HSBC *Purchasing Managers' Index*™ 2013

compiled by markit

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HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing sector falls back into contraction in February

Key findings:

- Headline PMI dips to 48.3 in February
- Output and new orders decline
- Jobs cut for first time in five months

This report contains the eleventh 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.

After adjusting for seasonal factors, including the Tet holidays, the HSBC Vietnam Manufacturing PMI posted 48.3 in February, down from 50.1 in January. The PMI therefore posted a reading below the neutral 50.0 mark – to signal contraction – for the second time in the past three months. Although the rate of deterioration indicated was only modest, it was nonetheless the sharpest since August last year.

Manufacturing production and new orders both fell during February, amid reports of weak client demand. There were also reports that order levels had fallen as a result of excess inventory holdings at a number of customers. The level of new work declined from both domestic and export markets. Incoming new export business fell for the tenth successive month, but the rate of reduction eased to a six-month low.

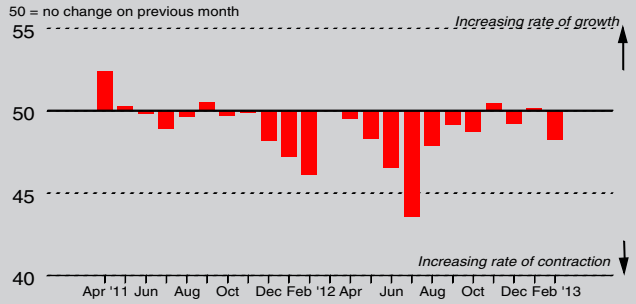
The recent subdued performance of the manufacturing sector filtered through to the labour market, with manufacturing job losses reported for the first time in five months. Although the rate of reduction was only moderate overall, it was nonetheless the sharpest signalled since July 2012. Companies also linked lower staffing requirements to cost control efforts.

Excess capacity persisted in the Vietnam manufacturing sector, as highlighted by a further decline in backlogs of work during February. The level of outstanding business has now fallen in each of the past 11 months.

February data signalled an increase in average purchasing costs for the second successive month. Companies reported paying higher prices for a range of raw materials, including metals and some food products. Subsequently, manufacturers adjusted their selling prices higher to reflect part of the increase in costs. Factory gate prices rose for the first time in ten months.

Manufacturers exhibited a cost-cautious approach towards stock-holding and purchasing decisions during February. Lower production requirements led to a slight decrease in input buying volumes, the first reduction for four months. Meanwhile, inventories of purchases and finished products both fell sharply during the latest survey period, with rates of depletion in both cases the fastest since data collection began in April 2011. Average vendor performance deteriorated slightly as well, reflecting shortages of certain raw materials at vendors.

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



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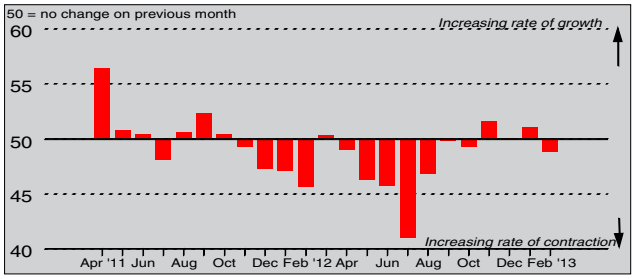
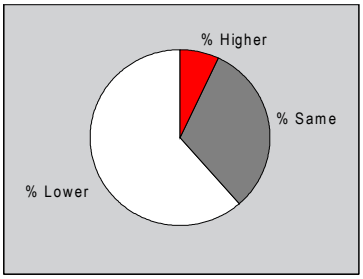
Output Index

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

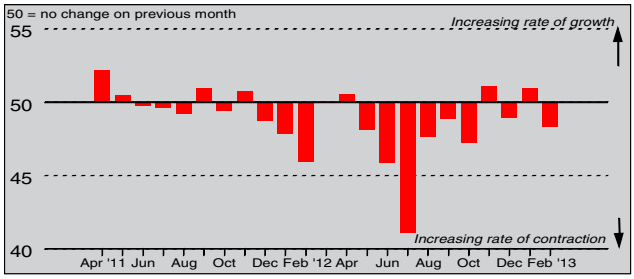


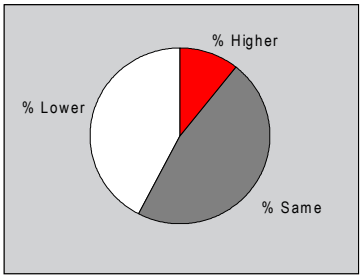


After accounting for the strong effects of the Tet holidays, the latest survey showed that manufacturing output fell during February for the first time in four months. The rate of decline, although modest, was the sharpest recorded since last August. Where a fall in production was signalled, a drop in new orders was often mentioned by panellists.

New Orders Index

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

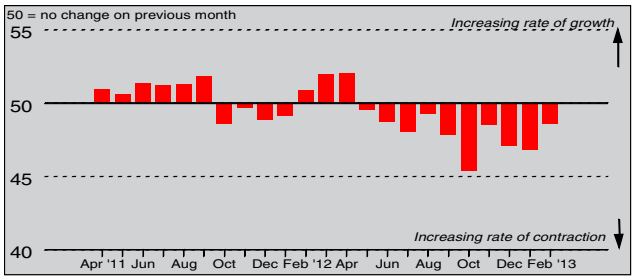


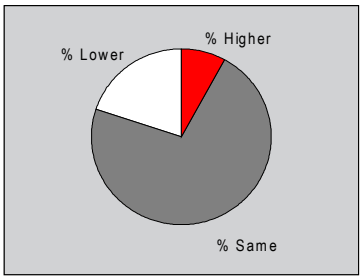


A modest drop in new orders was signalled by the latest survey, the second time in the past three months that a net fall has been registered. Underlying customer demand was reported to be weak, with clients in some instances reportedly having excess inventory holdings. Latest anecdotal evidence suggested that demand from both domestic and export sources had softened during February.

New Export Orders Index

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

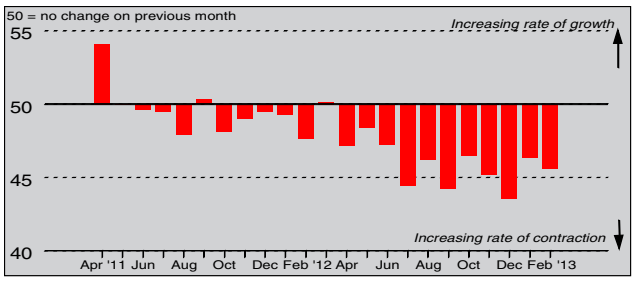


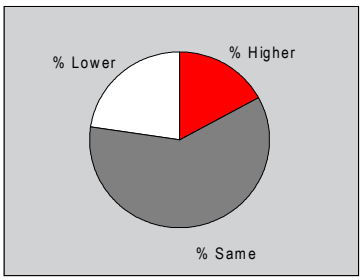


The seasonally adjusted New Export Orders Index remained below the 50.0 no-change mark for a tenth successive month during February to indicate another drop in new business. However, the modest fall signalled by the latest data was the slowest seen since last August. Panellists reported that export markets remained slow and underling demand soft.

Backlogs of Work Index

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

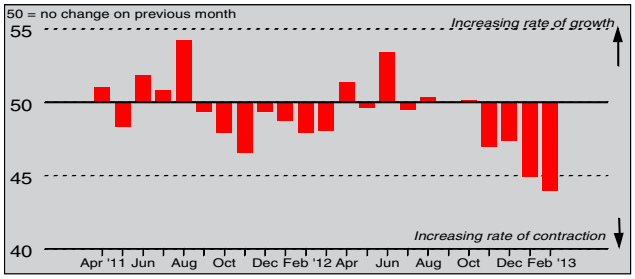


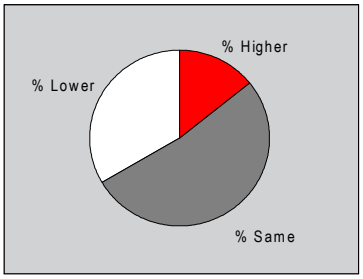


Excess capacity in Vietnam's manufacturing sector persisted during February, as backlogs of work declined for an eleventh successive month. Having eased at the start of the year, the rate of decline accelerated in February as signalled by a fall in the seasonally adjusted Backlogs of Work Index. Fewer orders was often cited as a factor behind the latest decline in work outstanding.

Stocks of Finished Goods Index

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

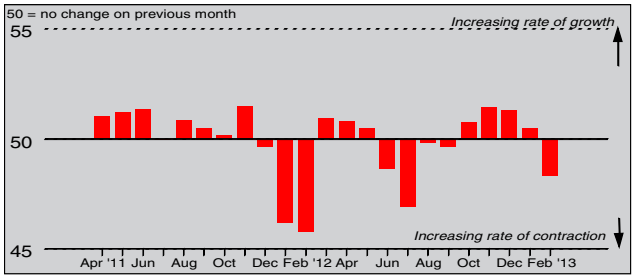


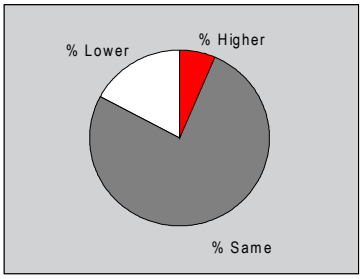


February data signalled a further reduction in stocks of finished goods. Inventory holdings have now fallen in each of the past four months, with the rate of depletion during the latest survey period the sharpest since data were first collected in April 2011. Companies linked lower stocks to settling current sales requirements (in part) from existing inventory.

Employment Index

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

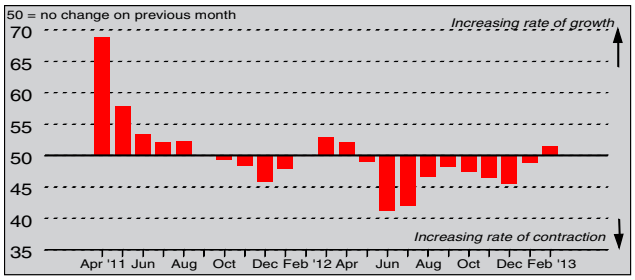


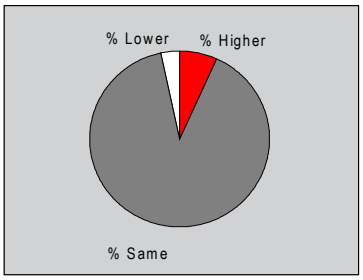


Vietnam manufacturing employment declined for the first time in five months in February. Although the rate of job loss was only modest, it was nonetheless the steepest signalled since July last year. Companies linked lower staffing levels to efforts to control costs. There were also reports of cuts being implemented due to lower production and demand requirements.

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.

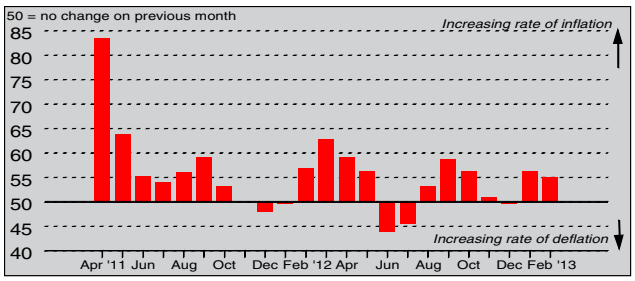


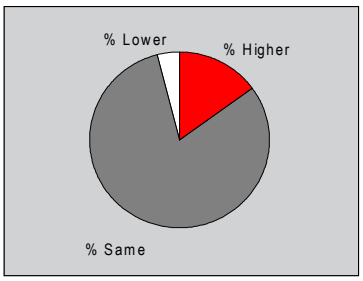


Average factory gate selling prices rose for the first time in ten months in February, as companies adjusted their charges in light of a further increase in average input costs. However, the rate of output price inflation was well below that signalled for purchasing costs. Almost 7% of the survey panel reported an increase in output charges, compared to less than 4% signalling a decline.

Input Prices Index

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

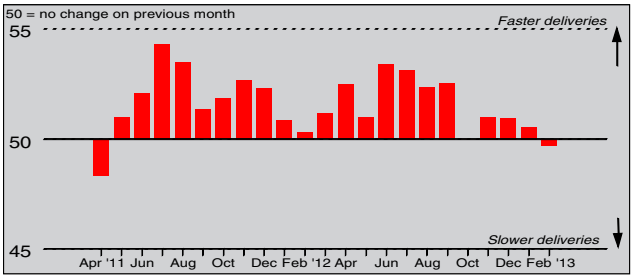


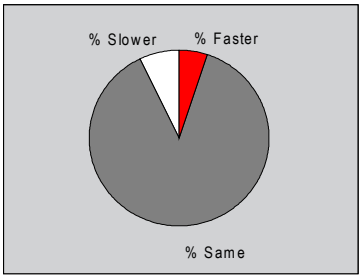


February data signalled an increase in average input prices for the sixth time in the past seven months. Although the rate of inflation eased slightly since January, it remained marked and broadly in line with the average for the near two-year survey history. Companies reported paying higher prices for a range of raw materials, including metals and some food products.

Suppliers' Delivery Times Index

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

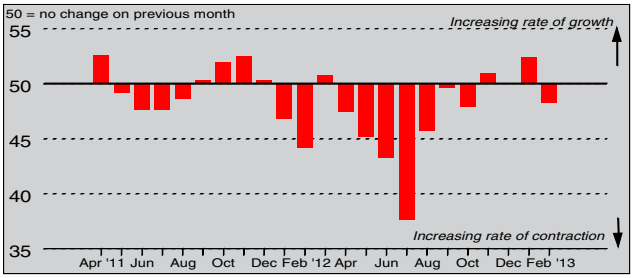


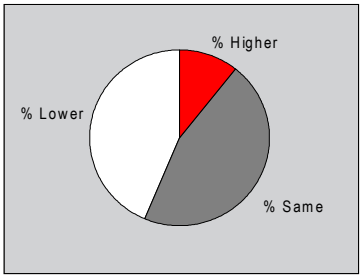


Average lead times were slightly longer in February, as signalled by a fall in the seasonally adjusted Suppliers' Delivery Times Index to a reading below the 50.0 no-change mark. Although marginal, February marked the first time in nearly two years that lead times have deteriorated. A lack of materials at vendors was often cited by panellists as a reason for longer delivery times during February.

Quantity of Purchases Index

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

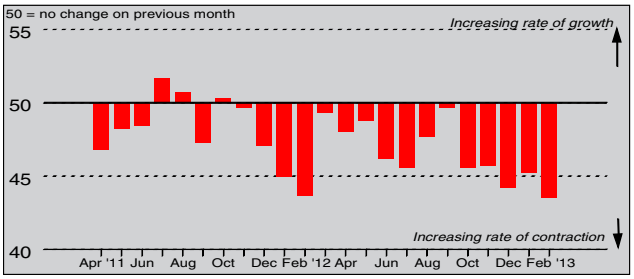


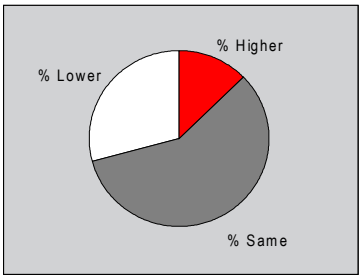


The seasonally adjusted Quantity of Purchases Index slipped below the 50.0 no-change mark for the first time in four months during February to indicate a modest contraction of purchasing activity amongst Vietnamese manufacturers. Fewer orders, reduced production requirements and the utilisation of existing inventory were all noted as factors weighing on purchasing activity during the latest survey period.

Stocks of Purchases Index

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





Latest data showed that Vietnamese manufacturers continued to deplete their stocks of purchases during February. Panellists reported that lower purchasing activity had led to the utilisation of input inventories as they sought to minimise the costs associated with holding excess stock. A fall in the seasonally adjusted Stocks of Purchases Index to a series-low pointed to an acceleration in the rate of inventory depletion.

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