HSBC Purchasing Managers' Index™ Press Release

compiled by markit

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HSBC Vietnam Manufacturing PMI™

Output rises sharply amid record growth of new work

Summary

Growth in the Vietnamese manufacturing sector gathered pace in May, with rising client demand leading to record growth of output and new orders. The rate of job creation also picked up pace during the month. Meanwhile, input costs increased for the first time in seven months, but firms continued to lower their output prices.

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 for the second month running to 54.8 in May, from 53.5 in April. The marked improvement in operating conditions signalled by the latest reading was the strongest since the series began in April 2011. Business conditions have now improved in each of the past 21 months.

Central to the marked strengthening of the sector's health was a record increase in new business. Respondents indicated that the rise mainly reflected a greater need for products among customers. New export orders also rose, albeit at a much weaker pace than seen for total new business.

As client demand increased, manufacturers raised production accordingly. As a result, output increased for the twentieth month in a row, and at the strongest pace in the series history.

Firms were able to increase output partly as a result of a second successive month of job creation in May. Employment rose solidly, and at the sharpest pace since January. There was still evidence of pressure on capacity in the latest survey, however, as backlogs of work accumulated for the first time in five months. Panellists largely attributed higher outstanding business to sharp growth of new orders.

After having fallen in each of the previous six months, input costs at Vietnamese manufacturing firms rose. Higher oil and electricity prices, as well as a weakening of the Vietnamese dong against the US dollar, were mentioned by respondents as factors leading input costs to increase. That said, the rate of inflation was relatively modest and firms continued to lower their output prices amid competitive pressures. Charges have now decreased in each of the past eight months.

Rising production requirements led manufacturers to increase their input buying. Purchasing activity expanded sharply, and at the fastest pace in the series history. This contributed to a second successive monthly accumulation of stocks of purchases, with the expansion also the fastest recorded in just over four years of data collection so far.

Suppliers' delivery times lengthened marginally as panellists mentioned limited stock holdings at vendors. This was despite some reports that quick payments had led to faster deliveries. Delays in the dispatch of products to clients contributed to an accumulation of stocks of finished goods in May, while strong output growth was also cited as a factor leading to increased post-production inventories.

Comment

Commenting on the Vietnam Manufacturing PMI™ survey, Andrew Harker, Senior Economist at Markit said:

"The Vietnamese manufacturing sector gained further momentum in May and growth rates are now the best we have seen in the four years of data collection so far.

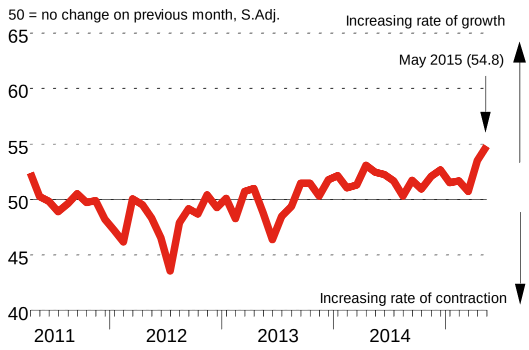
"Central to the recent success of firms in Vietnam has been their ability to secure new work in a competitive environment, and the recent 1% devaluation of the dong against the US dollar by the State Bank of Vietnam should help efforts to maintain international competitiveness. On the other hand, some firms did report a rise in costs as a result of the weaker currency, leading to a first rise in input prices in seven months."

Key points

- Strong growth of output and new orders in May
- Rate of job creation picks up
- First rise in input prices in seven months

Historical Overview

HSBC Vietnam Manufacturing PMI



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 over 30 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