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## HSBC Vietnam Manufacturing PMI™

Manufacturing output dips in April, but improved export sales lead to fastest rise in new orders for five months

### Key findings:

- Overall business conditions deteriorate slightly in April...
- ...as weaker production levels offset higher new order intakes
- Jobs growth maintained, despite strong cost pressures

This report contains the first 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.

At 49.5 in April, down from 50.0 in March, the Vietnam Manufacturing PMI™ signalled that overall business conditions worsened slightly over the month, following a stagnation during the previous survey period. The headline PMI has now indicated deteriorating business conditions in six of the past seven months, with the lowest point of the downturn seen in February 2012. The main reason behind the overall worsening of operating conditions in April was a weaker contribution from the output component, which more than offset stronger new orders data.

April's survey pointed to a slight decline in production levels across the Vietnam manufacturing sector, which reversed the marginal upward trend seen in March. That said, the reduction in output was much slower than that seen at the turn of the year, largely reflecting support to production from higher export intakes and greater work on outstanding business in April.

Manufacturers in Vietnam reported an overall increase in new business levels for the first time since November 2011. Stronger export demand was the primary source of growth in April, as

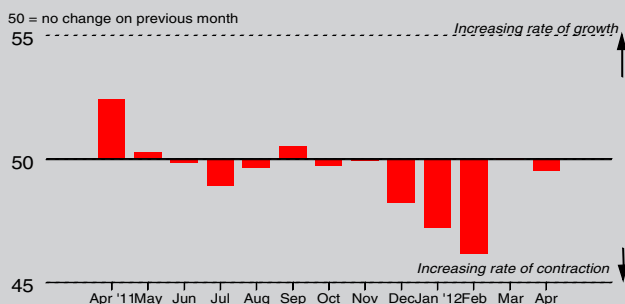
highlighted by a third successive monthly improvement in new business intakes from abroad. Moreover, latest data pointed to the fastest overall increase in Vietnamese manufacturing new export orders since the survey began in April 2011. Companies noted that greater exports to China, alongside a gradual recovery in sales to clients in Japan, had helped offset subdued demand from Western Europe.

Increased inflows of new work and ongoing expansion plans at manufacturing firms resulted in further job creation during April. This in turn contributed to a drop in unfinished business over the month, with the rate of decline in backlogs the sharpest since data were first compiled in April 2011.

Vietnamese manufacturers remained cautious about their stock policies in April, with input buying and pre-production inventories both declining since March. Stock streamlining was linked to tight control of working capital and corresponding efforts to avoid unwanted inventory accumulation. Warehouse management was also helped by a further improvement in supplier delivery times.

Higher oil-related prices, especially transportation fees, resulted in another robust increase in average cost burdens. However, the rate of input price inflation eased from the ten-month high seen in March. Factory gate price inflation meanwhile remained relatively subdued, with firms suggesting that strong competition for new work had resulted in only gradual increases in their output charges.

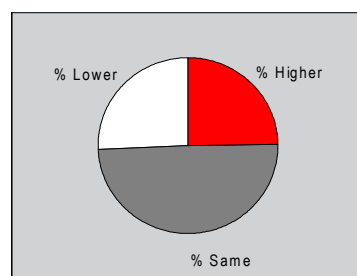
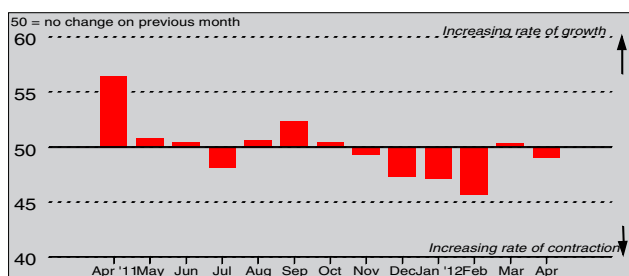
### HSBC Vietnam Purchasing Managers' Index™ (PMI™)



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

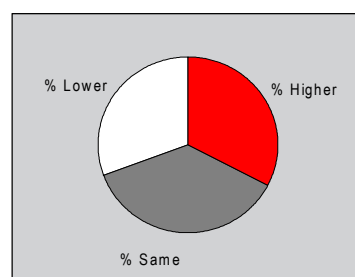
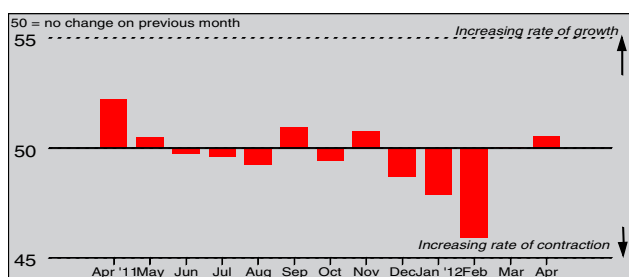
Q. Please compare your production/output this month with the situation one month ago.



April data pointed to a fractional drop in production levels at Vietnamese manufacturing companies. This was highlighted by the seasonally adjusted Output Index dipping back below the 50.0 mark that separates expansion from contraction. However, the latest reading was still stronger than that seen at the turn of the year, largely reflecting support to production volumes from higher export intakes in recent months.

## New Orders Index

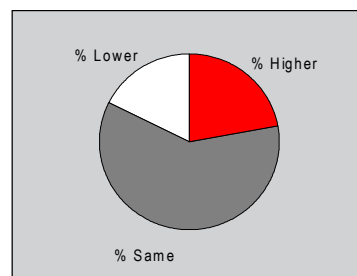
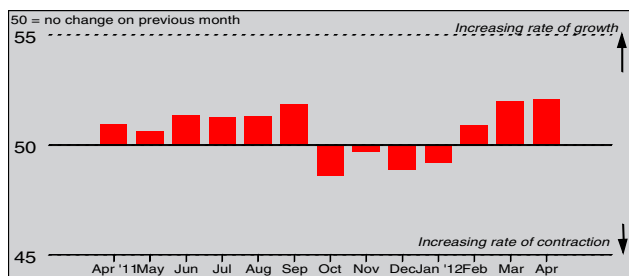
Q. Please compare the level of new orders received (Vietnam and export) this month with the situation one month ago.



Manufacturers in Vietnam signalled a marginal rise in new business levels during April, following a stagnation in the previous month. Adjusted for seasonal factors, the New Orders Index was the highest since November 2011. Reports from survey respondents generally cited improved export sales in April. A number of firms also commented on greater client demand for products related to the construction sector.

## New Export Orders Index

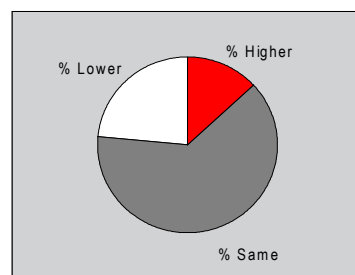
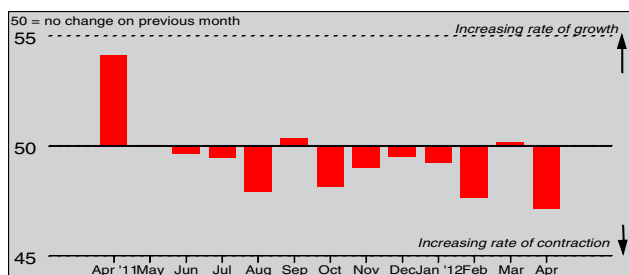
Q. Please compare the level of new export orders received this month with the situation of one month ago.



The seasonally adjusted New Export Orders Index registered above the neutral 50.0 value for the third month running in April. Latest data pointed to a solid improvement in new orders from abroad, with the pace of expansion the fastest since the survey began in April 2011. Companies mostly attributed the increase to rising sales to China and, in some cases, noted a gradual improvement in demand from Japan.

## Backlogs of Work Index

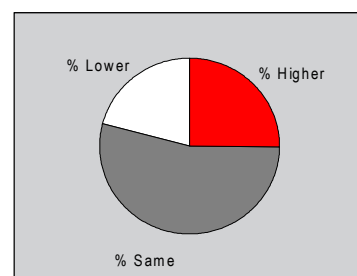
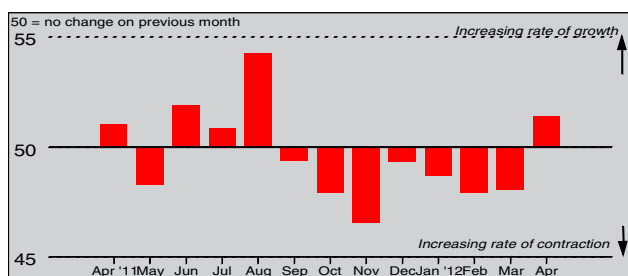
Q. Please compare the level of outstanding business in your company this month with the situation one month ago.



Work-in-hand (but not yet completed) declined at a solid pace across the Vietnam manufacturing sector in April, following a near-stagnation during the previous month. The seasonally adjusted Backlogs of Work Index signalled the sharpest drop in unfinished business since data were first compiled in April 2011. Survey respondents mostly linked lower backlogs to improved productivity and higher staffing levels in April.

## Stocks of Finished Goods Index

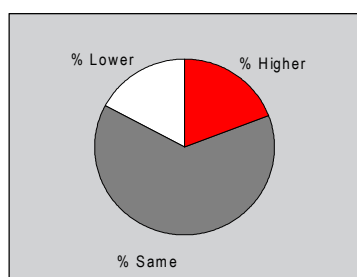
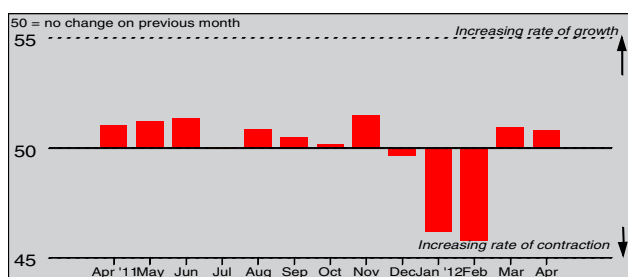
Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



Adjusted for seasonal factors, the Stocks of Finished Goods Index posted above the 50.0 no-change mark in April, thereby signalling the first rise in post-production inventories since August 2011. The latest reading pointed to a marginal rise in stocks of finished goods, which some firms linked to weaker-than-expected sales at their plants.

## Employment Index

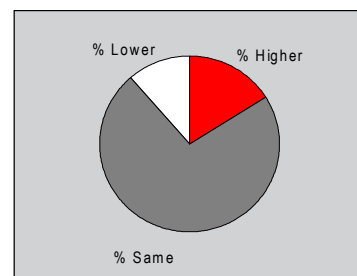
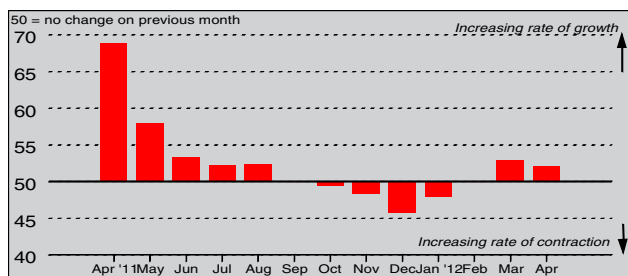
Q. Please compare the level of employment at your unit with the situation one month ago.



A marginal rate of job hiring was reported by Vietnamese manufacturers in April. The seasonally adjusted Employment Index was little-changed since March and above the neutral 50.0 value for the second month running. Companies that took on additional staff in April generally linked it to ongoing expansion plans and efforts to prevent delays in the completion of new orders at their units.

## Output Prices Index

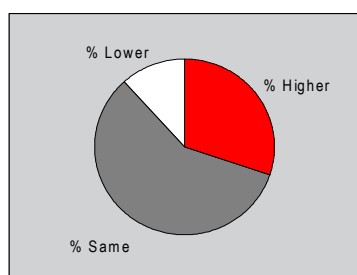
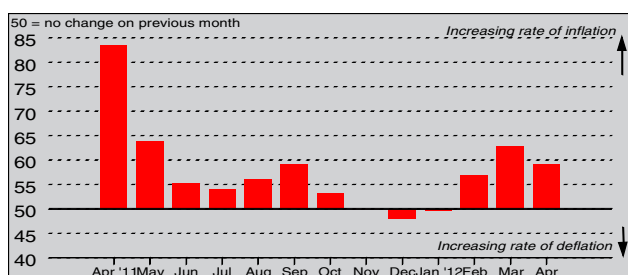
Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.



Prices charged by manufacturers in Vietnam increased for the second consecutive month in April. However, the seasonally adjusted Output Prices Index dipped from March's nine-month high and signalled a much slower pace of factory gate price inflation than that seen in the first half of 2011. Manufacturers generally associated gradual rises in output charges with higher raw material and staff costs.

## Input Prices Index

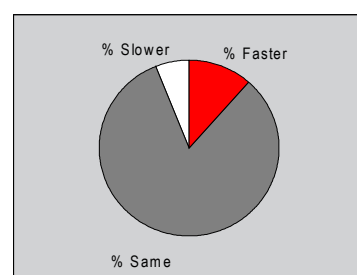
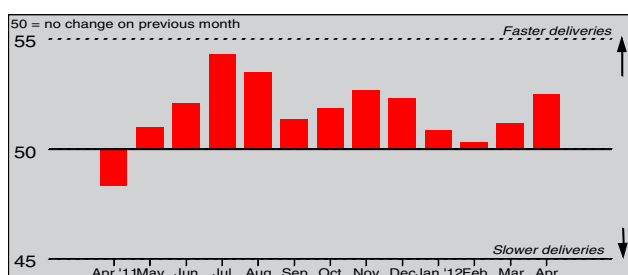
Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.



April data indicated a sharp rise in average cost burdens in the Vietnam manufacturing sector, but the rate of inflation eased from the ten-month high registered during March. The seasonally adjusted Input Prices Index has now remained above the 50.0 no-change level for three months in a row. The latest increase in input costs was overwhelmingly linked to higher oil-related prices, especially transportation fees.

## Suppliers' Delivery Times Index

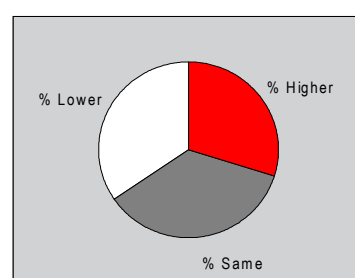
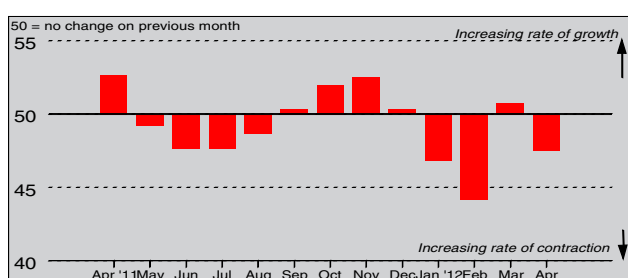
Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



Adjusted for seasonal factors, the Suppliers' Delivery Times Index highlighted another improvement in average vendor performance in April. The index has now posted above the neutral 50.0 threshold for 12 months running, suggesting a sustained shortening of delivery times among suppliers to the Vietnam manufacturing sector.

## Quantity of Purchases Index

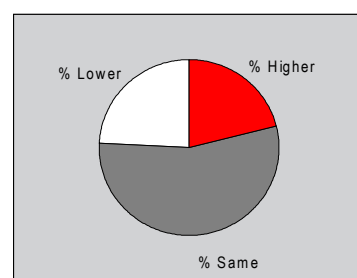
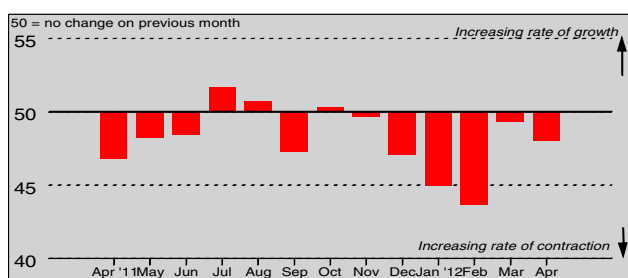
Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.



Input buying at Vietnamese manufacturers dropped in April, thereby reversing the modest upward trend seen during the previous month. Lower levels of purchasing activity have now been reported in three of the past four months. Anecdotal evidence suggested that falling levels of input buying reflected cautious management of working capital and associated efforts to prevent unwanted stock accumulation.

## Stocks of Purchases Index

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



Manufacturers in Vietnam continued to reduce their inventories of raw materials and semi-manufactured goods in April. The seasonally adjusted Stocks of Purchases Index fell slightly since March, thereby signalling a faster rate of reduction over the month. In line with recent trends, lower inventories of inputs mostly reflected deliberate stock reduction policies among manufacturing companies.

## 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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