Economic Preview: Week of 9 November 2020

Publication date: 6 November 2020

Week Ahead Economic Preview

- **GDP updates from the Eurozone, UK, Russia, Hong Kong SAR, Malaysia, Philippines and Japan**
- **US inflation, Eurozone and UK jobs data**
- **Global business outlook surveys**

As markets seek direction after US presidential elections, the focus will shift back to the economic impact of the COVID-19 pandemic and whether governments can avoid second-dip downturns. While PMI data indicated that the global economic recovery remained resilient up to October (see special report and more national analysis on our commentary page), major cracks were already appearing in countries where the authorities have instigated renewed lockdown measures. In particular, growth in the eurozone has stalled and the UK – also dealing with Brexit – saw growth weaken substantially.

Fortunately, robust growth continued to be seen in the US, China and other emerging markets, notably India and Brazil, but COVID infection rates will inevitably be a big steer on the markets as a guide to future economic growth projections. Some further insights into how companies are assessing their prospects for the coming year will be available via the IHS Markit Global Business Outlook survey, published Tuesday.

Other releases in the US include inflation and job market numbers, which should help steer policymaking. Inflation has shown some signs of picking up, but more worrying has been indications that the labour market recovery could be fading (page 3).

In Europe, GDP and labour market statistics are updated for both the Eurozone and UK, as well as higher frequency industry production and trade data for both economies. The data are likely to show economies rebounding in the third quarter but the focus now shifts to the extent to whether renewed downturns can be avoided in the fourth quarter, and the extent to which the all-important labour markets have remained resilient in the face of the pandemic (page 4).

In Asia, GDP data for Malaysia, Philippines, Hong Kong SAR and Japan are all reported, though China's credit and foreign investment figures, as well as Japan's machinery orders, will also gain attention as more timely guides to economic recovery trends. The latest monetary policy decision is meanwhile awaited from New Zealand (page 5).

Special Reports

Global economy: The worldwide PMI surveys indicated a solid start to the fourth quarter for the global economy, but worries about the impact of second COVID-19 waves has cast a shadow over recovery prospects in the coming months (page 6)

Vietnam: Vietnam is expected to be one of the few major Asian economies that will show positive growth for the 2020 calendar year, but its trade surplus with the US has resulted in increasing trade tensions (page 9)

Upcoming PMI releases

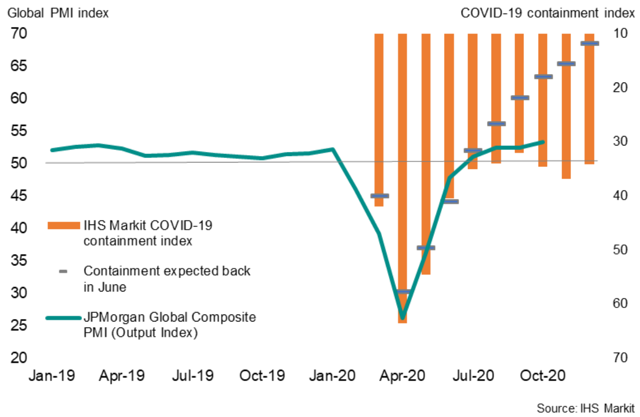
10th November: IHS Markit Business Outlook surveys

20th November: Flash Japan PMI

22-23rd November: Flash PMIs (US, Eurozone, UK, Australia)

Global PMI and COVID-19 containment*

The global economic recovery persisted into October according to the PMI surveys, but has failed to gain much momentum since the initial rebounds from the second-quarter lockdowns, thanks in part to rising COVID-19 infection rates and virus containment measures. The latter are set to tighten further in November.



IHS Markit's COVID-19 Containment Index is based on a basket of measures applied by governments to control the spread of the pandemic, such as non-essential business closures, school closures and travel and mobility restrictions linked to social distancing policies. As these measures are tightened, the index rises towards 100 and a relaxation of measures causes the index to fall towards zero.

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Key diary events (UTC)

Monday 9 November

Malaysia jobless rate and industrial production (Sep)
Germany exports, imports, trade balance (Sep)
Japan current account (Sep) 23:50 UTC

Tuesday 10 November

IHS Markit Business Outlook surveys (Nov)
Australia business confidence (Oct)
China inflation (Oct)
Philippines GDP (Q3)
Indonesia current account (Q3)
Japan Eco Watchers survey (Oct)
France jobless rate (Q3)
UK Claimant count change (Oct), jobless rate (Sep), average earnings (Aug)
France and Italy industrial output (Sep)
Euro area and Germany ZEW surveys (Nov)
US IBD/TIPP economic optimism (Nov), JOLTS job openings (Sep)
South Korea unemployment rate (Oct) 23:00 UTC
Australia consumer confidence (Nov) 23:30 UTC

Wednesday 11 November

New Zealand interest rate decision
Indonesia and Brazil retail sales (Sep)
China new yuan loans, total social financing, M2 (Oct)
Japan machinery orders (Sep) 23:50 UTC

Thursday 12 November

Germany inflation (Final, Oct)
UK GDP, business investment (Prelim, Q3)
UK trade balance, industrial output (Sep)
IEA oil market report
Euro area industrial production (Sep)
India industrial output (Sep), inflation (Oct)
Russia GDP (Prelim, Q3)
US inflation (Oct), jobless claims (7-Nov)
US monthly budget statement (Oct)
China FDI (Oct)

Friday 13 November

Malaysia GDP, current account (Q3)
India WPI (Oct)
France and Spain inflation (Final, Oct)
Hong Kong SAR GDP (Final, Q3)
Euro area GDP (2nd Est, Q3)
Euro area trade balance (Sep), employment change (Prelim, Q3)
India exports, imports, trade balance (Final, Oct)
Brazil business confidence (Nov)
US Michigan surveys (Prelim, Nov)

Saturday-Sunday 14–15 Nov

15/11: Japan GDP, capital expenditure, external demand (Prelim, Q3) 23:50 UTC

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United States Week Ahead

Inflation, JOLTs and Business Outlook

By Siân Jones

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After the tensions fuelled by the presidential election, the flow of economic information continues unabated as markets seek to assess the ongoing impact of the pandemic. Updates to inflation, job openings and jobless claims data are released as rising virus cases threaten business operations and consumer demand once again. Also released is the final IHS Markit US Business Outlook report for 2020, giving an insight into company expectations for the year ahead.

Inflation

Inflation data for September remained subdued compared to that seen in early-2020 but continued to creep up from May's low. The core measure of consumer price inflation (excluding volatile items such as food and energy) is expected to remain slightly more elevated, but crucially below the Fed target of 2%.

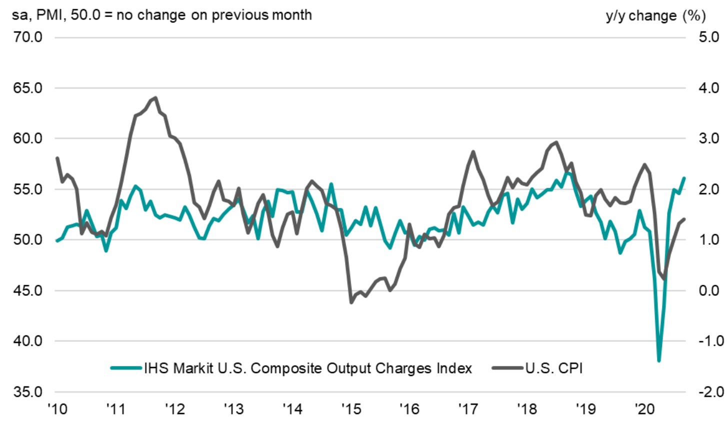
The emergence of a resurgence in coronavirus cases may meanwhile have weighed on consumer spending during October, which may lead to inflation figures remaining relatively subdued in the short term.

Business Outlook

The publication of the latest Business Outlook data from IHS Markit will signal the net balance of private sector firms expecting increases in business activity, employment and investment over the coming year. Results will also provide an insight into profitability predictions and anticipated inflationary pressures. Companies were subdued in their expectations during the summer survey as the COVID-19 pandemic unfolded and ahead of the recent presidential election.

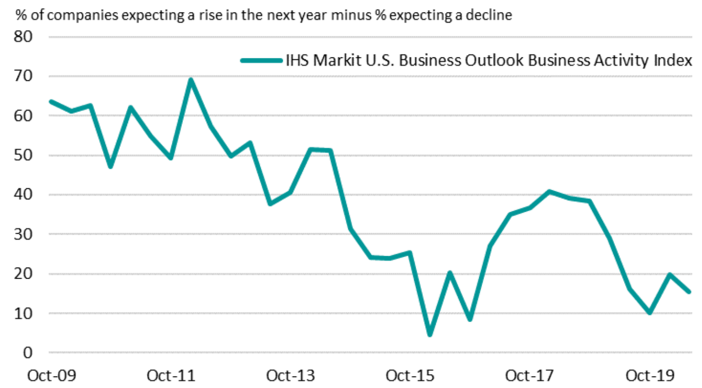
Meanwhile, JOLTS data for September are expected to see another rise in job openings across the US private sector on a monthly basis, but the annual change is likely to still show a contraction. Jobless claims data will also be closely eyed for signs of the labour market recovery losing momentum. Some 721,000 new claims were made in the latest week, more than analysts had been expecting and largely unchanged on the prior week.

US inflationary pressures may pick-up further in October, but look set to remain historically muted



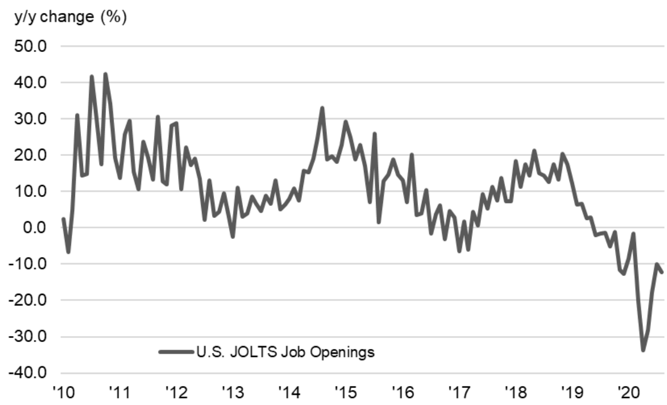
Sources: IHS Markit, Bureau of Labour Statistics, U.S. Department of Labour

Business activity outlook among firms was more pessimistic in June, with October data released during the coming week



Source: IHS Markit

US job openings continued to contract year-on-year in August amid ongoing pandemic impact



Sources: Bureau of Labour Statistics, U.S Department of Labour

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Europe Week Ahead

Industry, trade and third quarter UK GDP data

By Paul Smith

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Following the range of October business surveys and Bank of England policy decision, the economic news cycle turns back towards the backward-looking official data. Industrial production and trade data are the highlights in the eurozone and the UK, with the latter also issuing first estimates of GDP growth in the third quarter.

Eurozone production and trade data

Following on from Germany's reported industrial production figures, several other major countries issue similar data for September, contributing to the wider eurozone industrial numbers being provided on Tuesday.

According to the PMIs, industry has been one of the few bright spots of the euro area economy in recent months, led by a resurgence of activity in Germany, so expectations are for a continuation of the recovery in the official measure of industrial growth during September.

Trade data also released next week and should also show ongoing recovery. Recent PMI figures have indicated that new export orders have been rising across the eurozone recently, again led by Germany, as growing demand from key Asian trading partners – most notably China – helps to drive growth.

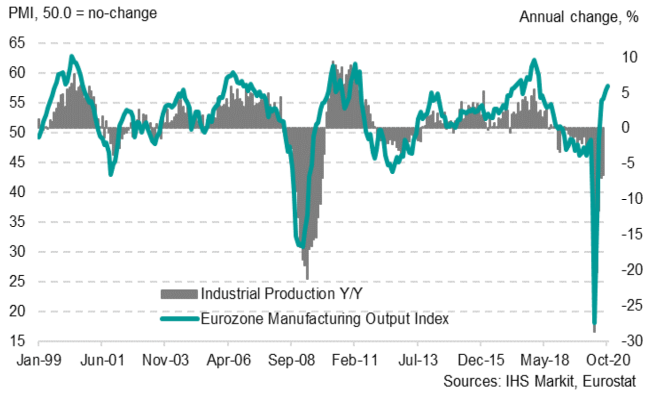
UK third quarter GDP

Meanwhile in the UK, first estimates of third quarter GDP growth will be released, alongside detailed data related to industry and trade. Labour market data are also updated.

The UK economy should show a strong bounce from the record contraction seen in the previous quarter. However, given the backward-looking nature of the data, and the month-long national lockdown recently announced for England, attention will remain firmly focused on the high frequency data.

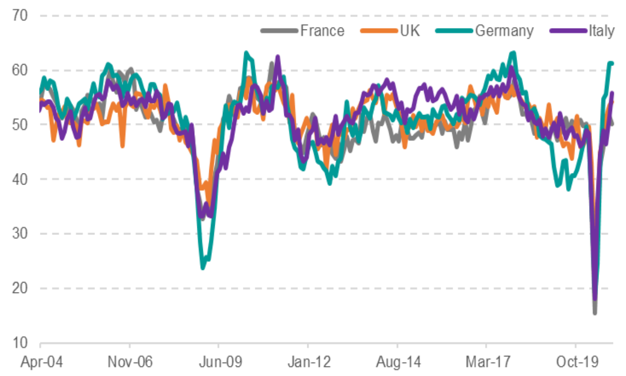
Indeed, recent PMI figures showed a further slowdown in growth during October and, not withstanding a surge in activity into early November ahead of the announced lockdown, a contraction in GDP for the fourth quarter is on the cards.

Industry has been a notable bright spot for the euro area economy in recent months…



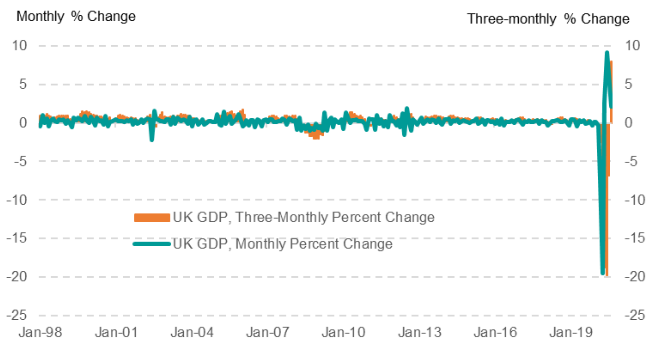
Sources: IHS Markit, Eurostat

…with trade data showing a noticeable pick-up in exports, especially in Germany



Source: IHS Markit

UK GDP growth will be strong in the third quarter, but the monthly data has shown a notable slowdown since peaking in June



Source: ONS

Asia Pacific Week Ahead

Third quarter GDP releases, China data and business outlook surveys

By Bernard Aw

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More Asian economies are set to release third quarter GDP data in the coming week, with Malaysia, Philippines, Hong Kong SAR and Japan all reporting. Greater focus will however be placed on forward-looking data, including China's credit and foreign investment figures. Japan's machinery orders and Eco Watchers survey will also be in focus, while employment data in South Korea and Malaysia could gather some attention. Monetary policy decision makers meanwhile meet in New Zealand. Look out also for IHS Markit's Global Business Outlook Survey.

China data

China data watchers will eagerly await official October statistics for confirmation of a sustained economic recovery after Caixin China PMI data indicated a solid start for output in the fourth quarter, backed up by the fastest upturn in overall sales for nearly a decade. As such, new yuan loans and total social financing will provide updates on credit growth and therefore the extent to which any stimulus measures will remain in progress to support the Chinese economy. Data on foreign direct investment and inflation will also be updated.

Third quarter GDP to show rebounds

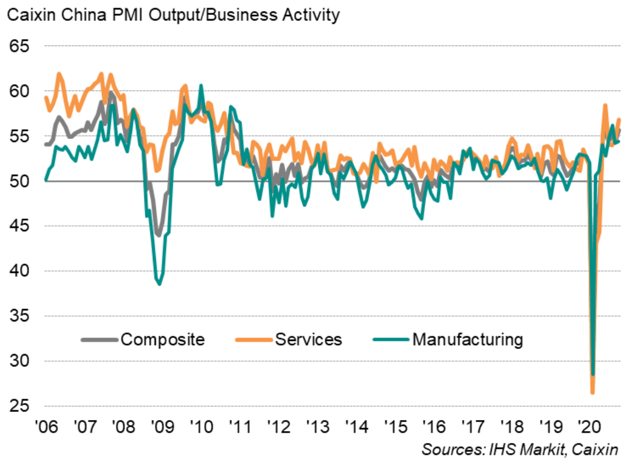
GDP data are expected to show that the economies of Malaysia, Philippines and Japan expanded during the third quarter from the previous quarter, though the extent of the rebound may be limited by a resurgence of COVID-19 cases and associated containment measures, as well as subdued external demand.

IHS Markit projects the Malaysian economy to contract at an annual rate of 8.6% in the third quarter, slower than the -17% in the second quarter. The Philippines' economy is meanwhile also expected to shrink at a weaker rate of 11.5% when compared to -16.5% in the second quarter. Japan GDP will likely fall by an annual rate of 6.5% in the three months ending September.

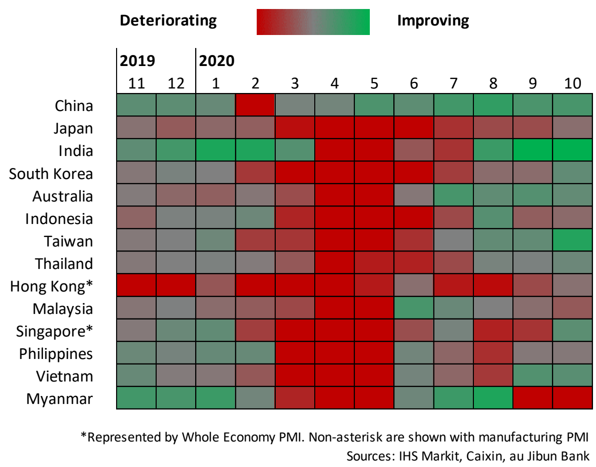
Tri-annual Business Outlook surveys

The IHS Markit Business Outlook surveys for China, India and Japan will reveal companies' plans for hiring and investment, as well as their expectations for profitability, providing clues as to private sector trends in the coming months.

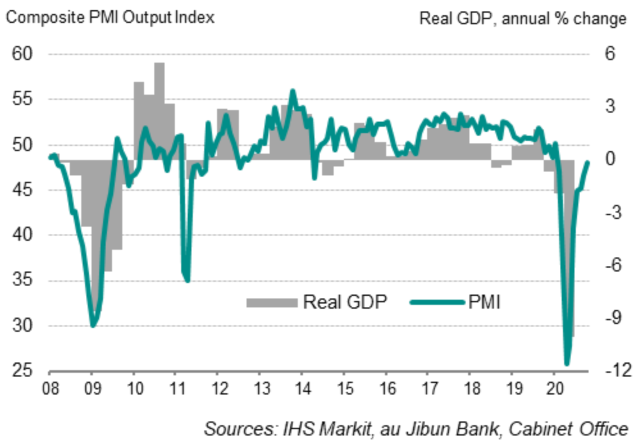
Caixin PMI surveys point to sustained Chinese recovery



Asia Pacific PMI trends



Japan PMI and economic growth



Global PMI Special Focus

Global PMI indicates fastest growth for over two years in October, but rising COVID-19 infection rates cast shadow over outlook

By Chris Williamson

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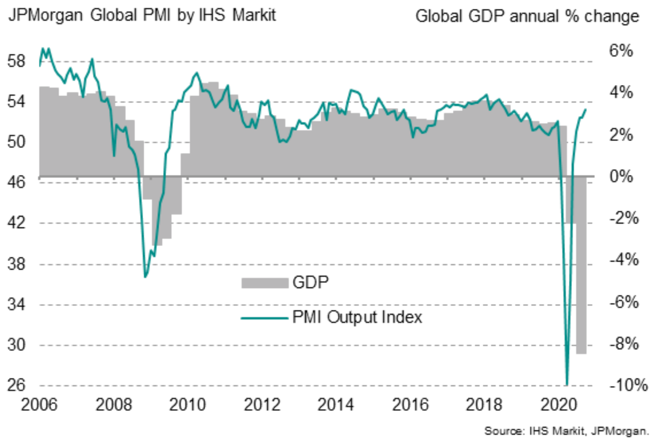
The worldwide PMI surveys indicated a solid start to the fourth quarter for the global economy, with business activity rising at the fastest rate for 26 months. Business confidence also improved markedly as companies grew more optimistic about the year ahead. However, firms remained cautious with regard to hiring, keeping payroll numbers steady on average amid worries about the impact of second COVID-19 waves, which cast a shadow over recovery prospects in the coming months.

Global PMI sees strong start to Q4

The headline **JPMorgan Global PMI™** (compiled by IHS Markit) rose from 52.5 in September to 53.3 in October, its highest since August 2018. The PMI has now indicated expanding business activity for four successive months, reflecting a rebound in economic activity in the third quarter and at the start of the fourth quarter after the COVID-19 pandemic caused an unprecedented collapse in the second quarter.

Global PMI and GDP



However, the recovery signalled by the global PMI remains only modest both in terms of GDP growth and relative to the amount of output lost during the height of the pandemic.

In terms of GDP growth, the PMI is running at a level broadly consistent with annualised GDP growth of just over 3%. That compares with a peak rate of decline of around 12% signalled at the height of the global pandemic back in April[1].

Moreover, between February and June, the PMI recorded a cumulative 54.3 points of sub-50 (contraction) readings, but since July, the PMI has only exceeded 50 by a mere cumulative 9.3 index points. The comparatively modest expansion seen in the past four months therefore hints at only part of the output lost to the pandemic having been recovered so far:

Consumers act as drag on recovery

The recovery also remained uneven, with consumers acting as a drag on the overall pace of expansion in October.

Although growth accelerated in both manufacturing and services to 32- and 19-month highs respectively in October, the latter continued to lag the factory sector thanks primarily to an ongoing downturn of activity within consumer-facing service sector businesses, the output of which was fallen continually over the past nine months.

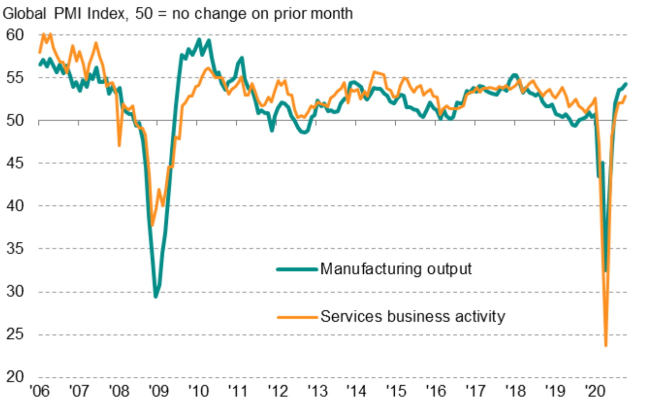
Some weakening of consumer-facing markets was also evident in manufacturing, however, with output of consumer goods growing at a weakened rate for a second successive month, markedly underperforming growth rates seen for investment goods (such as plant and machinery) and intermediate goods (comprising inputs bought by other manufacturers).

Encouragingly, financial services activity growth accelerated markedly in October to the highest since February 2012, and business-to-business services growth hit a 19-month high, driving the re-acceleration

[1] *We use OLS regression to estimate the annual growth rate of GDP implied by the PMI. This model indicates that the annual rate of decline likely peaked at approximately -11.7% back in April at the height of worldwide COVID-19 related lockdowns, but that the relaxation of virus restrictions has since helped drive an improvement to an approximate 3.3% rate of growth in August and September. Note that this does not indicate that the economy is now larger than a year ago, merely that the rate of growth on an annual basis has improved to around 2.5%, which still represents a very modest rate of expansion relative to the collapse seen at the height of the pandemic.*

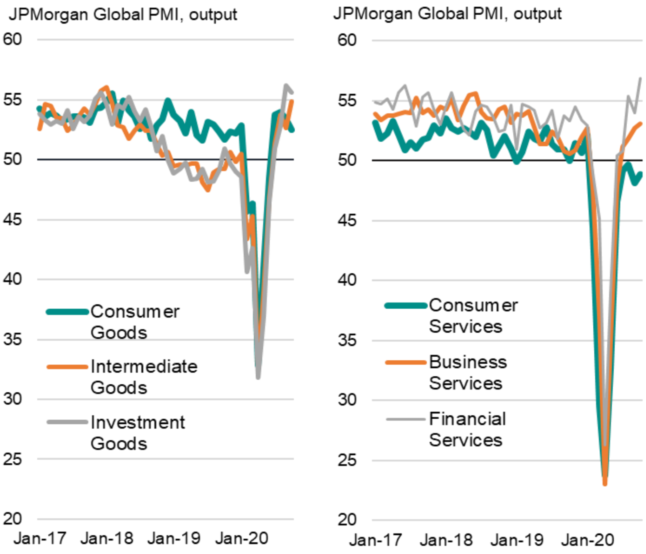
of overall service sector growth after a steadying of the rate of expansion seen in September.

Global PMI output by broad sector



Sources: IHS Markit, JPMorgan.

Global PMI output by market sector



Sources: IHS Markit, JPMorgan.

Exports of services fall at increased rate

While a key development driving growth in the factory sector has been a revival of global goods trade, the opposite applies to services. Manufactured exports rose globally for a second month running in October, albeit with the rate of expansion slowing marginally, but service sector exports continued to fall sharply, with the rate of decline in fact gathering pace for a second consecutive month. A significant portion of service sector exports are accounted for by travel and tourism, which continued to be hit especially hard by COVID-19 travel restrictions and renewed lockdown measures.

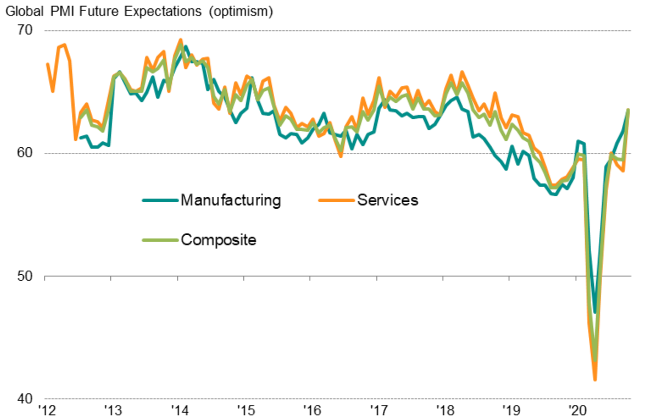
Global PMI new export orders by broad sector

Sources: IHS Markit, JPMorgan.

Can strong growth be sustained?

Looking ahead, the survey's gauge of firms' expectations for their own output in 12 months' time rose sharply in October, reaching the highest since June 2018. Sentiment improved markedly in both manufacturing and services, linked to hopes of a vaccine or treatment bringing an end to the economic disruption caused by COVID-19 in the course of the coming year, as well as expectations of further stimulus from governments to support economies in the meantime.

Global business expectations

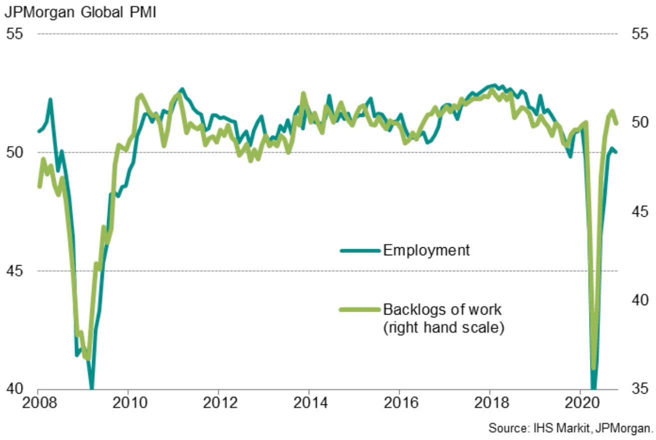


Sources: IHS Markit, JPMorgan.

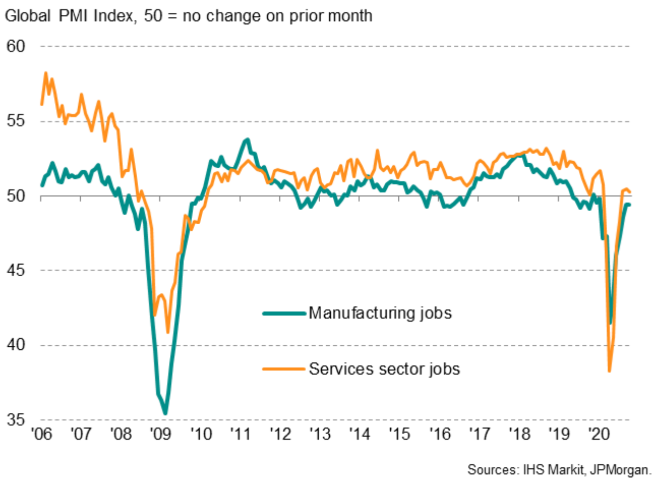
However, while the upturn in confidence about the year ahead is encouraging, it tells us very little about the next three-to-six months, where the picture is more concerning. Given that there is a broad-based expectation that a COVID-19 vaccine will be widely available by the second half of 2021, it is perhaps no surprise that companies have become more upbeat about their output in a year's time. More worrying is the fact that, despite output (and new orders) growth accelerating in October, companies globally held their staffing levels unchanged on average. A marginal rise in service sector headcounts was negated by a further cut in factory jobs.

The reluctance to boost headcounts is unusual given the increase in firms' backlogs of uncompleted work in recent months, and hints strongly at a reluctance to add to staff costs in the face of such an uncertain near-term outlook for demand, given the resurgence of COVID-19 in many countries.

Global employment



Global employment by broad sector



Lockdown measures raise growth worries

Companies reticence to take on extra staff fires a warning shot over recovery hopes, often reflecting concerns that second waves of virus infections will curb demand in the near term, hitting order books and revenues.

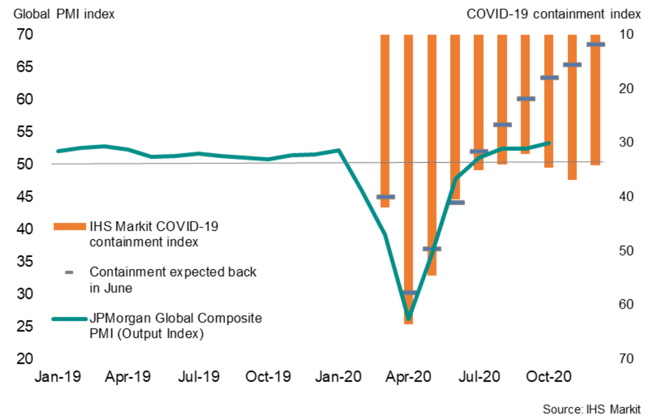
Further waves of virus infections have already led to increased lockdowns and other precautions in recent weeks, which have affected business activity in growing numbers of companies.

The degree to which economies have 'locked down' in the fight against the pandemic can be gauged by IHS Markit's COVID-19 Containment Index. This gauge is based on a basket of measures applied by governments to control the spread of the pandemic, such as non-essential business closures, school closures and travel and mobility restrictions linked to social distancing policies. As these measures are tightened, the index rises towards 100 and a relaxation of measures causes the index to fall towards zero.

The global average COVID-19 Containment Index had eased from a peak of 64 in April to 32 in September, but has risen again to 35 in October, representing a significant and tightening degree of containment.

The degree of containment has also remained far higher than had been expected just a few months ago, reflecting the scale of resurgent infection numbers in many countries. For example, back in June, governments' plans to open up their economies had pointed to the global containment index falling to just 18 by October instead of the current reading of 35.

Global output and COVID-19 containment



What's more, the path to further opening up economies is now gloomier than had been expected back in the summer. Given governments' notified plans for future virus containment measures, the Global COVID-19 Containment Index is now expected to rise further to 37 in November and still be stuck at 34 by the end of the year, whereas back in June it was projected to have fallen to just 12 by year-end.

Projections out to June 2021 indicate that the global containment is on course to remain at 17, reflecting the ongoing need for many social distancing and other virus protection measures to remain in place for longer than previously thought necessary by governments worldwide, meaning economic growth rates will inevitably be weaker than previously anticipated over this period.

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APAC
Special Focus

Vietnam's recovery persists into October, but strong exports trigger US trade policy measures

By Rajiv Biswas

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Vietnam has been one of the most resilient economies in the Asia-Pacific region to the shockwaves from the global COVID-19 pandemic. Vietnam is expected to be one of the few major Asian economies that will show positive growth for the 2020 calendar year.

Vietnam's export sector, which is a key driver of GDP growth, has also shown moderate positive growth during the first ten months of 2020 despite the economic shocks in key export markets, notably the US and EU.

However, Vietnam's large and rising bilateral trade surplus with the US has resulted in increasing trade tensions with the US. In October 2020, the US 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.

Vietnam's economy moderates due to COVID-19 but avoids recession

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 driven 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%.

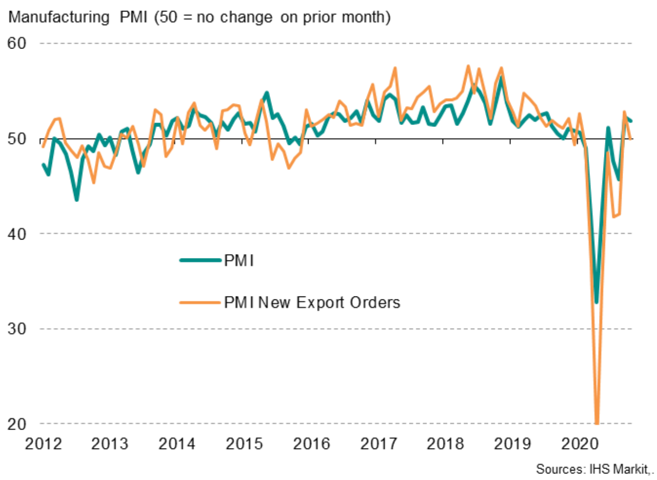
Total foreign direct investment inflows reached USD 20.4 billion in 2019, up 6.7% year-on-year (y/y), driven by strong investment by multinationals in establishing new manufacturing production facilities in Vietnam. Samsung has been a key investor, with total foreign direct investment into Vietnam of around USD 17 billion in the decade to 2018. Vietnam has consequently 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. Around 50% of Samsung's smartphones and tablets are produced in Vietnam and exported globally. Samsung Vietnam has also built its largest R&D centre in Southeast Asia near Hanoi.

However, economic growth momentum has moderated significantly in the first nine months of 2020, due to the impact of the COVID-19 pandemic. For the January to September 2020 period, the Vietnamese economy grew by 2.12% y/y, compared with a 7.1% GDP growth rate in calendar 2019. Vietnam's GDP rose by 2.62% y/y in the July-September quarter of 2020, improving on the 0.39% y/y pace recorded in the April to June quarter. Despite the moderation in growth momentum, Vietnam is expected to be one of the very few industrial economies in the Asia-Pacific region that will record positive GDP growth in 2020. IHS Markit estimates that the Vietnamese economy will expand at a pace of 2.2% year-on-year in calendar 2020.

Manufacturing sector has shown significant recovery

The Vietnamese manufacturing sector returned to growth in September as concerns around the latest outbreak of new COVID-19 cases in the country during July and August eased. Both output and new orders increased in September, according to IHS Markit's PMI data, while business confidence strengthened. The October surveys saw a continuation of expansion in the Vietnamese manufacturing sector, as the COVID-19 pandemic remained under control domestically.

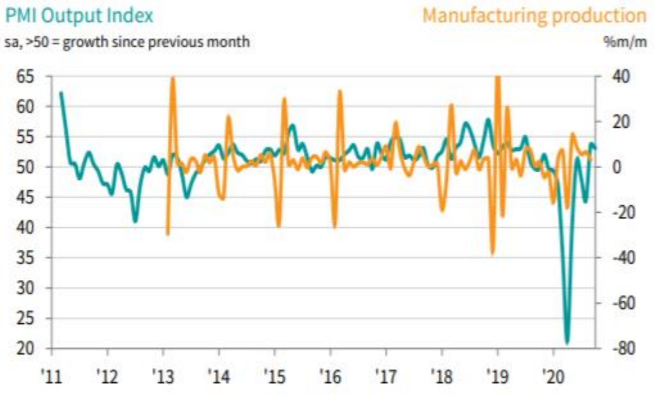
IHS Markit Vietnam Manufacturing PMI



The IHS Markit Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) posted 51.8 in October, down marginally from 52.2 in September but still signalling expansion in the manufacturing sector and representing a substantial recovery from April's record low of 32.7. The latest survey showed improving operating conditions in the consumer and intermediate goods sectors. However, investment goods firms posted a deterioration, amid further declines in both output and new orders.

In October 2020, industrial production rose by 5.4% y/y, reflecting a substantial rebound in manufacturing output and export orders as lockdowns eased in major export markets. For the first ten months of 2020, industrial production rose by 2.7% y/y, reflecting a very resilient performance compared with many other Asian industrial economies which have faced sharp contraction in industrial output due to the pandemic and related lockdowns.

Vietnam manufacturing output



Sources: IHS Markit, General Statistics Office of Vietnam.

Reflecting Vietnam's success in limiting the domestic spread of COVID-19 cases during the first ten months of 2020, retail sales of goods and services rose by 6.1% y/y in October.

According to Vietnam's General Statistics Office, exports in October are estimated to have risen by 9.9% y/y to USD 26.7 billion, while imports likely increased 10.1% y/y to USD 24.5 billion, resulting in a trade surplus of USD 2.2 billion for the month of October. Exports are estimated to have risen by 4.7% y/y for the first ten months of this year, while imports rose by 0.4%, resulting in a strong trade surplus for the first ten months of USD 18.7 billion.

The US has been Vietnam's largest export market during 2020 year-to-date, with Vietnam's exports to the US up 24% y/y. Vietnam's trade surplus with the US during the first ten months of 2020 reached USD 50.7 billion, compared with a trade surplus of USD 55.8 billion for the full 2019 calendar year. Exports to China have also shown strong growth of 14% y/y during the same period. However, exports to the EU were down 3% y/y during the first ten months of 2020.

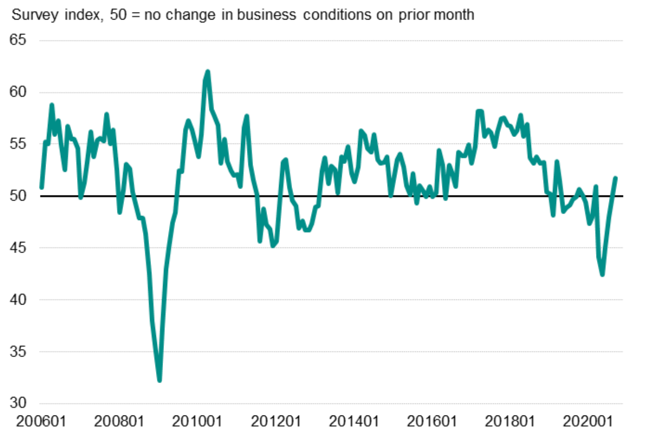
Although Vietnam's merchandise exports have been very resilient in the first ten months of 2020, exports of tourism services have collapsed due to the impact of international travel bans, including Vietnam's own ban on international travel. The tourism economy had been growing strongly in recent years, 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 hit by 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 over the past decade, 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 impact of global lockdowns due to the pandemic on the global electronics industry had been a major shock to the sector during the first half of 2020. Amid widespread global lockdown measures aimed at containing the spread of the pandemic, world demand for electronic goods slumped sharply in April and May.

IHS Markit Global Electronics PMI



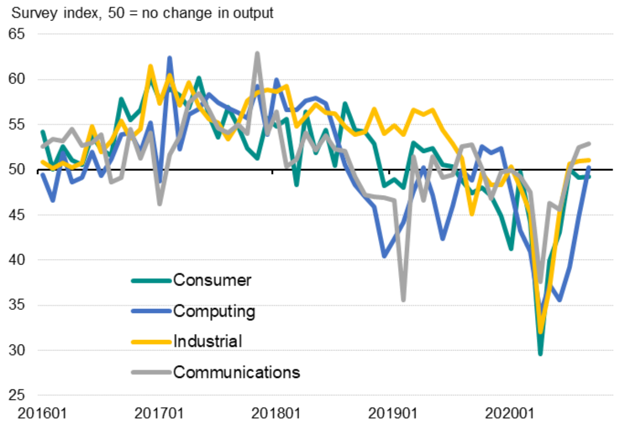
Source: IHS Markit

However, since the low points in April and May, the IHS Markit Global Electronics PMI has showed significant improvement, with the headline index rising to 51.1 in September 2020, the first expansion for ten months.

The Global Electronics PMI's output index (which measures changes in production) returned to positive territory, reaching 50.7 in September, indicating slight expansion. This is in comparison with severe contraction in April, as reflected in the index reading of 33.9 for that month.

According to the PMI data, global electronics new orders rose from a calendar year-to-date low of 34.7 in May to a level of 50.3 in September, marking a return to expansionary conditions and reflecting a significant rebound in global demand for electronics goods. The strongest recovery has been in new orders for communications electronics, helped by improving demand for mobile phones. However, both industrial electronics and consumer electronics also showed expansion in September.

IHS Markit Global Electronics PMI, output by product category



Source: IHS Markit

Vietnam's exports from phones and components reached USD 36.7 billion in the first nine months of this year, posting a year-on-year decline of 5.5% and accounting for 18.1% of Vietnam's total export revenue. While the overall year-on-year decline reflects the impact of global lockdowns during H1 2020, the rebound in retail sales in key markets such as the US and EU since mid-2020 is expected to result in improving exports of phones and components for the second half of 2020 and during 2021. However, some near-term volatility in exports is expected due to the impact of new lockdowns in some key markets due to renewed waves of COVID-19 cases.

Meanwhile exports of personal computers and related products rose strongly in Q3 2020, up by an estimated 20% y/y, as the global shift to remote working boosted demand for personal computers. Vietnam has significantly increased its share of global exports of computers in the past five years and is now competing with China in terms of the total export value of computer products.

Medium term growth drivers

In the near term, Vietnam's exports are expected to strengthen in 2021, as key export markets, notably the US and EU, roll out COVID-19 vaccines, allowing a gradual recovery in economic growth momentum. This is expected to support a recovery in new orders for key Vietnamese exports such as garments and electronics.

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.

- 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 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. For example, 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.
- 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 supply disruptions from China during

February and March created turmoil in global supply chains for many industries, including autos and electronics.

For example, the Japanese government has introduced a subsidy program in 2020 for Japanese companies to help reduce supply chain vulnerability by relocating production out of China either back to Japan or to certain other designated nations. The Japanese government has allocated an estimated 220 billion yen for the supply chain reshoring program in Japan's supplementary budget for the 2020 fiscal year, equivalent to around USD 2.1 billion. An additional 23.5 billion yen were allocated for supply chain diversification to other selected countries, which includes ASEAN, India and Bangladesh. Vietnam has been one of the preferred destinations for Japanese firms choosing to shift their production to the ASEAN region in the first round of subsidy allocations announced by the Japanese government.

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.

The EVFTA is a key new free trade agreement that will boost Vietnam's exports and foreign direct investment inflows. 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.

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.

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 favour of the US for trade in services, but still left the overall bilateral trade deficit at USD 54.5 billion in 2019. In the first nine months of 2020, the US deficit with Vietnam for trade in goods has remained at similar high levels, reaching USD 49.5 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 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 will consult 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.

USTR has 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.

Economic outlook

The Vietnamese economy is expected to rebound in 2021, with GDP growth expected to strengthen to a pace of 6.1% y/y. Over the medium-term economic outlook, a large number of positive growth drivers are creating favourable tailwinds, continuing 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.

Vietnam's total GDP is forecast to increase from USD 270 billion in 2020 to USD 450 billion by 2025, rising to USD 720 billion by 2030. This translates to very rapid growth in Vietnam's per capita GDP, from USD 2,800 per year in 2020 to USD 4,500 per year by 2025 and

USD 6,900 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.

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 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.