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HSBC Vietnam Manufacturing PMI™

Manufacturing sector stagnates as export demand weakens

Key findings:

- HSBC Vietnam Manufacturing PMI edges back above 50.0 no-change mark
- Output expands following increase in new orders
- · Input cost inflation gains on back of higher raw material, transportation and import prices

This report contains the tenth 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' $Index^{TM}$ (PMITM). Readings above 50.0 signal an improvement in business conditions on the previous month while readings below 50.0 show deterioration.

At 50.1 in January, up from 49.3 in December, the seasonally adjusted HSBC Vietnam Manufacturing PMI edged back above the 50.0 no-change mark. Although the headline index was consistent with a broad stagnation of the manufacturing sector, it was nonetheless above its series average of 48.9.

Manufacturing production increased for the third successive month in January, as companies benefited from a modest improvement in new order volumes from the domestic market. Overseas demand remained lacklustre, however, leading to a further solid decrease in new export orders. Vietnam manufacturers reported lower levels of new work from the Eurozone and (to a lesser extent) China. There were also reports linking weaker export volumes to subdued global market conditions.

January data signalled further marginal jobs growth in the Vietnam manufacturing sector. Payroll numbers have now increased in each of the past four months, generally in response

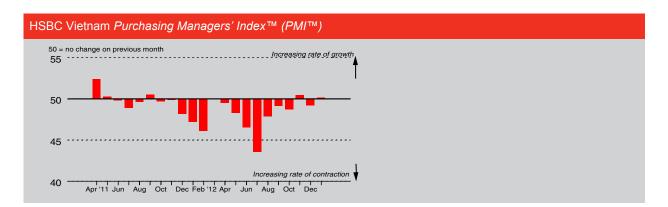
to the recent modest upturn in production volumes. Spare capacity remained, however, leading to a further reduction in backlogs of work.

January saw a solid increase in average input prices, a marked turnaround from the marginal reduction signalled in the previous month. Higher purchase prices were linked to increased costs for raw materials and transportation. There were also reports of higher prices paid for imported goods, materials and services.

Lacklustre demand and strong competition continued to erode the pricing power of Vietnam manufacturers. Output prices fell for the ninth month running. The rate of decline eased sharply, however, as a number of companies passed on higher raw material costs to their clients.

Vietnam manufacturers maintained a preference for leaner inventory holdings during January. This was highlighted by further depletion of both raw material and finished goods stocks. The decline in inventories of finished products was the steepest in the 22-month series history.

Purchasing activity was raised for the second time in the past three months during January, partly to reduce the pressure on input stocks. The recent increases in input buying are in contrast to the marked declines signalled during the middle of last year.



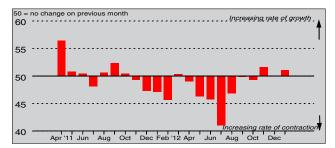
The HSBC Vietnam Manufacturing Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes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

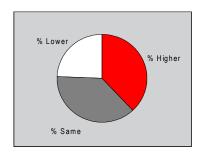




Output Index

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



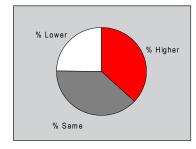


January data signalled an increase in Vietnam manufacturing production for the third straight month. Although the rate of expansion accelerated from the prior month, it nonetheless remained only marginal overall. Where an increase in output was reported, this was generally linked to improved volumes of incoming new business, particularly from the domestic market.

New Orders Index

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

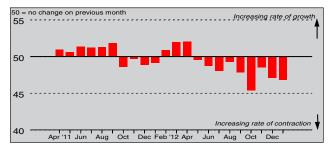


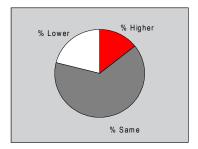


The level of incoming new orders rose for the second time in the past three months, albeit only marginally. Almost 37% of the survey panel reported an increase in new business, compared to less than 25% that signalled a decline. Companies generally attributed growth in new work to improved sales to the domestic market. In contrast, levels of new export business continued to decline.

New Export Orders Index

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

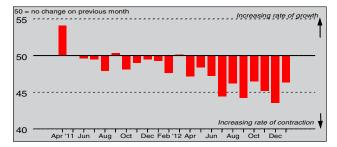


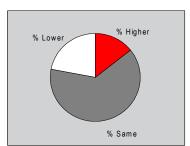


The level of new export orders contracted for the ninth consecutive month in January. Moreover, the rate of decline accelerated for the second month running to its sharpest pace since last October. Manufacturers reported lower demand from the Eurozone and China. There were also reports linking weaker export order volumes to lacklustre global market conditions.

Backlogs of Work Index

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

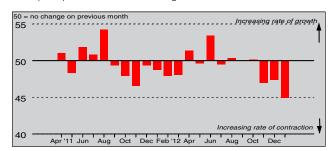


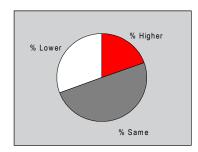


Spare capacity remained available to cope with the dual requirements of new and existing contracts in January. This was highlighted by a further solid decrease in volumes of outstanding business at Vietnam manufacturers, which have now fallen in each of the past ten months. However, the rate of contraction was less marked than December's series record and the slowest for three months.

Stocks of Finished Goods Index

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

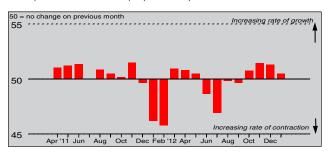


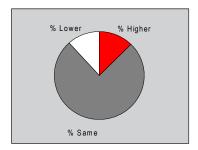


Stocks of finished goods declined for the third consecutive month in January. Furthermore, the rate of depletion was substantial and the sharpest during the 22-month survey history. Some firms reported settling contracts from existing inventory. A number of companies also indicated that the rapid dispatch of finished goods to clients had led to lower stock levels at warehouses.

Employment Index

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

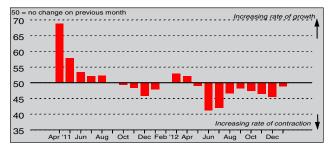


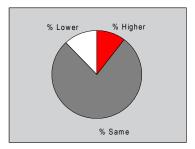


Manufacturing employment increased for the fourth successive month in January. Where an increase in staffing levels was reported, this generally reflected the recent modest growth in production volumes. However, the rate of increase in payroll numbers remained only slight overall and was weaker than in the preceding month.

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.

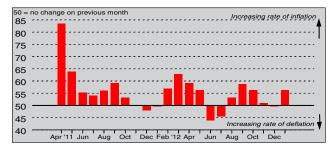


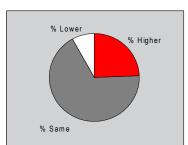


Subdued market conditions and strong competition led to a further reduction in average factory gate prices in January. Output charges have fallen in each of the past nine months. However, there are signs that downward price pressures are easing, as the rate of decrease in average output charges was the weakest since May 2012. This partly reflected some manufacturers passing on higher input costs to clients.

Input Prices Index

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

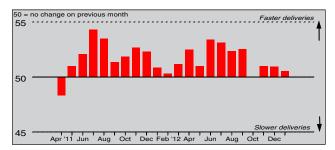


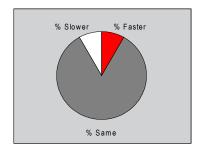


Average input prices rose sharply during January, a marked turnaround from the marginal decrease signalled at the end of 2012. Almost one-infour manufacturers reported an increase in costs during the latest survey month. This was generally attributed to higher raw material prices and increased transportation costs. There were also reports of higher prices paid for imported goods, materials and services.

Suppliers' Delivery Times Index

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



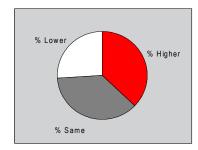


January data signalled little change in average vendor lead times, with similar numbers of survey respondents reporting an improvement as those signalling a deterioration. Companies reporting shorter lead times often mentioned that this had been agreed with suppliers. In contrast, manufacturers experiencing longer delivery times noted shortages of certain raw materials.

Quantity of Purchases Index

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



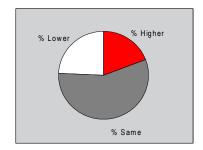


After stagnating during the previous survey period, input buying volumes posted a modest increase during January. Purchasing activity has risen twice in the past three months, a marked contrast to the sharp reductions seen during the middle of last year. Companies reported that input buying volumes had been raised in line with higher production requirements and to reduce some of the pressure on input stocks.

Stocks of Purchases Index

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





Vietnam manufacturers reported further depletion of raw material and semi-finished goods stocks during January. Although the rate of reduction was slightly less marked than in December, it was nonetheless still solid and faster than the 22-month series average. Lower inventory holdings mainly reflected increased production. There were also reports that firms were holding less stock due to the generally subdued demand situation.

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' IndexTM (PMITM) 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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