

Embargoed until 0730 ICT (0030 UTC) 1 December 2020

IHS Markit Vietnam Manufacturing PMI®

Storms and flooding disrupt manufacturing sector in November

Key findings

Production declines amid stormy weather and COVID-19

Input cost inflation hits 27-month high

Business confidence strongest since July 2019

Data were collected 12-20 November 2020.

The recovery in the Vietnamese manufacturing sector paused in November as a succession of storms and associated flooding hit the country. Output dipped, while new order growth slowed to a marginal pace, with the coronavirus disease 2019 (COVID-19) pandemic remaining a hindrance to operating conditions. Purchasing activity and employment were also scaled back, but business sentiment improved to a 16-month high.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) dipped fractionally below the 50.0 no-change mark to 49.9 in November, signalling broadly unchanged business conditions during the month. This followed a reading of 51.8 in October and was the first sub-50 figure in three months.

Output decreased slightly in November, thereby ending a two-month sequence of growth. That said, anecdotal evidence suggested that the reduction could be temporary as a number of firms indicated that recent stormy weather and subsequent flooding had disrupted their production during the month. The COVID-19 pandemic was also a factor weighing on output.

New orders continued to rise, but only fractionally as business was impacted by the stormy weather conditions and flooding, as well as the pandemic. The latter had a particular effect on new export orders, which decreased solidly. On the other hand, a number of respondents indicated that new orders had increased amid improving underlying demand.

With new order growth slowing, firms worked through outstanding business, leading to a tenth successive reduction in backlogs of work. The latest fall was solid, but softer than in October.

Falling workloads led firms to scale back their employment and purchasing activity during November. The modest reduction in staffing levels followed a slight rise in the previous month.

Purchasing activity decreased for the first time in three months.

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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:

"Although at first glance the latest Vietnam Manufacturing PMI figures are a little disappointing, there is reason to believe the setback in November was just a blip on the road to recovery. A number of panellists signalled that a succession of storms that have hit Vietnam in recent weeks, and associated flooding, hindered production, new orders and the receipt of deliveries during the month.

"We could therefore still be on track for a positive end to the year. In fact, business confidence improved to the highest since July 2019 on expectations that the COVID-19 pandemic will prove less disruptive in 2021. IHS Markit forecasts GDP in Vietnam to rise 6.1% next year."

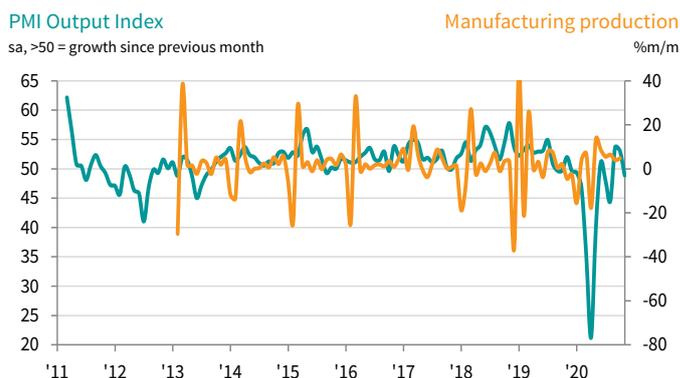
The fall in input buying fed through to a reduction in stocks of purchases. In both cases, however, consumer goods producers bucked the wider trend by posting expansions.

Meanwhile, a reduction in output during the month resulted in a decrease in stocks of finished goods.

As well as hampering production, the stormy weather and COVID-19 pandemic combined to disrupt the delivery of purchased items to manufacturers. Suppliers' lead times lengthened for the twelfth successive month and to the greatest extent since August. Raw material shortages were also a factor behind delivery delays.

Shortages of raw materials contributed to rises in input costs during November, with difficulties importing items and higher prices in international markets also cited. Input prices increased sharply, and at the fastest pace since August 2018. The rate of output price inflation also quickened, but remained modest. The rise in charges was the greatest for two years.

Despite the setback in November, firms expect production to expand over the coming year. Confidence was centred on expectations that the COVID-19 pandemic would remain under control in Vietnam and cause less disruption globally.



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.

November data were collected 12-20 November 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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