

Economics

Vietnam: Inflation moderates, cycle has likely peaked

- Inflation rose 0.7% M/M, sa, in September, leaving consumer prices up a lower-than-expected 27.9%oya (JPMorgan 28.9%). The moderation in over-year ago inflation is the first since June 2007, and it reflects slower food, and to a lesser extent, housing and construction material, price rises. Core inflation (ex food and transport) also slowed to 11.0%oya from 11.4% in August, suggesting that price pressures more broadly are easing too (first chart). Indeed, on a sequential trend basis, headline and core inflation have moderated for three consecutive months now (second chart).
- With sequential trend and over-year ago inflation growth having rolled-over in recent months, the inflation cycle in Vietnam appears to have peaked (third chart). Global growth is slowing, and a combination of tighter monetary and fiscal policies, high inflation, and falling domestic asset prices in Vietnam this year has weakened domestic demand. Softer economic growth, along with easing global food and commodity price pressures, should lead inflation lower. Nonetheless, inflation will likely prove stickier on the way down than it was on the way up as expectations, which are very difficult to measure in Vietnam, appear to have risen considerably and will likely take time to bring down.
- The most notable developments in the September CPI report were that the housing and construction material and transport and communication components fell -0.4% M/M, sa and -1.2%. The fall in the transport component is not surprising given the reduction in certain types of domestic fuel prices this month, but the drop in housing and construction is a big shift from large rises in previous months (table below). On a sequential trend basis, food prices continue to slow most rapidly, now running at 31.9%3m/3m, saar versus 71% just a months earlier. In terms of over-year ago inflation, food was the primary reason for the moderation as its contribution declined 0.6%-points, which was partly offset by slight rises in other components (fourth chart).

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Table 1: Vietnam—Consumer price index

| | 2006 | 2007 | %oya | | | %m/m, sa | | |
|-----------------------|------|------|--------|--------|--------|----------|--------|--------|
| | | | Jul-08 | Aug-08 | Sep-08 | Jul-08 | Aug-08 | Sep-08 |
| CPI | 7.6 | 8.4 | 27.0 | 28.3 | 27.9 | 1.5 | 1.8 | 0.7 |
| Food and foodstuffs | 8.8 | 11.3 | 44.7 | 44.1 | 42.7 | 1.2 | 1.4 | 1.0 |
| Housing / Const. Mat. | 9.2 | 11.3 | 24.9 | 27.4 | 26.1 | 1.7 | 2.5 | -0.4 |
| Trans / Comm | 7.2 | 3.7 | 15.3 | 25.6 | 26.1 | 0.2 | 8.1 | -1.2 |
| Core | 6.6 | 6.6 | 11.7 | 11.4 | 11.0 | 0.8 | 0.4 | 0.2 |

Source: General Statistics Office, core inflation excludes food products and transport and communication

Figure 1: Vietnam—Consumer prices

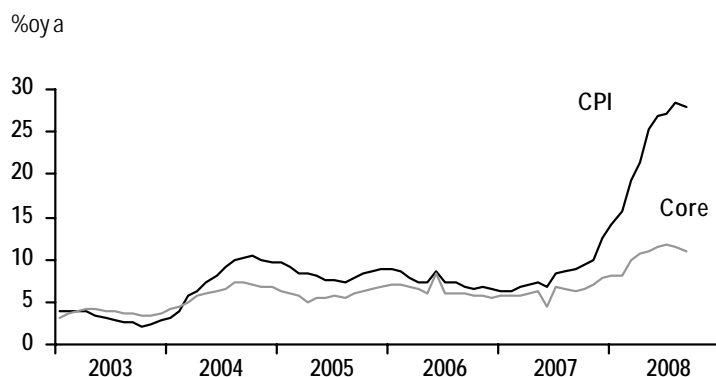


Figure 2: Vietnam—Consumer prices

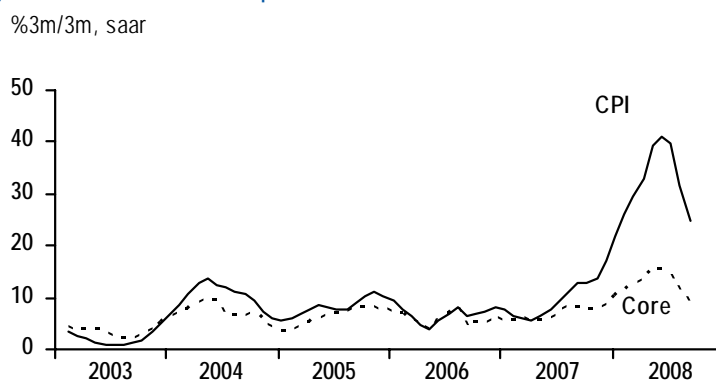


Figure 3: Vietnam—CPI consumer price inflation

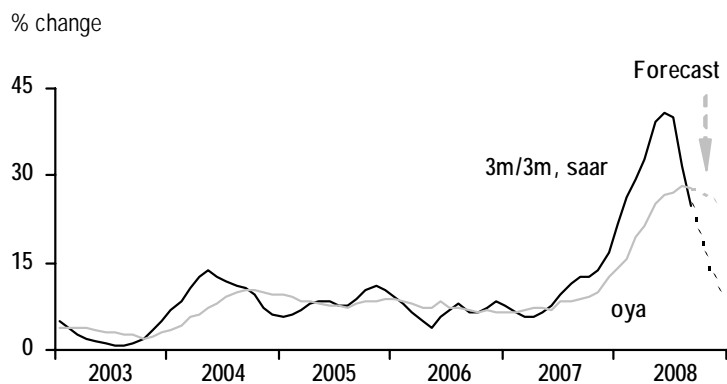
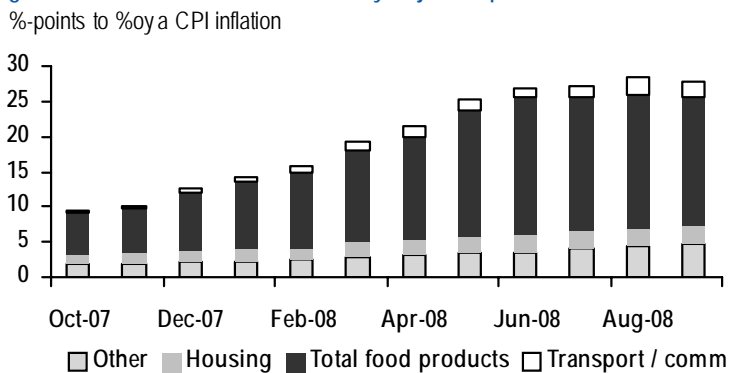


Figure 4: Vietnam—Contribution to CPI by major components



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