HSBC Emerging Markets Index Press Release

HSBC Emerging Markets Index Q4 2012

Emerging markets end 2012 with encouraging manufacturing-led bounce in economic growth as a "Great Rotation" towards a China-led global economy gathers pace

Key points

- **Q4 HSBC Emerging Markets Index rose to 52.9 from 52.2 in Q3 but remains below series average**
- **Manufacturing output rises modestly across emerging markets following Q3 decline**
- **New order growth in manufacturing accelerates at fastest rate since Q2 2011 but exports weak**
- **Expansion across BRIC markets, with Russian growth fastest since Q2 2010**
- **Service sector output rose although outlook remains weak**

Summary

Emerging markets ended 2012 with a slight acceleration in economic growth as goods producers posted the fastest increase in new orders since Q2 2011. This represented the first upward movement since Q1 2012, although the overall pace of expansion was still weaker than the first half of the year, the HSBC Emerging Markets Index (EMI) shows.

The EMI climbed to 52.9, from 52.2 in the third quarter, but was still below the average shown over the four years since the 2008 financial crisis. The mild rebound was led by an expansion from the manufacturing sector but despite service sector performance improving on the previous quarter, its outlook remains below-par.

The combined manufacturing and service sectors of the major BRIC economies all registered expansion in Q4. Among the four largest emerging economies, Brazil posted a return to growth following the previous quarter's stagnation, while Russia overtook India to post the best rate of output growth since Q2 2010. China saw its growth improve, but remain relatively weak, while India posted a solid rate of expansion.

Chinese goods producers registered higher output for the first time in a year-and-a-half, while Brazilian manufacturing production increased for the first time since Q1, expanding at the fastest rate since the first quarter of 2011. Manufacturing output growth accelerated in India and remained broadly stable at a solid pace in Russia. Service sector output rose during Q4 at a fractionally faster pace than Q3's four-quarter low, while the outlook amongst the BRIC economies remained positive and marked an improvement on Q3.

Stephen King, HSBC's Chief Economist, said: "Although hardly buoyant economic growth, recent improvements are encouraging, especially as complemented by encouraging signs for the early months of 2013. Much of the growth is domestic as export orders are still contracting, although not at the worrying pace seen mid-year.

While China has yet to resume the pace of growth it once enjoyed, it is now a much bigger economy and as a result, its contribution to global growth continues to rise. This enhanced gravitational pull is driving a "Great Rotation" of economic activity from the deleveraging old world to the dynamic new world. So far, the benefits have accrued mostly to those markets either geographically close to China or important in satisfying China's insatiable demand for commodities. The old world has yet to catch the China express with US exports a mere 0.7% of its GDP to China and the UK's GDP exposure to China barely a rounding error.

It's no surprise that economies which have increased their exports to China – typically at the expense of exposure to the old world – have mostly enjoyed rapid gains in economic activity over the last decade. In contrast, those economies which have shunned China's advances have mostly found themselves suffering from persistently disappointing GDP growth. The Emerging Markets Index may not be particularly strong at the moment but China is set to have a bigger influence than either the US or Europe on the economic destiny of emerging markets."

New export orders for emerging markets manufacturers fell for a fourth consecutive quarter, reflecting weak demand from advanced economies, notably those in the Eurozone. However, total new orders in emerging economies increased in the final quarter of 2012 at the fastest rate since Q1, and the second fastest since Q2 2011. This rise largely reflected an increase in incoming new business for service providers, although manufacturers reported the strongest rate of growth since Q2 2011.

Looking ahead, the 12 month outlook for service providers across the BRIC economies improved slightly on the previous quarter but the strength of sentiment was still at its fourth weakest of any quarter since the series began in 2005. Optimism was led by Brazil's service providers, followed by India. Meanwhile, Russian and Chinese service providers remained relatively subdued in their expectations for the coming year.

The latest quarterly EMI revealed a rise in input cost inflation on the particularly weak third quarter, although it remained below the long-run average. Input prices for China's combined manufacturing and services economy rose after falling for two consecutive quarters, although the sharpest increase was experienced in Russia out of the BRIC economies. The average cost of components to manufacturers rose with the rate of inflation the quickest since Q3 2011. Meanwhile, in the service sector, input cost inflation remained similar to Q3, posting the second weakest rate of any quarter in the last three years.

Acceleration in economic growth across the emerging world provided the impetus for a rise in employment levels at manufacturing and service sector firms, as the rate of job creation accelerated from Q3 to the quickest since Q2 2011, led by service sector firms. In contrast, manufacturers trimmed their workforces for the fifth consecutive quarter.

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

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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, 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.

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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.

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