

Embargoed until: 4 September 2012

HSBC Vietnam Manufacturing PMI™

Manufacturing PMI rises to three-month high, but still signals a deterioration in business conditions

Key findings:

- Output and new business down at slower rates
- Marginal rate of job shedding signalled
- Average input costs rise, ending two-month period of decline

This report contains the fifth 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 HSBC PMI posted 47.9 in August, up from 43.6 in July, signalling a further worsening of Vietnamese manufacturing sector operating conditions. However, the latest index reading was consistent with only a modest rate of deterioration that was the weakest since May.

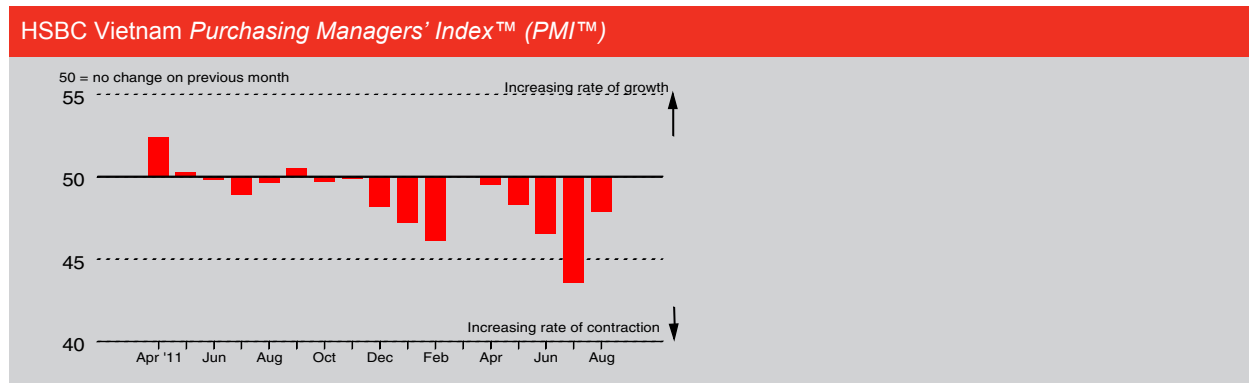
Manufacturing output decreased further in August, albeit at the weakest rate in four months. Where a decline in factory output was signalled, companies commonly attributed this to lower levels of new business. Similar to the trend for manufacturing production, the rate of reduction in new work eased since the month before. The latest decrease was the fourth in as many months, and only modest. New export orders also decreased during the month, albeit at a slower rate than for overall new work. Companies generally attributed the decline in total new business to weak demand from both domestic and external

markets.

With new business falling further, backlogs of work decreased and firms shed workers overall. The latest decrease in staff numbers was the third in successive months. However, the rate of job shedding was only marginal.

Purchasing activity decreased again in August, although the rate of decline eased markedly from one month earlier. Reduced input buying contributed to a continued drop in stocks of purchases in August. Meanwhile, companies reported that supplier capacity was little tested over the month, with vendor lead times shortening further. This in part reflected sufficient availability of inputs at suppliers due to softer demand.

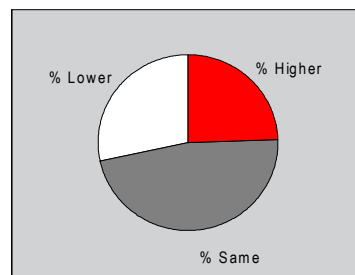
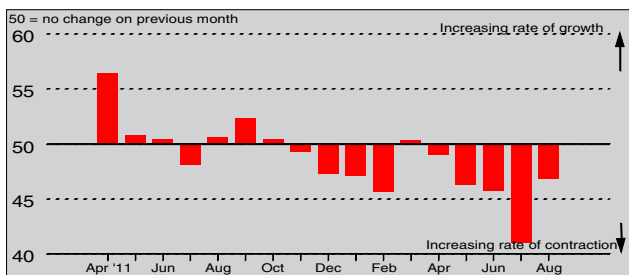
Average input costs faced by Vietnamese goods producers rose in August, ending a two-month period of decline. Respondents to the latest survey commented on higher prices paid for a range of raw materials. However, the rate of input price inflation was relatively modest. Despite the rise in costs, companies continued to lower their average tariffs. The latest decrease in factory gate charges was the fourth in as many months, but much slower than those seen in June and July. Companies that reduced their selling prices did so in part due to competitive pressures.



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

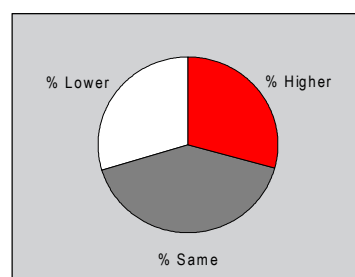
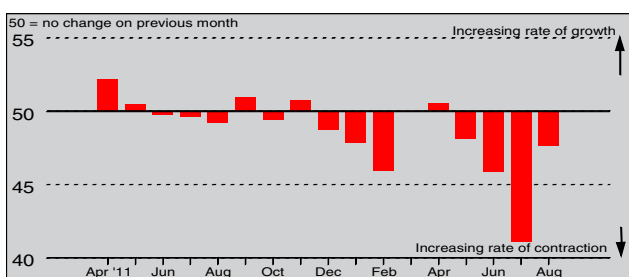
Q. Please compare your production/output this month with the situation one month ago.



Manufacturing production in Vietnam decreased for the fifth month running during August, with approximately 28% of panellists signalling a drop since July. Although solid, the rate of reduction in factory output was the weakest since April. Where a decline in production was signalled, companies often mentioned lower levels of new business.

New Orders Index

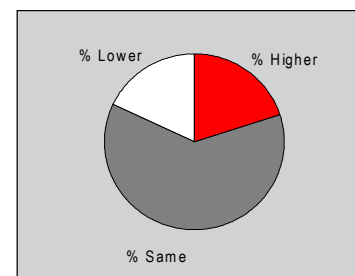
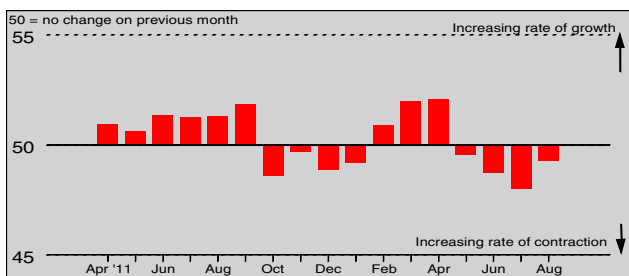
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



The level of new business placed at Vietnamese goods producers decreased further during August, with companies generally attributing this to adverse demand conditions. However, the rate of decline in new work was only modest, and much slower than one month previously. Moreover, the latest seasonally adjusted New Orders Index reading was the highest in three months.

New Export Orders Index

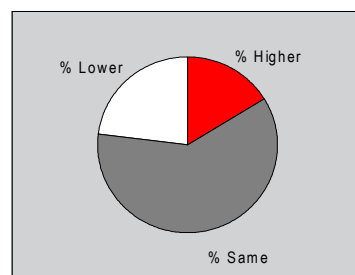
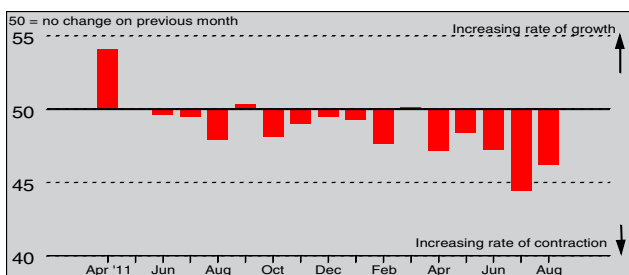
Q. Please compare the level of new export orders received this month with the situation of one month ago.



August's seasonally adjusted New Export Orders Index reading signalled a fourth successive month-on-month fall in new export business placed at goods producers. The rate of decline in new export work was only marginal, however, and the slowest since May. Of those companies that reported a drop in foreign order levels, many attributed this to muted demand on global markets.

Backlogs of Work Index

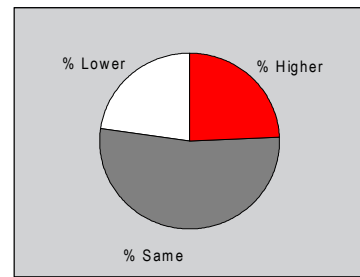
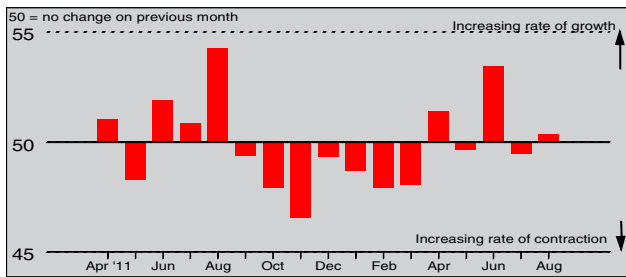
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Latest data signalled a further decline in volumes of work-in-hand (but not yet completed) at Vietnamese manufacturers' plants. The solid reduction in backlogs of work showed that operating capacity is not being tested in the sector, largely reflective of falling new orders. The seasonally adjusted Backlogs of Work Index has now recorded a sub-50 reading for five months in succession.

Stocks of Finished Goods Index

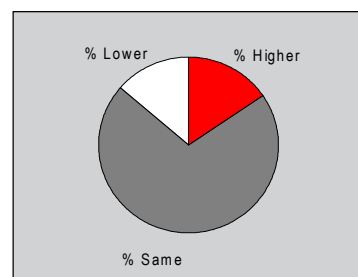
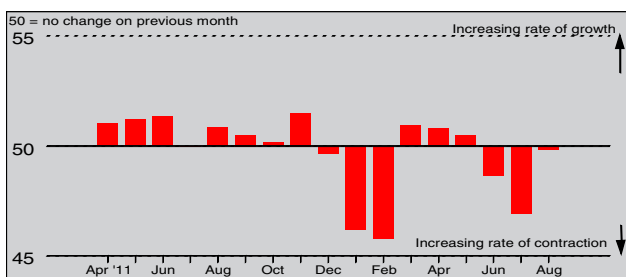
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



After adjusting for seasonal variation, the Stocks of Finished Goods Index signalled a renewed expansion of post-production inventories during August. The overall increase in stock levels reflected weaker-than-expected sales, according to survey respondents. However, the index was at a level indicative of only a marginal rate of stock accumulation.

Employment Index

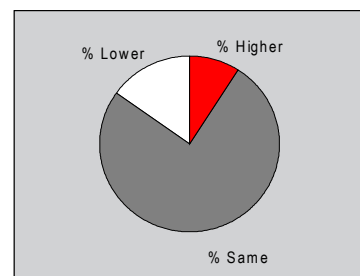
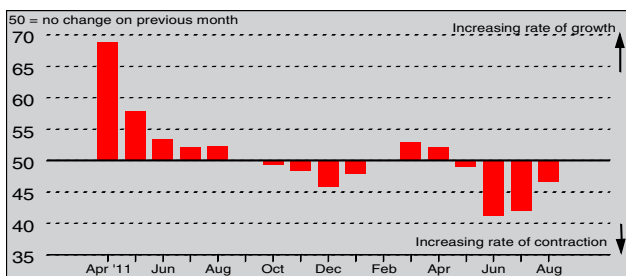
Q. Please compare the level of employment at your unit with the situation one month ago.



Manufacturing employment decreased in August, extending the current period of decline to three months. The latest seasonally adjusted Employment Index was nonetheless consistent with only a marginal rate of job shedding. Where a decline in staff numbers was recorded, companies commented on lower levels of new business.

Output Prices Index

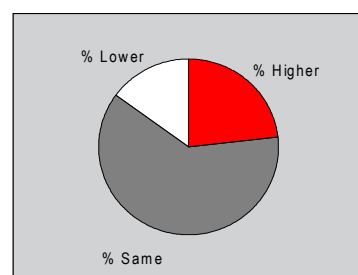
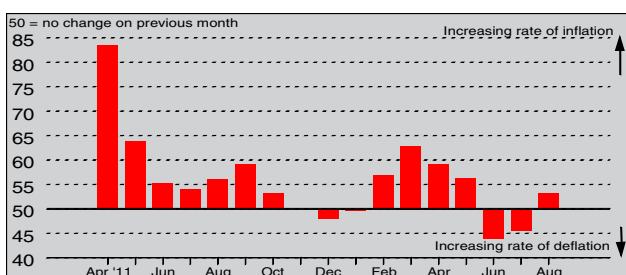
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by Vietnamese goods producers for their final goods decreased during August, with the seasonally adjusted Output Prices Index posting below the neutral level of 50.0 for the fourth month in a row. However, the rate of output price discounting was the weakest since May. Firms reportedly reduced their output charges in response to competitive pressures.

Input Prices Index

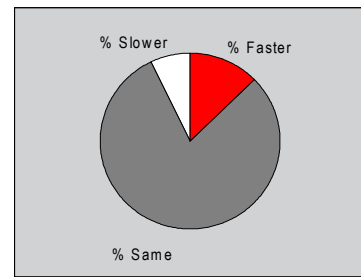
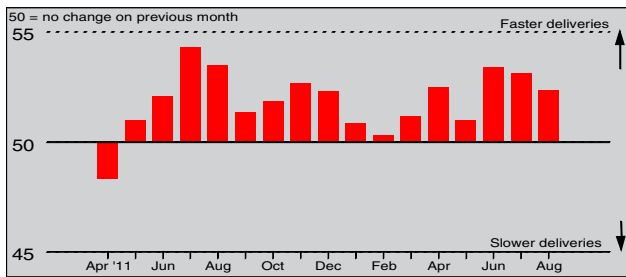
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input costs faced by Vietnamese goods producers rose solidly during August, ending a two-month period of decline. Around 23% of survey respondents reported a rise in input prices since the month before, compared with 15% that noted a decline. A number of raw materials were reported to have risen in price since the month before, according to survey participants.

Suppliers' Delivery Times Index

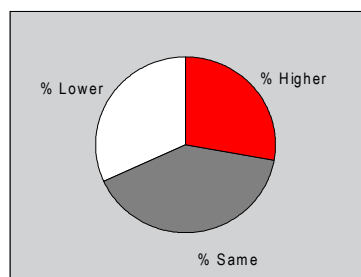
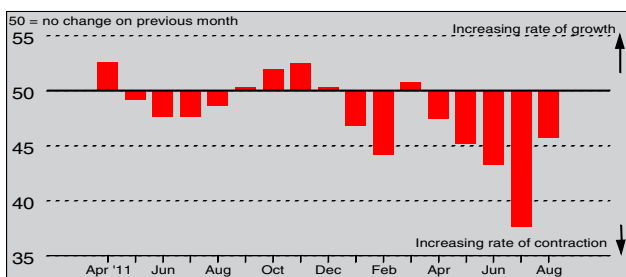
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



The average time taken by vendors to deliver inputs to Vietnamese goods producers shortened at a moderate rate in August, with almost 13% reporting that this was the case. This compared to 7% that recorded a deterioration in vendor performance. Companies generally commented on sufficient availability of stock at vendors.

Quantity of Purchases Index

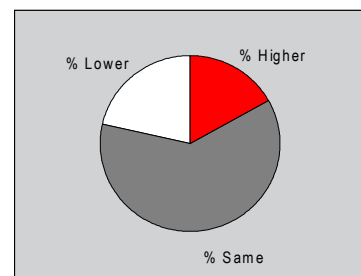
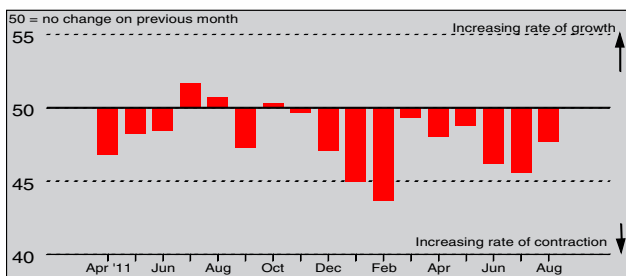
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



In line with lower output requirements, purchasing activity in the Vietnamese manufacturing sector decreased for a fifth successive month during August. Although solid, the rate of decline in input buying eased markedly to the weakest since April. Indeed, the seasonally adjusted Quantity of Purchases Index rose more than eight points since the month before.

Stocks of Purchases Index

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



With purchasing activity falling further, latest data signalled another decline in stocks of semi-manufactured goods and raw materials at Vietnamese goods producers. However, the latest seasonally adjusted Stocks of Purchases Index reading was consistent with only a modest rate of inventory depletion that was the weakest since May.

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 300 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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