HSBC Vietnam Manufacturing PMI™

Slower increases in output and new orders

Summary

Business conditions in the Vietnamese manufacturing sector continued to improve at the start of the second half of the year, although there were further signs of growth easing as both output and new orders increased at weaker rates than in the previous month. The rate of cost inflation remained sharp amid higher fuel prices and increased transport costs as a result of the enforcement of tonnage rules on trucks. This also continued to impact suppliers' delivery times.

The headline seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted above the no-change mark of 50.0 again in July, the eleventh month running in which that has been the case. However, falling to 51.7 from 52.3 in June, the rate of improvement signalled was the weakest in four months.

Manufacturing production increased for the tenth month running in July, albeit only slightly as the rate of expansion slowed to the weakest in the current sequence of growth. Higher new orders contributed to the increase in output, but some firms noted that weaker growth of new business and difficulties in retaining staff had prevented a stronger rise in production.

As was the case with output, the rate of growth in new orders slowed in July and was the weakest since February. Where new business increased, this was linked by panellists to stronger client demand. New export orders also increased, and at a modest pace.

A weaker rise in total new orders enabled firms to deplete outstanding business in July. Backlogs decreased for the third month in a row and at the sharpest pace since February.

Higher production requirements led companies to increase their employment and purchasing activity. Staffing levels increased at a modest pace, albeit one that was faster than seen in the previous month. That said, some panellists indicated that employee resignations had limited the pace of job creation. Meanwhile, respondents indicated that efforts to build inventory reserves had contributed to the latest rise in input buying, the eleventh in as many months. Stocks of purchases increased for the third time in the past four months.

A further sharp rise in input prices was recorded in July, linked by panellists to higher transport costs as a result of the enforcement of tonnage restrictions on trucks, as well as rising fuel costs. The rate of inflation quickened from June and was faster than the series average. Output prices also rose, albeit only slightly as in some cases firms had attempted to boost demand by offering discounts.

Suppliers' delivery times continued to be impacted by the tonnage rules and lengthened for the fifth month running. The latest lengthening of lead times was the weakest in three months, however. Logistical issues were also a factor behind a first increase in stocks of finished goods in three months, while some panellists mentioned that the due date for deliveries to clients had not yet been reached.

Comment

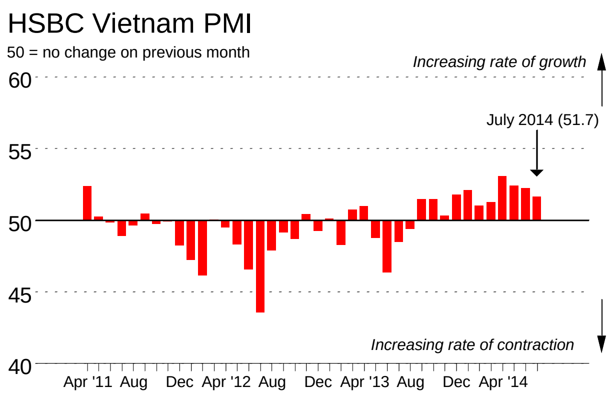
Commenting on the Vietnam Manufacturing PMI™ survey, Trinh Nguyen, Asia Economist at HSBC said:

"The manufacturing sector expanded in July, although the pace slowed due to weaker output growth. Employment and new export orders rose, reflecting strong production requirements and improving external demand. We expect new export orders and employment to continue to rise in the coming months."

Key points

- Weakest rise in production in current sequence of growth
- Further sharp inflation of input costs
- Stocks of finished goods increase for first time in three months

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Vietnam Manufacturing PMI is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 400 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Vietnamese GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index™ (PMI™)* is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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About PMI:

Purchasing Managers’ Index™ (PMI™) surveys are now available for 32 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 www.markit.com/economics