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HSBC Vietnam Manufacturing PMI™

Return to growth of manufacturing sector signalled

Key findings:

- Headline PMI above 50.0 for first time in five months
- Survey record gains in new orders, exports and employment
- Output broadly stable and margins remain under pressure

September's survey of Vietnamese manufacturers provided positive news on the health of the sector. New orders and employment both increased at survey record rates, while there was a marked gain in foreign sales. There were reports that underlying economic conditions were improving, supporting demand and raising market activity.

The headline seasonally adjusted *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – rose back above the 50.0 no-change mark during September to record 51.5. That was an improvement on August's 49.4 and the best reading since April 2011, the first month for which survey data are available.

Driving the PMI higher in September were survey record rises in new business and employment.

Growth of new business was solid, reflective of an improvement in underlying demand from domestic and foreign clients. Better product quality and competitive pricing – the latest survey showed a sixth successive monthly decline in output charges – also helped to support sales growth.

New export business also rose at a series record pace. September was the first time in four months that an increase in new export sales had been registered.

Encouraged by higher sales, payrolls in Vietnam's manufacturing sector continued to expand. Marked growth was the second in

successive months as companies sought to keep on top of their workloads.

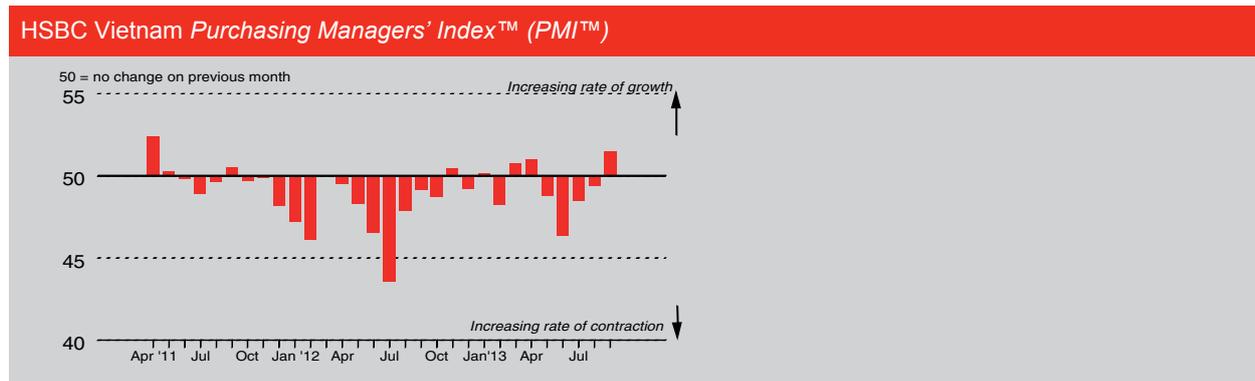
On this front, backlogs of work continued to decline in September. Latest data marked the eighteenth consecutive month that work outstanding has been cut. However, the degree to which backlogs were depleted was the slowest seen since April.

Stocks of finished goods rose slightly in September. Manufacturers were able to add to stocks, reduce backlogs and cope with a rise in new orders while maintaining a broadly stable level of output.

On the price front, input cost inflation was maintained in September. Despite easing on August's high, the degree to which average costs rose was again marked and, with output charges falling in line with ongoing competitive pressures, profits margins continued to be squeezed.

Fuel, utility bills and raw materials were all reported to have risen in price in September. There were some reports of scarce supply. This was further borne out by the latest data on suppliers' delivery times, which showed a deterioration in vendor performance for the first time in six months. There were reports of stock shortages at suppliers during September.

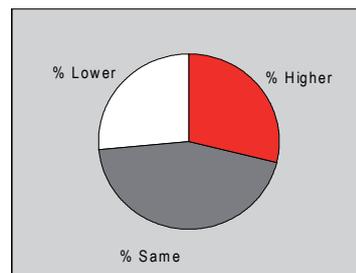
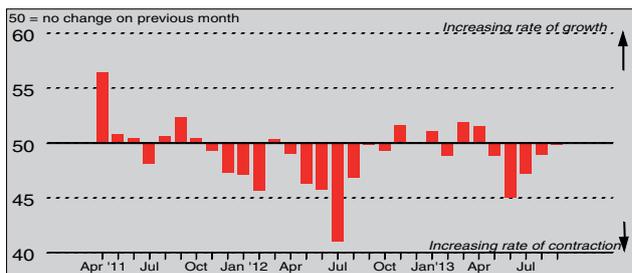
Demand for inputs was also higher in September. Purchasing activity among Vietnamese manufacturers increased for the first time since April in line with rising new orders and positive demand projections.



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

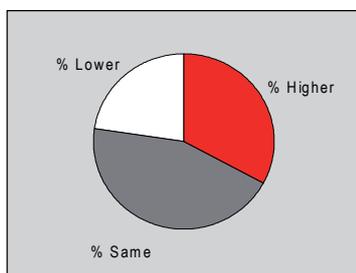
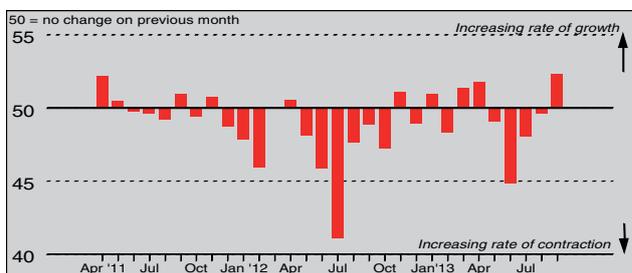
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing output in Vietnam continued to decline in September, extending the current sequence of contraction to five months. However, the latest fall was negligible as a rise in new orders provided some support to production volumes. Where a reduction in output was recorded panellists blamed weaker sales earlier in the year. Some reported that a lack of materials had impacted negatively on production.

New Orders Index

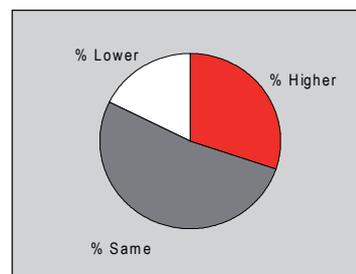
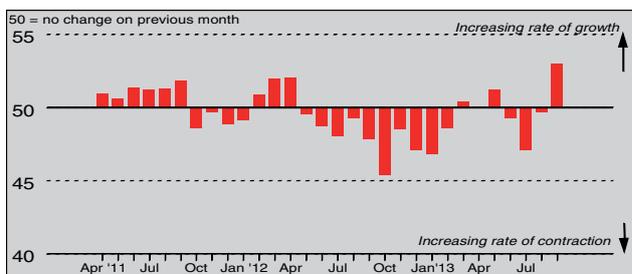
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



Volumes of new orders placed with Vietnamese manufacturers rose in September, the first instance of growth since April. Around a third of the survey panel registered an increase in new orders amid reports of an improvement in underlying demand both at home and abroad. The net increase in orders seen in September was solid and the strongest in the two-and-a-half year survey history. Better products and competitive pricing also provided support to sales growth.

New Export Orders Index

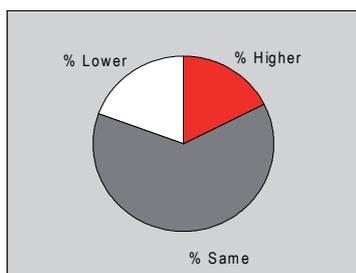
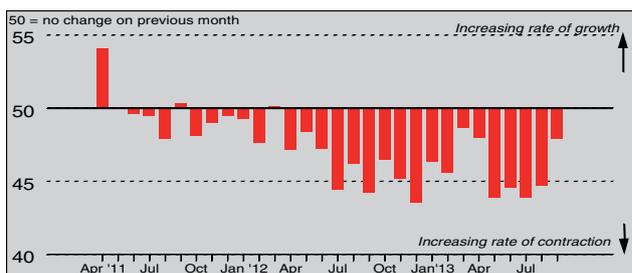
Q. Please compare the level of new export orders received this month with the situation of one month ago.



September's survey indicated a return to growth of new export orders following three months of contraction. The solid increase was also the best recorded in the short survey history. Underlying demand was widely reported to have strengthened. Some panellists commented that better product quality and promotional activities had also supported the rise in new export orders.

Backlogs of Work Index

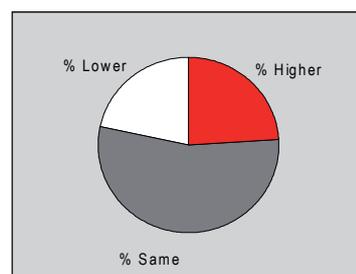
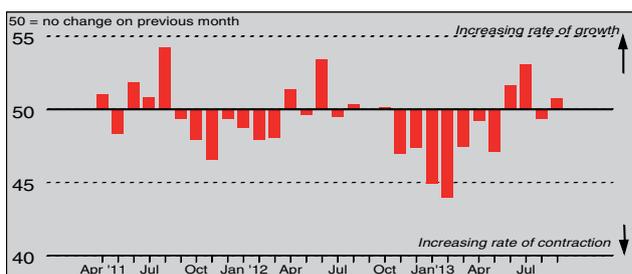
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work continued to decline in September implying a degree of spare capacity continues to exist within Vietnam's manufacturing economy. Work outstanding has now fallen for 18 months in a row, although the latest decline was the slowest seen since April. Companies reporting a decline in backlogs commented that the weakness of new order levels earlier in the year and recent rises in employment meant plants were sufficiently resourced to deal with workloads.

Stocks of Finished Goods Index

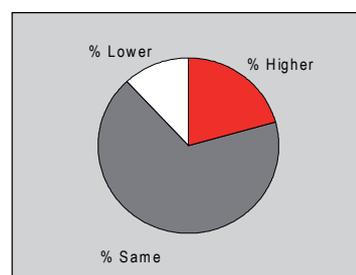
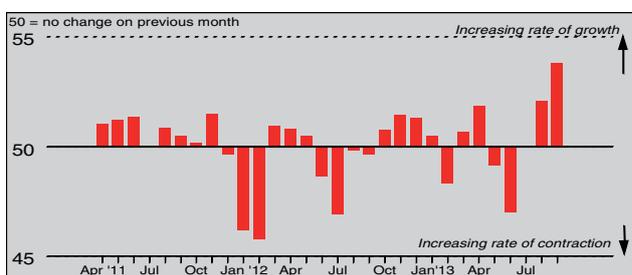
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



The seasonally adjusted Stocks of Finished Goods Index returned back above the 50.0 no-change mark during September, recording a level indicative of marginal inventory expansion. A number of panellists reported that, in spite of this month's rise in new orders, they continued to produce sufficient quantities of goods to add to their inventory holdings.

Employment Index

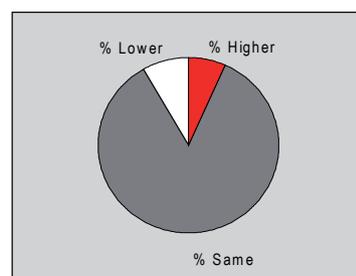
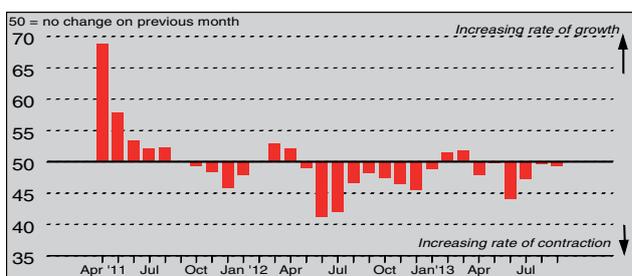
Q. Please compare the level of employment at your unit with the situation one month ago.



A series-record increase in staffing numbers was recorded by September's survey. Solid growth of employment followed on from August's modest gain and nearly 21% of the survey panel registered a rise in payroll numbers since the previous month. Increased sales and efforts to keep production sufficiently high underpinned the rise in employment.

Output Prices Index

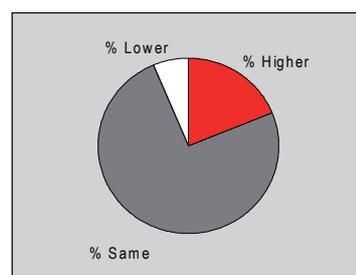
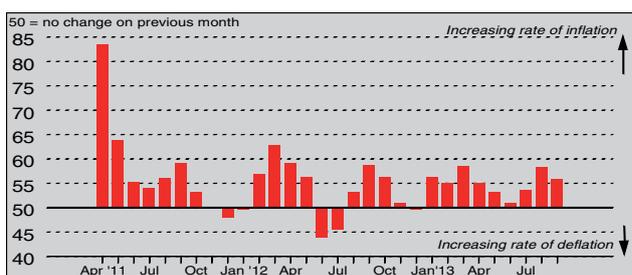
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Marginal deflation of output charges was maintained during September, extending the current period of falling prices to six months. The marginal nature of the decline was reflected by the fact 85% of the survey panel recorded no-change in output charges. Where prices were cut, panellists reported efforts to improve competitiveness and product attractiveness to customers.

Input Prices Index

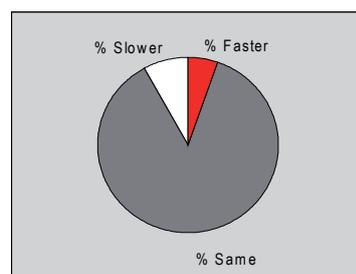
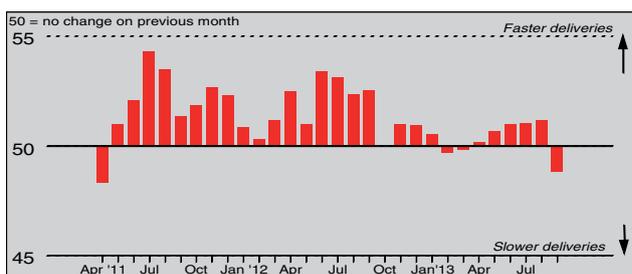
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Prices Index remained firmly above the 50.0 no-change mark in September to signal ongoing inflation of Vietnamese manufacturers' input costs. The degree to which input prices rose was, however, down on August's recent high. Fuel costs, increased utility bills and generally rising raw material prices were all reported. Scarce supply was noted in some instances as an inflationary factor.

Suppliers' Delivery Times Index

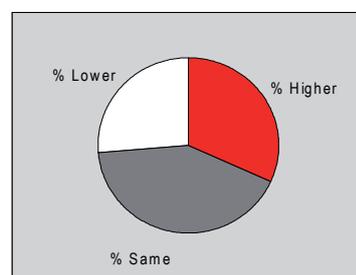
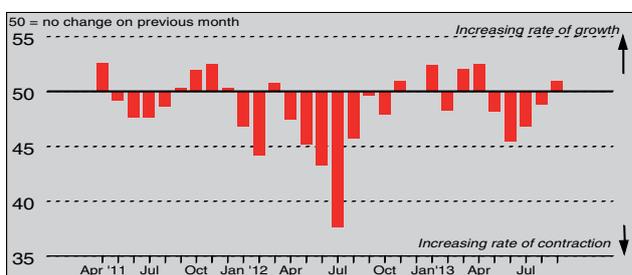
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average lead times for the delivery of inputs to Vietnam's manufacturing sector lengthened during September. Latest data marked the first time in six months that vendor performance has deteriorated. Moreover, the degree of lead time lengthening was the sharpest recorded since the start of the first month of data collection in April 2011. Scarcity of raw materials was widely reported to have led to stock shortages at suppliers.

Quantity of Purchases Index

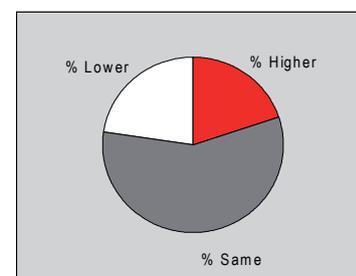
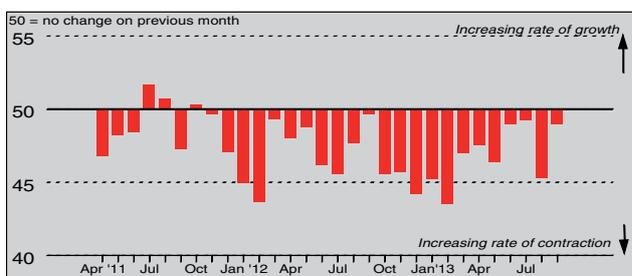
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



A modest increase in purchasing activity was signalled by September's survey, the first time growth has been recorded since April. Around 32% of the survey panel signalled a rise in input buying since August, with the increase generally reported to be a response to higher volumes of incoming new orders.

Stocks of Purchases Index

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



Although inventories of raw materials and semi-manufactured goods continued to fall during September, extending the current run of destocking to 23 months, the rate of contraction was modest and much slower than in August. Panellists signalled a preference for utilising stocks wherever possible in production and running their inventory levels relatively low.

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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