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# HSBC Vietnam Manufacturing PMI™

Manufacturing sector moves closer to stabilisation

**Key findings:**

- Output and new orders fall at slower rates
- Survey-record increase in employment
- Profitability under pressure

August's survey signalled a near stabilisation of Vietnam's manufacturing sector. Although output and new orders continued to fall, they did so at marginal rates. There was a survey record increase in employment as manufacturers signalled positive expectations for activity.

Profitability remained under pressure, however, as output charges were little changed, but input prices rose at the sharpest pace since March. Rising transportation costs were widely reported.

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 – recorded 49.4 in August. That was an improvement on July's 48.5 and the best reading since April but, by remaining below the 50.0 no-change mark, signalled a marginal deterioration of manufacturing operating conditions.

New orders received by Vietnam's manufacturers continued to fall in August, extending the current run of contraction to four months. Market activity remained slow, according to panellists, and customer demand soft. That said, there were reportedly pockets of growth, the net result being only a marginal overall contraction in new work.

Latest data showed that new export orders also continued to decline. The marginal fall was the third in successive months. Export market conditions were reported to have remained tough,

but were showing signs of stabilisation.

Manufacturing production volumes fell for a fourth month in succession during August. The decline was linked to a fall in new orders. In line with the trend for sales, the degree to which output fell was modest.

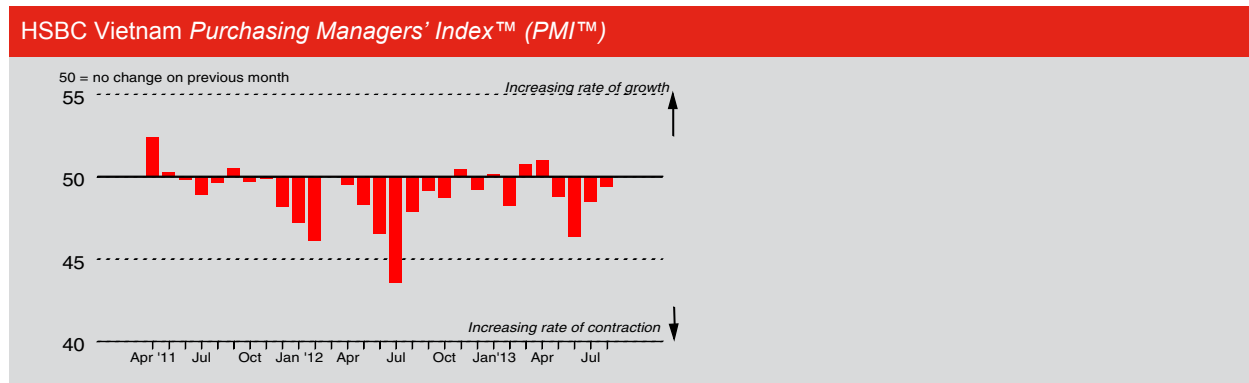
Manufacturers were again able to make inroads into their work outstanding during the latest survey period. Backlogs of unfinished orders fell for the seventeenth successive month, and again at a marked pace.

Falling backlogs in part reflected a depletion of inventories. Warehouse stocks fell marginally for the first time in three months. Additional capacity also helped companies to keep on top of workloads. Employment rose in August for the first time since April, with the rate of growth solid and the sharpest in the survey history. Recruitment reflected positive forecasts for production and orders.

Profits came under further pressure, reflective of two factors.

Firstly, output charges were little changed. Competitive pressures, efforts to stimulate sales and client requests for reduced prices all weighed on average tariffs.

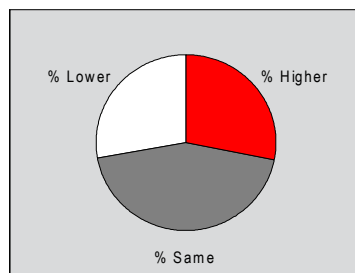
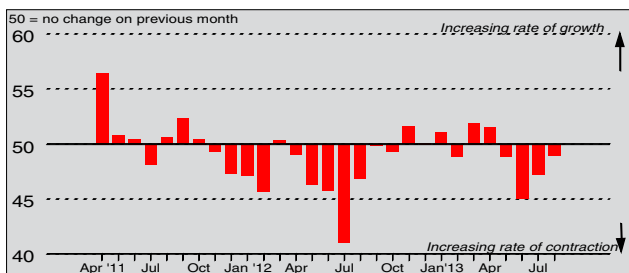
Secondly, input prices rose at a marked and accelerated pace. Inflation was the sharpest since March. Higher transportation costs, and a rise in the price of oil and associated derivatives were reported as key inflation drivers.



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

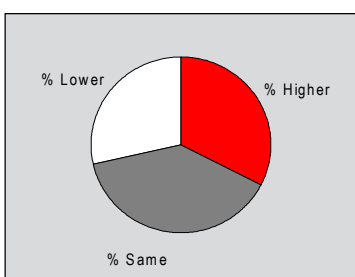
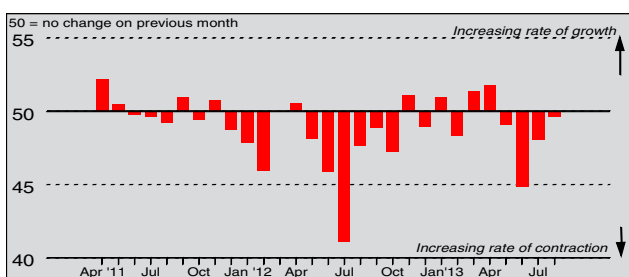
Q. Please compare your production/output this month with the situation one month ago.



Production levels in Vietnam's manufacturing sector continued to fall during August. The latest decline extended the current period of contraction to four months, although the net fall was modest. Sustained weakness in new order volumes was reported to have again weighed on output during August.

### New Orders Index

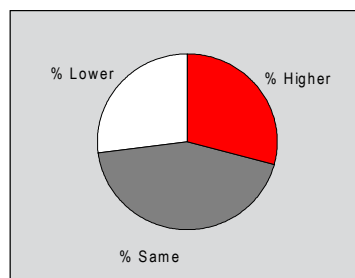
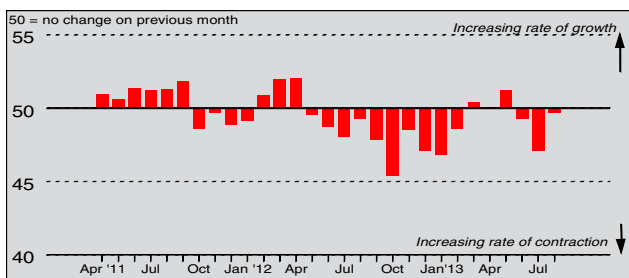
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



August's survey indicated that manufacturing new orders continued to weaken, extending the current period of contraction to four months. Panellists reported that overall market activity was slow, with customer demand remaining soft. That said, the decline in new orders was marginal and the slowest seen in the current period of falling new orders. There were reports of a re-emergence of client activity in some market sectors.

### New Export Orders Index

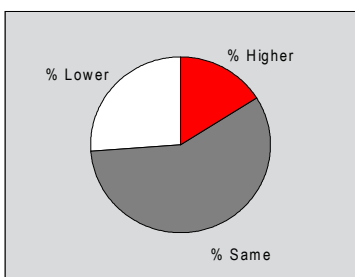
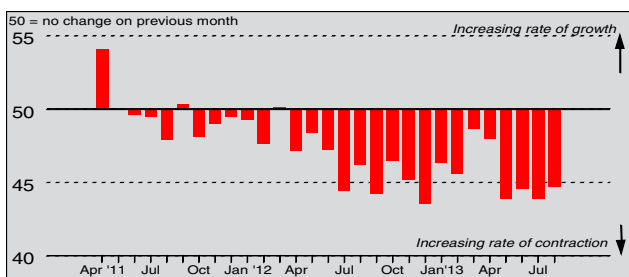
Q. Please compare the level of new export orders received this month with the situation of one month ago.



New export orders received by Vietnamese manufacturers continued to fall in August, extending the current period of decline to three months. However, with broadly similar proportions of companies recording a rise in orders as indicating a fall, the net contraction was marginal. Conditions in export markets were reported to have remained relatively difficult, though showed further signs of stabilising during the month.

### Backlogs of Work Index

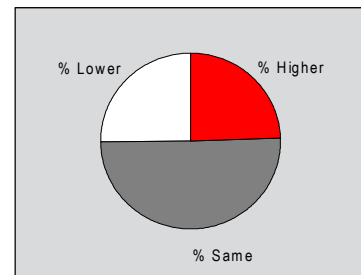
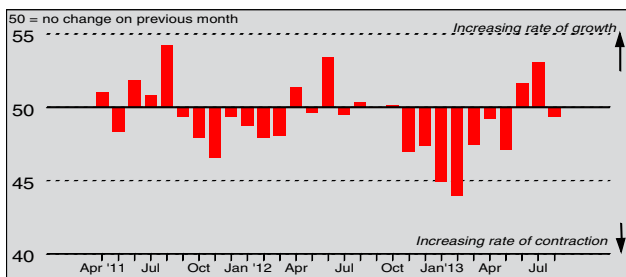
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Backlogs of work continued to be eradicated in August. The seasonally adjusted Backlogs of Work Index recorded below the 50.0 no-change mark for the seventeenth successive month. Moreover, by remaining well below the 50.0 no-change mark, the index signalled that the rate of backlog depletion remained sharp. Lower new orders were widely reported to have enabled companies to keep on top of workloads during the latest survey period.

## Stocks of Finished Goods Index

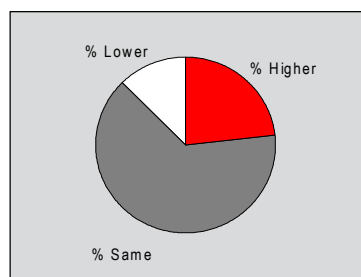
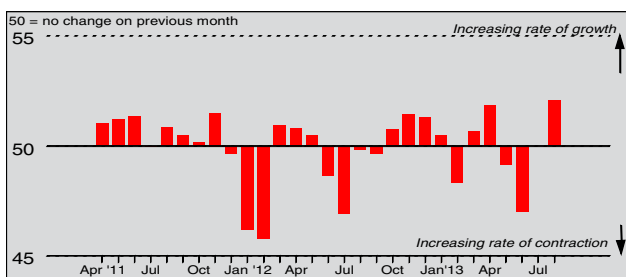
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



A return to destocking was signalled by August's survey data. Following two months of growth, inventories of finished goods were down slightly for the first time since May. Companies indicated a focus on maintaining lean inventory levels at their plants at a time when new orders and production levels continued to register net declines.

## Employment Index

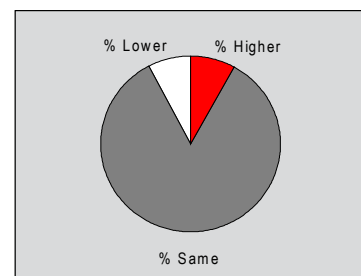
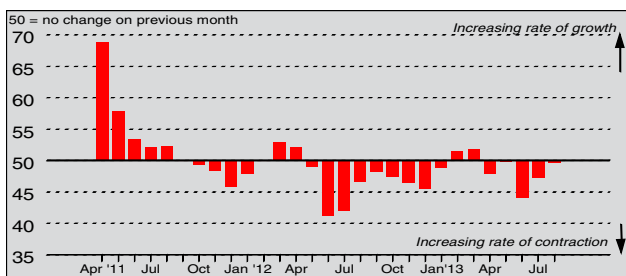
Q. Please compare the level of employment at your unit with the situation one month ago.



In spite of underwhelming trends in new orders and production, manufacturers in Vietnam chose to add to their staffing levels for the first time since April. Panellists reported recruiting additional staff in order to serve future production and expected order requirements. That said, growth of employment was the sharpest registered in the series history.

## Output Prices Index

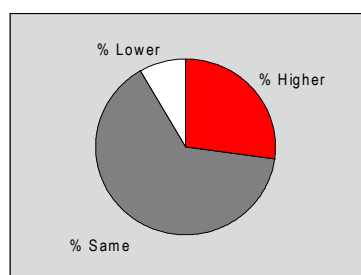
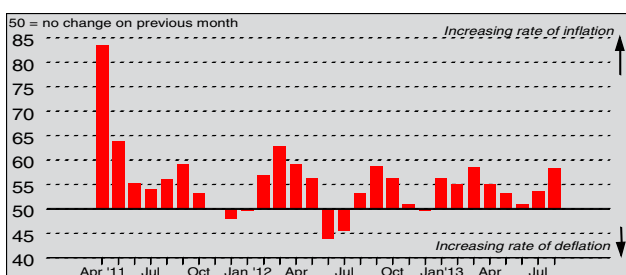
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



The seasonally adjusted Output Prices Index posted below the 50.0 no-change mark in August. Output charges have now fallen for five months in a row, although the latest fall was marginal and the slowest recorded since May. Where a decline in output charges was indicated, panellists signalled difficulty in passing on higher input costs to clients due to strong competition and client requests for lower prices. There was also some evidence of discounting to stimulate sales.

## Input Prices Index

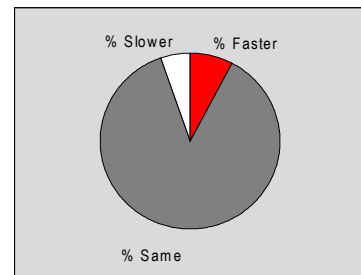
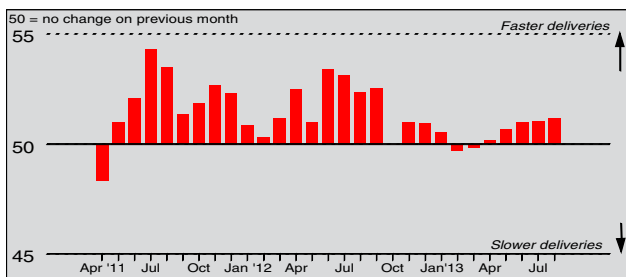
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



Average input prices paid by Vietnamese manufacturers continued to increase during August. Moreover, there was a sharp acceleration in the pace of inflation, with input costs rising at the most marked rate since March. Companies commented on an increase in transportation costs, with oil and associated derivatives reported to have risen in price. There were some reports of a general increase in market prices.

## Suppliers' Delivery Times Index

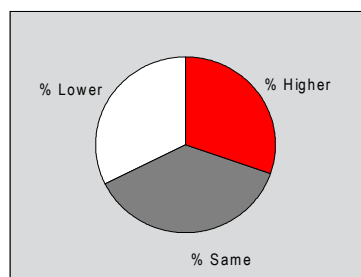
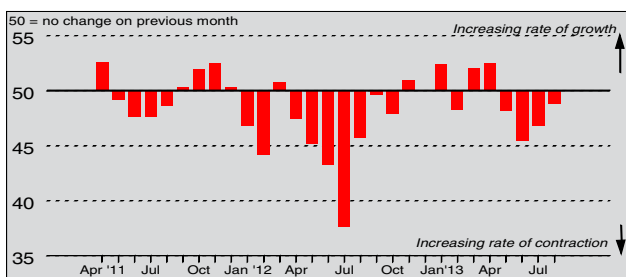
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Average delivery times continued to improve during August. Latest data marked the fifth successive month that better vendor performance has been registered. The modest strengthening of average delivery times in August was reported to have been the result of excess stock at suppliers and reduced demand for inputs.

## Quantity of Purchases Index

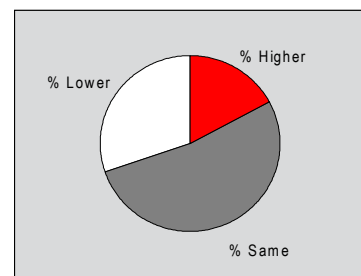
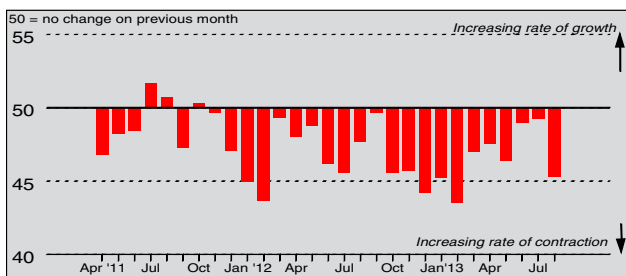
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Purchasing activity continued to be reduced during August. The latest fall was the fourth in successive months, albeit modest and the weakest in the current sequence of contraction. Panellists signalled that August's reduction in buying activity was principally the result of lower production volumes and sufficient stock at their plants to satisfy existing requirements.

## Stocks of Purchases Index

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



The seasonally adjusted Stocks of Purchases Index remained well below the 50.0 no-change mark in August to indicate a further contraction of inventories of raw materials and semi-manufactured goods held by Vietnam's manufacturers. Lower order book volumes and associated weakness in production were reported to have driven stocks lower in August.

## 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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