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# HSBC Vietnam Manufacturing PMI™

Output returns to growth as demand strengthens

## **Key findings:**

- Better economic climate drives output and new orders higher during October
- Employment continues to increase as capacity constraints emerge
- · Output charges rise following further inflation of input costs

Vietnam's manufacturing sector experienced a return to output growth during October, as new orders rose at a record rate following an upturn in demand. Amid evidence of emerging capacity constraints, payrolls continued to expanded, albeit at a slower rate, while companies added to input stocks in anticipation of further production growth.

Matching September's second-highest reading in the survey history, the headline seasonally adjusted *Purchasing Managers'*  $Index^{TM}$   $(PMI^{TM})$  – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – was unmoved at a level of 51.5 in October.

Back-to-back improvements in overall operating conditions followed four months of deterioration. Supporting growth of the sector in October was a return to rising levels of output. Growth was modest, but nonetheless the first recorded since April.

There were a number of reports from panellists that production had risen following an increase in new order volumes. Latest data showed that new work had increased for the second successive month, with the rate of expansion the best in the survey history.

Underlying client demand was widely reported to have improved, with companies commenting that they had taken advantage of a strengthened economic climate via new product launches and also being able to leverage strong reputations.

New export sales were also reported to have increased during

the month, albeit to a lesser extent than in September. It was nonetheless the second consecutive month that a rise in export orders has been recorded, and growth remained solid.

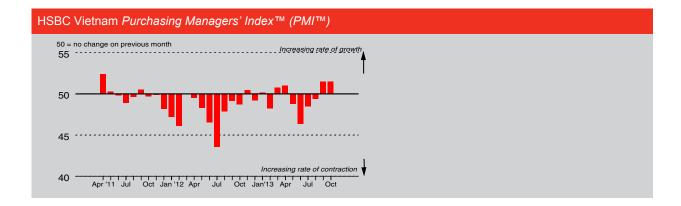
Panellists responded to the rise in new orders and production by adding to their payrolls for a third successive month. Growth was, however, modest and down on September's survey record.

Emerging capacity pressures also encouraged companies to increase employment at their plants. Backlogs of work were negligibly higher in October following 18 consecutive months of contraction.

Panellists also provided evidence of a positive outlook in October, with purchasing activity rising and stocks of inputs increased for the first time since October 2011. Manufacturers attributed growth to efforts to service current and expected rises in production and new orders over the coming months.

On the price front, input costs continued to rise at a marked pace. Manufacturers commented on a scarcity of raw materials, which was driving up their respective prices. Nonetheless, vendors were still able to marginally improve lead times for orders they could fulfil. There were reports that competitive pressures were encouraging suppliers to shorten delivery schedules wherever possible.

Faced with further increases in their average input costs, Vietnamese manufacturers raised their own charges for the first time since March.



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.

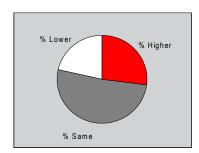




## Output Index

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



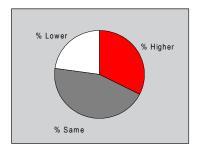


A return to growth of manufacturing output was signalled by October's survey. Indicating modest growth, the seasonally adjusted Output Index recorded a reading above the 50.0 no-change mark for the first time since April. Panellists reported that an increase in new order volumes was the principal driver of output growth in the latest survey period.

#### New Orders Index

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



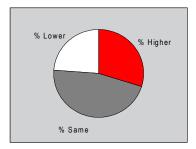


The seasonally adjusted New Orders Index moved further above the 50.0 no-change mark in October to signal a solid and accelerated rate of new business growth. Back-to-back increases in new order volumes were the first registered since March/April, and October's gain was the sharpest in the survey history. There were widespread reports of an improvement in underlying client demand.

# New Export Orders Index

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

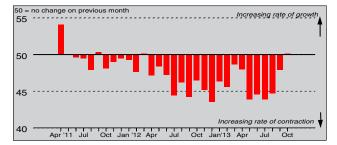


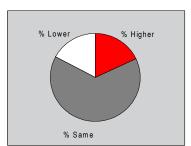


A second successive monthly increase in new export orders was indicated by October's survey. Growth was solid, albeit a little lower than September's survey record. Panellists reported that demand from clients had strengthened, with companies adding that positive reputations and new product launches had enabled them to take advantage of the improved business environment.

# Backlogs of Work Index

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

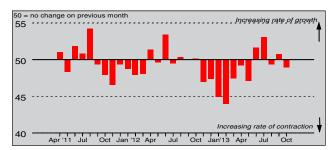


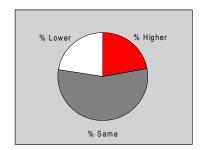


Backlogs of work were little changed during October. A virtual stagnation of backlogs followed 18 consecutive months of decline, and broadly similar proportions of the survey panel registered a rise in work outstanding as signalled a decline. Where growth was recorded, panellists principally cited rising new orders and associated pressure on capacity.

## Stocks of Finished Goods Index

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



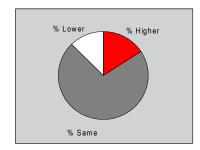


Inventories of finished goods were reduced in October. Latest data marked the second time in the past three months that a fall in inventories has been recorded, although the latest decrease was again modest. Anecdotal evidence suggested that stronger growth of new orders relative to output had led to destocking.

## Employment Index

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



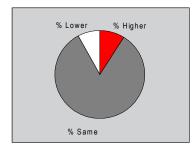


Levels of employment in the Vietnamese manufacturing sector continued to rise in October, extending the current run of growth to three months. A fall in the seasonally adjusted Employment Index did, however, point to a slower and modest rate of payroll expansion. Of the 16% of manufacturers that increased their staffing levels, many did so to support production and service new orders.

# 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.

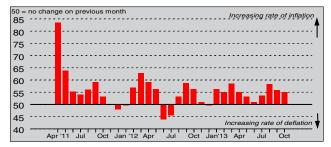


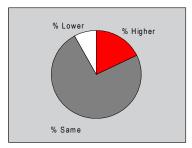


A modest increase in output charges was signalled by October's survey, the first instance of inflation since March. Exactly 9% of respondents recorded an increase in prices, compared to 8% that indicated a fall. Output price inflation was principally the result of higher input costs, according to panellists.

# Input Prices Index

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



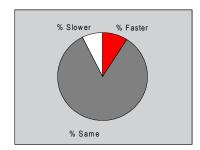


The seasonally adjusted Input Prices Index remained firmly above the 50.0 no-change mark in October to signal a further increase in average input prices faced by Vietnamese manufacturers. October marked the tenth successive month that an increase in input costs has been recorded, although the latest inflation was the slowest since July. Scarcity of raw materials was widely reported to have pushed up prices.

## Suppliers' Delivery Times Index

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



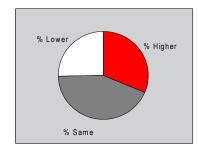


Following September's modest deterioration in average vendor performance, a marginal improvement was recorded during October. Panellists reported that lead times had shortened due to vendors responding to strong competition. However, a lack of raw materials was reported in some instances to have restricted the degree to which suppliers could shorten lead times.

#### Quantity of Purchases Index

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

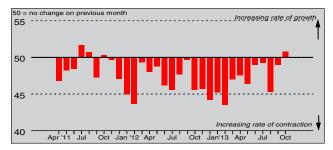


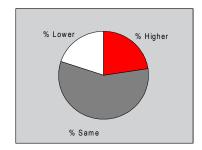


Purchasing activity continued to increase during October, the second successive month that growth has been registered. There were reports from panellists that buying activity was raised in response to higher production and new order requirements. The solid increase of buying activity seen in October was the best recorded since April.

# Stocks of Purchases Index

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





A slight increase in purchasing stocks was recorded by October's survey, the first time growth has been seen since October 2011. Of the roughly 23% of the survey panel that reported adding to their inventory levels, a number commented on deliberate efforts to boost stock ahead of expected rises in new order and production volumes.

### 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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