Embargoed until: 3 June 2013

# HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing falls back into contraction in May

## Key findings:

- HSBC PMI falls to 48.8 in May
- Output, new orders and employment all edge lower
- Modest recovery in export orders continues

This report contains the fourteenth 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 Vietnam manufacturing sector continued its subdued start to 2013, as May saw levels of output, new orders and employment all slip back into contraction following modest gains in the prior two months. At 48.8, down from 51.0 in April, the seasonally adjusted HSBC Vietnam Manufacturing PMI posted below the neutral 50.0 mark for the first time since February.

The domestic market remained the main drag on manufacturing performance, whereas levels of new export business continued their modest recovery. New export order inflows have now improved in each of the past three months, with the latest rate of growth the quickest since April 2012. Companies reported stronger demand from clients in China and the US.

Job losses were reported for the second time in four months in May, as companies maintained a cautious approach to hiring. As well as subdued demand, companies linked the cut in payroll numbers to cost control initiatives. This also played a role in

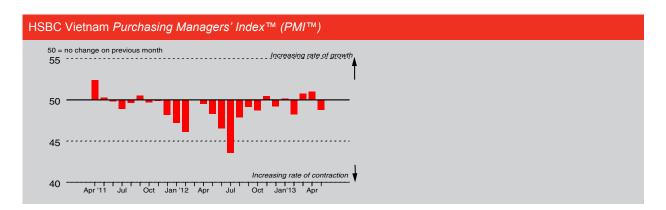
purchasing and stock-holding decisions, leading to lower levels of both pre- and post-production inventories and a modest scaling back of input buying volumes.

On the price front, May data signalled that inflationary pressure remained relatively mild in the manufacturing sector. Although average input costs increased for the fifth successive month, the rate of inflation was the weakest during that sequence.

There were reports of shortages of certain raw materials and increased import prices leading to higher costs. However, this was partly offset by subdued demand for raw materials, which led to lower prices for a number of inputs.

Average output charges, meanwhile, were broadly unchanged on the month, as competitive pressures stifled the pricing power of manufacturers. The vast majority of companies (almost 84%) reported no change in factory gate prices.

May data indicated that there remained a degree of available capacity at both manufacturers and their suppliers. Weaker new order inflows meant that backlogs of work at Vietnam manufacturers contracted at one of the sharpest rates in the survey history. Meanwhile, average vendor lead times shortened for the second month running, as lacklustre demand for raw materials led to faster deliveries from suppliers.



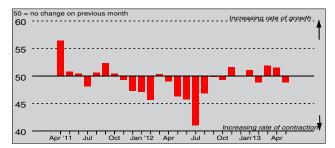
The HSBC Vietnam Manufacturing Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes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

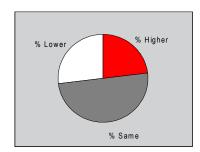




## Output Index

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

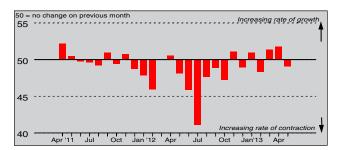


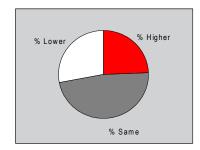


The Vietnam manufacturing sector edged back into contraction territory in May, as production volumes declined for the first time in three months. Over one-quarter of the survey panel reported a decrease in output, which many linked to reduced inflows of incoming new business. There were also reports of output being lowered as part of stock reduction initiatives.

## New Orders Index

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

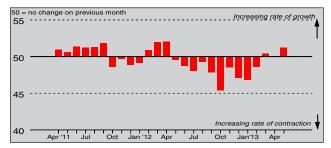


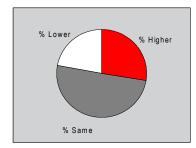


May data pointed to a reduced level of incoming new orders at Vietnam manufacturers, the second decline in the past four months. This mainly reflected the subdued performance of the domestic market, as levels of new export business continued to rise. However, the rate of contraction in total new orders was only marginal. Over 24% of panellists reported an increase in new business, compared to 28% signalling a decline.

# New Export Orders Index

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

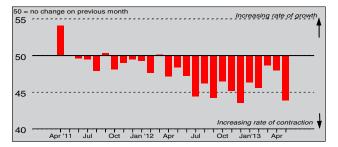


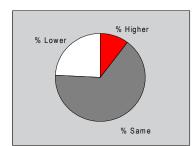


The level of incoming new export orders rose for the third successive month in May. Although the rate of growth was again only marginal, it was nonetheless the fastest registered since April 2012. Almost 28% of companies reported an increase in new export business, which they linked to improved demand from China and the US.

## Backlogs of Work Index

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

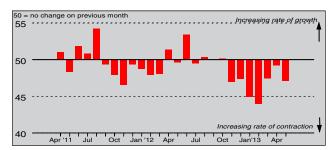


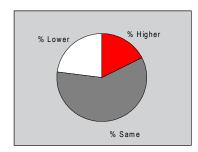


May saw the level of work-in-hand (but not yet completed) at the factories of Vietnam manufacturers decline at the second-fastest pace in the 26-month survey history. Companies attributed the latest decline to reduced inflows of incoming new business. There were also reports of contracts being settled from inventories to control costs and lower stock holdings.

## Stocks of Finished Goods Index

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

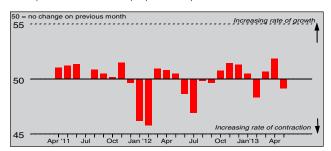


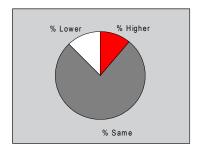


Stocks of finished goods declined for the seventh successive month in May, with the rate of contraction accelerating to its quickest since February. Only 18% of the survey panel reported an increase in inventory holdings, compared to 23% signalling a decrease. Where a decline was reported, this was linked to lower production and efforts to reduce backlogs of work.

#### **Employment Index**

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

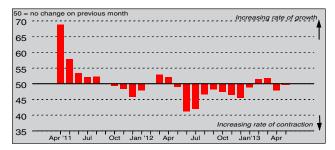


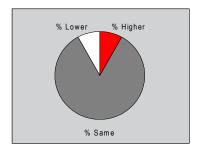


May saw Vietnam manufacturing employment decline for the second time in the year-to-date, as the subdued performance of the sector led to a cautious approach to hiring. There were some reports of company downsizing reflecting cost control initiatives. However, the rate of job losses was only mild, with the majority of panellists signalling no change in employment over the 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.

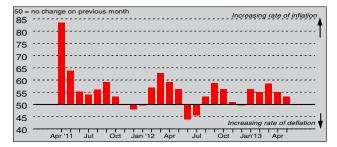


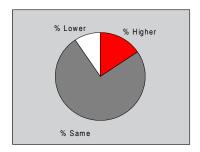


May data pointed to little change in average selling prices at Vietnam manufacturers, following a solid decrease in charges during the prior month. The vast majority of survey respondents (84%) reported that their selling prices were the same as in April. Where an increase was reported, this was due to the pass-through of higher costs. Conversely, lower selling prices were linked to competitive pressure.

## Input Prices Index

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

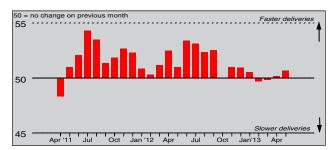


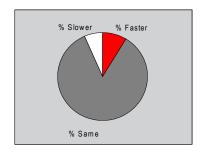


Shortages of certain raw materials and higher import prices led to a further increase in average purchasing costs during May. Input prices rose for the fifth successive month, with close to 16% of the survey panel signalling a rise. However, the rate of inflation eased for the second month in a row and to its weakest during the current sequence of increase – in part due to subdued demand for raw materials.

## Suppliers' Delivery Times Index

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

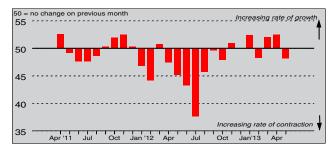


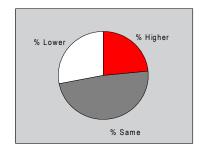


Average vendor lead times shortened for the second consecutive month in May. Although the latest data signalled only a slight improvement in lead times, they nonetheless shortened to the greatest extent in the year-to-date. Vietnam manufacturers reported that lower demand for raw materials had eased the pressure on supplier capacity. Some noted that they had requested faster delivery of goods from suppliers.

## Quantity of Purchases Index

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

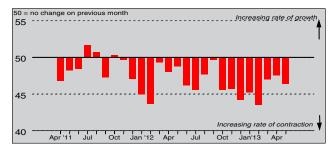


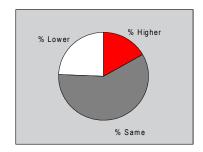


Vietnam manufacturers responded to the weaker performance of the sector by cutting back on purchasing activity. Input buying volumes declined for the first time since February, with the rate of reduction during the latest survey period the sharpest in seven months. A number of firms indicated a preference for meeting current production needs from existing inventory.

## 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 nineteenth month in a row during May. Furthermore, the rate of reduction accelerated slightly from April's seven-month low to its fastest since February. Almost one-in-four companies reported a decline in inventories of raw materials and semi-manufactured goods, which they linked to lower levels of purchasing and a preference for reduced input holdings.

#### 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 400 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<sup>TM</sup> (PMI<sup>TM</sup>) 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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