

# Vietnam

## Truck weight restrictions disrupt manufacturing supply chains in Vietnam

- **Stricter enforcement of weight limits causes disruption**
- **Costs rise sharply and delivery times lengthen**

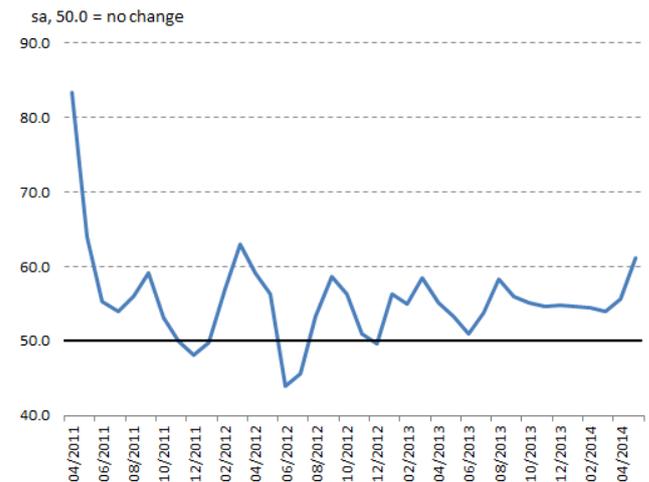
In the past few months the Vietnamese authorities have stepped up their enforcement of weight limits on trucks. HSBC PMI data, compiled by Markit, shows that this has led to strong rises in costs at manufacturing firms, as well as delivery delays. Ironically, this has had the effect of raising the PMI.

The new weight rules are designed to improve road safety by reducing the widespread practice of overloading trucks. It is only in recent months, however, that the rules have begun to be enforced more stringently, including the deployment of weighbridges. This has led the cost of deliveries to increase, with some estimates suggesting that delivery costs have doubled since the weight limits started to be enforced.

The HSBC Vietnam Manufacturing PMI data have provided some indication as to the effects that the new rules have had on goods producers. Input cost inflation picked up sharply in April and May from the eight-month low seen in March and reached its highest in more than two years in the latest survey period. This comes at a time of generally benign inflation globally. Meanwhile, data from the General Statistics Office of Vietnam indicated that manufacturing producer prices rose 12.0% y/y in May.

Anecdotal evidence from PMI respondents indicated that increased transport costs had been the principal factor leading input prices to increase during April and May.

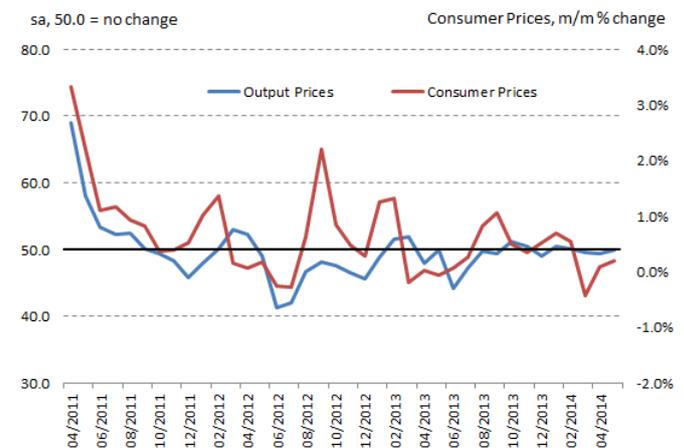
**HSBC Vietnam Manufacturing PMI Input Prices**



Sources: HSBC, Markit

However, the signs so far have been that firms have largely been unable to pass on higher cost burdens to clients. Manufacturing output prices were broadly unchanged in May, following declines in the previous two months as goods producers attempted to boost demand in a competitive marketplace. The rate of consumer price inflation has so far remained relatively modest.

**PMI Output Prices v Consumer Price Inflation**

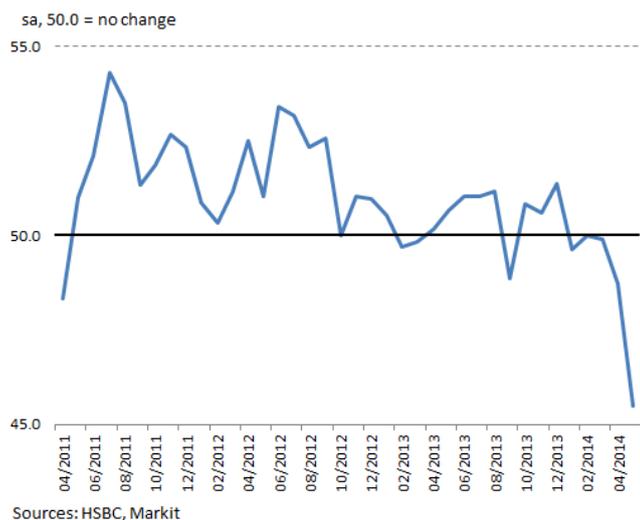


Sources: HSBC, Markit, General Statistics Office of Vietnam

Aside from the direct impacts on costs, PMI data have also shown the effects that the enforcement of the weight restriction rules has had on the delivery of goods. Suppliers' delivery times lengthened markedly

during May, and to the greatest extent since the survey began in April 2011. Anecdotal evidence from panellists pointed to the fact that suppliers were having to make additional journeys in order to deliver the same amount of goods as previously, thereby leading to delays.

**HSBC Vietnam Manufacturing PMI Suppliers' Delivery Times Index**



With the suppliers' delivery times index included in the PMI calculation, the additional delays caused by the new weight restrictions had the perverse impact of actually raising the PMI (delays are normally associated with suppliers being busier as a result of increasing demand).

However, despite the disruption caused by the enforcement of the weight restrictions the Vietnamese manufacturing sector continued to record growth of output, new orders and employment in May as firms were able to use existing inventories to support expansion. Goods production in the sector has now risen in each of the past eight months. However, continuing logistical difficulties and sharp cost inflation are likely to have a detrimental impact on the sector should they continue for a prolonged period. The next PMI release for Vietnam is on the 1<sup>st</sup> of July with the publication of data for June.

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