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HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing edges back into expansion territory in March

Key findings:

- Headline PMI hits 23-month high
- Output and new orders rise following February's contractions
- Cost inflation accelerates to six-month peak

This report contains the twelfth 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 Vietnam Manufacturing PMI rose back above the neutral 50.0 mark in March, posting a 23-month high of 50.8. Although the rate of expansion signalled by the PMI was only moderate, it was nonetheless the second-highest in the two-year series history.

March data pointed to modest recoveries in the levels of both manufacturing production and new orders, following contractions in the prior month. Companies benefited from an improving domestic market, increased promotional activity and a slight expansion in the level of incoming new export orders.

New export business increased for the first time in 11 months during March. Manufacturers linked the latest growth in new export sales to improved demand from clients in China, Japan and Thailand.

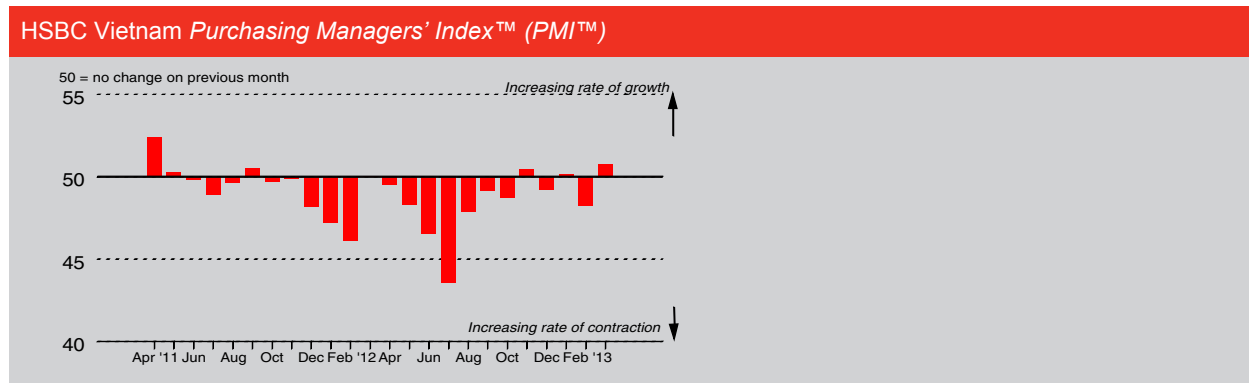
Growth of new orders and production filtered through to the

labour market, with March seeing employment rise for the fifth time in the past six months. However, evidence of spare capacity remained present during the latest survey period, as highlighted by a further decline in backlogs of work. Outstanding business fell for the twelfth straight month, albeit to the least marked extent during the current sequence of decline.

Input cost inflation surged higher during March, amid reports of increased prices on international commodity markets. Vietnam manufacturers reported the steepest increase in their purchasing costs since last September, with the rate of inflation rising back above the survey average.

Part of the increase in input prices was passed on to clients in the form of higher selling prices. Output charges rose for the second successive month and at the fastest pace since April 2012. However, the rate of increase in selling prices remained well below that of input costs. Some companies attributed this to ongoing subdued market conditions and strong competition.

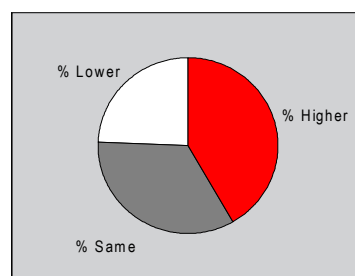
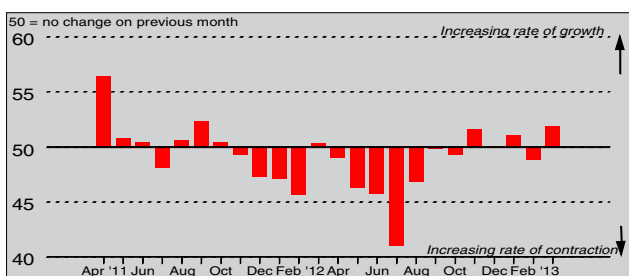
Vietnam manufacturers maintained a preference for reduced inventory holdings in March, leading to further depletion of both raw material and finished goods inventories. In contrast, purchasing activity was raised for the second time in the past three months, reflecting increased production.



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

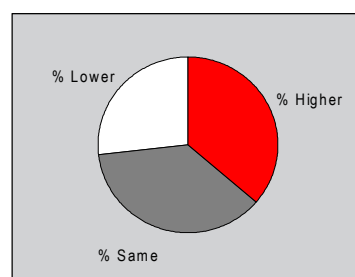
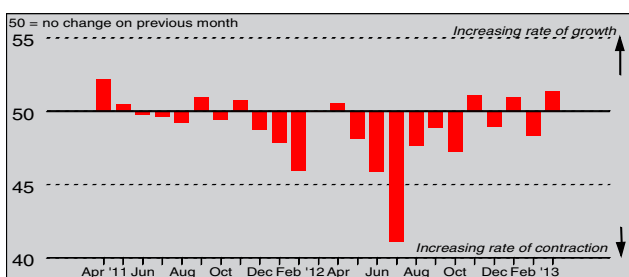
Q. Please compare your production/output this month with the situation one month ago.



Vietnam manufacturing production posted a solid increase during March. The latest rate of expansion was the fastest in one-and-a-half years and an improvement on the contraction signalled in the prior month. Companies linked higher levels of output to a modest recovery in inflows of new business. There were also reports of increased promotional activity and better market conditions.

New Orders Index

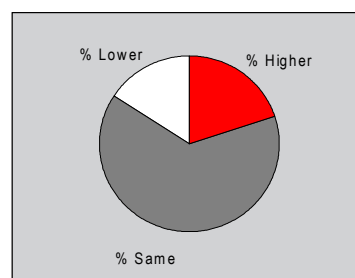
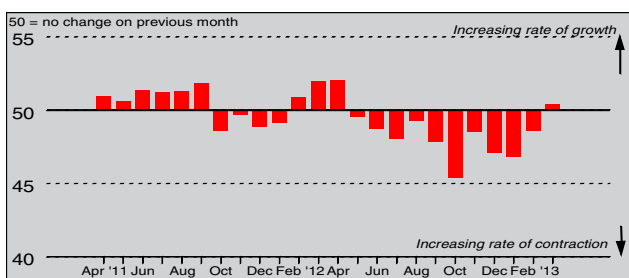
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



The level of incoming new orders expanded for the third time in the past five months in March, with just over 36% of the survey panel reporting an increase. Although the rate of growth was only moderate, it was nonetheless the best signalled since April 2011 (the opening month of the survey). There were mentions of improved client demand, increased marketing activity and a better domestic market.

New Export Orders Index

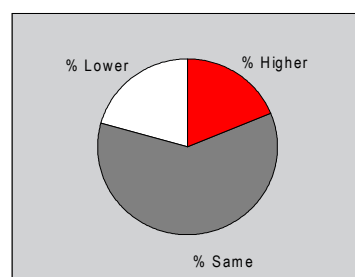
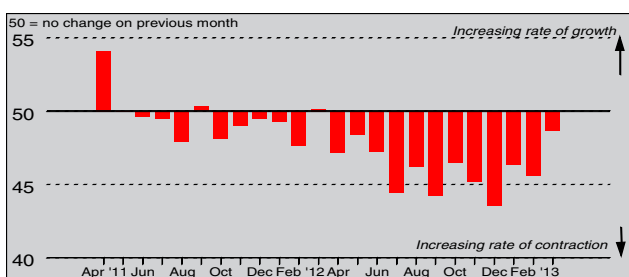
Q. Please compare the level of new export orders received this month with the situation of one month ago.



March data pointed to an increase in incoming new export orders for the first time in 11 months. However, the rate of growth was only slight. Where an increase in new export business was reported, this was generally linked to increased sales to clients in China, Japan and Thailand. Conversely, where a reduction was signalled it was attributed to subdued confidence in a number of key markets.

Backlogs of Work Index

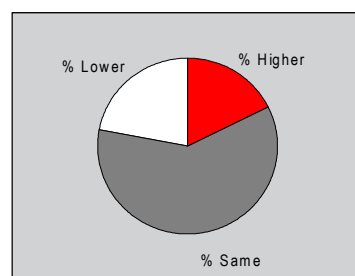
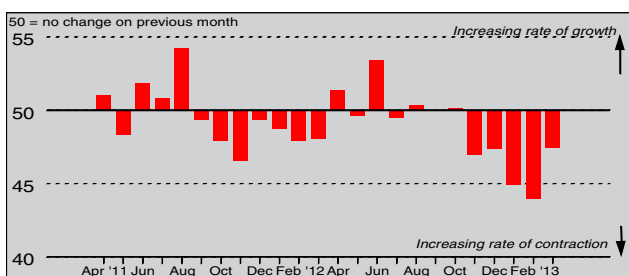
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of work-in-hand (but not yet completed) at Vietnam manufacturers declined for the twelfth successive month in March. However, the rate of contraction eased sharply since February to its weakest during the current sequence of decrease. A number of firms indicated that backlogs of work had declined due to an increase in production.

Stocks of Finished Goods Index

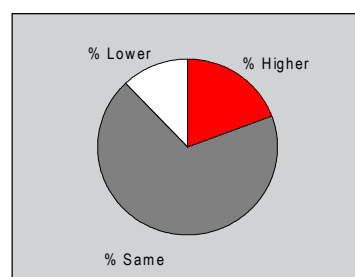
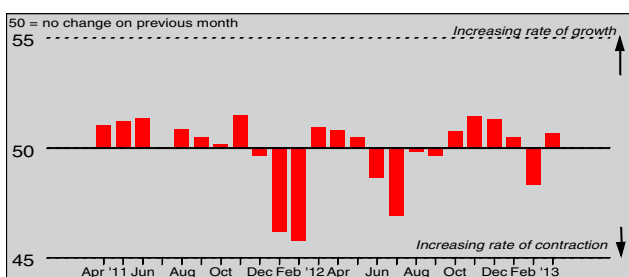
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Improved sales volumes led to a further reduction in stocks of finished goods during March. Inventory holdings declined for the fifth straight month, despite the rate of decrease easing sharply to its slowest in the year-to-date. Companies also linked the latest reduction in stocks to settling existing contracts from inventory and deliberate stock-depletion strategies.

Employment Index

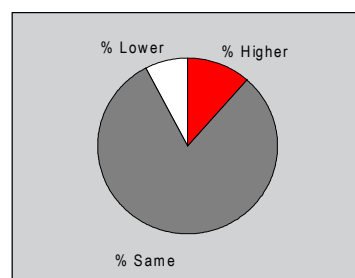
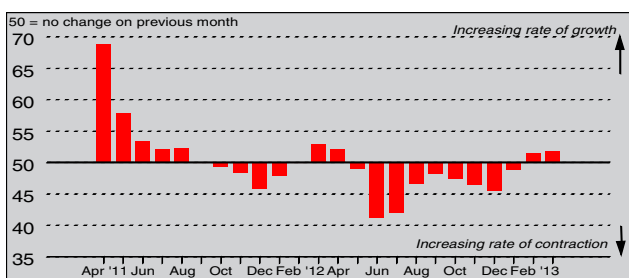
Q. Please compare the level of employment at your unit with the situation one month ago.



After falling for the first time in five months during February, March saw a slight increase in the level of Vietnamese manufacturing employment. Where an expansion of staffing levels was reported, companies linked the increase to higher production and improved sales volumes. There were also reports of increased hiring due to company expansions.

Output Prices Index

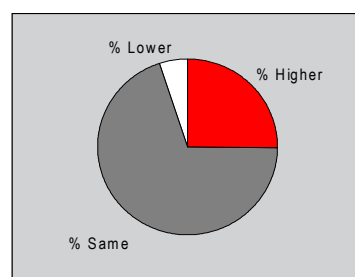
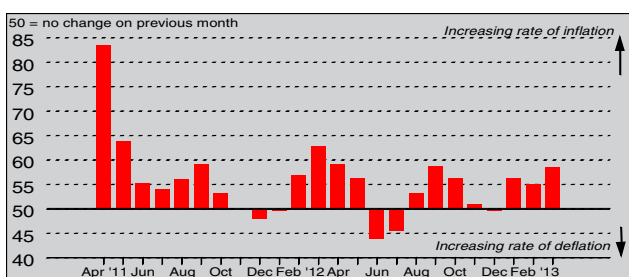
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average factory gate prices increased for the second month running in March, with the rate of inflation accelerating to its highest in almost a year. However, the rate of increase in average output charges remained well below that signalled for input costs. Companies reported that higher costs were being passed on (in part) to clients, but also noted that strong competition and subdued market conditions restricted price increases.

Input Prices Index

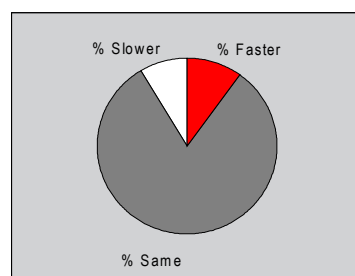
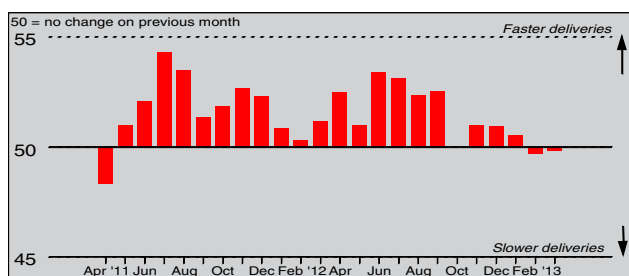
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Increased raw material prices on global markets led to a further marked increase in input costs at Vietnam manufacturers. March saw average purchase prices rise for the third successive month, with the rate of increase hitting a six-month high. Just over a quarter of survey respondents (25.2%) reported facing higher raw material costs.

Suppliers' Delivery Times Index

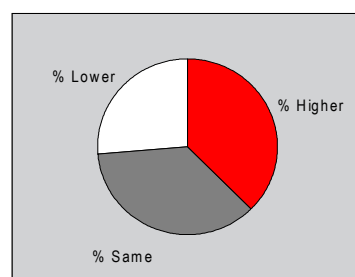
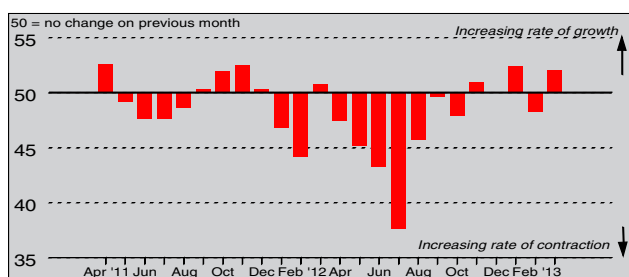
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average vendor delivery times were broadly unchanged over the month in March, as over 81% of survey respondents reported that lead-times were the same as in February. Where a deterioration in supplier performance was reported, panellists linked this to a modest increase in demand for raw materials. There were also reports of raw material shortages and delays in transportation.

Quantity of Purchases Index

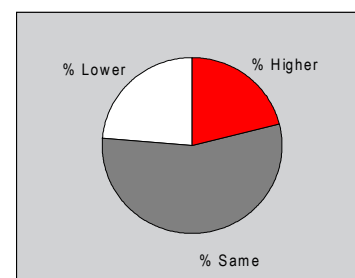
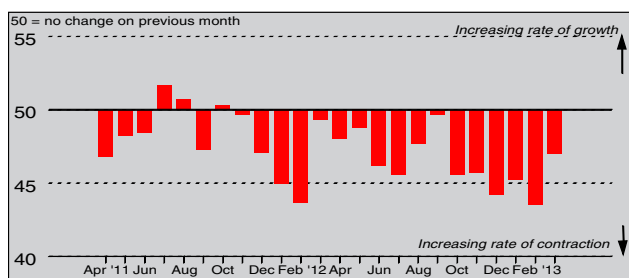
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity increased for the second time in the past three months in March. The rate of growth in input buying volumes was solid and among the sharpest signalled during the two-year survey history. Almost 38% of the survey panel reported an increase in purchasing activity, reflecting (in part) efforts to meet production requirements and lessen the pressure on raw material stocks.

Stocks of Purchases Index

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



Stocks of purchases were depleted for the seventeenth consecutive month in March. However, the rate of reduction was the weakest since last September and broadly in line with the average for the two-year survey history. The latest decline in stocks of purchases reflected increased production requirements.

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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