Economic Preview: Week of 29 June 2020

Publication date: 26 June 2020

Week Ahead Economic Preview

Global overview

- **Worldwide manufacturing and service sector PMI surveys for June**
- **US employment report including non-farm payrolls, FOMC minutes**

Markets will be looking for further confirmation that the global economy has started to recover from the initial impact of the COVID-19 pandemic, though will also be closely watching for signs of second waves of infections. Key data releases include the global PMI surveys plus the US monthly jobs report.

Hopes of V-shaped recoveries from COVID-19 lockdowns have been buoyed by improving data, including the flash PMIs for June, which showed a record rise across the largest developed economies to hint at the global economy returning to growth in June (see out special report on page 6**)**. Final PMIs for both manufacturing and services are released around the world on Wednesday and Friday respectively.

In addition to the IHS Markit and ISM PMI surveys, US data releases include the monthly employment report, which includes unemployment and non-farm payroll data. Some 2.5 million jobs were added in May with a further 3 million gain anticipated in June according to the market consensus. While the jobless rate is expected to ease further from a post-war record 14.7% in April, it will inevitably remain elevated. Higher than expected joblessness in June will inevitably curb economic recovery expectations, which are already in doubt amid signs of a second wave of infections. Other US releases include trade, factory orders and housing data, plus the latest FOMC minutes (page 3).

For Europe, the PMI data are supplemented by sentiment surveys from the European Commission, as well as inflation data for the eurozone (page 4).

In Asia, China's PMIs will be especially closely watched given its earlier relaxation of virus-related restrictions. So far the data have shown encouraging strength, with business activity across manufacturing and services growing in May at the fastest rate since the start of 2011. The data for China may therefore help gauge the extent to which early rebounds in activity from lockdowns might fade. The Asian PMIs are accompanied by official industrial production numbers for Japan and South Korea, with trade data issued in Taiwan, Malaysia and South Korea, all of which will help gauge the depth of second quarter downturns (page 5).

Special reports

Global economy: The latest flash PMI surveys hint at the global economy starting recovery from the COVID-19 pandemic (**page 6**).

Vietnam: A look at how the new EU-Vietnam Free Trade Agreement has boosted Vietnam's medium term economic outlook (**page 9**).

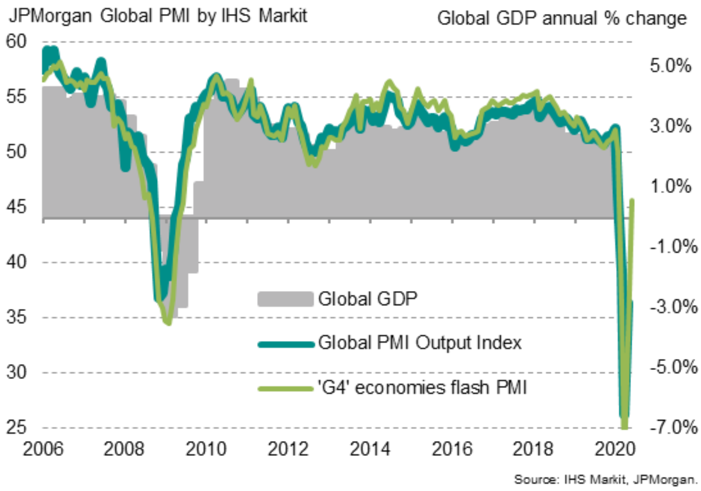
Upcoming PMI releases

1st July: Final Global manufacturing PMIs

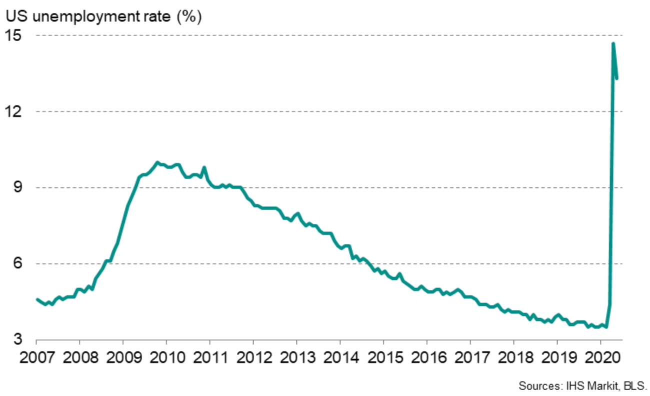
3rd July: Final Global services PMIs

7th July: Detailed global sector PMIs

Flash PMIs hinted at a return to global annual GDP growth in June. Final PMI data are due in the week ahead



The US monthly employment report is updated for June including the unemployment rate and non-farm payrolls



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Key diary events (UTC)

Monday 29 June

Taiwan consumer confidence (Jun)
Hong Kong trade (May)
Germany and Spain inflation (Prelim, Jun)
UK mortgage approvals and lending (May)
Euro area business confidence, economic sentiment (Jun), consumer confidence (Final, Jun)
Brazil jobless rate (May), consumer confidence (Q2)
US pending home sales (May), Dallas Fed manufacturing index (Jun)
South Korea industrial output, retail sales (May)
Japan jobless rate (May) 23:30 UTC
Japan industrial output (Prelim, May) 23:50 UTC

Tuesday 30 June

China NBS PMI (Jun)
US Fed Chair Powell testimony before Committee on Financial Services
UK GDP (Final, Q1), nationwide housing prices (Jun)
France and Italy inflation (Prelim, Jun)
Spain GDP (Final, Q1)
Euro area inflation (Flash, Jun)
US Case-Shiller home price (Apr), Chicago PMI (Jun)
UK consumer confidence (Jun)
Japan Tankan large manufacturers index (Q2)

Wednesday 1 July

Worldwide release of IHS Markit manufacturing PMI (Jun)
Caixin/IHS Markit China manufacturing PMI (Jun)
South Korea trade (Jun)
Thailand business confidence, inflation (Jun)
Indonesia business confidence (Q1), inflation (Jun)
Germany retail sales, jobless rate (May)
US ADP employment change (Jun)
US ISM manufacturing PMI (Jun)
FOMC minutes (9-10 Jun)
Brazil trade balance (Jun)
South Korea inflation (Jun)
USMCA enters into force (replaces NAFTA)

Thursday 2 July

Spain employment change (Jun)
Euro area and Italy unemployment rate (May)
US non-farm payrolls, unemployment rate, average earnings (Jun), initial claims (27-Jun)
US trade, factory orders (May)
UK BoE financial stability report

Friday 3 July

Worldwide release of IHS Markit services PMI (Jun)
Australia trade, retail sales, building permits (May)
Malaysia trade (May)

Saturday-Sunday 4-5 July

5/7: Taiwan inflation and wholesale prices (Jun)

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United States Week Ahead

Final Manufacturing PMI and labour market releases

By Siân Jones

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Markets are looking for more positive news on the US economy, this week in the form of improved PMI numbers and further signs of the labour market healing via the monthly employment report. However, as the ending of payment holidays and unemployment payment boosters quickly approaches, and virus cases show signs of surging again, concerns are growing that any recovery could lose momentum.

Final Manufacturing PMI

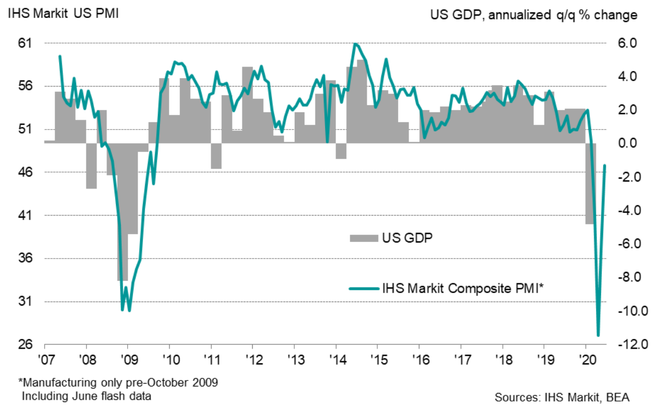
Flash US manufacturing PMI data indicated a markedly slower deterioration in operating conditions in June, as contractions in output and new orders eased notably. A similar improvement was seen in the service sector. The overall easing in the quarterly rate of contraction of GDP indicated by the PMI highlights how the economy appears to have recovered well in the short-term since the height of the pandemic earlier in the year. That said, firms continued to report historically muted demand conditions, and much of the improvement in sentiment captured by the PMI's forward-looking expectations index was based on COVID-19 infections falling; something which is by no means assured. Furthermore, although positive moves have been made following the reopening of businesses, it is feared that subdued demand may lead to further job losses and firm closures.

Non-Farm Payrolls

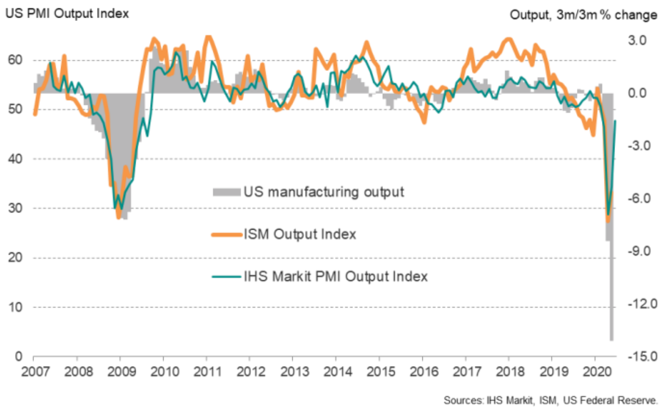
Markets are meanwhile looking for another encouraging employment report. The release of non-farm payrolls data for May surprised the markets, as a 2.5 million jump in employment was recorded following the resumption of work at factories and some service providers. A further 3 million rise is expected according to Reuters' consensus, with the jobless rate falling further to 12.2%. The still-high unemployment rate is a reminder of how the recovery process is likely to be long and drawn out, and spending is likely to be curbed even further when additional unemployment payments end in July.

Also updated are average hourly earnings data, which are expected to show the annual rate of decline easing. Jobless claims data will meanwhile be eyed for the very latest weekly jobless trend.

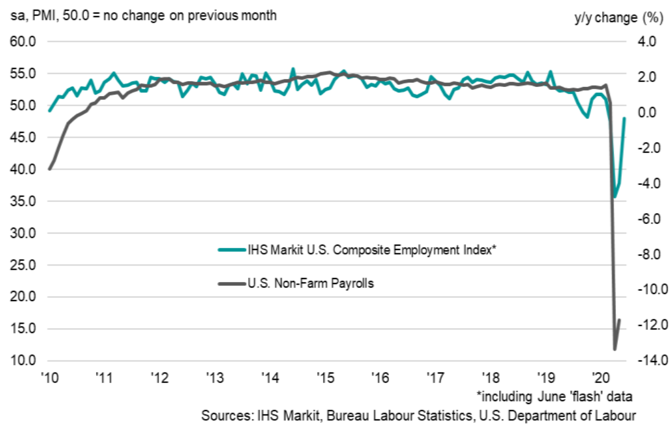
Flash PMI data signals marked easing of pandemic-related economic downturn



Manufacturing contraction eases amid reopening of factories and customers



Gradual turnaround in US labour market conditions as the economy begins to reopen



Europe Week Ahead

Final June European PMIs, euro area inflation and unemployment

By Joe Hayes

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After the flash PMI figures showed further signs that the downturn has rapidly abated across the eurozone and UK, final survey numbers – including for the wider reaches of Europe – will be closely watched for evidence of a further pick up in economic conditions as lockdown restrictions continue to be lifted. Also due are euro area inflation figures for June, which have been on a sharp disinflationary trend since the start of the year, causing fresh deflation worries at the European Central Bank. Sentiment measures and the unemployment rate for the euro area are also released.

European PMIs

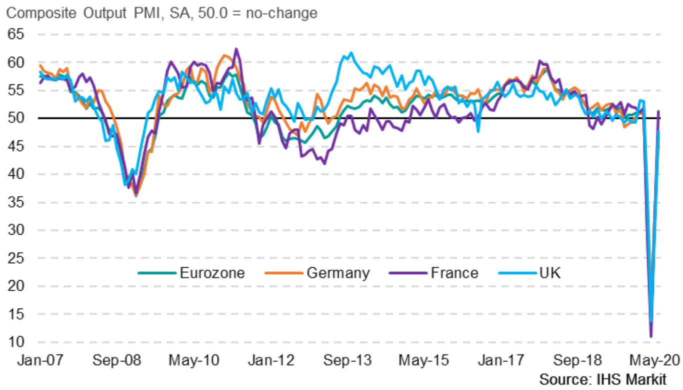
June PMI surveys from across the continent will provide a broader insight into economic conditions in Europe as we head into the second half of 2020. There was plenty of promise from the eurozone and UK flash numbers seen earlier this week, which show clear signs that the path to recovery is emerging. Data for Italy and Spain, two of the largest economies in the euro area, will also be watched especially closely as we head into the European summer months. Policymakers will be hoping that a revival in the tourism and hospitality sectors can provide a much-needed economic boost as travel restrictions are eased.

Forward-looking indicators from the PMI surveys, such as the new orders and future expectations components, will also play a critical role in shaping expectations of the recovery's speed in the coming months. Sustained growth in demand will be vital to ensure companies expand operating capacities and increase output.

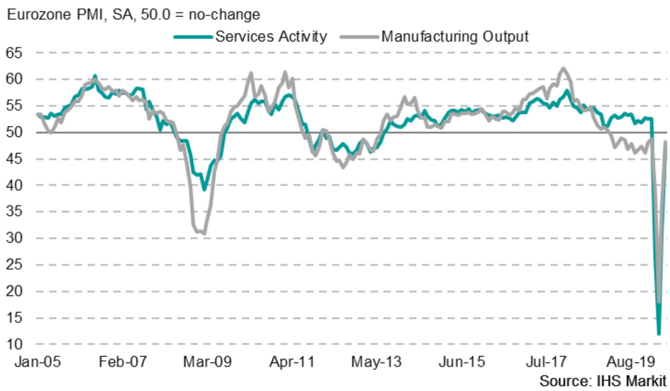
Euro area inflation

The preliminary estimate of eurozone inflation for June is due, having dipped to 0.1% year-on-year in May. We certainly see more room to the downside, and worries about deflation are likely to build, keeping European Central Bank policy highly accommodative. Although the flash Eurozone Composite Input Prices PMI rose slightly in the June, it remained at a low level and signalled further deflation in paid prices at manufacturers in particular.

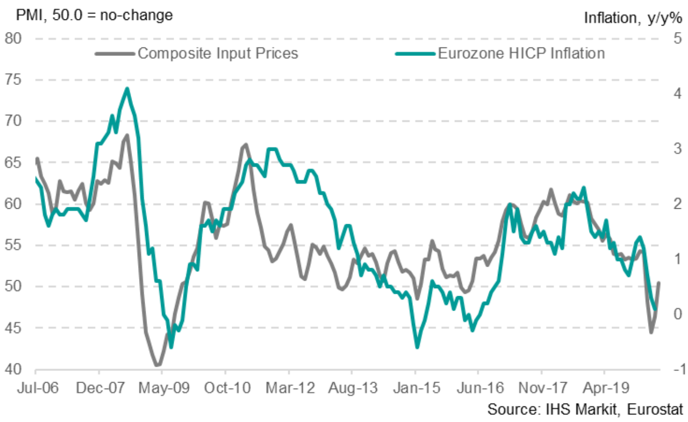
France saw a return to broad-based growth in June, while other flash surveys show clear signs of improvement as we head into the second half of 2020



Eurozone manufacturing and service sector output approach stabilisation in June, according to flash PMIs



There were some signs of price pressures creeping up in June, which will be welcomed by the European Central Bank, but we see plenty of downside in the outlook for inflation



Asia Pacific Week Ahead

Focus on PMI data, trade and inflation numbers

By Bernard Aw
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The worldwide release of PMI data will shape the tone of markets in the coming week, providing advance insights into economic trends at the end of the second quarter as more economies emerge from COVID-19 lockdowns. In Asia, PMI data for China and Japan will be particularly scrutinised, with the former eyed for further recovery due to its earlier relaxation of virus restrictions. Investors will also monitor industrial production and trade updates for a number of Asian economies, the latter to assess regional trade performance amid fresh worries of a renewed tariff war.

Other key Asian highlights include confidence surveys in Thailand and Taiwan, as well as inflation figures in South Korea, Taiwan and Thailand.

China PMI eyed for further recovery

The pace to which China recovers from the hit to its economy from the COVID-19 pandemic can be gleaned from the June updates for both Caixin and the government-sponsored NBS PMI surveys covering both manufacturing and services. Recent Caixin surveys indicated a return to growth in May, but one that was driven by domestic demand amid a collapse in global trade arising from the COVID-19 pandemic. For a more robust recovery in China, the PMI needs to be commensurately higher than 50 to offset the substantial decline recorded in February.

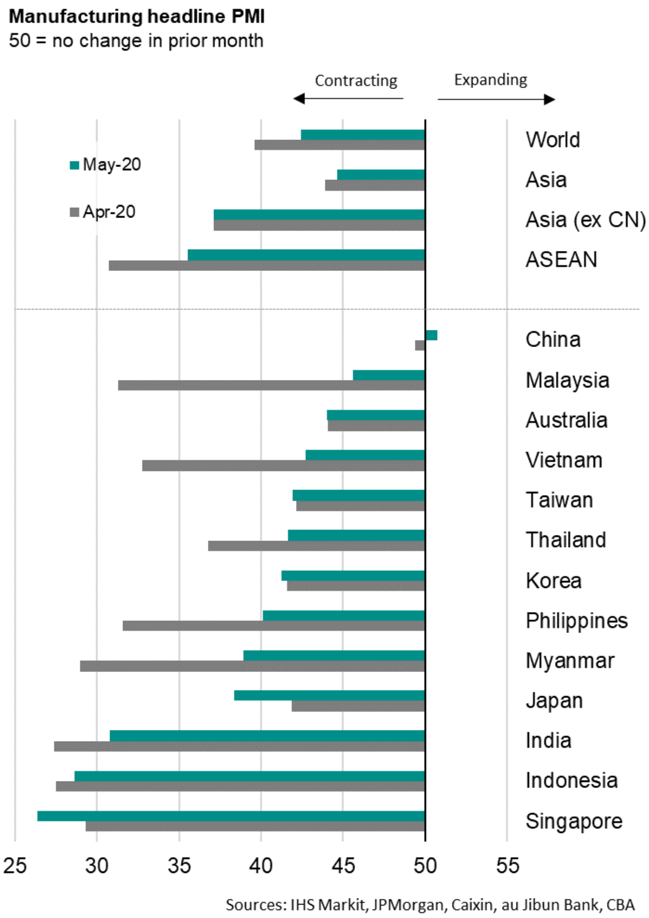
Asia PMI and trade data

The PMI performance of regional trade powerhouses, including Japan, South Korea, Taiwan, Vietnam, Thailand and Singapore will provide insights into the flow of Asian trade during June. Official trade statistics will also be scoured as more countries reopen their economies, though most are only updated to May.

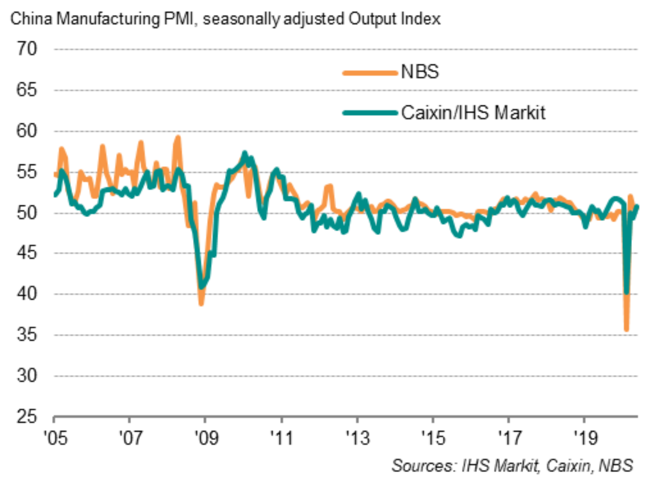
Japan data

With flash PMI data indicating that Japan is stuck in a downturn during June, with scant signs of a robust recovery despite an easing of emergency measures taken to limit the COVID-19 pandemic, official data releases, including for employment and industrial production, will provide more details as to the extent of the economic decline. The au Jibun Bank Japan PMI (compiled by IHS Markit) will be updated while Tankan manufacturers surveys will also be watched closely.

As more economies ease lockdown measures in June, updates to the PMI surveys will draw scrutiny after May saw only China reporting growth



Caixin and NBS surveys signalled manufacturing upturns in May



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Global economy PMI focus

Flash PMI surveys hint at global economy starting recovery from pandemic

By Chris Williamson

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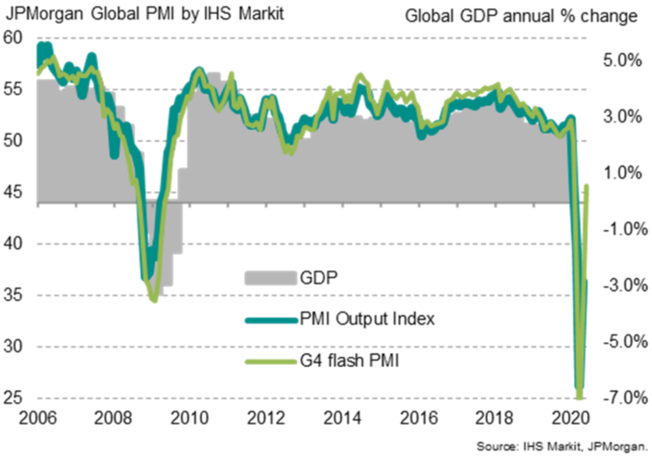
The world's largest developed economies showed a further marked easing in the rate of decline in June amid another relaxation of restrictions designed to control the coronavirus disease 2019 (COVID-19) pandemic. Although output fell across the 'G4' developed economies, according to provisional 'flash' PMI data, the rate of contraction moderated sharply for a second successive month, rising to a level historically consistent with global GDP returning to growth on an annual basis.

Flash G4 PMI output index and global economic growth



Global economy shows signs of recovery from COVID-19

The IHS Markit Flash PMIs are early releases of survey data based on around 80% of the total number of replies usually received during a month. As such, they provide the first, internationally comparable, insights into how economic conditions are changing. Currently, flash PMI are produced for the United States, the eurozone, Japan, the United Kingdom and Australia, encompassing manufacturing and service sector business conditions in each economy. These survey data can in turn be weighted together according to each country's GDP to form international aggregates. Weighting the US, eurozone, UK and Japan PMIs together, for example, creates a "G4 developed world" series of indicators, covering output, new orders, employment, inflation etc.

Because these four largest developed economies account for approximately half of global GDP (at market prices), the G4 flash PMI output index acts as both a good indicator of the Global PMI as well as global GDP growth. Since 2007, when IHS Markit's US PMI series were first included in the global PMI database, the flash PMI has exhibited a 94% correlation with annual percent changes in global GDP with the PMI acting with a lead of one quarter. Using regression analysis, we can infer a rate of GDP growth from the PMI.

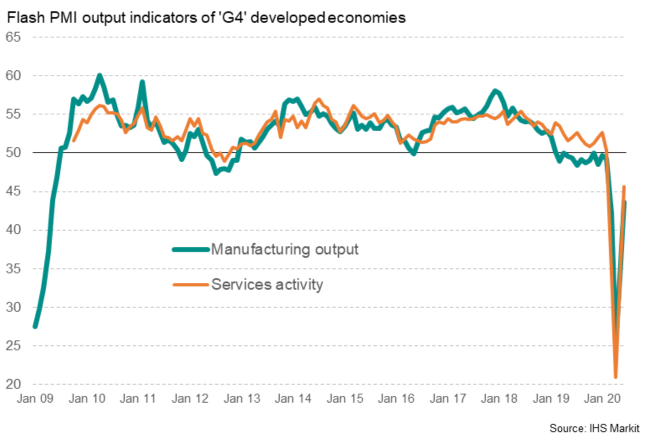
The G4 economies' flash PMI output index surged by a record 12.4 index points in June, building on a prior record leap of 11.7 points in May to push the index up to 45.7 from an all time low of 21.5 in April. While large, the rise is not particularly surprising: April saw vast swathes of these economies locked down to prevent the spread of the coronavirus, with these restrictions being gradually lifted in prior months. However, many restrictions remain in place, which goes some way to explain why the PMI remains below the 50.0 'no change' level, which indicates that more companies continue to report falling activity than report an increase.

More encouragingly, the historical relationship of the flash PMI with global GDP suggests that the latest reading of 45.7 is in fact broadly consistent with the global economy growing 0.2% on a year ago. While meagre by historical standards, such a return to growth represents a swift turnaround in economic performance from the height of the pandemic in April.

Service sector sees strongest easing

The service sector saw the mildest decline in June, but had also suffered the steepest downturn at the start of the second quarter amid widespread social distancing restrictions, which hit sectors such as travel, tourism, hotels, restaurants and high streets especially hard. While some of these service-based companies have seen activity start to pick up, many remain closed and have struggled amid dwindling demand as joblessness rises.

G4 economies output

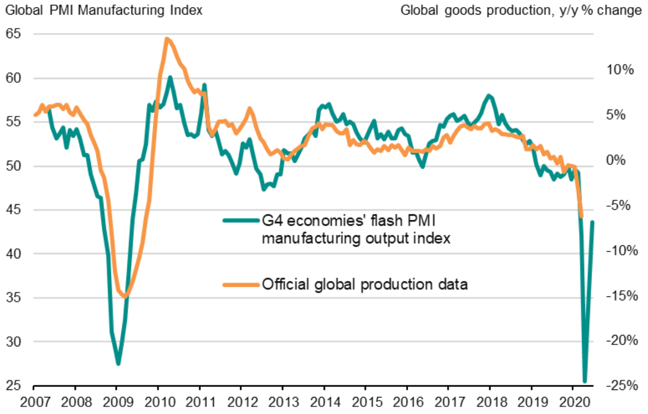


Many other parts of the service sector, notably the vast business-to-business services sector – which did not face the same degree of business closures as consumer-facing companies – have likewise reported tough trading conditions amid subdued demand. The overall drop in G4 economies service sector output was nevertheless the weakest since the lockdowns began four months ago, thanks primarily to the lifting of some of the restrictions.

Manufacturing decline moderates

In manufacturing, many factories closed at the height of the pandemic in April while many others scaled back production capacity. The reopening of many companies has therefore helped lift the G4 economies' PMI manufacturing output index from an all-time low of 25.5 in April to 43.6 in June.

Global manufacturing output



Sources: IHS Markit, JPMorgan.

However, even at this improved level, the manufacturing index points to more companies reporting lower production than an increase in June, and remains historically consistent with global manufacturing output falling in year-on-year terms, albeit at a greatly reduced rate compared to that seen in prior months.

Japan sees steepest output decline

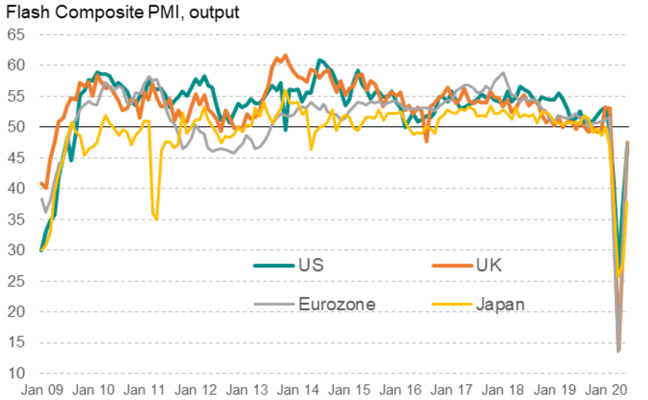
Looking at the four largest developed economies, the UK saw the mildest downturn in output, followed closely by the eurozone and then the US. France even saw modest return to growth, buoyed by rising domestic demand. Japan trailed behind, being the only economy to see an increased rate of manufacturing output contraction as weakened global trade flows continued to weigh on factory activity. Japan also reported the steepest ongoing decline in service sector activity.

However, looking over the second quarter as a whole, it is the UK that has suffered the largest drop in output, followed by the eurozone and Japan. The US has recorded the mildest decline.

Labour markets key to recovery speeds

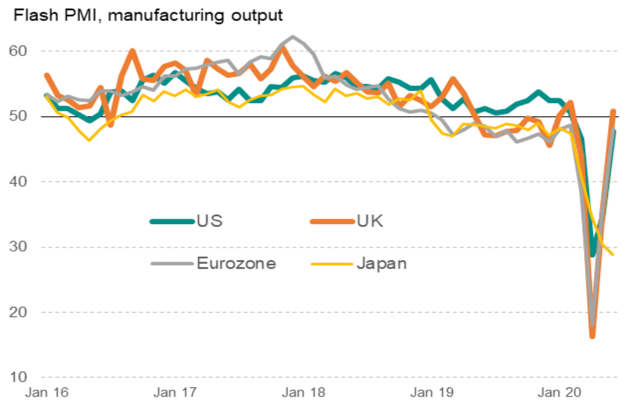
In terms of anticipating recovery speeds in the months ahead, the further planned relaxing of COVID-19 containment measures should help bring the PMIs into growth territory in the third quarter, barring any further waves of infections, which at this stage remains a non-insignificant risk.

Output in the 'G4 economies'



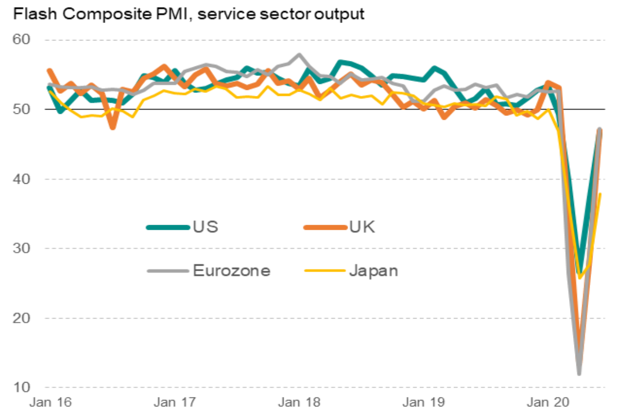
Sources: IHS Markit, au Jibun Bank (Japan)

Manufacturing output in the 'G4 economies'



Sources: IHS Markit, au Jibun Bank (Japan)

Service sector output in the 'G4 economies'



Sources: IHS Markit, au Jibun Bank (Japan)

The easing in IHS Markit's Global containment index (which takes a basket of restriction measures in each country to gauge the degree of 'lockdown'), from a peak of 58 in April to 39 in June and 31 in July, bodes well for business activity to recovery some of the lost ground. We note, though, that the PMIs need to rise commensurately higher than 50 to make up for any drop below 50 in prior months before any lost output is recovered. Given high levels of unemployment, such strong growth may prove difficult to achieve.

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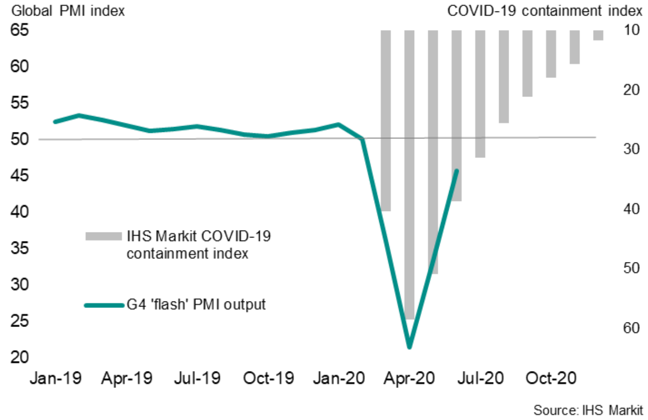
PMI output and COVID-19 containment



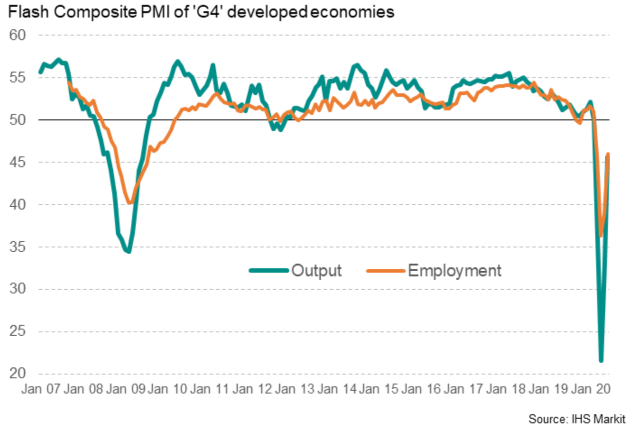
* COVID-19 containment index is based on information relating to issues such as closures of schools, non-essential shops and restaurants, as well as restrictions on public gatherings, internal mobility and external borders. We also forecast how these are expected to change in coming months, based primarily on government announcements. A reading of 100 means severe restrictions while a reading of zero indicate no restrictions.

As well as COVID-19 containment measures, labour markets will therefore be important in determining recovery speeds. The flash PMI employment index showed an encouraging easing in job losses across the G4 developed economies for a second successive month in June, with headcounts being trimmed at the slowest rate since employment began falling in March.

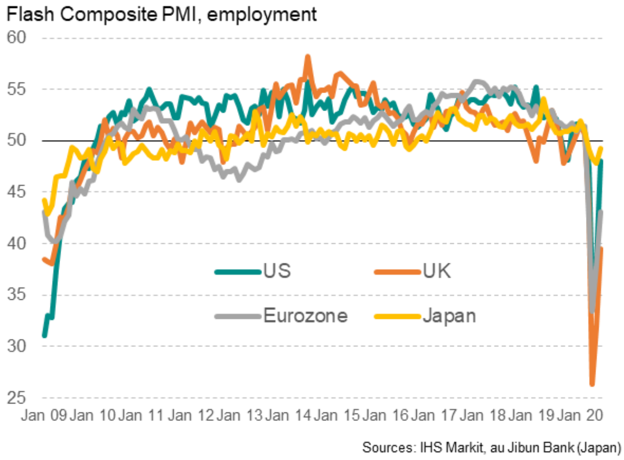
The steepest loss of jobs in June (and in the second quarter as a whole) was recorded in the UK, followed by the eurozone, with far more muted declines seen in the US and Japan, the latter seeing an especially modest degree of job cutting.

Importantly, in all countries, government support has so far helped limit job losses, meaning a further wave of redundancies could follow in many countries unless demand rises sufficiently to sustain current staffing levels.

G4 economies output and employment



Employment in the 'G4 economies'



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Asia Pacific Special Focus

Vietnam: New EU-Vietnam FTA boosts medium term economic outlook

By Rajiv Biswas
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Vietnam is expected to be one of the most resilient economies in the Asia-Pacific region to the shockwaves from the global Covid-19 pandemic. A key positive factor has been Vietnam's success in containing the number of domestic COVID-19 cases to very low levels so far, with no deaths attributed to COVID-19 in the first half of 2020. This has helped to mitigate the economic impact of the pandemic on domestic demand.

However, Vietnam's export sector, which is a key driver of GDP growth, has been hit by the economic shockwaves from the global recession triggered by the pandemic lockdown measures worldwide. Lockdowns in key export markets such as the US and EU have resulted in sharply lower new export orders. As lockdowns are eased across Europe and in the US, this is expected to boost new orders for Vietnam's manufacturing sector in the second half of 2020. Vietnam's GDP growth is expected to strengthen further as global growth improves in 2021. The imminent implementation of the EU-Vietnam Free Trade Agreement will also be a major positive factor for Vietnam's export sector in the near-term, with 71% of EU duties on Vietnamese products to be eliminated on implementation.

Vietnam's fast-growing economy has slowed due to the pandemic

Vietnam has been one of the world's fastest growing emerging markets in the past decade, boosted by strong foreign direct investment inflows into its manufacturing sector. The pace of economic growth slightly exceeded 7% in both 2018 and 2019. Rapid growth of manufacturing exports and large new inflows of foreign direct investment have been important growth drivers for Vietnam, notably fuelled by rapid expansion in the textiles and electronics sectors. Total electronic and electrical manufacturing exports accounted for 33% of total merchandise exports in 2019, with textiles, clothing and footwear accounting for a further 19.4%.

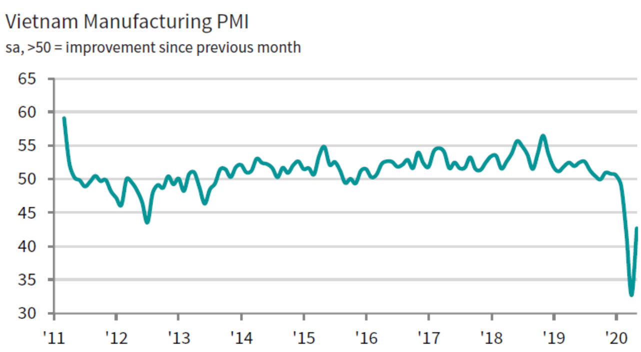
Total foreign direct investment inflows reached USD 20.4 billion in 2019, up 6.7% year-on-year, driven by strong investment by multinationals in establishing new manufacturing production facilities in Vietnam. Notably, Vietnam has become the biggest foreign production hub for Samsung Electronics, which booked USD 66 billion of sales in 2018 out of its Vietnamese operations, which was equivalent to around 28% of Vietnam's GDP.

However, economic growth momentum has moderated in the first half of 2020 due to the impact of the Covid-19 pandemic. In Q1 2020, annual GDP growth slowed to 3.8%, its weakest pace since 2010. The impact of China's severe lockdown measures in the first quarter of 2020 hit Vietnam's exports to China as well as disrupting manufacturing supply chains, since China is a key source of industrial raw materials and intermediate goods for Vietnam's industrial sector.

Manufacturing rebound stymied by declining exports

After a sharp downturn during March and April, the IHS Markit Vietnam Manufacturing Purchasing Managers' Index showed a strong rebound in May. The headline PMI index rose by ten points in May, posting 42.7, up from April's record low of 32.7. However, particular weakness was noted by firms for new export orders, due to the impact of lockdowns in key export markets, notably the US, EU and Japan.

IHS Markit Vietnam Manufacturing PMI



Source: IHS Markit.

Over the first five months of 2020, Vietnam's merchandise exports were resilient, down only 1.7% year-on-year (y/y). However, the export sector slowdown intensified in Q2 2020, as Vietnam's key export markets in the US and EU entered into lockdowns. The US is Vietnam's largest export market, and accounted for 23.2% of total exports in 2019, while the EU and China accounted for 15.7% of total exports each.

Vietnam's exports fell by 12.3% y/y in May, which although a significant decline, was less severe than the pace of export decline recorded by some other East Asian industrial economies. By way of comparison, South Korean exports fell by 23.7% y/y in May, while Japanese exports declined by 28.3% y/y in May.

Although Vietnam's merchandise exports have been very resilient in the first half of 2020, exports of tourism services have collapsed due to the impact of international travel bans, including Vietnam's own ban on international travel. The tourism economy had been growing strongly in recent years, with international tourist visits to Vietnam in 2019 having reached 18 million trips, up 16% y/y. The protracted disruption of international tourism will hit Vietnam's service sector exports badly, but the impact on the overall tourism economy is mitigated by the significant contribution of domestic tourism to the overall industry.

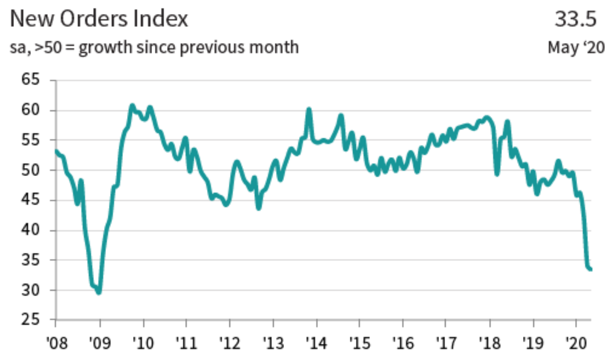
Electronics sector reports global demand slump

A key factor that has driven the sustained strong growth of Vietnam since 2010 has been the rapid growth of electronics manufacturing. The importance of Vietnam's electronics industry has risen dramatically, with the electronic industry's share of total GDP rising from around 5% in 2010 to around one- quarter of GDP by 2019, a key factor helping to drive rapid growth of both exports and GDP.

With electronics now being Vietnam's most important export sector, the industry has been badly hit by the impact of lockdowns on both global electronics output as well as demand. Amid widespread global lockdown measures aimed at containing the spread of the pandemic, world demand for electronic goods slumped sharply in April and May.

The IHS Markit Global Electronics headline PMI registered at 43.1 in May, down from 43.3 in April, signalling continued contractionary business conditions faced by electronics manufacturers. This was the weakest reading since the 2009 Global Financial Crisis. The IHS Markit Global Electronics New Orders Index was even weaker, slumping to a level of 33.5 in May, as global electronics demand collapsed due to lockdowns in many of the world's largest economies.

IHS Markit Global Electronics New Orders Index



Source: IHS Markit.

Medium Term Growth Drivers

In the near term, Vietnam's exports are expected to strengthen during the second half of 2020 as key export markets, notably the US and EU, move out of lockdown and consumption spending drives a recovery in new orders for key Vietnamese exports such as garments and electronics. Overall GDP growth is expected to strengthen to a pace of over 5% for the 2021 calendar year.

Over the medium-term outlook for the next five years, a number of key drivers are expected 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.

Thirdly, 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.

Fourthly, 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 supply disruptions from China during February and March created turmoil in global supply chains for many industries, including autos and electronics.

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 reduced tariffs considerably 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.

A major new free trade agreement that will boost Vietnam's exports and foreign direct investment inflows is the new EU-Vietnam Free Trade Agreement (EVFTA) which was approved by Vietnam's National Assembly on 8th June. The EVFTA has already been ratified by the European Parliament in February. The EVFTA will be 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 will be removed when the EVFTA takes effect. The scope of the EVFTA is wide-ranging in scope, 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.

Vietnam will also benefit from the Regional Comprehensive Economic Partnership (RCEP) free trade agreement that is expected to be signed by 15 RCEP member countries by the end of 2020. The fifteen RCEP countries that are expected to sign the agreement are the ASEAN ten nations, plus China, Japan, South Korea, Australia and New Zealand. The RCEP agreement covers a wide range of areas, including trade in goods and services, investment, e-commerce, intellectual property and government procurement.

Economic Outlook

With a large number of positive growth drivers creating favourable tailwinds, this will continue to underpin the rapid growth of Vietnam's economy over the medium term. This is expected to drive strong growth in Vietnam's total GDP as well as per capita GDP.

Vietnam's total GDP is forecast to increase from USD 264 billion in 2020 to USD 440 billion by 2025, rising to USD 670 billion by 2030. This translates to very rapid growth in Vietnam's per capita GDP, from USD 2,700 per year in 2020 to USD 4,300 per year by 2025 and USD 6,400 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, with the continued expansion of existing major industry sectors, notably textiles and electronics, as well as the development of new industry sectors such as autos and petrochemicals.

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 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 tensions continuing to simmer, 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.