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# **Vietnam’s Economy Was Resilient in H1, But H2 Will Be More Challenging**

Vietnam’s GDP grew by 5.6% yoy in the first half of 2021, despite the late-April emergence of a new wave of COVID that amplified the number of new locally transmitted COVID cases from one per day in early 2020 to an average of ~700/day since April. Businesses and consumers in Vietnam have adapted to life with COVID, so economic growth was supported by consumption and manufacturing in the first half of the year, but public health officials imposed stricter measures on HCMC last week, which we discussed in [this report](https://www.vinacapital.com), and which have clouded the outlook for the economy in H2.¹

### **Vietnam’s “V-Shape” Recovery was Supported by Manufacturing…**

(Line graph showing GDP growth rate from May-19 to Jun-21 with a V-shape dip and rebound)

### **…And Manufacturers in Vietnam Are Poised to Ramp-Up Production in H2 and Beyond**

**Imports of Production Materials in H1**

* High-Tech Components: +29% yoy
* Machinery: +37% yoy
* Plastics: +54% yoy
* Fabrics: +32% yoy

Consumption accounts for about two-thirds of Vietnam’s economy, and the growth of real retail sales (i.e., stripping out inflation), which is a close proxy for domestic consumption, rebounded from a 5.8% yoy plunge in 1H20 to 3.6% growth in 1H21. That rebound was supported by the many urban businesses that are now delivering directly to consumers’ homes, and by the fact that the consumption patterns of the two-thirds of Vietnam’s citizens who live outside of the country’s major cities have not been significantly impacted by the current COVID outbreak in HCMC.

Similarly, the growth of manufacturing output, which accounts for about 20% of Vietnam’s GDP, leapt from 5% yoy in 1H20 to 11.4% in 1H21, partly because manufacturers instituted best practices to protect the health of their workers while enabling uninterrupted production during localized COVID outbreaks. Those safety measures include providing on-site living facilities for workers as well as actively procuring COVID vaccines for their workforces. Consequently, Vietnam’s manufacturing output actually grew in both May and June (on a month-on-month basis), in stark contrast to the 15% plunge of output they endured in the month of April 2020, when the COVID outbreak first emerged.

Manufacturing added nearly 2%pts to Vietnam’s 5.6% GDP growth rate in H1, and since most products manufactured in Vietnam are exported,² resilient production was contemporaneous with a 29% yoy surge in exports to USD158 billion in H1 (or nearly 100% of GDP), driven by a 45% increase in Vietnam’s exports to the US, which is Vietnam’s largest export market.

### **Inflation in Vietnam Has Already Peaked**

Investors are currently pre-occupied with inflation, and some emerging market central banks have started raising interest rates. However, we believe inflation in Vietnam already peaked at 2.9% yoy in H1 and is likely to end 2021 at around the 2% level, driven by *falling* pork prices now that African Swine Fever has abated in both China and Vietnam. Furthermore, Chinese pork prices have fallen about 60% YTD, following a 25% drop in June alone, leaving pork prices in China nearly 30% below those in Vietnam. Our forecast that Vietnam’s CPI inflation rate will be around 2% at end-2021 assumes that Vietnamese pork prices will fall by another 10% in H2 (after having dropped 5% in H1), and that global oil prices finish the year at around USD80/barrel.

**¹** HCMC is the epicenter of the current outbreak with over half of the country’s ~33,000 reported new cases since the current outbreak started on April 27th. As of the publication of this report, Vietnam’s public health officials have reported over 35,000 cases since the start of the pandemic, with 132 deaths.

**²** We estimate that three-quarters of the manufacturing industry in Vietnam was funded by FDI inflows.

### **A Mixed Outlook for Vietnam’s Economy in H2**

The current COVID outbreak has clouded Vietnam’s H2 economic outlook. The Government is likely to ramp-up infrastructure spending following a slow start in the first half of the year,³ but manufacturing and consumption will continue to be the two most critical factors to monitor. From the time COVID first emerged in Vietnam, the Government has been particularly mindful to avoid impeding manufacturing activity at multinational companies’ factories, but yesterday authorities were compelled to suspend operations at most companies located in the Saigon High-Tech Park (SHTP).

Over 45,000 people work at SHTP, primarily at multinationals including Samsung (which accounts for about a quarter of Vietnam’s exports), so officials are striving to help firms implement steps to ensure the continued, safe operation of their businesses. We expect the SHTP shutdown to end quickly and note that a shutdown of industrial parks located in two provinces in the north of Vietnam that were initially the epicenter of the current outbreak only lasted 10 days. We also note that manufacturing firms in Vietnam were optimistic about their prospects in H2 – prior to last week’s imposition of tighter HCMC social distancing measures – as evidenced by the fact that imports of production materials surged in recent months.⁴

### **Uncertainty About Consumption**

When COVID first emerged, Vietnam’s retail sales plummeted by nearly 30% during the first two months of the outbreak, because the Government implemented nationwide measures to stem the spread of the virus. In contrast, during the first two months of the current outbreak, retail sales dropped by less than 10% (including an 8% drop in HCMC), because until last Friday personal mobility in Vietnam was *much* higher in May–June 2021 than in March–April 2020, as evidenced by the “Google mobility indicators” tracking how much people are travelling to their workplaces/supermarkets/etc.

The Google mobility numbers should plunge once the current HCMC lockdown is incorporated into the calculation of the updated index numbers, but the Government’s response to COVID has become much more targeted, compared to the across-the-board measures that were imposed last year, which will mitigate the drop somewhat. For example, the social distancing measures currently in place in Hanoi are much less stringent than they are HCMC now.

Our current best guess is that for every two weeks the current, strict lockdown in HCMC is in place, Vietnam’s 2021 GDP growth will suffer a circa –0.4ppts hit. Consequently, the current lockdown, which is meant to last about two weeks, prompted us to lower our GDP growth forecast from 5.9% to 5.5%, with further downgrades inevitable in the event that strict social distancing measures stay in place past the end of July.

Finally, the Government has spent around 1–2%/GDP supporting the economy since COVID emerged (depending on how the individual stimulus measures are interpreted and aggregated). In our understanding, Government officials are currently contemplating a circa USD1 billion proposal to make one-off payments of USD160 to unemployed people, and payments of USD130 to home businesses impacted by COVID, and we would expect more stimulus measures if the HCMC lockdown continues for more than a few weeks, especially given the Government’s ample fiscal capacity, with a debt-to-GDP ratio that is currently below 50%.

### **Conclusions**

Vietnam’s resilient economic performance in H1 is cause for optimism about the country’s growth prospects in H2. The current lockdown of HCMC is stricter than previous social distancing measures the Government has taken throughout the pandemic, but we are encouraged that:

1. the current surge in COVID cases intensified the Government’s efforts to procure COVID vaccines (note that over 80% of Vietnamese want to get vaccinated), and
2. the conditions required for factories located near HCMC to continue operating are clear and not overly onerous.

Further to that last point, we mentioned above that Samsung’s factory in the SHTP was shut, pending the implementation of COVID safety measures, but Intel’s factory in the same I/P is still open as the company has already met those requirements.

³ COVID and other issues impeded infrastructure development in H1, so the Government’s infrastructure spending fell by nearly 15% yoy in H1, according to the Ministry of Finance.  
 ⁴ Note that Vietnam’s PMI plunged from 53.1 in May to 44.1 in June, but the General Statistics Office (GSO) conducts a survey of manufacturing and construction firms that queries over 10-times the number of firms in the PMI survey, and only about one-quarter of firms surveyed by the GSO were as pessimistic as June’s PMI indicate.

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