Global Markets Research

Economics - Vietnam

Vietnam GDP growth beat expectations

Vietnam GDP grew more than expected by 7.3% YOY in 3Q19, faster than the pace observed in the previous quarter. For the first nine months of 2019, GDP growth maintained a 6.98% YOY pace compared to the same period last year, conditions across key sectors appear stable and solid save for a slower primary sector. The external trade sector continued to observe lacklustre growth versus the robust double digit expansion seen throughout 2017, in line with the weakening international trade sector. Retail sector was well supported by resilient domestic demand but factories are showing signs of a slowdown as indicated by a borderline PMI reading.

Looking forward, we expect Vietnam's economic growth to continue riding on a strong domestic demand and a solid, albeit softer manufacturing sector. Vietnam's cheap production cost with lower wages remain an appeal for many international firms compared to neighbouring China that is still battling with the US in a trade war. Taking into account the above, the Vietnamese economy seems on track to achieve its 6.8% GDP growth target this year.

GDP growth came in stronger than expected in 3Q, confirming a still solid Vietnamese economy

The Vietnam economy expanded more than expected in the third quarter of 2019, recording a real GDP growth of 7.3% in 3Q19 (2Q: +6.7%). The accelerated pace was higher than the consensus forecast of 6.7%. For the first nine months of 2019, real GDP grew by 6.98% YOY, unchanged from the rate observed in the same period last year.

Conditions in all key sectors stayed intact, recording solid gains in the third quarter, save for growth in the primary industry which appeared to have pulled back. The primary industry comprising of agriculture, forestry and fishery output increased 2.02% YOY in 9M2019 (9M18: +3.65%). Output in the secondary sector rose at a faster pace of 9.36% YOY (9M18: +8.9%), supported by growth in both industry and construction. Within the industrial sector, mining (+2.68% vs -1.97%), electricity & gas (+10.7% vs +9.7%) and water supply (+8.43% vs +6.44%) accelerated while manufacturing output grew at softer pace (+11.37% vs +12.65%). Construction output sustained a steady growth of 8.33% (9M18: +8.46%). The services sector meanwhile stabilized at 6.85% YOY (9M18: +6.89%), riding on the expansion of transport/warehouse, lodging services, banking & finance, real estate, as well as information communication.

External trade regained strength but still lacklustre compared to 2017.

Exports growth rebounded to increase 9.0% YOY in September (Aug: +4.5%), after a softer August. On a monthly basis, exports fell 6.12% MOM (Aug: +8.4%) reversing the gain in August. Overall exports growth remained moderate compared to the robust double digit growth seen throughout 2017, broadly in line with the weakening international trade worldwide and was barely surprising. Imports rose 15.6% YOY in September (Aug: +7.5%) mainly on a favourably low base effect. MOM, imports value slipped by 1.3% MOM (Aug: +1.8%), leading trade surplus to shrink to US$500m (Aug: US$1.7b).

Industrial production stabilized.

Growth in industrial productions remained steady albeit a slightly slower pace of 10.2% YOY in September (Aug: +10.5%) as the acceleration in the growth of manufacturing output, electricity and water supply was offset by the fall in mining and quarrying. MOM, industrial output slipped and contracted marginally (-0.1% vs +5.4%) of which manufacturing output appeared to increase at a substantially slower pace of 0.9% MOM (Aug: +7.5%).

Retail sector remained resilient.

On the retail front, retail sales picked up to increase by 11.6% YOY for the first nine months of 2019 (Jan- Sep'18: +11.3%), a tad faster compared to the same period last year, pointing to steady and resilient consumer spending. Breaking down retail sales, sales in trade (+12.6%), hotel & restaurants (+9.6%), tourism (+12.0%) as well as services (+7.3%) continued to register solid pace of growth, reflecting strong consumption and Vietnam's ongoing status a favorite destination in South East Asia.

Headline inflation fell on lower oil prices

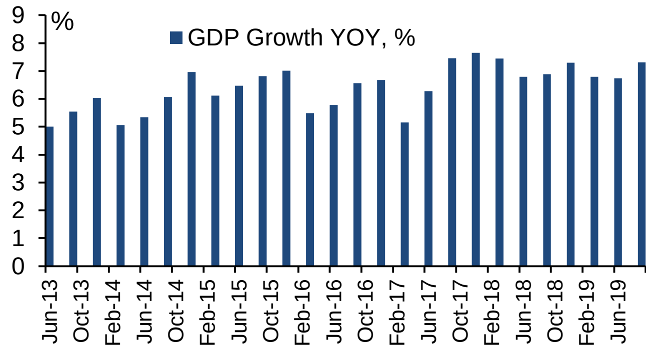
Last but not least, CPI inflation continued to pull back in September clocking at 1.98% YOY (Aug: 2.26%), its slowest rate in more than three years, led mainly the fall in transport cost on weaker oil prices, as well as the slower increase in prices of beverages & tobacco, housing & construction materials and education. Core CPI stabilized below 2%, at 1.96% YOY (Aug: +1.95%) amidst a lack of price pressure.

Economy on track to achieve 6.8% growth target in 2019

The latest official data indicate that the Vietnam economy remained on a strong footing supported by the manufacturing and services industry. That said, there are signs that factories are slowing down in the country long considered as being immune to the current global manufacturing downturn. The September Markit Vietnam Manufacturing PMI slipped to a borderline reading of 50.4 (Aug: 51.4) as production ended a sequence of 21-month growth to record a decline. Markit attributed the fall in output to weak business demand, adding to signs that slower growth amidst persistent trade uncertainties are beginning to take a toll on the manufacturing sector.

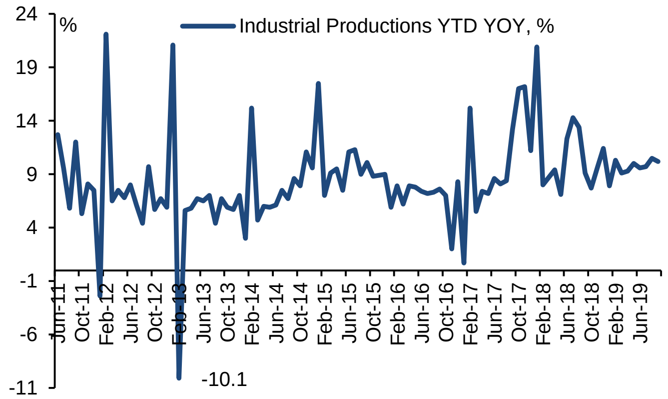
Looking ahead, we expect Vietnam's economic growth to continue riding on a strong domestic demand and a solid, albeit softer manufacturing sector. Vietnam's cheap production cost with lower wages remain an appeal for many international firms compared to neighbouring China that is still battling with the US in a trade war. Taking into account the above, the Vietnamese economy seems on track to achieve its 6.8% GDP growth target this year.

Figure 1: GDP Growth (%YOY YTD)



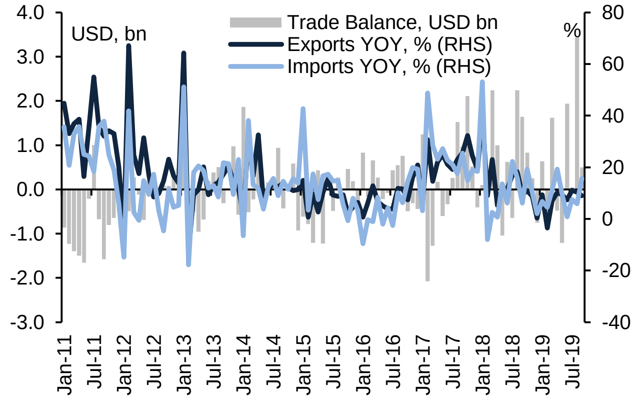
Source: Bloomberg

Figure 2: Industrial Production



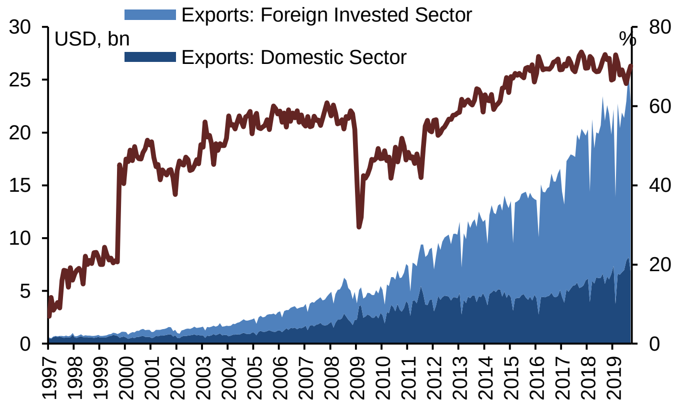
Source: Bloomberg

Figure 3: International Trade



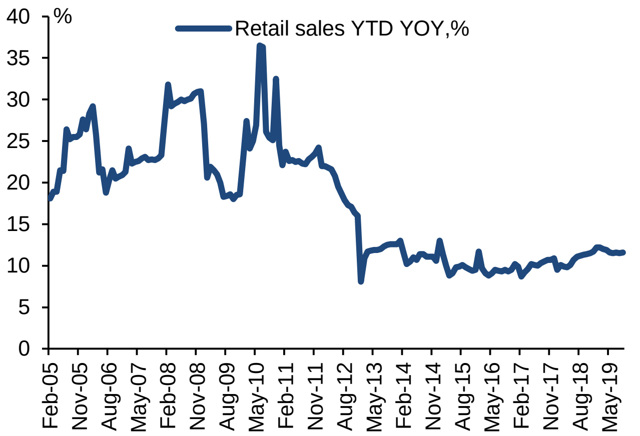
Source: Bloomberg

Figure 4: Exports (Foreign Invested vs Domestic Sector)



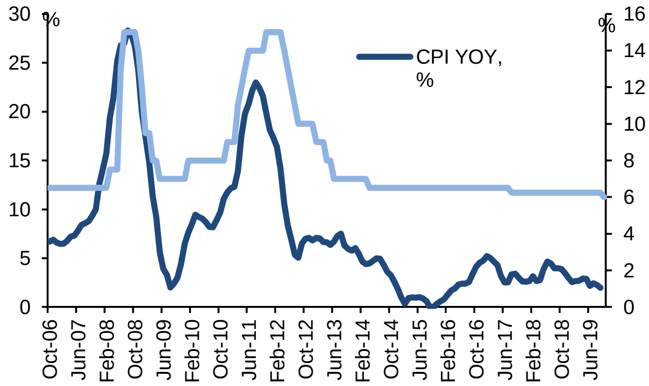
Source: CEIC

Figure 5: Retail Sales



Source: Bloomberg

Figure 6: CPI and SBV Refinancing Rate



Source: Bloomberg

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