

# Economic Flash

## Uncertain economic conditions under stricter COVID-19 restrictions

### F&Fs pushes CPI up

According to GSO, the food and foodstuff index (F&Fs) emerged to add upward pressure on CPI under the temporary shortage in essential products along with the momentums of the traffic index and housing and construction materials (HCM) index. More specifically, CPI in June rose by 0.62% MoM, 44bps-higher than in June.

### Retail sales tumble under stricter restrictions

In July, the retail sales tumbled as the government generally tightened the restrictions by Directive No. 16 to deal with the widespread transmission in the southern epicenters. According to GSO's estimates, the retail sales in July 2021 dropped strongly to VND339.36tn from the previous value of VND358.07tn, marking a notable reduction of 5.23% MoM or 13.30% YoY.

### FDI is worsening under lockdowns

The complicated COVID-19 outbreak and the ongoing strict social-distancing measures remained a real challenge for FDI investment activity in the near term. A main concern in the month was a significant slowdown in the FDI disbursement as it posted only USD1.26bn, the worst performance since February this year, and dropped by 14.3% YoY.

### Export industrial sectors reinforce industrial growth

Export- demand-driven industries become a spotlight in the month with solid growths when other industries serving domestic markets were under pressure. To be more specific, the industrial production level reached the highest level since January 2021 amid the severity of the social lockdowns, increasing by 1.83% versus last month and 7.94% compared to the same period last year

### KIS leading economic index

(USD bn, %, % QoQ, % YoY)

	1Q20	2Q20	3Q20	4Q20	2019	2020	2021F
GDP	3.82	0.36	2.62	4.48	7.02	2.91	5.94
Trade balance	3.82	1.92	10.72	2.54	10.42	19.01	1.77
CPI	4.87	3.17	2.98	0.19	5.23	3.24	2.41
Discount rate	3.50	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,264	23,206	23,188	23,252	23,231	23,255	23,246
US GDP	(4.80)	(34.20)	NA	7.90	2.3	(5.70)	3.90
China GDP	(6.80)	1.10	NA	6.00	6.10	1.80	8.00

Source: KIS

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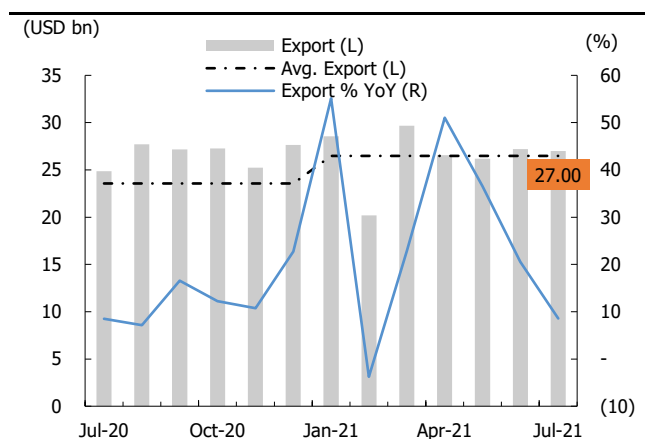
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# I. Trade turnover remains high

## Trade recovery slows down

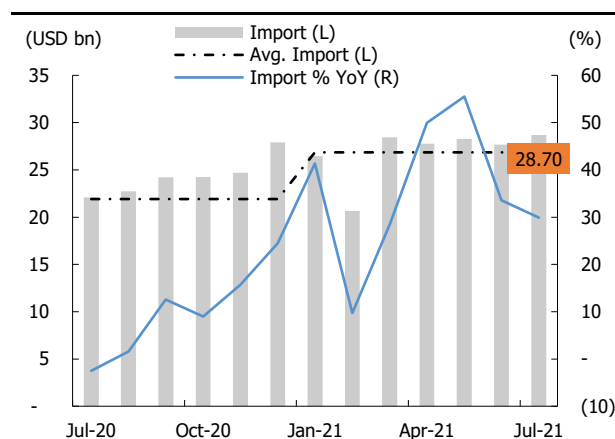
Although witnessing a slowdown, trade turnover in July kept recoding high value due to the favorable foreign demand under prevailing vaccination in developed countries. In detail, export and import values posted USD27.00bn and USD28.70bn, growing by 8.55% YoY and 29.88% YoY in this period, respectively. A high turnover of goods and services internationally traded outside this period confirms the trade activity was still on the recovery path as the demand from our major trading partners, including the U.S., EU, South Korea, Japan, and China, generally keep higher than 2020. For seven months of 2021, export and import values impressively grew by 25.46% YoY and 35.04% YoY, posting USD185.34bn and USD187.97bn, respectively. Besides, the trade balance recorded a deficit of USD1.70bn this month, marking the 4-month streak of the low export turnover relative to import turnover.

**Figure 1. Vietnam monthly export**



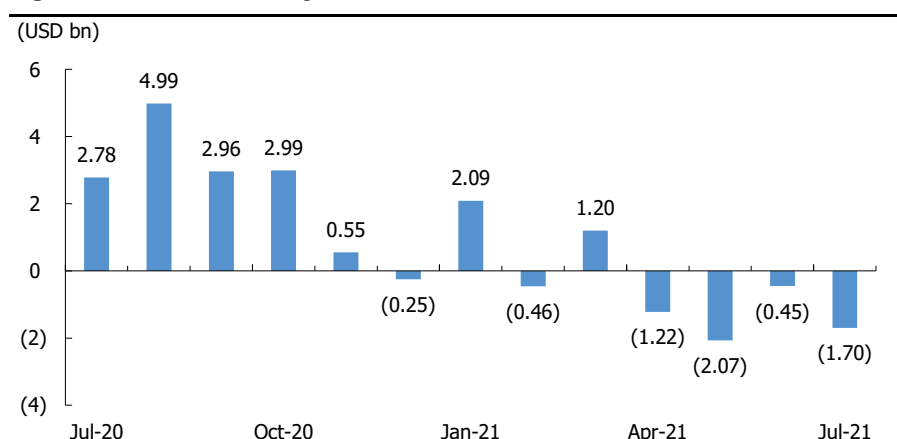
Source: KIS, GSO

**Figure 2. Vietnam monthly import**



Source: KIS, GSO

**Figure 3. Vietnam monthly trade balance**



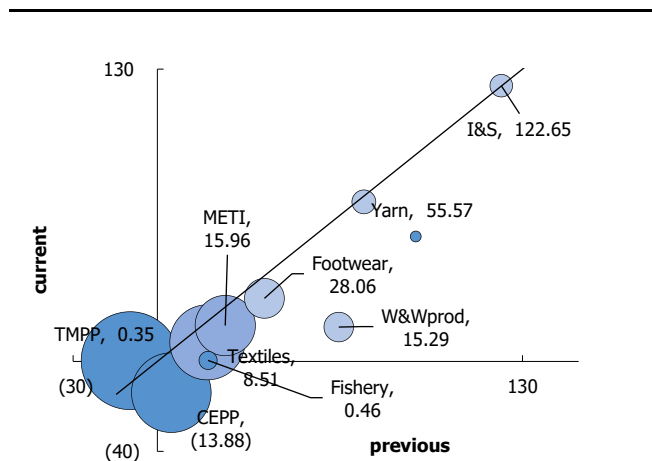
Source: KIS, GSO

Regarding the export structure, the majority recorded lower year-over-year growth rates than those in the previous month except steel. Specifically, steel was the most bright product this month by recording a turnover of USD995.35mn from overseas customers, excessively doubling the export value

in the same period last year. On the other hand, exporting of flagship products became less favorable as computers, electrical products and parts (CEPP) recorded a contraction of 13.88% YoY, while machine, equipment, tools and instruments (METI) and telephones, mobile phones and parts (TMPP) reported modest growth rates of 15.96% YoY and 0.35% YoY, much lower than those in June. The remaining items, such as textiles and footwears, also recorded high exporting values of USD3.30bn and USD1.75bn, respectively, but their recovery also witnessed slowdowns this month.

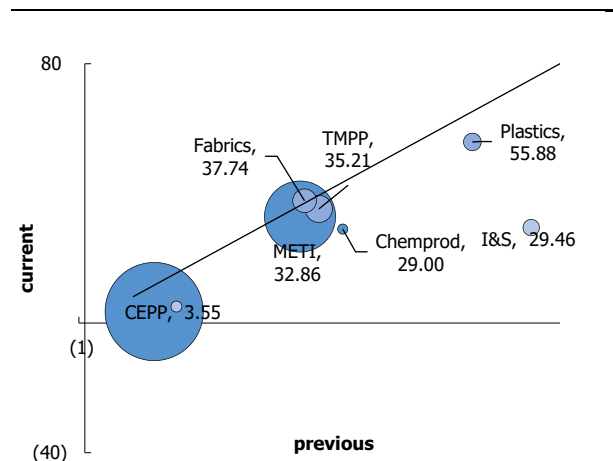
Import activity experienced a similar slowdown to the export situation but a smaller extent. Specifically, CEPP, METI, and TMPP kept recording high importing values of USD5.80bn, USD4.20bn, and USD1.60bn, and their growth rates were 3.55% YoY, 32.86% YoY, and 35.21% YoY, seemingly unchanged compared to June. On the other hand, the import value of iron and steel (I&S) reduced to USD0.97bn, and its growth rate was 29.46% YoY, roughly one-third of June.

**Figure 4. Top 10 export item: growth rates (% YoY)**



Source: KIS, GSO

**Figure 5. Top 10 import item: growth rates (% YoY)**



Source: KIS, GSO

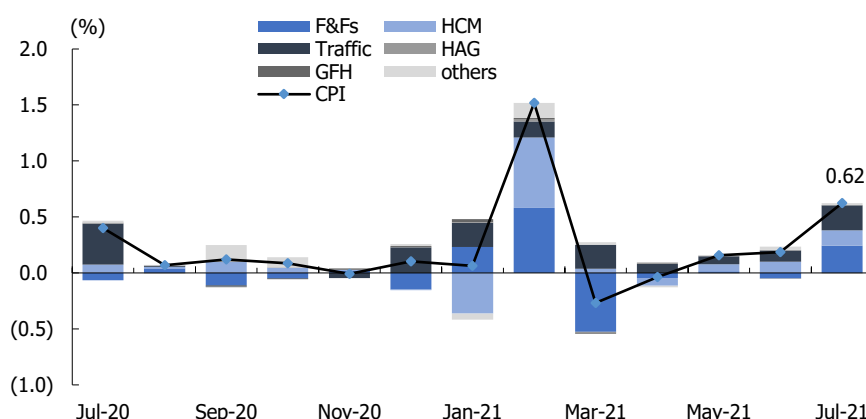
TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, otherMoT&parts: other means of transportation parts and accessories thereof, W&Wprod: wood and wooden products, F&V: fruits and vegetables, I&S: iron and steel, Plasprod: plastic products, TLFwMats&Aux: textile, leather and foot-wear materials and auxiliaries, otherBM: other base metals, Chemprod: chemical products.

## II. F&Fs pushes CPI up

***F&Fs adds upward pressure along with traffic and HCM momentums on CPI.***

According to GSO, the food and foodstuff index (F&Fs) emerged to add upward pressure on CPI under the temporary shortage in essential products along with the momentums of the traffic index and housing and construction materials (HCM) index. More specifically, CPI in June rose by 0.62% MoM, 44bps-higher than in June.

**Figure 6. CPI Changes**



Source: GSO, KIS

F&Fs, traffic, and HCM indices were the main reasons to extend the increased streak of CPI to 3 months. The traffic index increased along with the upward adjustment of MoIT on the retailing gasoline prices this month. Similarly, the HCM accelerated seems to reflect the general upturn in construction materials prices. Prominently, F&Fs advanced strongly under the temporary shortage of essential goods, marking the first time after the post-Tet.

Considering yearly change, the CPI accelerated as increasing by 2.64% YoY, 23bps-higher than that in the previous month. Hence, the 12-month rolling inflation rate posted 1.82%, 218bps-lower than the government's 2021 target rate of 4%.

### III. Retail sales tumble under stricter restrictions

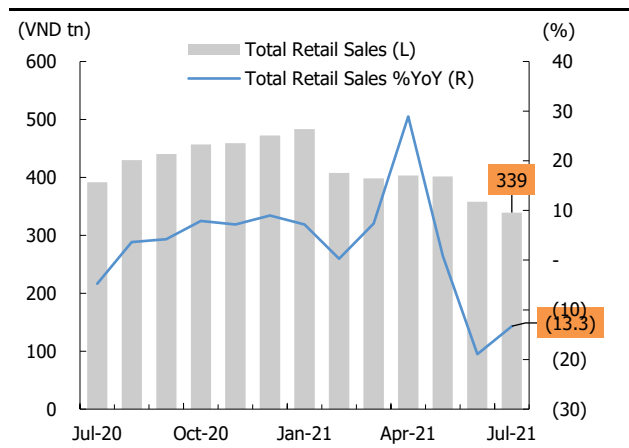
***The retail sales tumbled under the stricter restrictions***

In July, the retail sales tumbled as the government generally tightened the restrictions to deal with the widespread transmission in the southern epicenters, including Hochiminh city, the country's economic center. According to GSO's estimates, the retail sales in July 2021 dropped strongly to VND339.36tn from the previous value of VND358.07tn, marking a notable reduction of 5.23% MoM or 13.30% YoY. This reduction focused on the decrease in retailing activities in southern areas, including Hochiminh city, where Directive No. 16 was applied strictly to limit the complicated development of the outbreak.

The accommodation and catering (A&C) and traveling significantly dropped, mainly driving the total retail sales to decline this month. More specifically, revenues of the A&C and traveling businesses reduced by 48.76% YoY and 82.94% to post VND21.19tn and VND0.13tn this month, respectively. Furthermore, the reduction in retail sector became less severe as its value decreased modestly by 4.02% YoY, posting VND291.77tn.

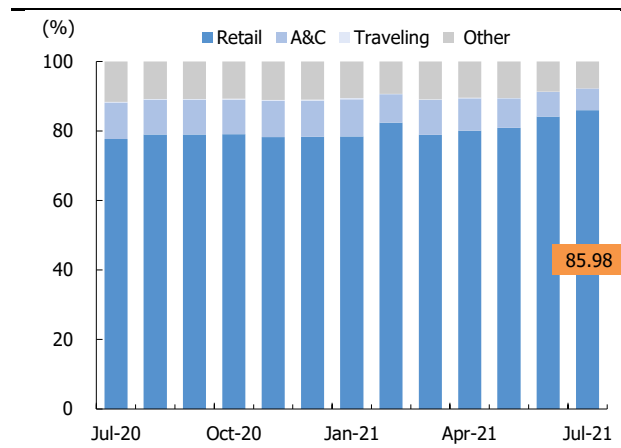
Regarding the structure, the retail value kept overwhelming, with the largest share at 85.98% of the total, while A&C and traveling sectors jointly consisted of 6.28% of total revenue.

**Figure 7. Monthly retail sales**



Source: GSO, KIS

**Figure 8. Components of retail Sales**



Source: GSO, KIS

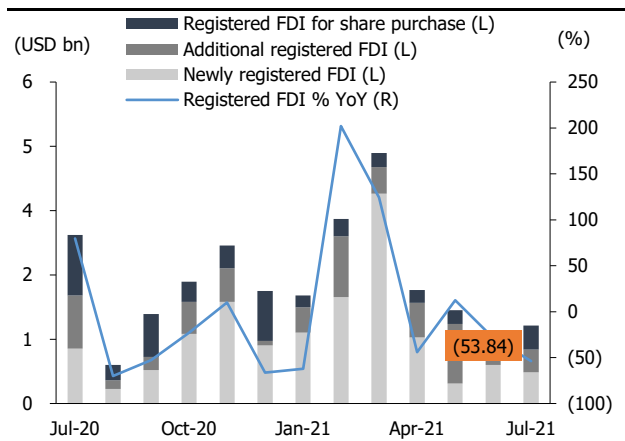
## IV. FDI is worsening under lockdowns

***FDI activity saw temporary disruption in short term.***

The complicated COVID-19 outbreak and the ongoing strict social-distancing measures remained a real challenge for FDI investment activity in the near term. Almost all criteria for FDI investment measures have been at low levels for many years, while currently business conditions have been much worsening, causing a potential disruption for the economy in the short term in the fight against the outbreak.

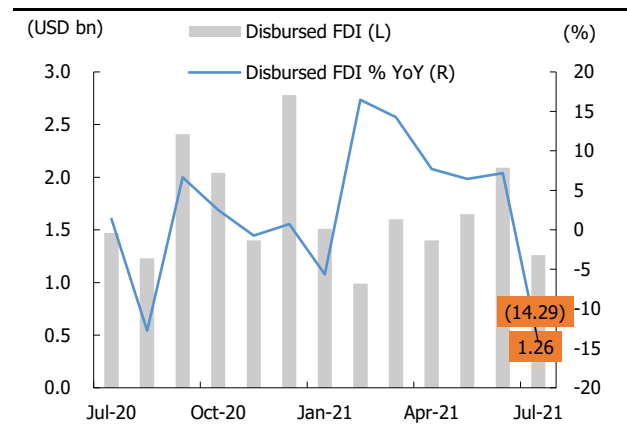
Going into details, new FDI registration recorded only USD0.58bn in July, which is the second-lowest since September last year, down by up to 43.45% YoY. Additional capital registered for existing projects also dropped sharply to the lowest amount in 2021, at just USD0.43bn and decreasing about 56.95% YoY. Meanwhile, strong investment inflows into the stock market recently boosted the foreign capital for share purchase & M&A activity to a high this year, at USD0.45bn, although still 53.84% lower than its level in the same period 2020. A main concern in the month was a significant slowdown in the FDI disbursement, which we expected was under strong impacts of COVID-19-related lockdowns in several FDI destinations, such as in Binh Duong, Dong Nai, and Ho Chi Minh City. As a consequence, FDI disbursement posted only USD1.26bn, the worst performance since February this year, and dropped by 14.3% YoY.

**Figure 9. Registered FDI**



Source: MPI, KIS

**Figure 10 Disbursed FDI**



Source: MPI, KIS

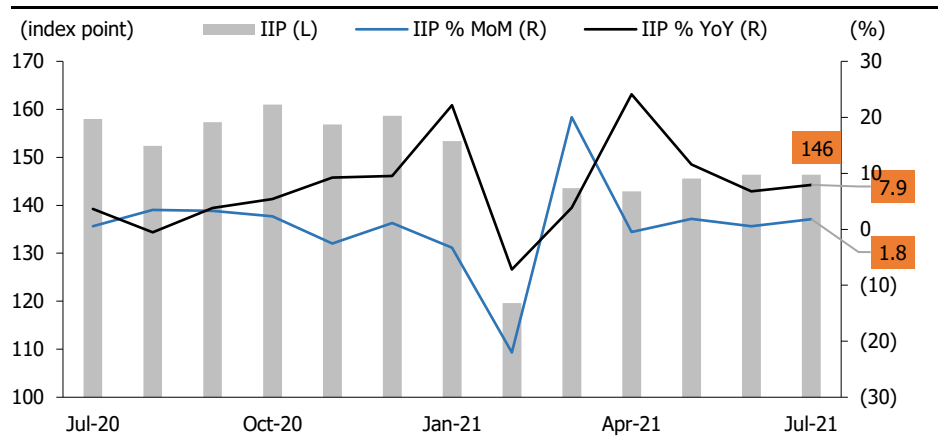
## V. Export industrial sectors reinforce industrial growth

***IIP continued its growth amid the worse outbreak***

In contrast to a scenario that the current outbreak could potentially cause severe disruption to the industrial sector, data for industrial production in July has proved that the impacts of the pandemic are still under control. This time, when the domestic demand is severely hit by strict social-distancing measures implemented almost everywhere, industries serving export demand have become a strong foothold for the industrial sector. More specifically, phenomenal growths in the apparel, electronics, and iron & steel industries were the main drivers for the industrial growth in the month.

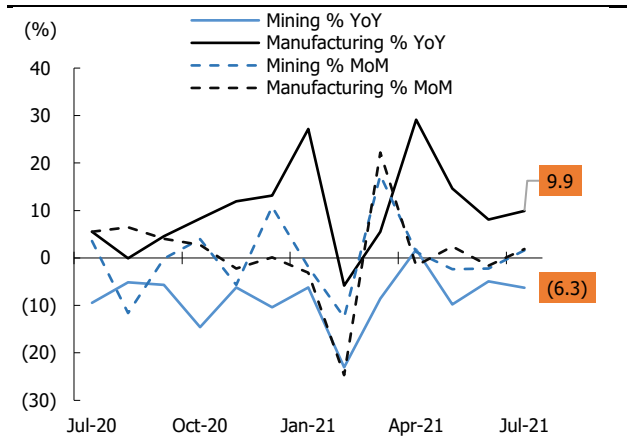
To be more specific, the industrial production level reached the highest level since January 2021 amid the severity of the social lockdowns, increasing by 1.83% versus last month and 7.94% compared to the same period last year. The manufacturing sector continued to be the main driver for industrial growth when its output expanded by 1.88% MoM (+9.92% YoY). Electricity production & distribution continued expanding for five consecutive months since February, up by 1.52% MoM in July (+8.22% YoY), while the water supply sector also improved for the second month, by 2.64% MoM (+5.55% YoY). It is also surprising that the mining sector recorded positive growth in July by 1.64% MoM, although still 6.30% lower than the previous year, thanks to a recovery in crude oil & natural gas production activity.

**Figure 11. The industrial production**



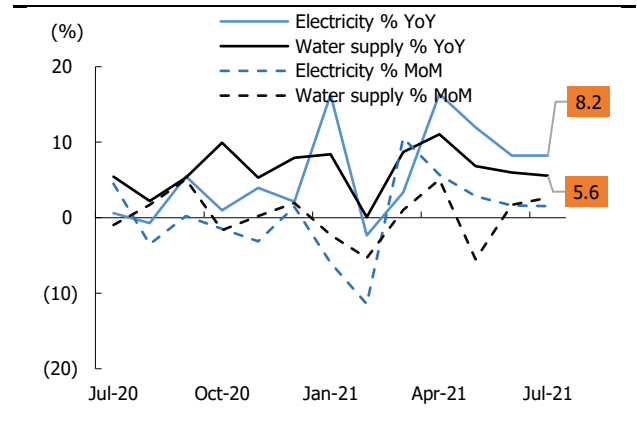
Source: GSO, KIS

**Figure 12. Mining and manufacturing sub-sectors**



Source: GSO, KIS

**Figure 13. Electricity and water supply sub-sectors**



Source: GSO, KIS

## Macro scorecard

(USD bn, USD, %, % YoY)

	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	3Q20	4Q20	1Q21	2Q21	2017	2018	2019	2020
Real GDP growth		4.48					2.62	4.48	4.65	6.61	6.81	7.08	7.03	2.91
Registered FDI	3.44	4.67	2.12	1.74	1.28	1.45	5.54	7.32	10.13	5.14	35.88	35.47	38.02	28.53
GDP per capita											2,353	2,551	2,730	
Unemployment rate											2.21	2.21	2.25	2.48
Export	20.20	29.65	26.55	26.19	27.20	27.00	79.74	80.15	77.34	79.23	215.1	243.5	263.6	282.7
Import	20.66	28.46	27.78	28.27	27.66	28.70	69.02	76.86	75.32	83.50	213.2	236.7	254.4	263.0
Export growth	(3.77)	22.89	51.00	36.52	20.56	8.55	10.61	15.14	21.76	33.50	21.82	13.19	8.16	7.02
Import growth	9.75	28.48	49.95	55.52	33.54	29.88	3.74	16.43	26.17	45.68	21.85	11.01	7.41	3.81
Inflation	0.70	1.16	1.16	2.90	2.41	2.64	3.81	3.24	0.30	1.23	3.53	3.54	2.79	3.24
USD/VND	23,018	23,076	23,053	23,048	23,020	23,020	23,184	23,126	23,076	23,020	22,698	23,175	23,173	23,126
Credit growth							6.10	10.14			18.24	13.89	13.70	10.14
10Y gov't bond	2.13	2.40	2.36	2.27	2.04	2.18	2.65	2.01	2.40	2.04	5.14	5.07	3.37	2.01

Source: GSO, Bloomberg, FIA, IMF



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