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HSBC Vietnam Manufacturing PMI™

Manufacturing PMI signals marginal worsening of operating conditions

Key findings:

- Output little changed since the month before
- New export orders down at sharpest rate recorded by series to date
- Input cost inflation accelerates

This report contains the sixth public release of data collected from the new monthly survey of business conditions in the Vietnamese manufacturing sector. The headline figure derived from the survey is the Manufacturing *Purchasing Managers' Index™* (PMI™). Readings above 50.0 signal an improvement in business conditions on the previous month while readings below 50.0 show deterioration.

The HSBC PMI signalled a further worsening of manufacturing sector operating conditions during September, although the rate of deterioration was only slight. This was highlighted by a rise in the headline index from 47.9 to a five-month high of 49.2.

September data showed that manufacturing output was little changed since the month before, following a solid reduction one month previously.

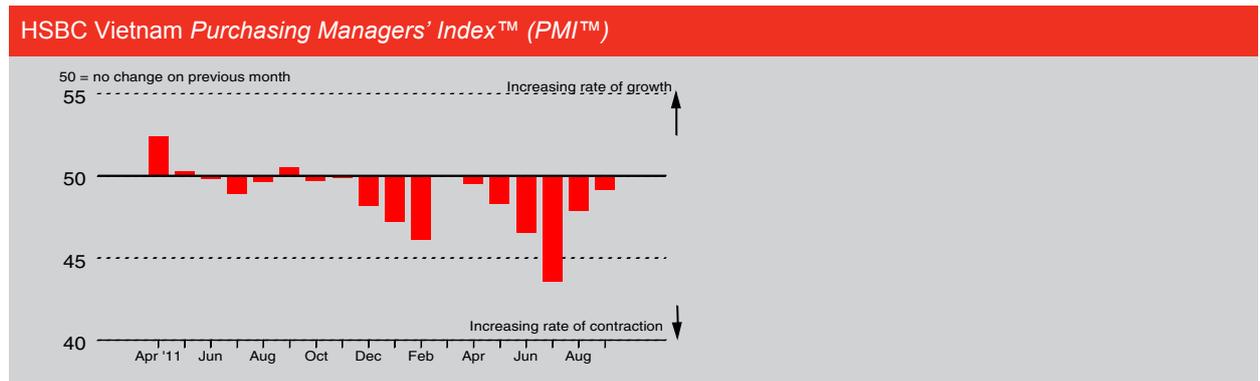
Meanwhile, new orders decreased again in September, with panellists largely attributing this to subdued market demand conditions. The rate of decline in new work was the weakest in the current five-month period of contraction, however, and only modest. In contrast, the pace of reduction in new export business accelerated since the month before. Although only modest, the latest decrease in foreign orders was the sharpest recorded by the series to date.

The size of the Vietnamese manufacturing sector workforce was little changed in September. Meanwhile, backlogs of work declined at a sharp rate that was the steepest in the short series history. The latest decrease in outstanding business extended the current period of reduction to six months.

Purchasing activity continued to fall in September. The rate of decline in input buying was only slight, however, having eased markedly for a second successive month. Stocks of purchases fell as a result, although the rate of decline was the slowest since November 2011. Meanwhile, companies continued to report shorter lead times from vendors, largely reflective of sufficient stock of inputs at suppliers.

Average input costs faced by goods producers rose for a second successive month in September, with the rate of inflation accelerating to a five-month high. The overwhelming reason given by panellists for a rise in average prices was that raw material costs had increased over the month. Some survey respondents also mentioned higher prices paid for fuel.

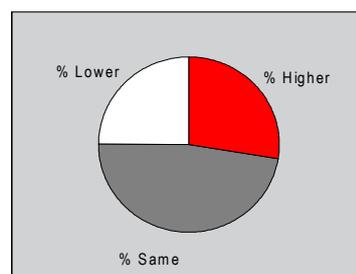
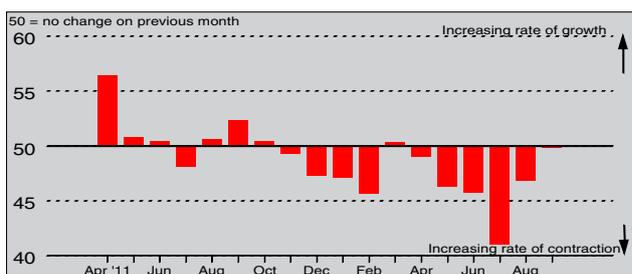
Despite the rise in average costs, goods producers reduced their output charges during September in an attempt to attract new business. The rate of output price discounting was only slight, however.



The HSBC Vietnam Manufacturing Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI™ below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

Output Index

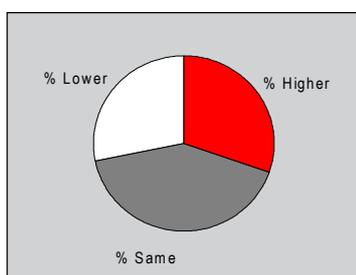
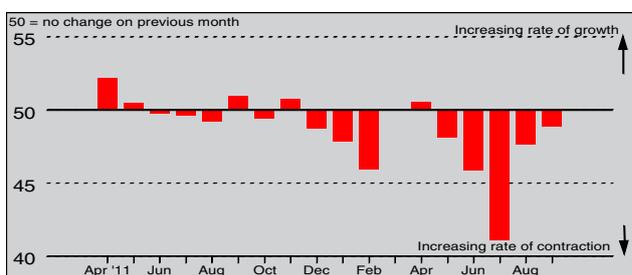
Q. Please compare your production/output this month with the situation one month ago.



Latest figures showed that Vietnamese manufacturing production was little changed during September, following a solid reduction one month previously. Indeed, the seasonally adjusted Output Index has risen almost nine points since July. Anecdotal evidence provided by survey respondents suggested that the stagnant output picture reflected lower levels of new business.

New Orders Index

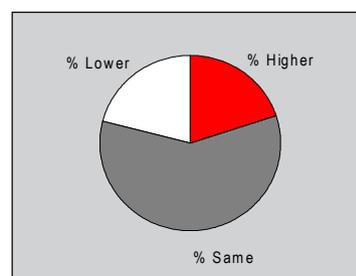
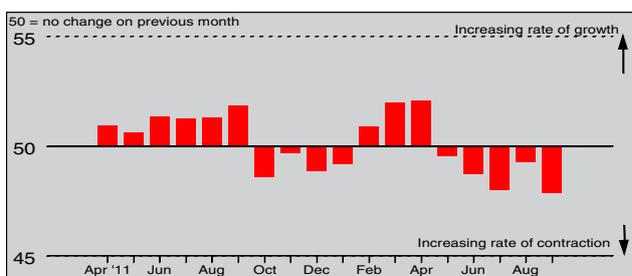
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



The seasonally adjusted New Orders Index indicated that the level of new business placed at Vietnamese goods producers decreased for a fifth successive month during September. However, the rate of decline in new orders was the weakest in that sequence, and only modest. Behind the latest decrease in new work was continued demand weakness both at home and abroad.

New Export Orders Index

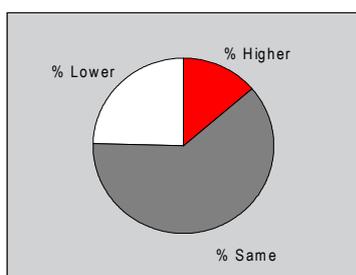
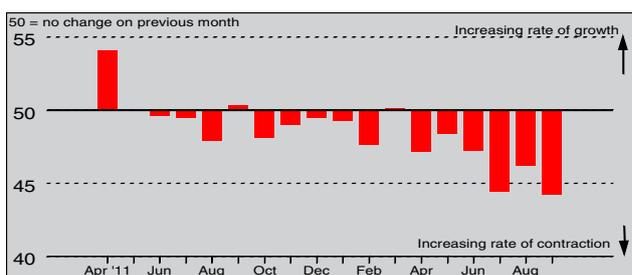
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After adjusting for seasonal variation, the New Export Orders Index posted below the neutral level of 50.0 in September, signalling a fifth successive month-on-month decline in new export orders. Although only modest, the rate of decline in new export work was the sharpest recorded by the series to date. Anecdotal evidence provided by survey respondents overwhelmingly linked the latest decrease in new export business to weak global demand conditions.

Backlogs of Work Index

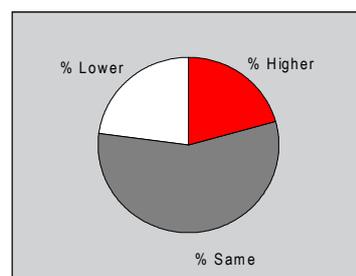
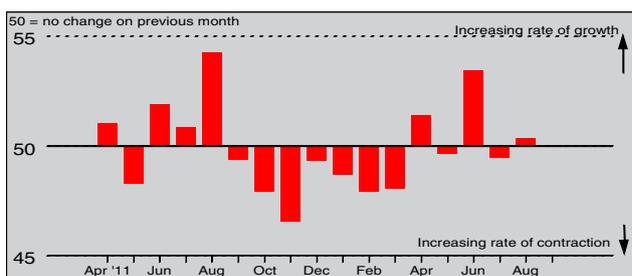
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Latest data showed that spare capacity remained evident in the Vietnamese manufacturing sector, with backlogs of work falling for a sixth successive month during September. Almost 25% of survey respondents reported a decline in volumes of work-in-hand (but not yet completed) since the month before, compared with 14% that noted an increase. The rate of backlog depletion was marked, and the most pronounced in the short series history.

Stocks of Finished Goods Index

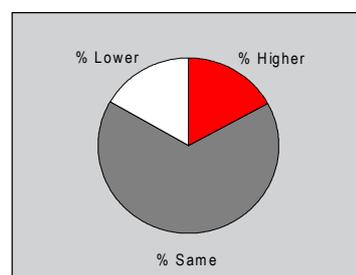
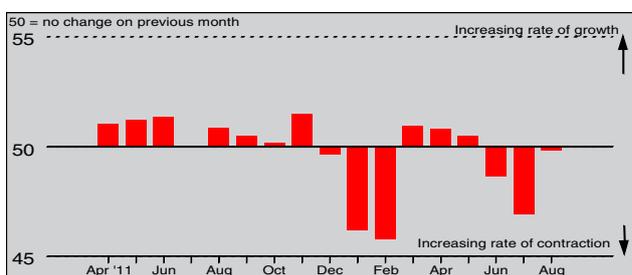
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



September data showed that holdings of post-production goods in the Vietnamese manufacturing were unchanged since the month before, following a marginal rise one month previously. Where higher stock levels were reported, panellists mentioned weaker-than-expected sales. Companies that registered a decline in post-production inventories often linked this to stock utilisation policies.

Employment Index

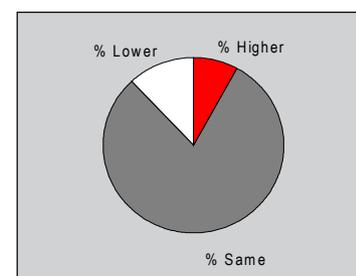
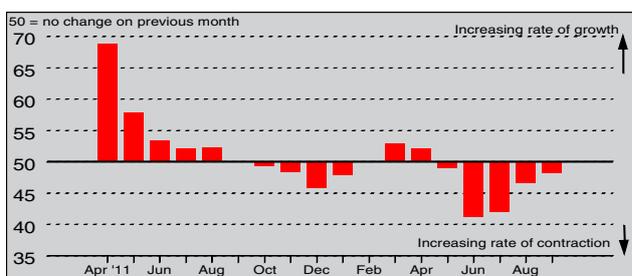
Q. Please compare the level of employment at your unit with the situation one month ago.



The size of Vietnam's manufacturing sector workforce continued to contract in the final month of the third quarter. The seasonally adjusted Employment Index has now posted below the neutral level of 50.0, signalling reduction, in each of the past four months. Anecdotal evidence provided by survey respondents suggested that job shedding reflected fewer intakes of new orders. The rate of job shedding remained marginal, however, with the majority of panellists (around 66%) signalling no change since the month before.

Output Prices Index

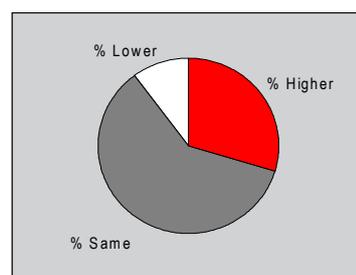
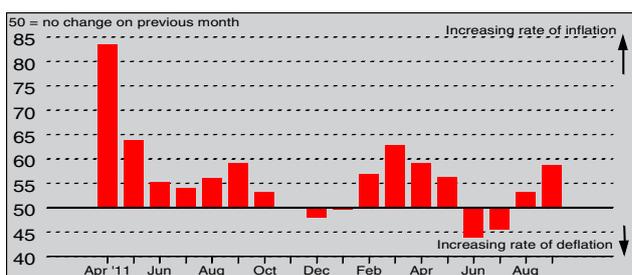
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Despite higher average costs, prices charged by manufacturers for their final products decreased further during September, with the Output Prices Index posting below the neutral level of 50.0 for the fifth month in succession. The index was at a level indicative of only a modest rate of output price discounting, however. Exactly 12% of the survey panel recorded a decrease in average tariffs since August, compared with 8% that noted an increase. Lower selling prices were mostly linked by panellists to competitive pressures.

Input Prices Index

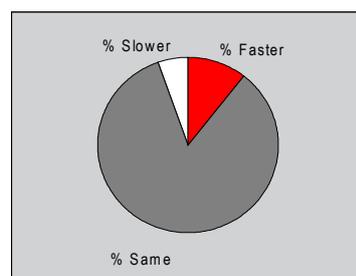
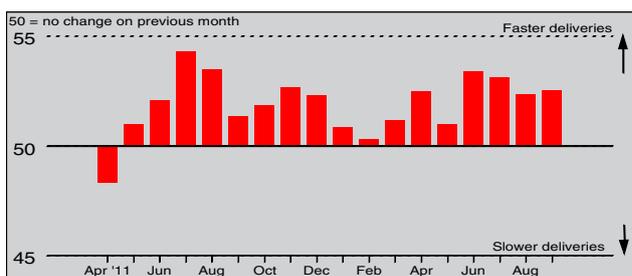
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



September data signalled a second successive month-on-month increase in average input costs faced by Vietnamese manufacturers. The rate of inflation of purchasing costs was sharp, and the strongest since April. Of the 30% of survey participants that recorded an increase in input prices, the overwhelming reason given was that raw material costs had risen over the month. Some survey respondents also mentioned higher prices paid for fuel.

Suppliers' Delivery Times Index

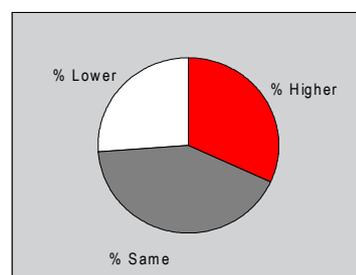
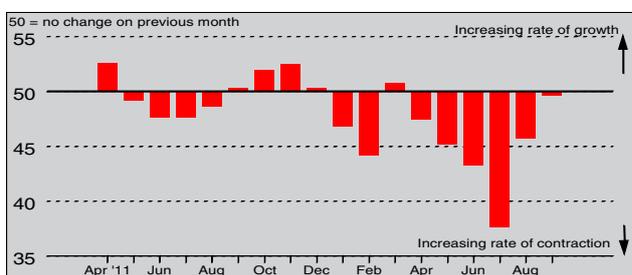
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by vendors to deliver inputs to Vietnamese manufacturers shortened in September, with almost 11% of panellists reporting an improvement in supplier performance since the month before. This compared with 5% that noted a deterioration. The seasonally adjusted Suppliers' Delivery Times Index has now posted above the neutral 50.0 threshold, signalling shorter lead times, for 17 months in succession. Companies generally commented on sufficient stock of inputs at vendors.

Quantity of Purchases Index

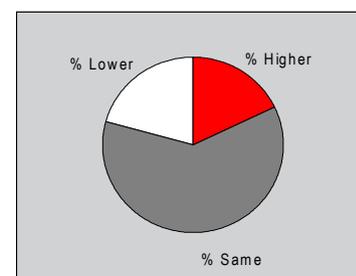
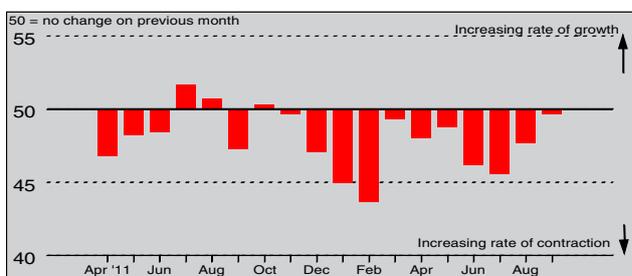
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



After accounting for seasonal variation, the Quantity of Purchases Index posted below the neutral level of 50.0 in September, signalling a continued month-on-month decline in purchasing activity. However, the rate of decline in input buying eased to the weakest in the current six-month period of reduction, and was only slight. Anecdotal evidence suggested that reduced input buying reflected lower output requirements and, in some cases, stock utilisation policies.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.



Holdings of pre-production goods at Vietnamese manufacturers' plants fell for an eleventh successive month in September, with approximately 21% of survey respondents reporting a decrease from one month before. However, the seasonally adjusted Stocks of Purchases Index was at a level indicative of only a marginal rate of stock depletion. According to survey respondents, the latest decline in pre-production inventories reflected reduced purchasing activity.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 300 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Vietnam 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 derived from the Chartered Institute of Purchasing & Supply's survey of the UK economy: 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.

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