

Nikkei Vietnam Manufacturing PMI™

PMI signals declining business conditions for first time in 25 months

Key points:

- Deterioration in September ends two-year sequence of improvement
- Both output and new orders decline
- Substantial reduction in input prices recorded

Summary:

The end of the third quarter of 2015 saw a deterioration in business conditions in the Vietnamese manufacturing sector amid declines in both output and new orders. Meanwhile, falling fuel prices led to a sharp decline in overall input costs, which was then passed on by firms to their clients by way of reduced charges.

The headline Nikkei Vietnam Manufacturing Purchasing Managers' Index™ (PMI)™ – a composite single-figure indicator of manufacturing performance – dropped below the 50.0 no-change mark in September, posting 49.5, following a reading of 51.3 in August. This marginal deterioration brought an end to a two-year sequence in which the health of the sector had improved continuously.

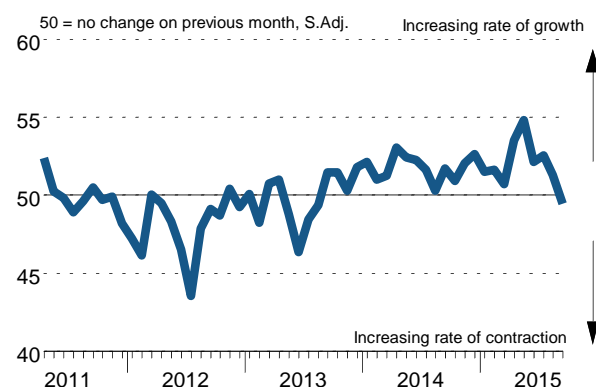
New orders decreased for the first time in just over a year in September amid deteriorating market conditions. That said, the rate of decline was only slight. Meanwhile, new export orders fell for the fourth successive month, and at the second-fastest pace in the series history. Some panellists mentioned particular demand weakness from other countries in the region.

Falling new orders contributed to a slight reduction in manufacturing output, the first in two years. The completion of projects was also mentioned as a factor leading production to decrease.

Lower new business was also reportedly behind a solid fall in backlogs of work, the fastest in six months.

Despite declines in output and new work, firms continued to raise employment during September. That said, the rate of job creation was modest and the slowest in three months.

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Sources: Nikkei, Markit

Latest data pointed to a sharp and accelerated decline in input prices in the sector, largely due to falling fuel costs which outweighed the inflationary impact of a weaker currency. The reduction in input prices was the joint-second fastest in the series history, behind only that seen in January.

With input costs decreasing sharply, manufacturers continued to lower their output prices. Moreover, the rate of decline quickened for the third month in a row to the sharpest since July 2012.

Vietnamese manufacturers lowered their purchasing activity for the first time in 25 months amid reduced production requirements. This enabled suppliers to improve their delivery times again during September, the second successive month in which lead times have shortened.

Reduced purchasing activity contributed to a third consecutive monthly decline in stocks of purchases, and the most marked since March. On the other hand, stocks of finished goods increased, reflective of a drop in sales. The rise was the first in four months.

Comment:

Commenting on the Vietnamese Manufacturing PMI survey data, **Andrew Harker**, at Markit, which compiles the survey, said:

"After seeing growth slow in recent months, the situation took a turn for the worse in September as the Vietnamese manufacturing sector posted contractions in both new orders and production."

“Weak demand in the wider region is proving to have a greater detrimental impact on local manufacturers as time goes on and the latest data are in marked contrast to the strong expansions seen earlier this year.

“One positive from the latest PMI survey was further growth of employment, although this may change in coming months if the downwards trends in output and new orders continue. Another point of interest was a sharper decrease in input prices as a number of firms reported seeing their fuel costs fall over the month.”

-Ends-

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Notes to Editors:

The Nikkei Vietnam Manufacturing *PMI*[™] is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 400 industrial companies. The panel is stratified by GDP and company workforce size. The manufacturing sector is divided into the following 8 broad categories: Basic Metals, Chemicals & Plastics, Electrical & Optical, Food & Drink, Mechanical Engineering, Textiles & Clothing, Timber & Paper, Transport.

Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'. Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

The Nikkei Vietnam Manufacturing *PMI*[™] is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times Index inverted so that it moves in a comparable direction.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact economics@markit.com.

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