

## 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 output growth slows to marginal pace

### Key points

- **HSBC Emerging Markets Index: 50.3** (prior 51.1)
- Output falls in China, India and Russia

The **HSBC Emerging Markets Index (EMI)**, a monthly indicator derived from the PMI™ surveys, fell for the fourth month running to 50.3 in March, from 51.1 in February, indicating only a marginal increase in private sector output across global emerging markets.

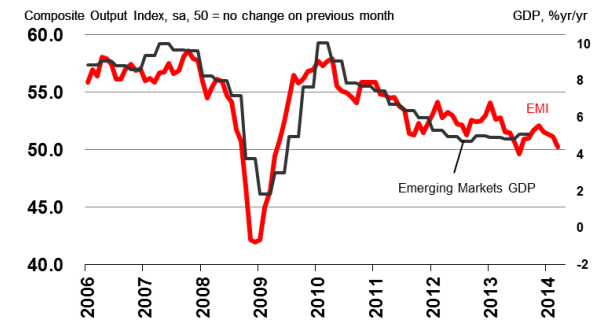
Notably, output contracted since February in three of the four largest emerging economies. **China** posted a marginal decline for the second month running, while **India** slipped back into contraction. Meanwhile, **Russian** private sector output fell at the fastest rate since May 2009.

Emerging market **manufacturing output** fell for the first time in eight months in March, albeit marginally. Meanwhile **services activity** rose at the weakest rate since July 2013. A faster increase in Chinese service sector activity was offset by declines in Russia and India.

**New business** growth across global emerging markets eased to a fractional pace in March, and **backlogs of work** continued to decline. Subsequently, **employment** growth remained weak.

**Input price** inflation in emerging markets hit a nine-month low in March. **Russia** bucked this downward trend, seeing the strongest rise in input prices in three years – mainly due to the weakening ruble. In contrast, **China** posted a fall in average input prices for the third month running.

### HSBC Emerging Markets Index



### Data summary

Country/region	Coverage	Index	Mar-14	Feb-14	Mar-13
Emerging Markets	Composite*	Output	50.3	51.1	52.8
	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	49.3	49.8	53.5
India	Composite*	Output	48.9	50.3	51.4
Brazil	Composite*	Output	51.0	50.8	51.0
Russia	Composite*	Output	47.8	50.2	53.4

▲ Above 50, rising  
▼ Above 50, falling

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

\*Manufacturing & Services

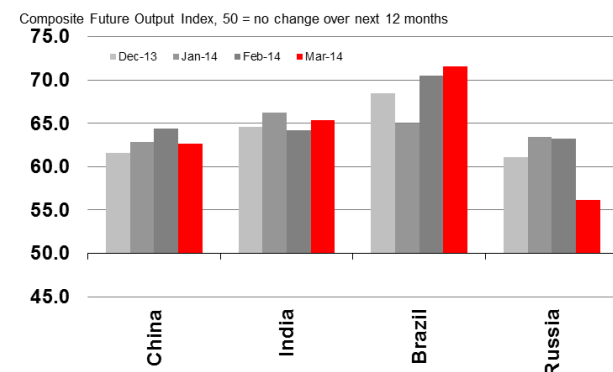
Sources: HSBC, Markit.

### Business expectations

The **HSBC Emerging Markets Future Output Index** tracks firms' expectations for activity in 12 months' time. The index fell back in March from February's 11-month high, but was still the second-highest in the past seven months. Manufacturing output expectations weakened while services sentiment improved.

Among the largest emerging markets, **Russia** posted a substantial weakening in sentiment across both manufacturing and services. The composite series hit a record low, while the outlook in the service sector was the worst since December 2008. **China** posted a dip in output expectations from February's 11-month peak, while sentiment in Brazil hit a four-month high. *Continued on page 3...*

### Emerging Markets Future Output Index



## Comment

### Frederic Neumann

Co-Head of Asian Economic Research

"Emerging markets are going through a rough patch. Lacklustre demand in advanced markets has so far restrained exports. Political uncertainty locally may also be to blame, with elections coming up in key economies, such as India and Indonesia, and geopolitical tensions casting a shadow in Eastern Europe. At heart, however, the synchronized slowdown in emerging markets reflects deeper, structural issues. In China, for example, officials have started ambitious reforms, which in the short-term restrain investment activity and credit access. Slowing Mainland growth is spilling over to other emerging markets as well, primarily to those reliant on commodity exports."

"Although HSBC's Emerging Market Index dipped further in March, it is important to keep things in perspective. The sub-index on expected future output, for example, a forward looking indicator measuring expectations of production in a year's time, remains elevated. Also, manufacturers across emerging markets have reported the sharpest pick-up in new export orders in nearly two years. Meanwhile, in the service sector, employers accelerated hiring to the fastest pace in five months. Altogether, emerging markets may be slowing, but growth remains positive for the most part and is likely to stabilize in the coming months."

"Importantly, the Emerging Markets Index highlights that inflation pressures remain subdued. For example, import prices for manufacturers have started to decline again for the first time since June. This will help to ease margin pressure and allows officials in most economies to maintain a relatively accommodative policy stance. While this will not substitute for the need for structural reforms, it will ease the inevitable burden of adjustment ahead. And it is reforms, ultimately, that are required for sustained growth."

**Regional highlights:** [www.twitter.com/HSBC\\_EMI\\_PMI](http://www.twitter.com/HSBC_EMI_PMI)

### Frederic Neumann

Co-Head of Asian Economic Research

"Asia had a wobbly start to 2014, no doubt. But drop in PMIs seems to be stabilizing amid tentative signs of export pick-up."

### Andre Loes

HSBC Chief Economist, LATAM

"Mexico ends the quarter on weak note, in tandem with US feeble 1Q, while Brazil keeps tame expansion, with drought-related risk of further deterioration"

### Murat Ulgen

HSBC Chief Economist, CEE & Sub-Saharan Africa

"Russian business conditions deteriorate sharply on geopolitical tension. Turkey's output growth also slows down, confirming weakness in consumption"

### Simon Williams

HSBC Chief Economist, MENA

"Led by the UAE, the oil-rich Gulf continues to shrug off weakness elsewhere in EM. Egypt's recovery is yet to begin in earnest."

## Detailed data summary: Output Index

Country / region	Coverage	Dec-13	Jan-14	Feb-14	Mar-14
<b>Emerging Markets</b>	<b>Composite</b>	▼	▼	▼	▼
Brazil	Composite	▼	▼	▲	▲
China	Composite	▼	▼	▼	▼
India	Composite	▼	▲	▲	▼
Russia	Composite	▲	▼	▲	▼
<b>Emerging Markets</b>	<b>Services</b>	▼	▼	▲	▼
Brazil	Services	▼	▼	▲	▲
China	Services	▼	▼	▲	▲
India	Services	▼	▲	▲	▼
Russia	Services	▲	▼	▲	▼
<b>Emerging Markets</b>	<b>Manufacturing</b>	▼	▼	▼	▼
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

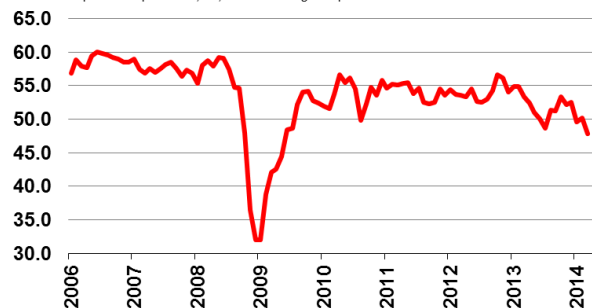
▲ 50, rising

\*Non-oil

Sources: HSBC, Markit.

## Russian downturn intensifies in March

Russia Composite Output Index, sa, 50 = no change on previous month



Sources: HSBC, Markit.

## Manufacturing

**Chinese** manufacturers reported lower intakes of new work in March, extending the current sequence of reduction to two months. Subsequently, production was cut for the second successive month. Data suggested softer domestic demand, as new export orders increased for the first time in four months. Stronger client demand in Europe and the US was cited by a number of firms.

Manufacturing production growth across **India** eased from February's one-year high and was modest overall. While firms reported higher incoming new work, there was evidence that competitive pressures and shortages of some raw materials hampered growth. Similarly, new orders rose at a weaker clip in March.

**South Korean** manufacturers reported an expansion in output in March, following a decline in February. New exports increased further, while growth of total new orders resumed.

While production and new business in **Taiwan** both rose solidly overall in March, it was the slowest rise in output for five months, while growth of new orders eased to a six-month low. According to a number of panellists, growth was largely fuelled by stronger client demand from overseas, with higher volumes of new work from Europe and the US mentioned in particular.

Although **Indonesian** manufacturers continued to report higher levels of incoming new work, latest data highlighted a renewed drop of manufacturing production. New export orders also increased, with higher demand reported from America, Asia and Europe. In **Vietnam**, both output and new orders increased at faster rates than in February and new export orders returned to growth.

Production growth in **Brazil's** manufacturing economy accelerated to the fastest in three months during March. That said, the rise in output was only slight and new orders increased only marginally. Meanwhile, new export business continued to fall.

March data signalled that **Mexican** manufacturing output growth continued to slow from the 12-month high recorded in January. The latest survey also indicated a weaker rise in new business volumes, despite new export orders returning to growth.

The strength of **Turkish** manufacturing growth moderated during March, with both output and new orders registering the weakest increases since last August. This was partly offset by a further robust round of job creation in the sector.

In **Russia's** manufacturing sector, output and new business both contracted at the fastest rates in nearly five years. Exports continued to weigh on overall new order inflows, despite the weaker ruble. Also reflecting the weakening currency, inflationary pressures surged.

**Polish** manufacturing growth remained strong in March despite weaker increases in output and new orders, in turn linked to slower export growth. A similar pattern was evident in the **Czech Republic**, with manufacturing output and new orders continuing to rise at sharp, albeit weaker, rates.

## Middle East & Africa

March data signalled declines in output and new orders in **South Africa's** private sector amid reports of disruptions caused by the mining strike and unusually bad weather. However, the rates of contraction were indicative of only marginal reductions. The fall in new orders was driven by lower domestic demand, while new export orders rose for a second successive month.

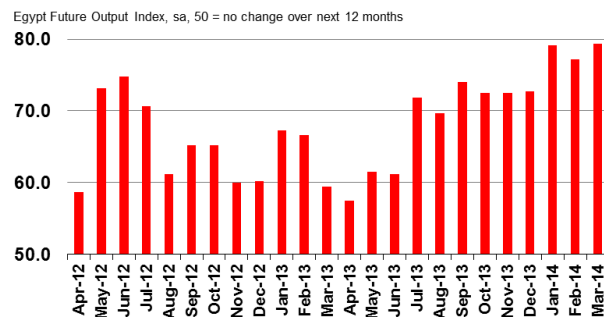
PMI data signalled the continued strong expansion of **Saudi Arabia's** non-oil private sector economy in March. Growth was supported by improved demand from abroad, with the rate of expansion a joint-series high amid evidence of an improvement in demand from key export exports.

The **UAE's** non-oil private sector companies reported a steep rise in output during March, with the pace of expansion accelerating to the highest since data collection began in August 2009. New order growth also picked up, falling just short of November's record high. Meanwhile, employment levels rose further and buying activity increased sharply.

**Egypt's** non-oil producing private sector companies reported a fractional rise in output in March, while new order intakes declined for the second time in the past three months. Employment levels continued to fall, although at the weakest pace in a year-and-a-half. Meanwhile, companies reduced their output charges, despite an accelerated increase in input costs.

## Business Expectations

The BRIC group of emerging economies registered the lowest manufacturing output expectations in March with **Russia** showing the worst outlook overall (and a series record low), followed by **China**, **Brazil** and **India** respectively. Manufacturers in **Indonesia** and **Vietnam** continued to exhibit the strongest sentiment, followed by those in the **Czech Republic** and **Poland**. Among this group, the Czech Republic and Vietnam both set new record highs for manufacturing output expectations.



Sources: HSBC, Markit.

Output expectations in the **UAE** non-oil private sector reached a new record high in March. **Egypt's** Future Output Index also registered a new peak in two years of data collection for the series. In contrast, the outlook in **Saudi Arabia** was weaker than the trend over the past two years. Meanwhile, private sector output expectations in **South Africa** hit an eight-month high.

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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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