

**Global Markets Research**
**Economics - Vietnam**

## Vietnam GDP growth moderated

Vietnam GDP grew 6.7% YOY in 2Q19, slightly moderating from the 6.8% YOY in 1Q but nonetheless still a solid rate of growth and would no doubt be among the fastest recorded in the South East Asian region. For the first half of 2019, GDP growth also came in softer at 6.8% YOY compared to the same period last year, a result of a broad-based slowdown across all industries. Notably, exports regained some strength in June after a lackluster first quarter, industrial output moderated slightly while retail sales appeared solid, reflecting strong domestic demand. Overall data confirm the Vietnamese economy's still-solid growth trajectory despite the rate of expansion had moderated somewhat in the latest quarter, which in our view was in line with the synchronized slowdown in the global economy in general. Vietnam was among the winners from the ongoing US-China trade row which saw firms shifting production from the Mainland to its smaller neighbouring competitor. While just yesterday, the US Commerce Department announced that it would slap duties of more than 400% on steel imports from Vietnam to counter Korean and Taiwanese firms' circumvention of US anti-dumping and anti-subsidies duties, but we are yet to see how this latest development would pan out. Looking ahead, we expect Vietnam's economic growth to continue riding on a strong domestic demand and solid manufacturing sector judging from its cheaper production cost compared to its Chinese counterpart meaning that the economy is on track to achieve its 6.8% GDP growth target this year.

*GDP growth came in slower in 2Q, but economy appeared solid.*

The Vietnam economy expanded by 6.7% YOY in the second quarter of 2019 (1Q: +6.8%), its slowest pace in two years. For the first half of 2019, real GDP grew by 6.8% YOY, softer than the 7.1% growth rate observed in the same period last year.

Output in all key sectors appeared to have recorded softer gains pointing to a broad-based slow down across all industries. The primary industry comprising of agriculture, forestry and fishery output increased 2.4% YOY in 1H2019 (1H18: +3.9%). The secondary sector made up of industrial and construction output rose at a slower pace of 8.9% YOY (1H18: +9.1%) of which the rebound in mining output (+1.8% vs -1.3%) was offset by the softer manufacturing production (+11.2% vs +13.02%) as well as electricity & gas (+10.6% vs +10.2%). Growth in the construction sector was flattish at 7.9% YOY. The services sector also pulled back to expand at 6.7% YOY (1H18: +6.9%) on the back of a slower growth in wholesale, retail and auto services as well as science & technology.

*External trade regained strength in June after lacklustre first quarter*

Exports growth regained strength in June, recording a quicker pace of 8.5% YOY (May: +7.5%). Exports growth had been lacklustre since late 2018 and in the first quarter mainly because of the unfavourably high base in the same period last year. Nonetheless, so far for 2019, exports growth remained far from the impressive 14-31% rates seen in 2017. June upturn was attributed to the faster gain in shipments of petroleum, chemical products as well, footwear, transport equipment as well as electronics and computer.

Imports on the other hand also posted a faster growth of 10.0% YOY in June (May: +8.3%) but again, remained comparatively low versus the hefty double digit pace seen in most of 2018 and throughout 2017. Higher purchases of medicine, fabrics, footwear materials, electronics & computer, machinery parts, auto vehicles and motorbikes were the key driver behind June's quicker imports growth.

*IPI growth pulled back in June due to broad-based slowdown.*

Industrial productions growth pulled back to increase 9.6% YOY in June (May: +10.0%) due to a broad-based slowdown across main industries save for mining & quarrying which had managed to turn around by a huge margin (+4.0% vs -1.5%). Gains in output of

manufacturing (+10.6% vs +11.6%), electricity (+8.6% vs +11.0%) and water supply (+6.0% vs +8.4%) all moderated in June.

*Resilient retail sector displayed consistent growth*

The retail sector appeared resilient as retail sales ticked up by 11.5% YOY for the first six months of 2019 (1H2018: +10.7%), faster than that of the same period last year. Retail sales in trade (+12.5%), hotel & restaurants (+9.8%), tourism (+13.3%) as well as services (+6.3%) continued to register solid pace of growth, reflecting strong domestic demand and the country's status as one of South East Asia's favourite tourist spots.

*Inflation moderated on the back of lower fuel prices*

Last but not least, inflation moderated considerably in June as consumer price index (CPI) posted a 0.1% MOM decline in June (May: +0.5%) and increased by a mere 2.2% YOY (May: +2.9%). The continuous slowdown in prices of food (+2.4% vs +3.4%), housing & construction materials (+3.3% vs +4.2%) and notably the decline in cost of transports (-0.5% vs +2.3%) mainly because of lower fuel prices, served as the major drag on the headline index last month. Core CPI meanwhile managed to turn higher, edging up by 2.0% (May+1.9%).

*Economy still on track to achieve 6.8% growth target in 2019*

Overall data confirm the Vietnamese economy's still-solid growth trajectory despite the rate of expansion had moderated somewhat in the latest quarter which in our view was in line with the synchronized slowdown in the global economy in general. The 6.7% YOY growth in the second quarter would no doubt still be among the fastest recorded in South East Asia as the country appeared to benefit from the ongoing US-China trade row which saw firms shifting production from the Mainland to its smaller neighbouring competitor.

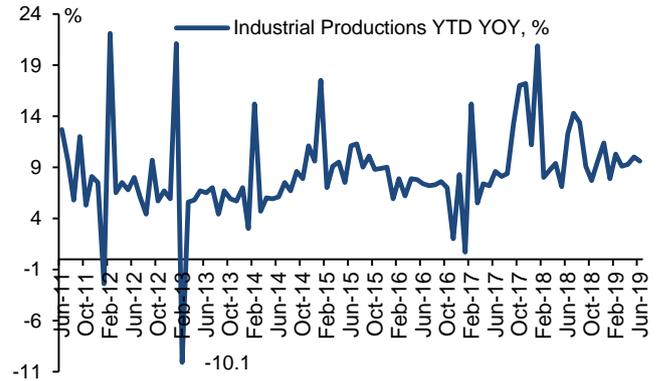
Just yesterday, Vietnam became the latest victim of the Trump Administration's protectionist policy as the US Commerce Department announced that it would slap duties of more than 400% on steel imports from Vietnam. These Vietnamese steels are said to originate from South Korea and Taiwan and are sent to Vietnam for minor processing before being shipped to the US in order to circumvent US anti-dumping and anti-subsidy duties. Looking ahead, barring from any unexpected escalation in US-Vietnam trade relations, we expect Vietnam's economic growth to continue riding on a strong domestic demand and solid manufacturing sector judging from its cheaper production cost compared to its Chinese counterpart meaning that the economy is on track to achieve its 6.8% GDP growth target this year.

Figure 1: GDP Growth (%YOY YTD)



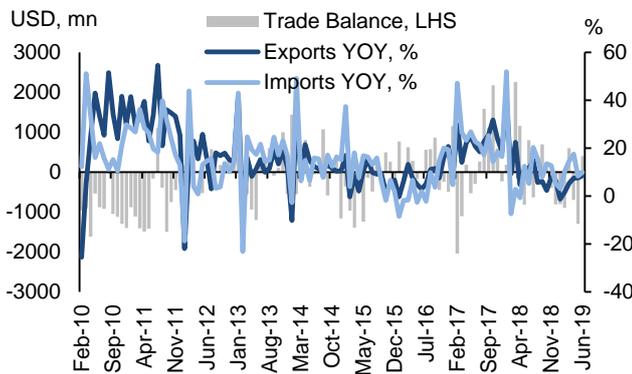
Source: Bloomberg

Figure 2: Industrial Production



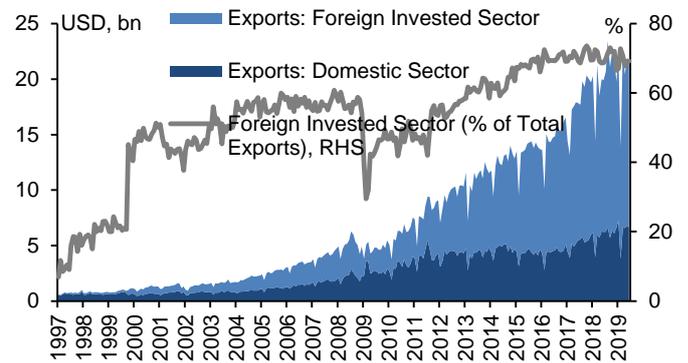
Source: Bloomberg

Figure 3: International Trade



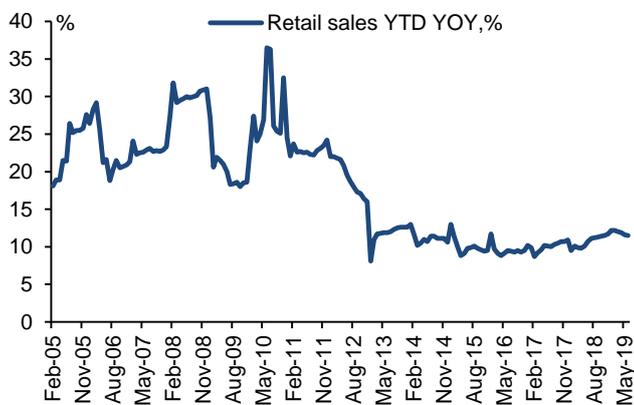
Source: Bloomberg

Figure 4: Exports (Foreign Invested vs Domestic Sector)



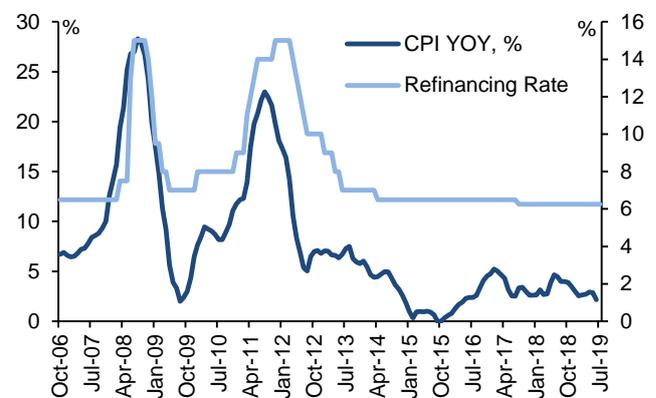
Source: CEIC

Figure 5: Retail Sales



Source: Bloomberg

Figure 6: CPI and SBV Refinancing Rate



Source: Bloomberg

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