

Week Ahead Economic Preview

FOMC, BOE, BOJ meetings and September flash PMI

15 September 2023

A series of **central bank meetings** unfold in the coming week, notably including in the US, UK and Japan, while **flash PMI data** bookend of the week for early insights into September economic conditions across the major developed economies. Other key economic releases include **inflation data** from the eurozone, UK and Japan alongside **US housing market data**.

The Fed is expected to hold rates at their September FOMC meeting, though the latest US CPI data reinforced the view that another rate hike should certainly not be ruled out before the end of 2023. It will therefore be the projections and meeting rhetoric that will be in focus. [US PMI price data](#) had indicated sticky inflation persisting into the near-term; a trend confirmed by the latest CPI readings, which showed a larger than expected 0.3% monthly rise in core inflation and an acceleration in the headline annual rate to 3.7%.

While concerns over US recession have receded according to the latest [S&P Global Investment Manager Index](#), worries over the broader global economy have intensified in September. This was linked to the worsening of economic conditions in the eurozone, UK and mainland China. Next week's HCOB Flash Eurozone PMI and S&P Global/CIPS Flash UK PMI will therefore offer the earliest insights into rising European recession risks – notably in struggling Germany – and hence clues to future policy paths, as well as giving updates on price developments.

Any signs of deepening downturns, particularly in Europe, may further bolster near-term greenback strength, as forecasted by participants of the IMI survey.

Furthermore, the Bank of England, set to lift rates next week, faces greater uncertainties if further deterioration in economic conditions amid still-elevated inflation continued to be reflected in the flash PMI data (see box).

In APAC, a number of central banks are set to convene though the attention will be on the BOJ after Governor Kazuo Ueda hinted at the possible end of the ultra-loose monetary policy regime. The specifics remain uncertain and could be explored in the meeting next week. The Judo Bank Flash Australia PMI will meanwhile provide updates on one of mainland China's key trading partner ahead of worldwide PMI data due at the start of October.

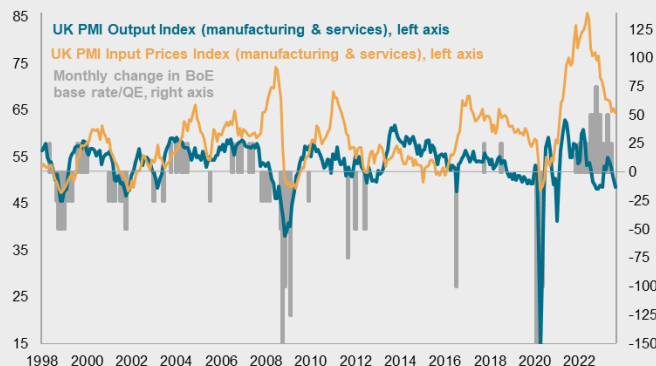
Bank of England set for difficult decision

After 14 consecutive rate hikes, there is growing speculation than the Bank of England is coming close to pausing its rate hike cycle. The broad consensus appears to be that the MPC will hike again at its September meeting, but that this will represent a peak. A predicted 25 basis point hike will take Bank Rate to 5.5%, its highest since early 2008.

The decision will nevertheless likely be a tough one, and certainly not unanimous among the policy committee. While inflation at 6.8% compared to a target of 2% represents a strong case of more work needing to be done, [forward-looking indicators such as the PMI](#) prices gauges shows a path down to 4% in the near-term. Pricing power is deteriorating as the economy slides into a contraction. The Bank's forecasters had anticipated a 0.4% expansion of GDP in the third quarter, but this looks far too optimistic. After the economy contracted 0.5% in July, GDP would have to improve in August and September on its year-to-date levels to avoid a Q3 decline, but with the PMI sliding lower in August, such an acceleration looks unlikely.

Stubborn high wage growth is another major concern to the hawks, but even here there are signs that the labour market is weakening. Job vacancies and employment are now falling and [surveys of recruiters](#) hint at worse to come. To set policy on lagging indicators such as wages data looks risky when a recession appears to be looming. Thursday's decision will also be judged almost immediately, to some extent, by the release of flash September PMI data on Friday, setting the scene for a difficult – and unenviable – meeting.

UK monetary policy vs. PMI output growth and input price indices



Data compiled September 2023.
PMI based on 50 = no change on prior month. Bank of England £25bn QE shown as equivalent to 25 basis points.
Source: S&P Global PMI, S&P Global Market Intelligence, CIPS, Bank of England.
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Key diary events

Monday 18 Sep

Japan Market Holiday

Singapore Non-oil Domestic Exports (Aug)
Canada PPI and Housing Starts (Aug)

Tuesday 19 Sep

India Market Holiday

Australia RBA Meeting Minutes (Sep)
Malaysia Trade (Aug)
Hong Kong SAR Unemployment Rate (Aug)
Eurozone Current Account (Jul)
Eurozone Inflation (Aug, final)
Canada Inflation (Aug)
United States Building Permits (Aug, prelim)
United States Housing Starts (Aug)

Wednesday 20 Sep

New Zealand Current Account (Q2)
Japan Trade (Aug)
China (Mainland) Loan Prime Rates (Sep)
Germany PPI (Aug)
United Kingdom Inflation (Aug)
Taiwan Export Orders (Aug)
South Africa Inflation (Aug)
United States FOMC Interest Rate Decision

Thursday 21 Sep

New Zealand GDP (Q2)
Brazil BCB Interest Rate Decision
Hong Kong SAR HKMA Interest Rate Decision
Philippines BSP Interest Rate Decision
Indonesia BI Interest Rate Decision
Switzerland SNB Interest Rate Decision
Sweden Riksbank Rate Decision
Norway Norges Bank Interest Rate Decision
Taiwan CBC Interest Rate Decision
Turkey TCMB Interest Rate Decision
United Kingdom BOE Interest Rate Decision
South Africa SARB Interest Rate Decision
Hong Kong SAR Inflation (Aug)
Eurozone Consumer Confidence (Sep, flash)
United States Existing Home Sales (Aug)

Friday 22 Sep

Australia Judo Bank Flash PMI, Manufacturing & Services*
Japan au Jibun Bank Flash Manufacturing PMI*
UK S&P Global/CIPS Flash PMI, Manufacturing & Services*
Germany HCOB Flash PMI, Manufacturing & Services*
France HCOB Flash PMI, Manufacturing & Services*
Eurozone HCOB Flash PMI, Manufacturing & Services*
US S&P Global Flash PMI, Manufacturing & Services*
Japan BOJ Interest Rate Decision
Japan CPI (Aug)
Malaysia CPI (Aug)
Singapore CPI (Aug)
United Kingdom Retail Sales (Aug)
Canada Retail Sales (Jul)

* Access press releases of indices produced by S&P Global and relevant sponsors [here](#).

What to watch

September flash PMI releases

Flash PMI numbers for September will be released in the coming week for the earliest look into economic conditions in the final month of Q3 2023. Market confidence was undermined after [flash PMI from August showed surprising weakness in US and European economies on the back of higher interest rates](#). The UK joined the eurozone in contraction while the US near-stalled in August, though Japan backed the trend with sustained solid expansion. Should this deterioration in western economic conditions sustain into September alongside sticky inflation, further uncertainties on the monetary policy front may gather.

Americas: FOMC meeting, US housing data, Canada CPI

The September Fed FOMC meeting unfolds next week with projection materials and the Fed chair's press conference due after the meeting concludes on Wednesday. Consensus expectations, according to the CME FedWatch tool, firmly indicate no change at the upcoming meeting, though it will be the projections and the Fed chair Jerome Powell's rhetoric that will be closely studied. Markets are pricing in a roughly 40% chance of a further hike in the current rate cycle. As well as the S&P Global PMI data, there's also a clutch of housing market data to watch in the US.

Separately, Canada releases inflation figures on Tuesday after the numbers surprised on the upside in July.

EMEA: BOE meeting, Eurozone, UK inflation

The Bank of England will be another major central bank to update policy with a 25 basis points (bps) hike being pencilled in by forecasters. Relatively elevated inflation is expected to drive the BOE to raise rates for a 15th consecutive meeting, though weakness in GDP to match recent downbeat PMI surveys hints at a possible pause. Meanwhile August inflation figures will be updated in the eurozone and UK in addition to flash PMI readings on Friday.

APAC: BOJ, BI, BSP, CBC, HKMA meetings, China Loan Prime Rate, Japan inflation and trade

A series of central bank meetings take place in Asia with special focus on the Bank of Japan after Governor Kazuo Ueda hinted at ending the ultra-accommodative monetary policy settings. Guidance will be sought on the potential path forward for the BOJ. Additionally, Japan's trade and inflation will also be important data highlights.

Special reports:

Renewed Fall in Demand for Consumer Services Bodes Ill for Growth but Will Pull Inflation Lower | Chris Williamson | [page 4](#)

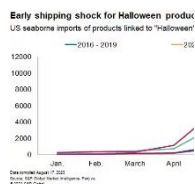
Vietnam Strengthens Economic Ties with US During President Biden's Visit | Rajiv Biswas | [page 6](#)

Recent PMI and economic analysis from S&P Global

Global	Monthly PMI Bulletin: September 2023	8-Sep	Jingyi Pan
	Modest deterioration in global trade conditions persists in August	8-Sep	Jingyi Pan
	Renewed fall in demand for consumer services bodes ill for growth but will pull inflation lower	8-Sep	Chris Williamson
	Global PMI data hint at stubborn inflation amid resilient pricing power for consumer services	7-Sep	Chris Williamson
	Developed world jobs growth cools further in August as emerging market hiring accelerates	7-Sep	Chris Williamson
	Global PMI shows recovery fading further in August as developed world output falls	6-Sep	Chris Williamson
	Factory gloom deepens as downturn persists amid falling world trade	5-Sep	Chris Williamson
EMEA	Nowcasting South Africa: Utilising PMI and official data to provide early estimates of GDP	29-Aug	David Owen, Paul Smith, Ph.D.
US	US stagflation risks rise as service sector falters alongside manufacturing downturn	6-Sep	Chris Williamson
	US factory gloom deepens as production and order book downturns intensify in August	5-Sep	Chris Williamson
Asia-Pacific	India's GDP growth remains buoyant in 2023	8-Sep	Rajiv Biswas
	China PMI signals further slowdown in August, prices edge higher	5-Sep	Chris Williamson
Commodities	Weekly Pricing Pulse: Commodities up as supply concerns grow	24-Aug	Michael Dall

S&P Global Market Intelligence highlights

Halloween creeps a little closer: Seasonal supply chains accelerate



Retailers are preparing for Halloween sales earlier than ever, in part due to concerns about a downturn in consumer spending. That's led to earlier shipments of Halloween products than prior years, with decorations outstripping outfits. (Worryingly, clown costumes are doing better than others.)

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

PMI Insights: Divergent trends in goods and services



Our Purchasing Managers' Index team compiles data for more than 40 economies around the world. In this episode, the economists explore the divergence in the performance of the manufacturing and services sectors in countries including Australia and Greece. They zero in on how this is showing up in labour markets, looking at employment growth and wages.

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

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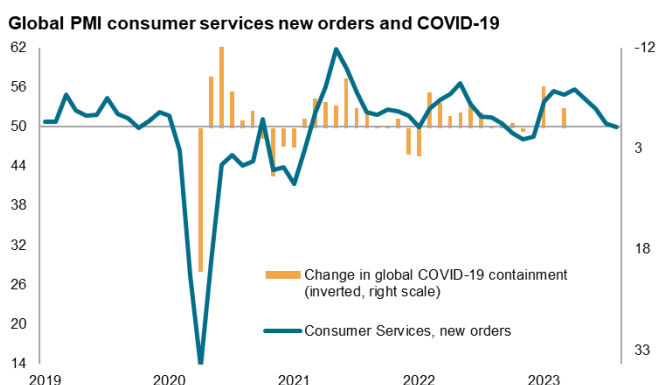
Special Focus

Renewed Fall in Demand for Consumer Services Bodes Ill for Growth but Will Pull Inflation Lower

The Global PMI data – compiled by S&P Global across over 40 economies and sponsored by JPMorgan – found a rising number of sectors slipping into decline in August as growing signs of economic malaise became more broad-based.

One key area of recent support to the global economy which is reporting a renewed decline in new orders – consumer services – is especially noteworthy, as this sector led the surprise growth revival seen globally in the second quarter. This growth spurt is now reversing amid rising interest rates and the increased cost of living.

While this fading consumer spending spree on services is bad news for GDP growth in the world's major economies in the second half of 2023, it also signals a cooling of one of the major inflation hot spots seen in recent months, which could help pull global inflation lower in the coming months.



Data compiled September 2023 including PMI data to August 2023. PMI (Purchasing Managers' Index) value of 50 = no change on prior month. S&P Global Market Intelligence COVID-19 index scale inverted and advanced one month. Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence. © 2023 S&P Global.

Downturn becomes more broad-based

Global PMI survey data, based on data from S&P Global's 40 national business surveys, showed the overall rate of output growth fading for a third month running in August, dropping to its lowest since the current upturn began in February.

However, another way of gauging the health of the global economy is by looking at sectoral performance. The advantage of the worldwide PMI data is that the survey results can be analysed at both the country level and a detailed sector level¹.

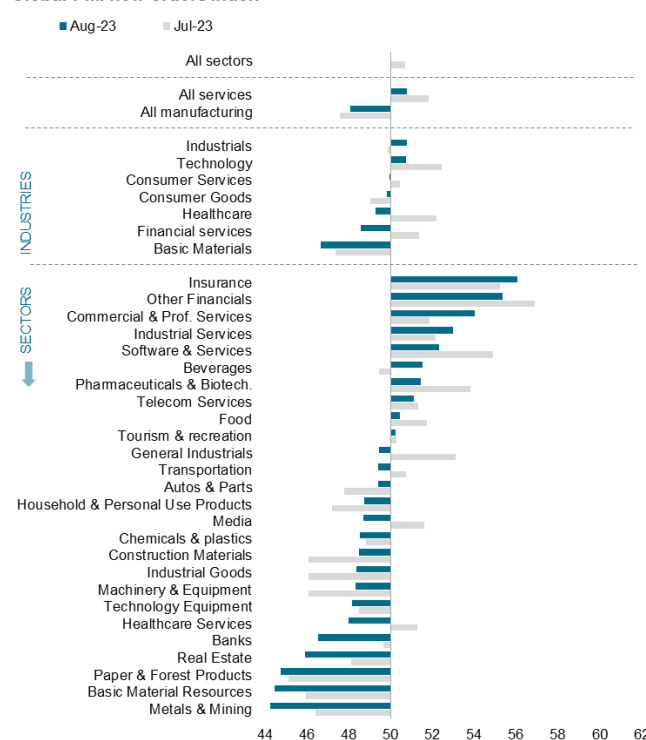
The data reveal that, of the 26 detailed sectors covered by the global PMI, only 10, or 38%, reported higher new orders in August. This is one of the lowest proportions recorded since comparable data were available in late-2009, and down from 48% in July and 70% in April. Only COVID-19 lockdown months saw more sectors in decline.

Global PMI sectors reporting rising new orders



Data compiled September 2023 including PMI data to August 2023. Based on PMI new orders indices for 26 sectors. Source: S&P Global PMI. © 2023 S&P Global.

Global PMI new orders index



PMI (Purchasing Managers' Index) value of 50 = no change on prior month. Source: S&P Global PMI with J.P. Morgan. © 2023 S&P Global.

Media, healthcare services, transportation, general industrials all reported renewed order declines in August, though beverages returned to growth.

Although the steepest contractions continued to be recorded for primary industries, such as metals & mining and material resources, amid widespread inventory reduction trends, real estate and banks are now also seeing worryingly steep downturns.

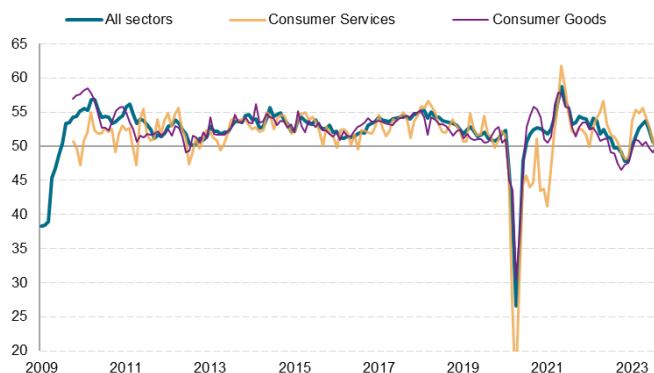
The previously strong-growing tourism & recreation sector is meanwhile close to stalled alongside the dip in transportation.

Fading post-pandemic travel tailwind

A key take-away from the detailed analysis of PMI data has therefore been the fading of the third pandemic-related wave of rising consumer spending on services, which accompanied the recent easing of global COVID-19 containment measures at the start of the year.

The second quarter of 2023 saw the strongest period of consistent growth in new orders for consumer services recorded to date by the global PMI, barring only prior periods of loosened COVID-19 containment measures. Comparisons indicate that this upturn in spending on services diverted spend from goods, new orders for which have been broadly unchanged during this spending spree.

Global PMI sector new orders: consumers

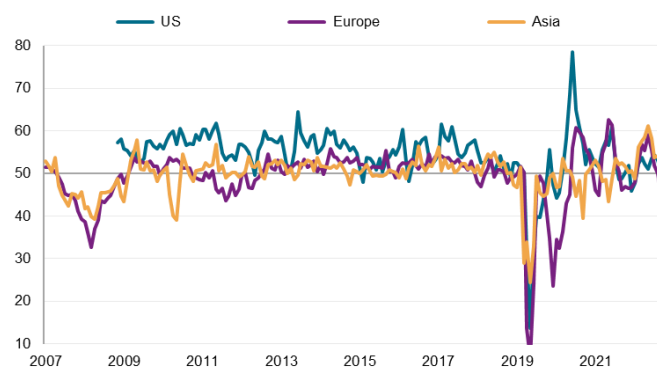


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PMI (Purchasing Managers' Index) value of 50 = no change on prior month.
Source: S&P Global PMI with J.P. Morgan.
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However, the August PMI data hint that this consumer services spending boom could be moving into reverse. Companies have reported a drop in new orders amid a natural fading of the initial resurgence in demand for activities such as travel alongside the dampening effects of rising interest rates and the higher cost of living. Demand for consumer services consequently fell globally, albeit marginally, in August for the first time in eight months.

The downturn in new orders for consumer services was most pronounced in Europe, though the demand expansion also slowed close to stagnation in the US and in Asia.

PMI new orders for consumer services

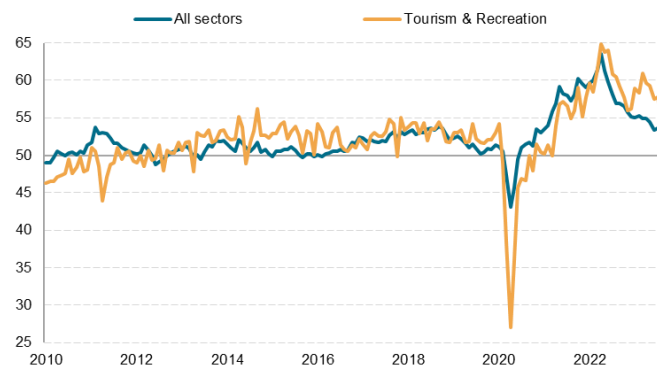


Data compiled September 2023 including PMI data to August 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI.
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Better news for inflation?

This cooling of demand for consumer services such as tourism and recreation has been accompanied by a moderation in the rate of inflation of prices charged for these activities. The PMI data showed prices charged for consumer services and its tourism and recreation sub-sector rose in August at the slowest rates since last November, albeit remaining higher than any rate seen in the decade preceding the pandemic. This softening of what has been a main driver of stubbornly high global inflation so far this year is nevertheless welcome news.

Global PMI prices charged



Data compiled September 2023 including PMI data to August 2023.
PMI (Purchasing Managers' Index) 50 = no change on prior month.
Source: S&P Global PMI with J.P. Morgan
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Access the global PMI press release [here](#).

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Special Focus

Vietnam Strengthens Economic Ties with US During President Biden's Visit

The visit by US President Joe Biden to Vietnam on 10-11 September has resulted in a further significant strengthening of bilateral economic ties, with the signing of the new US-Vietnam Comprehensive Economic Partnership agreement. A wide range of industry sector level agreements were also concluded, including a new semiconductors partnership to support resilient supply chains.

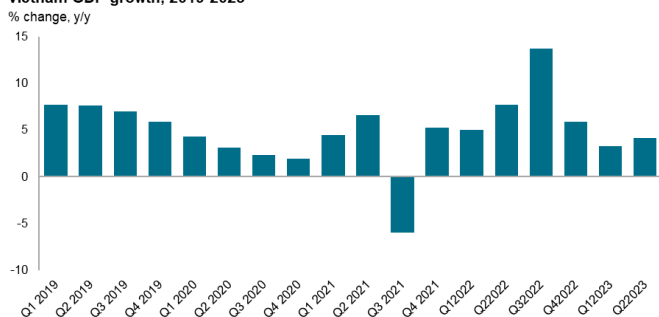
In the near-term, Vietnam's manufacturing export sector is still facing significant headwinds due to weak growth in the US and EU, which are two key export markets accounting for around 42% of Vietnam's goods exports. Vietnam's goods exports fell by 10.3% y/y in the first seven months of 2023.

However, 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.

Vietnam's 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% year-on-year (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



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 seven months of 2023, with Vietnam's total goods exports declining by 10.3% y/y.

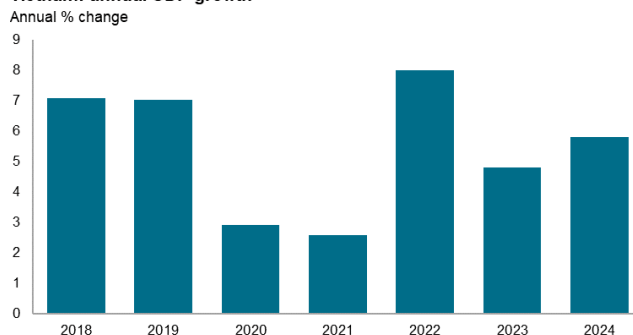
The US remains Vietnam's largest export market, accounting for 29.4% of total merchandise exports. Vietnam's exports to the US rose by 13.6% in 2022, with the bilateral trade surplus with US increasing to USD 95 billion. However, in the first seven months of 2023, merchandise exports to the US fell by 21.8% y/y. Although exports of computers, electrical products and parts showed a small rise of 1.4% y/y for the seven-month period, exports of mobile phones and parts fell by 38.9% y/y, while exports of textiles and garments fell by 24% y/y.

Exports to the EU have also been weak. Exports to the EU of computers, electrical products and components fell by 23.9% y/y in the January-July 2023 period, while exports of textiles and garments to the EU fell by 9.6% y/y.

Exports to mainland China have started to show a turnaround after considerable weakness in early 2023. Vietnam's exports to mainland China rose by 1.8% y/y in the first seven months of 2023, after having shown significant declines in early 2023. Exports of computers, electrical products and components to mainland China rose by 13.7% y/y in the January-July 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 July 2023 period, down by 2.9% y/y, although this was a much smaller decline than in the first half of 2023.

Reflecting the slump in exports, the manufacturing sector has slowed in the first seven months of 2023, with industrial production contracting by 0.7% y/y for the first seven months of 2023, compared with strong positive growth of 8.6% y/y in the first seven months of 2022. Vietnam's industrial production had risen by 7.8% y/y in calendar year 2022, with manufacturing output up by 8.0% y/y.

Vietnam: annual GDP growth



Source: S&P Global Market Intelligence. © 2023 S&P Global.

The downturn in Vietnam’s construction sector has also hit manufacturing output for building materials, with domestic cement sales down by 21% y/y in the January to June 2023 period. Steel sales in the first half of 2023 were down by an estimated 17.5% y/y, with steel output down by 20.9% y/y.

The challenges facing Vietnam’s manufacturing sector were compounded during May and June by power shortages resulting in electricity supply disruptions. A heat wave had 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 were particularly badly impacted, notably in Bac Ninh and Bac Giang provinces.

The S&P Global Vietnam Manufacturing Purchasing Managers’ Index (PMI) moved back above the 50.0 no-change mark for the first time in six months during August. At 50.5, the index was up from 48.7 in July and pointed to a marginal monthly improvement in business conditions in the sector. The nascent recovery in the health of the sector reflected tentative signs of demand improving.

Manufacturers recorded the first increase in new orders for six months, while new export business also rose following a five-month sequence of declines. Growth rates were modest, however, amid some reports of ongoing demand fragility.

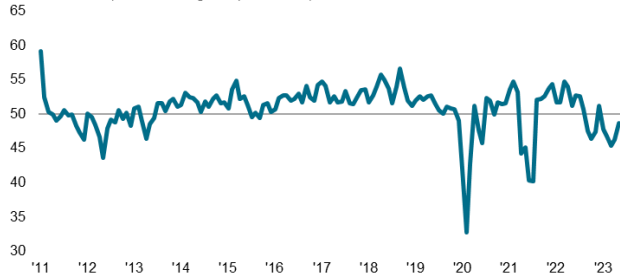
August data pointed to a solid increase in input prices, thereby ending a three-month period of decline. A number of panellists linked higher input costs to rising oil prices, while increased food prices were also mentioned. In turn, firms also raised their own selling prices, albeit only slightly. The increase in charges was the first since March.

The CPI inflation rate has moderated to 3.0% y/y in August 2023 compared with 3.4% y/y in March and 4.3% y/y in February. However, month-on-month CPI inflation rose by 0.9% m/m in August, reflecting some renewed upturn in inflation pressures due to higher world oil prices. Core CPI inflation was somewhat higher, rising by 4.3% y/y in August.

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 200 basis points (bps) 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 15 and again by 50bps on April 3 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 23 May as the economy continued to slow, followed by a further 50bp rate cut on 16 June.

S&P Global Vietnam Manufacturing PMI

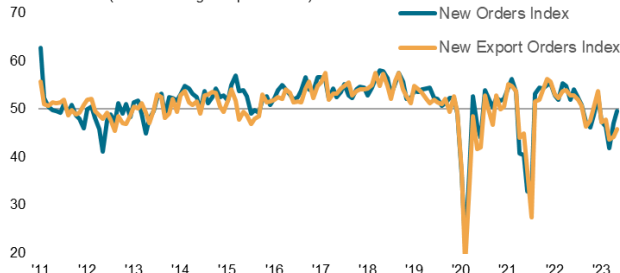
S&P Global PMI (Purchasing Managers’ Index) Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys © S&P Global 2023.

Vietnam Manufacturing PMI new orders and new export orders

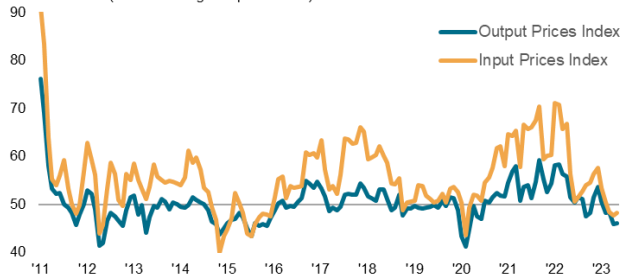
S&P Global PMI (Purchasing Managers’ Index) Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys © S&P Global 2023.

Vietnam Manufacturing PMI input and output prices

S&P Global PMI (Purchasing Managers’ Index) Index
Diffusion index (50 = no change on prior month)



Source: S&P Global Market Intelligence, S&P Global PMI surveys © S&P Global 2023.

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.

Firstly, 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.

Secondly, Vietnam has a relatively large, well-educated labour 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. The new Comprehensive Economic Partnership Agreement with the US is particularly important for Vietnam since the US is Vietnam's largest export market.

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 will 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 fifteen 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 relations

The US deficit for trade in goods with Vietnam has widened significantly in recent years, from USD 55.8 billion in 2019 to USD 116 billion by 2022.

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".

However, in its April 2021 semi-annual 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”.

US government concerns about currency manipulation have been 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 semi-annual 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.

Bilateral economic relations between Vietnam and the US have been significantly boosted by the new Comprehensive Economic Partnership agreement in September 2023 made by US President Biden and Vietnam’s General Secretary Nguyen Phu Trong.

Under the new bilateral Memorandum of Cooperation on Semiconductor Supply Chains agreed during President Biden’s visit, the US will partner with Vietnam to expand the capacity of the semiconductor ecosystem, workforce and infrastructure in Vietnam to support US industry.

A bilateral Memorandum of Understanding was also agreed to secure critical mineral supply chains, including technical cooperation to help develop Vietnam’s rare earths industry.

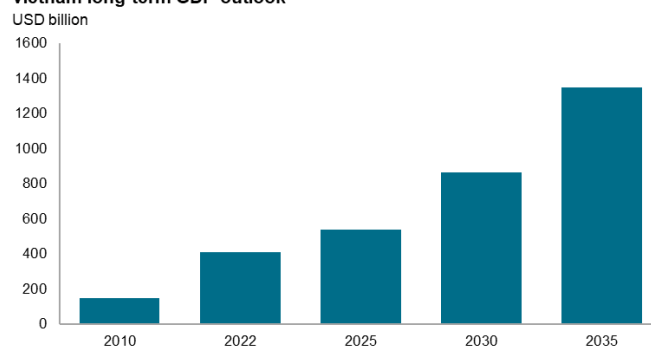
Economic outlook

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 favourable 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.

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 long-term GDP outlook



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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 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.

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