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IHS Markit Vietnam Manufacturing PMI®

Production continues to fall, but at much reduced rate

Key findings

Sector remains in contraction, but to lesser extent than in April

Employment continues to fall

Output prices cut as part of attempts to secure new work

Data were collected 12-21 May 2020.

The Vietnamese manufacturing sector continued to feel the effects of the coronavirus disease 2019 (COVID-19) pandemic during May, although the sector saw a softer contraction than in April as the virus was brought under control in Vietnam.

Output, new orders and employment all decreased at rates unseen prior to the current crisis. There were particular reports of difficulties in securing new export orders. Meanwhile, firms lowered their output prices again to try to attract new business, with input costs also falling, albeit marginally.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) rose ten index points in May, posting 42.7 up from April's record low of 32.7. Although signalling a much softer decline in business conditions than in the previous month, the latest data indicated that the health of the sector continued to deteriorate at a rapid rate.

Disruption from the COVID-19 pandemic led to a sixth successive monthly decline in manufacturing production, and one that was substantial. That said, the fall was much softer than seen in April as some firms resumed operations.

Similar trends were seen with regards to new orders, with the rate of contraction remaining rapid but easing from the record seen in April. Some respondents highlighted particular weakness in demand for new export orders, which fell more quickly than total new business.

A further sharp reduction in new orders meant that spare capacity remained evident in the sector. As a result, manufacturers maintained a cautious approach to hiring, often opting not to replace workers who had resigned. Staffing levels decreased for the fourth month running.

Manufacturers also continued to scale back their purchasing activity and inventories of both purchases and finished goods,

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 success Vietnam has had in bringing the COVID-19 outbreak in the country under control means that the economy can begin along the road to recovery. That said, the PMI data for May suggest that the road will be a long one, with the manufacturing sector remaining in contraction mode midway through the second quarter of the year, albeit the decline was much softer than the record seen in April. The return to growth will likely be gradual, with little support coming from export markets in the near-term at least as the pandemic continues to affect large parts of the world."

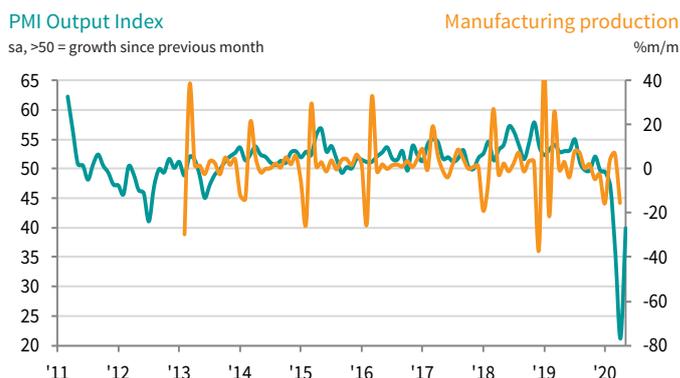
albeit in each case to lesser extents than in April.

Supply-chain disruption due to COVID-19 remained a key feature of the survey in May, with vendor delivery times lengthening markedly again. Panellists reported particular difficulty in securing imported items.

The scarcity of some materials placed some upwards pressure on input costs during the month. Input prices decreased for the second month running, but only marginally. Where a fall in input costs was recorded, respondents often linked this to lower oil prices.

Manufacturers reduced their own selling prices, as has been the case in each month since February. Although easing from that seen in April, the rate of decline in charges was marked. According to respondents, discounts were offered to try to attract new business.

With COVID-19 brought under control in Vietnam, there was tentative optimism among manufacturers that production would increase over the coming year. This followed a negative outlook in the previous month. That said, sentiment was still the second-lowest since the question was added to the survey in April 2012 amid concerns that the impacts of the pandemic will linger.



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 12-21 May 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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