HSBC Purchasing Managers' Index™ Press Release

compiled by markit

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HSBC Vietnam Manufacturing PMI™

Output returns to growth as demand strengthens

Summary

Vietnam's manufacturing sector experienced a return to output growth during October, as new orders rose at a record rate following an upturn in demand. Amid evidence of emerging capacity constraints, payrolls continued to expanded, albeit at a slower rate, while companies added to input stocks in anticipation of further production growth.

Matching September's second-highest reading in the survey history, the headline seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – was unmoved at a level of 51.5 in October.

Back-to-back improvements in overall operating conditions followed four months of deterioration. Supporting growth of the sector in October was a return to rising levels of output. Growth was modest, but nonetheless the first recorded since April.

There were a number of reports from panellists that production had risen following an increase in new order volumes. Latest data showed that new work had increased for the second successive month, with the rate of expansion the best in the survey history.

Underlying client demand was widely reported to have improved, with companies commenting that they had taken advantage of a strengthened economic climate via new product launches and also being able to leverage strong reputations.

New export sales were also reported to have increased during the month, albeit to a lesser extent than in September. It was nonetheless the second consecutive month that a rise in export orders has been recorded, and growth remained solid.

Panellists responded to the rise in new orders and production by adding to their payrolls for a third successive month. Growth was, however, modest and down on September's survey record.

Emerging capacity pressures also encouraged companies to increase employment at their plants. Backlogs of work were negligibly higher in October following 18 consecutive months of contraction.

Panellists also provided evidence of a positive outlook in October, with purchasing activity rising and stocks of inputs increased for the first time since October 2011. Manufacturers attributed growth to efforts to service current and expected rises in production and new orders over the coming months.

On the price front, input costs continued to rise at a marked pace. Manufacturers commented on a scarcity of raw materials, which was driving up their respective prices. Nonetheless, vendors were still able to marginally improve lead times for orders they could fulfil. There were reports that competitive pressures were encouraging suppliers to shorten delivery schedules wherever possible.

Faced with further increases in their average input costs, Vietnamese manufacturers raised their own charges for the first time since March.

Comment

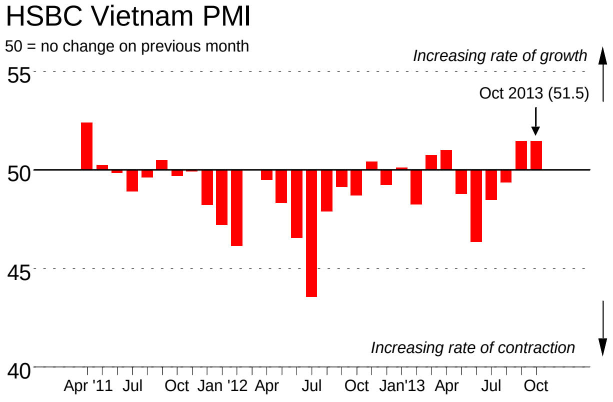
Commenting on the Vietnam Manufacturing PMI™ survey, Trinh Nguyen, Asia Economist at HSBC said:

"The continued expansion signalled by the PMI shows that activity is indeed stabilizing in the country. We expect economic activity to continue to be bolstered by strong performance of exports, supported by steady FDI inflows. This will help Vietnam get through a tough deleveraging phase, with foreign inflows counterbalancing sluggish domestic demand."

Key points

- Better economic climate drives output and new orders higher during October
- Employment continues to increase as capacity constraints emerge
- Output charges rise following further inflation of input costs

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Vietnam Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Vietnamese 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 the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

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.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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