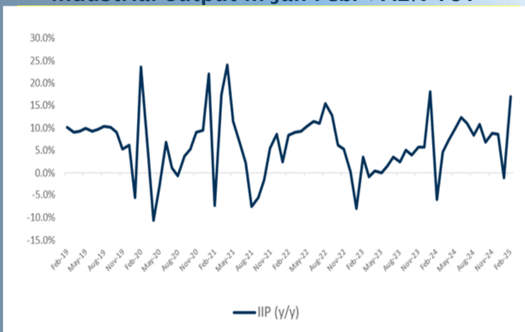
Vietnam Macro **14 March 2025**

Industrial output in Jan-Feb: +7.2% YoY



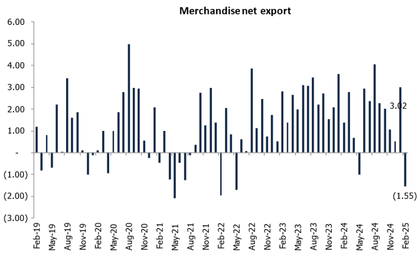
What's new?

- The crucial positive takeaway: Public investment disbursals (+21.7% YoY).
- Industrial output in 2M24 expanded by +7.2% YoY, driven by manufacturing (+9.3% YoY).
- 2M25 retail sales rose by +9.4% YoY on continued strength in tourism.
- Inflation is low and softening. Feb CPI +1.32% / Core CPI +2.97%.

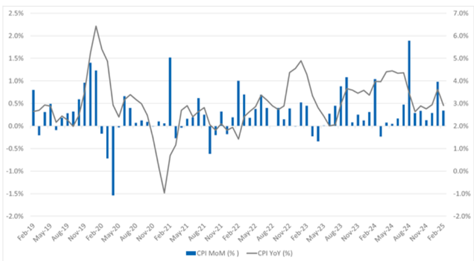
Our View

- The Jan-Feb macro results eliminate the Tet skew and allow us to better understand the underlying economic conditions of 1Q25.
- The YOY decline in the trade surplus doesn't worry us very much. Surging merchandise imports in Feb suggest continued confidence in external demand among manufacturers.
- USD softness, low-and-falling CPI, and 8% GDP growth ambitions imply room for policy loosening by the SBV going forward.

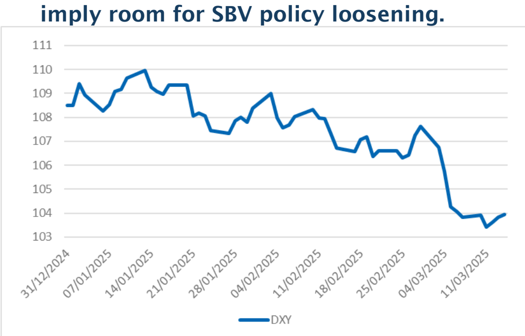
2M 2025 merchandise trade surplus came in at US$1.6bn



Low and declining inflation...



... amid the USD weakness since Jan 20 imply room for SBV policy loosening.



Sources: *S&P Global, GSO, FiinPro, Yuanta Vietnam*

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From hesitance to determination

What's good? Public investment disbursals increased by +21.7% YoY in 2H24. Our view is that the implications of this evident shift from hesitancy to determination on infrastructure investment are greater than the immediate impact on this year's GDP result. The assets created by these investments will continue to generate economic activity for years, and taking action (not just talking and planning) will also boost the nation's confidence in the road ahead, which implies a positive outlook for private sector investment and consumption.

What's bad? The GSO data indicates +7.3% YoY growth in industrial output in 2M24, but the manufacturing PMI in February remained below 50 for the 3rd month in a row. This suggests at lease a moderate level of uncertainty regarding external demand as well as ongoing frictions in the global merchandise trade system. We are not particularly worried about the YoY contraction in the 2M24 merchandise trade surplus, but the fall in exports to China (-1.6% YoY) & ASEAN (-1.4%YoY) could be a concern.

Trump administration tariffs targeting Vietnam have soared to… zero. The consensus view among the global talking head community was that Vietnam would be first in the crosshairs of US trade belligerence, but this expectation hasn't panned out -- in line with our prospective argument since December, when it was not a particularly popular opinion. Vietnam's leadership is actively engaging with the new US administration on trade and other issues (e.g., the trade minister's US trip this week).

Of course, this could change at any time. We continue to expect very low tolerance for transshipment through Vietnam of PRC-made finished goods, a tariff avoidance mechanism that was relatively ignored by the Biden administration. A widely misquoted Harvard study suggests that this practice accounted for 1.8-16.1% of exports to the USA in 2021. According to the authors, 1.8% is almost certainly too low and 16.1% too high, but the truth is likely within that range. In any case, increasing the domestic value-add of such products would be a net positive for Vietnam.

Probable roadmap for SBV policy implies a benign environment for financial assets. 1) DXY (i.e., the US dollar) has fallen by -5.0% since President Trump's inauguration, taking pressure off the VND. 2) Domestic inflation is low and softening. 3) The authorities are targeting 8% GDP growth for 2025. SBV monetary policy easing to boost GDP growth, in our view. These 3 factors suggest room for the SBV to loosen monetary policy, which in turn implies a benign environment for risky assets, including stocks, in the months ahead.

Macro Update – Impressive public investment growth

--Binh Truong, Deputy Head of Research
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Public investment is likely to remain a key growth driver throughout the year

- Public investment in 2M2025 posted strong +21.7% YoY growth – this is a positive surprise that we increasingly believe will continue to drive overall growth in 2025.
- 2M2025 Industrial Production Index (IIP) increased by +7.2% YoY, signifying continued growth in the industrial sector.
- 2M2025 retail sales rose by +9.4% YoY driven by strong tourism and hospitality.
- Vietnam welcomed another 1.9mn international visitors in Feb (+23.7% YoY), bringing the 2M2025 total to 3.96mn international visitors (+30.2% YoY).
- 2M2025 export turnover increased by +8.4% YoY, driving a merchandise trade surplus of US$1.5bn.
- 2M2025 FDI disbursals reached $2.95 billion, representing a stable +5.4% YoY increase.
- But pledged FDI posted an impressive +57.6% YoY jump in 2M25, suggesting that strong FDI disbursals should persist going forward.
- Inflation slowed in February. Low CPI and a weakening US dollar suggest room for monetary policy easing by the SBV.

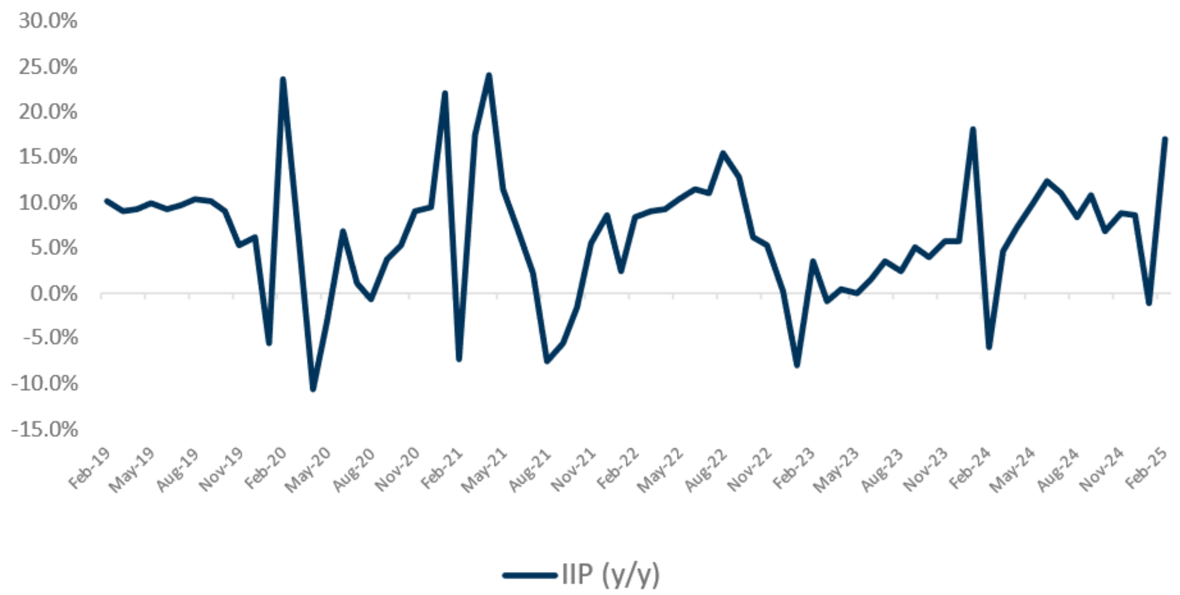
Short-term risks:

- PMI registered contraction for the third month running in February, although the rate of contraction slowed from the January survey.
- Exports should be monitored closely, as the GSO reported declining 2M2025 merchandise exports to China (-1.6% YoY) and ASEAN (-1.4%YoY).

Industrial output growth resumed after Tet

The 2M2025 IIP in 2025 posted a +7.2% YoY increase underpinned by the February expansion of +17.2% YoY. This was largely driven by the strong 2M2025 performance of the processing and manufacturing sector (+9.3% YoY). Electricity and water supply output also showed gains of +2.3% YoY, and mining activity experienced a decline of -6.4% YoY.

Index of Industrial Production: 2M2025 IIP resumed growth after Tet



Source: GSO

Output of several key industrial products posted YoY growth in the first two months of 2025, including automobiles (+106.5% YoY), televisions (+58.1%), natural fiber textiles (+18.0%), motorcycles (+17.9%), apparel (+14.0%), leather footwear (+9.2%), aquaculture feed (+7.2%), NPK compound fertilizers (+6.9%), and cement (+6.6%).

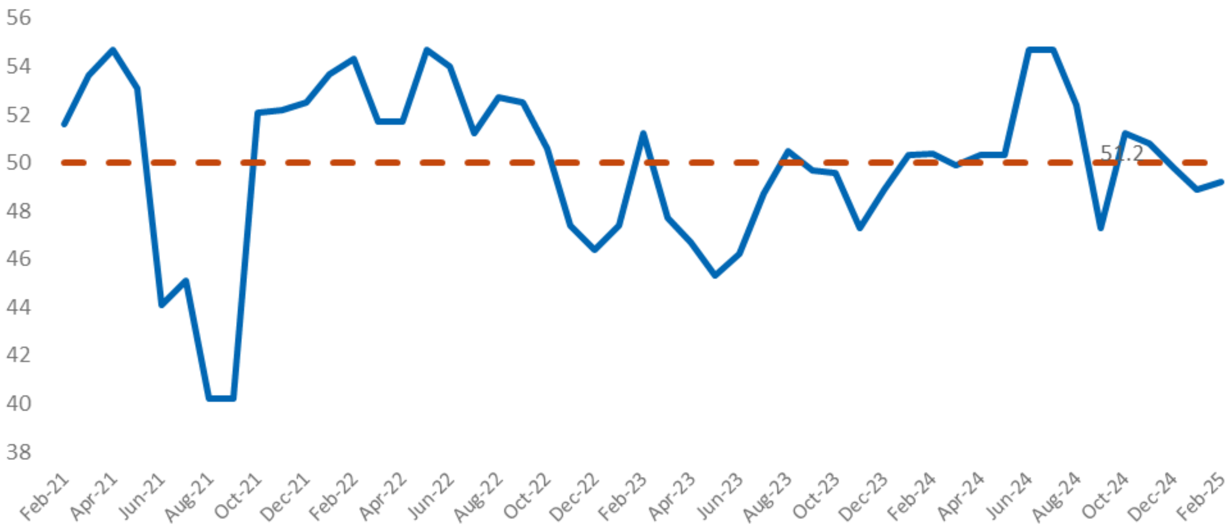
Conversely, several products saw YoY declines in output: natural gas (-15.8%), crude oil extraction (-8.1%), liquified petroleum gas (-7.9%), gasoline and oil (-4.5%), rolled steel (-3.0%), and cigarettes (-2.8%).

Industrial firms expanded hiring in February, suggesting a moderately positive outlook. The number of workers employed in total industrial enterprises as of February 1, 2025 increased by +1.0% MoM / +4.4% YoY. More specifically, domestic private enterprise employment increased by +0.4% MoM / 3.2% YoY; foreign-invested enterprise employment increased by +1.3% MoM / +5.2% YoY, while SOE employment was flat MoM / +0.3% YoY.

Manufacturing PMI: Contraction for the third month

S&P's Vietnam Manufacturing PMI for Feb came in at 49.2, slightly higher than the 48.9 result of January but still pointing to contraction, which has been slowed by weak demand. This was the 3rd straight month of sub-50 PMI results.

PMI in Feb slightly higher than the previous month but still indicating contraction



Source: S&P Global

Respondents reported muted new orders from both domestic and global customers, in line with the GSO's reported decline in 2M2025 merchandise exports to China (-1.6% YoY) and ASEAN (-1.4% YoY).

Manufacturing employment also fell for the 5th consecutive month, as managers refrained from replacing staff who departed during the month.

However, purchasing activities picked up in February, reflecting both confidence in the outlook for the rest of 2025 as well as lack of confidence in the ability to source supplies quickly.

This trend was also seen in the monthly trade deficit in February, which was primarily driven by manufacturers importing parts and materials for processing into goods for export subsequently in the year.

Transportation constraints and rising freight costs are driving up input prices.

However, respondents lowered their selling prices for the second month in a row amid soft demand from customers.

The implications of higher costs and lower selling prices? Contraction in manufacturers' profit margins in 1Q25.

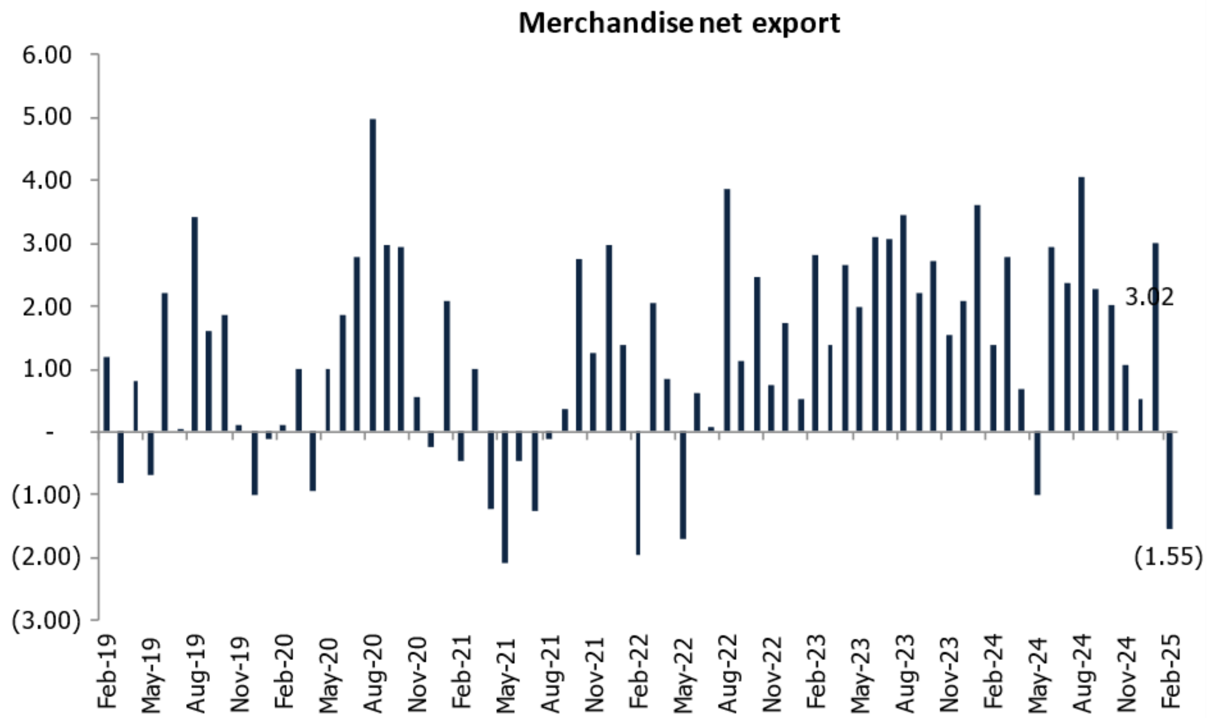
Trade surplus remains supportive in 2M25 but export to China and ASEAN should be monitored closely

The GSO reported a February merchandise trade deficit of US$1.6bn, so the (more meaningful) YTD merchandise trade surplus came to US$1.47 billion. The latter figure is down by -71% from the US$5.13bn goods trade surplus of 2M2024.

Specifically, 2M25 merchandise exports increased by +8.4% YoY, while merchandise imports surged +15.9% YoY. The import strength suggests improved future exports, as 93.7% of merchandise imports are component and material inputs for production of downstream goods.

2M2025 merchandise export turnover reached US$64.27 billion, an +8.4% YoY increase. Domestic sector accounted for US$17.92 billion (+12.8% YoY), representing 27.9% of total exports, while FDI sector goods (including crude oil) exports reached US$46.35 billion (+6.7% YoY), accounting for 72.1% of the total. But exports should be monitored closely given that the GSO reported *declines* in 2M2025 merchandise exports to China (-1.6% YoY) and ASEAN (-1.4%YoY).

Merchandise trade surplus reached US$1.5bn in 2M25



Source: GSO

Twelve products posted export turnover of over US$1 billion in 2M25, accounting for 77.8% of total exports. Four items exceeded US$5bn in export value, as highlighted in the table below.

Seven export items (above US$5bn) in 2M2025

	Est. 2M2025 export turnover (US$ mn)	% YoY growth
Major export product segments		
Electronic goods, computers and parts	12,535	25.3
Mobile phones and parts	9,215	-3.1
Machinery	7,692	10.3
Garment	5,634	9.3

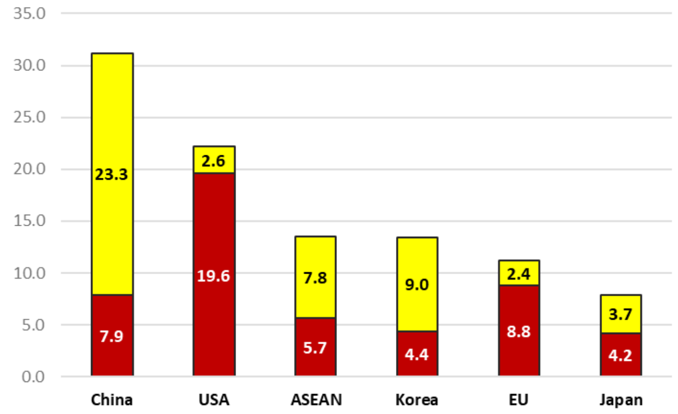
Source: GSO

2M2025 total merchandise import turnover reached US$62.8 billion (+15.9% YoY). Domestic sector imports reached US$22.8 billion (+18.7% YoY), while FDI sector imports reached US$40.0 billion (+14.4% YoY).

Vietnam's merchandise trade surplus with the United States reached US$17.0 billion (+16.3% YoY) in 2M25. The YTD surplus with the EU was US$6.4 billion (+19.2%); while the surplus with Japan was US$0.5 billion (+10x YoY).

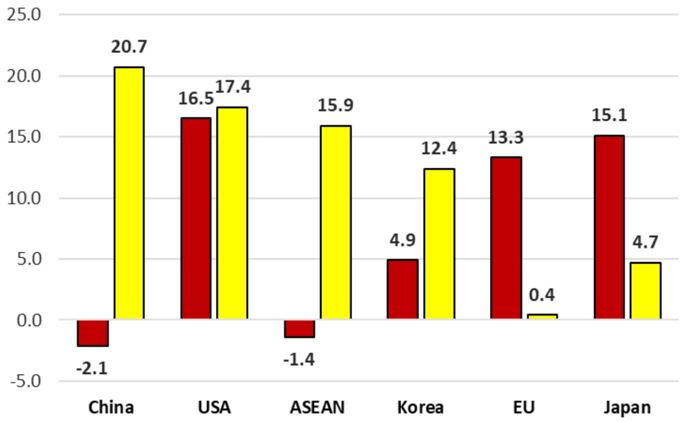
Vietnam's 2M24 trade deficit with China was US$15.4 billion (+36.9% YoY); the deficit with South Korea was US$4.6 billion (+20.6% YoY); and the deficit with ASEAN was US$2.1 billion (+116.8% YoY).

2M2025 trade by country (yellow: Imports, red: Exports)



Source: GSO

2M2025 trade growth by country (% YoY)



Source: GSO

Public investment – Confidence is building

Public investment in 2M25 posted strong growth. 2M2025 disbursals reached VND73.2 trillion (+21.7% YoY), representing 8.5% of the annual budget. Centrally managed projects accounted for VND10.2 trillion (+8.6% YoY), representing 7.8% of the annual budget; while locally managed investments reached VND 63.0 trillion (+24.2% YoY) or 8.6% of the annual plan.

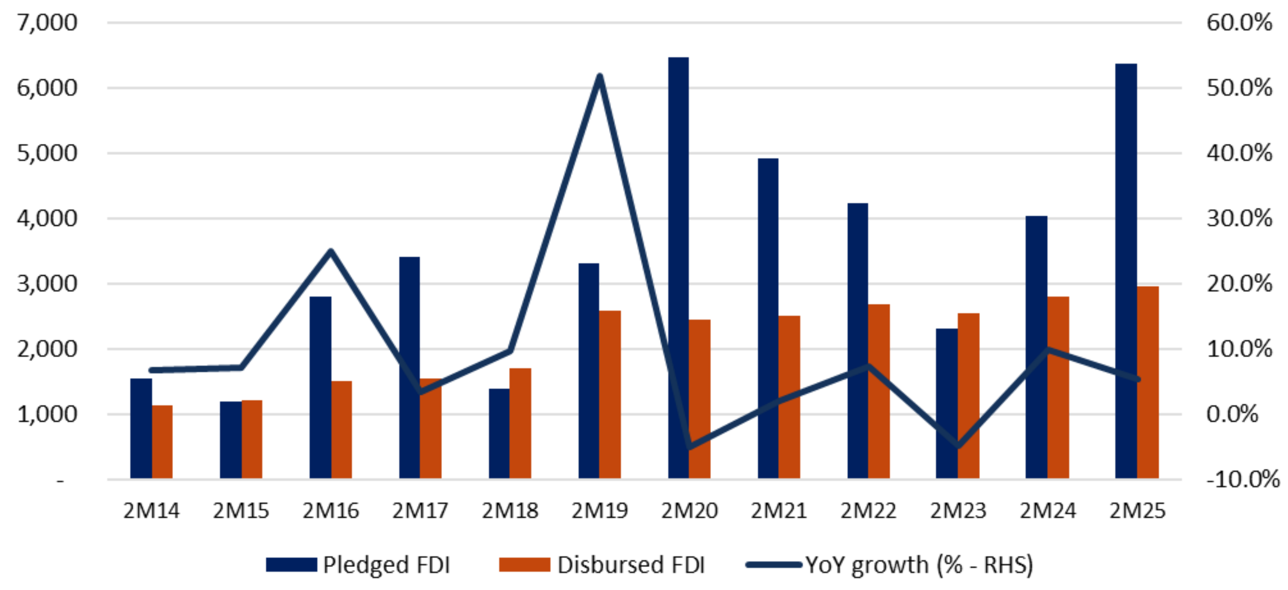
With the official 2025 GDP growth target now at +8.0%, public investment is a critical growth driver given what we see as continued soft domestic consumer spending. Overall public investment for 2025 is set at VND871 trillion, up by +32% compared to the actual disbursals of 2024.

Disbursed FDI in 2M25 reached US$2.95bn (+5.4% YoY), representing a stable growth rate.

January-February 2025 FDI disbursals comprised:

- **Manufacturing: US$2.42bn,** accounting for 82.1% of total disbursed FDI.
- **Property: US$203mn,** accounting for 6.9% of the FDI mix.
- **Gas, hot water, steam, and air-conditioning: US$122mn,** accounting for 4.1% of total disbursed FDI.

FDI disbursals in Feb 2025 posted an encouraging growth signal



Source: GSO

2M25 pledged FDI soared to US$6.37 billion (+57.6% YoY), suggesting a solid runway for future disbursals. Within this total, additional capital into projects already under development jumped to US$4.18bn, up by nine-fold vs. that of last year.

This result confirms our opinion that US President Trump's trade policies targeting China would add momentum to what is now a long-term trend of manufacturing capacity diversification by multinational companies. It's not "China +1", but it is "China + many"; and Vietnam clearly remains a favorite FDI destination among the "many".

Consumer spending remains solid: Thank-you, tourists

2M25 retail sales of goods and services reached an estimated VND1,138 trillion (+9.4% YoY), which was slightly higher growth than the +8.4% increase of 2M24. Inflation-adjusted growth in total receipts reached +6.2% YoY, also higher than that of 2M24 (+5.3%).

The continued increase is largely attributable to ongoing growth in tourism, which boosted sales in the hospitality and catering sectors.

Retail sales exhibit impressive growth in 2M25 (VND trillion)

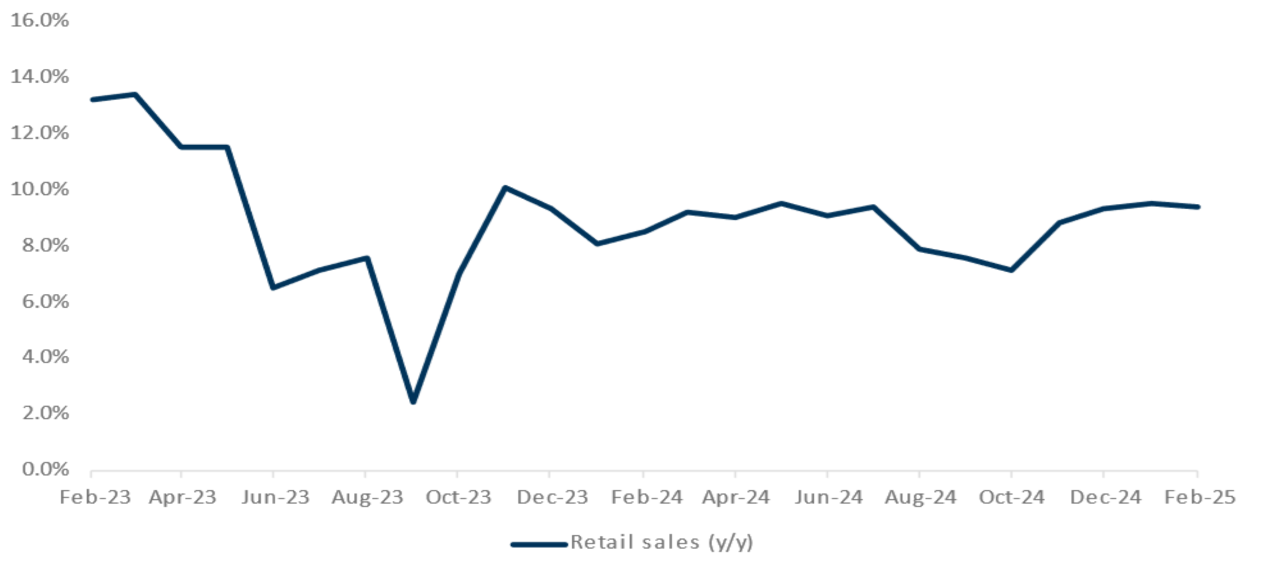
Retail sales	Est. Feb 2025	Est. 2M2025	Feb 2025 (% YoY growth)	2M2025 (% YoY growth)
Retail sales	562	1,138	9.4	9.4
Retail sales of Good	433	878	8.3	8.7
Hospitality and catering	65	131	12.7	12.5
Tourism	7	14	17.3	16.4
Others	57	114	13.6	10.2

Source: GSO

Vietnam welcomed another 1.9 million international visitors in Feb (+23.7% YoY) and 3.96 million visitors in 2M25 (+30.2% YoY). International visitors are set to extend this momentum following Resolution No. 44/NQ-CP on March 7, which extends visa exemptions to citizens of Germany, France, Italy, Spain, the United Kingdom and Northern Ireland, Russia, Japan, South Korea, Denmark, Sweden, Norway, and Finland.

Last year's Comprehensive Strategic Partnership with the USA evidently does not extend to visa-free entry for the latter's citizens, but don't worry – my uncle knows a visa agent who can help.

Retail sales exhibit impressive growth in Jan-Feb 2025



Source: GSO

Retail merchandise purchases rose by +8.7 YoY in nominal terms in 2M25 to reach VND878 trillion, accounting for 77.3% of total retail sales.

We continue to like consumer retailers such as **MWG (BUY), FRT (BUY), and PNJ (BUY)** as proxies on Vietnam's expanding middle class.

Inflation pressure has eased substantially

The February 2025 Consumer Price Index (CPI) increased by +0.32% MoM / +1.32% YoY. Core inflation, which excludes volatile food and energy prices, rose by +2.97% YoY.

The softening CPI comes despite the government having increased its CPI guidance for 2025 to 4.5-5.0% YoY, up from 4.0-4.5% previously. This reflects a moderately higher official tolerance of future inflation, which may have implications for monetary policy loosening going forward.

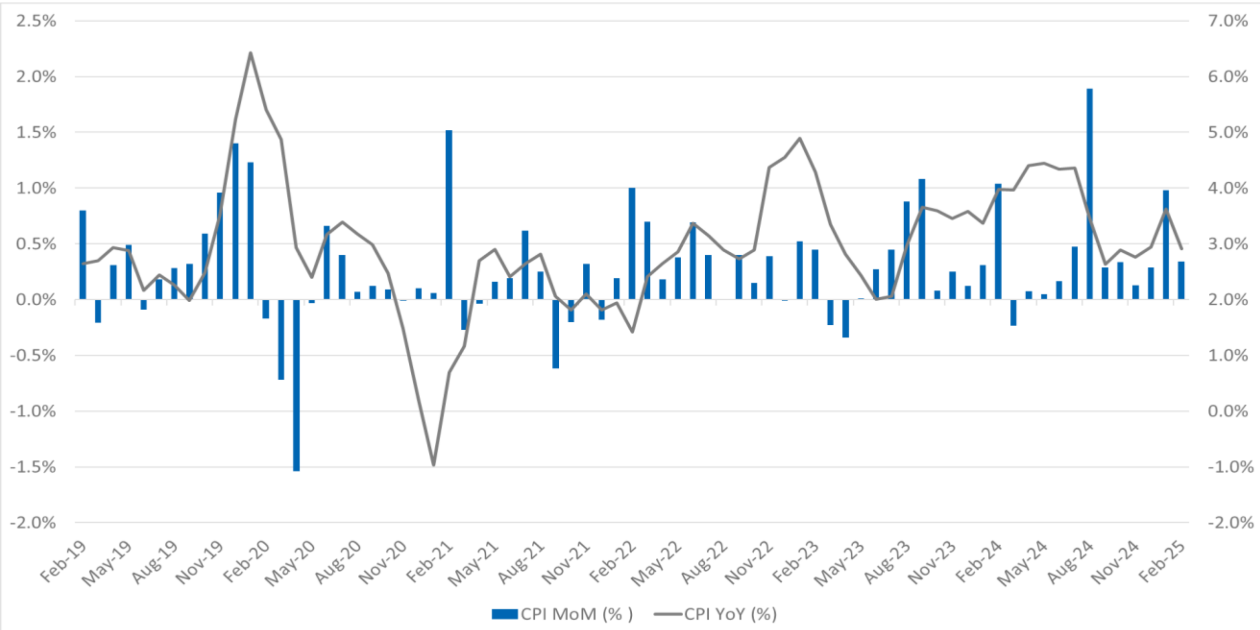
Nine out of the 11 items in the CPI basket posted increased prices on a MoM basis in February. Specifically, prices of --

- **Food and catering services (33.6% of the CPI basket) increased by +0.43% MoM.** Within this category food prices rose by +0.41% MoM (lead by pork: +1.74% MoM), and outside-the-home dining increased by +0.75% MoM.
- **Medicines and medical services (5.39% of the CPI basket) rose by +0.31% MoM** as some localities adjusted healthcare services fees in accordance with Circular 21/2024/TT-BYT.
- **Transport (9.7% of the CPI basket) rose by +0.63% MoM**, as transport demand picked up during Tet. Railway fares rose by +61.99% MoM, while air fares rose by +25% MoM. In addition, petrol prices rose by +0.61% MoM.
- **Housing and building materials (18.8% of the CPI basket) increased by +0.35% MoM** as rental fees rose by 0.8% due to strong demand and increasing house prices.

By contrast, two items posted price declines:

- **Telecommunications (3.14% of the CPI basket) fell -0.03% MoM** as prices of mobile phones, tablets, and parts slid by -0.75% MoM.
- **Clothing (5.7% of the CPI basket)** slid by -0.11% MoM following higher prices in January, during the run-up to the Tet holidays.

Inflation has been tamed over the past few months



Source: GSO

Short-term inflation pressure has eased. Oil prices declined MoM (e.g., Brent crude: -6.7% MoM) and manufacturers registered softer input costs (as discussed above in the PMI section). This implies softer inflation pressures in the short-term. In addition, DXY at 103.6 represents a sharp correction from the peak level of 110 in January. A weaker USD amid soft domestic inflationary pressure suggests room for monetary policy easing going forward, in our view.

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