Nikkei Vietnam Manufacturing PMI®

Slowest rise in output for 12 months

Key points:

- Output increases marginally despite solid new order growth
- Further rise in employment
- Cost inflation little-changed from September

Data collected October 12-23

The Vietnamese manufacturing sector experienced a slowdown in growth during October, with weaker rises in output, new orders and employment all recorded. That said, new orders continued to increase solidly amid faster growth of new export business. Meanwhile, there were signs that inflation may have peaked, with both input costs and output prices rising at broadly similar rates to the previous month.

The headline Nikkei Vietnam Manufacturing *Purchasing Managers' Index™ (PMI®)* – a composite single-figure indicator of manufacturing performance – dipped to 51.6 in October, from 53.3 in September. This signalled a modest improvement in business conditions that was the least marked in five months. That said, the health of the sector has strengthened continuously since December 2015.

Central to the weaker improvement in operating conditions was a much slower rise in manufacturing output. Production increased at a marginal pace that was the weakest in the current 12-month sequence of expansion. Where output rose, panellists linked this to higher new orders. On the other hand, some respondents mentioned signs of softer demand.

New orders continued to rise solidly in October, albeit to a lesser extent than in September. New export order growth accelerated, meanwhile, and was the strongest in six months.

With new business increasing at a solid pace and output rising only marginally, manufacturers used inventories to help fulfil orders. As a result, stocks of finished goods decreased for the fourth consecutive month.

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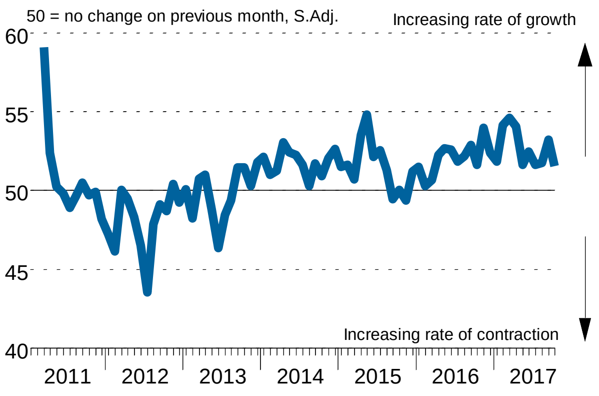

Sources: Nikkei, IHS Markit

Rising new orders resulted in a further accumulation of backlogs of work, the fourth in as many months. This was despite solid job creation during October. Employment has now risen in each of the past 19 months, with the latest increase only slightly weaker than September's six-month high.

After having risen at the fastest pace in over six years in the previous month, input costs increased sharply again in October and at a rate that was little-changed from September. Where inflation was recorded, panellists often mentioned raw material shortages. Output price inflation was also broadly unchanged from the end of the third quarter as charges rose for the second month running.

As well as pushing up prices for inputs, supply shortages also resulted in longer suppliers' delivery times in October. Flooding linked to storms also contributed to longer lead times as transport routes were affected.

Manufacturers increased their purchasing activity at a solid pace, albeit one that was weaker than in the previous month. Stocks of purchases rose only marginally, with the latest accumulation the weakest in the current 16-month sequence of increasing pre-production inventories.

Firms remained optimistic that output will rise over the coming 12 months, linked to predictions of improving market demand and the hitting of company targets. Sentiment was more positive than in September.

Comment:

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

"The Vietnamese manufacturing sector paused for breath in October, with output rising only marginally during the month. New order growth also slowed, but remained solid amid a faster increase in new export orders. There was further evidence of material shortages impacting on the sector, leading to higher input costs and delivery delays.

"The manufacturing sector has been a strong performer within the Vietnamese economy so far this year. Therefore, growth will need to rebound from October's slowdown over the rest of 2017 to help meet the GDP target of 6.7% growth. IHS Markit is currently forecasting a rise of 6.5%."

-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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