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Economic Indicators

The escalating US inventory-sales ratio will likely have adverse effects on US import demand, subsequently impacting the export performance of other countries, including Vietnam. The higher the inventory-sales buildup, the lower the US import orders from abroad, which in turn dampens the export growth of trading partners. Given Vietnam's dependence on the US as a major importer, the negative relationship between the US inventory-sales ratio and Vietnam's export is of particular concern. Monitoring the US inventory-sales ratio becomes crucial for assessing its potential impact on Vietnam's export-driven economy.

The U.S inventories overview

The U.S. inventories are the value of goods and materials that are held by businesses in the United States. They include raw materials, work-in-progress, and finished goods. Inventories are an important part of the economy, as they help businesses to meet demand and to smooth out production, and also keep prices stable. The Census Bureau's inventory estimates are used by economists and policymakers to track the health of the economy and to make forecasts about future economic growth.

US inventory buildup dampens import demand

The most recent US Census data reveals a persistent increase in the inventory-to-sales ratio since January 2022, specifically within the US Manufacturing & Trade Inventories to Sales (MTIS) sector, which has risen from 1.38 to 1.39 compared to the previous month. Considering the US as Vietnam's largest importer, the inventory-sales ratio of the US has both direct and indirect negative implications for Vietnam's export performance. The detrimental effects of the US inventory-sales buildup are also significant for its major exporting nations including China, India, and Taiwan.

The U.S inventories outlook

The Federal Reserve (Fed) kept the current fed funds rate at 5%-5.25% on June 14, 2023. However, the Fed also projected that it would raise interest rates two more times this year, up from its previous projection of one more rate hike. This means that the Fed could raise interest rates by 25 basis points each at its next two meetings, bringing the Fed funds rate to a range of 5.5%-5.75%.

Higher interest rates make it more expensive for businesses to borrow money, which could lead to businesses reducing their investment in inventory. This could lead to lower inventories, which could in turn lead to lower economic growth.

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15 Jun 2023

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Research Dept
researchdept@kisvn.vn

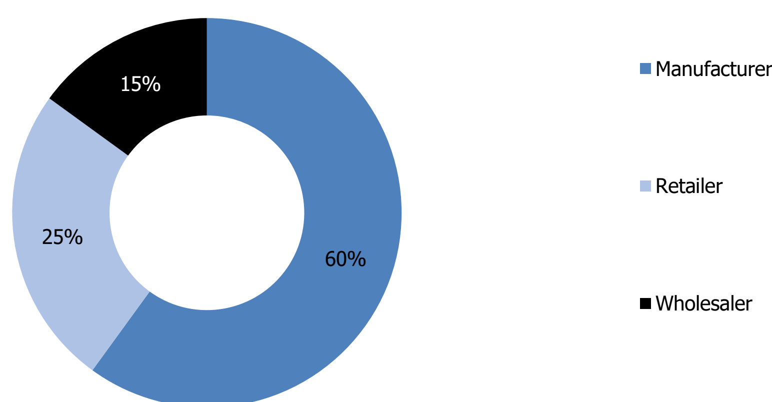
I. The U.S inventories overview

A. Definition

The U.S. inventories are the value of goods and materials that are held by businesses in the United States. They include raw materials, work-in-progress, and finished goods. Inventories are an important part of the economy, as they help businesses to meet demand and to smooth out production, and also keep prices stable.

The U.S. Census Bureau publishes monthly estimates of U.S. inventories. These estimates are based on data from a variety of sources, including surveys of businesses and government agencies.

Figure 1. The weights of the U.S inventories in March 2023



Source: U.S. Census Bureau, Manufacturing and Trade Inventories and Sales, KIS

The detail of U.S. inventories can be broken down into three main categories:

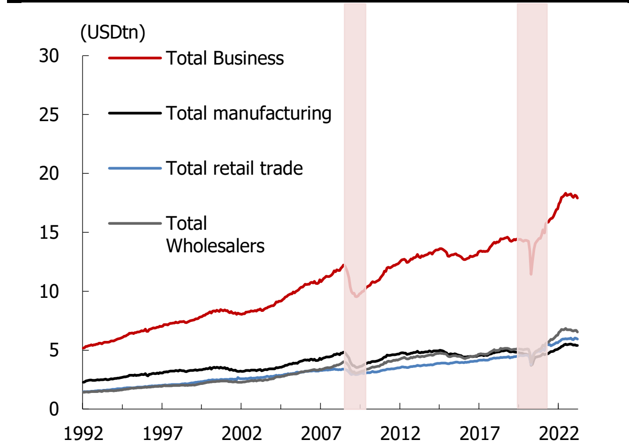
Retail inventories: These are the goods that are held by retailers, such as grocery stores, clothing stores, and electronics stores. Retail inventories are important because they represent the goods that are available for consumers to purchase.

Wholesale inventories: These are the goods that are held by wholesalers, such as distributors and jobbers. Wholesale inventories are important because they represent the goods that are available for retailers to purchase.

Manufacturers' inventories: These are the goods that are held by manufacturers. Manufacturers' inventories are important because they represent the goods that are available for wholesalers and retailers to purchase.

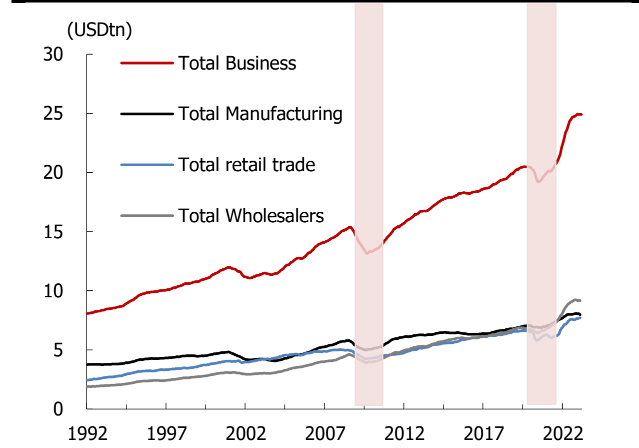
The weight of each inventory can be used to assess the health of the economy. A decrease in the weight of inventories can indicate that businesses are not producing as much as they were in the past. This can be a sign of a recession. An increase in the weight of inventories can indicate that businesses are producing more than they were in the past. This can be a sign of an economic expansion

Figure 2. The U.S sales from 1992



Source: U.S. Census Bureau, Manufacturing and Trade Inventories and Sales, KIS

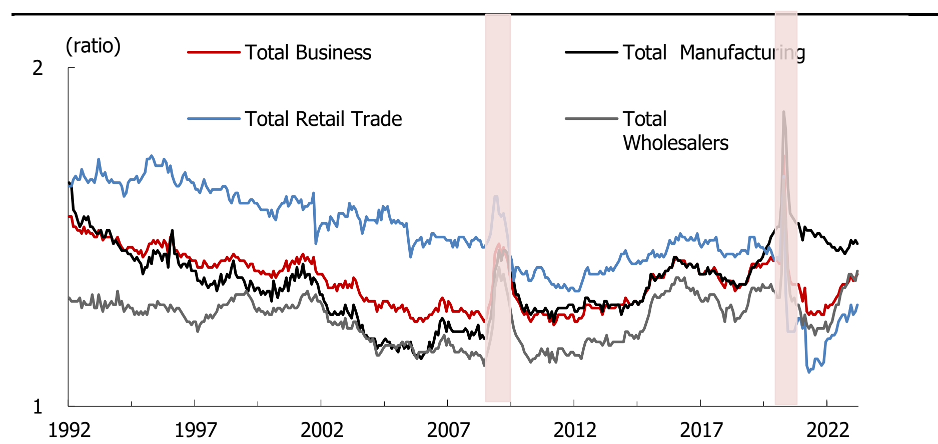
Figure 3. The U.S inventories from 1992



Source: U.S. Census Bureau, Manufacturing and Trade Inventories and Sales, KIS

According to data from the U.S. Census, inventories in the manufacturing and trade sectors are growing twice as fast as sales. This suggests that businesses are producing more goods than they are selling, which could lead to a decrease in prices or an increase in inventory levels.

Figure 4. The U.S inventory-to-sales ratio



Source: U.S. Census Bureau, Manufacturing and Trade Inventories and Sales, KIS

The inventory-to-sales ratio is a measure of how much inventory businesses have on hand relative to their sales. A low inventory-to-sales ratio indicates that businesses are selling their products quickly and have a relatively small amount of inventory on hand. A high inventory-to-sales ratio indicates that businesses are not selling their products as quickly and have a relatively large amount of inventory on hand.

According to the latest data from the U.S Census Bureau, the inventory-to-sales ratio always increases during recessions. This means that businesses tend to build up their inventories in anticipation of a slowdown in demand. However,

when demand does eventually slow down, businesses are left with excess inventory, which can lead to lower profits and even job losses.

Over time, manufacturing and trade companies would be expected to adjust their inventory levels to meet customer demand.
As shown, inventory-sales ratios declined steadily from 1992 to 2007 as the global supply chain increased efficiency, making just-in-time production and inventory minimization feasible.
During economic downturns, sales are expected to decline while some basic level of inventory is maintained.
This would tend to push inventory-sales ratios to sky-high levels during recessions and remain above normal during periods of reduced demand, as happened after the 2008-2009 recession.

B. How is it measured

U.S. inventories are measured by the U.S. Census Bureau through three main surveys:

- The Monthly Retail Trade Survey: collects data on the value of inventories held by retail stores. The survey covers a sample of about 10,000 retail stores
- The Monthly Wholesale Trade Survey: collects data on the value of inventories held by wholesalers. The survey covers a sample of about 5,000 wholesalers.
- The Manufacturers' Shipments, Inventories, and Orders Survey: collects data on the value of inventories held by manufacturers. The survey covers a sample of about 3,000 manufacturers.

The surveys collect data on the value of inventories held by businesses in the retail, wholesale, and manufacturing sectors. The BEA then uses this data to compile a national inventory estimate. Furthermore, it is used to produce monthly estimates of inventory levels and changes in inventory levels.

C. Why is it important?

Inventories are an important part of the economy, as they help businesses to meet demand and to smooth out production. The Census Bureau's inventory estimates are used by economists and policymakers to track the health of the economy and to make forecasts about future economic growth.
The level of inventories can have a significant impact on economic growth and inflation. When inventories are high, it means that businesses have more goods on hand than they can sell. This can lead to lower prices, as businesses are forced to discount their products in order to clear out inventory. Lower prices can boost consumer spending, which can lead to economic growth.
However, high inventories can also lead to inflation. When businesses have more goods on hand, they may be less likely to order new goods. This can lead to shortages, which can drive up prices. Additionally, when businesses have to discount their products, they may lose money. This can lead to layoffs and other cost-cutting measures, which can also lead to lower economic growth.
Conversely, when inventories are low, it means that businesses don't have enough goods on hand to meet demand. This can lead to higher prices, as businesses are forced to raise prices in order to meet demand. Higher prices

can lead to slower economic growth, as consumers may have less money to spend on other goods and services.

For these reasons, it is important for businesses to manage their inventories carefully. They need to have enough inventory on hand to meet demand, but they don't want to have too much inventory, as this can lead to lower prices and higher costs.

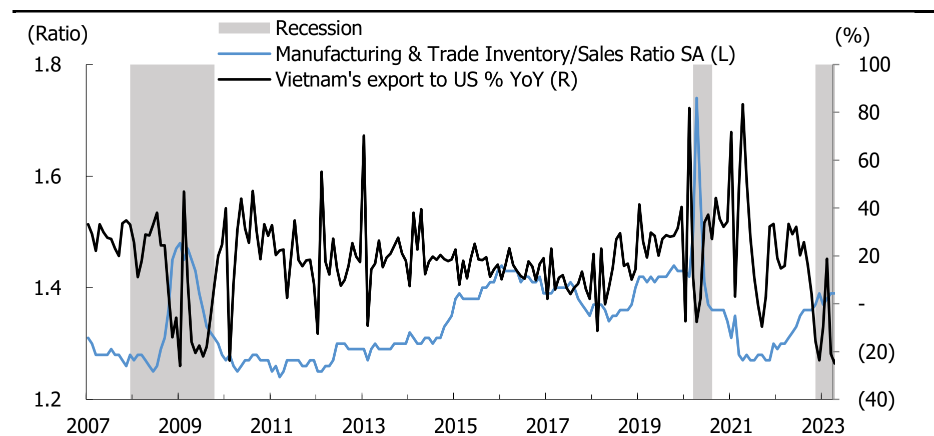
II. US inventory buildup dampens import demand

The most recent US Census data reveals a persistent increase in the inventory-to-sales ratio since January 2022, specifically within the US Manufacturing & Trade Inventories to Sales (MTIS) sector, which has risen from 1.38 to 1.39 compared to the previous month. This ratio has historically been significantly high during periods of recession, as observed in the 2008 Global Financial Crisis, the 2020 COVID outbreak, and presently. The Conference Board, through its Leading Economic Indicator (LEI) index, further confirms this as a recessionary indicator.

Two primary factors account for the inventory-sales buildup. Firstly, economic downturns typically lead to a decline in sales while necessitating the maintenance of certain levels of core trading inventories. Secondly, concerns regarding supply chain disruptions during pandemic-related lockdowns have compelled manufacturers to maintain higher-than-average inventory levels to meet the potential demand from wholesalers and retailers in the event of a supply chain crisis reoccurring.

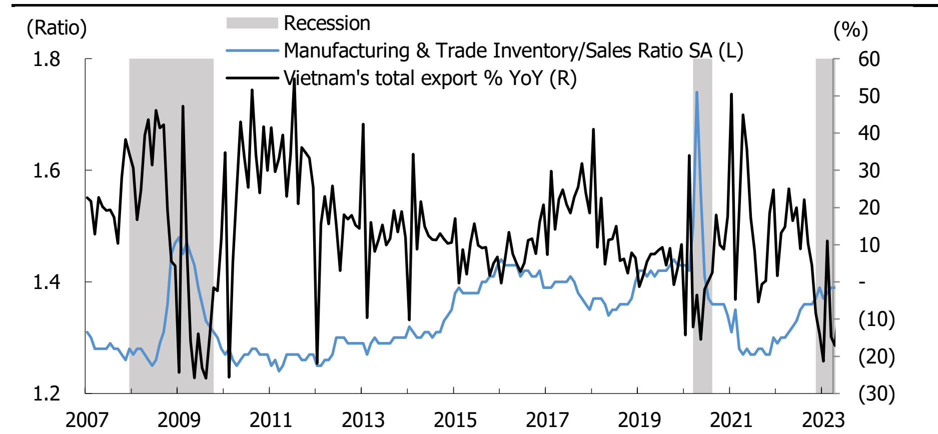
Starting from October 2021, the inventory-sales ratio has continuously increased from 1.27 to its current level of 1.39, directly impacting new US import orders from other countries in a negative manner. As demonstrated in Figure 5, a higher US inventory-sales buildup correlates with reduced monthly growth in Vietnam's total exports to the US. The spillover effect from the decline in US import demand also dampens Vietnam's overall export growth (Figure 6). Considering the US as Vietnam's largest importer, the inventory-sales ratio of the US has both direct and indirect negative implications for Vietnam's export performance.

Figure 5. US MTIS ratio and Vietnam's export to the US: monthly data



Source: US Census, The Conference Board, Bloomberg, KIS
MTIS = Manufacturing & trade inventory/ Sales ratio (seasonally adjusted)

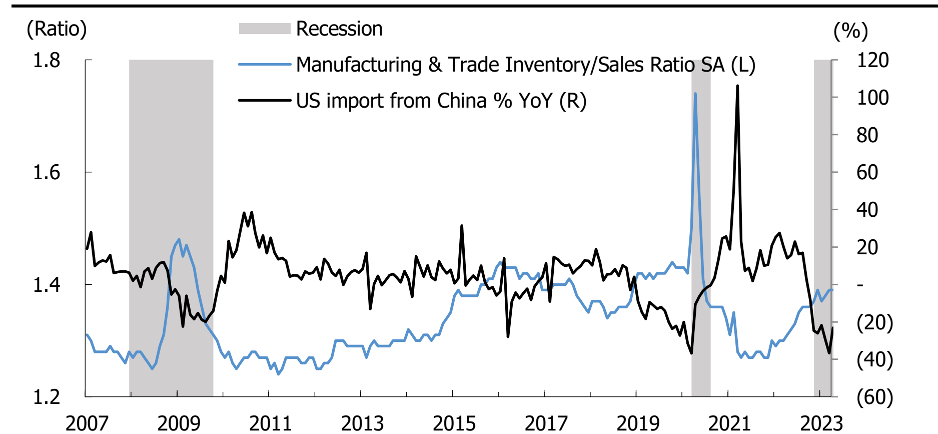
Figure 6. US MTIS ratio and Vietnam export: monthly data



Source: US Census, The Conference Board, Bloomberg, KIS
MTIS = Manufacturing & trade inventory/ Sales ratio (seasonally adjusted)

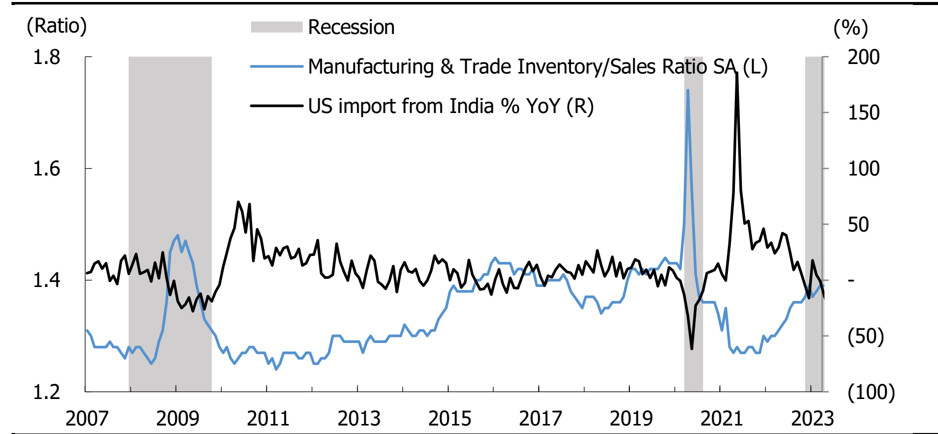
The detrimental effects of the US inventory-sales buildup are also significant for its major exporting nations. Figures 7, 8, and 9 illustrate how China, India, and Taiwan are experiencing dampened export growth due to the US inventory-sales buildup. Consequently, as exports have progressively become a more substantial contributor to Vietnam's GDP, rising from 69.06% in 2010 to 90.78% in 2022, and considering the US as Vietnam's largest importer as of 2022, close monitoring of the US inventory-sales ratio becomes crucial to assess its impact on Vietnam's export performance.

Figure 7. US MTIS ratio and US import from China: monthly data



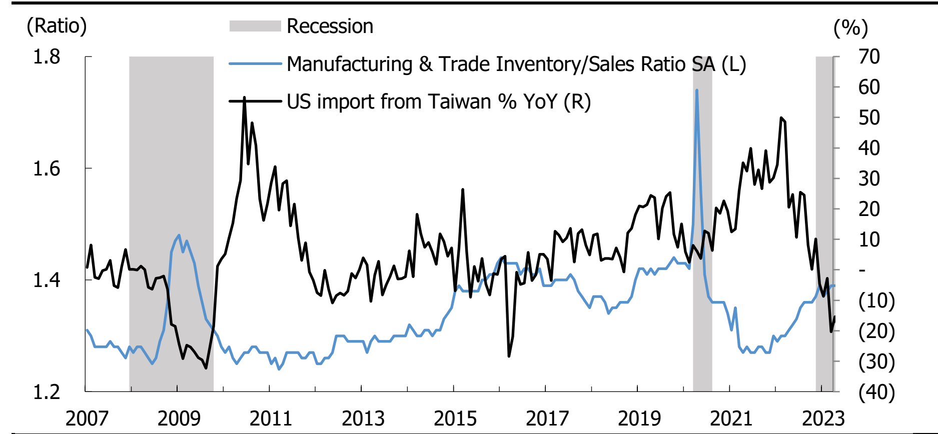
Source: US Census, The Conference Board, Bloomberg, KIS
MTIS = Manufacturing & trade inventory/ Sales ratio (seasonally adjusted)

Figure 8. US MTIS ratio and US import from India: monthly data



Source: US Census, The Conference Board, Bloomberg, KIS
MTIS = Manufacturing & trade inventory/ Sales ratio (seasonally adjusted)

Figure 9. US MTIS ratio and US import from Taiwan: monthly data



Source: US Census, The Conference Board, Bloomberg, KIS
MTIS = Manufacturing & trade inventory/ Sales ratio (seasonally adjusted)

III. The U.S inventories outlook

The Federal Reserve (Fed) kept the current fed funds rate at 5%-5.25% on June 14, 2023. However, the Fed also projected that it would raise interest rates two more times this year, up from its previous projection of one more rate hike. This means that the Fed could raise interest rates by 25 basis points each at its next two meetings, bringing the Fed funds rate to a range of 5.5%-5.75%.

Higher interest rates make it more expensive for businesses to borrow money, which could lead to businesses reducing their investment in inventory. This could lead to lower inventories, which could in turn lead to lower economic growth.

In addition, higher interest rates could lead to a slowdown in economic growth. This could also lead to lower demand for goods and services, which could also lead to lower inventories. Overall, the Fed's decision to raise interest rates could have a negative impact on the economy.

Macro scorecard

	23-Jan	23-Feb	23-Mar	23-April	23-May	2Q22	3Q22	4Q22	1Q23	2019	2020	2021	2022
Real GDP growth (%)						7.72	13.67	5.92	3.21	7.03	2.91	2.58	8.02
Registered FDI (USD bn)	1.66	1.41	2.35	3.43	1.98	5.12	4.67	8.96	5.45	38.02	28.53	31.15	27.72
GDP per capita (USD)										3,398	3,521	3,725	4,110
Unemployment rate (%)						2.32	2.28	2.32	2.25	2.25	2.48	3.22	2.32
Export (USD bn)	25.08	25.88	29.57	27.54	29.05	96.83	96.48	89.50	79.17	263.6	282.7	335.7	371.85
Import (USD bn)	21.48	23.58	28.92	26.03	26.81	97.58	90.71	85.07	75.10	254.4	263	331.1	360.65
Export growth (%)	(21.28)	10.97	(14.78)	(17.15)	(5.86)	21.02	17.22	(6.07)	(11.90)	8.16	7.02	18.74	10.61
Import growth (%)	(28.92)	(6.65)	(11.10)	(20.54)	(18.44)	15.72	8.12	(3.90)	(14.67)	7.41	3.81	25.9	8.35
Inflation (%)	4.89	4.31	3.35	2.81	2.43	2.96	3.32	4.41	4.18	2.79	3.24	1.84	3.15
USD/VND	23,449	23,785	23,471	23,465	23,477	23,139	23,712	23,633	23,471	23,173	23,126	22,790	23,650
Credit growth (%)	0.65	0.31	1.96	3.04	3.04	8.51	10.47	12.87	1.61	13.75	12.17	12.97	12.87
10Y gov't bond (%)	4.59	4.39	3.24	3.21	3.28	3.38	4.39	5.08	3.54	3.37	2.01	2.11	5.08

Source: GSO, Bloomberg, FIA, IMF

true friend KIS Viet Nam Securities Corporation

VIET NAM
JAE HEUNG LEE, Business Director (jhlee@kisvn.vn +8428 3914 8585 - 1466)
UYEN LAM, Head of Institutional Brokerage (uyen.lh@kisvn.vn +8428 3914 8585 - 1444)
KIS Vietnam Securities Corporation
3rd floor, 180-192 Nguyen Cong Tru, Nguyen Thai Binh Ward, District 1, Ho Chi Minh City.
Fax: 8428 3821-6898

SOUTH KOREA
YEONG KEUN JOO, Managing Director, Head of International Business Division (ykjoo@truefriend.com, +822 3276 5157)
PAUL CHUNG, Sales Trading (pchung@truefriend.com +822 3276 5843)
27-1 Yoido-dong, Youngdeungpo-ku, Seoul 150-745, Korea
Toll free: US 1 866 258 2552 HK 800 964 464 SG 800 8211 320
Fax: 822 3276 5681~3
Telex: K2296

NEW YORK
DONG KIM, Managing Director (dkim@kisamerica.com +1 212 314 0681)
HOON SULL, Head of Sales (hoonsull@kisamerica.com +1 212 314 0686)
Korea Investment & Securities America, Inc.
1350 Avenue of the Americas, Suite 1110
New York, NY 10019
Fax: 1 212 314 0699

HONG KONG
GREGORY KIM, Managing Director, Head of HK Sales (greg.kim @kisasia.com +852 2530 8915)
Korea Investment & Securities Asia, Ltd.
Suite 2220, Jardine House
1 Connaught Place, Central, Hong Kong
Fax: 852-2530-1516

SINGAPORE
ALEX JUN, Managing Director, Head of Singapore Sales (alex@kisasia.com.sg +65 6501 5602)
CHARLES AN, Sales (alex.jun@kisasia.com.sg +65 6501 5601)
Korea Investment & Securities Singapore Pte Ltd
1 Raffles Place, #43-04, One Raffles Place
Singapore 048616
Fax: 65 6501 5617

LONDON
Min Suk Key, Managing Director (peterkey@kiseurope.com +44 207 065 2766)
Korea Investment & Securities Europe, Ltd.
2nd Floor, 35-39 Moorgate
London EC2R 6AR
Fax: 44-207-236-4811

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