Nikkei Vietnam Manufacturing PMI™

PMI drops to 14-month low in May

Key points:

- Weakest improvement in the health of the manufacturing sector since March 2016
- Much slower rises in output and new orders recorded
- Cost inflation continues to ease, while output prices fall

Data collected May 12-22

Growth eased in the Vietnamese manufacturing sector during May. Much slower rises were recorded in both output and new orders, while the rate of job creation also weakened. Meanwhile, confidence dipped to the lowest in almost four years. On the price front, the rate of cost inflation continued to slow from March's recent peak. Slower price pressures, allied with signs of demand weakness, led firms to reduce their output prices for the first time in nine months.

The headline Nikkei Vietnam Manufacturing *Purchasing Managers' Index™ (PMI)™* – a composite single-figure indicator of manufacturing performance – dropped to 51.6 in May from 54.1 in the previous month. Although continuing to signal strengthening business conditions in the sector, the rate of improvement was the weakest since March 2016.

The rate of expansion in Vietnamese manufacturing output slowed to a four-month low in May. While some firms continued to raise production on the back of higher new orders, others reported that a slowdown in growth of new business led them to reduce output.

As with output, the pace of increase in new orders eased in May. Both total new business and new export orders rose at much weaker rates than in April.

Signs of slower growth in the sector were also evident with regard to hiring decisions. Employment rose for the fourteenth successive month, albeit at the weakest pace since July last year. Meanwhile, backlogs of work increased fractionally, following a slight fall in April.

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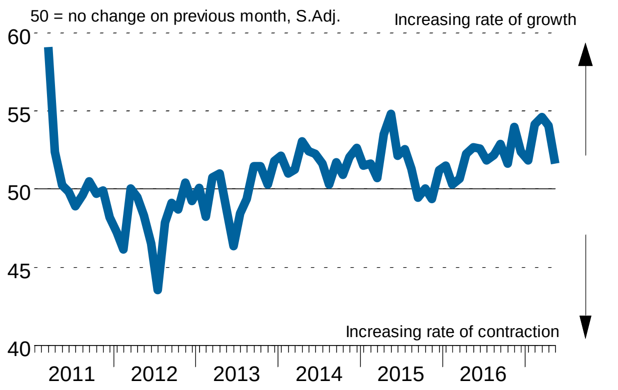

Sources: Nikkei, IHS Markit

The slowdown in new order growth contributed to a rise in stocks of finished goods during May, as items were held in inventories rather than delivered to clients.

The rate of input cost inflation slowed for the second month running in May and was the weakest since June last year. The rise was also slower than the series' average as some panellists mentioned signs of prices easing in global markets. Suppliers' delivery times continued to lengthen, albeit only modestly, and to the least extent in the current four-month sequence of longer lead times.

With cost inflation easing and client demand showing some signs of weakness, manufacturers reduced their output prices. The drop in charges was the first since August 2016.

Purchasing activity continued to rise in May, but the rate of growth slowed for the third month running and was the weakest in nine months. Where input buying rose, panellists mentioned both higher output requirements and inventory building. Stocks of purchases rose accordingly, with the rate of accumulation ticking up from the previous month.

Worries around the strength of client demand fed through to weaker business sentiment. In fact, optimism was the lowest for almost four years and one of the weakest since the series began in April 2012. That said, manufacturers still expect output to rise over the coming year, with more than 47% forecasting an expansion.

Comment:

Commenting on the Vietnamese Manufacturing PMI survey data, **Andrew Harker,** at IHS Markit, which compiles the survey, said**:**

"Growth in the Vietnamese manufacturing sector took a step back during May. Output and new orders each rose at much weaker rates, with firms reducing their pace of job creation accordingly. While all these variables remained in expansion territory, confidence dipped to the lowest in almost four years. This suggests some concern among manufacturers that a soft-patch may be around the corner.

"One factor helping firms in May was a further slowdown in the rate of cost inflation, which provided room for reductions in output prices as part of efforts to stimulate demand."

-Ends-

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Notes to Editors:

The Nikkei Vietnam Manufacturing *PMI*™ is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport.

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'. 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.

The Nikkei Vietnam Manufacturing *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.

IHS 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 IHS Markit. Please contact economics@ihsmarkit.com.

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