

Nikkei Vietnam Manufacturing PMI®

PMI drops to ten-month low in September

Key points:

- Slower rises in output, new orders and employment
- First reduction in output prices in 13 months
- Rate of input cost inflation eases

Data collected September 12-20

The end of the third quarter of the year saw a further slowdown in growth momentum in the Vietnamese manufacturing sector. Weaker increases in output, new orders and employment were all recorded, while firms offered discounts to try and attract customers. They were able to do this thanks to a moderation in the rate of input cost inflation. On a positive note, business confidence rebounded from August's low.

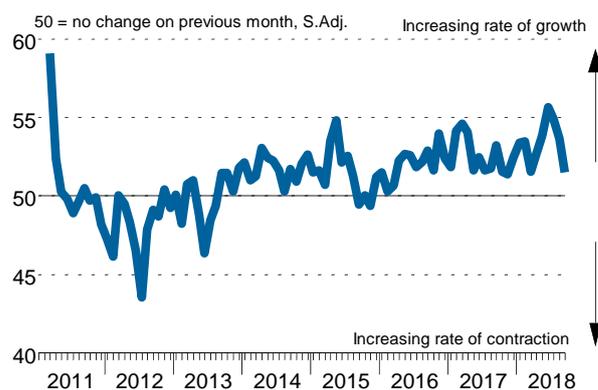
The headline Nikkei Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) – a composite single-figure indicator of manufacturing performance – dropped to 51.5 in September from 53.7 in August. The rate of improvement in the health of the sector has eased in three successive months, with the latest strengthening of business conditions the weakest since last November. That said, operating conditions have now improved in each of the past 34 months.

Central to the drop in the PMI figure during September were slower rises in both output and new orders. Manufacturing production rose at the weakest pace since March, with growth easing for the third month running. This was also the case with regard to new business, which nonetheless continued to rise solidly due to improving customer demand. Meanwhile, new export orders rose modestly, and to the slowest extent in 16 months.

Slower new order growth meant that firms were able to work through backlogs of work again in September. Outstanding business decreased for the fourth month running.

Manufacturing employment increased in September, as has been the case throughout the past two-and-a-half years. That said, the rate of job creation was slight, having eased to the weakest since August 2017.

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Sources: Nikkei, IHS Markit

On a more positive note, business confidence rebounded from the record low seen in August. Company plans and expected growth of new orders supported optimism that output will increase over the coming year.

Although input prices continued to rise at the end of the third quarter, the rate of inflation slowed and was weaker than the series average. Weaker cost inflation enabled firms to reduce their output prices, ending a one-year period of increases. According to respondents, efforts to secure sales amid competitive market conditions were behind the fall in charges.

Manufacturers continued to raise purchasing activity in line with higher new orders, but the rate of expansion softened to a six-month low. The rate of accumulation in stocks of purchases also slowed, and was only fractional. Meanwhile, stocks of finished goods decreased for the first time in three months.

Finally, suppliers' delivery times were unchanged in September, following a slight lengthening in the previous month. Some panellists saw lead times improve due to requests to suppliers for faster deliveries. Conversely, other firms indicated that raw material shortages led to delivery delays.

Comment:

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

“As was the case throughout the third quarter of the year, growth in the Vietnamese manufacturing sector moderated during September. While remaining positive overall, demand conditions are clearly less buoyant than they were during Q2.

“The rate of input cost inflation also continued to moderate, providing some room for firms to reduce selling prices in order to help secure new business. In fact, charges were lowered for the first time in over a year during September.”

-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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