

**Vietnam**

7 October 2024

**Robust 3Q24 GDP Growth**

- GDP growth improved to 7.4% YoY in 3Q24 versus an upwardly revised 7.1% in 2Q24. We revise higher our 2024 GDP growth forecast to 6.5% from 6.0%.
- Headline CPI eased notably to 2.6% YoY in September from 3.5% in August. We are revising our 2024 CPI forecast lower to 3.7% from 4.3% previously.
- From a monetary policy perspective, the urgent need for the SBV to cut its policy rate has eased. We, therefore, remove our forecast for a cumulative 50bp in rate cuts for 2024.

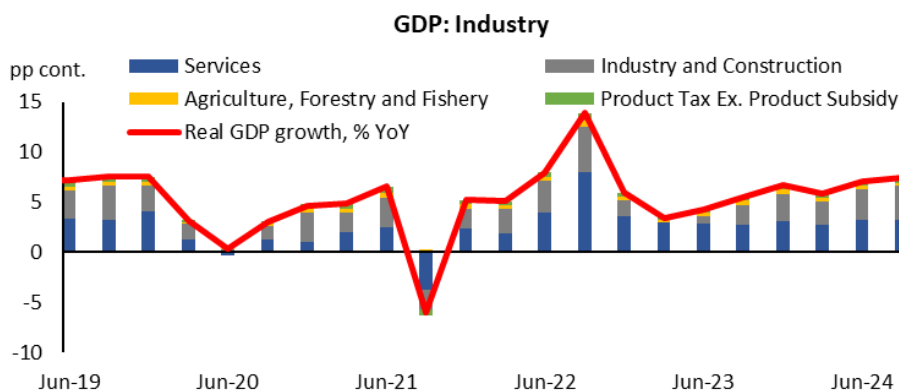
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**Beating expectations**

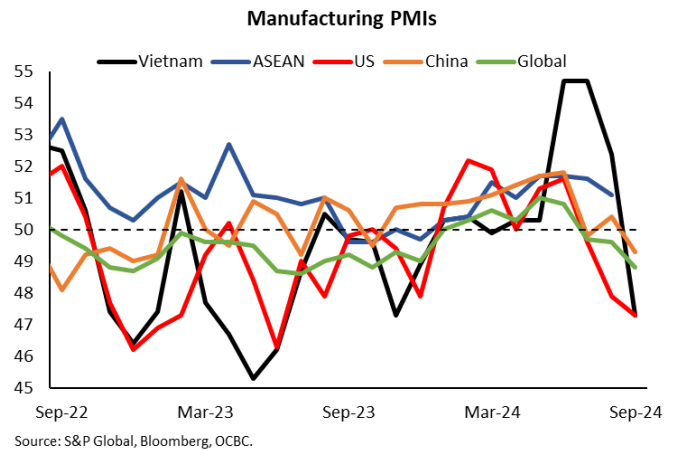
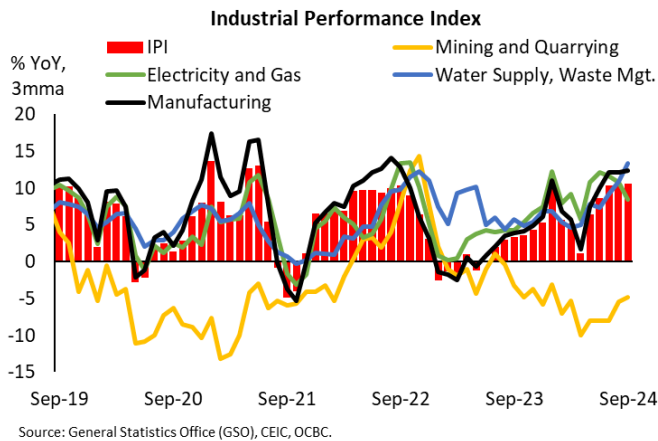
GDP growth improved to 7.4% YoY in 3Q24, surpassing expectations (consensus & OCBC: 6.0%) compared to an upwardly revised 7.1% in 2Q24.

On the supply-side, growth improvements were led by the manufacturing (11.4% YoY in 3Q24 from 10.4% in 2Q24) and services (7.5% from 7.1%) sectors. The contraction in the mining & quarrying sector narrowed to -7.1% YoY in 3Q24 versus -8.6% in 2Q24. These have more than offset easing growth in other key sectors, namely construction (7.1% from 7.8%) and agriculture, forestry, & fisheries (2.6% from 3.6%).



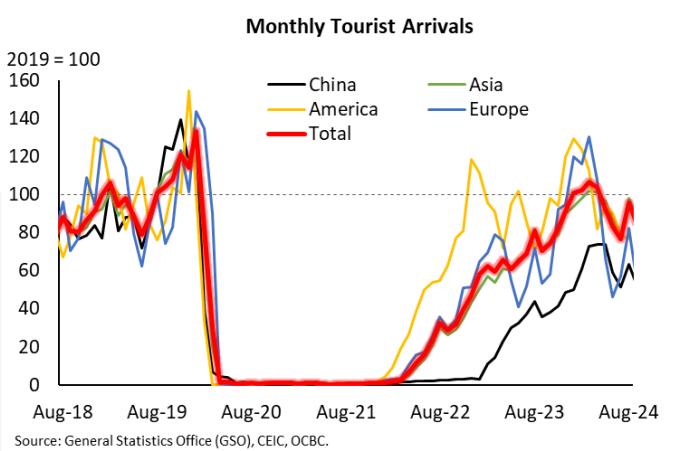
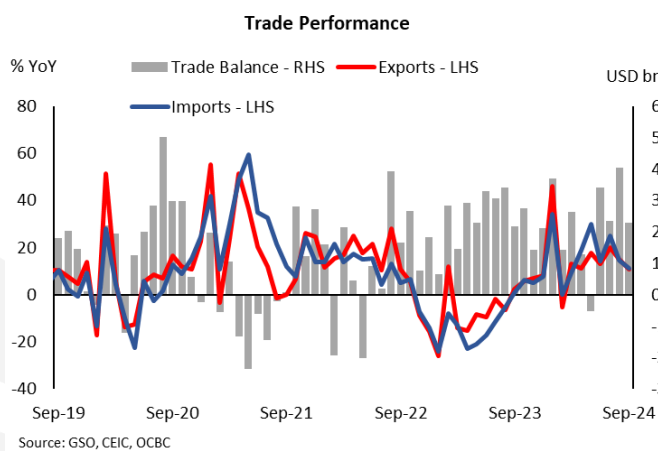
Source: General Statistics Office, CEIC, OCBC.

Mirroring strong manufacturing sector growth, the industrial production index rose by 10.8% YoY in September, versus 9.5% in August, bringing the average 3Q24 IPI growth to 10.5% from 8.6% in 2Q24. This was driven by manufacturing (13.1% YoY in September from 10.6% in August) and importantly, IPI growth in the 'mfc of computer, electronic' (6.75% YoY in September from 1.45% in August) and 'electronic components' (12.4% from 9.9%) were strong.



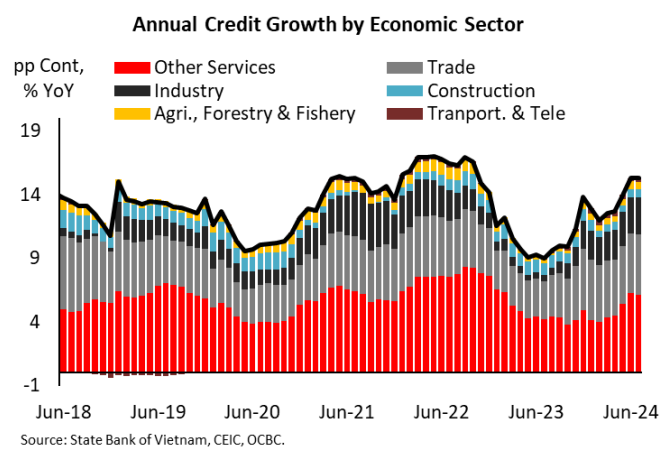
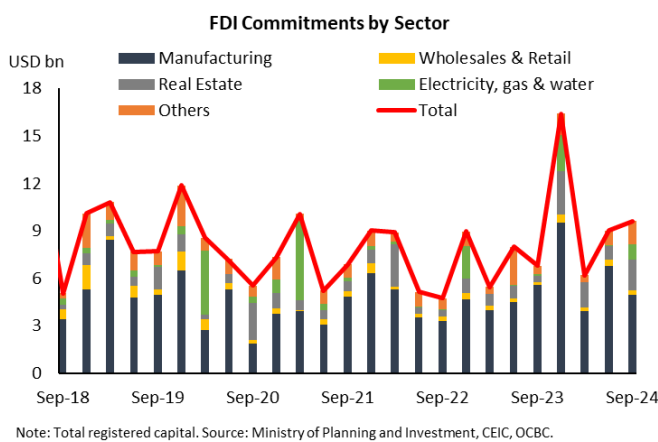
Forward looking indicators, however, suggest some weakness in manufacturing growth momentum. Vietnam’s S&P Manufacturing PMI dropped to 47.3 in September from 52.4 in August, likely partly due to the impact of Typhoon Yagi, which hit the northern part of Vietnam, home to key industrial parks and factories. In our note (see *Vietnam: Uneven Improvements, 13 September 2024*), we highlighted that the northern region accounted for 55% of total exports in the first eight months of 2024.

Admittedly, the correlation between the manufacturing PMI and industrial production is less clear. However, the slowdown in September export growth, which slowed to 10.7% YoY compared to 15.2% in August, could be telling of flood-related damages. Specifically, export growth of textiles & garments (15.9% YoY in September vs 17.3% in August) and machinery (23.0% from 31.3%) eased in September. Import growth slowed to 11.1% YoY in September, compared to 14.7% in August. This was driven by lower imports of key products, including machines, equipment, tools, and instruments (12.6% YoY in September versus 21.4% in August) and computers, electrical products, spare parts & components (13.1% from 16.9%). As a result, the trade surplus narrowed to USD2.3bn in September from USD4.0bn in August.



The current account surplus, however, is likely to be sustained supported by strong, albeit slowing inbound tourism. Arrivals were lower at 1.3mn in September from 1.4mn in August; this is 85.9% of 2019 average monthly arrivals.

Meanwhile, total registered FDI rose by 106.6% YoY to USD4.3bn in September, up from 32.3% (USD2.5bn) in August. This brings 3Q24 registered FDI to rise by 41.7% YoY to USD9.6bn, up from 12.8% (USD9.0bn) growth in 2Q24 underscoring Vietnam’s FDI attractiveness. The manufacturing sector remains the primary beneficiary of these investment commitments, accounting for 51.6% in 3Q24<sup>1</sup>. However, it recorded a 10.7% YoY contraction in 3Q24 versus 50.8% growth in 2Q24. Nonetheless, the weakness in FDI commitments into the manufacturing sector was offset by a significant jump in investment commitments into other sectors. Specifically, there was a notable increase in commitments in the real estate sector (369.3% YoY in 3Q24, up from 16.1% in 2Q24), electricity, gas, and water (1,289.5% from -66.2%), and other sectors (172.9% from -60.9%).



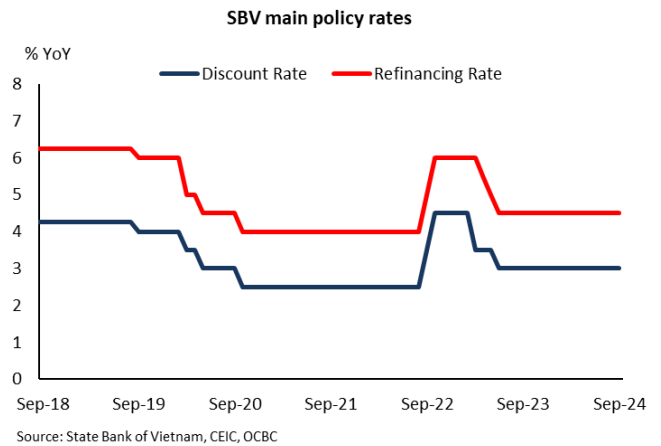
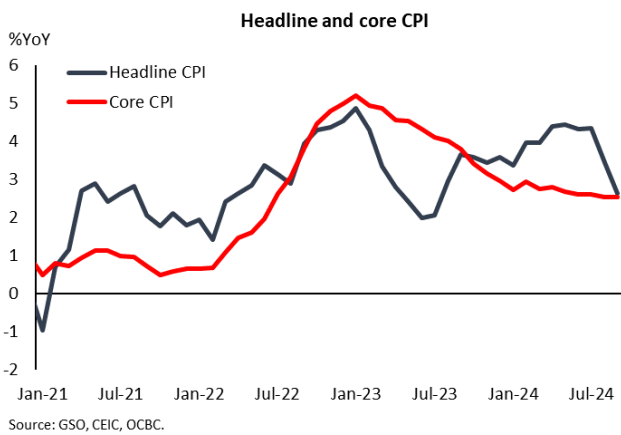
On the demand-side, export growth was the biggest driver of 3Q24 GDP growth while domestic demand remained resilient. Final consumption (household and government spending) picked up to 6.2% YoY YTD versus 5.8% in 2Q24. We suspect, however, that this was mainly from government spending. Private sector spending, judging from slower retail sales growth of 8.3% YoY in 3Q24 versus 9.2% in 2Q24, was likely subdued. The resilience in the labour market, underscored by higher employment growth of 114.7k in 3Q24 and a lower unemployment rate of 2.2% in 3Q24 from 2.3% in 2Q24 suggests that the retail sales slowdown could be bottoming. Meanwhile, YTD investment spending picked up marginally to 6.9% YoY versus 6.7% in 2Q24 corroborated by relatively stable credit growth.

As such, we revise higher our 2024 GDP growth forecast to 6.5% YoY from 6.0% previously, reflecting the robust growth of 6.8% YoY in 1Q-3Q24. This implies slower growth in 4Q24 on account of the impact of Typhoon Yagi. Indeed, the head of the General Statistics Office, Nguyen Thi Huong, noted that achieving the government's growth target will be "a big challenge" as the impact of Typhoon Yagi, geopolitical tensions, and global economic concerns weigh on growth. Official 2024 GDP growth is now forecast within the range of 6.8%-7.0% in -2024.

<sup>1</sup> Samsung plans to invest USD1.8bn in the country for OLED manufacturing, as well as Tesla's SpaceX investment worth USD 1.5bn for its Starlink services. Meta Platform announced that the company plans to expand manufacturing of its latest Mixed Reality device Quest 3S to Vietnam in 2025.

**Easing inflation**

Headline CPI eased notably to 2.6% YoY in September from 3.5% in August while core CPI remained steady at 2.5% YoY. The drivers of the September print were mixed. Higher inflation in the food and foodstuff CPI (3.9% YoY from 3.7% in August) was offset by notably lower inflation in the education (1.2% from 7.1%) and transportation (-5.3% from -1.5%) CPI, in line with lower global oil prices. The September print brings the 3Q24 inflation to an average of 3.5% YoY, eased from 4.4% in 2Q24. We now revise our 2024 CPI lower to 3.7% from 4.3% previously. This implies a moderate price uptick in the last three months of 2024.



From a monetary policy perspective, SBV’s need to cut its policy rate may not be as urgent given the strong GDP growth outturn. We remove our forecast for a cumulative 50bp in rate cuts for 2024. Manageable inflation and an improved external environment, allowing for recent VND appreciation, however, remain supportive of SBV maintaining its broadly accommodative stance.

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