

Economic Indicators

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The interest and importance of economic indicators are increasing due to the U.S. FED's interest rate hike this year. Accordingly, the KIS Research Center aims to help investors understand by preparing reports that introduce major global economic indicators, starting with the U.S market. We hope that this report will be helpful in understanding global economic indicators centered on the U.S.

The Purchasing Managers' Index (PMI)

Manufacturing and Service industry both play essential role in boosting the social and economic development. A vibrant manufacturing and service base leads to more research and development, innovation, productivity, exports, and middle-class jobs. Furthermore, manufacturing and service help to raise living standards more than any other sector.

The PMI overview

The PMI is based on responses from members of the ISM Business Survey Committee, which includes a range of industries diversified by the North American Industry Classification System (NAICS) and based on each industry's contribution to U.S. GDP. The most common PMI surveys are the manufacturing PMI and the services PMI. These are released for the United States and many other developed countries.

Understanding of the PMI

PMI above 50 indicates expansion in business activity. Anything below 50 denotes contraction. Therefore, higher the difference from this mid-point greater the expansion or contraction. The rate of expansion can also be judged by comparing the PMI with that of the previous month data. If the figure is higher than the previous month's then the economy is expanding at a faster rate. In the contrary, lower PMI compared with previous month then it is growing at a lower rate.

Why should we check it at this time?

As can be known that the U.S has three types of the PMI while Vietnam just has only one PMI because the U.S industry is quite large and mostly divided by 2 main industries which are service and manufacturing.

At the moment, the U.S PMI for Composite, Manufacturing and Service are 49.5, 52, and 49.3 respectively. The figure above or under the benchmark 50 would affect the economy significantly.

This indicator will be released on Monday (U.S time: 7:45 A.M 24th October; VN time: 8:45 P.M 24th October) and we expect that it will have some impact on the FED decision in November.

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Latest economic indicators

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| The PCE and Michigan Inflation Expectation | 29 th September 2022 |
| The Federal Fed Funds Rate | 21 st September 2022 |
| The Philadelphia Manufacturing index | 14 th September 2022 |
| The U.S CPI | 9 th September 2022 |
| Unemployment Rate & Non-farm payroll | 31 st August 2022 |

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I. The PMI overview

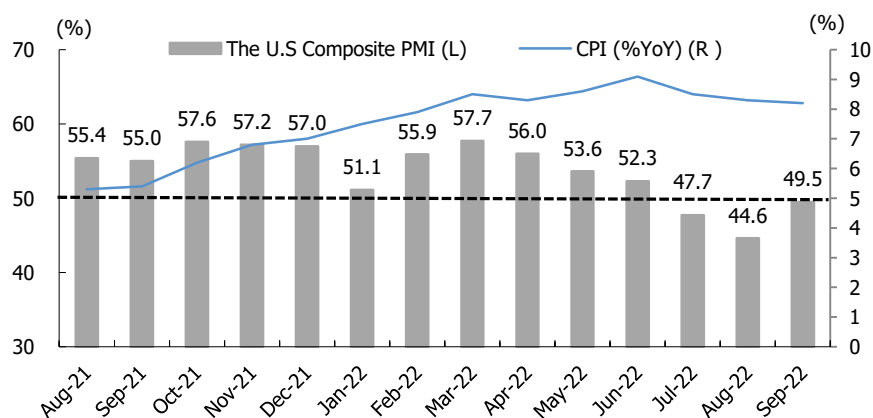
DEFINITION

- The PMI is based on responses from members of the ISM Business Survey Committee, which includes a range of industries diversified by the North American Industry Classification System (NAICS) and based on each industry's contribution to U.S. GDP.
- The purchasing managers' index (PMI) measures survey responses from businesses and is used to gauge economic activity.
- It consists of a diffusion index that summarizes whether market conditions, as viewed by purchasing managers, are expanding, staying the same, or contracting.
- The PMI is a composite index based on equal weights (20%) of the following five primary sub-indexes – New Orders, Production, Employment, Supplier Deliveries, and Inventories.
- The most common PMI surveys are the manufacturing PMI and the services PMI. These are released for the United States and many other developed countries.

WHY IT IS IMPORTANT

- Understanding the PMI can provide insight into recent market conditions and identify potential economic slowdowns.
- Market participants will be keeping an eye on analysts' predictions of the data ahead of their release.
- The PMI is widely used to anticipate changing economic trends in official data such as GDP, or sometimes as an alternative gauge of economic performance and business conditions to official data, as the latter sometimes suffer from delays in publication, poor availability or data quality issues.
- According to the S&P Global, the PMI surveys are ranked among the world's most market moving economic data releases.

Figure 1. The US S&P Global Composite PMI Flash and CPI of the U.S in 1 year



Source: S&P Global, Bloomberg, KIS

II. Understanding of the PMI

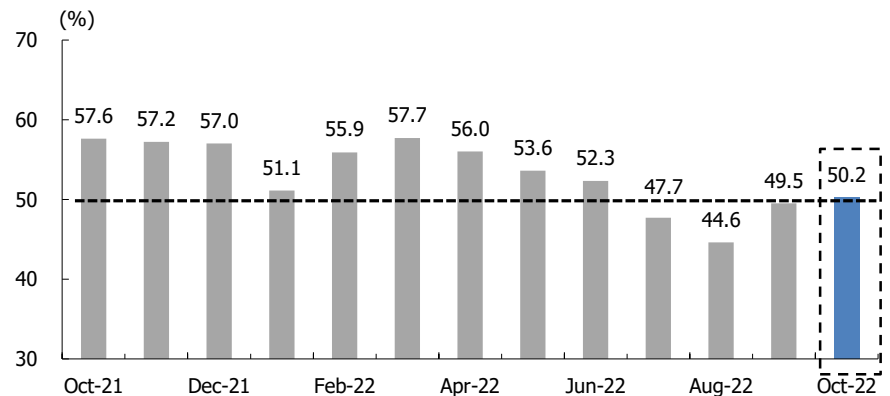
PMI above 50 indicates expansion in business activity. Anything below 50 denotes contraction. Therefore, higher the difference from this mid-point greater the expansion or contraction. The rate of expansion can also be judged by comparing the PMI with that of the previous month data. If the figure is higher than the previous month's then the economy is expanding at a faster rate. In the contrary, lower PMI compared with previous month then it is growing at a lower rate.

There are three types of PMI listed as follows

S&P Global Composite PMI Flash

The S&P Global Composite PMI Flash is the weighted average of both **manufacturing** and **service** sector PMIs for a given geography or economy, produced by IHS Markit. Furthermore, the service sector accounting for a larger proportion of GDP than manufacturing for most developed economies, especially in the U.S.

Figure 2. The US S&P Global Composite PMI Flash of the U.S in 1 year



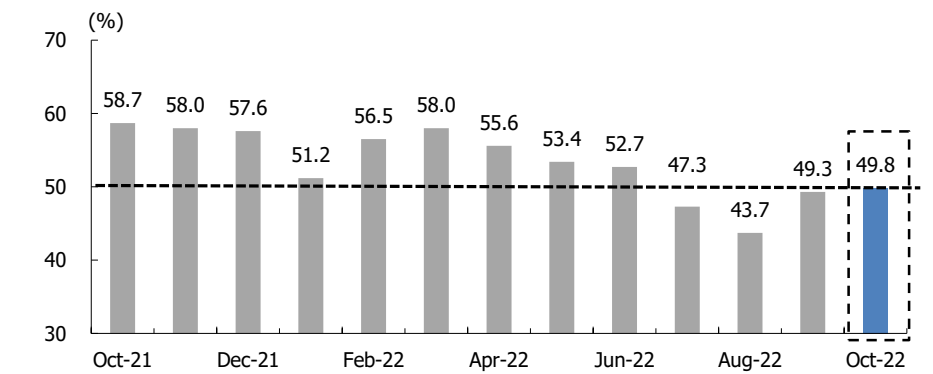
Source: S&P Global, Bloomberg, KIS
Notes: The October PMI Composite is based on market consensus

As can be observed that The S&P Global US Composite PMI for September 2022 witnessed a slight rise to 49.5, indicating a substantially less decrease in private sector activity than the previous month (44.6). Production at service providers continued to decline (49.3), slightly outpacing growth at manufacturers (52). A new boost in new business at private sector enterprises helped to soften the output decline. As new export orders continued to decline, the expansion was broadly based and supported by domestic demand. In response to news that some input prices were down and were being passed through to customers in an effort to boost sales, price pressures across the manufacturing and service sectors subsided. It is expected that, the PMI composite of the U.S will increase to 50.2, showing the prospect of a recovery in the U.S manufacturing and services.

S&P Global Service PMI

The services PMI was introduced in 1996 by IHS Markit's economists (known as NTC Research at the time) to accompany the existing manufacturing PMI. With the service sector accounting for a larger proportion of GDP than manufacturing for most developed economies, the services PMI was born out of a need for analysts (and in particular central bank policymakers) to better understand changing business conditions in the wider economy.

Figure 3. The US S&P Global Service PMI Flash of the U.S in 1 year



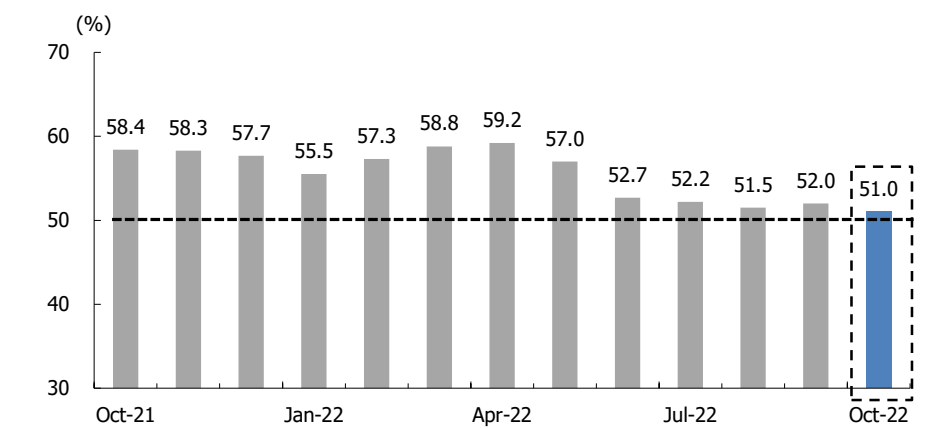
Source: S&P Global, Bloomberg, KIS
Notes: The October PMI Service is based on market consensus

According to the S&P Global, in September, the U.S PMI service recovered to 49.3 touching a three-month high and up from the lowest level of 43.7 in August. But the reading remained just under the mark of 50, indicating a slight decline during the period. Based on the market consensus, it is forecasted that this figure will witness a slight increase to 49.8 but still under the benchmark 50. This indicated that in the future, the service industry of the U.S still face with many difficulties ahead.

S&P Global Manufacturing PMI

The Manufacturing Purchasing Managers' Index (PMI) is a survey-based indicator of business conditions, which includes individual measures ('sub-indices') of business output, new orders, employment, costs, selling prices, exports, purchasing activity, supplier performance, backlogs of orders and inventories of both inputs and finished goods, where applicable.

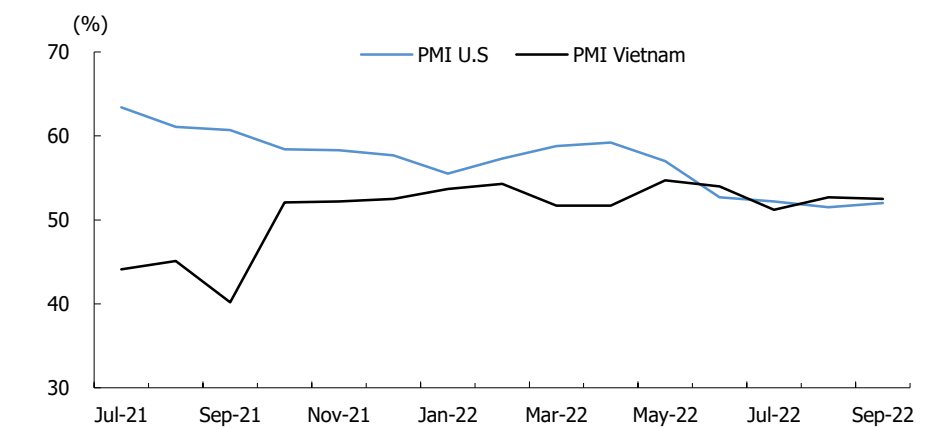
Figure 4. The US S&P Global Manufacturing PMI Flash of the U.S in 1 year



Source: S&P Global, Bloomberg, KIS
 Notes: The October PMI Manufacturing is based on market consensus

Besides, the U.S manufacturing PMI witnessed a slight rise from 51.5 in August to 52 in September. Still, the reading pointed to subdued operating conditions although output and new orders returned to growth. Nonetheless, firms expanded their workforce numbers at the fastest pace since March, although labor shortages continued to hamper firms' ability to work through incoming new orders. The forecasted figure for the U.S Manufacturing PMI in October would be around 51, the lowest in 2022 which indicated that the manufacturing industry of the U.S still shows that stability has not yet returned.

Figure 5. The S&P Global Manufacturing PMI of Vietnam and the U.S in 1 year



Source: S&P Global, Bloomberg, KIS

There is just one type of PMI in Vietnam which is the S&P Global Vietnam Manufacturing PMI. This indicator provides the information of economic health for the manufacturing sector in Vietnam. It will be released on 6:30A.M 31st October and investors are waiting for it to make decision.

As can be observed that the PMI of the U.S and Vietnam witnessed a different trend. According to S&P Global, The U.S manufacturing experienced a down trend from July last year while the Manufacturing PMI of Vietnam increase gradually which pointing to a solid improvement in business conditions across the sector.

III. How is the PMI used?

The PMI is calculated as:

$$\text{PMI} = (\text{P1} * 1) + (\text{P2} * 0.5) + (\text{P3} * 0)$$

Where:

P1 = percentage of answers reporting an improvement

P2 = percentage of answers reporting no change

P3 = percentage of answers reporting a deterioration

The PMI is widely used by financial market participants for many purposes. For example, a manufacturer makes production based on the expected new orders from customers in future months. These new orders influence the management's purchasing choices for a variety of raw materials and component parts, including steel and plastic. The quantity of production to fulfill new orders at the end of the month is also influenced by existing inventory balances.

Additionally, PMI can also affect supplier's decision. A parts supplier for a manufacturer watches the PMI to estimate the amount of future demand for its products. The supplier also wants to know how much inventory its customers have on hand, which also affects the amount of production its clients must generate. PMI information about supply and demand affects the prices that suppliers can charge. Furthermore, if the producer's new orders increase, it may lift customer prices and accept price increases from its suppliers. On the other hand, when new orders are declining, the manufacturer may have to lower its prices and demand a lower cost for the parts it purchases. A company can use the PMI to help plan its annual budget, manage staffing levels, and forecast cash flow.

In economic side, PMI is considered as a leading indicator of economic conditions. The PMI has a tendency to precede changes in the trend in major indicators of economic activity such as Industrial production (IP), Gross domestic product (GDP), and employment. Paying attention to the PMI and its trend might provide valuable insight into emerging economic trends. As an investor, they can use the PMI to their advantage in order to predict the economic situation and to make a decision.

IV. Why should we check it at this time?

At the moment, the U.S PMI for Composite, Manufacturing and Service are 49.5, 52, and 49.3 respectively.

It is expected that the U.S Composite PMI and the U.S Service PMI will be lifted up and reached 50.2 and 49.8 in October respectively. In the contrary, the U.S Manufacturing PMI is forecasted to be decrease and reach to the lowest of the 2022. As can be known that PMI plays an important role in helping financial market participants in making decision. The figure above or under the benchmark 50 would affect the economy significantly.

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