HSBC Purchasing Managers' Index™ Press Release

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HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing contracts sharply in June

Summary

The Vietnam manufacturing sector was hit by marked downturns in output and new orders in June, leading companies to cut employment and purchasing. At 46.4, down from 48.8 in May, the seasonally adjusted HSBC Vietnam Manufacturing PMI slumped to its third-lowest reading since the survey began in April 2011. The PMI has remained at a sub-50.0 level — signalling contraction — for two successive months.

The domestic market was the principal source of demand weakness in June, as the level of new export business fell only slightly. With inflows of new work from both domestic and foreign sources deteriorating, manufacturing production was also substantially reduced. Since the survey began in April 2011, output and new business have only fallen at a faster pace on one occasion (July 2012).

The sharp reduction in inflows of new business also led to a solid build-up of stocks of finished products in June. Inventories rose at the fastest pace in a year. This replenishment of stocks may also reduce the need to raise production in coming months.

Weak market conditions also influenced decisions relating to employee hirings, purchasing and input holdings. Job losses were reported for the second straight month in June, with the rate of reduction the steepest in 11 months. Part of the latest cut in headcounts reflected the build-up of spare capacity in the sector, as highlighted by a substantial drop in the level of work-in-hand (but not yet completed) at factories.

Purchasing activity was cutback sharply during June, contributing to a further slight decline in stocks of raw materials and semi-manufactured goods. Weaker demand for raw materials was also felt at suppliers, leading to an improvement in average lead times for the third month in a row. Manufacturers indicated that successful negotiations with vendors and agreeing to faster payment had also resulted in shorter delivery times.

Price pressures continued to ease during the latest survey month. Although average input costs have risen throughout the year-to-date, the latest rate of inflation was only marginal and the least marked during the current sequence of increase. Meanwhile, manufacturers cut their average selling prices in an effort to stimulate sales. Output charges subsequently fell at the quickest pace since July 2012.

Comment

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

"The sharp downturn of manufacturing activity suggests that domestic weakness continues to weigh on overall business activity. Sales are sluggish despite discounting measures due to low appetite for consumption. Coupled with this, external conditions have weakened, with lower demand from China and South Korea. With June headline inflation accelerated, the central bank will adopt a wait-and-see mode for now."

Key points

- HSBC PMI slumps to 11-month low
- Output and new orders fall at second-fastest rates in survey history
- Domestic market principal source of demand weakness

Historical Overview

HSBC Vietnam PMI

50 = no change on previous month 55 June 2013 (46.4) 45

Oct Jan '12 Apr

Sources: Markit, HSBC.





Increasing rate of contraction

Oct Jan'13 Apr

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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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