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IHS Markit Vietnam Manufacturing PMI®

Slowest rise in output for 21 months

Key findings

PMI drops to six-month low in August

Weaker growth of output and new orders

Business sentiment drops

Growth softened in the Vietnamese manufacturing sector during August as slower client demand and the impacts of the US-China trade tensions restricted new orders and production. Business sentiment also took a step back in the latest survey period. That said, the sector remained in expansionary territory for the forty-fifth month running.

Meanwhile, input costs rose only marginally and at the slowest pace in seven months, enabling ongoing reductions in selling prices.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) posted 51.4 in August, remaining above the 50.0 no-change mark, but falling from 52.6 in July to signal a weaker overall improvement in business conditions. In fact, the health of the sector strengthened to the least extent since February.

Weakness in August was centred on investment goods producers, where operating conditions worsened. This contrasted with further improvements in the consumer and intermediate goods sectors. This pattern was repeated with regards to output, new orders and employment.

The rate of growth in manufacturing output was the weakest in the current 21-month sequence of expansion during August. While rising new orders supported increased production at some firms, others reported softer client demand and reductions caused by US-China trade tensions.

These factors were also linked to a slowdown in new order growth. New business increased at a solid pace, but one that was the weakest since January. Meanwhile, new export orders rose modestly for the second month running.

Manufacturers supported ongoing increases in production by raising their purchasing activity and employment levels. Job creation was recorded for the fourth time in the past five

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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, Associate Director at IHS Markit, said:

"The slowdown in growth in August, and panellist reports of the US-China trade tensions harming demand, show that the Vietnamese manufacturing sector is not immune to the impacts of global trade issues. While Vietnam is one of the countries seen as able to gain from trade diversion and companies setting up new operations there, the reduction in trade flows resulting from the current tensions can still make work harder to come by.

"That said, the resilience of the Vietnamese manufacturing sector should not be underestimated. We have seen slowdowns such as that recorded in August before during the current sequence of growth, and rates of expansion have always then rebounded in the following months. This could therefore be the case again as 2019 draws to a close."

months.

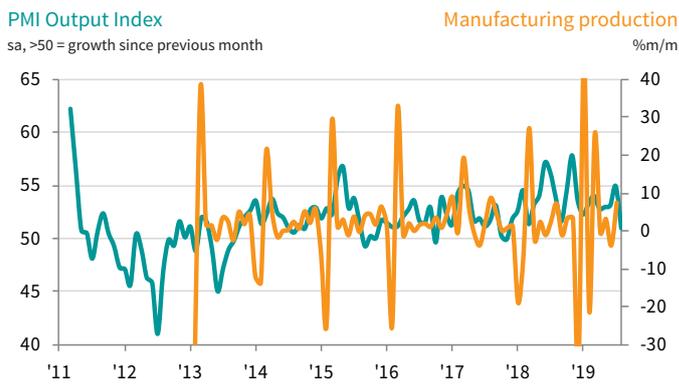
As well as supporting current output requirements, some respondents indicated that input buying had been raised to help build inventories. Consequently, stocks of purchases were also up.

Improved operating capacity and slower new order growth enabled firms to work through outstanding business in August. Backlogs decreased for the first time in three months.

The rate of input cost inflation eased for the fourth consecutive month, with input prices up only marginally midway through the third quarter. Firms were therefore able to lower their selling prices without greatly impacting profit margins. Charges decreased for the ninth successive month, albeit fractionally.

Suppliers' delivery times lengthened for the first time in four months, with panellists generally attributing delivery delays to material shortages at vendors.

Finally, business confidence dropped to a six-month low and was below the series average. Companies were still confident that output will rise over the coming year, however, with optimism reflecting expectations of improving customer demand.



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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 2019 data were collected 12-21 August 2019.

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. To learn more go to ihsmarkit.com/products/pmi.html.