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# HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing downturn continues at start of Q4 2012

**Key findings:**

- HSBC Manufacturing PMI™ falls to 48.7 in October
- Output and new orders decline further
- Input costs rise sharply, but selling prices fall again

This report contains the seventh 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 seasonally adjusted HSBC Manufacturing PMI posted 48.7 in October, down from 49.2 in September. The headline PMI has remained below the critical 50.0 mark for seven months running. Although the rate of contraction was sharper than in the prior month, it was markedly slower than that signalled in July (which is the steepest in the 19-month series history).

Manufacturers reported further declines in output and new orders, as demand weakened on the back of a subdued domestic market and reduced global trade flows. Production fell for the seventh month in a row, although the pace of contraction remained marginal overall. New orders and new export business both fell for the sixth consecutive month. Companies reported reduced demand from clients in China, Japan and Taiwan.

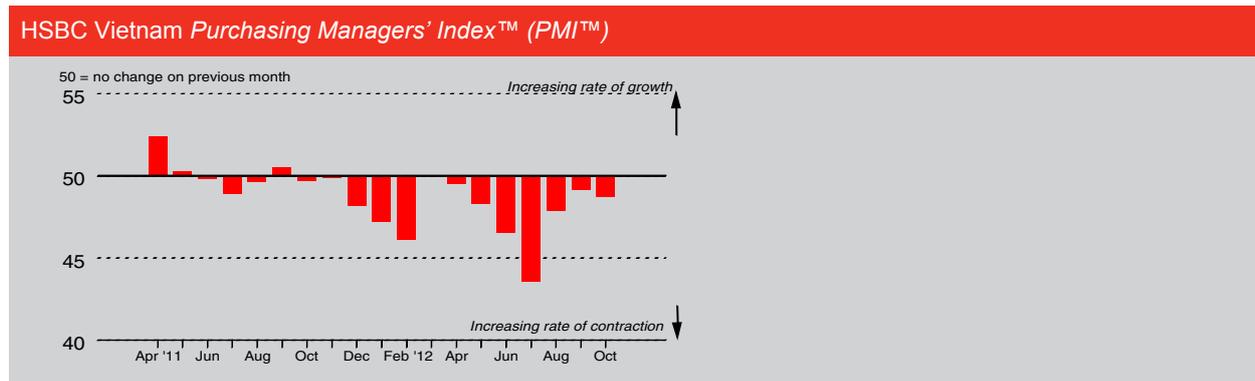
Spare capacity remained available in October, as highlighted by a further solid decrease in work-in-hand (but not yet completed) volumes. This reflected not only intentional efforts to clear

backlogs of work, but also a slight increase in staffing levels. However, where job creation was reported, this was generally at those companies expanding production.

The downturn in the sector continued to influence levels of purchasing activity and inventory holdings during October. Reduced production requirements meant that input buying volumes were cutback sharply and to a greater extent than during the prior survey period. Stocks of purchases subsequently fell for the twelfth month running and at the fastest pace since July. Inventories of finished goods were broadly unchanged for the fourth straight month.

October data were consistent with a further squeeze on manufacturers' operating margins, as input costs continued to rise at a time of reduced pricing power. Average purchase prices rose for the third month in a row, reflecting higher costs for foodstuffs, fuels and transportation. Meanwhile, average output prices fell for the sixth straight month. The pace of charge deflation remained solid, but was noticeably less marked than the severe rates seen during June and July of this year.

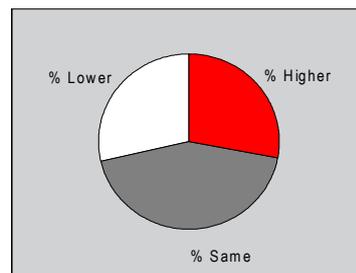
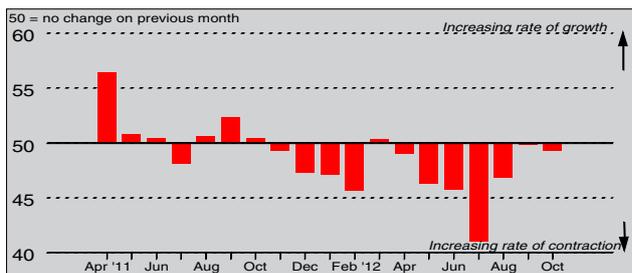
Average supplier lead times were unchanged over the month in October, following a 17-month period of improving vendor performance. Over 85% of companies reported no change in lead times during the latest survey period.



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

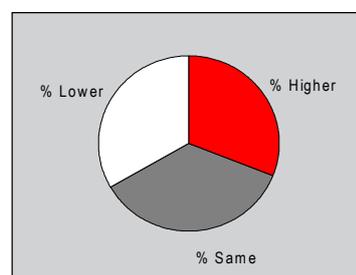
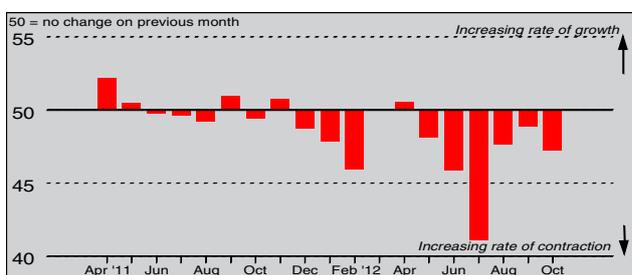
Q. Please compare your production/output this month with the situation one month ago.



Vietnamese manufacturing production decreased for the seventh successive month in October. Companies generally linked lower levels of output to declining inflows of new business, especially from export clients. Although the rate of contraction was sharper than in the prior month, it remained only marginal overall. Where an increase in output was registered, this partly reflected efforts to clear backlogs of work.

### New Orders Index

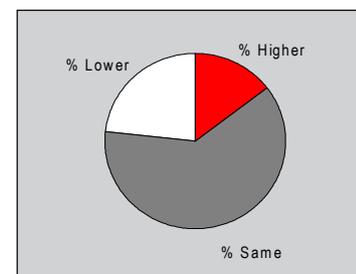
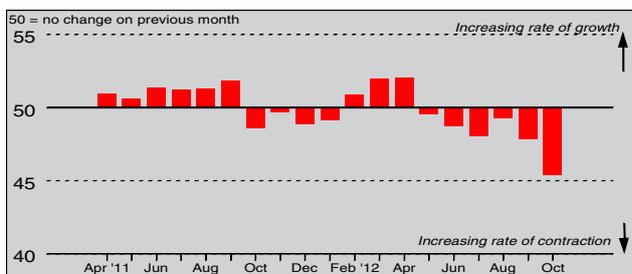
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



October saw the level of incoming new business contract for the sixth month running. Moreover, the rate of decline was solid and the fastest registered since July's series record. Companies reported experiencing weaker economic conditions, especially in a number of key foreign markets. One-third of the survey panel reported a reduction in new work received during October.

### New Export Orders Index

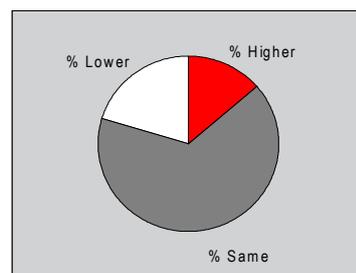
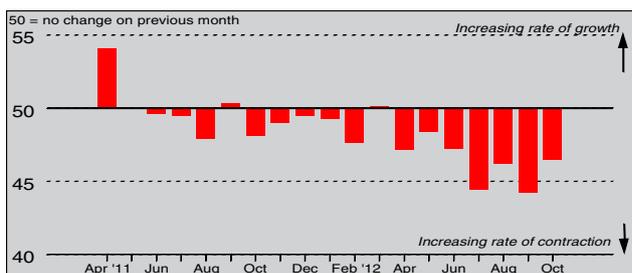
Q. Please compare the level of new export orders received this month with the situation of one month ago.



Weaker global demand led to a further solid reduction in new export business during October. Incoming new export orders have fallen in each of the past six months, with the rate of contraction generally accelerating through that period. Subsequently, the latest decline in new export orders was the steepest in the 19-month survey history. Companies reported reduced inflows of new business from China, Japan and Taiwan.

### Backlogs of Work Index

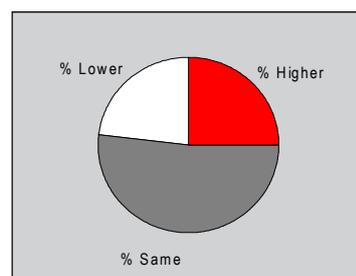
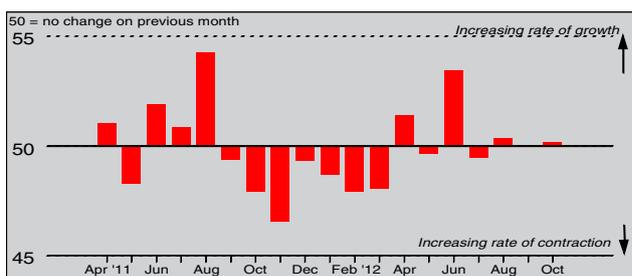
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



October data signalled that spare capacity remained available in the Vietnam manufacturing economy. This was highlighted by a further marked reduction in backlogs of work, which fell for the seventh successive month. Panellists generally linked lower levels of outstanding business to reduced inflows of new orders. However, the rate of depletion of work-in-hand eased to a four-month low.

### Stocks of Finished Goods Index

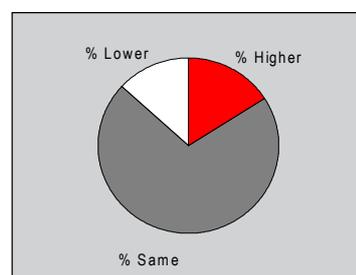
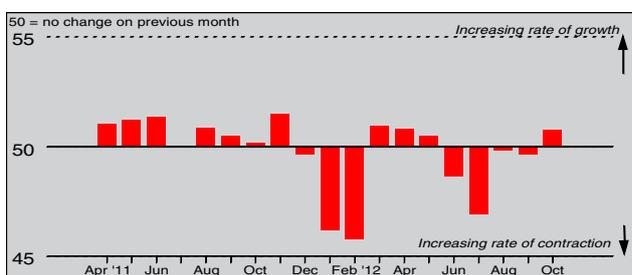
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The level of finished goods stocks showed little change for the fourth month in a row during October. Over half of the survey panel reported no change in holdings over the month, with broadly similar proportions of firms signalling either an increase or decrease (25% and 23% respectively). The current level of the seasonally adjusted Stocks of Finished Goods Index is broadly in line with the series average.

### Employment Index

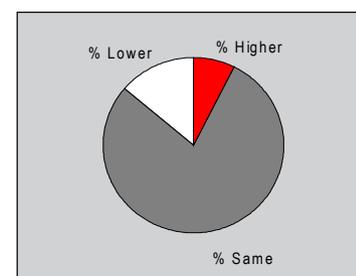
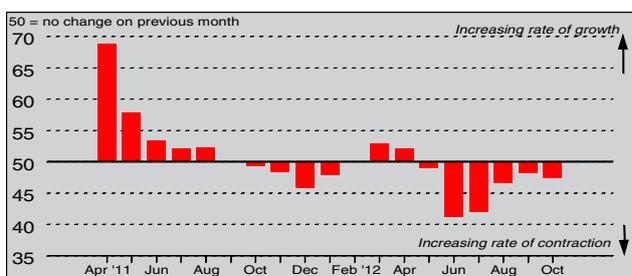
Q. Please compare the level of employment at your unit with the situation one month ago.



October data signalled a slight increase in manufacturing employment, halting a four-month period of job losses. Although the rate of increase was only marginal, it was nonetheless the fastest registered since April. Where an increase in staffing levels was recorded, this was generally at those firms reporting higher output.

### Output Prices Index

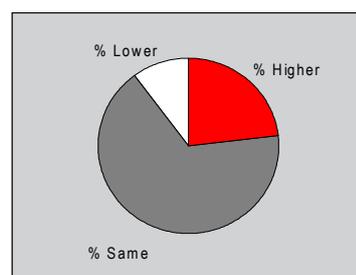
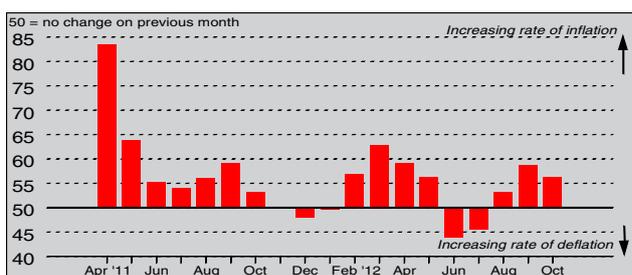
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average output prices declined for the sixth consecutive month in October. Although the rate of charge deflation was sharper than in September, it was mild in comparison to those signalled in June and July of this year. Almost 14% of the survey panel reported a decrease in average charges. Lower output prices were generally linked to subdued demand and strong competition.

### Input Prices Index

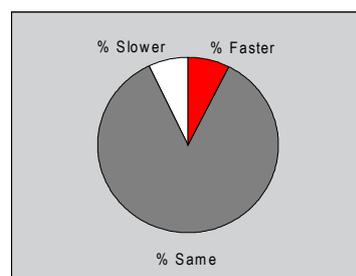
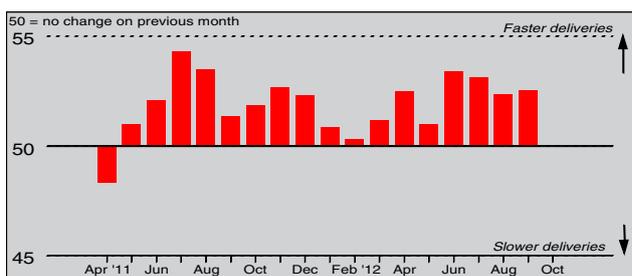
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input costs continued to increase during October, with around 23% of survey respondents reporting higher raw material prices. Costs have now increased in each of the past three months and, although slower than in September, the rate of inflation remained marked. Manufacturers reported higher prices for foodstuffs, fuels (oil, energy, gas) and transportation.

## Suppliers' Delivery Times Index

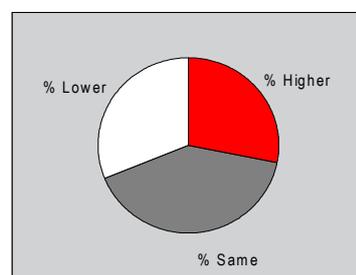
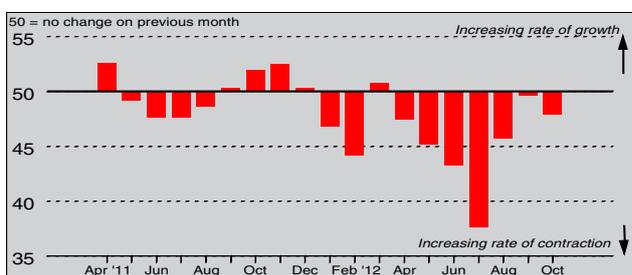
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



October data showed no change in average vendor lead times, following a 17-month period of improving supplier performance. Over 85% of the survey panel reported that vendor lead times were unchanged over the month. Where shorter delivery times were reported, this was linked to reduced demand for raw materials. Conversely, longer lead times reflected shortages of certain inputs and delays in shipping.

## Quantity of Purchases Index

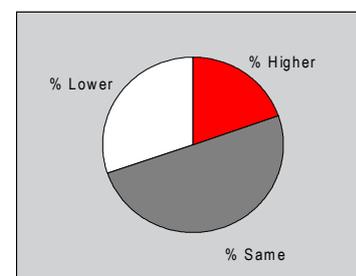
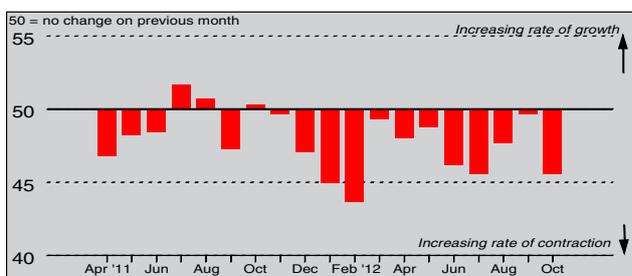
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The downturn in the manufacturing sector continued to impact on purchasing levels during October. Input buying volumes declined for the seventh consecutive month, with close to 31% of survey respondents reporting a decrease. Although the rate of reduction was faster than one month earlier, it was soft in comparison to that recorded during July (which is the steepest in the 19-month series history).

## Stocks of Purchases Index

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



Stocks of purchases fell further in October, as the downturn in the manufacturing sector led companies to deplete their inventory holdings. A number of firms also linked lower stocks to reduced levels of input purchasing. The latest decline in inventory levels was marked, with the rate of reduction having accelerated sharply since September.

## 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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