

Nikkei Vietnam Manufacturing PMI™

Output growth picks up to 21-month high

Key points:

- Faster rises in output and new orders
- Record increase in stocks of purchases
- Business sentiment at one-year high

Data collected February 9-20

Growth of the Vietnamese manufacturing sector gathered momentum during February, with output and new orders increasing at faster rates and firms building their stocks of purchases at a record pace. Meanwhile, business confidence improved markedly. The rate of input price inflation eased slightly, but recent sharp increases in cost burdens meant that firms increased their output prices at a faster pace.

The headline Nikkei Vietnam Manufacturing Purchasing Managers' Index™ (PMI)™ – a composite single-figure indicator of manufacturing performance – rose to 54.2 in February from 51.9 in January. This signalled a solid monthly improvement in business conditions, and one that was the strongest since May 2015. The health of the sector has now improved in each of the past 15 months.

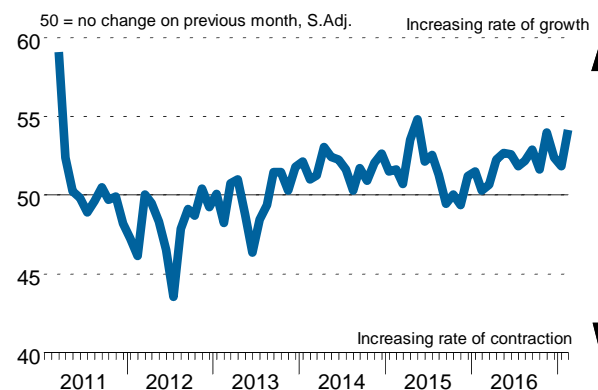
Manufacturing production rose for the fourth month running amid reports of higher new orders. Moreover, the rate of growth in production quickened to a 21-month high. Output increased across the consumer, intermediate and investment goods sectors.

Total new orders rose at a sharp and accelerated pace during February, with the rate of growth the strongest since May 2015. New export orders also increased at a faster pace during the month as firms reported improving demand from international clients.

Rising new business led to a second successive monthly increase in backlogs of work. However, the rate of accumulation was modest and slower than in January.

New order growth also contributed to another rise in employment in February. The latest increase was solid and faster than the series average. Staffing levels have now increased in each of the past 11 months.

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Sources: Nikkei, IHS Markit

Business confidence improved markedly and was at a one-year high. Optimism was built on planned company developments alongside expectations of further improvements in client demand.

This optimism was reflected in manufacturers' attitudes towards stock holdings in February. Stocks of purchases rose at the fastest pace in the six-year survey history amid a sharp and accelerated increase in purchasing activity. Some respondents indicated that the prospect of further new order growth in coming months encouraged them to increase input buying. Stocks of finished goods also rose, and at the fastest pace since May 2015 amid a stronger expansion of output.

The rate of input cost inflation remained marked in February, despite easing slightly from that seen at the start of 2017. Panellists mentioned higher raw material costs and the depreciation of the dong against the US dollar pushing up prices for imported items. In response to higher input costs, firms raised their output prices, and to the greatest extent in three months.

Finally, suppliers' delivery times lengthened for the first time in six months, with respondents suggesting that a lack of workers at vendors had hampered their efforts to deliver products on time.

Comment:

Commenting on the Vietnamese Manufacturing PMI survey data, **Andrew Harker**, at IHS Markit, which compiles the survey, said:

“There were a number of positive aspects to the latest Vietnam Manufacturing PMI report, which saw the health of the sector improve to the greatest extent since May 2015. The rate of new order growth picked up, supporting a faster increase in production. Alongside this, confidence in the year-ahead outlook led to a record accumulation of stocks of purchases, while sharp rises in new orders and purchasing activity imparted capacity pressures on manufacturers and their suppliers alike. This should hopefully result in more hiring in coming months as firms adjust their operating capacity in line with higher workloads. Strength in the manufacturing sector should provide a boost to the wider economy, with IHS Markit forecasting a rise in GDP of 6.4% during 2017.”

-Ends-

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For further information, please contact:

IHS Markit (About PMI and its comment)

Andrew Harker, Senior Economist
Telephone +44 1491 461 016
Email andrew.harker@ihsmarkit.com

Jerrine Chia, Marketing and Communications
Telephone +65 6922-4239
E-mail jerrine.chia@ihsmarkit.com

Bernard Aw, Economist
Telephone +65 6922 4226
E-mail bernard.aw@ihsmarkit.com

Nikkei inc. (About Nikkei)

Ken Chiba, Deputy General Manager, Public Relations Office
Atsushi Kubota, Manager, Public Relations Office
Telephone +81 3 6256 7115
Email koho@nex.nikkei.co.jp

Notes to Editors:

The Nikkei Vietnam Manufacturing *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport.

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'. 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.

The Nikkei Vietnam Manufacturing *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.

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@ihsmarkit.com.

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