Vietnam Economics

Green Shoots of Recovery; Raise 2023 GDP Forecast to +4.8%

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Highest GDP Growth Since 4Q22, As Manufacturing Brightens

Real GDP (+5.3% vs. +4.1% in 2Q) improved in the third quarter, fuelled by a brighter manufacturing sector (+5.6% vs. +0.6% in 2Q). Manufacturing growth was the strongest since 3Q22, underpinned by improving exports. Construction (+8% vs. +7.7%) remained robust on the back of public infrastructure spending.

Services (+6.2%) held steady, led by arts, entertainment & recreation (+11.7%), transportation & storage (+9.7%), accommodation & food services (+8.8%) and wholesale, retail sales & motor vehicles (+8.2%), largely due to a pickup in tourism. Real estate (-1%) contracted for the third straight month due to weak homebuyer demand and bond refinancing woes faced by developers.

From an expenditure perspective, 3Q GDP was led by +6.6% growth in gross capital formation, consistent with the pickup in FDI and public infrastructure investment. Final consumption rose +3.8% from a year ago, contributing 40.6% to overall GDP growth. Net exports of goods & services contributed 14.5% to total growth with higher exports (+2.3%) and imports (+1.4%).

Highest IP Growth Since Oct 2022; Significant Pickups in Export-Oriented Segments

Industrial production growth accelerated to +5.1% YoY in Sep (vs. +2.6% in Aug), although the index rose only +0.1% from the previous month (vs. +2.9% in Aug). This marks the 5th consecutive month of IP growth, and the highest since Oct 2022 (not counting Feb, which reflected post-Tet resumption).

A pickup in manufacturing (+5.9% vs. + 3.5% in Aug) and electricity & gas (+7.9% vs. +3.7% in Aug) supported industrial production. On a year-ago basis, there were significant pickups in export-oriented segments including wearing apparel (+13.9% vs. +1.7% in Aug), footwear (+4.7% vs. -1.4% in Aug) and computer, electronic & optical products (+7.5% vs. -0.3% in Aug). Output of computer, electronic & optical products was boosted by a turnaround in communication equipment (+9.9%) after nine straight months of decline.

A gradual pickup in employment at industrial firms suggests better prospects ahead, with headcount rising by +0.9% MoM as of 1 Sep (vs. +0.9% as of 1 Aug). Industrial employment remains -1.9% lower than a year ago, an improvement from -2.9% in Aug.

Exports See Green Shoots of Recovery

Exports (+4.6% vs. -6.5% in Aug) returned to growth in September for the first time since Oct 2022 (not counting Feb), helped by a low base. On a month-on-month basis, exports saw a seasonal decline (-4.1% vs. +9% in Aug), after four consecutive months of growth.

In year-on-year terms, growth was led by textiles & garments (+9.6% vs. -14.1% in Aug), telephones & components (+3% vs. -15.5% in Aug) and computers & electronics (+1.1% vs. +6.4% in Aug). Phone exports are at an 11-month high in value terms, while computers & electronics are near their highest since March 2022. Slimmer inventories at American clothing retailers could be supporting exports. Abercombie & Fitch said in its late-Aug earnings report that it had reduced inventory by ~30% YoY, while G-III Apparel (owner of DKNY and Karl Lagerfeld) said it cut inventories by 23%. However, retailers are expecting slower holiday sales, which may constrain the recovery of garment exports.

Exports of some major products including footwear (-16.5%), machinery, equipment & tools (-9.5%) and seafood (-0.8%) remain in the red.

By destination, exports to US (+7.6% vs. -9.4% in Aug), ASEAN (+16.7% vs. -0.3% in Aug) and Japan (+2.2%) rebounded in Sep after multi-month declines. Exports to China (+4.6%) grew for the fifth straight month. Shipments to the EU (-1.6%) continued to fall, in line with the weak economy. It should be noted that trade data is preliminary, and may be subject to revisions in the following month.

The trade balance narrowed to +$2.3bn (vs. $3.4bn in Aug), with imports (+2.6%) snapping ten consecutive months of contraction. The current account surplus widened to 7.6% of GDP ($7.9bn) in 2Q (vs. 4.4% in 1Q). Balance of payments rose to 2.9% of GDP in 2Q (vs. 1.6% in 1Q), supported by the improving current account and higher FDI inflows. With a robust trade surplus and the FDI upturn, the balance of payments should remain in a comfortable surplus for the remainder of the year, supporting the VND.

Year-to-Date Realized FDI Hits 5-Year High

Realized FDI over Jan-Sep rose +2.2% from a year ago to hit $15.9bn, a 5-year high. FDI registrations surged +7.7% YoY over the first 9 months, as the manufacturing sector (+15.5%) continues to benefit from the supply chain diversification.

Registered FDI from China and Hong Kong jumped +79% over the period. In terms of newly licensed investment projects (i.e. new registrations), China and Hong Kong have been the largest investor year-to-date, accounting for 35% of the total.

Realized state investment climbed +26.3% in Sep from a year. Total realized capital rose +23.5% YoY over the first 9 months to VND415.5tn ($17.1bn) as the government speeds up construction of transport infrastructure to improve connectivity and FDI competitiveness, as well as shore up domestic demand amid cyclical headwinds. Projects underway include remaining sections of the eastern North-South Expressway, ring roads of Hanoi and Ho Chi Minh City and expressways connecting Northwestern, Central Highlands, Southwestern and Mekong Delta regions.

Retail Sales Resilient Even As Households Tighten Belts and Tourist Arrivals Cool

Retail sales (+7.5% vs. +7.6% in Aug) remained resilient in September, with month-on-month growth picking up to +2.4% (vs. downward-revised +0.3% in Aug), the highest growth since April. The National Day holiday on 2nd Sep and start of the new academic year supported demand.

Year-on-year retail sales was led by travel (+45%) and accommodation & food services (+13.7%). Goods sales expanded by a robust +7.4% from a year ago, and +8.4% month-on-month. That said, our channel checks suggest that Vietnamese households are still tightening their belts amid the sluggish economy and high mortgage interest rates.

Borrowing costs currently stand at around 9%, lower than the double-digit rates in the first half but still significantly higher than pre-2022's ~7% rates. Bloomberg reported recently that households are cutting back on beer consumption – an affordable luxury – to prioritize essentials such food, healthcare and electricity[1].

September foreign visitor arrivals (1.05mn in Sep vs. 1.22mn in Aug) eased to 67.5% of pre-pandemic (Sep 2019) levels, compared to 80.5% in August. This was mainly due to fewer Chinese and South Korean tourists, following the end of summer school holidays. Arrivals from China fell -18.7% in Sep to 28.5% of pre-pandemic levels (vs. 44% in Aug) or 172.7k, the lowest since June. Arrivals from South Korea eased to 91.5% of pre-pandemic levels (vs. 96.2% in Aug).

Visitor arrivals should pick up again in October with China's Golden Week holiday. China remains Vietnam's second largest source of tourists behind South Korea, having surpassed the USA in May.

Inflation Pickup Driven by End of Transport Deflation and Higher Food Inflation

Headline inflation (+3.7% vs. +3% in Aug) climbed for the third straight month in Sep, even as core inflation (+3.8% vs. +4% in Aug) remained on a downtrend. In month-on-month terms, headline CPI rose

[1] Bloomberg, "Falling Beer Sales Show Growing Risk for Vietnam's GDP", 29 Sep 2023.

+1.1% in Sep, the highest since Feb 2021. In contrast, core CPI[2] increased at a more benign rate of +0.3%.

The pickup in inflation was driven by the end of transport deflation and higher food inflation. After seven months of transport deflation, transport costs rose +3.2% from a year ago (vs. -0.3% in Aug) and picked up +1.2% from the previous month as higher global oil prices led to an increase in gasoline costs.

Food & food services (+2.9% vs. +2.3% in Aug) rose +0.7% from the previous month, mainly due to higher rice prices and their impact on other processed food products and grains, such as potatoes, vermicelli and pho. Dining out costs (+4%) saw a slight uptick, as higher ingredient costs were passed on.

Education costs (+7.2% vs. +5% in Aug) rose +8.1% month-on-month, as several localities and educational institutions raised tuition fees at the start of the 2023-2024 school year. Housing & construction (+7.3% vs. +7.1% in Aug) rose +1.1% from the previous month, mainly due to a +8% hike in gas prices.

Raise 2023 GDP and Inflation Forecasts; Expect SBV to Stand Pat

We raise our 2023 GDP forecast to +4.8% (vs. +4% previously). Growth should strengthen further in the fourth quarter, supported by a moderate recovery in exports, public infrastructure spending, FDI upswing and tourism rebound.

We are optimistic that a modest export recovery can be sustained in the months ahead, flattered by a low base. Higher production capacity arising from FDI inflows, an inventory rundown in developed markets, stabilizing global electronics demand and a gradual pickup in shipments ahead of year-end shopping season are factors that could boost export recovery.

We raise our 2023 inflation forecast to +3.4% (vs. +2.8% previously). Headline inflation will likely stay elevated in the fourth quarter, pressured by rising transport costs and the El Nino weather phenomenon, which may raise food prices.

Our base case is for SBV to stand pat on policy rates, as FX pressure constrains the central bank from cutting further. The dong has depreciated alongside other Asian currencies, as surging US yields boost the US dollar. The SBV has been issuing 28-day bills to absorb excess liquidity in the banking system and lift interbank rates, aimed at narrowing the interest rate differential vis-à-vis US.

We do not expect a repeat of last September, when the SBV was compelled to hike rates amid FX pressure. Hiking interest rates would risk derailing the economic recovery, a top priority of policymakers. Rising inflation is unlikely to be a major concern, given that inflation remains on track to come in well below SBV's 4.5% target for the full year. Instead, there remains pressure from the government to cut policy rates further, in a bid to push GDP growth closer to its 6.5% target.

Table 1: Vietnam - Key Macroeconomic Indicators

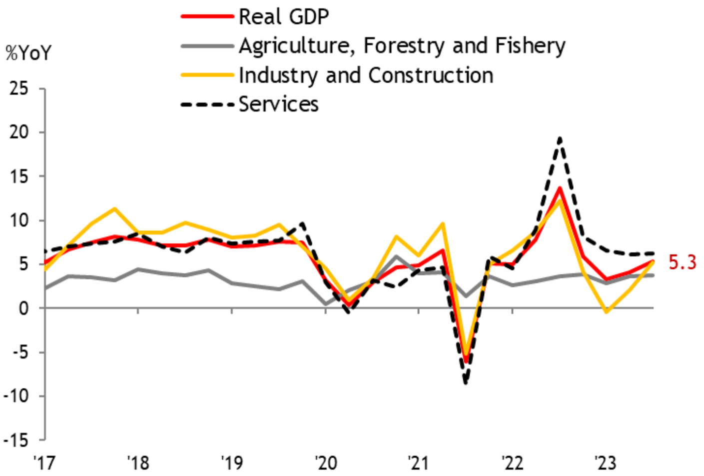
	2019	2020	2021	2022	2023E	2024E
Real GDP (%)	7.4	2.9	2.6	8.0	4.8	6.0
Private Consumption (%)	7.0	0.4	2.0	7.8	3.1	5.3
Government Consumption (%)	5.4	1.2	4.7	3.6	5.8	5.6
Gross Fixed Capital Formation (%)	7.7	4.1	3.7	6.0	5.3	7.2
Exports of Goods & Services (%)	6.2	4.1	14.0	4.9	-2.6	5.8
Imports of Goods & Services (%)	4.9	3.3	16.2	2.2	-3.3	5.7
*Current Account Balance (% of GDP)	3.6	4.3	(2.1)	(0.3)	3.5	3.5
*Fiscal Balance (% of GDP)	(2.1)	(2.7)	(2.5)	2.4	(4.6)	(4.5)
Inflation Rate (%)	2.8	3.2	1.8	3.1	3.4	3.5
Unemployment Rate (%)	2.2	2.5	3.0	2.3	2.3	2.2
Exchange Rate (per USD, end-period)	23,173	23,098	22,826	23,633	23,800	23,000
Benchmark Interest Rate (% p.a., end-period)	6.00	4.00	4.00	6.00	4.50	4.50

**Vietnam started using new nominal GDP series in 2021.*

Source: CEIC, Maybank IBG Research

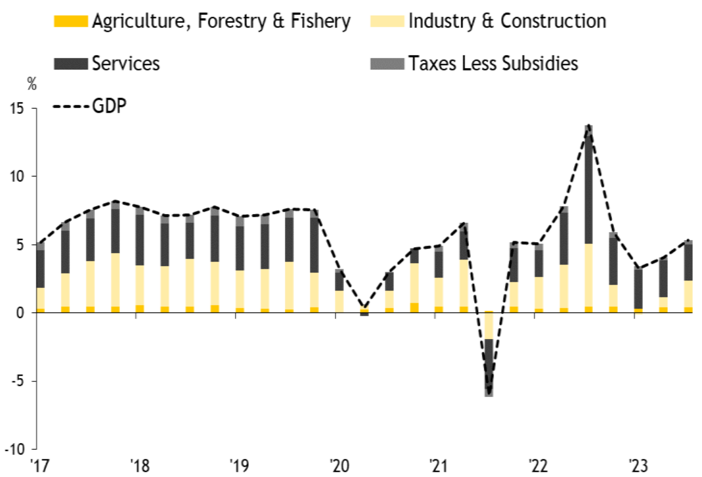
[2] Core CPI excludes food (excl. dining out), energy and state-managed goods including health services and education.

Fig 1: 3Q GDP Picked Up to 5.3%, As Industry & Construction Boosted By Improvement in Manufacturing Growth



Source: General Statistics Office, CEIC

Fig 2:, Industry & Construction and Services Contributed The Most to GDP Growth



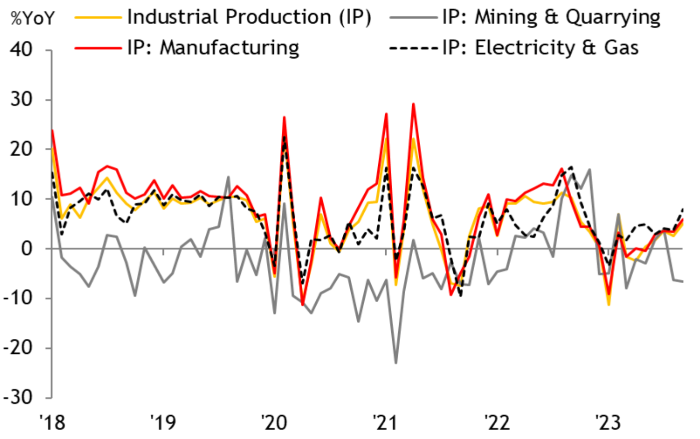
Source: General Statistics Office, CEIC

Table 2: Vietnam GDP Growth by Sectors

	2020	2021	2022	3Q22	4Q22	1Q23	2Q23	3Q23
Real GDP	**2.9**	**2.6**	**8.0**	**13.7**	**5.9**	**3.3**	**4.1**	**5.3**
Agriculture, Forestry & Fishery	**3.0**	**3.3**	**3.4**	**3.7**	**3.9**	**2.9**	**3.7**	**3.7**
Industry & Construction	**4.4**	**3.6**	**7.8**	**12.2**	**4.2**	**-0.4**	**2.1**	**5.2**
Mining and Quarrying	-6.7	-7.8	5.2	6.4	7.9	-4.1	0.8	-6.0
Manufacturing	5.0	6.1	8.1	11.6	3.0	-0.5	0.6	5.6
Electricity & Gas	6.9	5.7	7.1	11.6	4.5	-0.2	2.6	6.0
Construction	7.1	-0.3	8.2	17.5	6.7	1.9	7.7	8.0
Services	**2.0**	**1.6**	**10.0**	**19.3**	**8.1**	**6.6**	**6.2**	**6.2**
Wholesale, Retail Sales & Motor Vehicles	5.8	0.5	10.2	24.9	6.8	8.0	8.0	8.2
Transportation & Storage	1.1	-3.1	11.9	27.3	6.9	6.7	9.6	9.7
Accommodation & Food	-21.1	-20.2	40.6	172.3	37.6	22.9	8.8	8.8
Information & Communication	6.5	5.1	7.8	9.8	7.6	1.3	3.9	2.8
Financial, Banking & Insurance	7.5	9.5	9.0	9.3	8.5	7.8	6.1	6.8
Real Estate	0.9	0.1	5.9	11.8	4.4	-0.7	-1.1	-1.0
Professional, Scientific & Tech	6.3	5.4	6.2	6.3	6.1	6.7	5.8	6.4
Education & Training	6.1	3.4	5.7	6.0	6.2	3.9	4.6	4.5
Health & Social Work Activities	10.4	41.0	-7.6	-17.8	-18.5	-0.9	1.6	2.8
Arts, Entertainment & Recreation	-1.5	-8.9	16.7	28.4	20.9	12.7	9.7	11.7
Other Service Activities	-7.5	-9.2	19.2	55.1	23.6	11.5	9.7	10.6

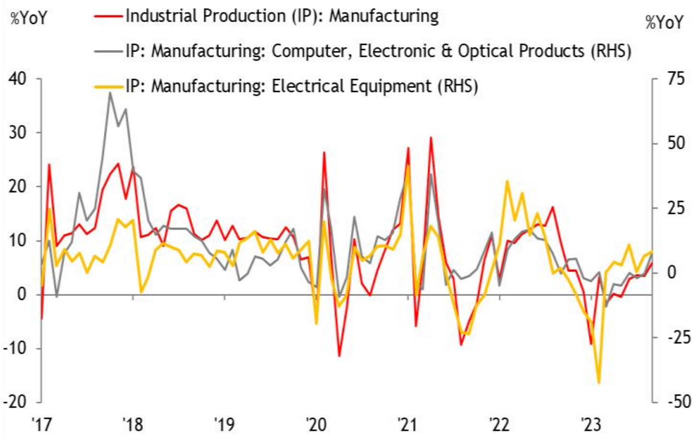
Source: General Statistics Office, CEIC, Maybank IBG Research

Fig 3: Sep IP Growth (+5.1%) Accelerated to 7-Month High in Sep, Mainly on Improvement in Manufacturing (+5.9%)



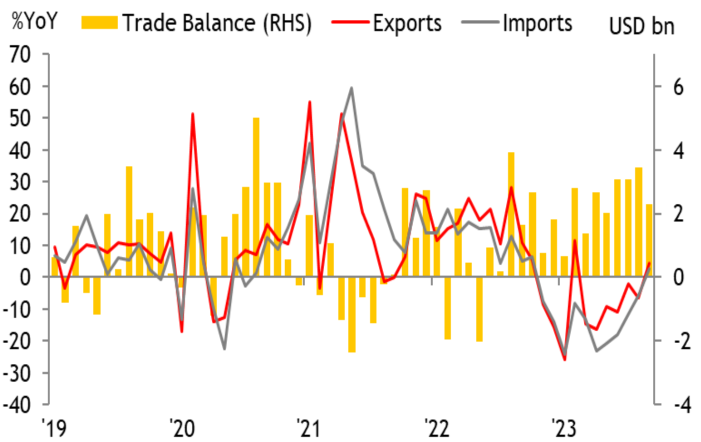
Source: General Statistics Office, CEIC

Fig 4: Mfg IP Boosted by Pickups in Computer, Electronic & Optical Products (+7.3%) and Electrical Equipment (+8.4%)



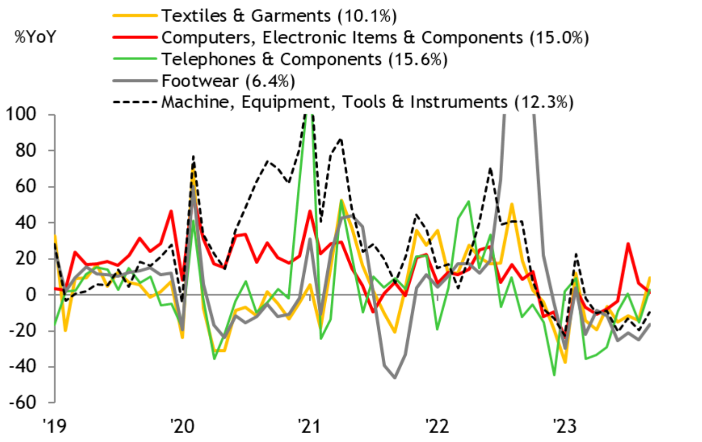
Source: General Statistics Office, CEIC

Fig 5: Both Exports (+4.6%) & Imports (+2.6%) Rebounded Notably in Sep, First Expansion since Early 2023



Source: CEIC

Fig 6: Positive Export Growth Was Driven by Rebound in Textiles & Garments and Telephones & Components



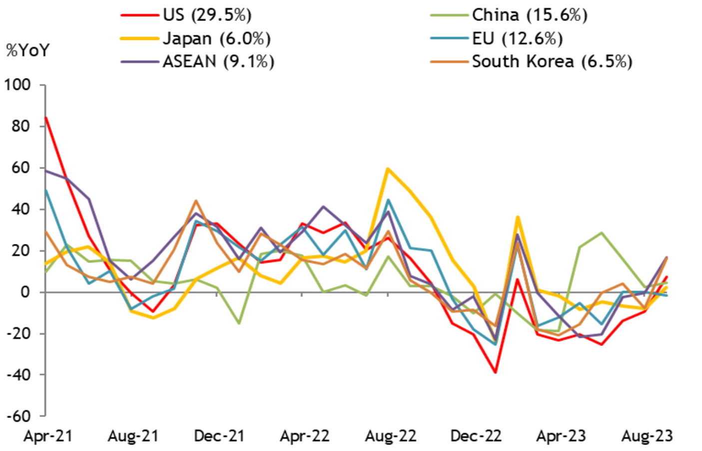
Note: Numbers in brackets refer to share of total exports in 2022.
Source: CEIC

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

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23
Exports	**-16.2**	**-9.1**	**-11.0**	**-2.2**	**-6.5**	**4.6**
Telephones & Components (15.6%)	-33.4	-28.9	-8.8	0.9	-15.5	3.0
Computers, Electronic Items & Components (15.0%)	-10.5	-7.8	-3.5	28.4	6.4	1.1
Textiles & Garments (10.1%)	-19.5	-6.4	-15.1	-11.6	-14.1	9.6
Machine, Equipment, Tools & Instruments (12.3%)	-10.0	-8.8	-20.5	-13.3	-19.6	-9.5
Footwear (6.4%)	-8.6	-11.8	-25.4	-21.3	-25.1	-16.5
Wood and Wooden Products (4.3%)	-32.2	-24.6	-23.3	-14.9	-9.4	6.7
Transport equipment (3.2%)	23.9	20.0	24.1	16.9	12.0	24.1
Fishery Products (3%)	-33.7	-23.0	-23.4	-17.3	-13.0	-0.8
Iron & steels (2.2%)	-19.6	16.7	-8.1	14.7	54.2	29.5
Still image, video cameras items (1.7%)	-0.8	10.6	7.6	2.4	9.8	30.6
Imports	**-23.1**	**-20.8**	**-18.0**	**-11.6**	**-5.8**	**2.6**
Trade Balance (US$ mn)	**2,657**	**2,005**	**3,087**	**3,067**	**3,439**	**2,290**

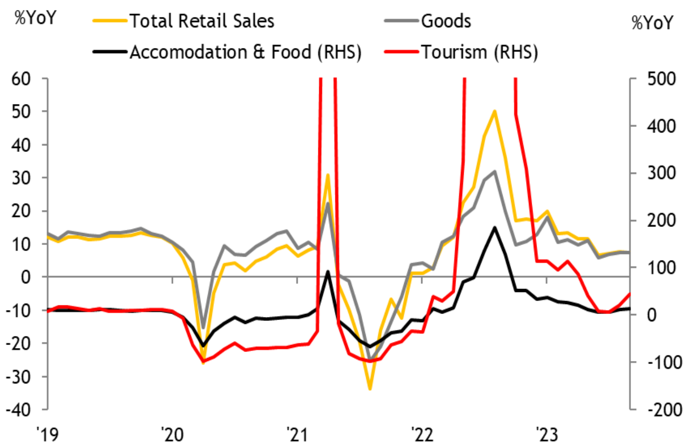
Note: Numbers in brackets refer to share of total exports in 2022.
Source: CEIC

Fig 7: Prelim Data Showed Exports to US, China & ASEAN Picked Up in Sep While EU Remained in Slump



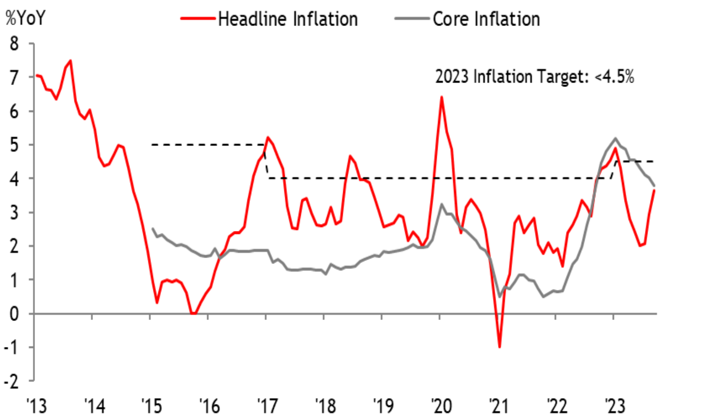
Note: Numbers in brackets refer to share of total exports in 2022.
Source: General Statistics Office

Fig 8: Sep Retail Sales (+7.5%) Growth Robust on the Back of Strong Tourism & Accommodation & Food Sales



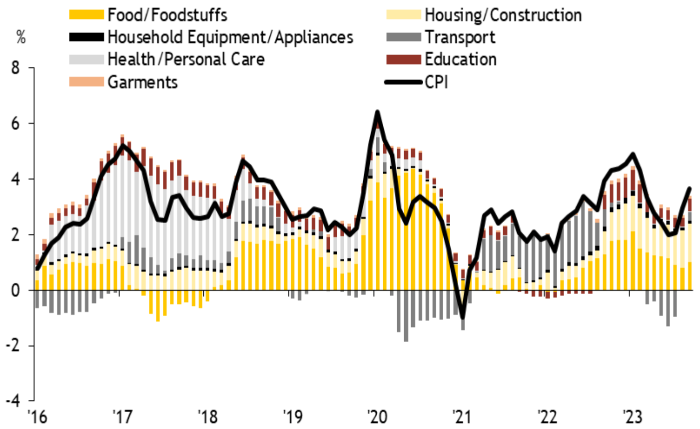
Source: CEIC

Fig 9: Headline Inflation (+3.7%) Re-Accelerated in Sep but Core Inflation (+3.8%) Continued to Cool



Source: CEIC

Fig 10: CPI Uptick Driven by Food & Transport



Source: CEIC

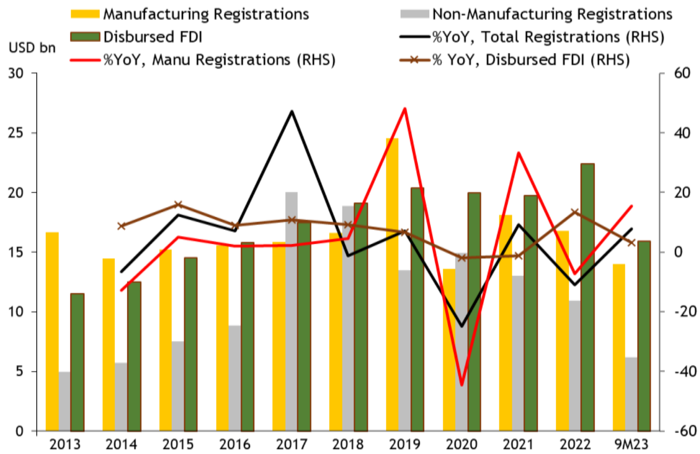
Table 4: Consumer Price Index (CPI, 2019=100)

%YoY	Weight (%)	2022	1Q23	2Q23	3Q23	Jul-23	Aug-23	Sep-23
CPI-All Items	**100**	**3.2**	**4.2**	**2.4**	**2.9**	**2.1**	**3.0**	**3.7**
Food/Foodstuffs	33.6	2.6	4.8	3.5	2.6	2.6	2.3	2.9
Food	3.7	2.4	3.7	3.8	7.1	3.8	7.0	10.5
Foodstuff	21.3	1.6	4.4	2.8	1.3	1.8	0.9	1.2
Dining Out	8.6	5.0	6.1	5.2	3.9	4.0	3.8	4.0
Beverages/Tobacco	2.7	3.2	4.0	3.4	3.1	3.0	3.1	3.0
Garments/Footwear/Hats	5.7	1.6	2.7	2.2	2.0	2.0	2.0	2.1
*Housing/Construction Materials	18.8	3.1	7.2	6.0	7.0	6.5	7.1	7.3
Household Equipment/ Appliances	6.7	2.0	2.8	2.2	1.9	1.9	1.8	1.8
Health & Personal Care	5.4	0.4	0.6	0.6	0.6	0.6	0.5	0.6
Transport	9.7	11.3	-1.7	-8.4	-2.3	-9.3	-0.3	3.2
Post & Telecom	3.1	-0.4	-0.3	-0.5	-1.1	-0.9	-1.1	-1.3
Education	6.2	1.8	10.1	5.8	6.0	5.6	5.0	7.2
Culture/Entertainment/ Tourism	4.6	3.1	4.9	2.6	1.5	1.7	1.3	1.4
Others	3.5	2.4	3.3	3.4	5.9	5.9	5.9	5.9
Core Inflation	-	**2.4**	**5.0**	**4.8**	**4.0**	**4.1**	**4.0**	**3.8**

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

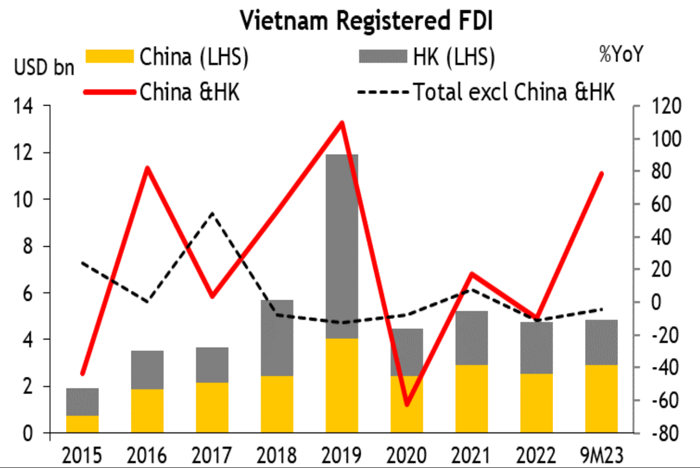
Source: CEIC

Fig 11: Total Registered FDI Rose +7.7% YoY in First 9 Months as Manufacturing Registrations Surged +15.5%



Source: CEIC

Fig 12: Registered FDI from China & Hong Kong Has Been Soaring in 2023, Rose 78.7% in First 9 Months



Source: CEIC

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