

Week Ahead Economic Preview

US inflation and UK GDP in focus as markets assess rate paths

7 July 2023

Inflation data in the US takes centre stage in the coming week as investors seek guidance on the Fed's next steps after it paused its rate hikes in June. In Europe there will be new data for the hawkish-sounding Bank of England and ECB to digest via UK GDP and labour market data, as well as Eurozone industrial production and trade statistics. Key data releases will also add insights into whether Beijing will add more stimulus to help its struggling post-pandemic recovery. Central bank policy decisions are meanwhile due in Canada and South Korea, as are speeches from a series of FOMC members and RBA governor Lowe.

The markets are pricing in a return to rate hikes from the FOMC at its July meeting after it skipped a hike in May, though the upcoming inflation data will clearly add to the debate as to whether the existing tightening, which has taken the Fed funds rate to 5.00-5.25%, is taking effect. Consumer confidence and credit data will also add insights. Recent survey data showed the US economy growing increasingly dependent on the service sector to sustain growth, concentrating the stickiness of inflation in consumer- and financial -focused services.

While the scales are tipped toward Canada being the next major economy to hike rates again in the coming week, data out of mainland China will be eyed for signs of the need for further economic stimulus. China's inflation is expected to remain benign, while trade and money supply data could disappoint after June saw weak PMI survey numbers.

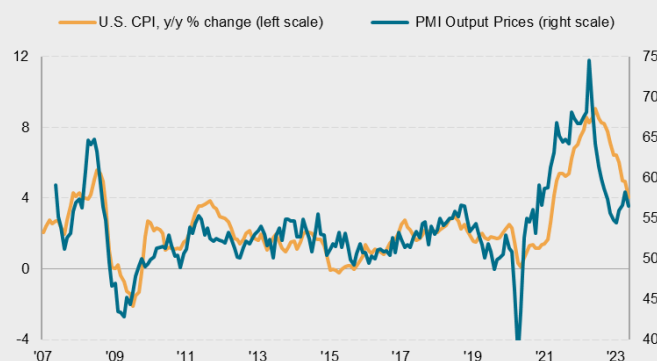
Further rate hikes are meanwhile pencilled in for both the Bank of England and ECB, though with the coming week only seeing official releases in the form of backward-looking UK GDP and manufacturing-heavy production and trade data in the Eurozone, there could be little to change the debate in the near-term. The exception could be UK labour market data, and in particular any signs of stubborn wage growth.

Finally, how market sentiment is bearing up will be revealed by the latest S&P Global Investment Manager Index (IMI), the [June release](#) of which showed risk appetite buoyed by reduced US debt ceiling and banking sector worries, as well as easing drags from the macro environment. The tech sector jumped up the investor rankings while real estate and consumer discretionary remained least in favour.

Focus on US inflation and UK GDP

Some stickiness to US inflation is widely anticipated when CPI numbers for June are released on Wednesday, as signaled ahead by the S&P Global PMI data. Average prices charged for goods and services rose sharply again in June, according to the survey, the rate of increase remaining well above the average seen in the decade prior to the pandemic. Although prices charged for goods were largely unchanged, prices levied for services continued to rise at a solid pace, albeit with the rate of inflation losing some heat.

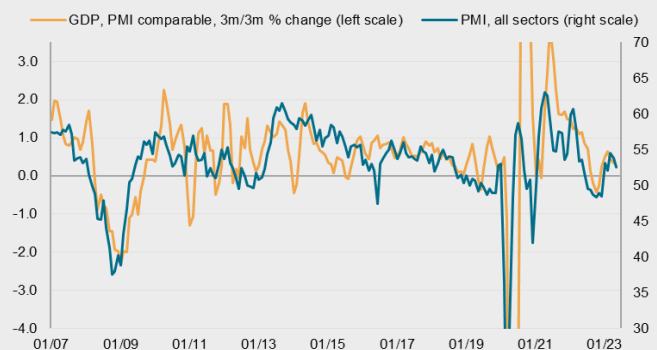
US inflation and the PMI output prices index



Data compiled June 23, 2023 using flash PMI data for June. PMI covers manufacturing only prior to 2009 but manufacturing & services thereafter. Source: S&P Global PMI, BEA via S&P Global Market Intelligence. © 2023 S&P Global.

The UK is meanwhile likely to have avoided an economic downturn in the second quarter, with GDP data for May expected to have shown a modest rise according to recent PMI data. However, there are signs of the recovery losing momentum as we head into the second half of the year to suggest the revival may prove short-lived.

UK PMI and GDP compared



Data compiled June 23, 2023. PMI covers manufacturing and services. GDP excludes public sector, retail and energy production. Sources: S&P Global PMI, CIPS, ONS. © 2023 S&P Global.

Key diary events

Monday 10 July

Japan trade balance (May)
Japan bank lending (Jun)
China mainland CPI inflation and PPI (Jun)
Netherlands industrial production (May)
Norway CPI inflation (Jun)
Sweden MPC minutes
Canada building permits (May)
US wholesale inventories (May)
US consumer credit (May)

Tuesday 11 July

Australia consumer confidence (Jul)
Netherlands CPI inflation (Jun)
Germany CPI inflation (Jun)
UK labour market report (Apr-Jun)
Mainland China new loans, money supply (Jun)
Italy industrial production (May)
Germany ZEW survey (Jul)
Brazil CPI (Jun)
S&P Global Investment Manager Index (Jul)

Wednesday 12 July

S Korea unemployment (Jun)
Japan PPI (Jun)
Japan machinery orders (Jun)
Spain CPI inflation (Jun)
India industrial production (May)
India CPI inflation (Jun)
Mexico industrial production (May)
US CPI inflation (Jun)
Canada BoC interest rate decision

Thursday 13 July

S Korea interest rate decision
Mainland China balance of trade (Jun)
UK monthly GDP inc. manufacturing, services and construction output (May)
UK trade balance (May)
UK BoE credit conditions survey (Q2)
France CPI (Jun)
Eurozone industrial production (May)
Eurozone ECB monetary policy meeting accounts
US PPI inflation (Jun)
US weekly jobless claims
US monthly budget (Jun)

Friday 14 July

Singapore (Q2)
Japan industrial production (May)
Sweden CPI inflation (Jun)
Italy balance of trade (May)
Eurozone balance of trade (May)
Brazil retail sales (May)
India balance of trade (Jun)
US University of Michigan consumer confidence prelim (Jul)

* Press releases of indices produced by S&P Global and relevant sponsors can be found [here](#).

What to watch

Americas: US inflation, consumer confidence plus FOMC speeches, Bank of Canada rates decision

Headline US inflation is expected to have risen by 0.3% in June, up from 0.1% in May. Core inflation is seen to have dipped from 0.4% but only to 0.3%. Such stickiness of the latter will worry the FOMC, though scheduled speeches from a number of Committee members will provide further insights into current thinking on the future path of policy. Weaker PPI data could well help soften inflation concerns, though it will also be important to assess the perceived health of the consumer via updated sentiment and credit data. Recent PMI data have shown lower factory prices data being offset by rising prices for services, notably in consumer markets.

The Bank of Canada is meanwhile widely expected to hike its policy rate by 25 basis points to 5.0%, though the odds of such action have fallen in recent sessions after headline inflation fell from 4.4% to 3.4% in May and recent Bank surveys showed inflation and wage expectations cooling.

Europe: UK GDP and labour market report, Eurozone industrial production and ECB policy meeting account

With the Bank of England and ECB busy making noises about how interest rates in Europe need to rise further, there will be new insights into the health of the UK and eurozone economies. In the UK, May GDP data are widely anticipated to add to signs that the economy grew marginally in the second quarter, likely reflecting a resilient service sector helping counter manufacturing weakness. However, policymakers will likely be more interested in the labour market data, and in particular wage growth, which has surprised to the upside in recent months. Consumer credit data will meanwhile provide insights into the impact of prior rate hikes. In the eurozone, we expect to see some weak data on industrial production and trade.

Asia-Pacific: Mainland China inflation, money supply and trade, Japan industrial production, PPI and trade, South Korea policy rate decision

In APAC, China's problem is growth rate than inflation. Consumer price inflation in mainland China was running at just 0.2% annually in May, with producer prices falling 4.6% on a year ago. It will therefore be the trade and money supply data that potentially hold most interest. In Japan, a two-speed economy is evident in the survey data, so buoyant service sector trends are likely to be countered by subdued industrial production and trade data.

Also watch out for a speech by RBA governor Lowe.

Special reports:

Global growth loses momentum as service sector slowdown accompanies factory downturn | Chris Williamson | [page 4](#)

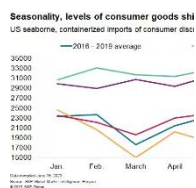
Vietnam Economy Moderates in First Half of 2023 as Exports Slump | Rajiv Biswas | [page 7](#)

Recent PMI and economic analysis from S&P Global

Global	Flash PMI data for June signal cooler global price trends amid mounting growth risks	23-Jun	Chris Williamson
	Global pricing power sinks to two-and-a-half year low as higher interest rates take their toll	22-Jun	Chris Williamson
	Nigerian business activity recovers as cash crisis eases	19-Jun	Andrew Harker
	Uneven impact of high interest rates: manufacturing struggles while service thrives	19-Jun	Pollyanna De Lima
	Monthly PMI Bulletin: June 2023	9-Jun	Jingyi Pan
Europe	UK Flash PMI surveys signal growth slowdown in June as rate hikes take their toll	23-Jun	Chris Williamson
	Eurozone flash PMI shows inflation pressures cooling in June as economic upturn fades	23-Jun	Chris Williamson
Asia-Pacific	APAC tourism surges in first half of 2023	25-Jun	Rajiv Biswas
	Japan June flash PMI data signal solid expansion at end of Q2 despite moderation in growth momentum	23-Jun	Jingyi Pan
Commodities	Weekly Pricing Pulse: Commodity prices up as natural gas supply concerns reemerge	22-Jun	Michael Dall

S&P Global Economics & Country Risk highlights

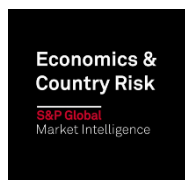
Right place, right time: Supply chain outlook for third quarter 2023



Supply chains are almost back to normal in terms of activity, inventories and seasonality. Yet, there are plenty of uncertainties in both the government policy and physical risk heading into the second half of 2023 as firms start to implement long-term supply chain restructuring plans.

[Click here to read our research and analysis](#)

PMI Insights: Evolving trends in sub-Saharan Africa



Our Purchasing Managers' Index team compiles data for more than 40 economies around the world. In this episode, the economists unpack recent events in sub-Saharan Africa and discuss how the PMI data illuminate economic trends across the region. In for the latest trends seen in our Purchasing Managers Index data.

[Click here to listen to this podcast by S&P Global Market Intelligence](#)

For further information:

For more information on our products, including economic forecasting and industry research, please visit <https://www.spglobal.com/>. For more information on our PMI business surveys, please visit [here](#).

The intellectual property rights to the data provided herein are owned by or licensed to S&P Global and/or its affiliates. Any unauthorised use, including but not limited to copying, distributing, transmitting or otherwise of any data appearing is not permitted without S&P Global's prior consent. S&P Global shall not have any liability, duty or obligation for or relating to the content or information ("data") contained herein, any errors, inaccuracies, omissions or delays in the data, or for any actions taken in reliance thereon. In no event shall S&P Global be liable for any special, incidental, or consequential damages, arising out of the use of the data. Purchasing Managers' Index™ and PMI™ are either registered trade marks of Markit Economics Limited or licensed to Markit Economics Limited and/or its affiliates.

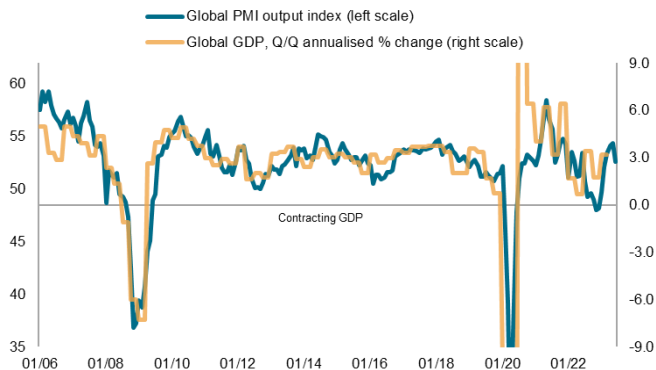
Special Focus

Global growth loses momentum as service sector slowdown accompanies factory downturn

The global economy continued to expand in June, according to the S&P Global PMI surveys, based on data provided by over 27,000 companies. However, expansions slowed in almost all major economies as a broad-based weakening of service sector growth was accompanied by a renewed downturn in worldwide manufacturing output. The resulting rise in global business activity was the weakest since February.

Companies expect this divergence to persist and potentially widen in the near term, with optimism sliding further below its long run average in manufacturing but rising in the service sector.

Global economic growth and the PMI



Data compiled June 2023 including PMI data to June 2023. PMI (Purchasing Managers' Index) 50 = no change on prior month. Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence. © 2023 S&P Global.

Global output growth cools from 18-month high

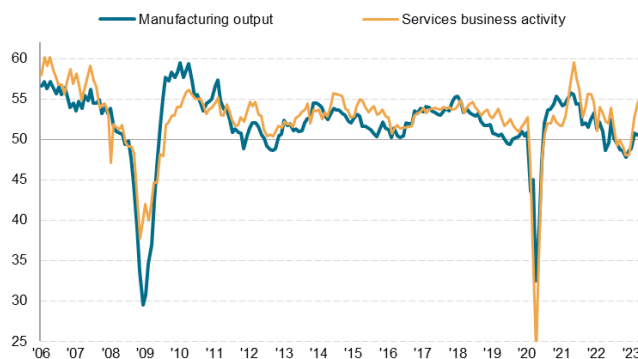
Global economic growth slowed in June to its lowest since February, according to the Global PMI data – compiled by S&P Global across over 40 economies and sponsored by JPMorgan. The headline output index fell from an 18-month high of 54.4 to 52.7. The current reading is broadly consistent with solid annualized quarterly global GDP growth of around 3%, but the rate of expansion has cooled at the end of the second quarter and there are some important sector variations.

Expansion driven by service sector

The latest PMI indicates that the global economy has grown for five successive months, with this renewed expansion having been driven primarily by a resurgence of service sector activity, in turn often linked to reviving post-pandemic demand. However, this service sector growth spurt showed signs of waning in June, as services activity growth slipped to a four-month low. New business inflows into the service sector sank to a three-month low, in part the result of slower growth in worldwide services trade.

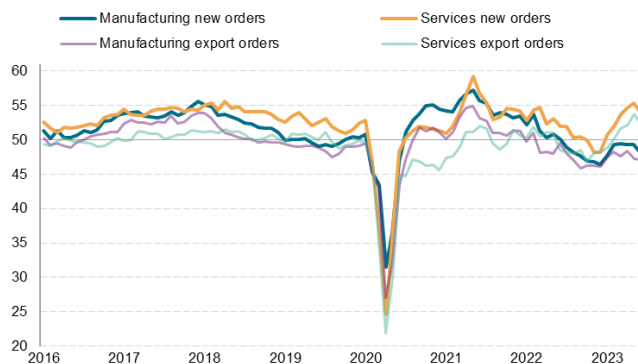
Manufacturing meanwhile tipped back into decline after four months of tepid growth; a spell of expansion which had been fueled principally by supply chain improvements rather than rising demand. Demand for goods – as measured by new order inflows– fell for a twelfth successive month in June, declining at the sharpest rate since January. Global goods export orders fell in June at the steepest rate since last December.

Global PMI output by sector



Data compiled June 2023 including PMI data to June 2023. PMI index 50 = no change on prior month. Source: S&P Global PMI, S&P Market Intelligence, J. P. Morgan. © 2023 S&P Global.

Global PMI new orders



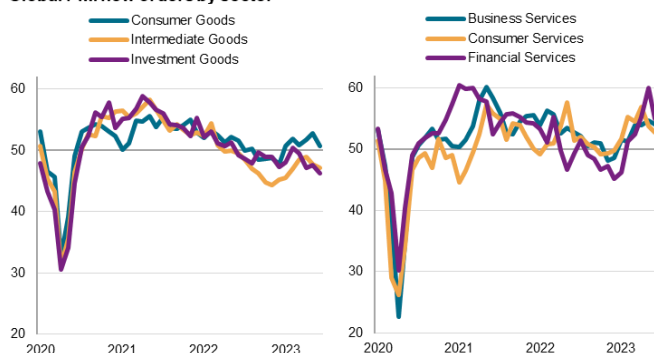
Data compiled June 2023 including PMI data to June 2023. PMI (Purchasing Managers' Index) 50 = no change on prior month. Sources: S&P Global PMI with J.P.Morgan, S&P Market Intelligence © 2023 S&P Global.

Financial services lead global expansion as consumer industries see signs of fading demand

Looking further into demand growth, the strongest improvement among the broad categories of goods and services monitored by the PMI was recorded for financial services, where growth cooled from May's recent peak but remained firm by historical standards. Financial services have therefore taken over from consumer services as the main growth driver, the latter having reported the sharpest demand growth from last December through to May. Although demand for consumer services continues to grow, June's gain was the smallest since January to hint at some waning of this area of recent strength in the global economy. Steady, albeit slightly softer, growth was meanwhile recorded in demand for business services.

In the manufacturing sector, demand growth more or less stalled for consumer goods, though this nevertheless represented a stronger performance than the accelerating rates of contraction recorded for investment goods (such as plant and machinery) and intermediate goods (inputs sold to other firms).

Global PMI new orders by sector



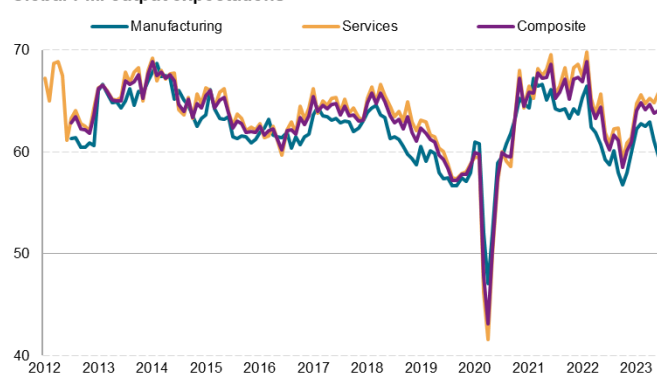
Data compiled June 2023.
PMI 50 = no change on prior month.
Sources: S&P Global PMI with J.P. Morgan.
© 2023 S&P Global.

Mixed outlook

Looking ahead, the survey data suggests that the unusual divergence between the manufacturing and service sectors looks set to persist and potentially widen.

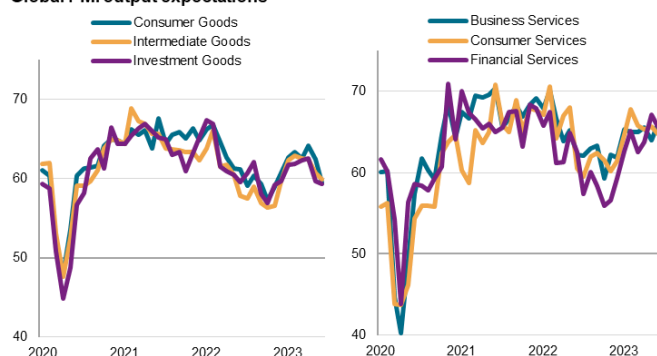
Business expectations about output growth in the year ahead sank further in the manufacturing sector, down to a seven-month low to run well below the series' long-run average. In contrast, the service sector became more optimistic about the year ahead, with expectations rising to a 13-month high and running well above the long-run average. However, this improvement was limited to business services, with sentiment slipping for both consumer services and financial services sectors.

Global PMI output expectations



Data compiled June 2023 including PMI data to June 2023.
PMI (Purchasing Managers' Index) 50 = no change no change in output over next 12 months.
Sources: S&P Global PMI with J.P. Morgan, S&P Market Intelligence
© 2023 S&P Global.

Global PMI output expectations



Data compiled June 2023.
PMI 50 = no change over next 12 months.
Sources: S&P Global PMI with J.P. Morgan.
© 2023 S&P Global.

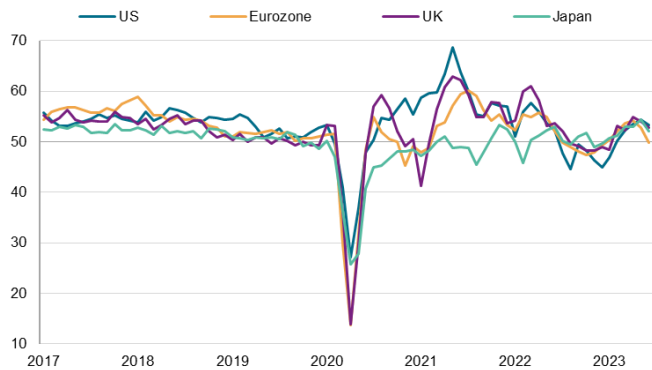
India heads global expansion

The outperformance of services relative to manufacturing was common in all 12 major developed and emerging economies covered by the PMI with the exception of India, which continued to lead the global growth rankings in June. Russia reported the second-strongest expansion, in part due to increased import substitution amid ongoing sanctions. Russia was the only economy to report faster overall business growth in June.

The eurozone was the worst performer, suffering a marginal contraction of output after five months of expansion. Growth meanwhile slowed to three-month lows in the UK and US and slipped to a four-month low in Japan.

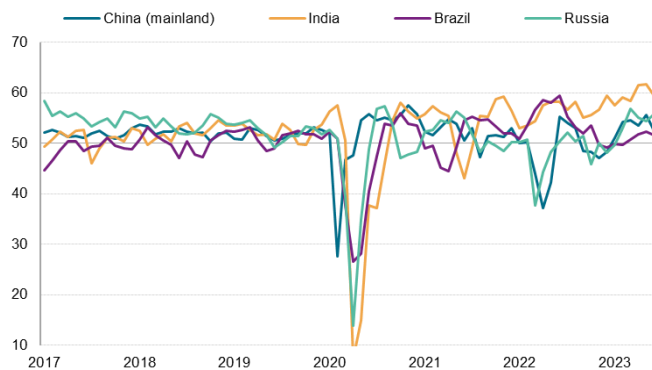
In mainland China, this year's post-COVID-19 economic bounce lost pace, with overall business activity across manufacturing and services growing at the slowest rate since January. A cooldown in manufacturing output growth was accompanied by a marked slowing in service sector growth.

Major developed economies, output (manufacturing & services)



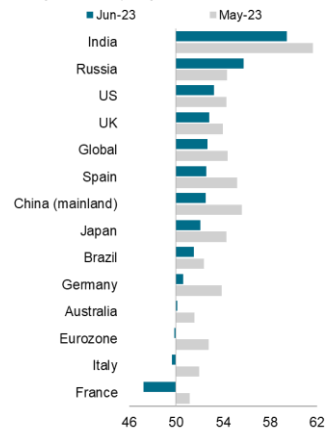
Data compiled June 2023 including PMI data to June 2023.
 PMI index 50 = no change on prior month.
 Source: S&P Global PMI, S&P Global Market Intelligence, HCOB, CIPS, au Jibun Bank.
 © 2023 S&P Global.

Major emerging economies, output (manufacturing & services)



Data compiled June 2023 including PMI data to June 2023.
 PMI index 50 = no change on prior month.
 Source: S&P Global PMI, S&P Global Market Intelligence, Caixin.
 © 2023 S&P Global.

Composite PMI, output index



Data compiled June, 2023.
 PMI index 50 = no change on prior month. Covers manufacturing and services.
 Source: S&P Global PMI, JPMorgan, HCOB, CIPS, au Jibun Bank, Judo Bank, Caixin.
 © 2023 S&P Global.

PMI output index



Access the global PMI press release [here](#).

Chris Williamson
 Chief Business Economist
 S&P Global Market Intelligence
 London
 T: +44 779 5555 061
chris.williamson@spglobal.com

Special Focus

Vietnam Economy Moderates in First Half of 2023 as Exports Slump

Vietnam's GDP growth rate moderated to a pace of 3.7% year-on-year (y/y) in the first half of 2023, after rapid GDP growth of 8.0% y/y in 2022. Vietnam's manufacturing export sector has faced increasing headwinds due to slowing growth in the US and EU, which are two key export markets accounting for over 40% of Vietnam's goods exports. Vietnam's goods exports fell by 12.3% y/y in the five months of 2023.

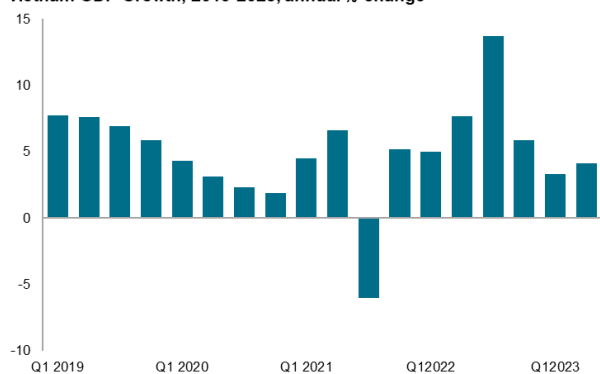
Severe power outages due to a protracted heatwave have compounded the near-term challenges facing Vietnam's manufacturing sector, with many factories having been hit by recurring power blackouts.

Despite the near-term downturn in exports, Vietnam is expected to resume rapid economic growth over the medium-term economic outlook, as exports rebound. Vietnam is expected to continue to be a key beneficiary of the shift in global manufacturing supply chains towards competitive Southeast Asian manufacturing hubs.

GDP growth softens as exports weaken

Vietnam's real GDP grew by 8.0% in 2022, as the economy rebounded strongly from the economic disruption caused by the COVID-19 pandemic during second half of 2021. However economic growth momentum moderated significantly in the first half of 2023, to a pace of 3.7% y/y, reflecting the impact of weakening growth in industrial production and exports. The pace of GDP growth in the second quarter of 2023 was 4.1% y/y, somewhat improved compared with the 3.3% y/y rate recorded in the first quarter of 2023.

Vietnam GDP Growth, 2019-2023, annual % change

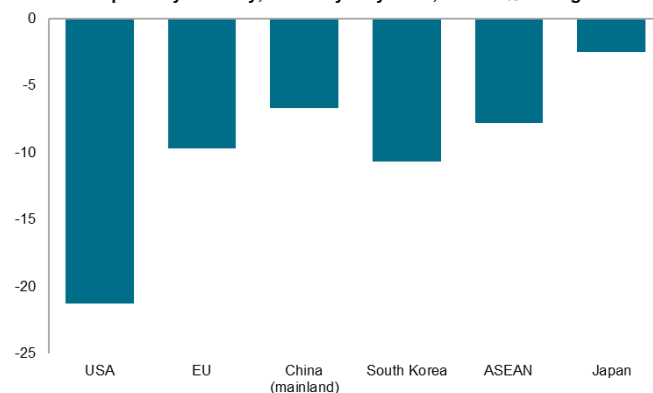


Data compiled June 2023. Source: S&P Global Market Intelligence. © 2023 S&P Global.

Vietnam's goods exports rose by 10.6% in 2022. However, the economic slowdown in the US and EU, which together account for 42% of Vietnam's total goods exports, has resulted in a significant weakening in exports during the first five months of 2023, with Vietnam's total goods exports declining by 12.3% y/y.

The US remains Vietnam's largest export market, accounting for 29.4% of total merchandise exports. Vietnam's exports to the US rose by 13.6% in 2022, with the bilateral trade surplus with US increasing to USD 95 billion. However, in the first five months of 2023, merchandise exports to the US fell by 21.3% y/y. Although exports of computers, electrical products and parts showed a small rise of 2.8% y/y for the five-month period, exports of mobile phones and parts fell by 34.3% y/y, while exports of textiles and garments fell by 27.1% y/y.

Vietnam Exports by Country, January-May 2023, annual % change



Data compiled June 2023. Source: Vietnam Customs via S&P Global Market Intelligence. © 2023 S&P Global.

Exports to the EU were also weak, declining by 9.7% y/y in the first five months of 2023. Exports to the EU of computers, electrical products and components fell by 30.7% y/y in the January-May 2023 period, while exports of textiles and garments to the EU fell by 6.2% y/y.

Exports to mainland China declined by 6.7% year-on-year in the first five months of 2023, but due to a rebound in exports in May, this was significantly better than the 12.9% y/y decline in exports to mainland China recorded in the first four months of 2023. Exports of computers, electrical products and components to mainland China fell by 0.8% y/y in the January-May 2023 period, much improved on the 14.9% y/y decline recorded for exports for this segment in the first four months of 2023. However, exports of mobile phones and parts to mainland China remained weak in the January to May 2023 period, declining by 15.4% y/y.

Reflecting the slump in exports, the manufacturing sector has slowed in the first half of 2023, with industrial production contracting by 1.2% y/y for the first six months of 2023, compared with strong positive growth of 8.5% y/y in the first

six months of 2022. Vietnam's industrial production had risen by 7.8% y/y in 2022, with manufacturing output up by 8.0% y/y.

The downturn in Vietnam's construction sector has also hit manufacturing output for building materials, with domestic cement sales down by 16% y/y in the January to April 2023 period. Construction steel sales in April 2023 were down by an estimated 15% y/y. For the first four months of 2023, steel sales were estimated to have declined by 23% y/y.

The challenges facing Vietnam's manufacturing sector have been compounded during May and June by power shortages resulting in electricity supply disruptions. A heat wave has driven up electricity consumption and reduced hydroelectric power supply, causing widespread disruption to manufacturing output due to power outages. Manufacturing production in industrial parks in northern regions of Vietnam have been particularly badly impacted, notably in Bac Ninh and Bac Giang provinces.

The S&P Global Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) posted below the 50.0 no-change mark for the fourth month running in June, signalling a sustained deterioration in the health of the sector. Although rising to 46.2 in June, up from 45.3 in May, the latest reading still pointed to continued contractionary operating conditions for Vietnam's manufacturing sector.

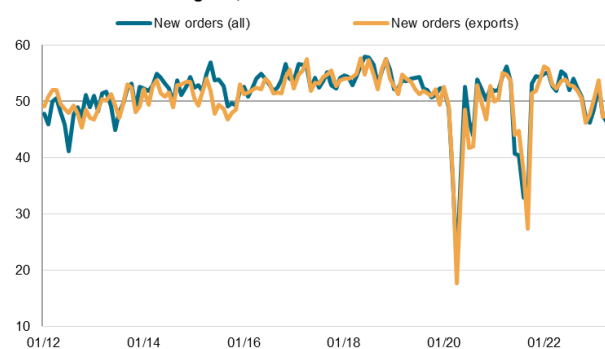
Vietnam manufacturing PMI



Data compiled June 2023 including PMI data to June 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI.
© 2023 S&P Global.

The PMI survey results showed that new export orders decreased more quickly than total new business amid declining demand in international markets. Demand weakness fed through to a further reduction in manufacturing production, while there were also a number of reports that power outages due to the heatwave in Vietnam had restricted output.

Vietnam manufacturing PMI, new orders indicators

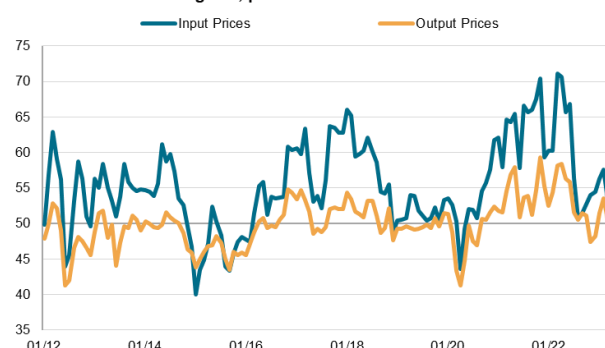


Data compiled June 2023 including PMI data to June 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI.
© 2023 S&P Global.

The weak demand environment acted to ease pressure on manufacturing output prices in June. Input costs decreased for the second consecutive month and at a solid pace that was the sharpest since April 2020. Falling input prices meant that firms had some leeway to reduce their own charges in a bid to stimulate demand. Output prices were down for the third month running, with the latest cut to charges the most pronounced in just over three years.

The CPI inflation rate moderated to 2.0% y/y in June 2023 compared with 3.4% y/y in March and 4.3% y/y in February. Core CPI inflation was higher, rising by 4.3% y/y in June and was up 4.7% y/y for the first six months of 2023.

Vietnam manufacturing PMI, price indicators



Data compiled June 2023 including PMI data to June 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI.
© 2023 S&P Global.

In response to rising inflation and the strengthening USD versus the dong during 2022, Vietnam's central bank, the State Bank of Vietnam (SBV), had raised its policy rate by 200bps in two 100bp steps during September and October 2022. However, with Vietnam's economy slowing significantly in the first half of 2023, the SBV has started easing monetary policy. The SBV cut its policy rates by 100bps on March 15th and again by 50bps on April 3rd as concerns have increased about the impact of rising interest rates on the property sector, which has faced rising liquidity

pressures. A further 50bps rate cut was announced on 23rd May as the economy has continued to slow, followed by a further 50bp rate cut on 16th June.

Medium term growth drivers

Over the medium-term outlook for the next five years, a number of key drivers are expected to continue to make Vietnam one of the fastest growing emerging markets in the Asian region.

First, Vietnam will continue to benefit from its relatively lower manufacturing wage costs relative to coastal Chinese provinces, where manufacturing wages have been rising rapidly over the past decade.

Second, Vietnam has a relatively large, well-educated labor force compared to many other regional competitors in Southeast Asia, making it an attractive hub for manufacturing production by multinationals.

Third, rapid growth in capital expenditure is expected, reflecting continued strong foreign direct investment by foreign multinationals as well as domestic infrastructure spending. Total implemented foreign direct investment was estimated at USD 22.4 billion in 2022. Strong investment is expected in infrastructure sector, as the economy continues to grow substantially over the next decade. With strong GDP growth expected to continue to push electricity demand significantly higher over the medium term, the Vietnamese government has estimated that USD 133 billion of new power infrastructure spending is required by 2030, including USD 96 billion for power plants and USD 37 billion to expand the power grid. Severe power shortages during 2023 have highlighted the critical importance of rapid development of new power infrastructure as a key economic policy priority.

Fourth, Vietnam is benefiting from the fallout of the US-China trade war, as higher US tariffs on a wide range of Chinese exports have driven manufacturers to switch production of manufacturing exports away from China towards alternative manufacturing hubs in Asia.

Fifth, many multinationals have been diversifying their manufacturing supply chains during the past decade to reduce vulnerability to supply disruptions and geopolitical events. This trend has been further reinforced by the COVID-19 pandemic, as protracted disruptions created turmoil in global supply chains for many industries, including autos and electronics.

Vietnam has been one of the preferred destinations for South Korean and Japanese firms choosing to shift their production to the ASEAN region.

Free trade agreements

Vietnam is also set to benefit from its growing network of free trade agreements. As a member of the ASEAN grouping of nations, Vietnam already has benefited considerably from the ASEAN Free Trade Agreement (AFTA), which has substantially removed tariffs on trade between ASEAN member countries since 2010. ASEAN also has a network of free trade agreements with other major Asia-Pacific economies, most notably the China-ASEAN Free Trade Area which entered into force in 2010. This network of free trade agreements has helped to strengthen Vietnam's competitiveness as a low-cost manufacturing export hub.

Vietnam is also a member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) among 11 Pacific nations, including the G-20 economies of Canada, Mexico, Japan and Australia. In March 2023, the UK Government concluded negotiations on the UK's accession to the CPTPP. As the UK is the world's sixth largest economy, its accession would significantly increase the overall economic size of the CPTPP grouping, providing Vietnam with substantial competitive advantages for exporting to the UK market as well as attracting UK foreign direct investment.

A very important trade deal that took effect in 2020 is the EU-Vietnam Free Trade Agreement (EVFTA). The EVFTA is an important boost to Vietnam's export sector, with 99% of bilateral tariffs scheduled to be eliminated over the next seven years, as well as significant reduction of non-tariff trade barriers. For Vietnam, 71% of duties were removed when the EVFTA took effect on 1st August 2020. The scope of the EVFTA is wide-ranging, including trade in services, government procurement and investment flows. An EU-Vietnam Investment Protection Agreement has also been signed which will help to strengthen EU foreign direct investment into Vietnam when it is implemented. In 2022, Vietnam's exports to the EU reached USD 56 billion, up 10.2% y/y.

Vietnam will also benefit from the Regional Comprehensive Economic Partnership (RCEP) free trade agreement that was implemented from 1st January 2022. The 15 RCEP countries are the ASEAN ten nations, plus China, Japan, South Korea, Australia and New Zealand. Vietnam has already ratified the RCEP agreement and will therefore benefit immediately from the date of RCEP implementation. The RCEP agreement covers a wide range of areas, including trade in goods and services, investment, e-commerce, intellectual property and government procurement.

US bilateral trade frictions

The US deficit for trade in goods with Vietnam reached USD 55.8 billion in 2019, with the deficit widening by 41.2% compared to 2018. This was slightly mitigated by the USD 1.2 billion surplus in favor of the US for trade in services, but still left the overall bilateral trade deficit at USD 54.5 billion in 2019.

In 2020, the US trade deficit with Vietnam for trade in goods further widened, reaching USD 69.7 billion, with the overall bilateral trade deficit for goods and services at USD 68 billion. In 2021, the bilateral deficit for trade in goods widened considerably further, reaching USD 91 billion, boosted by Vietnam's growing exports of electronics and machinery to the US. Vietnam had the third largest goods trade surplus with the US in 2021. By 2022, the bilateral trade deficit for trade in goods had increased to USD 116 billion.

Reflecting the persistent large bilateral trade surplus that Vietnam has with the US, the Office of the US Trade Representative (USTR) announced on 2nd October 2020 that the US government has launched an official investigation into acts, policies, and practices by Vietnam that may contribute to the undervaluation of its currency and the resultant harm caused to US commerce, under section 301 of the 1974 Trade Act.

As part of its investigation on currency undervaluation, USTR consults with the US Department of the Treasury as to issues of currency valuation and exchange rate policy. The US Treasury has informed the US Department of Commerce that Vietnam's currency was undervalued by 4.7% in 2019, partly due to intervention by the Vietnamese government. In December 2020, the US Treasury named Vietnam as a "currency manipulator".

USTR also launched an investigation into Vietnam's acts, policies, and practices related to the import and use of timber that is assessed to be illegally harvested or traded.

However, in its April 2021 semiannual Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States, the US Treasury determined that with reference to the Omnibus Trade and Competitiveness Act of 1988, there was insufficient evidence to make a finding that Vietnam manipulates its exchange rate for either of the purposes referenced in the 1988 Act, and dropped its labelling of Vietnam as a "currency manipulator".

Nevertheless, consistent with the 1988 Act, the US Treasury considers that its continued enhanced engagements with Vietnam, as well as a more thorough assessment of developments in the global economy as a result of the COVID-19 pandemic, will enable the US Treasury to better

determine whether Vietnam intervened in currency markets to prevent effective balance of payments adjustment or gain an unfair competitive advantage in trade.

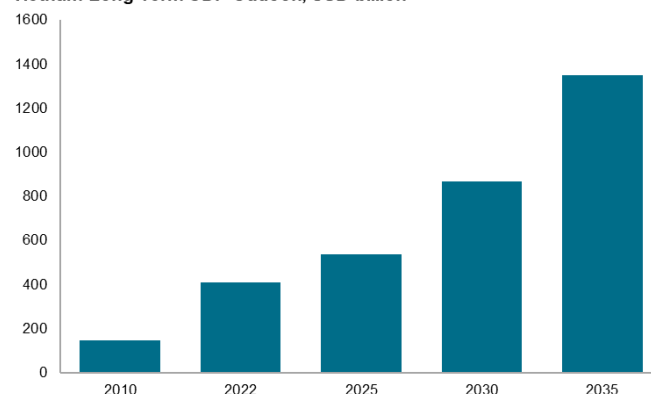
US government concerns about currency manipulation have been further addressed following a bilateral agreement in July 2021 between the US and Vietnam whereby Vietnam has committed to refrain from competitive devaluation of the dong. The agreement was announced in a joint statement by US Treasury Secretary Janet Yellen and State Bank of Vietnam Governor Nguyen Thi Hong. In its December 2021 and June 2022 semiannual reports, the US Treasury stated that it continues to engage closely with the State Bank of Vietnam to monitor Vietnam's progress in addressing the US Treasury's concerns and is thus far satisfied with progress made by Vietnam.

Economic outlook

Due to the severe economic impact of lockdowns triggered by the COVID-19 Delta wave in mid-2021, the pace of Vietnam's economic growth moderated to 2.6% in 2021, compared with the 2.9% growth rate recorded in 2020. There was a strong rebound in GDP growth momentum in 2022, at a pace of 8.0 % y/y, as domestic demand and manufacturing export production returned to more normal levels. However, in 2023, Vietnam's economy has shown significant moderation in growth momentum as the slowdown in key export markets, notably the US and the EU, has hit Vietnam's manufacturing exports.

Despite near-term headwinds to Vietnam's economic growth, over the medium-term economic outlook, a large number of positive growth drivers are creating favorable tailwinds and will continue to underpin the rapid growth of Vietnam's economy. This is expected to drive strong growth in Vietnam's total GDP as well as per capita GDP. The economic outlook from 2023 to 2026 is for rapid economic expansion.

Vietnam Long Term GDP Outlook, USD billion



Data compiled June 2023
Source: S&P Global Market Intelligence.
© 2023 S&P Global.

With strong economic expansion projected over the next decade, Vietnam's total GDP is forecast to increase from USD 327 billion in 2022 to USD 470 billion by 2025, rising to USD 760 billion by 2030. This translates to very rapid growth in Vietnam's per capita GDP, from USD 3,330 per year in 2022 to USD 4,700 per year by 2025 and USD 7,400 by 2030, resulting in substantial expansion in the size of Vietnam's domestic consumer market.

Vietnam's role as a low-cost manufacturing hub is also expected to continue to grow strongly, helped by the further expansion of existing major industry sectors, notably textiles and electronics, as well as the development of new industry sectors such as autos and petrochemicals. Vietnam already has a domestic automaker of electric vehicles, Vinfast, which launched its first EV in Vietnam in 2021.

For many multinationals worldwide, significant supply chain vulnerabilities have been exposed by the protracted disruption of industrial production in mainland China as well as some other major global manufacturing hubs during the COVID-19 lockdowns. This will drive the further reshaping of manufacturing supply chains over the medium term, as firms try to reduce their vulnerability to such extreme supply chain disruptions. With US-China trade and technology tensions still remaining high, this is likely to be a further driver for reconfiguring of supply chains. A key beneficiary of the shift in global manufacturing supply chains will be the ASEAN region, with Vietnam expected to be one of the main winners.

Rajiv Biswas

Asia-Pacific Chief Economist
S&P Global Market Intelligence
Singapore

rajiv.biswas@spglobal.com

Links to more resources

- [Sign up to receive updated commentary in your inbox here.](#)
- [Calendar of upcoming PMI releases](#)
- [Running commentary on the PMI survey findings](#)
- [PMI Frequently Asked Questions](#)
- [Background to the PMIs \(video\)](#)
- [Understanding the headline PMI and its various subindices](#)
- [PMI data use-case illustrations](#), from nowcasting to investment strategy
- [PMI podcasts](#)
- [How to subscribe](#) to PMI data

CONTACT US

Chris Williamson

Chief Business Economist
S&P Global Market Intelligence
London

T: +44 779 5555 061
chris.williamson@spglobal.com

The Americas

+1-877-863-1306

EMEA

+44-20-7176-1234

Asia-Pacific

+852-2533-3565

spglobal.com/marketintelligence/en/mi/products/pmi.html