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HSBC Vietnam Manufacturing PMI™

Manufacturing output rises at fastest pace since April 2011

Summary

Business conditions in the Vietnamese manufacturing sector improved in December as output and employment increased at sharper rates supported by renewed new order growth. Meanwhile, purchasing activity rose at the fastest pace in the series history. The rate of input cost inflation accelerated slightly, but manufacturers lowered their output prices as part of attempts to support growth of new business.

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 – posted 51.8 in December, up from 50.3 in November. The reading signalled a fourth successive monthly improvement in operating conditions, and the second-strongest in the history of the series. Only April 2011 has seen a greater improvement in business conditions since the survey began in that month.

New orders increased for the third time in the past four months during December as panellists reported improving client demand. Moreover, new business rose at a pace that was only slightly slower than October's series record. On the other hand, new export orders decreased for a second consecutive month.

Growth of new orders led firms to raise their production. Output increased for the third month running, and at the sharpest pace since April 2011. That said, stocks of finished goods fell solidly as firms delivered products to customers. The depletion of post-production inventories was the strongest in seven months.

Rising workloads had a positive impact on employment in December, with the rate of job creation picking up to the strongest in three months. Meanwhile, the rate of expansion of purchasing activity hit a record high as panellists reported a greater need for inputs in response to rising client demand.

There were signs of spare capacity in the sector, however, as backlogs of work decreased for the second month in a row. The rate of depletion was solid and largely unchanged from that seen in November.

Input prices increased further in December, with some panellists linking inflation to a scarcity of raw materials. In contrast, manufacturers lowered their output prices for the first time in three months. According to panellists, attempts to encourage new business had been behind the fall in charges, while competitive pressures were also mentioned.

A third successive shortening of suppliers' delivery times was recorded. Anecdotal evidence suggested that vendors had reacted to requests by firms for faster deliveries, while prompt payments were also a factor.

Stocks of purchases decreased for the second month running as inventories were used in the production process. The rate of depletion quickened from the previous month, but was still only modest.

Comment

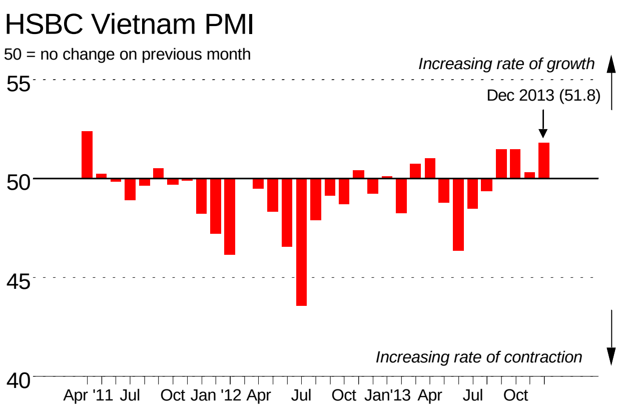
Commenting on the Vietnam Manufacturing PMI™ survey, Trinh Nguyen, Asia Economist at HSBC said:

"The manufacturing sector continues to punch its weight in stabilizing growth in Vietnam. The rise of the new orders sub-index is a sign of gradually rising domestic demand, albeit slowly. The new export orders index improved slightly but external demand was still a drag. We expect demand for employment and quantity of purchases to offset sluggish growth in other sectors. We expect 2014 to be a slightly better year, with the manufacturing sector providing an anchor."

Key points

- Output rises at faster pace as new orders return to growth
- Rate of job creation picks up
- Series-record rise in purchasing activity

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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About PMI:

Purchasing Managers' Index™ (PMI™) surveys are now available for 32 countries and also for key regions including the Eurozone. They are 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. To learn more go to www.markit.com/economics