HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing sector falls back into contraction in February

Summary

After adjusting for seasonal factors, including the Tet holidays, the HSBC Vietnam Manufacturing PMI posted 48.3 in February, down from 50.1 in January. The PMI therefore posted a reading below the neutral 50.0 mark – to signal contraction – for the second time in the past three months. Although the rate of deterioration indicated was only modest, it was nonetheless the sharpest since August last year.

Manufacturing production and new orders both fell during February, amid reports of weak client demand. There were also reports that order levels had fallen as a result of excess inventory holdings at a number of customers. The level of new work declined from both domestic and export markets. Incoming new export business fell for the tenth successive month, but the rate of reduction eased to a six-month low.

The recent subdued performance of the manufacturing sector filtered through to the labour market, with manufacturing job losses reported for the first time in five months. Although the rate of reduction was only moderate overall, it was nonetheless the sharpest signalled since July 2012. Companies also linked lower staffing requirements to cost control efforts.

Excess capacity persisted in the Vietnam manufacturing sector, as highlighted by a further decline in backlogs of work during February. The level of outstanding business has now fallen in each of the past 11 months.

February data signalled an increase in average purchasing costs for the second successive month. Companies reported paying higher prices for a range of raw materials, including metals and some food products. Subsequently, manufacturers adjusted their selling prices higher to reflect part of the increase in costs. Factory gate prices rose for the first time in ten months.

Manufacturers exhibited a cost-cautious approach towards stock-holding and purchasing decisions during February. Lower production requirements led to a slight decrease in input buying volumes, the first reduction for four months. Meanwhile, inventories of purchases and finished products both fell sharply during the latest survey period, with rates of depletion in both cases the fastest since data collection began in April 2011. Average vendor performance deteriorated slightly as well, reflecting shortages of certain raw materials at vendors.

Comment

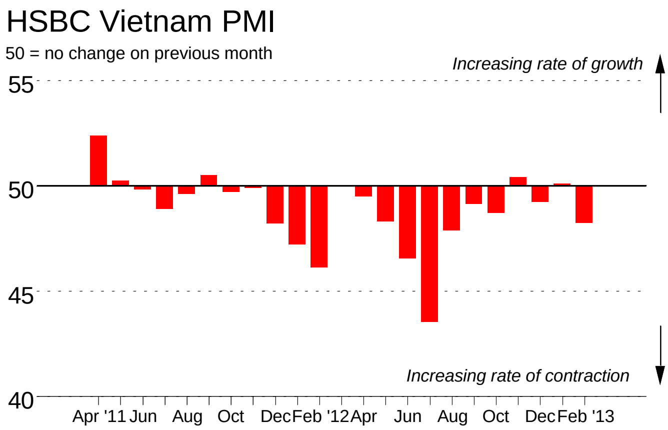
Commenting on the Vietnam Manufacturing PMI™ survey, Trinh Nguyen, Asia Economist at HSBC said:

"The declines of output and new orders suggest that the recovery process is still very bumpy. While the Lunar New Year is partly to blame, the on-going deleveraging process continues to dampen domestic demand. While the slowdown in the rate of decline of external demand suggests that the worst might be over, the contraction of employment points to continued weakness domestically. The SBV mentioned that it might consider cutting rates further but the rise of input prices as well as still elevated core inflation leave little scope for the central bank to do so."

Key points

- Headline PMI dips to 48.3 in February
- Output and new orders decline
- Jobs cut for first time in five months

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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