HSBC Purchasing Managers' Index™ Press Release
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compiled by markit

HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing falls back into contraction in May

Summary

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.

Comment

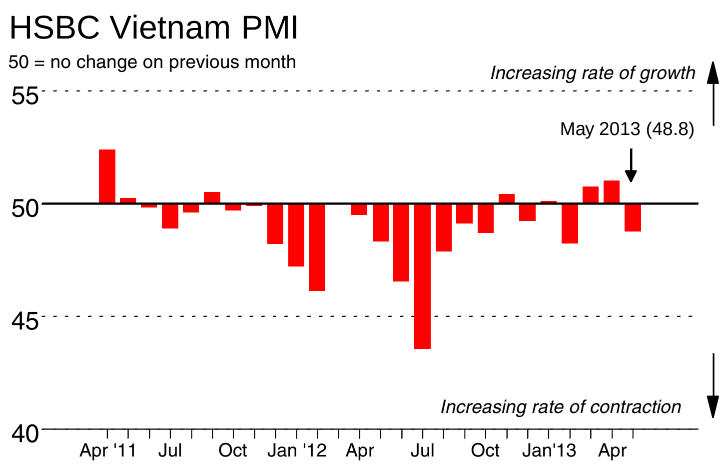
Commenting on the Vietnam Manufacturing PMI™ survey, Trinh Nguyen, Asia Economist at HSBC said:

"Vietnam's economic recovery process is very fragile and continues to be dragged down by lacklustre domestic demand. The contraction of employment and output in the manufacturing sector is representative of overall economic activity in Vietnam. Improved external demand in the US provides some buffer but the still-weak global manufacturing data suggests that external headwinds are strong. Unless the issue of bad debt in the financial system is resolved, low appetite for consumption and investment will continue to weigh on Vietnam's growth potential."

Key points

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

Historical Overview



Sources: Markit, HSBC.

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Notes to Editors:

The HSBC Vietnam Manufacturing PMI 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 Vietnamese 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: 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. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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