

Press Release

Embargoed until: 00:01 (UK Time), 4th September 2014

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 hits highest since March 2013

Key points

- **HSBC Emerging Markets Index: 52.5** (prior 51.7)
- Chinese service sector rebounds since July
- Weak output growth in India and Russia, while Brazil contracts

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, rose to a 17-month high of 52.5 in August, from 51.7 in July. That signalled stronger growth of output across global emerging markets, led mainly by a sharper increase in Chinese service sector activity. The EMI remained below its long-run average of 53.8 (since late-2005), however.

Service sector output in emerging markets rose at a stronger rate in August, with growth almost matching June's 15-month high. **Manufacturing** output rose at a rate unchanged from July's eight-month high.

Among the largest emerging markets, **China** posted the fastest growth since March 2013. Output in **Russia** and **India** rose at weak rates, while a marginal contraction was signalled for the fifth month running in **Brazil**.

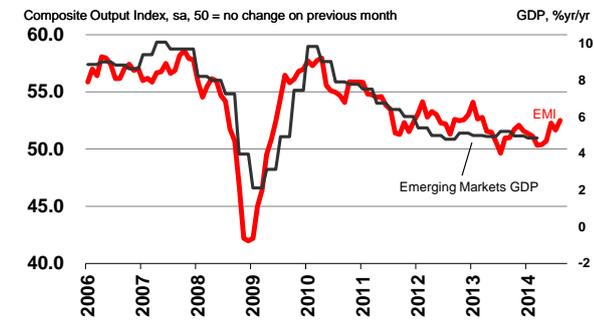
New business growth regained the momentum lost in July, and was the joint-fastest in nearly a year-and-a-half. That said, **backlogs** continued to decline marginally, signalling spare capacity. **Employment** was broadly stable, in line with the underlying trend shown throughout the past year-and-a-half.

Input price inflation reached a three-month low in August, reflecting a weaker rise in manufacturing input prices. Chinese goods producers reported lower input prices during the month, while input price inflation in Russia accelerated for the first time since March. Meanwhile, **prices charged** for final goods and services in emerging markets continued to rise at a marginal pace.

Business expectations

The outlook for global emerging markets continued to deteriorate in August. The **HSBC Emerging Markets Future Output Index** tracks firms' expectations for activity in 12 months' time, and fell in the latest period to the second-lowest level since the series started in April 2012, almost matching May's record low. This was despite manufacturing output expectations strengthening further to a four-month high. *Continued on page 3...*

HSBC Emerging Markets Index



Data summary

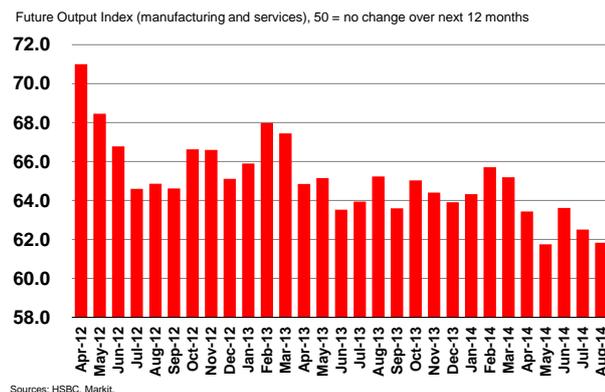
Country/region	Coverage	Index	Aug-14	Jul-14	Aug-13
Emerging Markets	Composite*	Output	52.5	51.7	51.0
	Composite*	New Orders	▲	▼	▲
	Composite*	Backlogs	▶	▼	▲
	Composite*	Employment	▼	▲	▼
	Composite*	Input Prices	▼	▲	▲
	Composite*	Output Prices	▼	▲	▲
	Composite*	Future Output	▼	▼	▲
Emerging Markets	Services	Activity	▲	▼	▲
Emerging Markets	Manufacturing	Output	▶	▲	▲
China	Composite*	Output	52.8	51.6	51.8
India	Composite*	Output	51.6	53.0	47.6
Brazil	Composite*	Output	49.6	49.3	49.7
Russia	Composite*	Output	51.1	51.3	51.4

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

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

*Manufacturing & Services
Sources: HSBC, Markit.

Emerging Markets Future Output Index



Comment

Chris Williamson

Chief Economist, Markit

"The pace of economic growth in emerging markets continued to revive from the stagnation seen earlier in the year. August saw the fastest pace of expansion for 17 months, buoyed in particular by growth moving up a gear in China's services economy."

"Although the pace of expansion in China's factories slowed, the overall PMI for China hit the highest since March of last year to suggest that the economy remains on course to at least hit the government's 7.5% growth target for the year. The upturn follows mini-stimulus measures implemented earlier in the year, when the economy showed signs of flat-lining."

"Further growth was also recorded in India, albeit with the pace of expansion moderating. However, the renewed growth trend in recent months represents a welcome improvement from the prior downturn."

"Russia also saw on-going modest expansion, contrasting with the downturn seen in the three months to May, suggesting the economy will avoid a recession despite sanctions and uncertainty caused by the Ukraine crisis."

"The weakest picture in the emerging markets was therefore seen in Brazil, where a marginal decline was recorded by the PMI surveys for a fifth successive month."

Regional highlights: www.twitter.com/HSBC_EMI_PMI

Murat Ulgun

Global Head of Emerging Markets Research

"There are some signs of life in larger economies; Russia, Turkey and South Africa, though nothing exciting. CEE is looking softer"

Frederic Neumann

Co-Head of Asian Economic Research

"Growth in Asia remains below potential. Weak manufacturing requires more policy support and may impede the progress of structural reforms"

Andre Loes

HSBC Chief Economist, LATAM

"Contraction in Brazil points to risk of continuation of 1H recession, while Mexico industry accelerates to levels last seen in the 1Q"

Detailed data summary: Output Index

Country / region	Coverage	May-14	Jun-14	Jul-14	Aug-14
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

*Non-oil

▲ Below 50, rising

▼ Below 50, falling

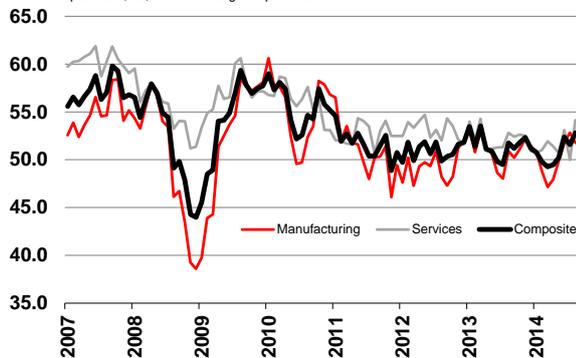
▲ 50, rising

▼ 50, falling

Sources: HSBC, Markit.

Chinese service sector drives overall growth higher in August

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



Manufacturing

Chinese manufacturers saw slower growth of both output and new orders in August, and job shedding in the sector persisted. Meanwhile, input costs declined for the first time in three months while manufacturers reduced their selling prices.

New business in **Taiwan's** manufacturing sector rose at the strongest rate since the start of 2011. Firms mentioned increased export business in China, Europe and the US in particular.

Although **South Korean** manufacturing output continued to fall, the pace of decline eased from July and was only slight. New orders rose for the first time in five months, and at the strongest rate since April 2013.

Output at **Indonesian** manufacturers fell for the first time since April, and at the quickest rate in 12 months. New orders declined in August, marking the end of a previous ten-month period of expansion. New export orders fell at the steepest rate since October 2013.

There was another loss of momentum in the **Vietnamese** manufacturing sector as output growth slowed and new orders fell slightly. Stocks of finished goods rose amid delays in delivering products to clients. Transportation issues impacted on suppliers' delivery times and contributed to sharp input price inflation.

Output at **Indian** manufacturing companies rose for a tenth straight month in August, and at the second-sharpest rate since February 2013. August data also signalled that new orders increased for a tenth month in succession.

Following the conclusion of the football World Cup, business conditions in the **Brazilian** manufacturing sector improved for the first time since March. Growth of both output and purchasing activity were reported in August, while new work intakes stabilised.

Manufacturers in **Mexico** pointed to a solid improvement in business conditions during August, reflecting sharper output growth and an increase in staffing levels for the first time in three months.

Turkey's manufacturing sector registered a marginal improvement in business conditions in August. Output increased for the first time in three months, albeit marginally, while higher new orders from export markets resulted in a stabilisation of total new business inflows.

Russia's goods-producing sector posted slower output growth in August, but a faster rise in new orders. Growth remained historically weak, however, and new export business continued to decline. Input price inflation strengthened for the first time in five months.

Poland's manufacturing economy remained in a downturn in August. New orders fell for the third month running, and at a stronger rate, leading to the first drop in output since June 2013.

The **Czech** manufacturing sector's current sequence of strong expansion showed signs of slowing in August, with weaker output growth and the slowest rise in new export orders for over a year.

Middle East & Africa

The expansion of **Saudi Arabia's** non-oil producing private sector gained momentum during August, with output, new orders and employment all increasing at stronger rates compared to July. Inventory accumulation also strengthened as companies retained optimism regarding future activity requirements.

The **UAE's** non-oil producing private sector companies posted a marked strengthening of business conditions in August, as new orders and output rose at accelerated rates. Furthermore, new business expanded at the second-quickest pace in the series history to date. Meanwhile, the rate of growth in new export business rose to a record high.

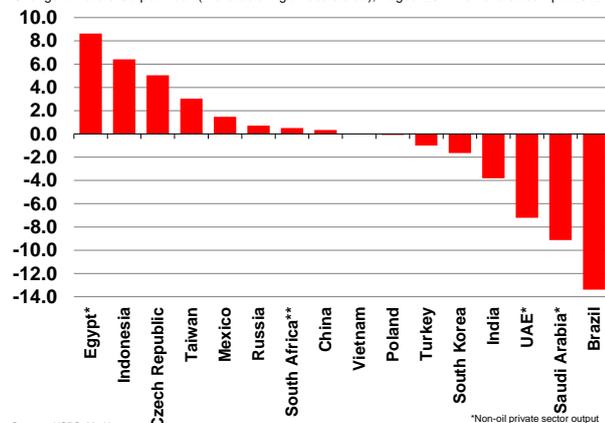
Output and new orders in **Egypt's** non-oil private sector economy returned to growth in August, following contractions in July. The rates of expansion were sharp and the most marked in eight months. Meanwhile, new business from abroad rose sharply and purchasing activity increased at the fastest pace since data collection began in April 2011.

South African private sector output stabilised in August, which companies largely linked to the end of the metals strike. New orders increased for the first time in six months, mainly reflecting domestic demand as new export orders fell further.

Business expectations

Output expectations at **Chinese** manufacturers were broadly in line with the trend shown since the series started in April 2012, improving to a six-month high in August. Among the emerging economies surveyed, **Egypt** posted the strongest sentiment in relative terms in August, followed by **Indonesia** and the **Czech Republic**. In contrast, **Brazil**, **Saudi Arabia**, the **UAE**, **India**, **South Korea** and **Turkey** all registered weak output expectations in comparison with the trends shown over the past two-and-a-half years.

Change in Future Output Index (manufacturing unless stated), August 2014 vs trend since April 2012



Sources: HSBC, Markit.

*Non-oil private sector output

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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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