HSBC Purchasing Managers' Index™ Press Release

Embargoed until: 09:00 (Ho Chi Minh City) 1 August 2013

HSBC Vietnam Manufacturing PMI™

Slower deterioration of operating conditions signalled during July

Summary

Vietnam's manufacturing sector continued to contract during July, albeit at a slower pace as output and new orders fell at weaker rates and employment was unmoved.

The headline seasonally adjusted *Purchasing Managers' Index* TM (*PMI* TM) registered 48.5 in July. That was an improvement on June's 46.4 but, by remaining below the 50.0 no-change mark, signalled a third successive monthly contraction of the manufacturing sector.

Output and new orders both continued to fall during the latest survey period, albeit at slower rates. Modest falls in these key variables were said to reflect soft underlying market conditions, with clients' purchasing power reported to have weakened.

Latest data implied that the net decline in new orders was partly driven by a decline in new business from abroad. New export orders fell for a second successive month and at the fastest rate since the start of the year. China was noted in particular as a source of demand weakness during the latest survey period.

With new orders continuing to fall, panellists were able to make further inroads into their work outstanding. The latest decline was the joint second fastest in the survey history as companies were able to take advantage of slow demand and clear existing contracts.

Excess production was also used to build inventories during July, with stocks of finished goods rising to the sharpest degree since June 2012. Inventories have now grown for two months in a row.

On the employment front, Vietnamese manufacturers left staffing levels unchanged during July following two months of contraction. While some panellists added to payroll numbers to help bolster production, others responded to reduced new order volumes by cutting staffing levels.

Output charges were cut further in July, the fourth month in succession that a net reduction in average tariffs has been observed. Discounts were reported to reflect intensifying market competition and efforts to stimulate sales. There was some evidence that output prices were being reduced to help clear excess inventory at plants.

In contrast, input prices continued to rise. Inflation has now been registered for seven months in a row, with a limited supply of inputs reported to have pushed up prices. There was also evidence that a stronger US dollar had raised import costs.

Comment

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

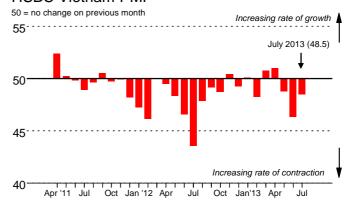
"The further deterioration of Vietnam manufacturing activity reflects both weak domestic and external conditions. The decline of new exports was primarily due to weakness from China demand. External conditions will likely improve in 4Q with US, Japan, Eurozone, and China demand likely picking up. While that will provide some support, much of Vietnam's malaise is domestic born and requires a faster pace of reform. The SBV recently reduced the OMO rate by 50bp to ease liquidity conditions. But that is likely a stop-gap solution as fundamental reforms are required to resolve Vietnam credit challenges."

Key points

- PMI remains below 50.0 no-change mark for third successive month
- Output and new orders fall, but at slower rates
- Employment levels unchanged

Historical Overview

HSBC Vietnam 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' IndexTM (PMITM)* 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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