

Vietnam

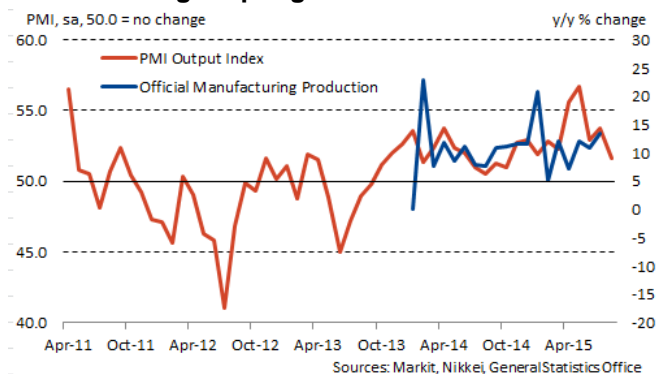
Regional weakness adds to easing of Vietnamese manufacturing growth

- **Vietnam PMI dips to five-month low**
- **State Bank of Vietnam weakens dong amid yuan depreciation**
- **Fastest fall in output prices for six months**

Growth of manufacturing output in Vietnam eased to the slowest for ten months in August, according to the latest Nikkei PMI survey, compiled by Markit. This continued a trend of generally weaker expansions seen since the survey's record high in May. The slower rise in output was matched by new orders, as new work appears more difficult to secure than it was earlier in the year. This is particularly the case in international markets as companies reported a third successive monthly fall in new export orders.

The latest reduction in new business from abroad was linked both to weakness in international demand and competition from Chinese firms following the depreciation of the yuan during the month. Moreover, the recent underwhelming performance of some regional partners – as outlined by the PMI surveys – has contributed to declining new export business at Vietnamese firms.

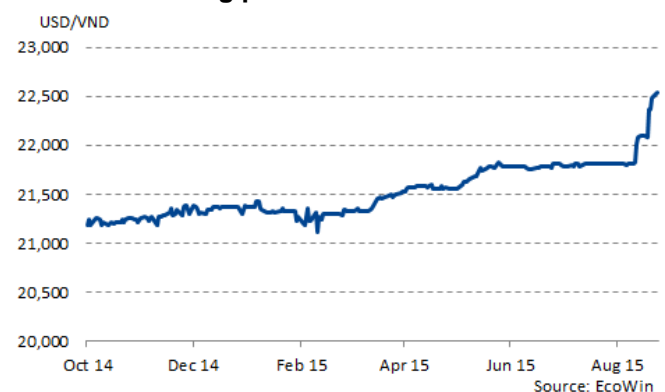
Manufacturing output growth slows



Responding to Chinese currency movements, the State Bank of Vietnam (SBV) acted to weaken the dong in order to support Vietnamese exporters. The currency operates in a crawling peg with the US dollar, and on 12th August the central bank widened the range in which the exchange rate can move from 1% to 2%.

They then followed this up a week later by widening the band further to 3% and moving the mid-point of the range lower. The dong depreciated by roughly 1% after the first action, and again after the second, and at the time of writing is 3.3% weaker against the dollar than on 11th August, before these changes were made. This should help exporters in Vietnam maintain competitiveness in coming months in their efforts to see a return to growth of new business from abroad. In the long-term, the widening of the band increases the flexibility of the exchange rate to respond to changes in economic conditions and should be seen as a positive development.

Vietnamese dong per US dollar



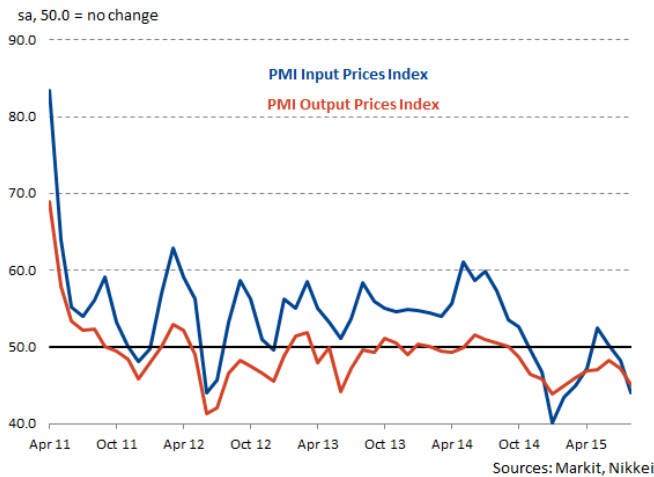
Competition with Chinese firms was also a factor behind lower output prices in August. Vietnamese manufacturers will be looking for such competitive pressures to weaken as the SBV's reaction to the "beggar-thy-neighbour" policies in the region feed through.

Wider deflationary pressures are also at play, however, with input costs falling sharply amid reports of lower prices in international markets for items such as steel and oil.

While the weaker dong has the potential to lead to inflationary pressures, consumer prices have been rising relatively slowly for some time now. Official data pointed to a month-on-month fall in consumer prices during August pushing the annual rate of inflation to a

six-month low of 0.6%. The latest PMI data suggested that this trend will continue with both input costs and output prices falling at the fastest rates in six months. Price pressures seem unlikely to be a concern for the SBV in the near-term.

PMI Price Indices



On the contrary, the current uncertainty surrounding the Chinese economy and the associated impact on the wider region suggest that Vietnamese manufacturers may be in for a challenging end to 2015.

However, the authorities have demonstrated a willingness to act decisively in order to support domestic firms. The next PMI release on 1st October will provide an update on the health of the sector in September.

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Consumer Price Inflation

