

Vietnam Economics

Modest 2Q GDP Recovery, Covid Wave Remains A Risk

Growth Accelerates in 2Q Despite Fourth Covid Outbreak, Helped By Pandemic Low Base Effects

GDP expanded by a faster +6.6% in 2Q21, up from the revised +4.7% in 1Q21, despite the recent more severe fourth Covid wave. This is ahead of ours (+6%) but below market expectations (+7.2%). The improvement in GDP growth partly reflects the low base as GDP was almost flat (+0.4%) in 2Q 2020 amid the pandemic lockdown.

Growth was largely driven by industry & construction (+10.3% vs. +6.3% in 1Q) which strengthened to the fastest pace since 3Q 2015. Services (+4.3% vs. +3.6% in 1Q) extended its recovery, but was weaker-than-expected amid the recent Covid outbreak. Agriculture, forestry & fishery (+4.1% vs. +3.5% in 1Q) quickened its growth in 2Q, on the back of higher commodity prices, and better rice and livestock production.

Industry & Construction Strengthens as Manufacturing Jumped To Fastest Pace Since 1Q 2018

Industry & construction jumped +10.3% in 2Q, up from +6.3% in 1Q, in part due to a favourable low base. The faster industry & construction growth was mainly led by a surge in manufacturing (+13.8% vs. +8.9% in 1Q) and electricity & gas (+11.9% vs. +4.3% in 1Q). This more than offset the weaker construction growth (+4.8% vs. +6.5% in 1Q) and mining contraction (-4.7% vs. -8.5% in 1Q).

Manufacturing accelerated to +13.8% in 2Q - the fastest pace since 1Q 2018 - supported by broad improvements across both electronics and non-electronics production. There are however signs that the electronics sector may face some near-term downside pressure because of the recent Covid outbreak.

Industrial production (IP) moderated in Jun (+6.8% vs. +11.8% in May), weighed down by manufacturing (+8.1% vs. +14.4% in May). In particular, computer, electronic & optical productions slipped back into the negative territory (-0.4% vs. +19.2% in May), leading to concerns that recent production disruptions within several industrial parks, global chips shortage and rising transport costs may dampen the electronics manufacturers. Non-electronics production was, however, broadly resilient and will continue providing interim support.

Services See Muted Gains as Fourth Covid Outbreak Dampens Recovery

Services recorded a muted gain of +4.3% in 2Q, improving a tad from +3.6% in 1Q21, despite coming off a low base (services contracted -1.9% in 2Q20). Wholesale & retail eased for the second consecutive quarter to +4.6% (vs. +6.6% in 1Q) as retail activities were briefly disrupted by the Covid outbreak in April and May.

While people mobility (see Fig 10) and retail sales have been affected by the lockdown, wholesale and goods logistics were less impacted. Cargo volume rose +15.2% in 2Q (vs. +8.2% in 1Q) and are already above pre-pandemic levels. With travel & tourism dented by the recent restrictions, transport & storage (-0.1% vs. -0.6% in 1Q) and accommodation & food services (-4.5% vs. -5.5% in 1Q) extended its contraction. Bright spots were in the non trade/tourism-related services, such as finance & insurance (+9.9%), professional, science & tech (+5.9%), info & comm (+5.3%) where growth continued to pick up.

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Exports Taper On Covid Disruptions & Fading Low Base Effects; Trade Deficit Narrows on Softer Imports

Exports moderated to +17.3% in Jun from the strong +36.6% surge in May, weighed down by a decline in telephone exports (-9.5% vs. +22.5% in May). Exports for computer & electronics eased sharply to +1.8% (vs. +14.% in May). Exports for other major items, e.g. machineries (+20.5%), textile & garments (+13.7%) and footwear (+38.9%) also softened, but remained at a healthy double-digit clip. June's sharply weaker telephone and electronics exports could point towards short-term disruptions to the electronics exporters due to recent Covid outbreak. But we think the easing trend across-the-board also reflect a normalization as low base effects diminish.

In absolute terms, exports for most major export items including machineries, computer & electronics, textile & garments as well as footwear have strengthened well above pre-pandemic levels. Imports eased but remained strong at +33.5% (vs. +57.9% in May). We expect imports growth to gradually taper in the coming months. June's trade balance remained in a deficit, but narrowed to -\$1bn from -\$2.1bn in May, bringing the overall trade balance to a deficit of -\$1.5bn for 1H21.

Prelim estimates showed that exports to most major destinations eased from the strong surge in May. ASEAN (+38% vs. +53.1% in May) was the largest growth contributor, followed by South Korea (+18.1%) and the US (+15%). Exports to China (+11.9%) and Japan (+10.9%) eased, but remained at a healthy double-digit pace. Exports to EU however surprisingly contracted by a small -1.3% after posting positive growth in the previous three months. We note that GSO's trade data is preliminary, and subject to significant revisions in the following month.

Inflation Eased on Falling Food & Softer Transport Inflation; Core Inflation Steady

Headline inflation softened in June, edging lower to +2.4% from +2.9% in May, mainly due to falling food prices (-0.3%) and softer transport inflation (+15.5%), which more than offset the uptick in housing & construction materials costs (+4%). Core inflation remain unchanged from the previous month at +1.1%.

Transport inflation climbed at a softer pace of +15.5% (vs. +23.4% in May) amid three rounds of retail petrol price hikes. Our Oil & Gas team recently revised up their average Brent oil price forecast to US\$65/barrel for 2021 from US\$55-60/barrel previously (see [ASEAN Energy - Crude - summer burn](#), 21 Jun 2021).

Housing & construction material costs picked up in Jun (+4% vs. +2.9% in May), driven by higher domestic gas & water prices due to increased demand, as well as higher input materials costs for housing maintenance works. According to the GSO, iron & steel costs were +3.8% higher as compared to previous month. Food inflation (-0.3% vs. +0.2% in May), on the other hand, fell for the first time since Jan 2018. This came on the back of falling foodstuff costs (-2%), offsetting muted increases in costs for food (+4%) and dining out (+1.9%).

We maintain our average headline CPI forecast at +3.5% in 2021 and +3.8% in 2022. Overall price pressures is expected to remain contained and below SBV's inflation target of +4%. Rising global commodity and energy prices may however exert upward pressure on headline CPI in the coming months as low base effects kick in.

Maintain 2021 GDP Growth Forecast At +6.5%; Fourth Covid Wave & Slow Vaccine Rollout Remain Key Downside Risks

We maintain our GDP growth forecast at **+6.5% in 2021**. The current fourth Covid wave is unlikely to derail the economic recovery, although risks to our forecasts are slightly skewed to the downside.

Daily new Covid cases remain elevated at 355 cases (7-day moving average as of 28 Jun) and showing few signs of abating (see Fig 9). Nonetheless, improvements in Covid situations in Bac Ninh and Bac Giang provinces, which were previous Covid hotspots, provide some hope that disruptions to manufacturing and exports would be minimized. Bac Ninh and Bac Giang had lifted its social distancing measures as of 25 June and allowed most factories to resume operations. Targeted lockdown restrictions remain in place in cities such as Ho Chi Minh City amid the emergence of new Covid clusters.

We expect Vietnam's recovery for the second half of this year to remain largely driven by the industrial sector and improving external demand, led by the reopening in the US and EU markets. Domestic demand and services recovery however could lag because of the slow vaccine rollout.

While vaccination has picked up since early June, Vietnam still lags behind the rest of ASEAN. As of 28 June, only 3.4% of the population had received at least one dose of the vaccine (see Figures 11 and 12). Vietnam remains susceptible to waves of Covid variant cases and relapse into frequent targeted lockdowns. This could disrupt the domestic demand and services recovery, even as exports and manufacturing continue to strengthen.

Despite rising inflationary pressure, we do not expect the central bank to start normalizing interest rates. We expect the SBV to maintain its accommodative monetary policy and the refinancing rate at 4% in 2021 to support growth. Our FX team expects the USD/VND to end 2021 at around 22,600.

Table 1: Vietnam - Key Macroeconomic Indicators

| | 2017 | 2018 | 2019 | 2020E | 2021E | 2022E |
|--|--------|--------|--------|--------|--------|--------|
| Real GDP (%) | 6.8 | 7.1 | 7.0 | 2.9 | 6.5 | 6.7 |
| Private Consumption (%) | 7.3 | 7.3 | 7.4 | 0.6 | 6.2 | 7.1 |
| Government Consumption (%) | 7.3 | 6.3 | 5.8 | 6.2 | 6.0 | 6.3 |
| Gross Fixed Capital Formation (%) | 10.2 | 8.7 | 8.3 | 4.1 | 9.0 | 9.0 |
| Exports of Goods & Services (%) | 16.7 | 14.3 | 6.7 | 3.0 | 11.0 | 12.0 |
| Imports of Goods & Services (%) | 17.5 | 12.8 | 8.3 | 2.6 | 11.4 | 12.3 |
| Current Account Balance (% of GDP) | (0.7) | 2.4 | 4.8 | 4.6 | 4.3 | 4.8 |
| Fiscal Balance (% of GDP) | (2.7) | (2.8) | (3.3) | (4.5) | (4.0) | (3.5) |
| Inflation Rate (%) | 3.5 | 3.5 | 2.8 | 3.2 | 3.5 | 3.8 |
| Unemployment Rate (%) | 2.2 | 2.2 | 2.2 | 2.7 | 2.5 | 2.2 |
| Exchange Rate (per USD, end-period) | 22,698 | 23,175 | 23,173 | 23,098 | 22,600 | 22,400 |
| 10-Year Government Bond Yield (% end-period) | 5.14 | 5.15 | 3.56 | 2.61 | 3.00 | 3.30 |
| Benchmark Interest Rate (% p.a., end-period) | 6.25 | 6.25 | 6.00 | 4.00 | 4.00 | 4.00 |

Note: 2020 values for real GDP growth, private & government consumption, GFCF, inflation rate, exchange rate, 10Y government bond yield & benchmark interest rate are actual.

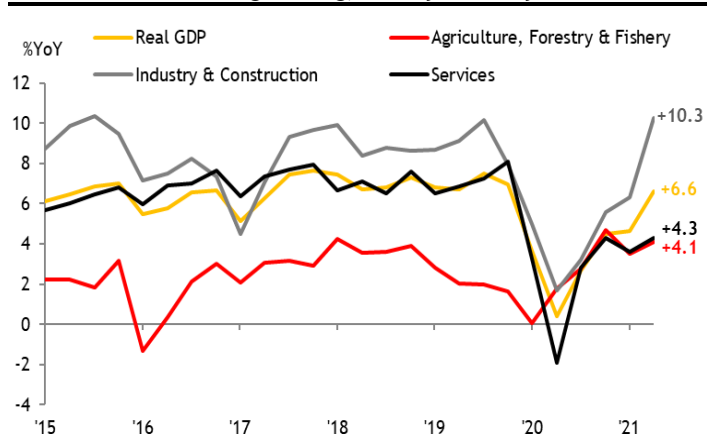
Source: CEIC, Maybank Kim Eng

Table 2: Real GDP Growth by Sectors, %YoY (Maybank KE Forecasts in Italics)

| | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21 | 2Q21 | 2021F | 2020 | 2019 |
|-----------------------------------|-------|-------|-------|------|------|------|-------|-------|------|
| Real GDP, Total | 3.7 | 0.4 | 2.7 | 4.5 | 4.7 | 6.6 | 6.5 | 2.9 | 7.0 |
| Agriculture, Forestry and Fishery | 0.0 | 1.8 | 2.8 | 4.7 | 3.5 | 4.1 | 4.1 | 2.7 | 2.0 |
| Industry & Construction | 5.0 | 1.7 | 3.2 | 5.6 | 6.3 | 10.3 | 10.3 | 4.0 | 8.9 |
| Mining & Quarrying | -4.2 | -5.8 | -5.9 | -6.1 | -8.5 | -4.7 | -4.7 | -5.6 | 1.3 |
| Manufacturing | 7.1 | 3.4 | 3.9 | 8.6 | 8.9 | 13.8 | 13.8 | 5.8 | 11.3 |
| Electricity & Gas | 7.5 | -0.1 | 4.0 | 4.4 | 4.3 | 11.9 | 11.9 | 3.9 | 9.1 |
| Construction | 4.4 | 4.7 | 7.0 | 8.6 | 6.5 | 4.8 | 4.8 | 6.8 | 9.1 |
| Services | 3.3 | -1.9 | 2.8 | 4.3 | 3.6 | 4.3 | 4.3 | 2.3 | 7.3 |
| Wholesale & Retail Trade | 5.7 | 3.0 | 5.5 | 7.0 | 6.6 | 4.6 | 4.6 | 5.5 | 8.8 |
| Transportation & Storage | -0.9 | -9.9 | 0.6 | 1.1 | -0.6 | -0.1 | -0.1 | -1.9 | 9.1 |
| Accommodation & Food | -11.0 | -29.3 | -10.8 | -8.1 | -5.5 | -4.5 | -4.5 | -14.7 | 6.7 |
| Information & Communication | 7.5 | 7.5 | 7.3 | 7.4 | 5.1 | 5.3 | 5.3 | 7.4 | 7.7 |
| Financial, Banking & Insurance | 7.4 | 6.3 | 6.5 | 7.2 | 8.7 | 9.9 | 9.9 | 6.9 | 8.6 |
| Real Estate | 2.6 | -2.3 | -0.4 | 1.3 | 3.9 | 4.2 | 4.2 | 0.3 | 4.6 |
| Professional, Scientific & Tech | 6.3 | 6.7 | 6.5 | 6.9 | 5.6 | 5.9 | 5.9 | 6.6 | 6.8 |
| Education & Training | 6.0 | 5.4 | 6.3 | 6.7 | 6.0 | 6.3 | 6.3 | 6.1 | 7.0 |
| Health & Social Work Activities | 10.0 | 10.6 | 10.6 | 11.0 | 9.6 | 11.2 | 11.2 | 10.6 | 7.1 |
| Arts, Entertainment & Recreation | 5.6 | -2.1 | -1.8 | -1.2 | -6.1 | -4.3 | -4.3 | -0.3 | 7.3 |
| Other Service Activities | 5.9 | -12.4 | -0.5 | 1.9 | 0.1 | 0.9 | 0.9 | -1.5 | 5.5 |

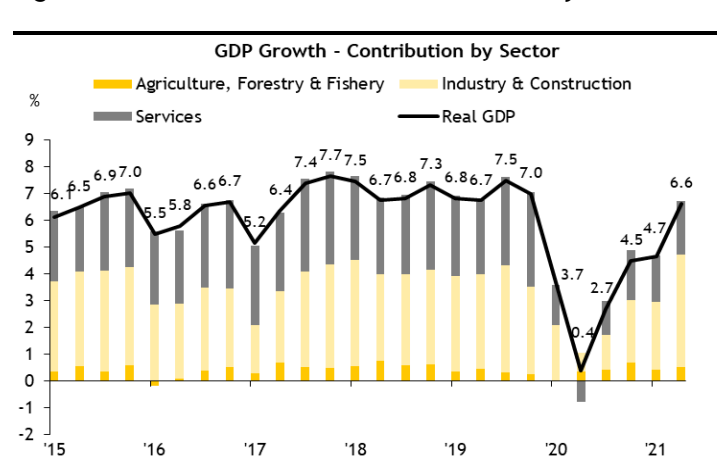
Source: General Statistics Office, CEIC, Maybank KE

Fig 1: GDP Growth Accelerated in 2Q (+6.6% vs. +4.7% in 1Q) on Broad-Based Strengthening, Led By Industry & Construction



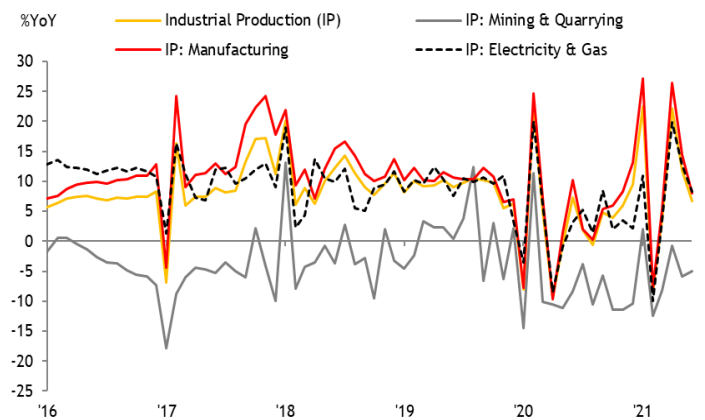
Source: General Statistics Office, CEIC

Fig 2: %-Pt Contribution to Overall GDP Growth by Sectors



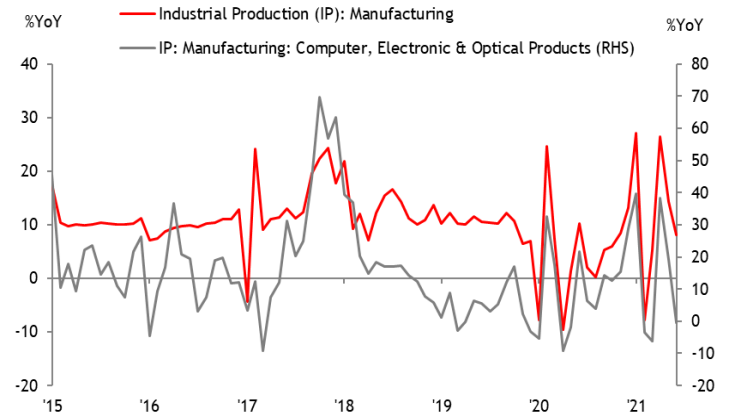
Source: General Statistics Office, CEIC

Fig 3: IP Eased Further in Jun (+6.8% vs. +11.8% in May) on Softer Manufacturing (+8.1%) And As Base Effects Fade



Source: General Statistics Office, CEIC

Fig 4: Manufacturing of Electronic Products Contribute Considerably to Overall Manufacturing Output



Source: General Statistics Office, CEIC

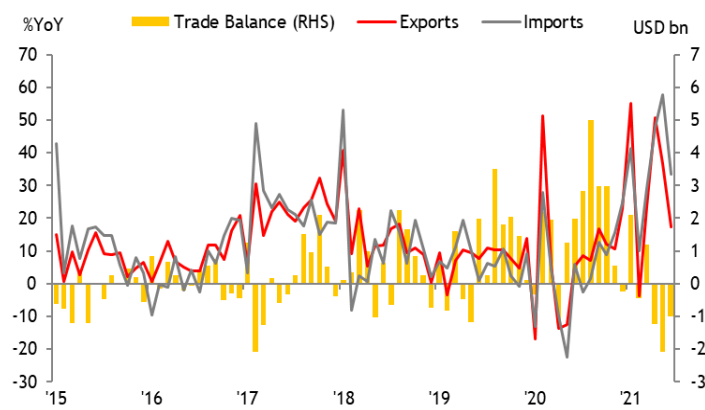
Table 3: Exports by Major Products, Imports & Trade Balance, %YoY

| | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 |
|---|--------------|-------------|--------------|---------------|---------------|---------------|
| Exports | 55.1 | -3.8 | 23.5 | 50.8 | 36.6 | 17.3 |
| Telephones & Components (18.1%) | 125.8 | -24.5 | -13.4 | 52.5 | 22.5 | -9.5 |
| Computers & Electronic Items (15.8%) | 46.2 | 22.6 | 26.6 | 29.2 | 14.6 | 1.8 |
| Textiles & Garments (10.5%) | 5.7 | -18.9 | 16.1 | 51.8 | 36.4 | 13.7 |
| Machinery & Equipment (9.6%) | 119.0 | 39.9 | 77.0 | 85.6 | 48.0 | 20.5 |
| Footwear (5.9%) | 31.2 | -11.4 | 23.9 | 42.4 | 44.0 | 38.9 |
| Wood and Wooden Products (4.4%) | 59.2 | 18.7 | 51.4 | 100.0 | 82.1 | 57.1 |
| Transport equipments (3.2%) | 30.0 | 1.1 | 27.3 | 86.4 | 87.8 | 57.4 |
| Fishery Products (3%) | 21.8 | -21.8 | 16.8 | 21.8 | 23.7 | 9.1 |
| Iron & steels (1.9%) | 132.4 | 40.2 | 99.5 | 142.1 | 239.3 | 128.0 |
| Still image, video cameras items (1.2%) | 93.9 | 60.4 | 65.7 | 102.9 | 107.4 | 10.1 |
| Imports | 41.3 | 9.7 | 29.0 | 47.7 | 57.9 | 33.5 |
| Trade Balance (USD mn) | 2,086 | -460 | 1,197 | -1,225 | -2,074 | -1,000 |

Note: Numbers in brackets refer to share of total exports in 2020.

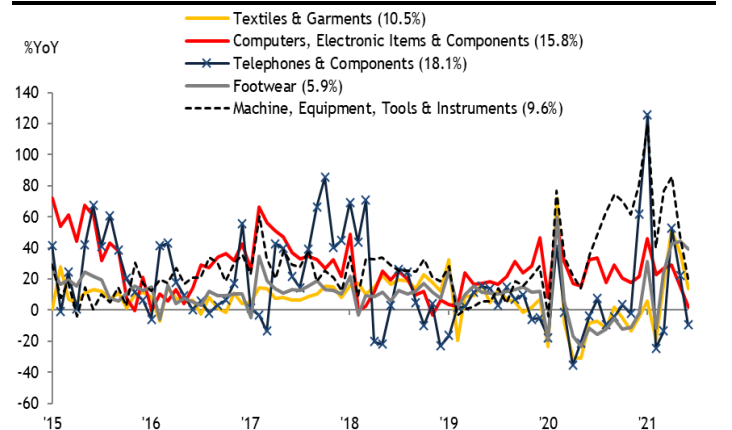
Source: CEIC

Fig 5: Both Exports & Imports Moderate in Jun as Base Effect Fade; Trade Deficit Narrowed To -\$1bn From -\$2.1bn in May



Source: CEIC

Fig 6: Exports Eased (+17.3%), Led by Falling Telephones (-9.5%) and Softer Computers & Electronics (+1.8%) Exports



Note: Numbers in brackets refer to share of total exports in 2020.

Source: CEIC

Table 4: Exports by Country/Region, %YoY

| | Share of Exports (2020) | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | *Jun-21 | 6M21 | *2Q21 | 1Q21 | 2020 |
|-------------|-------------------------|--------|--------|--------|--------|--------|---------|-------|-------|------|------|
| US | 27.3 | 71.7 | 2.7 | 48.7 | 83.6 | 53.3 | 15.0 | 42.6 | 45.7 | 39.7 | 25.7 |
| China | 17.4 | 69.8 | 22.3 | 18.7 | 9.0 | 22.7 | 11.9 | 24.0 | 14.3 | 34.7 | 18.6 |
| EU 27 | 12.4 | 51.1 | -11.7 | 10.2 | 49.0 | 21.8 | -1.3 | 17.4 | 20.3 | 14.7 | -1.7 |
| ASEAN 9 | 8.2 | 39.8 | -22.8 | 13.4 | 59.0 | 53.1 | 38.0 | 26.0 | 49.7 | 8.0 | -8.4 |
| Japan | 6.9 | 12.4 | -26.0 | -0.6 | 12.7 | 19.5 | 10.9 | 6.9 | 14.3 | -4.9 | -4.1 |
| South Korea | 6.8 | 32.8 | -15.5 | 14.5 | 28.5 | 13.2 | 18.1 | 14.7 | 19.9 | 9.9 | -2.9 |
| Hong Kong | 3.7 | 113.2 | 61.2 | 64.1 | 33.4 | -1.7 | N.A. | ^45.8 | ^13.1 | 76.9 | 46.1 |

Note: Data on European Union (EU) refers to EU 27, instead of EU 28, to accommodate Brexit.

*Vietnam's exports by destinations in Jun 2021 and 2Q 2021 are preliminary estimates based on YTD figures provided, and only available for US, EU 27, China, ASEAN, Japan & South Korea. ^Number refers to actual exports growth in 5M2021 and Apr/May-21 respectively.

Source: General Statistics Office, Vietnam Customs Office, CEIC, MKE estimates

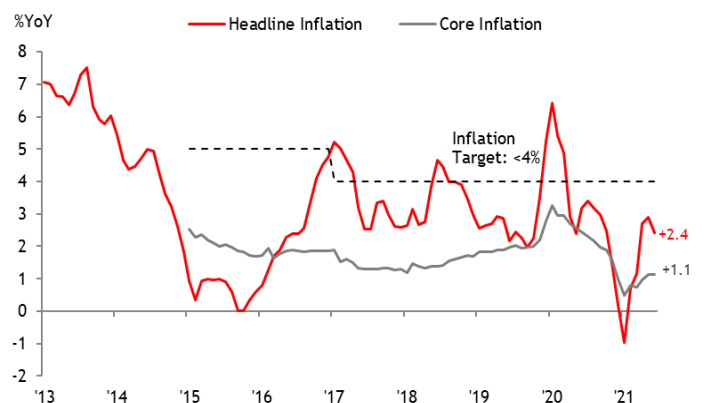
Table 5: Consumer Price Index (CPI, 2019=100)

| %YoY | Weight (%) | Jan-21 | Feb-21 | Mar-21 | Apr-21 | May-21 | Jun-21 | 6M21 | 2Q21 | 1Q21 | 2020 |
|---------------------------------|------------|--------|--------|--------|--------|--------|--------|------|------|------|-------|
| CPI-All Items | 100.0 | -1.0 | 0.7 | 1.2 | 2.7 | 2.9 | 2.4 | 1.5 | 2.7 | 0.3 | 3.2 |
| Food/Foodstuffs | 33.6 | 1.0 | 2.4 | 1.3 | 0.5 | 0.2 | -0.3 | 0.9 | 0.1 | 1.6 | 10.0 |
| Food | 3.7 | 6.1 | 7.6 | 6.5 | 4.3 | 4.3 | 4.4 | 5.5 | 4.3 | 6.7 | 4.5 |
| Foodstuff | 21.3 | -0.3 | 1.6 | 0.2 | -0.7 | -1.1 | -2.0 | -0.4 | -1.3 | 0.5 | 12.3 |
| Dining Out | 8.6 | 2.2 | 2.2 | 1.9 | 2.0 | 2.0 | 1.9 | 2.0 | 2.0 | 2.1 | 7.2 |
| Beverages/Tobacco | 2.7 | 0.8 | 2.0 | 1.7 | 1.7 | 1.6 | 1.6 | 1.6 | 1.6 | 1.5 | 1.5 |
| Garments/Footwear/Hats | 5.7 | 0.5 | 0.9 | 0.8 | 1.0 | 1.0 | 1.0 | 0.9 | 1.0 | 0.7 | 0.8 |
| *Housing/Construction Materials | 18.8 | -3.6 | 0.3 | 0.8 | 2.8 | 2.9 | 4.0 | 1.2 | 3.2 | -0.8 | 1.8 |
| Household Equipment/Appliances | 6.7 | 0.5 | 0.6 | 0.5 | 0.5 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 1.1 |
| Health & Personal Care | 5.4 | 0.4 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.3 | 2.2 |
| Transport | 9.7 | -10.3 | -6.6 | 0.5 | 17.7 | 21.2 | 15.5 | 5.6 | 18.1 | -5.6 | -11.2 |
| Post & Telecom | 3.1 | -0.6 | -0.5 | -0.6 | -0.7 | -0.9 | -0.8 | -0.7 | -0.8 | -0.6 | -0.6 |
| Education | 6.2 | 4.1 | 4.1 | 4.0 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 | 4.1 |
| Culture/Entertainment/Tourism | 4.6 | -2.6 | -2.1 | -0.7 | -0.4 | -0.6 | -0.7 | -1.2 | -0.6 | -1.8 | -1.2 |
| Others | 3.5 | 1.4 | 2.0 | 1.6 | 1.8 | 1.7 | 1.6 | 1.7 | 1.7 | 1.7 | 2.9 |
| Core Inflation | - | 0.5 | 0.8 | 0.7 | 1.0 | 1.1 | 1.1 | 0.9 | 1.1 | 0.7 | 2.3 |

*Note: Housing/construction materials include rent, electricity, water, fuel and construction materials costs

Source: CEIC

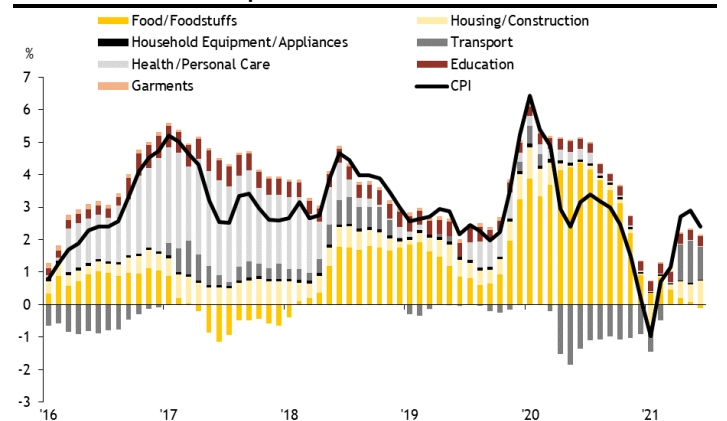
Fig 7: Headline CPI Eased to +2.4% in Jun (vs. +2.9% in May), While Core Inflation Held Steady at +1.1%



Note: Data for core inflation only available from 2015 onwards.

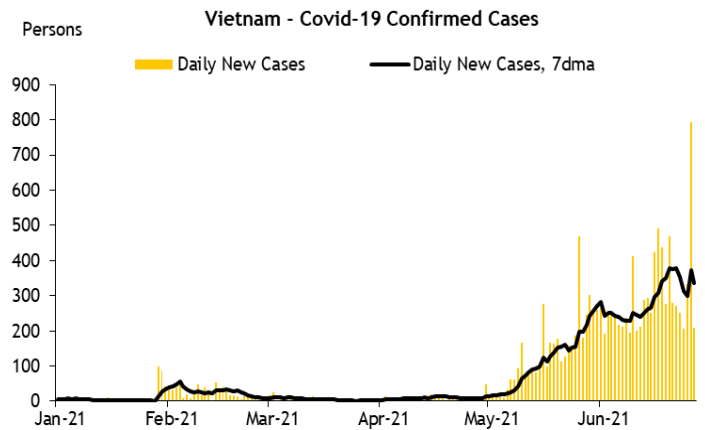
Source: CEIC

Fig 8: Headline Inflation (+2.4% vs. +2.9% in Apr) Eased as Food Prices Fell and Transport Inflation Softened



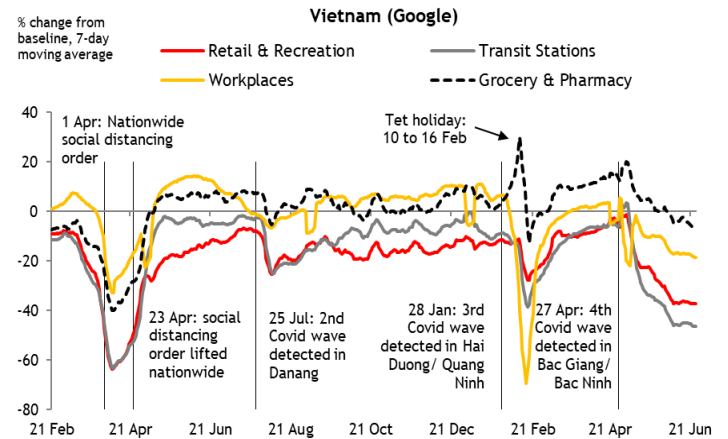
Source: CEIC

Fig 9: Vietnam Faces A More Severe “Fourth Wave” Outbreak As 7-Day Average New Covid Cases Continues to Climb



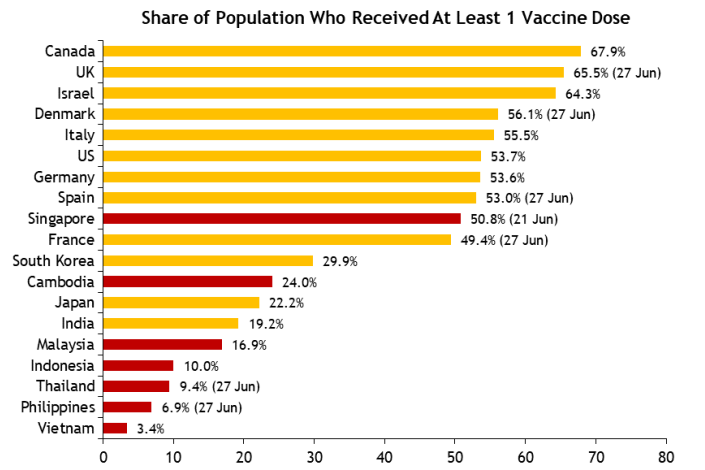
Note: Latest datapoint as of 28 Jun 2021.
Source: WHO, CEIC

Fig 10: Movements to Retail & Recreation Venues Had Fallen to 37% Below Pre Covid Levels as Fourth Wave Hits



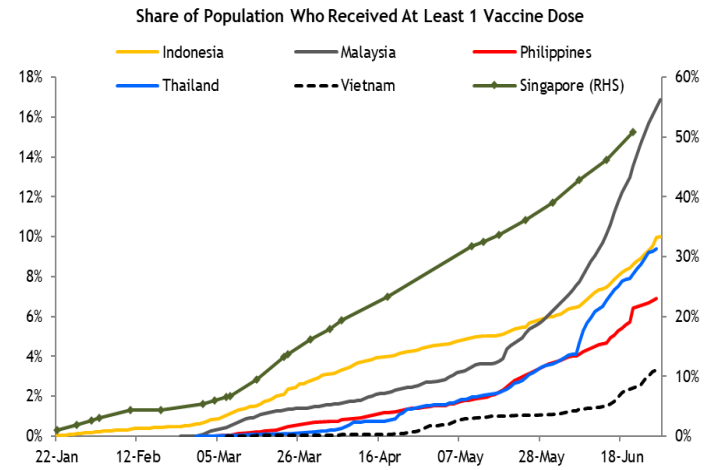
Note: Latest datapoint as of 25 Jun 2021.
Source: Google Covid 19 Community Mobility Reports

Fig 11: Vietnam Lags in Vaccine Rollout, With Only 3.4% of Population Received At Least One Dose of Covid-19 Vaccine



Note: Updated as of 28 Jun 2021 unless otherwise stated in the parenthesis.
Source: Our World in Data

Fig 12: Vietnam’s Vaccination Pace Picking Up Since Early June



Note: Updated as of 28 Jun 2021.
Source: Our World in Data

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