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HSBC Vietnam Manufacturing PMI™

Slower deterioration of operating conditions signalled during July

Key findings:

- PMI remains below 50.0 no-change mark for third successive month
- Output and new orders fall, but at slower rates
- Employment levels unchanged

Vietnam's manufacturing sector continued to contract during July, albeit at a slower pace as output and new orders fell at weaker rates and employment was unmovable. Margins remained under pressure as output charges continued to fall, but input prices rose at an accelerated pace.

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 – registered 48.5 in July. That was an improvement on June's 46.4 but, by remaining below the 50.0 no-change mark, signalled a third successive monthly contraction of the manufacturing sector.

Output and new orders both continued to fall during the latest survey period, albeit at slower rates. Modest falls in these key variables were said to reflect soft underlying market conditions, with clients' purchasing power reported to have weakened.

Latest data implied that the net decline in new orders was partly driven by a decline in new business from abroad. New export orders fell for a second successive month and at the fastest rate since the start of the year. China was noted in particular as a source of demand weakness during the latest survey period.

With new orders continuing to fall, panellists were able to make further inroads into their work outstanding. The latest decline was the joint second fastest in the survey history as companies were able to take advantage of slow demand and clear existing

contracts.

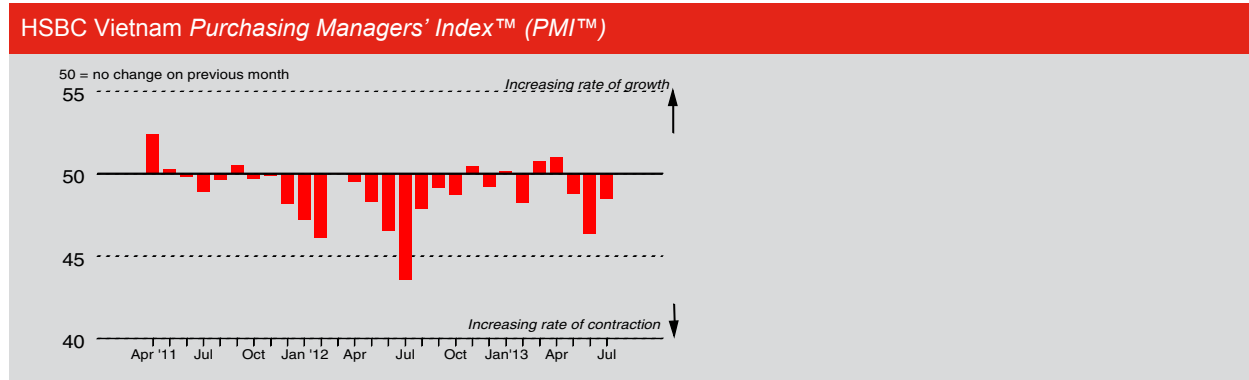
Excess production was also used to build inventories during July, with stocks of finished goods rising to the sharpest degree since June 2012. Inventories have now grown for two months in a row.

On the employment front, Vietnamese manufacturers left staffing levels unchanged during July following two months of contraction. While some panellists added to payroll numbers to help bolster production, others responded to reduced new order volumes by cutting staffing levels.

Output charges were cut further in July, the fourth month in succession that a net reduction in average tariffs has been observed. Discounts were reported to reflect intensifying market competition and efforts to stimulate sales. There was some evidence that output prices were being reduced to help clear excess inventory at plants.

In contrast, input prices continued to rise. Inflation has now been registered for seven months in a row, with a limited supply of inputs reported to have pushed up prices. There was also evidence that a stronger US dollar had raised import costs.

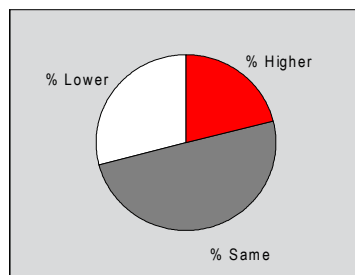
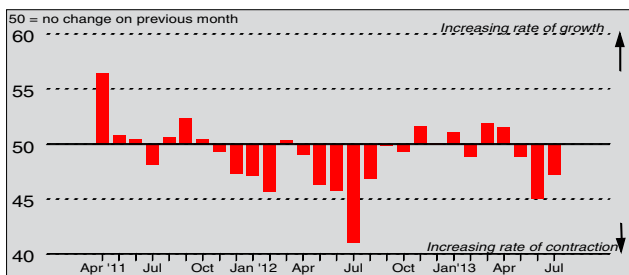
Average delivery times continued to improve despite evidence of vendors struggling to source inputs. Companies reported that reduced purchasing activity had eased the pressure on suppliers during the latest survey period.



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

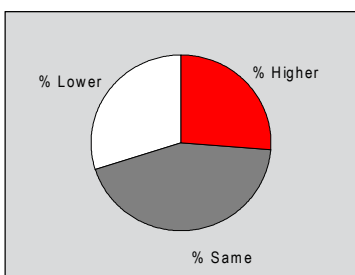
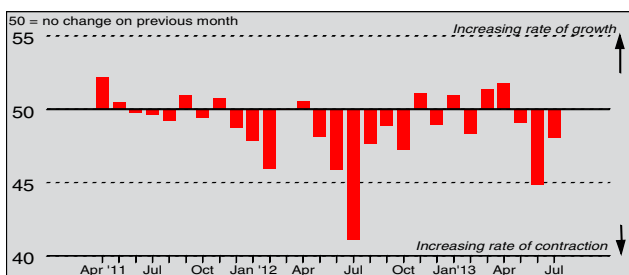
Q. Please compare your production/output this month with the situation one month ago.



The seasonally adjusted Output Index remained below the 50.0 no-change mark in July to indicate a further contraction of manufacturing output, the third in successive months. The degree to which output fell was solid, despite easing since June, with panellists again linking the latest contraction to ongoing weakness in their new order books.

New Orders Index

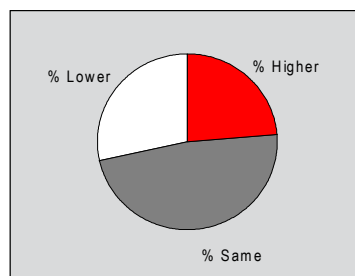
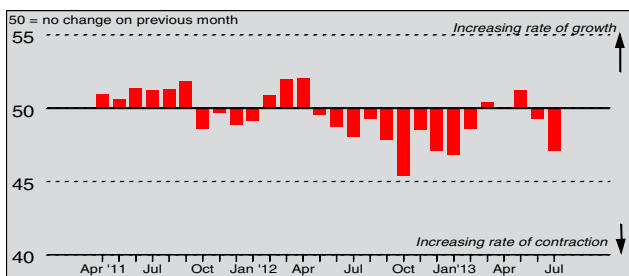
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



The seasonally adjusted New Orders Index posted below the crucial 50.0 no-change mark during July, extending the current period of decline to three months. That said, July's fall in new business was modest and considerably weaker than in June. Panellists reported that client demand was lower, with purchasing power squeezed amid evidence of soft underlying market conditions.

New Export Orders Index

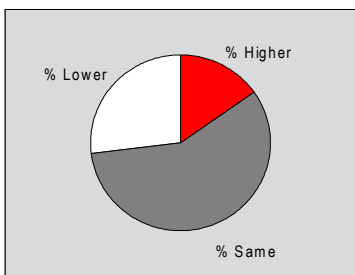
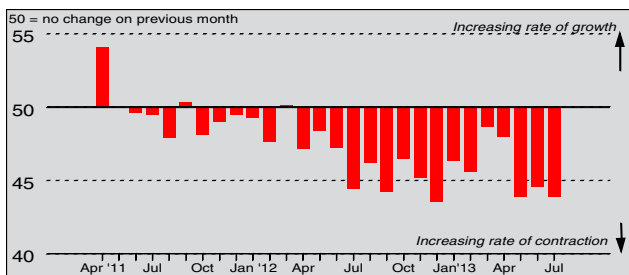
Q. Please compare the level of new export orders received this month with the situation of one month ago.



July's survey indicated further weakness in new export orders, with latest data showing a second consecutive monthly decline. Moreover, a fall in the seasonally adjusted New Export Orders Index to a six-month low indicated an accelerated pace of contraction. Panellists reported that new export orders had fallen in line with softer global demand, with China mentioned as a particular source of demand weakness.

Backlogs of Work Index

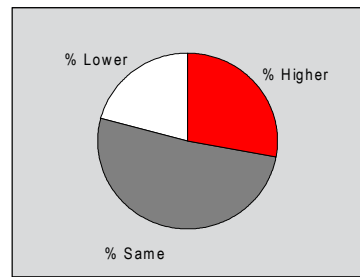
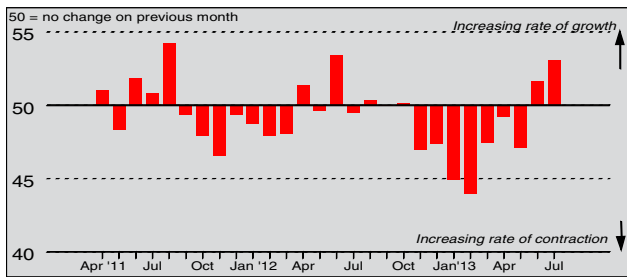
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Vietnamese manufacturers were again able to make inroads into their work outstanding during July. The respective seasonally adjusted Backlogs of Work Index has posted readings below the 50.0 no-change mark for 16 months in succession, and the latest decline was the joint-second sharpest in the series history. Insufficient demand was reported to have enabled manufacturers to clear backlogs of work.

Stocks of Finished Goods Index

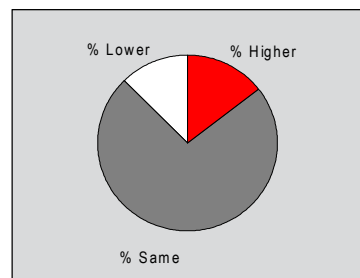
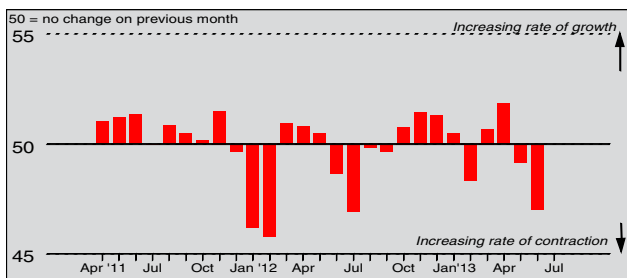
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



A second successive monthly increase in inventories of finished goods was signalled during the latest survey period. Moreover, the seasonally adjusted Stocks of Finished Goods Index indicated a solid rate of growth that was the sharpest since June 2012. Panellists reported that slow sales had led to an excess of production at their plants and a subsequent increase in warehouse inventories.

Employment Index

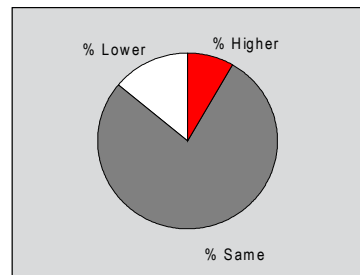
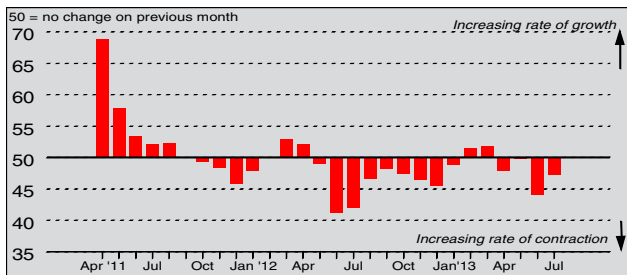
Q. Please compare the level of employment at your unit with the situation one month ago.



The seasonally adjusted Employment Index registered exactly at the 50.0 neutral mark during July to indicate no change in staffing volumes since the previous survey period. Stagnation was an improvement on two months of consecutive contraction. Where growth of employment was recorded, panellists took on extra staff to service production needs. Any falls in staff numbers were linked to reduced new order volumes.

Output Prices Index

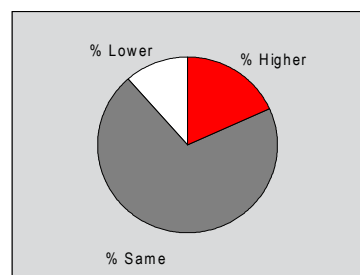
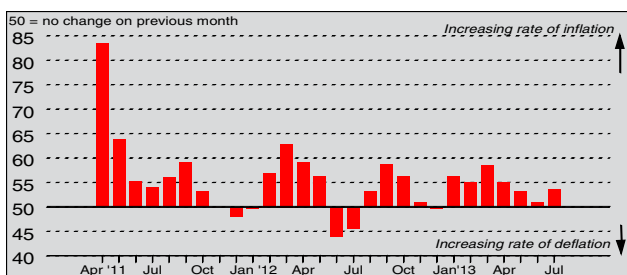
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Output charges continued to decline during July, extending the current deflationary period to four months. Exactly 14% of the survey panel indicated a decline in output prices since the previous survey period, with a number offering discounts in response to market competition and efforts to stimulate sales. There were some reports of a desire to shift excess inventory of warehouse stocks.

Input Prices Index

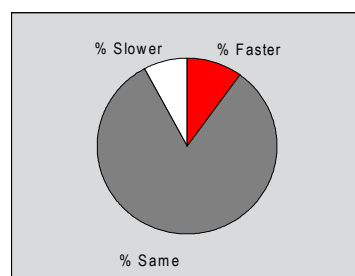
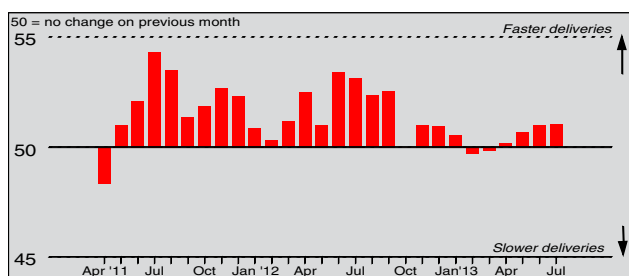
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



The seasonally adjusted Input Prices Index signalled continued inflation of input prices during July. Latest data marked the seventh successive month that input prices have increased, and the latest rise was solid and the sharpest for three months. Panellists blamed limited supply amongst vendors for inflation, while others reported that a stronger US dollar raised the price of imported goods. Higher transport costs were also reported.

Suppliers' Delivery Times Index

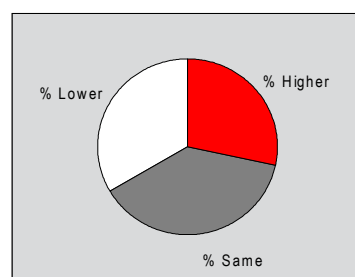
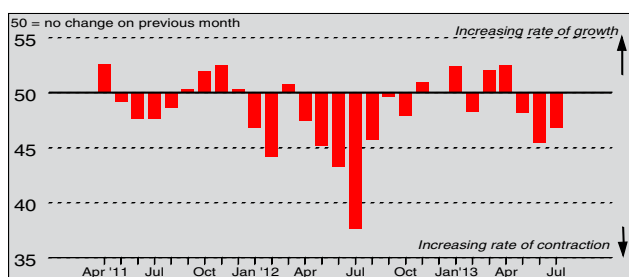
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average supplier delivery times shortened for a fourth month in succession during July, but again at only a modest pace. Panellists reported that weaker demand for inputs had led to a net gain in average lead times, although the rate of improvement was restricted by reports of scarce supply at vendors.

Quantity of Purchases Index

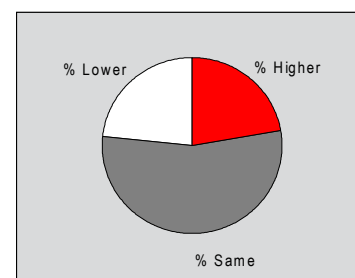
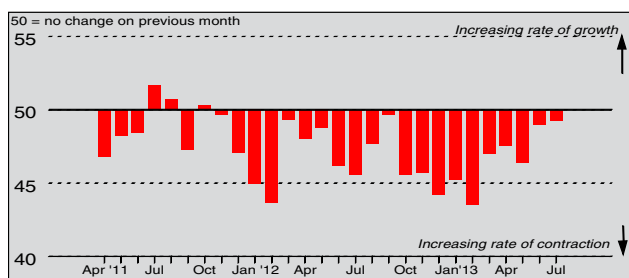
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



The seasonally adjusted Quantity of Purchases Index remained below the 50.0 no-change mark for a third month in succession during July to indicate a further reduction in purchasing activity. Panellists reported that buying had been reduced in line with ongoing falls in production and new order volumes. The degree to which input buying fell in the latest survey period was solid, though weaker than recorded during June.

Stocks of Purchases Index

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



With purchasing activity being reduced further in July, inventories of inputs held by Vietnamese manufacturers continued to decline. However, with the seasonally adjusted Stocks of Purchases Index registering slightly below the 50.0 no-change mark, the degree to which inventories were reduced was only marginal.

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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