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Economic Indicators

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The S&P Global Vietnam Manufacturing Purchasing Managers' Index (PMI) rose to 50.5 in August 2023 from 48.7 in the prior month. This was the first increase in factory activity since February, as output, new orders, and foreign sales all returned to expansion. Overall, the PMI's return to growth in August is a welcome development for the Vietnamese economy. It suggests that the manufacturing sector is recovering and is well-positioned to contribute to the country's economic growth in the coming months.

August PMI update

PMI Vietnam backs on track

According to the latest data from S&P Global, the Vietnam PMI rebounded above the no-change 50.0 threshold for the first time since February. Registering at 50.5, it marked an increase from the 48.7 recorded in July, indicating a minor monthly improvement in the sector's business conditions.

Decelerated services with slight improved manufacturing

The two largest economies ended August with a modest improvement in manufacturing and a deceleration in service sector growth. Despite softening demand conditions in both manufacturing and service sectors, inflation remained sticky due to rising energy and material prices. China's Manufacturing PMI improved to 51, marking the sector's most robust performance in half a year while US Manufacturing PMI decelerated from 49 to 47.9. Service PMI deteriorated in both US and CN, declining from 52.3 to 50.5 for US and from 54.1 to 51.8 for CN.

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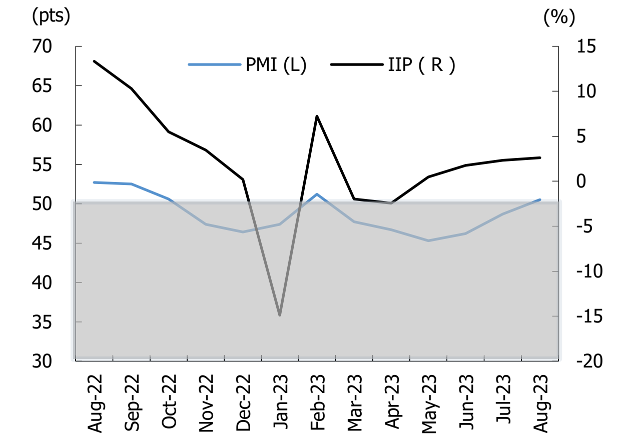
I. PMI Vietnam backs on track

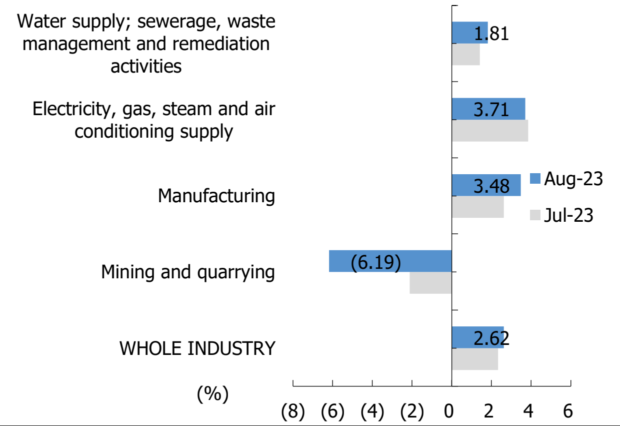
According to the latest data from S&P Global, the Vietnam PMI rebounded above the no-change 50.0 threshold for the first time since February. Registering at 50.5, it marked an increase from the 48.7 recorded in July, indicating a minor monthly improvement in the sector's business conditions. Hence, IIP in August maintained a more favorable trajectory compared to the previous month. The Industrial Production Index (IIP) is projected to have risen by 2.9% in comparison to July and by 2.6% compared to the same period in the previous year. This marks the fourth consecutive month of growth when compared to the same period last year. Specifically, the manufacturing sector continued to expand in August with a growth rate of 3.48% YoY, 0.86ppts higher than in July. Less notably, WSWMR and ESGA grew by 1.81%YoY, and 3.71%YoY, respectively. In contrast, MQ continued to extend its downward trend, posting negative growth for two consecutive months, from -2.12% YoY in July to -6.19% YoY in August.

Figure 1. Vietnam PMI and IIP on monthly basic



Source: S&P Global, GSO, KIS

Figure 2. IIP main industry change



Source: GSO, KIS

The recovery in the sector's health indicated initial signs of demand recovery. Manufacturers saw their first uptick in new orders in six months, and there was also a rise in new export business after a five-month period of decline. Nevertheless, growth rates remained modest, with reports indicating ongoing fragility in demand.

Similarly, manufacturing production returned to growth in August, marking the end of a five-month period of declining output. However, the increase was only slight. The most noticeable recoveries in output and new orders were observed in the investment goods category.

In response to the uptick in new orders and increased output requirements, companies expanded their purchasing activity at a strong pace. This increase was the first in six months and the most significant since September 2022. As a result, stocks of purchases also grew, marking the second consecutive month of such growth.

The most recent PMI offers a more positive outlook regarding the sector's condition compared to recent months. Output, new orders, exports, and purchasing activities have all started to show signs of improvement. Nevertheless, these improvements were generally modest, reflecting the continued fragility of demand. Therefore, it may be premature to conclude that the sector is in a complete recovery mode.

Moreover, In August, both input costs and selling charges increased, often attributed to the rise in oil prices.

II. Decelerated services with slight improved manufacturing

The two largest economies ended August with a modest improvement in manufacturing and a deceleration in service sector growth. Despite softening demand conditions in both manufacturing and service sectors, inflation remained sticky due to rising energy and material prices.

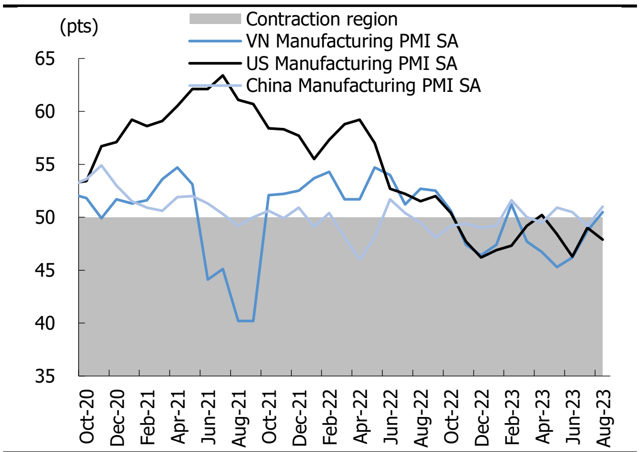
US Manufacturing PMI (S&P Global): During August, the US PMI experienced a deterioration, falling from 49 to 47.9. This decline primarily resulted from reduced production levels as new orders declined. Manufacturers responded to the weakened demand by reducing their production volumes, which, in turn, decreased purchasing activities. Despite these challenges, inflationary pressures in the US manufacturing sector remained constrained.

US Services PMI (S&P Global): The US Services PMI also underwent a slowdown, declining from 52.3 to 50.5. This deceleration has raised concerns regarding the potential for stagflation, given the persistent pressure on prices and reduced business activity. The slowdown in growth, coupled with a weaker increase in output, stemmed from contracting demand for the third consecutive month. Input prices saw a sharper rise, influenced by increased wages, higher energy expenses, and elevated material costs.

China Caixin Manufacturing PMI: In August, China's Manufacturing PMI improved to 51, marking the sector's most robust performance in half a year. This positive shift was characterized by heightened production levels and increased new orders, despite a further decline in new export business. Costs in the manufacturing sector experienced a mild upward trend, primarily due to the escalation of energy and material expenses.

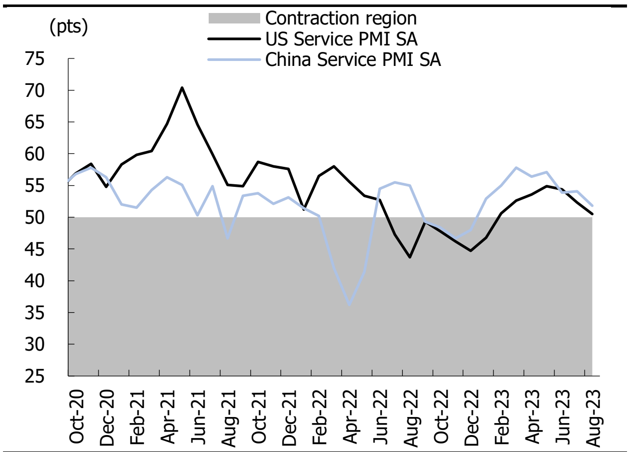
China Caixin Services PMI: China's Services PMI decreased from 54.1 to 51.8, indicating the slowest expansion rate in eight months. Modest increases were observed in new orders and output, primarily due to weakened foreign demand.

Figure 3. Manufacturing PMI: US, CN, VN



Source: Bloomberg, KIS

Figure 4. Service PMI: US, CN



Source: Bloomberg, KIS

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