

## Business Optimism falls in Q3 2014 due to China factor and lower demand

### Outlook for Q3 2014 - Key Highlights

- Five out of the six Optimism indices show decreases (q-o-q), with the exception of Selling Price which shows an increase (q-o-q).
- Significant drops in three Optimism indices for Q3 are Volume of Sales (-14 percentage points), Net Profit (-16 percentage points), and Inventory Level (-14 percentage points). The Selling Price Index increased by 4 percentage points.
- Overall, the Mining industry suffered the most significant drop in optimism level, followed by the Construction sector. On the other hand, the Service and Manufacturing sectors are flushed with optimism thanks to the summer holiday season and a positive outlook on exports this year.

Overall business optimism for Q3 2014 has dropped this quarter compared to last quarter attributable to fresh maritime conflicts with China, as well as ongoing non-performing loans (NPL), decreasing domestic consumption and low purchasing power. Despite last quarter's encouraging bounce-back from Q1 2014's big drop in optimism level q-o-q, all the Optimism Indices fell this quarter except for Selling Price. This anomaly could be attributed to a foreseeable shortage in supply should the government decide to withdraw about 500 mining licenses because of exploration practices that fell short of sustainable standards. The resulting shortage would push prices up, hence Selling Price in the Mining sector is anticipated to go up. The uncertainty surrounding the withdrawal of licenses (currently being mulled) has slowed down growth in the Mining sector (-2.47% since Q2 2013). The

positive outlook on Selling Price was also due to the robust demand in the Services sector.

Vietnam's GDP grew a respectable 5.18% in the first half of 2014 compared to the same period last year achieving one of its highest growth rates in the last 3 years. Among all the sectors, Services has enjoyed the highest growth rate (6%) and has contributed the most to the country's GDP (43.6%). Given the peak season for holiday in summer, the Services sector is expected to improve further this quarter.

Similarly, the manufacturing and processing industry is expected to grow further given the promising trend for export growth this year and regardless of low domestic consumption. In the first half of 2014, the production index of this industry grew 7.8%, its consumption index increased 9% while the inventory index grew 12.8% from the same period last year.

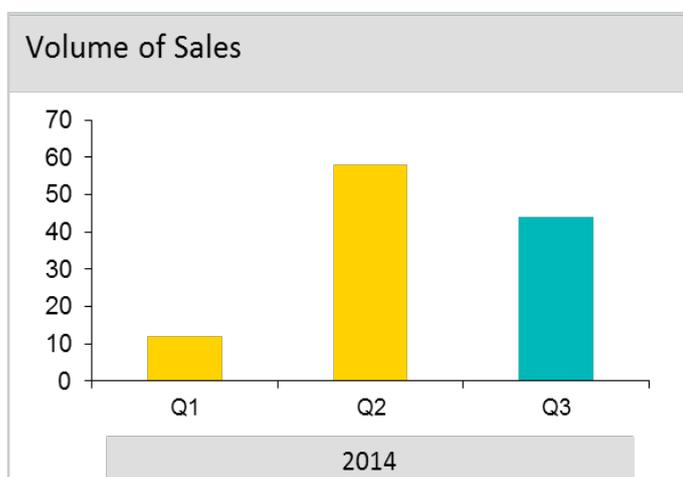
The commodity export revenue in H1 2014 chalked up an increase of 14.9% compared to H1 2013 to reach USD70.9 billion while imports similarly recorded double-digit growth of 11% from H1 2013 to reach USD69.6 billion, creating a balance trade surplus of USD1.3 billion. Amongst the main export products, the highest growth rate in export value are manufactured and processed products such as telephones and telephone accessories (17%), textile and garments (18.2%), fishery products (26%), and coffee (24.8%). FDI continued to contribute the most to export growth in H1 2014. Out of 14.9% growth rate of export value, 11 percentage points came from FDI while 3.9 percentage points came from domestic businesses.

Fortunately, political tensions with China and anti-Chinese issues have impacted only the consumption propensity of the local market, and have not dented the export market as the largest export market of Vietnam is still the EU, followed by USA and ASEAN. As a result, there is still optimism on New Orders and Inventory Level for the manufacturing and processing industry.

# Business Optimism Index - Vietnam

Quarter 3 2014

[www.dnbvietnam.com](http://www.dnbvietnam.com)



Base: n=300

## Net Profits

In tandem with the reduced optimism outlook for Sales Volume, optimism level for Net Profits fell in Q3 2014 as well for all sectors except Services compared to the previous quarter. Be that as it may, the overall optimism level stood at a positive 41% which is a much better situation than the 10% chalked up during Q1 2014. Slightly over half of the respondents anticipate an increase in profitability in Q3 2014.

Thanks to the summer holidays, which is the peak season for the travel and tourism industry, Services was the only shining beacon in a sea of pessimistic outlook. The mining sector again saw a dramatic drop in Net Profit outlook compared to Q2 2014 amid an industry-wide negative growth. This is despite over 50% of the respondents anticipating no change in net profit growth q-o-q.

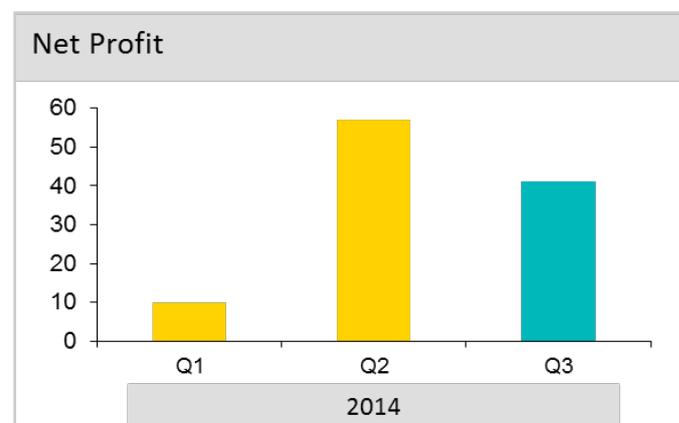


Base: n=300

## Volume of Sales

The optimism level on sales volume for all sectors except Services fell in Q3 2014 compared to the last quarter. Despite the drop q-o-q, the index stood at 44% with over half of the respondents anticipating an increase in sales volume in the third quarter of 2014. This is a great improvement over the 12% optimism level recorded in Q1 2014.

Services sector bucked the trend due to the summer holiday season which traditionally sees higher sales volume. The Agriculture, Forestry and Fishing sector registered the highest optimism level with almost 70% of respondents expecting higher sales this quarter. This was followed by Manufacturing and Services. Wholesale & Retailing meanwhile dropped -23 percentage points in line with lower purchasing power and consumption. The Mining sector was the most pessimistic and registered the biggest drop q-o-q at -40 percentage points which is in line with the negative growth of this sector and its reduced contribution to GDP in Q2 2014.



Base: n=300

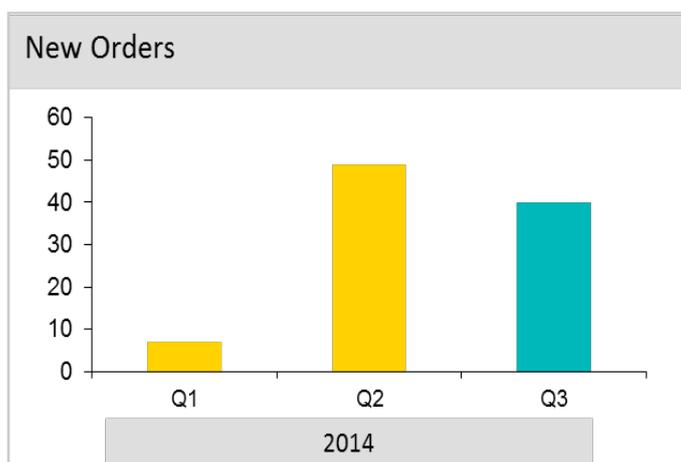
## Selling Price

Despite the fall in optimism level for both Sales Volume and Net Profit, three quarters of respondents expect Selling Price to remain unchanged from last quarter. The uptick in optimism level is led by the Mining sector which saw a 13 percentage point improvement from last quarter. This is due to decreasing supply as a result of more government control on sustainable development issues within the industry. After Mining, the service sector was the next one flushed with optimism due to the summer holidays.

# Business Optimism Index - Vietnam

Quarter 3 2014

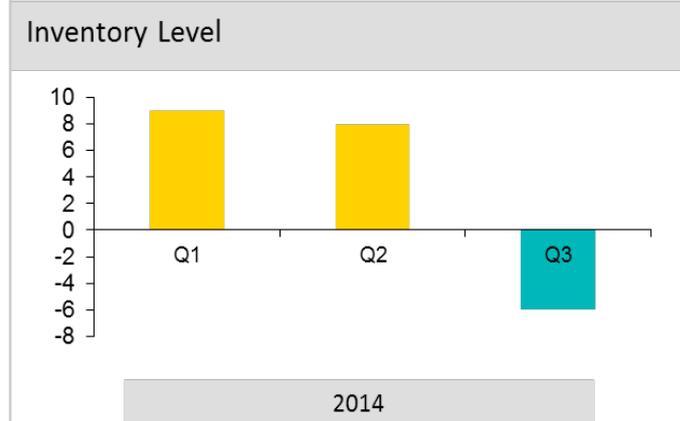
[www.dnbvietnam.com](http://www.dnbvietnam.com)



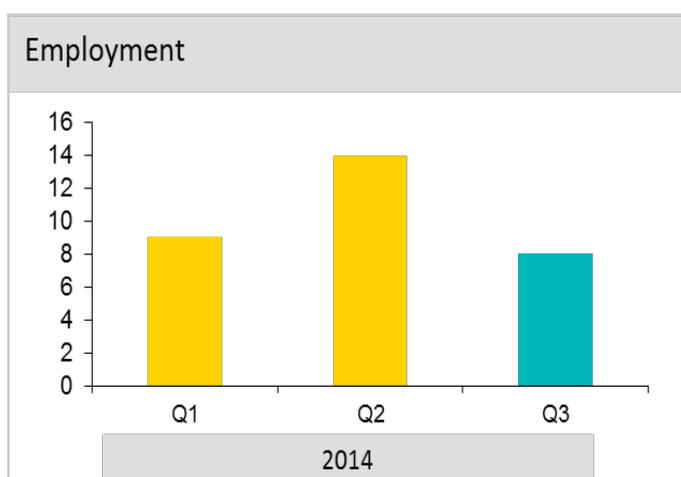
Base: n=300

## Inventory Level<sup>1</sup>

There is pervasive pessimism on inventory levels for this quarter with the index falling into negative territory for the first time since Q4 2013. With the exception of Manufacturing, all other sectors anticipate lower inventory levels this quarter compared to previous quarters. Most of them are trying to clear the existing inventory rather than keeping more given the decreasing purchasing power and low domestic consumption. Thanks to high export demand however, resulting in consecutive quarters of surplus in trade balance, Manufacturing was the only sector that can afford to smile.



Base: n=170



Base: n=300

## Employment

Although the optimism level on new intake of staff dipped slightly compared to last quarter, almost 80% of respondents expect to keep their workforce unchanged while 14% plan to increase and 6% plan to decrease. Due to bad weather, none of the respondents in the Construction sector plan to make any new hires this quarter. The optimism level for Services sector increased by 13% due to higher demand for staff during the busy summer holiday in Q3.

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



# Business Optimism Index - Vietnam

Quarter 3 2014

[www.dnbvietnam.com](http://www.dnbvietnam.com)

## 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, Construction, Electric, Finance, Manufacturing, Mining, Services, Transportation, and Wholesalers.

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:

Assoc. Prof. Dr. Nguyen Minh Ha, Dean of Post Graduate School, HCMC Open University, Vietnam.



Decide with Confidence

About Dun & Bradstreet® (D&B)

Dun & Bradstreet (NYSE:DNB) is the world's leading source of commercial information and insight on businesses, enabling companies to Decide with Confidence® for 172 years. D&B's global commercial database contains more than 225 million business records. The database is enhanced by D&B's proprietary DUNSRight® Quality Process, which provides our customers with quality business information. This quality information is the foundation of our global solutions that customers rely on to make critical business decisions.

For more information, please visit [www.dnbvietnam.com](http://www.dnbvietnam.com), or email us at [csvietnam@dnb.com](mailto:csvietnam@dnb.com).

© Dun & Bradstreet, Inc. 2014. All rights reserved.