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IHS Markit Vietnam Manufacturing PMI®

COVID-19 outbreak leads to sharp fall in manufacturing output

Key findings

Steepest reductions in output and new orders for over a year

Second-fastest decline in employment on record

Selling prices up only marginally

Data were collected 11-22 June 2021.

The latest wave of COVID-19 cases in Vietnam led to a sharp decline in business conditions for manufacturers during June. Output and new orders both decreased at the sharpest rates since the first outbreak of the pandemic in early-2020, while firms scaled back their employment and purchasing activity accordingly. The pandemic also impacted supply chains, resulting in a near-record lengthening of delivery times.

Meanwhile, the rate of input cost inflation remained marked but slowed sharply from that seen in May, and firms raised their own selling prices at only a marginal pace amid weaker demand.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) dropped sharply to 44.1 in June from 53.1 in May, pointing to the sharpest deterioration in business conditions for over a year and ending a six-month period of growth.

The COVID-19 pandemic, lockdown measures and temporary company closures were all mentioned as factors leading to sharp reductions in both output and new orders during June. Meanwhile, new business from abroad also decreased as transportation issues and container shortages exacerbated the impacts of the rise in virus cases.

These transportation issues, added to material shortages and restrictions linked to the pandemic, led to a marked lengthening of suppliers' delivery times. In fact, the extent of delays was the second-largest on record, just behind that seen in April 2020.

Manufacturers in Vietnam responded to falling workloads by cutting back their staffing levels and purchasing activity at the end of the second quarter. Employment decreased for the first time in five months, and at a sharp pace that was the second-fastest since the survey began in March 2011.

Similarly, purchasing activity fell at the fastest pace since the series nadir seen in April 2020 following the initial outbreak of the pandemic. Declining input buying fed through to a steep

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 June PMI data show clearly the impact of the latest wave of the COVID-19 pandemic on the Vietnamese manufacturing sector, with company shutdowns in areas facing restrictions leading to sharp reductions in output and new orders across the sector as a whole. Firms responded quickly to a lack of workloads, scaling back their staffing levels and purchasing activity."

"While less severe than after the outbreak of the pandemic in early-2020, the reduction in manufacturing output in June was stronger than anything seen prior to COVID-19 since the survey began more than a decade ago. Firms will therefore be hoping for a swift improvement in the health situation and the beginning of a return to more normal operating conditions."

reduction in stocks of purchases.

Stocks of finished goods also decreased in June, following broadly no change in May. Falling production and a desire to hold less stock amid declining new orders were behind the reduction in stocks of finished goods.

Firms were able to deplete their backlogs of work for the first time in three months in line with lower new orders, and at a sharp pace that was unprecedented prior to the COVID-19 pandemic.

There were signs of inflationary pressures easing in June as a lack of demand across the sector led to reduced pricing power. Although input costs increased at the slowest pace in seven months, the rate of inflation remained above the series average amid reports of material shortages leading to higher prices. Metals were mentioned in particular as costing more.

Output prices, meanwhile, rose only marginally as firms responded to a lack of demand.

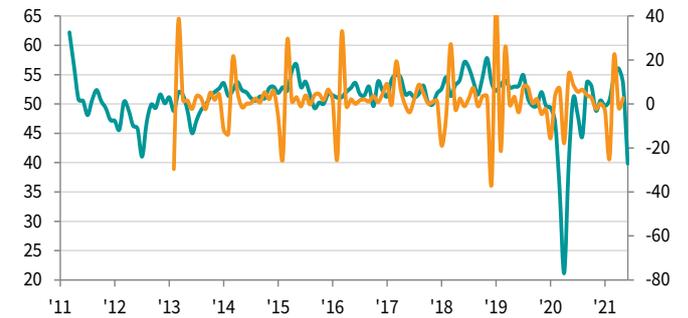
Business confidence fell to the lowest since August last year, reflecting concerns about the ongoing impact of the pandemic. That said, firms remained optimistic overall that output will increase over the coming year.

Vietnam Manufacturing PMI Output Index

sa, >50 = growth since previous month

Manufacturing production

%m/m, nsa



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.

June data were collected 11-22 June 2021.

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

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About PMI

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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