

Embargoed until 0730 ICT (0030 UTC) 2 November 2020

IHS Markit Vietnam Manufacturing PMI®

Recovery continues as production rises for second month running

Key findings

Solid increases in new orders and production

Employment rises for first time in nine months

Cost inflation at 26-month high amid material shortages

Data were collected 12-22 October 2020.

The start of the fourth quarter of the year saw a continuation of the recovery of the Vietnamese manufacturing sector. With the coronavirus disease 2019 (COVID-19) remaining under control in the country, firms recorded solid improvements in new orders and output. Moreover, employment returned to growth following an eight-month sequence of job cuts.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) posted 51.8 in October, down marginally from 52.2 in September but still signalling an improvement in the health of the sector. Business conditions have now strengthened in two successive months.

Improving operating conditions were noted in the consumer and intermediate goods sectors. On the other hand, investment goods firms posted a deterioration, amid further falls in both output and new orders.

Anecdotal evidence suggested that success in bringing the COVID-19 outbreak under control in Vietnam had helped lead to a recovery in customer demand.

As a result, new orders increased solidly for the second month running, subsequently feeding through to a similarly-paced increase in production to that seen for new business.

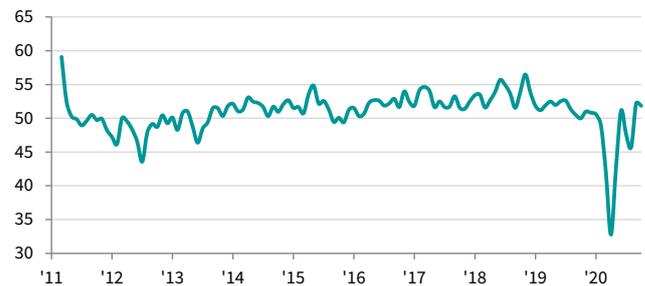
Meanwhile, new export orders were unchanged amid some demand weakness in markets where the virus continues to cause problems, notably in Europe.

Greater output requirements encouraged manufacturers to take on extra staff in October. Employment increased for the first time since January, though at only a marginal pace amid ongoing signs of spare capacity. Backlogs of work continued to decrease.

Higher output requirements also led to a second successive monthly increase in purchasing activity, although stocks of

continued...

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 Vietnamese manufacturing sector started the final quarter of the year on a solid footing, according to the latest PMI data. This should continue as long as COVID-19 remains under control in the country.

"The most pleasing aspect of the latest survey was a return to growth of employment for the first time since before the pandemic hit as workloads start to justify rising staffing levels.

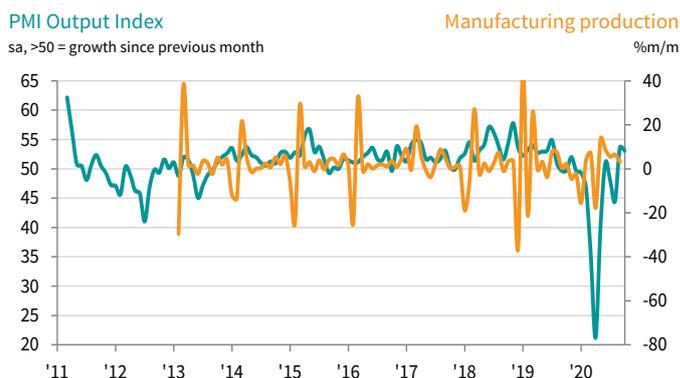
"A positive end to the year could set the economy up nicely for a strong recovery to kick in during 2021."

purchases decreased as inputs were used to support output growth. Stocks of finished goods were also depleted at the start of the final quarter of the year.

The COVID-19 pandemic continued to cause issues in supply chains during October. Suppliers' delivery times lengthened to a greater extent than in September. Alongside the direct impacts of the pandemic, shortages of materials and poor weather conditions reportedly contributed to delivery delays.

Material shortages led to accelerating cost inflation, with input prices increasing at the fastest pace since August 2018. The passing on of higher input costs to customers resulted in a second consecutive rise in selling prices. That said, the increase was only marginal and little-changed from that seen in the previous month. Restricting the ability of firms to raise output prices were requests for discounts by clients and competitive pressures.

Firms were generally confident that output will increase over the coming year amid optimism that the virus will remain under control. A number of respondents predicted that new order growth would support rises in production. That said, sentiment was slightly lower than in the previous month and weaker than the series average.



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.

October data were collected 12-22 October 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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