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IHS Markit Vietnam Manufacturing PMI®

Manufacturing PMI back in growth territory in September

Key findings

Output and new orders expand

Business confidence at 14-month high

Employment continues to fall

Data were collected 11-22 September 2020.

The Vietnamese manufacturing sector returned to growth in September as concerns around the outbreak of the coronavirus disease 2019 (COVID-19) in the country eased. Both output and new orders increased, while business confidence strengthened, and the rate of job cuts softened.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) rose back above the 50.0 no-change mark in September, posting 52.2 from 45.7 in August. The reading pointed to the first improvement in business conditions for three months, and the most marked since July 2019.

Anecdotal evidence suggested that control over the COVID-19 pandemic was a key factor helping to support improvements in operating conditions, after increasing case numbers had been seen in the previous survey period.

Reduced case numbers contributed to stronger client demand, leading to a solid increase in new orders. New business from abroad also increased in September, the first time this has been the case since January.

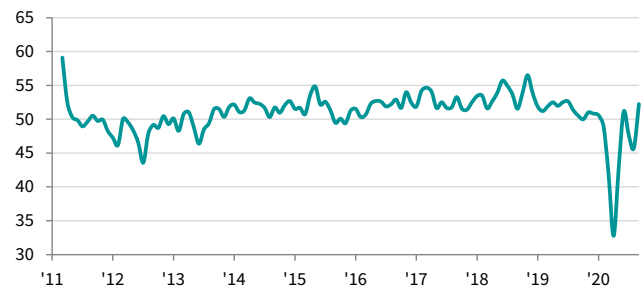
A solid expansion in production was also registered, helped by higher new orders. In fact, the rise in output was the sharpest in 14 months.

Business confidence also improved at the end of the third quarter of the year, rising sharply from August to the highest since July 2019. Projected growth of new orders is expected to lead to increases in output over the coming year, but a number of firms mentioned that positive expectations were based on assumptions that the pandemic will remain under control in the country.

Rising new orders encouraged manufacturers to expand their purchasing activity for the first time in three months, and at a solid pace. This increase in purchasing contributed to a renewed accumulation of pre-production inventories. Some panellists

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:

"After a rise in COVID-19 cases in late-July and early-August briefly threw the sector's recovery off track in August, the September PMI results were much more positive. With control of the pandemic regained, firms saw an influx of new orders, ramped up production and were at their most optimistic for over a year. As ever though, sustaining these positive trends is dependent on virus cases not picking up again.

"One new development in the latest survey was a return to growth of new export orders for the first time since the pandemic began, a welcome signal that international demand is becoming more supportive of the sector's recovery."

reported efforts to build reserves.

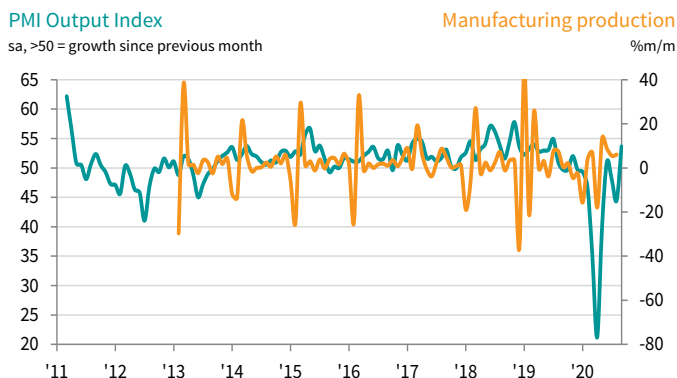
Stocks of finished goods also rose, with the rate of accumulation among the fastest since the survey began in March 2011. Some panellists attributed higher inventories to increased production volumes, but others reported that sales had been lower than expected.

While firms increased their purchasing activity in response to higher new orders, they continued to see staffing levels decrease at the end of the third quarter. In some cases, lower workforce numbers reflected staff resignations. Employment has now fallen in each of the past eight months, although the latest reduction was the softest in this sequence.

Despite lower staffing levels, firms were still able to keep on top of workloads, as evidenced by a further reduction in outstanding business.

The rate of input cost inflation quickened to a 22-month high and was broadly in line with the series average. Panellists often linked higher input prices to supply shortages for raw materials. This was also a factor behind a lengthening of suppliers' delivery times. That said, lead times lengthened to the least degree since January.

In response to higher input costs, firms raised their selling prices for the first time in eight months. The rate of inflation was only slight, however, amid ongoing competitive pressures.



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.

September data were collected 11-22 September 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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