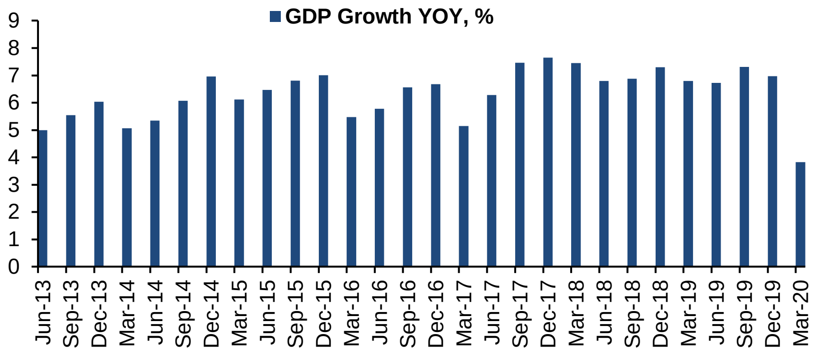
Global Markets Research

Economics - Vietnam

Weaker Growth Amid Covid-19 Pandemic

Vietnam GDP growth pulled back to a mere 3.8% YOY in the first quarter, as the global pandemic disrupted economy activity. Latest May indicators point to gradual recovery as the government lifted its social distancing order in the first week of May following its success in containing Covid-19 in the country. The government appears optimistic over its economic revival and has kept its 5.0% growth target for 2020 although manufacturing and services sectors are expected to remain battered by weak global demand and the curtailing of international travels. The SBV has also announced a second round of rate cuts in mid-May where the refinancing rate had been reduced from 5.0% to 4.5% to support growth.



GDP growth rate halved in 1Q

Despite being one of the fastest growing economies in the world, Vietnam did not escape the wrath of Covid-19 pandemic as real GDP expanded by a mere 3.82% YOY in the first quarter of 2020, retreating from the 7.1% YOY growth in 4Q19. In the same quarter last year, the economy had grown by 6.8% YOY. While most other economies had registered declines in GDP, Vietnam had managed to grow thanks to a resilient manufacturing industry in February and March that might have benefited from the temporary disruption in China when the pandemic was at its peak.

All sectors experienced steep pull-back in growth. Output in the primary industry comprising of agriculture, forestry and fishery output was virtually unchanged (+0.08%). The secondary industry (construction & manufacturing) grew 5.2% YOY, while services growth eased to 3.3%.

Exports tumbled in May, but likely to recover in June

In May, exports tumbled 15.5% YOY, compared to the same month a year ago. This follows a 3.5% decline in April exports. The effect of global pandemic intensified and was more fully felt across the usually robust international trade sector given that most countries implemented full lockdown in April. Exports may recover in June when economies started reopening partially in May. Imports were also particularly weak, falling as much as 15.9% YOY in May (Apr: -2.3%).

Strong recovery in industrial production, led by jump in manufacturing output

However conditions appeared to be improving on the domestic front given Vietnam's huge success in containing the virus infection. Total cases in Vietnam stood at 327 as of 28 May and there had been no local transmission since 16 April. This could be seen in the strong recovery in May industrial production (+11.2% MOM vs -13.3% MOM), led by jump in manufacturing output (+12.8% MOM) and utilities (+13.7%). This translates into a much smaller annual decline of 3.1% YOY in May, compared to -10.5% YOY recorded in April.

Retail sector faltered as visitors arrivals halved.

On the retail front, retail sales for the first five months of 2020 fell 3.9% YOY compared to the same period last year. Retail sales had consistently registered above 10% prior to the pandemic. This reflects the fall in sales at hotel/restaurants (-25.8%), tourism (-54.1%) and services (-11.8%). With international travelling coming to a standstill, the number of international visitors totaled more than 3.7mil for the first five months of 2020, this represents nearly 49% decline in arrivals compared to the same period last year.

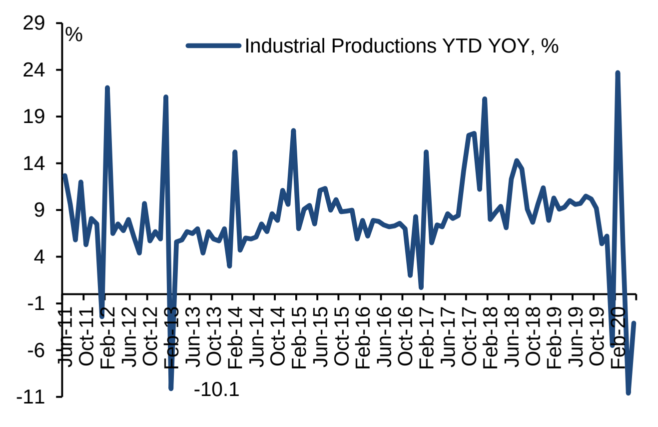
Inflation dragged down by falling transportation cost

Last but not least, CPI inflation eased to 2.4% YOY in May, from the 2.93% increase in April, its slowest rate in eight months, led mainly the fall in transportation cost (-23.4% YOY) alongside weaker global crude oil prices. Core inflation also pulled back to 2.5% in May, compared to 2.7% YOY prior.

5% growth target unchanged

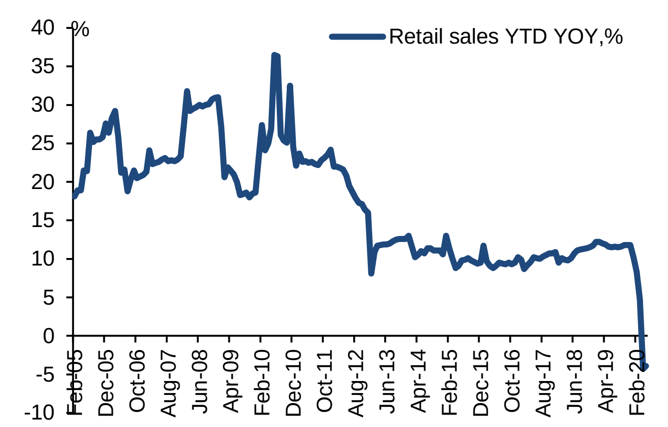
The 10-point jump in Vietnam Manufacturing PMI from the record low of 32.7 in April to 42.7 in May was in line with the global trend as governments eased social distancing rules and allowed businesses restart operations. While the manufacturing industry is gaining back tractions, the setback in tourism is expected to prolong as international travelling is expected to stay subdued for the rest of the year. The government said that it would not open doors for foreign tourists for the moment despite success in containing the virus. Instead it is looking to boost domestic tourism via its tourism stimulus program. Discounted hotels and resorts pricings have started to lure back local travelers. This may provide some support to the services industry. The manufacturing industry while on track to recovery may still see substantial weakness in the coming months, as global demand is expected to remain subdued moving into Q3. Despite that, the government has refrained from revising its official GDP growth forecast of 5.0%, insisting that the lifting of social distancing could revive the domestic economy.

Figure 2: Industrial Production



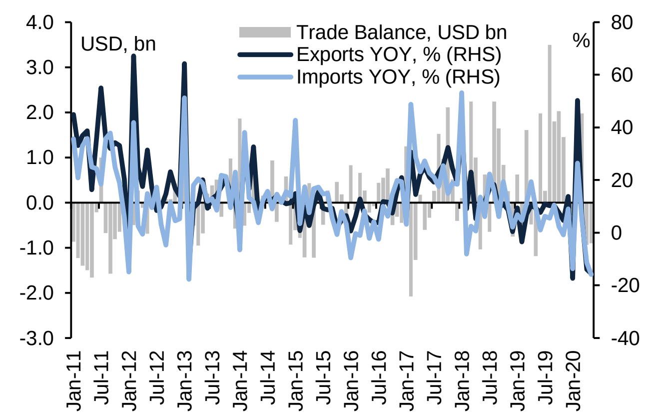
Source: Bloomberg, CEIC

Figure 5: Retail Sales



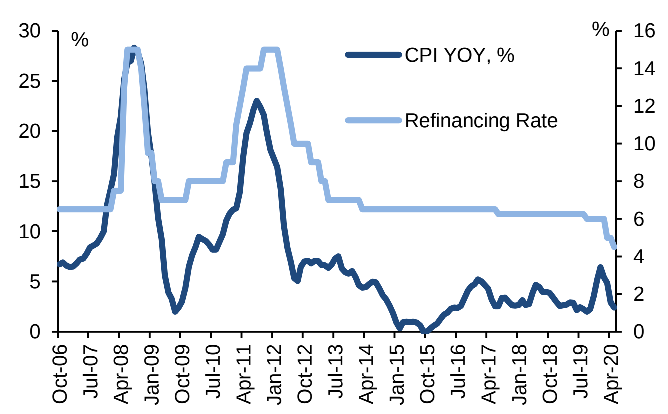
Source: Bloomberg, CEIC

Figure 3: International Trade



Source: Bloomberg, CEIC

Figure 6: CPI and SBV Refinancing Rate



Source: Bloomberg, CEIC

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