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IHS Markit Vietnam Manufacturing PMI®

Business conditions deteriorate at start of third quarter

Key findings

Output and new orders fall, after having risen in June

Further reduction in employment

Firms remain optimistic regarding future output

Data were collected 13-23 July 2020.

After returning to growth in June, the Vietnamese manufacturing sector took a step back in July, seeing declines in output and new orders as the coronavirus disease 2019 (COVID-19) continued to impact business conditions. Employment decreased again, while purchasing activity was reduced.

The rate of input cost inflation remained muted, while competitive pressures led firms to lower their output prices.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) dipped back below the 50.0 no-change mark in July, posting 47.6 from 51.1 in June. Business conditions have now deteriorated in five of the past six months.

July data pointed to a modest reduction in manufacturing output, after a return to growth had been registered in the previous month. That said, the fall was much softer than seen during the worst of the recent downturn. Respondents indicated that the COVID-19 pandemic continued to impact operations, with new orders reportedly lower. Both the intermediate and investment goods sectors recorded falls in output, while consumer goods production increased.

In line with the picture for output, new orders fell following a rise in June. Total new business was undermined by a sharp contraction in new export orders, linked to restrictions on travel and falling demand in export markets due to the COVID-19 pandemic.

With new orders taking a step back, firms were able to deplete their backlogs of work again in July. Outstanding business decreased for the sixth month running, and to a greater extent than in the prior survey period.

A lack of work was reportedly behind a further reduction in employment, with some workers reportedly deciding to leave in search of opportunities elsewhere. Employment fell at a solid

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Vietnam Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Andrew Harker, Economics Director at IHS Markit, said:

"The recovery in the Vietnamese manufacturing sector took a step back in July, a disappointing development given the return to growth seen in June. The data highlight the impact that the COVID-19 pandemic continues to have on the economy, with new export orders particularly hard to come by given travel restrictions and continuing outbreaks in a number of export markets.

"The reduction in output was relatively mild compared with the depths of the recent downturn, however, and historical relationships of the PMI against official manufacturing output data suggest that production is growing at something approaching 10% year-on-year."

pace, with declines registered across all three broad sectors.

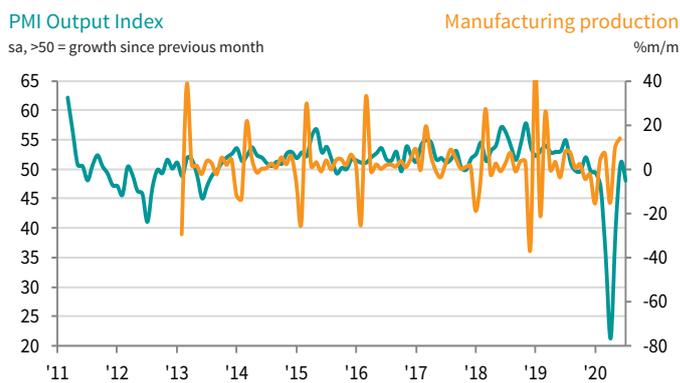
As well as seeing staffing levels decrease, manufacturers scaled back their purchasing activity, stocks of inputs and finished goods inventories at the start of the third quarter. In all cases, falls in July followed rises in June and were linked to a reduction in new orders.

Suppliers' delivery times lengthened for the eighth time in as many months. Difficulties receiving items from suppliers in China and issues with sea transportation were reportedly behind the latest instance of lead time lengthening.

Scarcity of raw materials contributed to a second successive monthly increase in input costs during July. That said, the rate of inflation remained muted.

Meanwhile, output prices were reduced for the sixth month running. The latest fall was modest, but sharper than that seen in June. Those panellists that lowered selling prices generally linked this to competitive pressures.

Despite a drop in output in July, firms remained confident in the 12-month outlook for production. Sentiment was down only slightly from that seen in the previous month. According to respondents, expected improvements in market demand and new orders were behind the positive outlook for output.



Sources: IHS Markit, General Statistics Office of Vietnam.

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Methodology

The IHS Markit Vietnam Manufacturing PMI® is compiled by IHS Markit from responses to monthly questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

July data were collected 13-23 July 2020.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

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Purchasing Managers' Index™ (PMI®) surveys are now available for over 40 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.

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