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Global Markets Research

Research Alert

Vietnam: 2Q22 GDP growth surprised at 7.7%

Tourism and services-related activities boosted growth

Inflation surged to highest level in nearly two years

SBV may be reluctant to take policy rate above 4.0%

Background

Vietnam's second quarter GDP growth beat expectations, coming in at 7.7% y/y, versus the consensus forecast of 5.9%. This is an acceleration from 5.0% in the first quarter and was driven by the services sector revival as the number of Covid-19 cases fell substantially following the peaking of the Omicron wave in March. Services sector expanded by 6.6% in the first six months of 2022, compared to 4.0% in the same period last year, notably lifted by transports & warehouse, lodging services (which jumped over 11%), admin services as well as the arts & entertainment industry.

Manufacturing picked up 9.7% YTD, slowing from 11.4% in the past corresponding period, highlighting the slowdown in the global manufacturing sector amid extended supply chain constraint issues. Construction growth slowed to 3.7% YTD, down from 5.6% in 1H21. Note that the government did not release q/q comparison for sectoral output.

Retail sales outperformed in June

The accompanying higher frequency data all registered stronger than expected results in the month of June, as Covid cases fell and remained capped below 2200 on a daily basis. Industrial production came in slightly stronger at 11.5% y/y (May: +10.4%), led by manufacturing output and utilities. Exports surged 20.0% y/y (May: +16.4%) while imports also jumped 16.3% y/y (May: +12.9%).

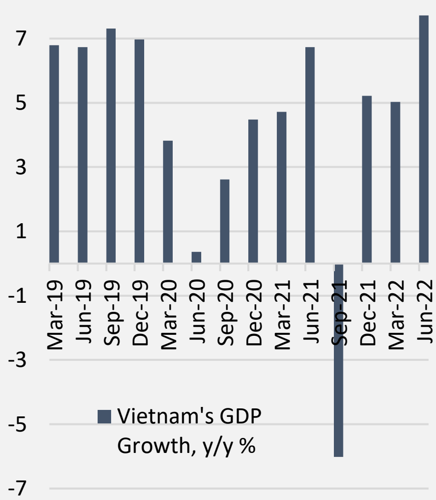
Retail sales rose 27.3% y/y in June (May: +22.6%), boosted by tourism revenue as well as that of hotel/restaurants and tourism. Concurrently, the CPI inflation climbed to 3.4% y/y, its strongest rate in almost two years (May: +2.9%), reflecting the increases in prices of food & beverages, transports, household appliances as well as culture, entertainment and sports. The core CPI rate picked up to near 2.0% y/y (May: +1.6%).

Tourism revival to support growth

Despite mounting global uncertainties surrounding the Ukraine-Russia war and possible recessions in a number of major developed countries, we maintain the view that the Vietnamese economy is still on track to record a faster pace of growth this year. Sustained growth (albeit some slowdown) in global manufacturing alongside a revival of the tourism sector are expected to underpin Vietnam growth this year and next.

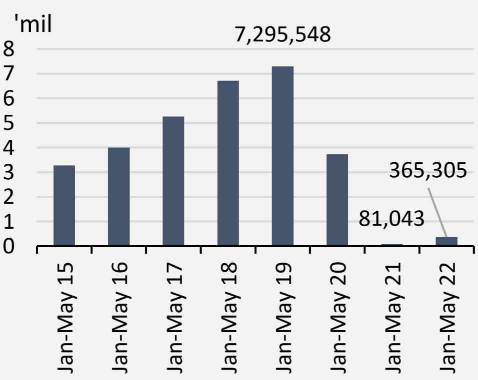
The government has opened the country's borders for international tourists since 15-March with the hope of reviving the tourism sector which contributed about 8-9% to GDP prior to the pandemic. The reopening alongside various promotional efforts such as tourism exhibitions and festivals helped raise visitor arrivals to 385k in the period of January to May this year, versus 81k last year. The figure remains far-fetched from the over-7 million tourist arrivals in the first five months of 2019, a year where arrivals hit a record high of 18 million. The government now hopes to reach 5 million tourist arrivals this year, but this may still prove to be a difficult target to reach given the

Figure 1: GDP growth accelerated



Source: Bloomberg

Figure 2: Tourism Arrivals picked up but remained low



lingering impact of the virus; the notion of emulating the pre-pandemic monthly arrivals of at least 1 million looks unrealistic.

Manufacturing held up but may face softer demand

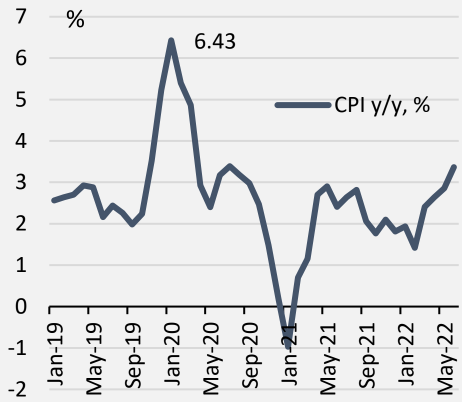
The May manufacturing PMI rose to a 1-year high of 54.7 and the survey reported the beneficial outcomes from the fading pandemic disruption although some restrictions related to China's Covid situation still affect exports demand and hence production. Nonetheless, the higher new orders and the general improvement in customer demand imply healthy appetites for Vietnam's manufacturing goods which in turn boosted employment and buying activity. On the flipside, the expected slowdown in global trade amid a rebalancing of demand from goods to services may not bode well for Vietnam's manufacturing. Despite the small exposure to Russia and Ukraine, the sector is not unshielded by the surging costs of raw materials and many key commodities, not to mention the widespread supply chain challenge. Higher oil prices will continue to drag up transportation and utility costs and erode profit margins.

SBV likely to keep key rate unchanged for now

Despite surging inflation, the State Bank of Vietnam (SBV) may remain reluctant to raise its benchmark refinancing rate above 4.0%, a level it has been keeping since October 2020 to ensure accommodative conditions for economic recovery. While inflation has been ticking up, it is still far off from the recent Jan 2020 peak of 6.4%. Instead, the government may look towards other policy measures to rein in higher prices, such as reducing petrol taxes. However, we do not rule out the possibility of a modest tightening (i.e., 25bp increase) at the end of the year to keep up with the tighter global monetary conditions while the domestic inflation continues to climb and the economy finds a stronger foothold.

Source: CEIC

Figure 3: Inflation still off the early 2020 peak



Source: Bloomberg

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