

HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing downturn continues at start of Q4 2012

Summary

The seasonally adjusted HSBC Vietnam Manufacturing PMI™ posted 48.7 in October, down from 49.2 in September. The headline PMI has remained below the critical 50.0 mark for seven months running. Although the rate of contraction was sharper than in the prior month, it was markedly slower than that signalled in July (which is the steepest in the 19-month series history).

Manufacturers reported further declines in output and new orders, as demand weakened on the back of a subdued domestic market and reduced global trade flows. Production fell for the seventh month in a row, although the pace of contraction remained marginal overall. New orders and new export business both fell for the sixth consecutive month. The decline in new export orders was the steepest in the survey history, as companies reported reduced demand from clients in China, Japan and Taiwan.

Spare capacity remained available in October, as highlighted by a further solid decrease in work-in-hand (but not yet completed) volumes. This reflected not only intentional efforts to clear backlogs of work, but also a slight increase in staffing levels. However, where job creation was reported, this was generally at those companies expanding production.

The downturn in the sector continued to influence levels of purchasing activity and inventory holdings during October. Reduced production requirements meant that input buying volumes were cutback sharply and to a greater extent than during the prior survey period. Stocks of purchases subsequently fell for the twelfth month running and at the fastest pace since July. Inventories of finished goods were broadly unchanged for the fourth straight month.

October data were consistent with a further squeeze on manufacturers' operating margins, as input costs continued to rise at a time of reduced pricing power. Average purchase prices rose for the third month in a row, reflecting higher costs for foodstuffs, fuels and transportation. Meanwhile, average output prices fell for the sixth straight month. The pace of charge deflation remained solid, but was noticeably less marked than the severe rates seen during June and July of this year.

Average supplier lead times were unchanged over the month in October, following a 17-month period of improving vendor performance. Over 85% of companies reported no change in lead times during the latest survey period.

Comment

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

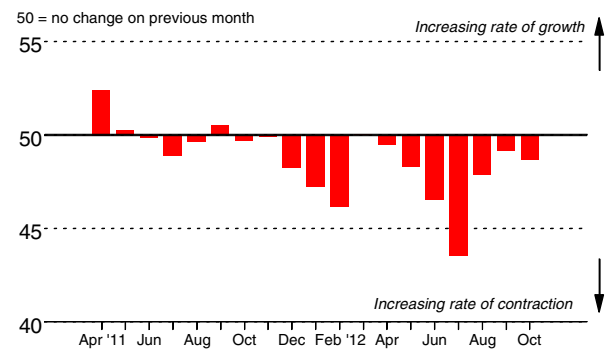
"Weak global and domestic demand continues to weigh on the manufacturing sector; new export orders contracted at the sharpest pace since the series began. The rise of input costs did not help, as manufacturers could not pass off the costs to consumers due to sluggish demand. The output index level, although still signalling contraction, is stabilising at close to fifty suggesting that the economy will likely recover towards the end of 4Q2012."

Key points

- HSBC Manufacturing PMI falls to 48.7 in October
- Output and new orders decline further
- Input costs rise sharply, but selling prices fall again

Historical Overview

HSBC Vietnam PMI



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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