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IHS Markit Vietnam Manufacturing PMI®

Output growth at three-month low amid COVID-19 outbreak

Key findings

New orders continue to rise, but at slower pace

Near-record increase in backlogs of work

Output price inflation steepest in more than a decade

Data were collected 12-20 May 2021.

There were signs that the latest outbreak of COVID-19 infections in Vietnam impeded growth in the manufacturing sector during May. Rates of expansion in output, new orders and employment all softened from the previous month, while firms signalled difficulties in completing orders and securing materials. A further sharp increase in input costs fed through to the steepest selling price inflation for just over a decade.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) posted 53.1 in May, down from 54.7 in April. The latest reading signalled a sixth successive improvement in business conditions, and one that was solid despite weakening from the previous month.

Latest data and anecdotal evidence from respondents suggested that the recent outbreak of the COVID-19 pandemic limited growth of both output and new orders midway through the second quarter of the year.

The rate of expansion in production eased to a three-month low but remained solid as new orders continued to rise.

The same was true for new business, which increased at the softest pace since February but for the ninth month running. Solid growth was also recorded for new business from abroad as some export markets showed signs of recovery from the COVID-19 pandemic.

Rising case numbers also impacted hiring in the Vietnamese manufacturing sector. Employment increased for the fourth consecutive month, but only modestly.

Staff shortages contributed to a near-record rise in backlogs of work as firms struggled to cope with inflows of new orders. Outstanding business accumulated to the greatest extent in more than a decade.

Operations were also hampered by a marked lengthening 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 challenges of the COVID-19 pandemic returned to the Vietnamese manufacturing sector during May as an outbreak in the country hampered operations. Output, new orders and employment all grew at slower rates, while difficulties completing orders meant that backlogs of work increased at one of the sharpest rates in more than ten years of data collection. Efforts to fulfil orders weren't helped by further supply-chain disruption, which also contributed to price pressures. In fact, firms raised their selling prices at the fastest pace in more than a decade.

"Firms will be hoping that the COVID-19 outbreak can be brought under control quickly, as has been the case in the past in Vietnam. Confidence took a hit in May, but firms remained optimistic regarding the 12-month outlook for production."

suppliers' delivery times, the greatest in just over a year. Again, the pandemic was a factor behind longer lead times, with shipping delays and material shortages also highlighted.

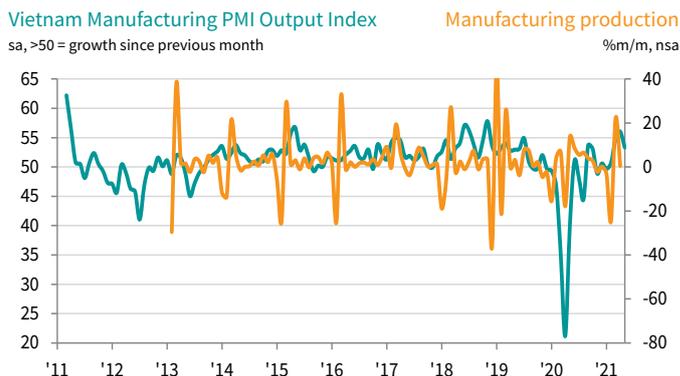
Despite delivery delays, firms expanded both their quantity and stocks of purchases amid efforts to build reserves. That said, in both cases rates of increase were slower than in April.

Stocks of finished goods, meanwhile, were broadly unchanged amid the use of inventories to help meet new orders while production volumes were restricted. The stabilisation ended a three-month sequence of rising stocks of finished goods.

The rate of input cost inflation quickened to a 40-month high in May. Supply shortages contributed to rising raw material prices, with iron, oil and steel all mentioned in particular as costing more. Higher freight prices were also signalled.

In turn, manufacturers raised their own selling prices at a substantial pace. Moreover, the rate of inflation was the fastest in just over a decade, and the third-steepest since the survey began.

Business sentiment eased to a three-month low on worries about the COVID-19 outbreak, but firms remained optimistic overall that output will increase over the coming year. Hopes that the virus will be brought back under control and the prospect of further new order growth supported confidence.



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.

May data were collected 12-20 May 2021.

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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