

Expected year-end boom in consumption lifts optimism

Outlook for Q4 2014 - Key Highlights

- Optimism level is widespread across all economic sectors (note that Agriculture is not included in this quarter), with Wholesale, Services, and Finance-Insurance-Real Estate (60%) leading, followed by Construction, and Transportation, Communications & Utilities (45%), with Manufacturing last, scoring modestly (32%).
- Both overall BOI and all six components registered increases compared to the last 2Qs.
- The overall BOI scored 47%, up 37 percentage points from a mere 10% last quarter. The two highest indices are Volume of Sales and Net Profits (both at 67%), followed by New Orders (53%) and Inventory Level (40%). Selling price (26%) and Employment (25%) are lowest although both improved measurably from the last 2Qs.

After two successive quarters on the recovery path, the economy seems to finally take-off. The GDP growth rate up to the first 9 months of this year has hit 5.6%, an improvement from the 5.2% registered for the first half of this year. Manufacturing (8.6%), Construction (6.3%), and Real Estate Service (2.9%) all grew and were the main engines of growth in Q3 while Agriculture and overall Services maintained the steady growth rate of 3% and 6% respectively.

The inflation rate rose in September due mainly to a rise in educational cost, but overall, it is still at a low level (2.25% y-t-d), suggesting that the demand is still weak. Consumption however is still maintained with retail sales chalking up growth of 6.2% in 9M14, up from 5.4% in 9M13.

For the first 9 months of 2014, FDIs grew in terms of the number of projects (34% y-o-y) but was down in terms of total capital (-18% y-o-y). This is attributed to the lack of big projects compared to last year but at the same time, the Vietnamese government may also be considering more favourable FDI policies. Manufacturing, Construction, and Real Estate services are sectors attracting most of the FDIs (86% in total) on account of the recovering real estate market. Meanwhile, Disbursal is still stable at \$8.9bn y-t-d (up 3% y-o-y).

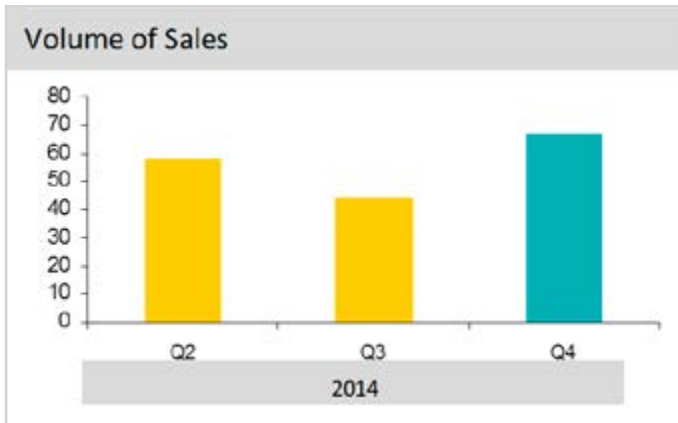
Exports dropped slightly in September with a total of \$12.4bn against \$13bn import (slightly increase MOM) resulting in a trade balance of -\$0.6bn in September. However the 9M14 trade balance still shows a surplus of \$2.4bn (\$109.6bn exports and \$107.2bn import) and is likely to remain in surplus territory by the end of the year, propelled by exports of mobile phones, textile-garment, and footwear which chalked up the highest export growth rate y-o-y.

As a result of the surplus trade balance, steady FDI inflows, and strong remittances, a surplus in the BOP (Balance of Payment) is likely which would help to stabilise the exchange rate. In any case, the SBV (State Bank of Vietnam) has signalled the possibility of small devaluations, probably as a pre-emptive move.

In view of the many positive factors, there is renewed optimism in the general economy with the BOI making a strong recovery this quarter compared to the previous quarter, and even surpassing the index of Q1. This is likely attributed to the settlement of the East Seas conflict with China and the acceleration of the economy in Q3. The widespread optimistic outlook cuts across all components and all economic sectors, with some cases recording large increases (about 50 percentage points or more). A majority of respondents expect a rise in Sales and Profits, anticipating a booming consumption season during the year-end quarter. Selling prices is still at a low level however, given the current low inflation; while the prolonged weak demand in the last 3 quarters is probably the main reason for the low Employment index.

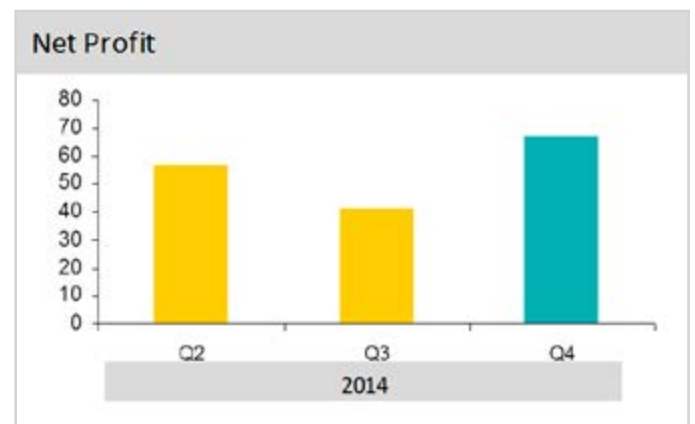
Volume of Sales

The optimism level on Sales Volume for all sectors except Manufacturing rose significantly in Q4 2014 compared to the last quarter thanks to anticipation of the traditional year-end consumption surge and a recovering real estate market. The buoyant mood is led by Wholesale followed by Services and Finance-Insurance-Real Estate with over 80% of respondents in those sectors expecting an increase in sales during the last quarter of the year. Overall, 73% were optimistic compared to 53% in the last quarter. Manufacturing, the only sector bucking the trend q-o-q, nevertheless registered 59% of positive respondents, only slightly less than the 61% registered in the last quarter, thus this anomaly is negligible in the overall trend of stable GDP growth during the last 3 quarters.



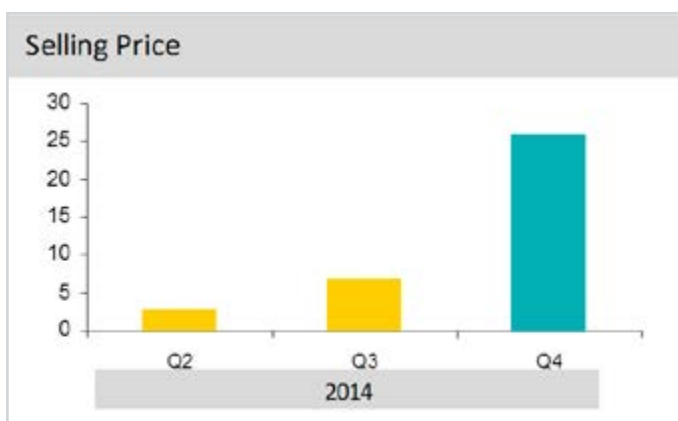
Net Profits

In tandem with the increased optimism outlook for Sales Volume, optimism level for Net Profits rose in Q4 2014 as well for all sectors except Manufacturing compared to the previous quarter. But even within the Manufacturing sector, over 56% of respondents gave a positive outlook on Net Profits, with only 10% thinking otherwise. As with Volume of Sales, the Wholesale sector is flushed with optimism with almost 90% of the respondents anticipating an increase in profits this quarter. This is followed by Services and Finance-Insurance-Real Estate. The overall optimism level stood at 67% which is the same as Volume of Sales.



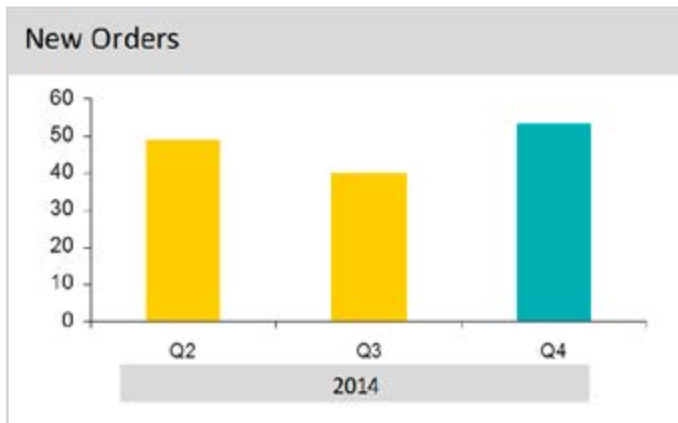
Selling Price

Although the overall optimism level increased sharply this quarter compared to the previous 2 quarters, on average 65% of respondents think selling prices will remain unchanged. This is not surprising considering the low inflation rate currently. On the other hand, an overwhelming 88% of respondents in Wholesale believe that prices will rise. This is in line with their overall optimism on Volume of Sales and Profits thanks to the year-end expectation of a boom in consumption.



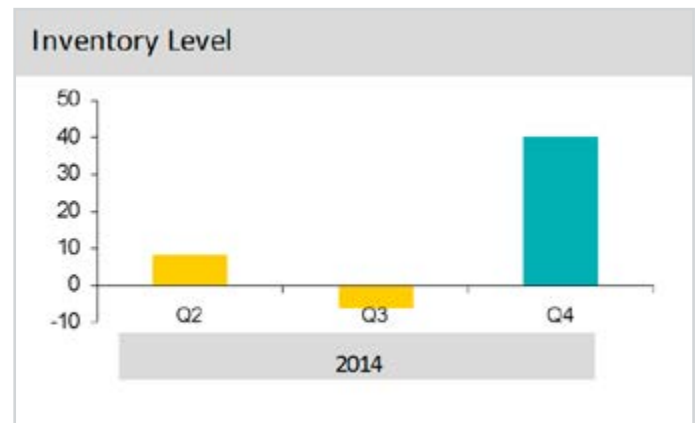
New Orders

The most optimistic sector for New Orders this quarter is the Finance-Insurance-Real Estate thanks to the recent positive signals in the real estate market. 84% of respondents anticipate increased New Orders representing 63 percentage points increase q-o-q and 76 percentage points rise y-o-y. On average, about 57% expect an increase in New Orders across all sectors compared with 38% anticipating no change. The big surprise is Wholesale which saw the biggest drop in optimism among all the sectors q-o-q (-15 percentage points) and y-o-y (-45 percentage points). One reason could be that the orders for the year-end shopping rush have already been made during previous quarters.



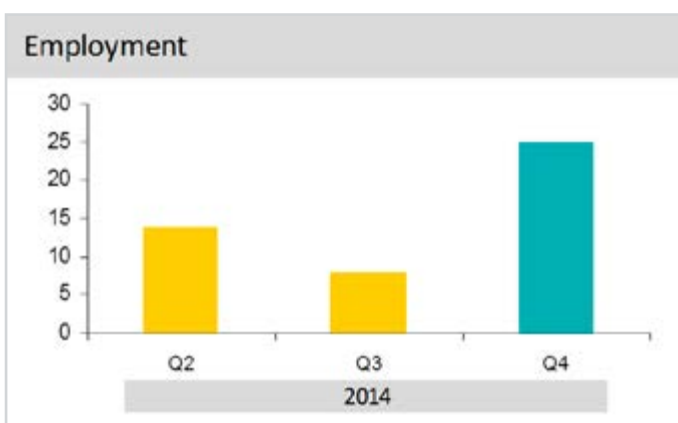
Inventory Level

The Inventory Level staged a strong recovery from the last four quarters, registering a 40% Optimism level compared to last quarter's -6%. In particular, the Construction sector saw a whopping increase of 100 percentage points q-o-q and 180 percentage points y-o-y with 80% of respondents anticipating higher Inventory Level this quarter. Similarly, Wholesale was flushed with optimism with 74% of respondents looking forward to bigger inventories. Again, this is due to the recovering real estate market which coincided with the year-end festive season. Manufacturing, meanwhile, stood at 25% Optimism level which is the same as last quarter, signaling a rather cautious outlook in this sector.



Employment

In line with a busier year-end season, more employment is foreseen this sector with a 17 percentage points rise to 25% compared to 8% for last quarter. For all sectors, a majority (60%-70%) of respondents expect the employment situation to remain unchanged. Construction has bounced back from -10% last quarter to 15% this quarter, thanks to the dry season and the recovery of the real estate market. Transportation, Communications and Utilities and the Services sectors also charted higher optimism levels compared to last quarter due to the year-end jump in business activities.



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.

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