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IHS Markit Vietnam Manufacturing PMI®

Business conditions unchanged in October

Key findings

Production down for second month running

New order growth at 47-month low

First rise in charges for 11 months

Business conditions in the Vietnamese manufacturing sector were unchanged in October as new order growth slowed and back-to-back declines in output were seen for the first time since the third quarter of 2013. Employment also decreased during the month.

On the price front, the rate of input cost inflation accelerated and firms raised their charges for the first time in almost a year in response.

The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) posted in line with the 50.0 no-change mark in October, down from 50.5 in September and ending a 46-month sequence of expansion in the sector. Weakness in October was mainly centred on intermediate goods firms.

While new order volumes continued to rise, the rate of growth was only marginal, having slowed for the third month in a row to the weakest in the current sequence of expansion which began in December 2015. Some panellists indicated that customers had looked to reduce the size of their orders.

A similar pattern was seen with regards to new export orders, with the rate of expansion softening to a slight pace.

Signs of softer demand conditions led manufacturers to reduce their output for the second month running in October. That said, the rate of contraction was only marginal and broadly in line with that seen in September.

Firms also scaled back their staffing levels for the second month running. Although modest, the rate of job shedding was the joint-sharpest since March 2015. Reduced operating capacity meant that backlogs of work increased for the fourth time in the past five months.

Purchasing activity was unchanged in October, thereby ending

continued...

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 soft patch in the Vietnamese manufacturing sector continued in October, with firms seemingly cautious regarding output, employment and purchasing given signs of weaker new order growth and global demand weakness.

"It is important to note, however, that the historical relationship between the Vietnam PMI and official data suggests that even a reading around the 50 mark translates into solid production growth in the official numbers. What we are likely seeing at present, therefore, is more of a growth slowdown than anything more concerning."

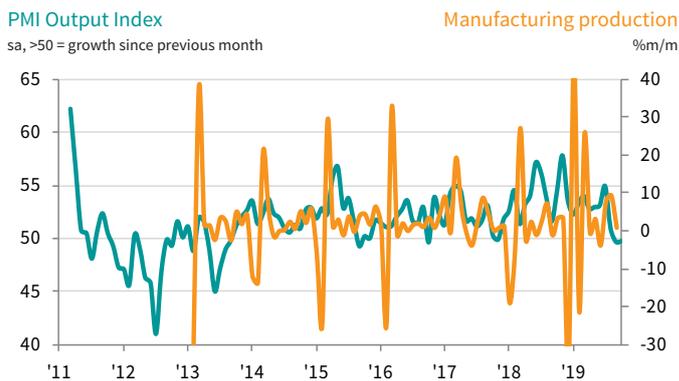
a 46-month sequence of expansion. Some panellists raised purchasing in line with higher new orders, but others cut input buying amid lower output requirements.

There were some reports of issues with the supply of raw materials in October, leading to higher input prices and longer suppliers' delivery times.

The rate of input cost inflation accelerated to a five-month high, but remained below the series average. In response to a larger rise in input prices, firms increased their output charges for the first time in 11 months. The rate of output price inflation was only marginal, however, as fragile customer demand restricted pricing power.

Falling output impacted on inventory holdings in October. The reduced need for inputs in the production process led to a rise in stocks of purchases. Meanwhile, lower output meant that stocks of finished goods were depleted, following a rise in September. Moreover, the rate of decline was the fastest since March 2016.

Business confidence rebounded from the 13-month low seen in September and was back to the level registered in August. Firms were confident of a rise in output over the coming year, with positive sentiment often linked to expected market expansion.



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.

October 2019 data were collected 11-23 October 2019.

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