

Nikkei Vietnam Manufacturing PMI[®]

PMI at nine-month high in January

Key points:

- PMI rises on the back of stronger increases in output, new orders and employment
- Growth of purchasing activity also accelerates
- Input prices and output charges rise at sharper rates

Data collected January 12-23

The Vietnamese manufacturing sector made a strong start to 2018, registering sharper increases in output, new orders and employment. This all contributed to the most marked improvement in operating conditions since April 2017. There was again evidence of pressure on supply chains, with delivery times lengthening and the rate of input cost inflation one of the strongest since the survey began in early-2011. Output prices also increased at a faster pace as firms responded to rising input costs and higher client demand.

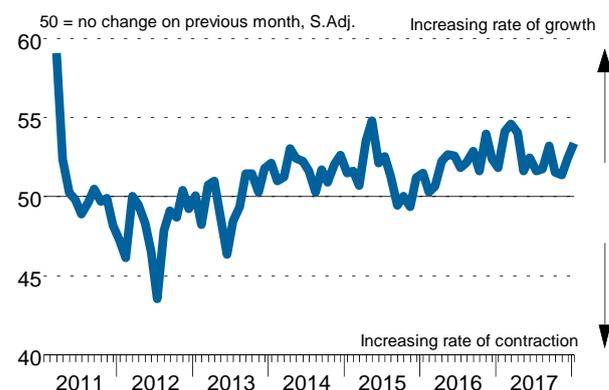
The headline Nikkei Vietnam Manufacturing Purchasing Managers' Index[™] (PMI[®]) – a composite single-figure indicator of manufacturing performance – posted 53.4 in January, up from 52.5 in December and signalling a solid monthly improvement in the health of the sector. The latest strengthening of business conditions was the twenty-sixth in successive survey periods and the most marked in nine months.

New orders continued to rise at the start of the year amid improving client demand. Moreover, the rate of expansion accelerated to a four-month high. Positive demand conditions were also highlighted in export markets, supporting a further solid increase in new business from abroad.

Rising new business supported a second successive monthly expansion of manufacturing output. The rise was solid and the fastest since last September.

Firms made further efforts to expand their operating capacity in January, taking on extra staff at a sharp pace. In fact, the rate of job creation was at a 16-month high. Extra capacity enabled manufacturers to reduce backlogs of work in spite of rising new orders. Outstanding business decreased for the third month running.

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Sources: Nikkei, IHS Markit

Production growth was also supported by a marked increase in purchasing activity, and the fastest in 13 months. Meanwhile, strong demand for inputs and raw material shortages led to further delays in deliveries from suppliers. Vendor delivery times lengthened to the greatest extent since August 2014.

Raw material shortages also contributed to rising input costs. The rate of input price inflation accelerated and was one of the strongest in the series history. The pace at which output prices increased also quickened and was the strongest in almost a year. Panellists mentioned higher input costs and improved client demand.

A strong rise in purchasing activity resulted in a second successive monthly increase in pre-production inventories. That said, the rate of accumulation remained marginal. Stocks of finished goods decreased, meanwhile, as inventories were used to support sales.

Manufacturers in Vietnam generally expect client demand to increase further over the course of 2018, thereby supporting optimism towards output growth. Sentiment was broadly in line with that seen in December. Increases in international investment and business expansion plans were also factors likely to lead output to rise.

Comment:

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

“After helping to drive growth of the overall economy in 2017, the first month of 2018 provided further welcome news for the Vietnamese manufacturing sector. Faster rises in output, new orders and employment were recorded amid improving demand conditions. With the TPP trade agreement also back on the agenda, there will be plenty of optimism that the sector will continue to grow as the year progresses.”

“On a more cautionary note, inflationary pressures intensified, with input costs up at one of the sharpest rates in the survey’s history. This adds to evidence that strong growth globally is putting pressure on manufacturing supply chains and pushing up costs for raw materials.”

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)

Andrew Harker, Associate Director
Telephone +44 1491 461 016
Email andrew.harker@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Principal Economist
Telephone +65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81 3 6256 7115
Email koho@nex.nikkei.co.jp

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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