HSBC Purchasing Managers' Index™ Press Release

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HSBC Vietnam Manufacturing PMI™

Manufacturing sector moves closer to stabilisation

Summary

August's survey signalled a near stabilisation of Vietnam's manufacturing sector. Although output and new orders continued to fall, they did so at marginal rates. There was a survey record increase in employment as manufacturers signalled positive expectations for activity.

Profitability remained under pressure, however, as output charges were little changed, but input prices rose at the sharpest pace since March. Rising transportation costs were widely reported.

The headline seasonally adjusted Purchasing Managers' Index™ (PMI™) recorded 49.4 in August. That was an improvement on July's 48.5 and the best reading since April but, by remaining below the 50.0 nochange mark, signalled a marginal deterioration of manufacturing operating conditions.

New orders received by Vietnam's manufacturers continued to fall in August, extending the current run of contraction to four months. Market activity remained slow, according to panellists, and customer demand soft. That said, there were reportedly pockets of growth, the net result being only a marginal overall contraction in new work.

Latest data showed that new export orders also continued to decline. The marginal fall was the third in successive months. Export market conditions were reported to have remained tough, but were showing signs of stabilisation.

Manufacturing production volumes fell for a fourth month in succession during August. The decline was linked to a fall in new orders. In line with the trend for sales, the degree to which output fell was modest.

Manufacturers were again able to make inroads into their work outstanding during the latest survey period. Backlogs of unfinished orders fell for the seventeenth successive month, and again at a marked pace.

Falling backlogs in part reflected a depletion of inventories. Warehouse stocks fell marginally for the first time in three months. Additional capacity also helped companies to keep on top of workloads. Employment rose in August for the first time since April, with the rate of growth solid and the sharpest in the survey history. Recruitment reflected positive forecasts for production and orders.

Profits came under further pressure, reflective of two factors.

Firstly, output charges were little changed. Competitive pressures, efforts to stimulate sales and client requests for reduced prices all weighed on average tariffs.

Secondly, input prices rose at a marked and accelerated pace. Inflation was the sharpest since March. Higher transportation costs and a rise in the price of oil and associated derivatives were reported as key inflation drivers.

Comment

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

"Vietnam manufacturing activity continues to be hammered by weak external demand and sluggish domestic conditions, although the pace of contraction is significantly reduced. Global demand is expected to pick up towards year-end thanks to a recovery from the US, the Eurozone, Japan, and China. This should help the manufacturing sector. However, with input prices rising and domestic conditions still weak, we think the recovery process in Vietnam continues to be bumpy."

Key points

- Output and new orders fall at slower rates
- Survey-record increase in employment
- Profitability under pressure

Historical Overview



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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