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HSBC Vietnam Manufacturing PMI™

New orders return to growth in September

Summary

A return to growth of new orders contributed to an improvement in operating conditions in the Vietnamese manufacturing sector at the end of the third quarter of the year. However, rates of growth in output and employment were only slight following the dip in new business recorded during August. Meanwhile, the rate of input cost inflation eased for the second month running and was the slowest since June 2013.

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 – rose to 51.7 in September from 50.3 in the previous month. The reading signalled a stronger improvement in operating conditions in the sector than in August, albeit one that remained only modest. Business conditions have now strengthened in each of the past 13 months.

The improvement in operating conditions was helped by a rebound in new orders, which increased solidly following a decline in August. Panellists reported that customer demand had increased during the month. Meanwhile, new export orders also returned to growth.

Manufacturers responded to the rise in new orders by increasing production, extending the current sequence of growth to 12 months. The rate of expansion quickened to the fastest in three months, but remained slight.

The fall in new orders in August had enabled firms to work through outstanding business, leading backlogs of work to decrease solidly in September. Moreover, the rate of decline was the strongest since August 2013.

A rise in employment was recorded in September following no change in the previous month. That said, the rate of job creation was only marginal. Where employment increased, this was linked to rising production requirements.

The rate of input cost inflation eased further in September and was the weakest since June 2013. Where input prices did increase, this was linked to higher transportation costs. Output prices were broadly unchanged during the month. While some respondents increased charges in response to higher input prices, competition and efforts to boost new business had led a number of firms to lower their output prices.

Stocks of both purchases and finished goods increased in September amid reports of attempts to build inventory reserves. This was also a factor behind a rise in input buying, which grew at the fastest pace in four months. The rate of accumulation in post-production inventories was only marginal, however, amid reports from some panellists that higher sales had led to a fall in stocks.

Suppliers' delivery times lengthened marginally, with the latest deterioration in vendor performance the weakest in six months. Where delivery times lengthened, this was linked to the truck weight restrictions and shortages of some materials.

Comment

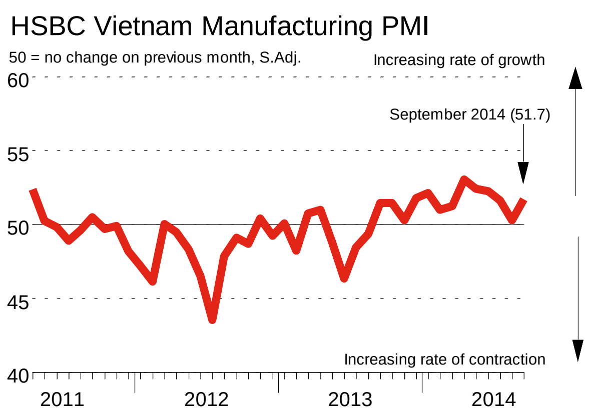
Commenting on the Vietnam Manufacturing PMI™ survey, Trinh Nguyen, Asia Economist at HSBC said:

"The pick-up of manufacturing activity reflects improving external demand. Given that new orders are stronger than inventories, we expect output to continue to expand next month. Easing inflationary pressures also help, as shown by the slower pace of expansion of input prices. We expect the manufacturing sector to perform well into Q4 2014 as the country is competitive in terms of labour, electricity and water costs. Anticipation of good news in 2015 or 2016 regarding trade liberalization will also help the sector."

Key points

- Solid rise in new business following fall in August
- Employment increases marginally
- Input costs rise at weakest pace since June 2013

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