An improvement in the public health situation and subsequent easing of restrictions helped the Vietnamese manufacturing sector return to growth during October. Renewed expansions were seen for output, new orders and purchasing activity, while business confidence jumped higher. On the other hand, employment continued to fall amid widespread reports of workers remaining in their hometowns following the latest wave of the COVID-19 pandemic.

Price pressures remained acute, with input costs rising at one of the sharpest rates on record amid higher freight charges and raw material shortages. In turn, firms increased their own selling prices at a much faster pace than in September.

The Vietnam Manufacturing Purchasing Managers’ Index™ (PMI®) posted back above the 50.0 no-change mark at 52.1 in October following a reading of 40.2 in September. This signalled a renewed improvement in business conditions across the sector, thereby ending a four-month sequence of decline. A loosening of COVID-19 restrictions led a number of firms to restart production in October, while others expanded output in response to higher new orders. As a result, production growth was recorded for the first time in five months.

A solid return to growth of new orders was also registered as manufacturers and their customers alike resumed operations. The improvement in the pandemic situation enabled firms to take advantage of increased demand in international markets, posting a first rise in new export orders since May. Business confidence improved markedly in October as the latest wave of the COVID-19 pandemic showed signs of easing. Hopes that the pandemic will remain under control helped optimism reach a 29-month high.

Issues around staffing levels remained despite the wider return to growth. Employment continued to fall markedly in October, continued...
with a number of firms indicating that some of their staff members had returned to their hometowns during the latest wave of the pandemic and had yet to come back to their place of work.

Shortages of labour contributed to another rise in backlogs of work, with higher new orders also adding to capacity pressures. That said, the rate of accumulation softened from September’s survey record.

Input costs increased at the fastest pace since April 2011 and at one of the sharpest rates in the survey’s history. Higher freight charges were widely reported, adding to the inflationary pressures caused by raw material shortages. In response to increasing input costs, manufacturers raised their own selling prices at a marked pace that was the fastest in five months.

Efforts to guard against likely future price rises encouraged firms to expand their input inventories for the third month running in October. This was facilitated by a strong return to growth of purchasing activity, which increased at a near-record pace.

Finally, stocks of finished goods decreased marginally in October. Some firms saw inventories decline as finished products were used to help meet sales, while others noted that renewed production growth helped them to stabilise stocks.

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 12-21 October 2021.

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

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