

Embargoed until: 1 July 2013

HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing contracts sharply in June

Key findings:

- HSBC PMI slumps to 11-month low
- Output and new orders fall at second-fastest rates in survey history
- Domestic market principal source of demand weakness

This report contains the fifteenth 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 was hit by marked downturns in output and new orders in June, leading companies to cut employment and purchasing. At 46.4, down from 48.8 in May, the seasonally adjusted HSBC Vietnam Manufacturing PMI slumped to its third-lowest reading since the survey began in April 2011. The PMI has remained at a sub-50.0 level – signalling contraction – for two successive months.

The domestic market was the principal source of demand weakness in June, as the level of new export business fell only slightly. With inflows of new work from both domestic and foreign sources deteriorating, manufacturing production was also substantially reduced. Since the survey began in April 2011, output and new business have only fallen at a faster pace on one occasion (July 2012).

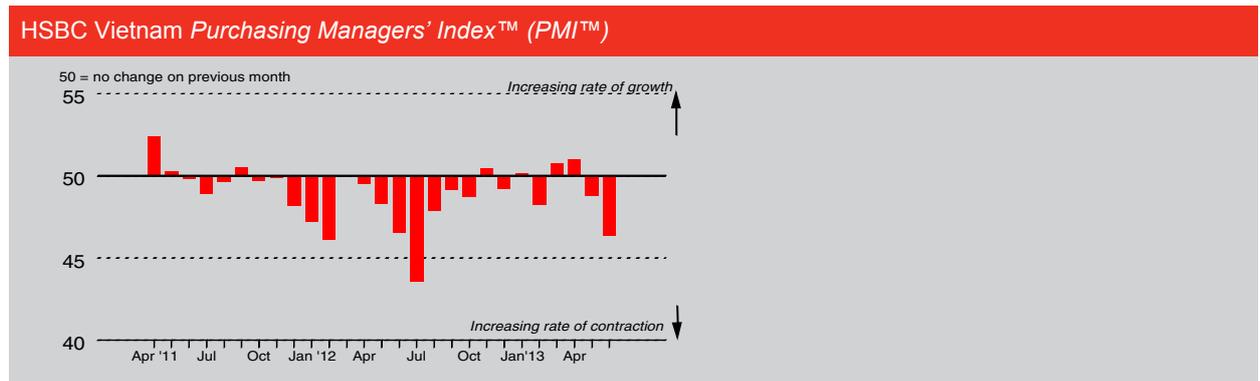
The sharp reduction in inflows of new business also led to a solid build-up of stocks of finished products in June. Inventories rose

at the fastest pace in a year. This replenishment of stocks may also reduce the need to raise production in coming months.

Weak market conditions also influenced decisions relating to employee hirings, purchasing and input holdings. Job losses were reported for the second straight month in June, with the rate of reduction the steepest in 11 months. Part of the latest cut in headcounts reflected the build-up of spare capacity in the sector, as highlighted by a substantial drop in the level of work-in-hand (but not yet completed) at factories.

Purchasing activity was cutback sharply during June, contributing to a further slight decline in stocks of raw materials and semi-manufactured goods. Weaker demand for raw materials was also felt at suppliers, leading to an improvement in average lead times for the third month in a row. Manufacturers indicated that successful negotiations with vendors and agreeing to faster payment had also resulted in shorter delivery times.

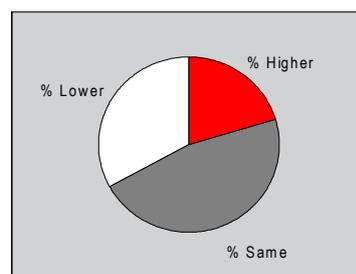
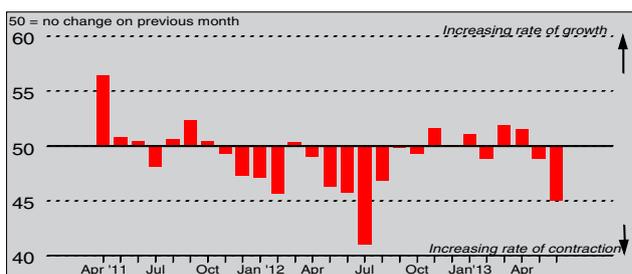
Price pressures continued to ease during the latest survey month. Although average input costs have risen throughout the year-to-date, the latest rate of inflation was only marginal and the least marked during the current sequence of increase. Meanwhile, manufacturers cut their average selling prices in an effort to stimulate sales. Output charges subsequently fell at the quickest pace since July 2012.



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

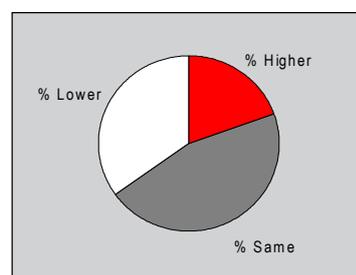
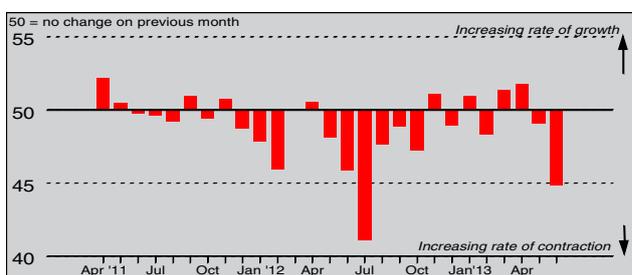
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production contracted sharply during the latest survey period. Output fell for the second successive month, with the rate of decline the second-steepest in the survey history (the worst outcome was recorded in July 2012). Companies linked lower levels of output to a steep reduction in the level of incoming new business, reflecting tough domestic market conditions and a slight decline in new export sales.

New Orders Index

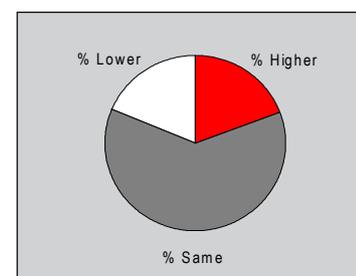
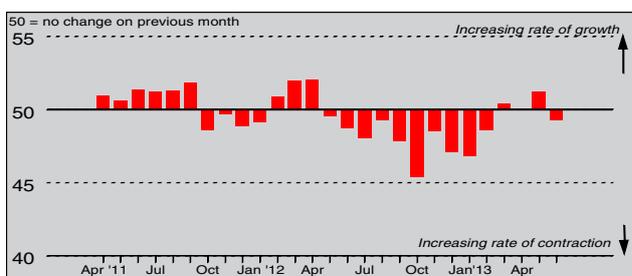
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



June also saw the level of incoming new orders contract at the second-steepest pace in the survey history. The main factor underlying the severe downturn in new work was a deteriorating domestic market. Tough global economic conditions and strong competition also impacted on sales volumes. Almost 35% of the survey panel reported a decrease in new business, compared to less than 20% seeing an increase.

New Export Orders Index

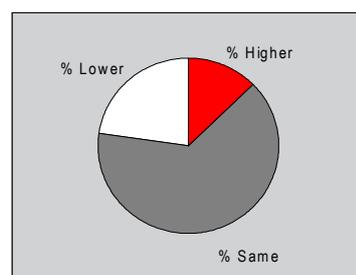
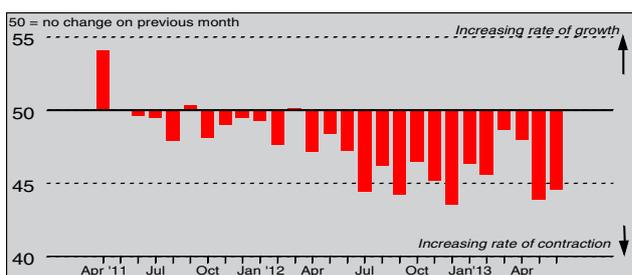
Q. Please compare the level of new export orders received this month with the situation of one month ago.



After rising in each of the prior three months, the level of incoming new export orders declined during June. Apart from difficult market conditions and strong competition, companies also linked the latest decline in new export business to lower sales to China and South Korea. However, the rate of decline in new export orders was only slight, and much slower than that signalled for the overall level of new business received.

Backlogs of Work Index

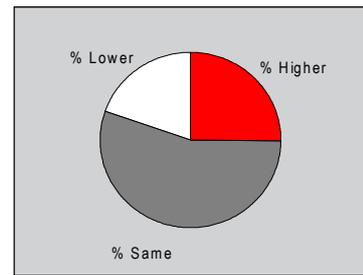
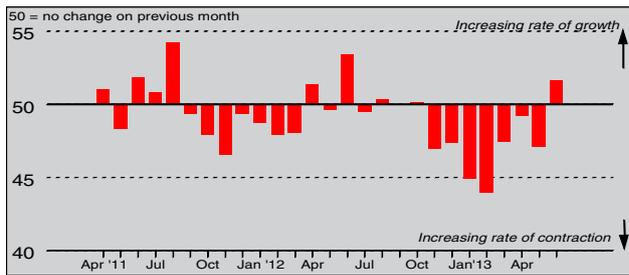
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



The level of work-in-hand (but not yet completed) in the Vietnam manufacturing sector continued to fall at a marked pace during June. Although easing slightly from May's near series-record rate, the decline was nonetheless still among the fastest since the survey began in April 2011. Companies mainly linked the latest drop in backlogs of work to weak demand.

Stocks of Finished Goods Index

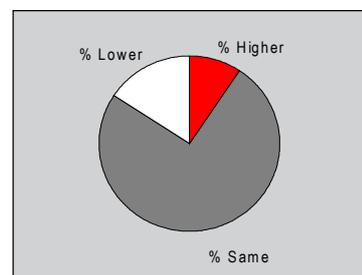
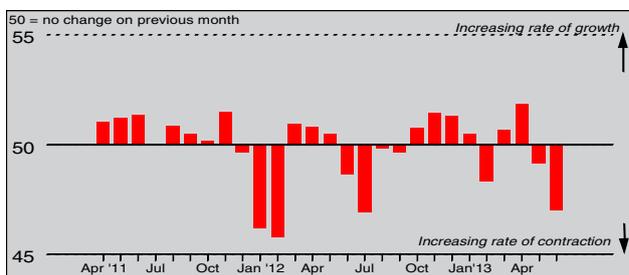
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



June data signalled an increase in stocks of finished products for the first time since October of last year. Moreover, the rate of moderate and the sharpest registered since June 2012. Companies mainly linked higher holdings of finished products to weak demand. Over one-quarter of the survey panel reported an increase in post-production inventories, compared to less than 20% signalling a decline.

Employment Index

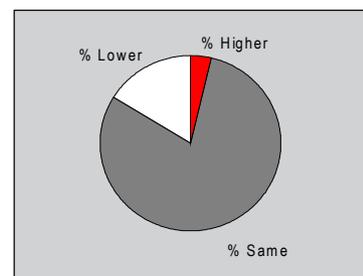
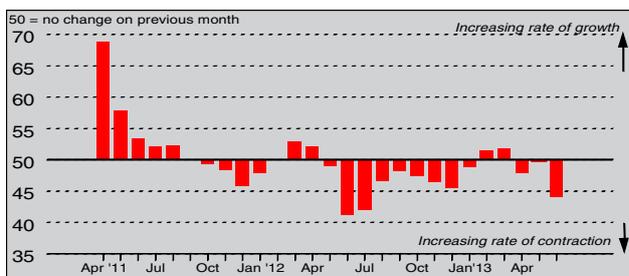
Q. Please compare the level of employment at your unit with the situation one month ago.



Job losses were recorded in the Vietnam manufacturing sector for the second straight month in June, as companies reduced their headcounts in response to the downturns in demand and production. Furthermore, the rate of decline was solid and accelerated to its sharpest in almost a year. The average reading for the Employment Index during the second quarter of 2013 was the third-lowest in the survey history.

Output Prices Index

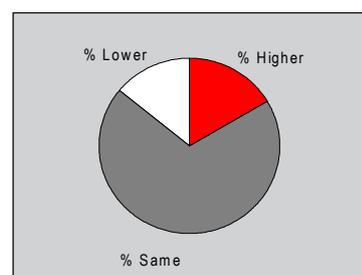
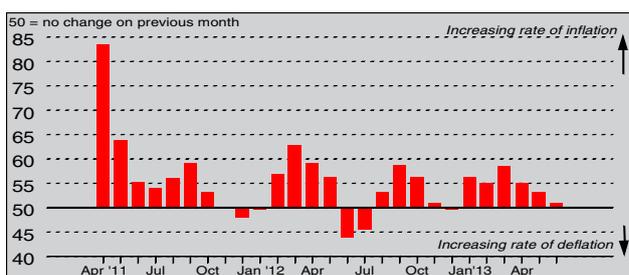
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Average selling prices declined for the third consecutive month in June, as manufacturers cut their output charges in an effort to stimulate sales. A number of companies that experienced a reduction in their input costs reported that weak demand meant that this had to be passed on to their clients. The rate of selling price deflation was substantial and the sharpest recorded since July 2012.

Input Prices Index

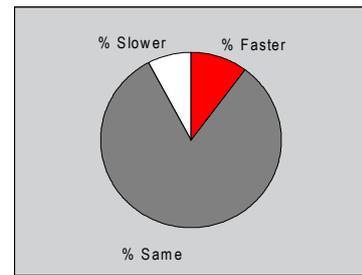
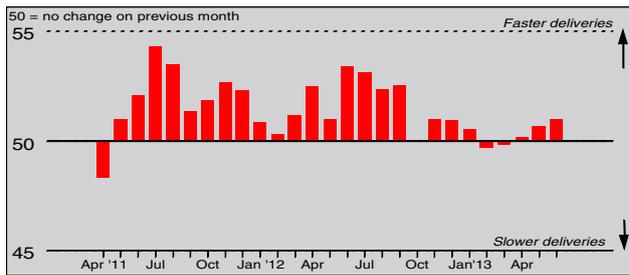
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Upward cost pressures continue to ease during the latest survey month. Although average purchase prices have risen throughout the year-to-date, the rate of inflation has slowed in each of the past three months taking it to its lowest so far in 2013. Companies reported that weakening demand for a number of inputs – a by-product of the downturn in the manufacturing sector – was restricting raw material price increases.

Suppliers' Delivery Times Index

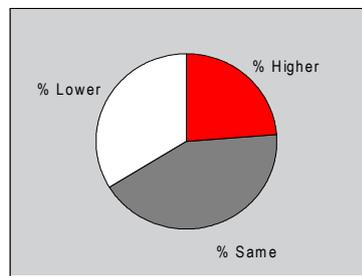
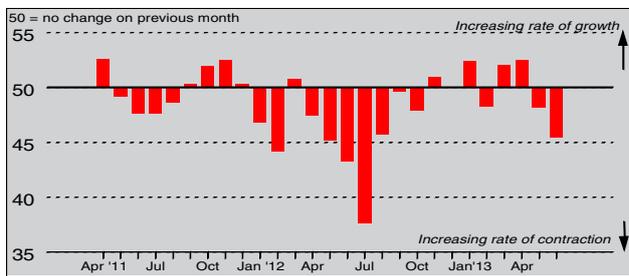
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



June data pointed to a further improvement in average vendor lead times, as delivery times shortened for the third successive month. Although the improvement in vendor performance was only modest, it was nonetheless the most marked in the year-to-date. Companies indicated that faster payment and successful negotiations with suppliers had led to faster delivery times.

Quantity of Purchases Index

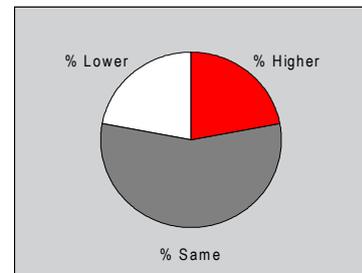
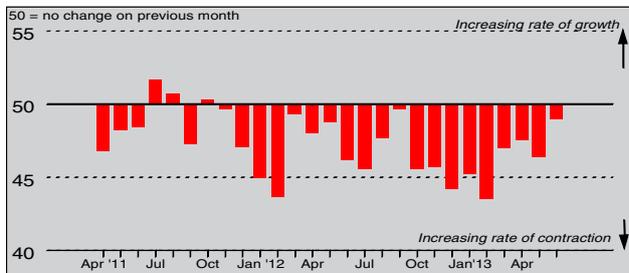
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The sharp downturn at Vietnam manufacturers led to a marked decrease in level of input buying volumes. Purchasing activity declined for the second straight month, with the rate of reduction accelerating sharply to the fastest in 11 months. Companies reported that reduced production requirements had led to lower levels of purchasing. Almost 24% of companies reported an increase, compared to 34% signalling a decline.

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 twentieth successive month in June, as lower levels of input buying activity maintained the downward pressure on inventory holdings. However, the rate of depletion was only modest and the weakest since September 2012. Where an increase in inventories was reported, this was linked to lower production requirements easing the pressure on stock 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™ (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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