

HSBC Vietnam Manufacturing PMI™

Manufacturing PMI rises to three-month high, but still signals a deterioration in business conditions

Summary

The **HSBC Vietnam Manufacturing PMI™** posted 47.9 in August, up from 43.6 in July, signalling a further worsening of Vietnamese manufacturing sector operating conditions. However, the latest index reading was consistent with only a modest rate of deterioration that was the weakest since May.

Manufacturing output decreased further in August, albeit at the weakest rate in four months. Where a decline in factory output was signalled, companies commonly attributed this to lower levels of new business. Similar to the trend for manufacturing production, the rate of reduction in new work eased since the month before. The latest decrease was the fourth in as many months, and only modest. New export orders also decreased during the month, albeit at a slower rate than for overall new work. Companies generally attributed the decline in total new business to weak demand from both domestic and external markets.

With new business falling further, backlogs of work decreased and firms shed workers overall. The latest decrease in staff numbers was the third in successive months. However, the rate of job shedding was only marginal.

Purchasing activity decreased again in August, although the rate of decline eased markedly from one month earlier. Reduced input buying contributed to a continued drop in stocks of purchases in August. Meanwhile, companies reported that supplier capacity was little tested over the month, with vendor lead times shortening further. This in part reflected sufficient availability of inputs at suppliers due to softer demand.

Average input costs faced by Vietnamese goods producers rose in August, ending a two-month period of decline. Respondents to the latest survey commented on higher prices paid for a range of raw materials. However, the rate of input price inflation was relatively modest. Despite the rise in costs, companies continued to lower their average tariffs. The latest decrease in factory gate charges was the fourth in as many months, but much slower than those seen in June and July. Companies that reduced their selling prices did so in part due to competitive pressures.

Comment

Commenting on the Vietnam Manufacturing PMI™ survey, Trinh Nguyen, Asia Economist at HSBC said:

"While business conditions in Vietnam remain challenging, the slowdown of the rate of manufacturing deterioration suggests that economic activities will likely gradually recover in 4Q. External demand continues to be weak, dragging down export orders. With low demand domestically, especially as many Vietnamese try to unload their debt, GDP growth rate will slow to 5.1% this year (versus 5.9% last year). With month-on-month inflation rising again due to higher commodity prices, as evidenced by higher input prices, the SBV will likely hold off on reducing the OMO rates further and resort to administrative measures to boost spending."

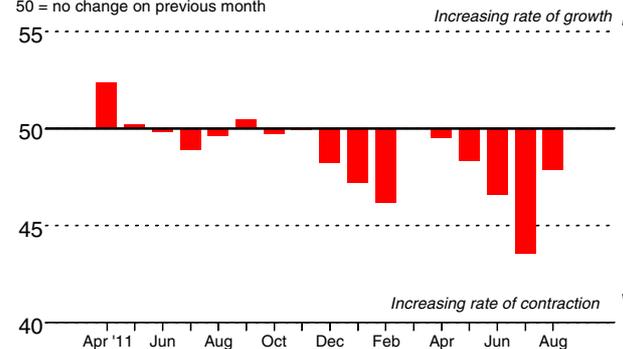
Key points

- Output and new business down at slower rates
- Marginal rate of job shedding signalled
- Average input costs rise, ending two-month period of decline

Historical Overview

HSBC Vietnam PMI

50 = no change on previous month



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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