

Embargoed until 0730 ICT (0030 UTC) 1 September 2020

IHS Markit Vietnam Manufacturing PMI®

Production decreases for second month running

Key findings

Decline in output gathers pace amid lower new orders

Reduction in employment among the strongest on record

Output prices reduced for seventh month running

Data were collected 12-20 August 2020.

The effects of the coronavirus disease 2019 (COVID-19) pandemic led to a deterioration of business conditions in the Vietnamese manufacturing sector during August. Both output and new orders fell for the second month in a row, and to greater extents than were recorded in July. The rate of job cuts also accelerated.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) fell to 45.7 in August from 47.6 in July. This represented a second successive deterioration in the health of the manufacturing sector, after a return to growth had been signalled in June. Although marked, the latest decline in business conditions was much less severe than that seen during the worst of the COVID-19 related downturn in April.

Respondents indicated that the effects of the COVID-19 pandemic led to declines in both output and new orders. New business decreased at a solid pace amid reports of weak customer demand. Data also pointed to a sharp reduction in new export orders, and one that was faster than that seen for total new business.

The latest reduction in manufacturing output was the eighth in the past nine months, and faster than that seen in July. All three broad sectors posted falling output, with the rate of contraction sharpest at intermediate goods producers.

Declining new orders led to further reductions in both backlogs of work and employment amid a lack of pressure on operating capacity. The rate of depletion in outstanding business was sharp, while firms scaled back their staffing levels to an extent only exceeded during the worst of the recent downturn in April.

A faster reduction in purchasing activity was also recorded amid lower new orders and production requirements. That said, the fall in input buying was still much weaker than April's record. The scaling back of inventories also continued, with stocks

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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:

"With the data moving in the wrong direction at present, the latest PMI data for Vietnam highlight the ongoing effects of COVID-19 on the manufacturing sector and the challenges faced in trying to overcome them. Customer demand remained weak, with firms scaling back production accordingly. The picture around employment was particularly worrying, with jobs lost at the second-fastest pace in nine-and-a-half years of data collection.

"Firms will be hoping that the virus can be brought back under control so that the recovery that got underway in June can get back on track."

of both purchases and finished goods decreasing in August. Some respondents indicated that finished products had been dispatched to customers as soon as they were ready to avoid a build-up of inventories.

Input prices increased for the third month running in August, albeit at only a slight pace that was slower than the series average. A scarcity of materials due to the COVID-19 pandemic was the principal cause of the rise in input costs, according to respondents. Similarly, the impact of the pandemic was central to another lengthening of suppliers' delivery times.

Manufacturers responded to weak demand conditions by lowering their output prices again midway through the third quarter of the year. Selling prices have now decreased in each of the past seven months, with the latest fall the fastest since May.

Concerns around the ongoing effects of COVID-19 on demand led to a drop in confidence among manufacturers regarding the 12-month outlook for production. Firms still predicted, on balance, that output will rise over the coming year, linked to hopes that the pandemic will be brought under control. That said, optimism was among the weakest since the series began in April 2012.



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.

August data were collected 12-20 August 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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