment, world trade is likely to soften further.

In the second quarter of 2010, the HSBC EMI dropped to 55.8, down from 57.4 in the first quarter of the year. However, it remains significantly higher than in Q4 2008 when the index hit a trough of 43.4.

Stephen King, HSBC's Chief Economist, said: *"We are in a new phase of global economic development. Export gains for companies in the emerging world have failed to sustain the momentum seen in earlier quarters. The stellar recovery in economic activity across most of the emerging markets seen since the first half of 2009 finally hit a bump in the road. The good news is that emerging markets, having escaped the legacy of excessive debts, should not face the same kinds of financial constraints which will keep the lid on economic activity in the developed world in the years ahead."*

Services expanded at a faster rate than manufacturing for the first time since the onset of the financial crisis, suggesting that growth has become better balanced and indicating that domestic demand in the emerging world is holding up well even in the light of a faltering manufacturing performance.

Overall growth in both output and new orders weakened in China and Brazil but gathered pace in India and Russia. Indeed, China, for several quarters the main driver of emerging markets growth, has lost some of its shine. Exports across emerging markets grew at the slowest pace since Q3 last year, with China recording an especially steep downturn. Russia and Eastern Europe were the exceptions to the rule.

Companies in emerging markets took on additional staff in Q2 at the fastest rate since the end of 2007, in order to boost capacity and meet growing demand for goods and services. And in a further sign of the balancing of economic growth, headcounts rose at a faster rate in services than manufacturing, the former seeing the sharpest rise in payrolls for two-and-a-half years. Regionally, employment increased at slower rates in China and Brazil but improved in India and, particularly, in Russia.

The headline inflation numbers suggest fears of a substantial pick-up within the emerging world may now begin to fade. However, rates of inflation for both input and output prices were still faster than those seen in H2 2009 as a whole. Input price inflation remained considerable in manufacturing, reflecting both supply shortages and higher global commodity prices. Input costs increased the most in Russia, followed by India.

Frederic Neumann, HSBC's Co-Head of Asian Economics Research, said: *"The fall in the latest HSBC EMI clearly signals that economic expansion in emerging markets is moderating and for Australia's biggest trading partner, China, growth has certainly normalised. So while we are seeing a softer outlook for China, its economy is still expected to grow at 10 per cent this year, sustained by domestic demand. This, combined with persistently elevated commodity prices, should ensure the Australian economy also continues to grow at a healthy clip."*

"Indeed, the HSBC EMI reveals several encouraging signs in emerging markets: a pickup in service sector activity, suggesting that domestic demand in the emerging world is holding up, and fading inflation concerns. Notwithstanding the moderating growth in emerging markets, Australia is well-positioned to benefit from these positives as a developed economy that's increasingly tied to the fortunes of its emerging market neighbours."

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

The HSBC EMI will be released quarterly and is available via:

www.hsbc.com/emergingmarketsindex

The next HSBC EMI will be released on 7 October 2010.

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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 and the increasingly important BRIC economies of Brazil, Russia, India and China. These surveys collectively track business conditions in over 5,000 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.

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- HSBC's birthplace was in Hong Kong and Shanghai in 1865.
- HSBC is the largest international Emerging Markets bank.
- In 2009, HSBC generated PBT US\$10.8bn in Asia, Latin America, and the Middle East.
- HSBC is the leading international bank in mainland China:
 - in 2009 HSBC generated PBT of US\$111m in mainland China;
 - 100 outlets in 23 cities;
 - 12 Rural Bank outlets opened.
- HSBC is the leading international bank in the Middle East.
- HSBC has over 4,000 offices across Latin America.
- HSBC's Global Banking and Markets strategy is emerging markets-led, financing-focused:
 - 50% of 2009's record PBT of US\$10.48bn was generated in emerging markets;
 - won key industry awards including 'Best Global Bank' from Euromoney.
- HSBC has the largest international Commercial Banking franchise:
 - 3.1m customers of which 53% are in emerging markets;
 - In 2009, 57% of PBT was from emerging markets.

www.hsbc.com/emergingmarketsindex

This news release is issued by

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About HSBC's data provider

Markit:

Markit is a leading, global financial information services company with over 1,400 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, see www.markit.com

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 26 countries and key regions including the Eurozone and BRIC. 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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