HSBC Purchasing Managers' Index™ Press Release

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compiled by markit

HSBC Vietnam Manufacturing PMI™

Vietnam manufacturing production stagnates in December

Summary

At 49.3 in December, down from 50.5 in November, the seasonally adjusted HSBC Vietnam Manufacturing PMI posted below the neutral 50.0 mark for the eighth time in the past nine months. The latest deterioration in operating conditions mainly reflected reduced new order inflows, disinvestment of inventory holdings and stagnating production volumes.

The average PMI reading in Q4 2012 is 49.5, up from 46.9 in Q3 and the highest outcome since the third quarter of 2011.

After rising moderately in November, the level of manufacturing output was broadly unchanged during December. Companies indicated that where volumes had been sustained, this had been largely through the depletion of backlogs of work. Market conditions remained subdued overall, reflected in reductions in both domestic and new export orders. The level of new export business contracted for the eighth month running and to a greater extent than signalled in November.

The muted performance of the sector has not yet filtered through to the labour market, as highlighted by job creation being recorded at manufacturers for the third successive month in December. Although the rate of increase in payroll numbers was again only mild, it was nonetheless still one of the fastest signalled since the survey began in April 2011. Higher employment – alongside efforts to sustain production volumes – was also a prime factor underlying the substantial drop in backlogs of work.

Weak demand and rising cost-caution impacted on purchasing and stock holding decisions during December. Input buying volumes were unchanged compared to November levels, as lower demand discouraged companies from raw material purchasing. Meanwhile, a preference for reduced inventory holdings led to lower levels of pre- and post-production stocks.

Average input prices declined for the first time in five months in December, although the rate of reduction was only slight. Lower purchasing costs were mainly attributed to weak demand for raw materials, especially in the domestic market.

December saw average output prices decline for the eighth consecutive month, with the rate of decrease broadly in line with the average for this period. Lower factory gate prices were attributed to weak demand and strong competition.

Comment

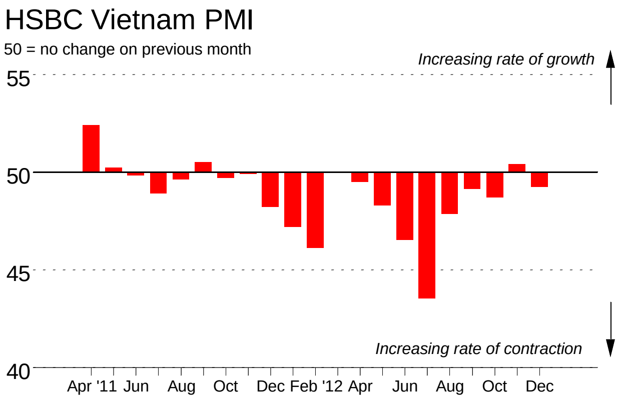
Commenting on the Vietnam Manufacturing PMI™ survey, Trinh Nguyen, Asia Economist at HSBC said:

"The economy is stabilizing, as indicated by the output level. However, the economic recovery process is still in its fragile state as external demand remains weak and consumer confidence is subdued. Price discounting measures are being helped by a reduction of input prices. A third expansion of employment shows the resilience of the economy. Still, while things will likely improve marginally next year, significant changes to consumption behaviour are not expected unless meaningful reforms take place."

Key points

- HSBC Vietnam Manufacturing PMI at 49.3 in December
- Output stagnates as new order inflows decline
- Input prices fall 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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