HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing production stagnates in December

Key findings:

- HSBC Vietnam Manufacturing PMI at 49.3 in December
- Output stagnates as new order inflows decline
- Input prices fall for first time in five months

This report contains the ninth 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.

At 49.3 in December, down from 50.5 in November, the seasonally adjusted HSBC Vietnam Manufacturing PMI posted below the neutral 50.0 mark for the eighth time in the past nine months. The latest deterioration in operating conditions mainly reflected reduced new order inflows, disinvestment of inventory holdings and stagnating production volumes.

The average PMI reading in Q4 2012 is 49.5, up from 46.9 in Q3 and the highest outcome since the third quarter of 2011.

After rising moderately in November, the level of manufacturing output was broadly unchanged during December. Companies indicated that where volumes had been sustained, this had been largely through the depletion of backlogs of work. Market conditions remained subdued overall, reflected in reductions in both domestic and new export orders. The level of new export business contracted for the eighth month running and to a greater extent than signalled in November.

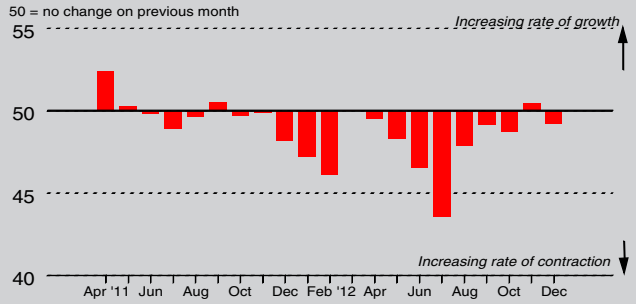
The muted performance of the sector has not yet filtered through to the labour market, as highlighted by job creation being recorded at manufacturers for the third successive month in December. Although the rate of increase in payroll numbers was again only mild, it was nonetheless still one of the fastest signalled since the survey began in April 2011. Higher employment – alongside efforts to sustain production volumes – was also a prime factor underlying the substantial drop in backlogs of work.

Weak demand and rising cost-caution impacted on purchasing and stock holding decisions during December. Input buying volumes were unchanged compared to November levels, as lower demand discouraged companies from raw material purchasing. Meanwhile, a preference for reduced inventory holdings led to lower levels of pre- and post-production stocks.

Average input prices declined for the first time in five months in December, although the rate of reduction was only slight. Lower purchasing costs were mainly attributed to weak demand for raw materials, especially in the domestic market.

December saw average output prices decline for the eighth consecutive month, with the rate of decrease broadly in line with the average for this period. Lower factory gate prices were attributed to weak demand and strong competition.

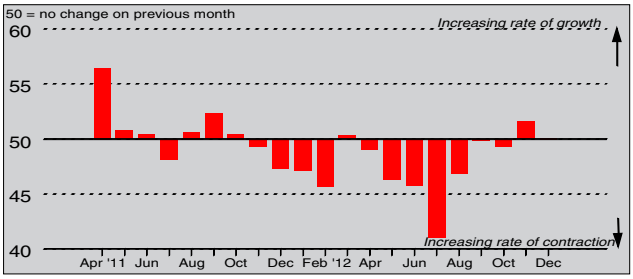
HSBC Vietnam *Purchasing Managers' Index™ (PMI™)*

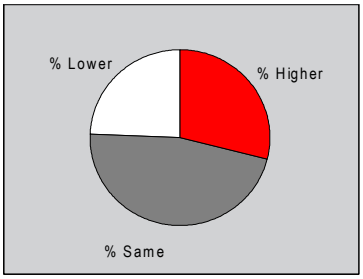


The HSBC Vietnam Manufacturing Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes 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.

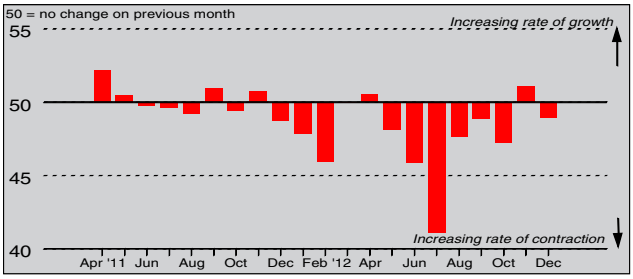


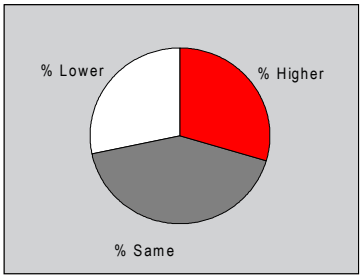


Vietnam manufacturing production stagnated during December, following a modest expansion of output in the prior month. Companies reported that this mainly reflected reduced inflows of incoming new work and a preference for holding lower finished goods stocks. Some firms noted that production volumes had been principally sustained through the depletion of 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.

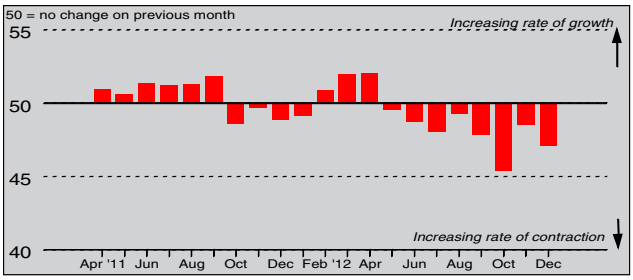


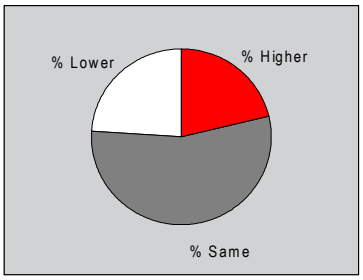


After rising slightly in November, the level of incoming new business contracted for the seventh time in the past eight months in December. Where a decline in new orders was reported, this was attributed to weaker consumer demand, subdued global market conditions and lower levels of new export business. However, the rate of contraction in overall new orders was only moderate.

New Export Orders Index

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

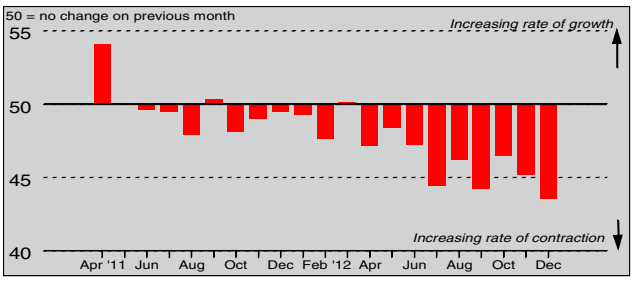


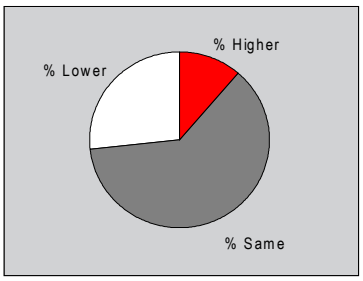


Vietnam manufacturers reported a decrease in incoming new export orders for the eighth successive month in December. Moreover, the rate of contraction was solid and sharper than in the previous month. Companies indicated that weaker global economic growth had led to reduced inflows of new export business. Almost one-quarter of panellists reported a drop in new export contracts.

Backlogs of Work Index

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

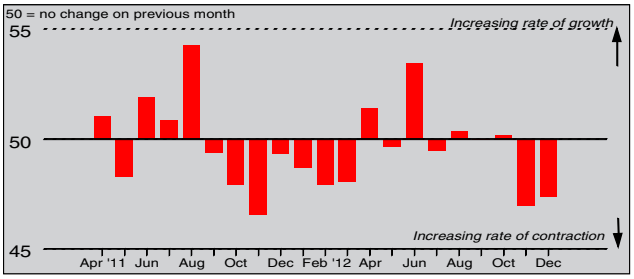


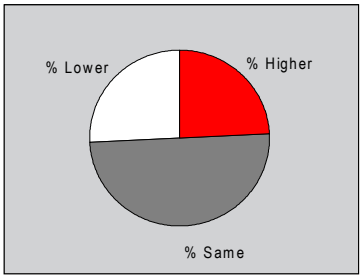


Signs of spare capacity remained present in the Vietnam manufacturing sector during December. This was highlighted by a substantial reduction in the level of work-in-hand (but not yet completed) at factories. The rate of decline accelerated further to its steepest since the survey began in April 2011. A number of companies indicated that backlogs of work had been depleted in order to maintain production volumes.

Stocks of Finished Goods Index

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

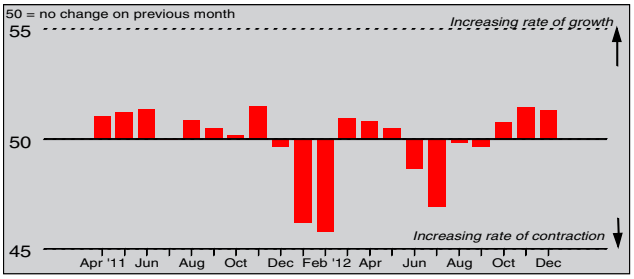


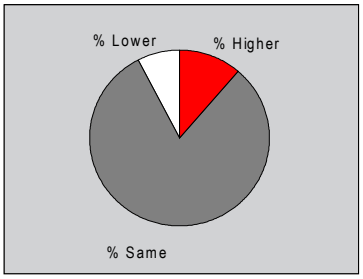


Stocks of finished goods were depleted for the second straight month in December, albeit to a slightly lesser extent than in November. Where a decrease in inventory holdings was reported, this was linked to cost caution, stagnating production levels and efforts to clear backlogs of work. A number of firms indicated that inventories had been reduced to levels more consistent with weaker demand.

Employment Index

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

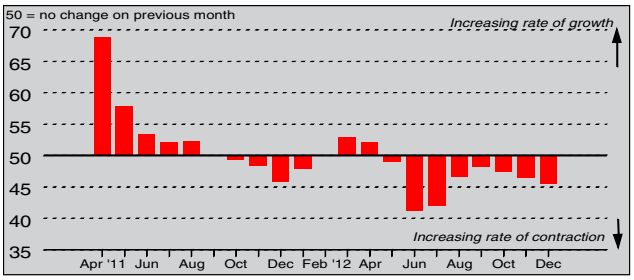


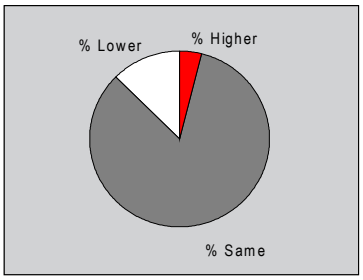


The overall level of employment in the Vietnam manufacturing sector increased for the third successive month in December. Although the rate of job creation was only mild, it was nonetheless among the fastest signalled since the survey began in April 2011. Just over 11% of panellists signalled an increase in staffing levels, compared to just fewer than 8% reporting a reduction.

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.

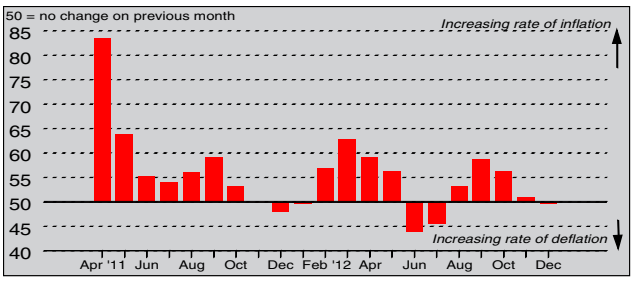


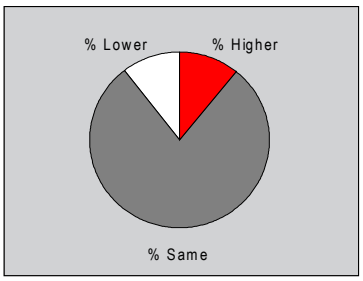


December data signalled a decrease in average selling prices for the eighth straight month, with the rate of deflation broadly in line with the average for this period. Over three times as many panellists (almost 13%) reported lower selling prices compared to those signalling an increase (4%). Lower factory gate prices were mainly linked to weaker demand and strong competitive pressures.

Input Prices Index

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

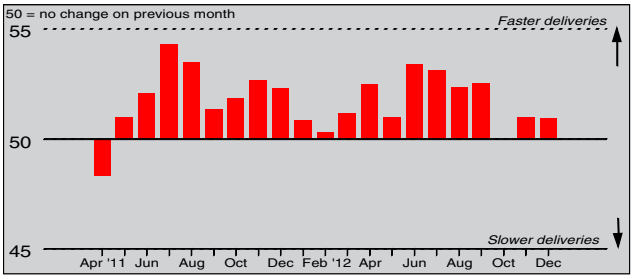


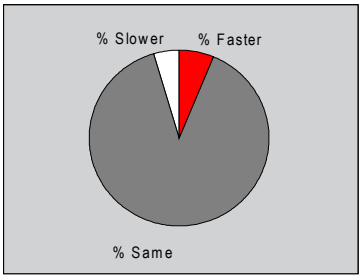


Average input prices declined for the first time in five months during December. However, with broadly similar proportions of panellists signalling a decrease as those reporting an increase (around 11% in both cases), the rate of reduction was only marginal. Manufacturers indicated that weak demand for raw materials, particularly in the domestic market, had led to lower purchase prices.

Suppliers' Delivery Times Index

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

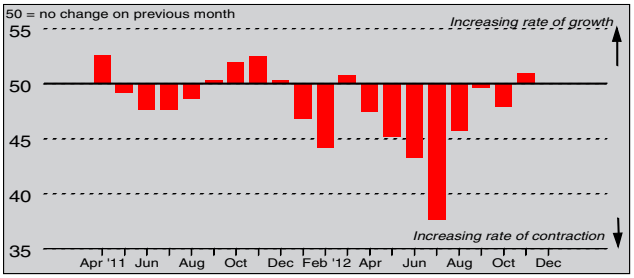


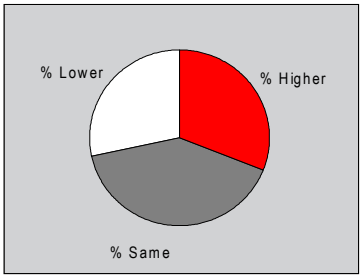


Lacklustre demand for raw materials led to a further improvement in average vendor lead times during December. Delivery times have now shortened in all but two months since the survey began in April 2011. However, the extent of the improvement was again only modest, with the vast majority of manufacturers (over 89%) reporting no change in lead times over the month.

Quantity of Purchases Index

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

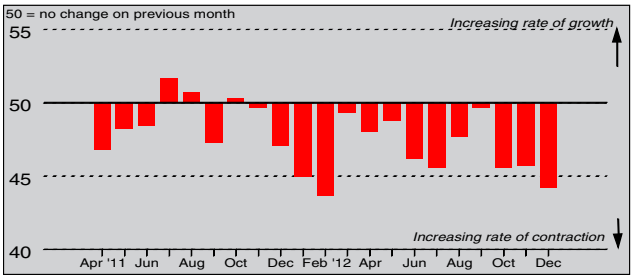


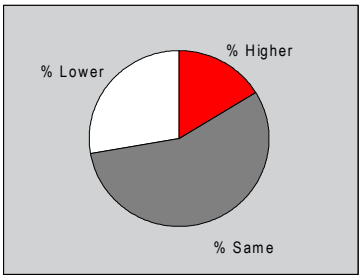


Purchasing activity in the Vietnam manufacturing sector was unchanged compared to November levels during the latest survey period. Companies indicated that lower levels of input buying linked this to weaker demand and a preference for reduced stock holdings. Conversely, firms reporting an increase linked this to meeting current production requirements.

Stocks of Purchases Index

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





Stocks of purchases declined for the fourteenth month in a row during December. Furthermore, the rate of depletion was marked and the steepest signalled since February this year. Companies reported a preference for lower inventory holdings, mainly due to ongoing subdued market demand. There were also some firms that cut stocks in order to protect cash flow.

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.

Warning