

# Economic Flash

## A reversal of economic growth under Delta variant impact

### Slow trade under the pandemic

GSO's estimates show that trade operations were worsening as domestic production was inevitably disrupted under the ongoing outbreak. In August, the export value was lower than the average level of first seven months of 2021 and below its value in the same period last year with the general reduction in labor-intensive products, such as textiles, footwear, and wood-related products. Besides, the speed of recovery in import from the 2020 low base also slows significantly.

### F&Fs pushes CPI up

According to GSO, the food and foodstuff index (F&Fs) continued gaining its upward momentum and was the main reason to push CPI up this month. CPI marked its 4-month streak of increase by climbing up the new level that 0.25%-higher than the previous month. The movement of the consumer price index in Hochiminh city reflects more sharply the impact of Directive 16 on food and foodstuff prices. In August, CPI in Hochiminh city increased by 0.33% MoM, whereas food and foodstuff indices rose by 1.59% MoM and 2.71% MoM, all exceeding corresponding whole country levels.

### Deep contraction in labor-dependent sectors

Current strict containment measures remain a real challenge for manufacturing firms as it is evident that labor-intensive industries must scale down their production activities to comply with new conditions. In August, industrial production marked the third consecutive and also the biggest decline since the first lockdown last year, by 4.24% MoM (excluding Tet's month). IIP year-over-year growth also fell to contraction territory for the first time in a year, by 7.39% YoY.

### KIS leading economic index

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

	3Q20	4Q20	1Q21	2Q21	2019	2020	2021F
GDP	2.62	4.48	4.48	6.61	7.02	2.91	5.94
Trade balance	10.72	3.29	2.82	(3.75)	10.42	19.01	1.77
CPI	3.18	1.38	0.30	2.67	5.23	3.24	2.41
Discount rate	3.00	3.00	3.00	3.00	4.00	3.00	3.00
VND/USD	23,188	23,252	23,076	23,020	23,231	23,255	23,246
US GDP	NA	7.90	NA	NA	2.3	(5.70)	3.90
China GDP	NA	6.00	NA	NA	6.10	1.80	8.00

Source: KIS

### Contents

I. Slow trade under the pandemic .....	1
II. F&Fs pushes CPI up.....	3
III. Retail sales hit 2021-low .....	4
IV. Deep contraction in labor-dependent sectors .....	5
V. FDI disbursement hits a record low since 2017 .....	7
<b>Macro scorecard</b> .....	9

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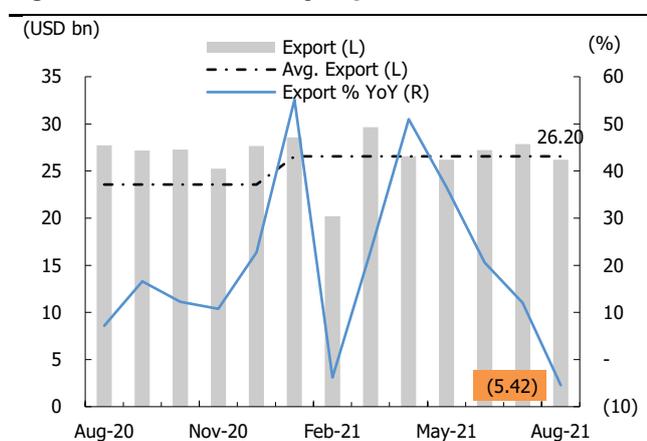
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## I. Slow trade under the pandemic

### Trade recovery slows down

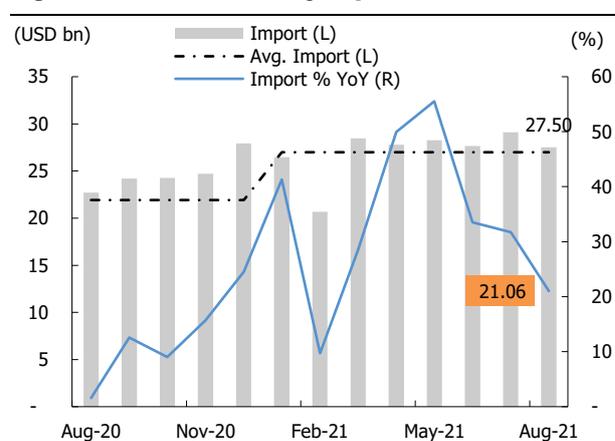
GSO's estimates this month show us that trade operations were being affected as the disruption in the production under the ongoing outbreak was inevitable. The export value in August was lower than the average level of seven first month of 2021 and below its value in the same period last year. In detail, the total revenue from exporting goods was USD26.20bn, decreasing by 5.42% YoY. Operations of importing goods from outside countries seem to face slighter pressures than export when its value this month was USD27.50bn, remaining higher than the 2021-average level. However, the speed of recovery in import from the 2020 low base also slows significantly as the growth rate this month was just 21.06% YoY, much lower than three recent months.

**Figure 1. Vietnam monthly export**



Source: KIS, GSO

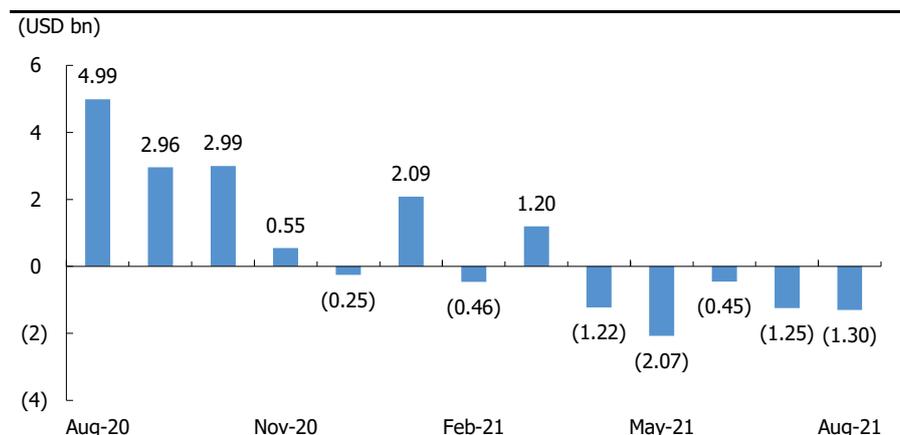
**Figure 2. Vietnam monthly import**



Source: KIS, GSO

Besides, except for mild economic effects in the U.S. and Europe due to the high vaccination, our major trading partners in Asia, such as China, South Korea, Japan, and southeast Asia countries, suffered economic losses in various degrees from the Delta outbreak, partially resulting in the decrease in their demand for our goods. Furthermore, shipping costs remained high under the congestion in southern seaports, making trade activities slower than usual. For 8M21, export and import values grew by 21.20% YoY and 33.76% YoY, posting USD212.55bn and USD216.27bn, respectively. Besides, the trade balance recorded a deficit of USD3.74bn this month, marking the 5-month streak of the low export turnover relative to import turnover.

**Figure 3. Vietnam monthly trade balance**



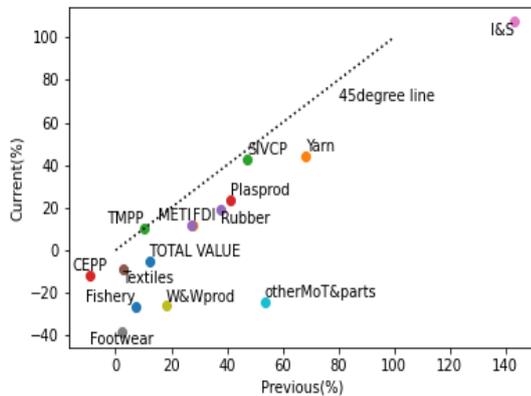
Source: KIS, GSO

In the export structure, the majority recorded lower year-over-year growth rates than those in the previous month and labor-intensive products, such as textiles, footwear, and wood-related product (W&Wprod), seem to suffer the hardest damage from the disruption of domestic production. Specifically, footwear, W&Wprod, and textile stepped into the deterioration territory as declining by 38.40% YoY, 26.05% YoY, and 8.97% YoY, posting USD0.85bn, USD0.85bn, and USD2.70bn, respectively. Besides, fishery recorded a significant decrease this month as its export value decreased by 26.36% YoY to post USD0.60bn.

On the other hand, exporting of flagship products generally experienced a slighter effect than others as the machine, equipment, tools and instruments (METI) and telephones, mobile phones and parts (TMPP) reported modest growth rates of 11.61% YoY and 10.33% YoY, posting USD2.90bn and USD4.72bn, respectively. Amid the gloomy picture in export activities, revenue from selling iron and steel products (I&S) to foreign customers remained fruitful as posting a high value of USD1.20bn this month, increasing by 107.26% YoY.

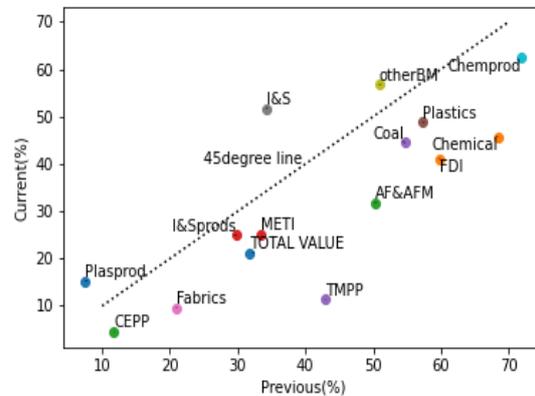
The deterioration in import activity was less severe than export as its flag ship products, including CEPP, METI, and TMPP, kept growing this month. Specifically, import values of CEPP, METI, and TMPP were USD6.30bn, USD4.00bn, and USD1.80bn and rose by 4.49% YoY, 25.03% YoY, and 11.38% YoY. Besides, the import value of iron and steel (I&S) remained high value of USD0.97bn, increasing by 29.46% YoY.

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



Source: KIS, GSO

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



Source: KIS, GSO

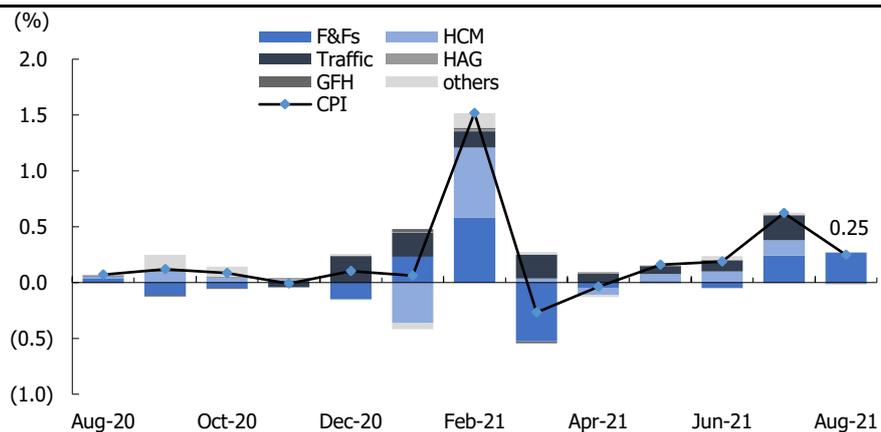
TMPP: telephones, mobile phones and parts, CEPP: computers, electrical products and parts, METI: machine, equipment, tools and instruments, otherMoT&parts: other means of transportation parts and accessories thereof, W&Wprod: wood and wooden products, F&V: fruits and vegetables, I&S: iron and steel, 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 causes CPI to up.

According to GSO, the food and foodstuff index (F&Fs) continued gaining its upward momentum and was the main reason to push CPI up this month. CPI marked its 4-month rising streak by climbing up the new level, which is 0.25% higher than the previous month. F&Fs noticeably increased by 0.74% MoM, contributing 27 basis points (bps) to the monthly change of the overall price index under the high demand for essential goods.

**Figure 6. CPI Changes**



Source: GSO, KIS

The movement of the consumer price index in Hochiminh city reflects more sharply the impact of Directive 16 on food and foodstuff prices. In August, CPI in Hochiminh city increased by 0.33% MoM, whereas food and foodstuff indices rose by 1.59% MoM and 2.71% MoM when consumers accelerated stockpiling essential goods to combat the unpredictable lockdown in the city.

Considering yearly change, the CPI slowed down as increasing by 1.79% YoY, 86bps-lower than that in the previous month. Hence, the 12-month rolling inflation rate posted 1.70%, 230bps-lower than the government's 2021 target rate of 4%.

### III. Retail sales hit 2021-low

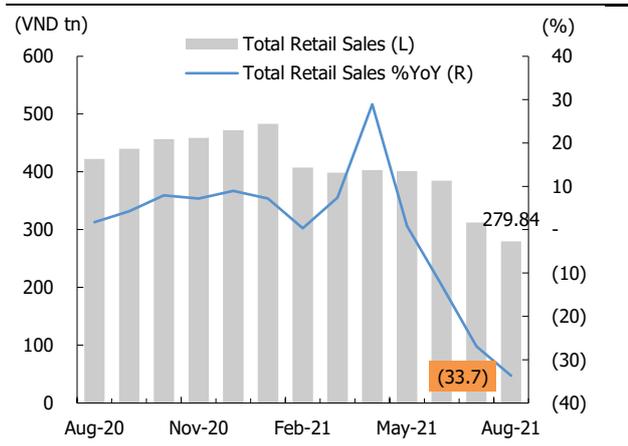
**The retail sales reduced further as the government tightened restrictions**

In August, 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 August 2021 continued declining strongly to the 2021-low of VND279.84tn, decreasing by 10.50% MoM or 33.70% YoY. This reduction focused on the decrease in retailing activities in southern areas, such as Hochiminh city and Binh Duong province, where Directive No. 16 generally limited the community mobility.

The revenue from the retail sector kept worsening this month as just recording a modest amount of VND249.94tn, decreased by 0.73% MoM and 25.35% YoY, respectively. Furthermore, performances of the accommodation and catering (A&C) and traveling businesses reduced further and added more downward pressure on the total retail sales. More specifically, revenues of the A&C and traveling businesses reduced by 66.89% YoY and 97.56% YoY to post VND13.53tn and VND0.02tn this month.

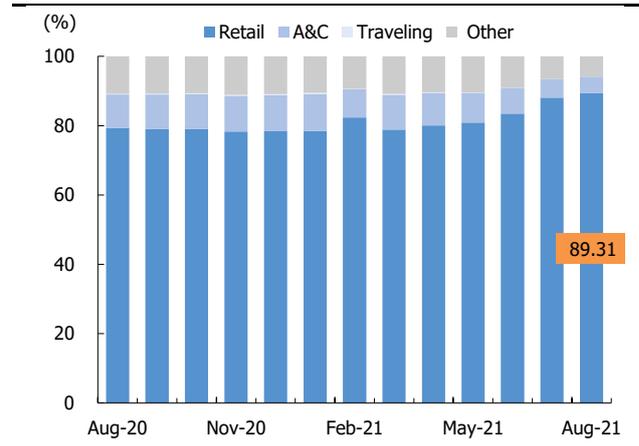
Regarding the structure, the retail value kept overwhelming, with the largest share at 89.13% of the total, while A&C and traveling sectors jointly consisted of 4.84% of total revenue.

**Figure 7. Monthly retail sales**



Source: GSO, KIS

**Figure 8. Components of retail Sales**



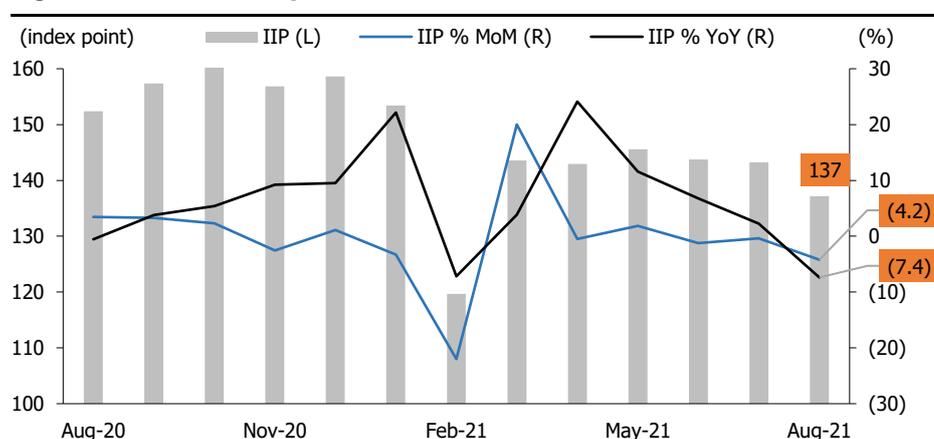
Source: GSO, KIS

## IV. Deep contraction in labor-dependent sectors

### **Disruption in labor-intensive sectors pressures on industrial growth**

Current strict containment measures remain a real challenge for manufacturing firms as it is evident that labor-intensive industries must scale down their production activities to comply with new conditions. Besides, we also saw marked declines in manufacturing industries that rely on domestic demand, especially those in F&B industries. Under an impact of the ongoing COVID-19, industrial production marked the third consecutive and also the biggest decline in August since the first lockdown last year, by 4.24% MoM (excluding Tet's month). IIP year-over-year growth also fell to contraction territory for the first time in a year, by 7.39% YoY.

**Figure 9. The industrial production**



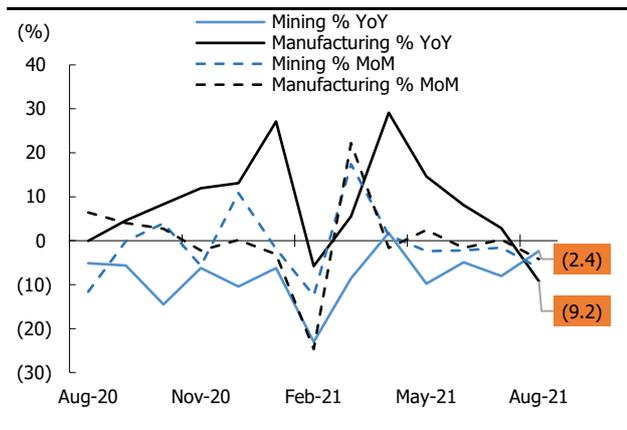
Source: GSO, KIS

By sectors, the mining sector continued to be the most underperform among others with crude oil & natural gas output plunging, as domestic mobility demand is thrown into severe disruption. Output level in this sector was falling into contraction territory for 4 months and reached a fresh record low in this month, down by 6.24% MoM and 2.37% YoY.

Also mentioned above that many industries in the manufacturing sector were hit severely by the current outbreak, manufacturing output posted the lowest level in 15 months since May last year, dropping by 4.21% MoM. Its year-over-year growth in 11 months also ended in August, by minus 9.23% YoY.

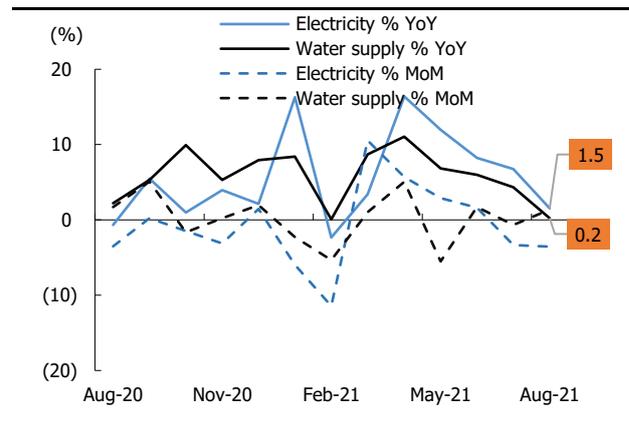
Besides, electricity production & distribution was also impacted by a slowdown in the manufacturing sector, posting a second-month decline of 3.55% MoM (+ 1.54% YoY). The water supply industry was the only sector recording positive growth in the month, expanding by 1.36% MoM and 0.23% YoY.

**Figure 10. Mining and manufacturing sub-sectors**



Source: GSO, KIS

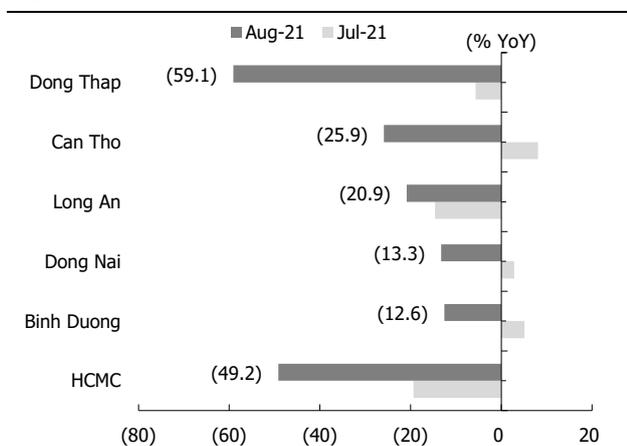
**Figure 11. Electricity and water supply sub-sectors**



Source: GSO, KIS

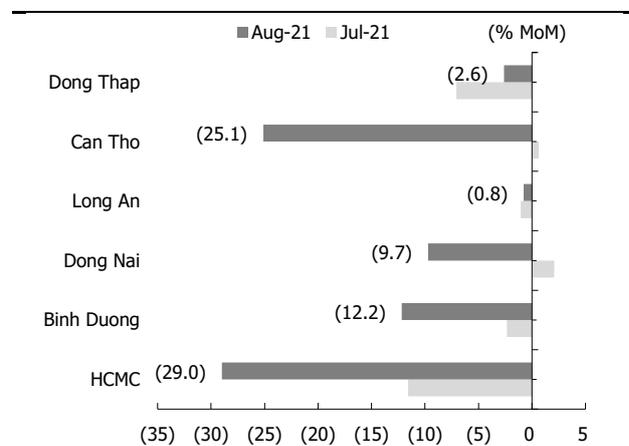
On the positive side, a new update from GSO also showed that the contraction in the industrial sector concentrated mostly on Southern provinces, not spreading nationwide like in the first lockdown. Data also pointed out that the ongoing “enhanced Directive 16” social-distancing measures implemented in those provinces affected severely the textile, apparel, leather, food & beverage industries. Besides, a few other provinces with a similar pandemic situation, including Khanh Hoa, Da Nang, Quang Nam, Ha Noi, also reported marked reductions in industrial output.

**Figure 12. IIP from Southern key industrial provinces**



Source: GSO, KIS

**Figure 13. Industrial labor conditions**

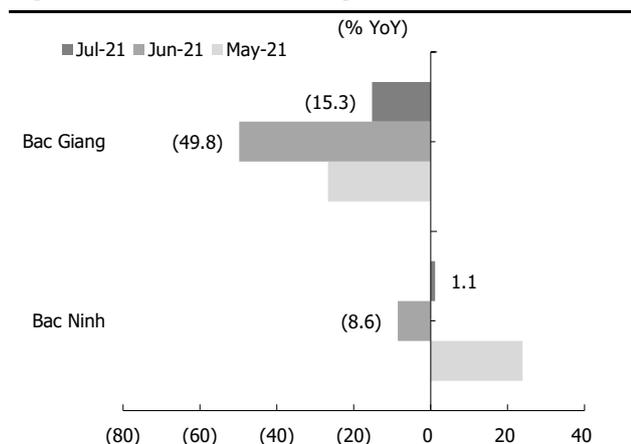


Source: GSO, KIS

Note: Employment index is reported as of the first day in a month

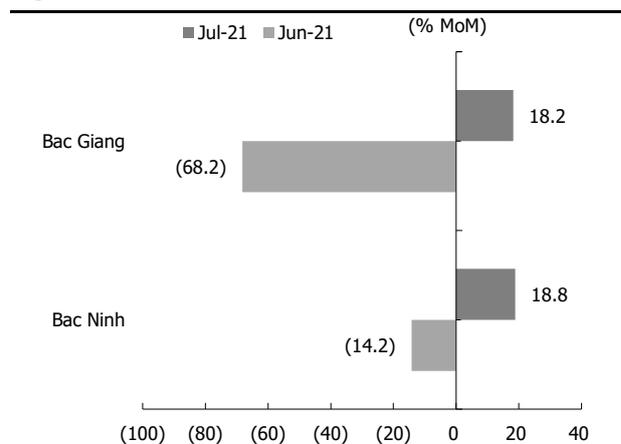
There is a case study from Bac Giang and Bac Ninh a few months ago about disruption in production activities under the strict-containment measures and the fast recovery after controlling the outbreak. Just about one month after the pandemic was controlled in Bac Ninh and especially Bac Giang (Bac Giang had to lock down 4 largest industrial parks in 2 weeks from late-May), the recovery in industrial production activities were fast recovering towards normalization period. Although the pandemic situation is more complicated this time, it is reasonable to expect a similar “fast-recovery” pattern for industrial sectors in COVID-affected provinces shortly afterward.

**Figure 14. IIP from Bac Giang and Bac Ninh**



Source: GSO, KIS

**Figure 15. Industrial labor conditions**



Source: GSO, KIS

Note: Employment index is reported as of the first day in a month

## V. FDI disbursement hits a record low since 2017

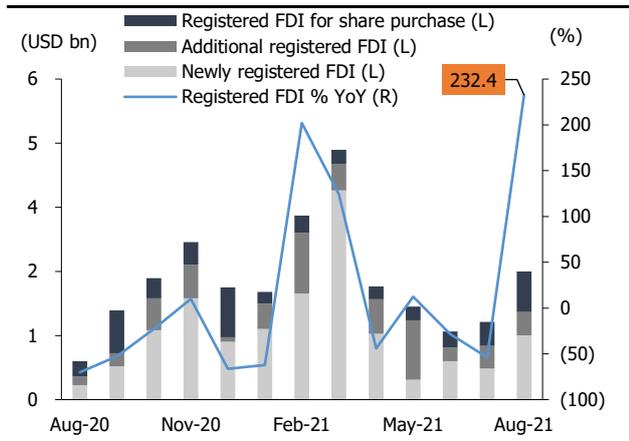
### **Impacts of COVID-19 outbreak dampens FDI disbursement to a several-year low**

As nearly 40% of a total of 63 provinces are under strict social-distancing measures (as of mid-August), foreign investors continued to face great pressure on investment activity. Although there was a notable rebound in FDI registration in August from recent lows, the investment disbursement dipped into a low level in many years.

Going into details, new FDI registration rebounded to a 4-month high of USD1.20bn in August, up 341.1% YoY, which is a marked improvement after several months of being subdued. Additional capital registered for existing projects also saw a slight advance compared to recent months, posting USD0.44bn and increasing 174.4% YoY. Most noticeably, the amount for foreign share purchase activity to the highest level in 2021, at about USD0.76bn and 161.9% higher than the same period last year. As a result, total registered FDI accumulated to USD2.40bn in the month, a 5-month high since March and up 232.4% YoY.

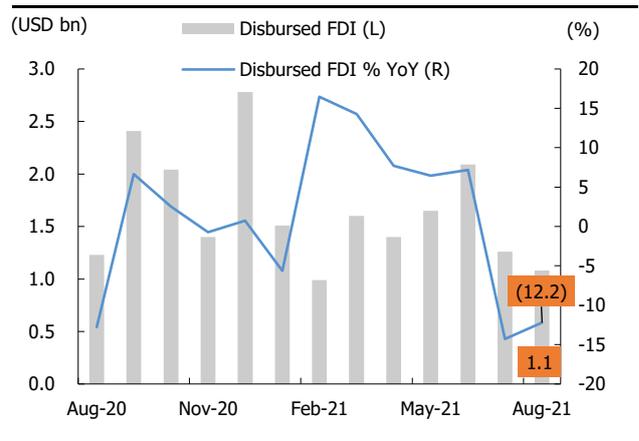
However, on the downside, FDI disbursement remained depressed for the second month under the disrupted production in high FDI-attracted provinces, including HCM City, Binh Duong, Dong Nai, and others in the western region. The disbursement amount dropped to the lowest level since January 2017 (excluding Tet's months in a 2017-2021 period), reaching only USD1.08bn and declining 12.2% YoY.

**Figure 16. Registered FDI**



Source: MPI, KIS

**Figure 17. Disbursed FDI**



Source: MPI, KIS

Besides, the ongoing pandemic and related social containment measures have posed a real threat to FDI enterprises in labor-intensive industries, including several multinational enterprises in electronics and textile & apparel & leather industries. It is not likely that this would cause any problems in existing and already-planned FDI projects for the current time, but it would worsen foreign investors' perception of investment opportunities if the pandemic situation continues for a longer time.

## Macro scorecard

(USD bn, USD, %, % YoY)

	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	3Q20	4Q20	1Q21	2Q21	2017	2018	2019	2020
Real GDP growth	4.48			6.61			2.62	4.48	4.65	6.61	6.81	7.08	7.03	2.91
Registered FDI	4.67	2.12	1.74	1.28	1.45	2.40	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	29.65	26.55	26.19	27.20	27.87	26.20	79.74	80.15	77.34	79.23	215.1	243.5	263.6	282.7
Import	28.46	27.78	28.27	27.66	29.11	27.50	69.02	76.86	75.32	83.50	213.2	236.7	254.4	263.0
Export growth	22.89	51.00	36.52	20.56	12.03	(5.42)	10.61	15.14	21.76	33.50	21.82	13.19	8.16	7.02
Import growth	28.48	49.95	55.52	33.54	31.75	21.06	3.74	16.43	26.17	45.68	21.85	11.01	7.41	3.81
Inflation	1.16	1.16	2.90	2.41	2.64	2.82	3.81	3.24	0.30	1.23	3.53	3.54	2.79	3.24
USD/VND	23,076	23,053	23,048	23,020	22,947		23,184	23,126	23,076	23,020	22,698	23,175	23,173	23,126
Credit growth	2.95	4.17	4.95	6.44	6.70		6.10	10.14			18.24	13.89	13.70	10.14
10Y gov't bond	2.40	2.36	2.27	2.04	2.06	2.07	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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