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# 1Q Industrial Production

## Cutting 2020 GDP growth forecast to 4.5%

### Sharp losses for Vietnam's 1Q Purchasing Managers' Index (PMI) and Index of Industrial Production (IIP)

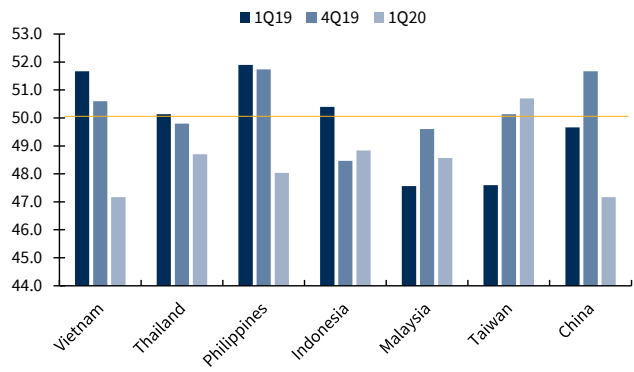
- Vietnam's March IHS Markit PMI plummeted to 41.9 and sent 1Q20's average PMI down to 47.2 points (down three full index points QoQ). This is the strongest decline since the survey began in Vietnam.
- 1Q's fall was larger than peers in Asia – and third only after the drop seen in China and the Philippines – showing the profound impact of the coronavirus pandemic on Vietnam's manufacturing sector. Importantly, the number of new orders of all countries in the region decreased sharply, which does not bode well for April's PMI.
- Sharp drops in March were seen in production output for all survey groups (including consumer, intermediate and basic investment goods) as well as the purchase of input goods; and finished product inventories. This indicates that companies are gradually slowing production.
- Poor signals were also seen from the industrial production survey (IIP) albeit not as clear given only a modest drop of two percentage points to 7.0% from 2019. Nonetheless, secondary industries (like textiles and apparels manufacturing) saw a marked slowdown in 1Q20. This foreshadows the likely drop in April IIP as COVID-19 suspends the production Honda's and Hyundai's automobile and motorcycle plants, as well as the suspension of textile exports orders.

### We cut our 2020 GDP forecast to 4.5% from 6.4% (our previous base case scenario) to reflect the latest COVID-19 developments and declaration to pandemic status

- The shift to a pandemic and more widespread impact warrants a dramatic cut due to two main reasons: 1) the larger impact to the general economy as a second wave of COVID-19 cases forces the government to implement social distancing protocols and order a nationwide lockdown; and 2) larger-than-expected impact to several high-growth sectors that help drive the domestic economy, such as textiles, footwear and electronics arising from falling consumer demand in major trading partners like the US and EU.
- Our new base scenario of 4.5% GDP growth in 2020 assumes the negative impact from the pandemic begins to wane by the end of 2Q20. There also remains the possibility for a 0.4 percentage point increase to this forecast should the government accelerate public investment disbursements by about VND700 trillion according to our estimates.

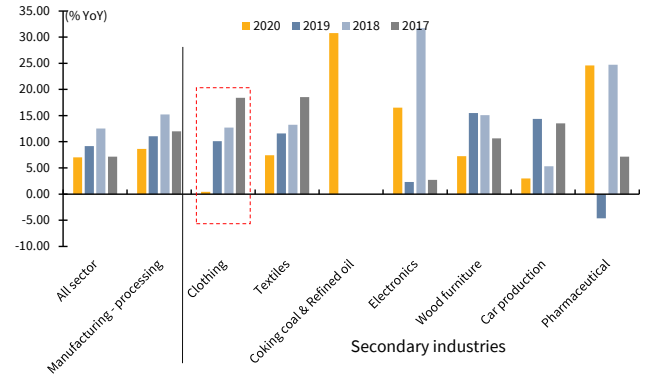


Fig 1. Asian – Regional PMIs



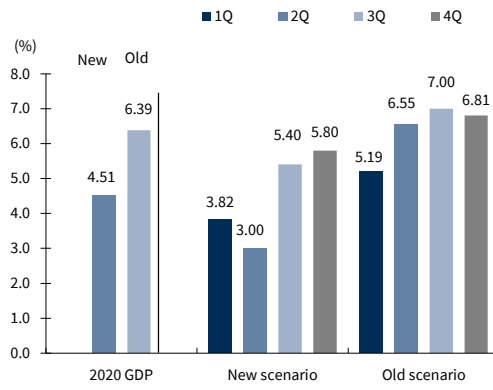
Source: IHS Markit, KB Securities Vietnam

Fig 2. Vietnam – Industrial production by main industries



Source: Vietnam General Statistic Office, KB Securities Vietnam

Fig 3. Vietnam – Estimated impact from COVID-19 to base case 2020 GDP growth forecast



Source: KB Securities Vietnam

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(based on expectations for absolute price gains over the next 6 months)

Buy:	Hold:	Sell:
+15% or more	+15% to -15%	-15% or more

### Investment Ratings for Sectors

(based on expectations for absolute price gains over the next 6 months)

Positive:	Neutral:	Negative:
Outperform the market	Perform in line with the market	Underperform the market

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