

# HSBC Emerging Markets Insights

## Emerging markets come of age

### Key points

- Emerging nations carve their own path
- Most important contributors to global economic growth
- Trading patterns around the world changing
- China pivotal to developments
- Inflationary pressures begin to return

### Summary

The balance of global economic power shifted in 2009. Decisions made in the US and the developed nations of Western Europe are no longer driving global economic development. As the world began heaving itself out of the global crisis, it was emerging markets that led the way, according to **HSBC's Emerging Markets Insights**, the bank's annual report based on its Emerging Markets Index (EMI).

Looking to 2010, the data suggests that emerging nations will continue to drive the global economic recovery. HSBC EMI data for the final quarter of 2009 showed manufacturing and services output in emerging market economies growing at the fastest rate since Q4 2007.

HSBC estimates that emerging markets GDP in 2010 will grow at 6.2% compared to 1.9% for developed nations.

The driving force behind much of the success of emerging markets is China. Chinese fiscal stimuli has seen spending aimed at infrastructure projects resulting in commodity prices – usually the first to fall in a financial crisis – remaining remarkably resilient. This in turn has benefited a number of emerging nations, providing them with a degree of economic insulation and fuelling the so-called 'South-South' trade.

For China to maintain its rate of growth, it is widely recognized that it needs to stimulate domestic consumption. The government has responded by shifting spending into social welfare. This is expected to release household savings which could boost consumer spending.

The fly in the ointment is inflation as pricing power in some emerging markets makes a return. Nations will respond differently to this pressure

with increased interest rates likely to feature. Whatever the response, it is likely to be pursued independently from decisions made in the US or Western Europe.

Michael Geoghegan, Chief Executive of HSBC Holdings, said: *"HSBC's latest report, Emerging Markets Insights, underlines what we, as the world's largest emerging markets bank, have known for some time – that the centre of economic gravity is shifting from West to East. For HSBC, Asia represents our greatest opportunity with nowhere more strategically important than China."*

Stephen King, HSBC's Chief Economist, said: *"We have reached a tipping point in global economic affairs. No longer is it possible to argue convincingly that the US or European nations determine the agenda for the world economy as a whole. 2009 will surely go down as the year when we both uncovered the scale of the crisis in the developed world and celebrated the resilience of much of the emerging world in the face of what appeared to be a perfect economic storm."*

The combination of HSBC's Emerging Markets Insights and the recently launched Emerging Markets Index, a powerful new economic barometer, provide an insight into future trends and the health of the global economy.

Together, for the first time, these products track manufacturing and services data in emerging market economies. These create quarterly and annual data, which is accompanied by expert analysis.

*The HSBC Emerging Markets Insights report uses data from HSBC Emerging Market Index, 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](http://www.hsbc.com/emergingmarketsindex)

**The next HSBC EMI will be released on 9th of April 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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### 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](http://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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[www.hsbc.com/emergingmarketsindex](http://www.hsbc.com/emergingmarketsindex)

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