

## The Return of Optimistic Expectations

### Outlook for Q2 2014

#### - Key Highlights

- Five out of the six Optimism indices show increases (q-o-q), with the exception of Selling Price which shows decline (q-o-q).
- Three Optimism indices with highest score for Q2 are Volume of Sales (56%), Net Profit (57%), and New Orders (48%).
- The majority of those surveyed on Selling Price (78%) and Employment (75%) expected the situation remain unchanged situation.
- Optimism in employment increases for the third consecutive quarter (14%, up 5% from Q1)

Firms regain optimism for Q2 2014 after the deep fall from the preceding quarter, which collaborates closely with the country's economic performance. While the GDP grew at 6.04% in the Q4 2013, the growth rate dropped to 4.96% in Q1 2014. The slowdown happened in both Agriculture and Construction sectors while Service sector exceptionally registered a slight increase and manufacturing sector maintained its growth. This is arguably a normal seasonal phenomenon since the first quarter is the traditional New Year holiday season in Vietnam.

Looking closer at the growth rate of 4.96% in Q1 2014, the economy did show a slight improvement. All economic sectors, except Construction, achieved higher growth rate. In particular, Manufacturing registered a large buoyant growth at 7.3%, higher than the 2.1% growth rate of Q1 last year. Similarly, total retail sales of consumer goods and services grew 5.1% (y-o-y) in Q1 2014, higher than Q1 2013 and Q1 2012; where tourism outperformed with exceptionally high growth while trade declined.

Cumulatively for Q1, the commodity export revenue reached USD33.3 billion while imports was USD32.3 billion, creating a balance trade surplus USD1 billion. It is noticeable that exports increased sharply by 26% m-o-m in March, marking a beginning of promising trend for export growth in this year. On the import side, the share of production commodity increased slightly and accounted for 94% of total imports. This could signal the inception of recovery process. Since the domestic sector is largely running on trade deficit (this sector had trade deficit of USD2.9 billion in Q1), it is expected that trade surplus may diminish when the recovery process accelerates at the end. However, overall Balance of Payment is still expected to remain in surplus thanks to the maintained levels of FDI inflow and trade surplus of FDI sector.

Given this situation, it is understandable that the business optimism has recovered strongly in Q2 and broadly across all economic sectors.

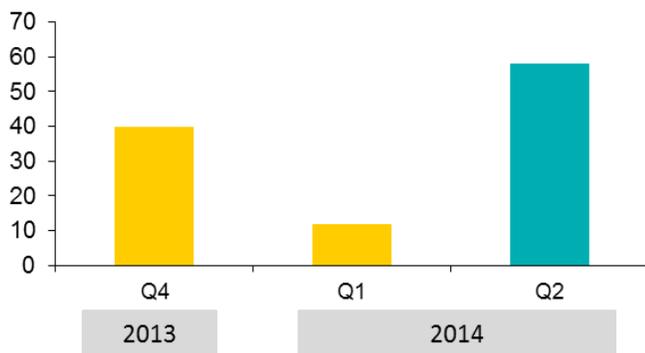
# Business Optimism Index – Vietnam



Quarter 2 2014

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## Volume of Sales



Base: n=300

## Net Profits

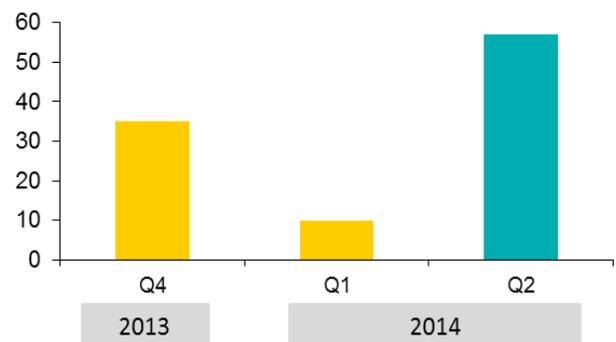
The resultant Optimism reached 57%, improving 47 percentage points compared with Q1. 66% of respondents anticipate an increase in profitability in Q2 2014 while 24% assume no change and only 9% respondents expect their net profits to decrease.

The similarity of Net profit and Volume of Sales could be attributed to the stable macroeconomic environment with low inflation, surplus BOP and stable exchange rate. These factors make it unlikely that cost will increase and drive the profit down.

## Volume of Sales

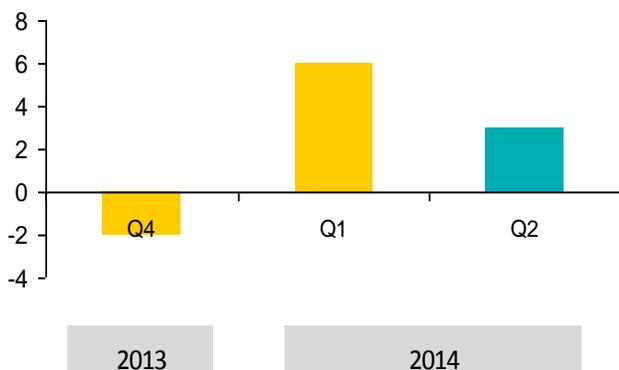
There is a strong recovery of Optimism for Volume of Sales for Q2 2014. Majority of respondents (67%) expect that their Volume of Sales will increase in Q2 while only 9% project a decrease. The resultant Optimism stands at 58%, increasing 46 percentage points from last quarter. Construction enjoys the highest increase with 90 percentage points from Q1, after the New Year holiday when the dry season comes. Finance, Insurance and Real Estate have no significant change in Optimism with 2 percentage-point increase, given no remarkable change in government policy and market environment.

## Net Profits



Base: n=300

## Selling Price



Base: n=300

## Selling Price

The overall expectation on selling price is at 3%, a slightly decrease from Q1. Majority of respondents (79%) are planning to maintain the selling price while 12% plan to increase and only 9% expect to decrease. This is understandable, given reduction of price level in March and the inflation of Q1 was exceptionally low at 0.8%.

Among the sectors, manufacturing has the highest Optimism with 9%. On the contrary, the service sector had a further decrease of 3 percentage points to stand at -5% in Q2. The construction sector has a significant drop of 25 percentage points from Q1 to push sales in Q2.

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Quarter 2 2014

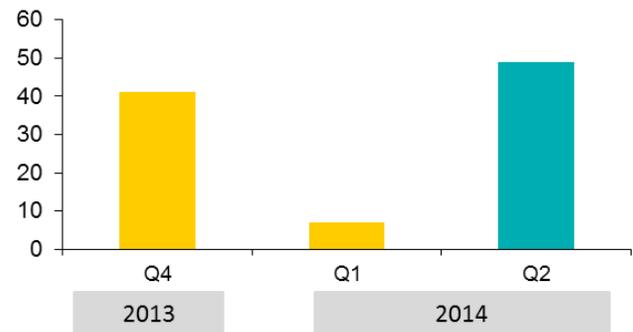
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## New Orders

New Orders index soared with 57% respondent expecting new orders to increase, against 8% anticipating a decrease, resulting in an optimism index of 49%. This is an improvement by 42 percentage points compare with Q1.

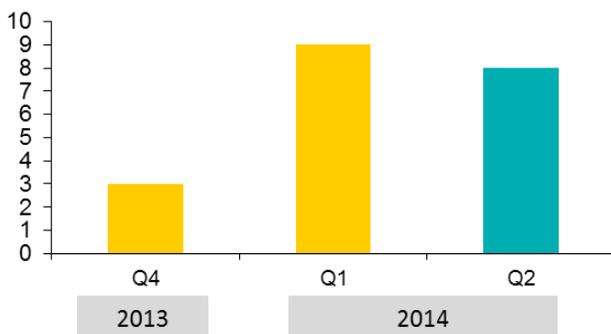
Construction gets the highest Optimism at 77% in Q2. This is a really dramatic change of 89 percentage points from -12% in Q1.

## New Orders



Base: n=300

## Inventory Levels



Base: n=170

## Inventory Levels<sup>1</sup>

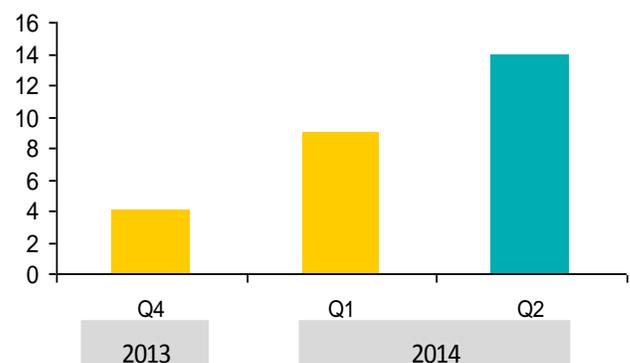
As inventory levels are kept high to cater for peak sales demands during the annual Tet holiday in Q1 2014, it is understandable to have a slightly decrease in Q2. However, the optimism for Inventory levels in Q2 is still higher than Q4 2013 with 5 percentage points, which reflects the improvement in macroeconomic performance in Vietnam.

## Employment

Employment index shows a modest increase by 5 percentage points compared to Q1 to reach the score of 14%. Majority respondents (75%) anticipate no change in the size of their workforce, around 19% plan to increase while 5% expect to reduce employees.

This is the only component that shows the increasing trend throughout 3 quarters, and it is also one of the two parameters that have the majority of respondents expect the situation to remain unchanged (the other is selling price). The modest but steady improvement of this index through 3 consecutive quarters could be seen as a signal that the economy is on the recovery track though not quite accelerated yet.

## Employment



Base: n=300

<sup>1</sup> The sample size for Inventory question does not include Transportation, Communications and Utilities; Finance, Insurance and Real Estate; and Service sectors

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## Business Optimism Index (BOI) Report

D&B Optimism Index report is recognized as a product, which measures the pulse of the business community and serves as a reliable benchmark for investors. The D&B Optimism Index is arrived at on the basis of a quarterly survey of business expectations. Over time, this quarterly survey has emerged as a leading indicator of turning points in economic activity in countries which it is published.

### Methodology

For the purpose of conducting the survey, a sample is randomly selected from D&B database, consisting of companies belonging to the following sectors including Agriculture, Mining, Construction, Manufacturing, Transportation, Wholesalers, Finance, Services, and Utilities.

All the respondents in the survey are asked six standard questions regarding their expectations as to whether the following critical parameters pertaining to their respective companies will register an increase, decline or show no change in the ensuing quarter as compared to the same quarter in the prior year: Volume of Sales, Net Profits, Selling Prices, New Orders, Inventory Levels, and Employees. The individual indices are then calculated by subtracting the percentage of respondents expecting decreases from those expecting increases. Unless otherwise stated, increases and decreases in indices represent changes from the previous quarter.

### Analysis and Commentary by:

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