4 March 2022

Week Ahead Economic Preview

US, China inflation, UK GDP and ECB meeting in focus

The **Ukraine crisis** induced uncertainty remains in focus going into the fresh week, though the attention is expected to be shared with upcoming **inflation data releases across US and China**. The **European Central Bank's** March meeting will likewise be closely watched. Meanwhile the **UK releases January output numbers** and **China updates trade figures** for February.

The European Central Bank's monetary policy meeting will be closely followed in the coming week amid recent developments on the Ukraine front. This week saw Fed chair Jerome Powell's reiterating the Fed's commitment towards upcoming interest rate hikes in his first day testimony to the US Congress, though uncertainty from the Ukraine war had been acknowledged as expected. While the ECB may continue moving forward with plans to update their forward guidance in the March meeting to reflect their intent to hasten tightening of monetary policy, European central bankers may likewise exercise caution given the proximity to the Ukraine impact.

Meanwhile inflation concerns continue to reign chieftain for markets particularly with the Ukraine crisis further adding pressure. Investors will be able to glean insights into the pre-invasion inflation picture from the data releases across US and China in the coming week. As it is, global manufacturing production had revived from the December low though supply shortages and inflationary pressures continued to constrain growth, a phenomenon that may be exacerbated by the ongoing surge in commodity prices, such as with energy costs.

Other economic data to track in the coming week includes China's trade data, with exports growth expected to have moderated. UK's January output data will also be watched after COVID-19 cases started ebbing in the month.

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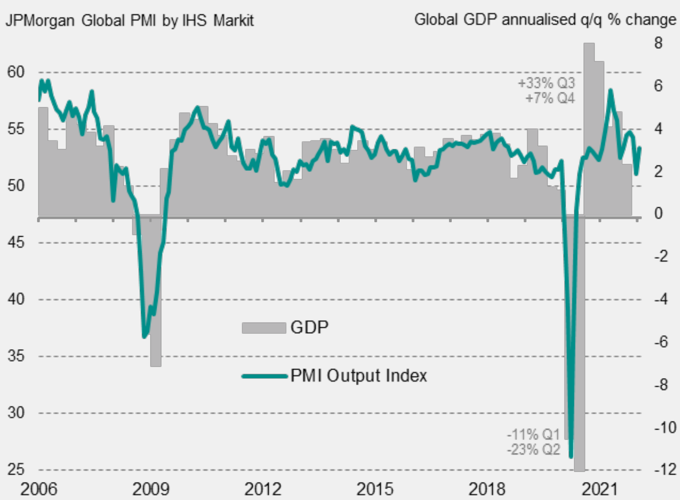
Global economy reviving from Omicron wave prior to Ukraine war

Russia's invasion of Ukraine has dominated the news flow and markets, the latter focusing on the economic impact of the war. The conflict came just as the global economy was showing signs of having ridden through the Omicron wave relatively unscathed by comparison with prior COVID-19 waves. The JPMorgan Global PMI recovered from a one-and-a-half year low of 51.1 in January to 53.4 in February, with service sector growth in particular rebounding as virus related restrictions were relaxed around the world.

Although still acting as constraints on output, supply chain shortages showed signs of easing. The peaking of the Omicron wave is also likely to help alleviate some of the widespread staffing difficulties reported by firms across the globe in the first two months of the year. Business confidence about prospects for the year ahead surged to an eight-year high.



Source: IHS Markit, JPMorgan.

That, however, was before Russia's invasion of Ukraine. As the humanitarian consequences are both unfathomable and tragic, some of the initial economic implications are likely to be more clear-cut. GDP growth forecasts are being revised lower, especially in Europe, and inflation forecasts are being revised higher, though there remains great uncertainty as to the scale of the impact. Before fresh data are released to reveal the initial economic impact in March and beyond, it will therefore be the war and the words of policymakers, forecasters and the politicians which will be watched for market guidance, the backward-looking economic indicators taking a back seat.

Key diary events

Monday 7 Mar

New Zealand Reserve Assets Total (Feb)
China (Mainland) Trade (Feb)
Switzerland Unemployment Rate (Feb)
Germany Industrial Orders (Jan)
Germany Retail Sales (Jan)
United Kingdom Halifax House Prices* (Feb)
Norway Manufacturing Output (Jan)
Eurozone Sentix Index (Mar)

Tuesday 8 Mar

Japan Current Account (Jan)
Germany Industrial Output (Jan)
Norway GDP (Jan)
Taiwan CPI (Feb)
Taiwan Trade (Feb)
Eurozone GDP (Q4, revised)
United States International Trade (Jan)
Canada Trade Balance (Jan)
United States Wholesale Inventories (Jan)

Wednesday 9 Mar

South Korea Market Holiday
South Korea Presidential Election
Japan GDP (Q4, revised)
China (Mainland) CPI, PPI (Feb)
United States JOLTS Job Openings (Jan)

Thursday 10 Mar

Japan Corp Goods Price (Feb)
United Kingdom RICS Housing Survey (Feb)
United Kingdom Goods Trade Balance (Jan)
Norway Consumer Price Index (Feb)
Eurozone ECB Deposit and Refinancing Rate (Mar)
United States CPI (Feb)
United States Initial Jobless Claims
China (Mainland) M2, New Yuan Loans, Loan Growth (Feb)

Friday 11 Mar

New Zealand Manufacturing PMI (Feb)
Japan All Household Spending (Jan)
Malaysia Industrial Output (Jan)
Germany CPI (Feb, final)
United Kingdom monthly GDP, incl. Manufacturing, Services and Construction Output (Jan)
India Industrial Output (Jan)
Canada Capacity Utilization (Q4)
Canada Employment Change and Unemployment Rate (Feb)
United States UoM Sentiment (Mar, prelim)

* *Press releases of indices produced by IHS Markit and relevant sponsors can be found here.*

What to watch

- **North America: US CPI, UoM sentiment**

  US releases February CPI figures on Thursday with the consensus pointing to an acceleration of consumer price inflation to 0.7% month-on-month from 0.6% previously. On a year-on-year basis, a materialisation of the 7.8% forecast will make it the highest reading since January 1982. Core CPI is likewise expected to tick up. According to the IHS Markit US Composite PMI, output prices rose at a faster rate in February, supporting the expectation for a steeper CPI reading.

  Preliminary March University of Michigan sentiment index readings will also be updated on Friday. Early data from latest PMI surveys showed sentiment improving amongst private sector firms.

- **Europe: ECB meeting, UK January output, eurozone Q4 GDP and German inflation**

  The European Central Bank will meet in the coming week with no change to policy rates expected. After signalling their intent to hasten the end to net asset purchases and an earlier start to policy rate rises in February, changes to the ECB's forward guidance should not be ruled out in the March meeting. That said, given recent developments, particularly the Ukraine crisis, the ECB may err on the cautious side.

  UK January output data will be due on Friday. According to IHS Markit / CIPS UK Composite PMI data for January, UK private sector growth accelerated slightly after growing at the slowest rate in 10 months in December. Manufacturing sector growth outpaced that of services at the start of 2022.

- **Asia-Pacific: China trade and inflation data, Japan Q4 GDP, Taiwan CPI**

  China's trade and inflation data will be released on Monday and Wednesday respectively. Both import and export expansions are expected to have slowed in the month of February according to consensus, though remaining at double digit percentage growth.

  On inflation, February's Caixin China PMI data indicated that manufacturing input costs rose at an accelerated pace, hinting at steep PPI readings while CPI may trend otherwise amid easing services selling price inflation.

Special reports:

Global Manufacturing Growth Revives From 1½ Year Low, but Supply Shortages and Inflationary Pressures Persist **Chris Williamson** | **page 4**

Vietnam: Exports Drive Economic Rebound in Early 2022 **Rajiv Biswas** | **page 8**

Recent PMI and economic analysis from IHS Markit

Global	Global manufacturing growth revives from 1½ year low, but supply shortages and inflationary pressures persist	2-Mar	Chris Williamson
	Flash PMIs show developed world growth rebounding in February as Omicron wave subsides	22-Feb	Chris Williamson
APAC	ASEAN manufacturing output stays resilient despite COVID-19 surge, but issues of capacity constraints persist and price gauge hits new high	1-Mar	Jingyi Pan
	China manufacturing stabilises in February, but employment falls sharply again	1-Mar	Chris Williamson
	APAC flash PMIs show diverging trajectory for Japan and Australia output as the COVID-19 Omicron wave evolves	21-Feb	Jingyi Pan
	Japan manufacturing output falls and prices rise at steepest rate since 2008 amid worsening supply situation	21-Feb	Chris Williamson
Commodities	Weekly Pricing Pulse: Commodity prices dip after government intervention	23-Feb	Michael Dall

IHS Markit Economics & Country Risk highlights

The global economy disrupted: Higher inflation and slower growth in the 2022 outlook

Two years into the pandemic, COVID-19 continues to take surprising turns, disrupting the global economy through multiple channels—public health, work, education, travel, consumer spending patterns, production of goods and services, and international trade flows.

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Russia-Ukraine conflict: Global and regional growth and inflation implications

In a severe scenario, we estimate a 1-percentage-point reduction in world real GDP growth in 2022, from 4% down to 3%. Global CPI inflation would be over 2 percentage points higher. Europe is the region affected most.

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Special Focus

Global Manufacturing Growth Revives From 1½ Year Low, but Supply Shortages and Inflationary Pressures Persist

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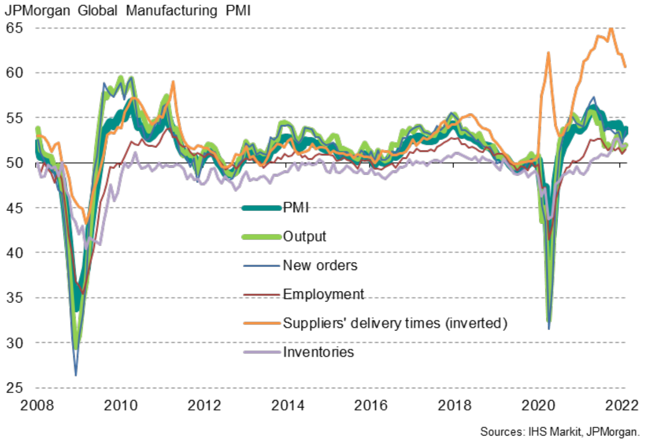
Worldwide manufacturing growth picked up in February after being subdued to a one-and-a-half year low in January due to the Omicron wave. However, the overall rate of expansion continued to be constrained, limited by a combination of supply chain delays and worker shortages. Prices rose at an increased rate – one of the highest in a decade – as a result.

Although these supply constraints showed some signs of easing, they will likely be exacerbated again by the Ukraine war, as will the upward pressure on prices.

The JPMorgan Global Manufacturing PMI rose from a 15-month low of 53.2 in January to 53.6 in February in a sign that the global economy continued to show encouraging resilience in the face of the Omicron wave of the COVID-19 pandemic.

Global manufacturing PMI and its five components



However, it is the detail behind the PMI, which is comprised of five sub-indices, which provides the important details of what is really happening in the manufacturing economy at the moment in terms of demand, supply constraints and production. Other PMI survey indices relating to costs and selling prices meanwhile provide further guidance on inflation trends.

These indices are explored further in the following ten key charts:

Chart 1: Global factory output growth remains subdued

While the headline PMI registered 53.6 in February, the survey's output index merely rose from 51.3 to 51.9, which is the fourth weakest since the initial pandemic recovery started in July 2020 and is significantly weaker than the survey's pre-pandemic average of 52.8, thereby signalling below-trend growth. The latest reading is indicative of global manufacturing production growing at a modest annual rate of just under 2%.

Global manufacturing PMI, output index

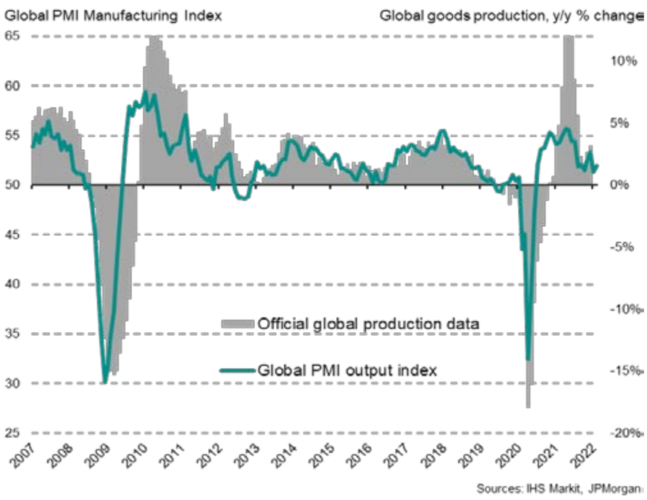
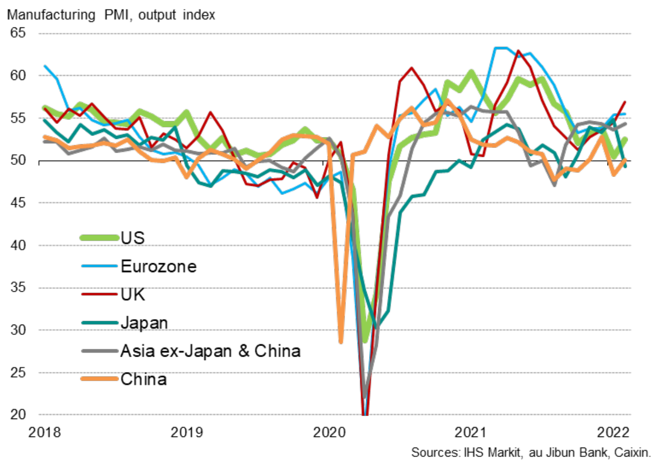


Chart 2: Recovery led by Europe, Omicron impact looks muted cross much of Asia

Production upturn led by Europe



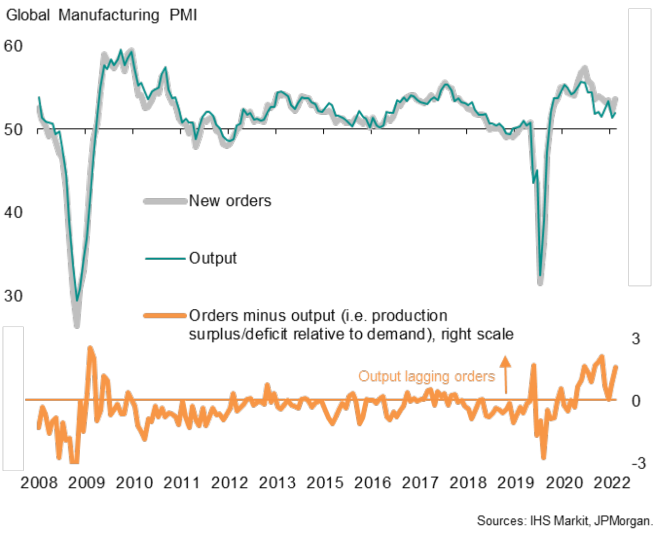
Production growth was led by a recovering Europe, with output growth accelerating to a seven-month high in the UK and a five-month high in the eurozone. It was also reassuring to see output growth accelerate in Asia excluding Japan and China, suggesting the region has so far been affected by the Omicron variant to a considerably lesser degree than the Delta wave. Similarly, production in China stabilised amid improving demand after being hit by Omicron in January. However, production fell in Japan as COVID-19 restrictions were raised, and output growth in the US remained lacklustre.

Chart 3: Demand exceeds production

The relative weakness of February's global output growth by historical standards contrasted with a more robust expansion of order books recorded during the month. New orders rose to the greatest extent since last October, with the latest new orders index reading of 53.5 running above the pre-pandemic long-run average of 52.6 to signal an above-trend rate of demand growth.

Output growth has in fact now lagged inflows of new orders continually since March of last year, hinting at persistent production constraints which intensified in February.

Global manufacturing PMI, output and new orders



By far the greatest shortfall of production relative to new orders was seen in the US, followed by Australia, Germany, Ireland, South Korea and Taiwan.

Chart 4: Output constrained by staff and raw materials shortages

In anecdotal reporting provided in the questionnaires completed by PMI survey respondents, production was again indicated to have been constrained by a combination of raw material and staff shortages, the latter in fact more widely reported than material shortages in recent months. Staffing issues have become increasingly problematic since the Omicron variant, with employees often reported ill or self-isolating as a result of the more contagious variant.

Although some easing in the incidence of staff shortages was recorded in February, the degree to which output was constrained on average remained elevated by historical standards of the pandemic, exceeded only by that seen in the initial COVID-19 wave.

Likewise, reports of output being constrained by raw materials remained high by historical standards, albeit so far running below that seen in the aftermath of the Delta wave, thanks in part to the resilience of production across much of Asia.

Global manufacturing reporting lower output due to...

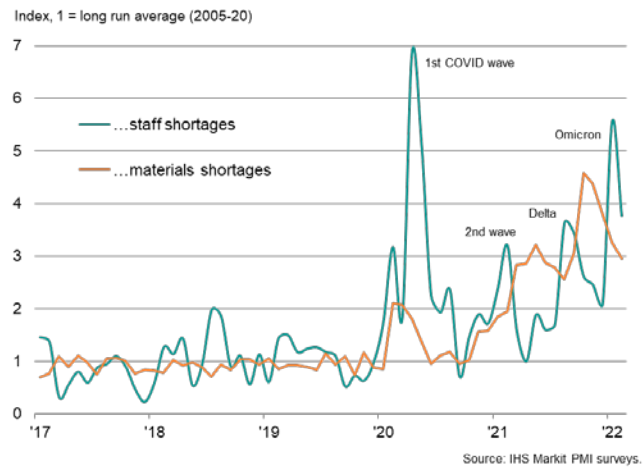


Chart 5: Supplier delivery delays ease to lowest since January 2021

The reduction in the number of companies reporting production to have been constrained by a lack of raw materials reflected a commensurate drop in the reporting of supplier delivery delays. Measured globally, supplier lead times continued to lengthen in February but with the incidence of delays running at the lowest since the start of last year. Delivery delays eased most notably in Europe and to a lesser extent in the US, but in all cases remain elevated by historical standards.

Supplier delivery times

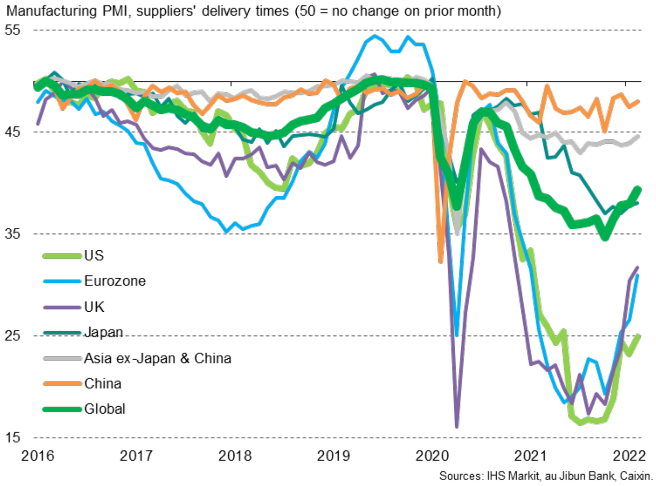
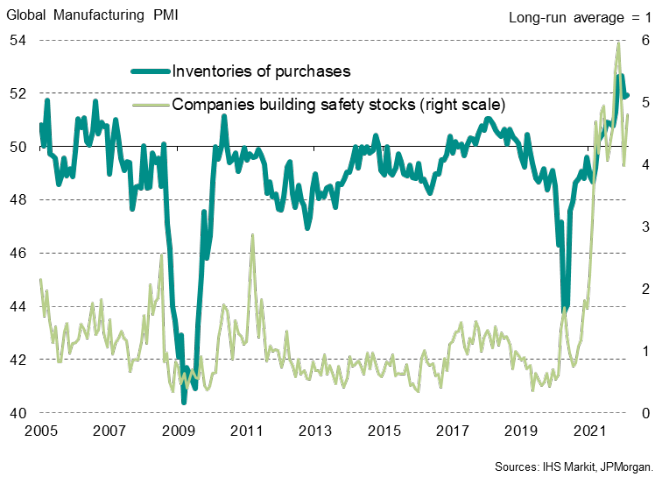


Chart 6: Stock building near all-time highs

Concerns over raw material availability was a key driver of another near-record rise in manufacturers' inventories of inputs in February. The past five months have seen the greatest period of inventory building recorded over the global PMI's 25-year history, reflected as a spike in the number of companies reporting that inventories were being increased due to the need to build safety stocks.

Global raw material inventories



Such widespread safety stock building has further exacerbated the demand-supply imbalance in the global manufacturing economy.

Chart 7: Employment growth stymied by staff shortages

Although employment rose again in February, companies often reported that job gains were limited by a lack of available candidates to fill positions and staff leavers. The lack of personnel was also a principal cause of rising backlogs of work which, although rising at a slower rate than seen throughout much of 2021, continued to accumulate at rate rarely exceeded over the survey's history.

Global manufacturing employment

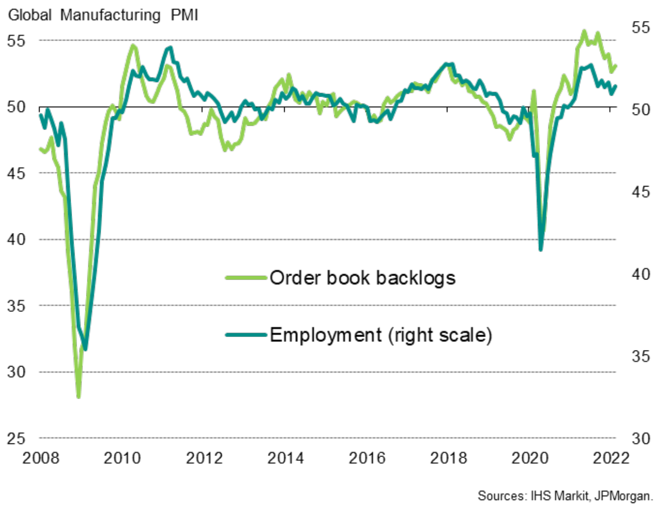


Chart 8: Input price inflation remains elevated

With demand running ahead of supply amid ongoing production constraints, input costs continued to rise in February at one of the sharpest rates seen over the past decade, the rate of inflation picking up slightly though remaining below last October's peak.

In addition to a sustained sellers' market persisting for many key raw materials and manufactured inputs such as semiconductors, costs are also being pushed up by rising energy costs.

Manufacturing input prices, supply and demand

Chart 9: Factory price inflation accelerates

The sustained upward pressure on raw material input costs, combined with upward pressure on wages as firms sought to attract and retain workers, led for a renewed upturn in global factory selling price inflation. Prices for goods leaving the factory gate rose in February at the fastest rate since November, registering the fourth-largest monthly increase recorded since comparable data were available in 2009.

Especially strong increases were seen in the US and Europe, although a new high was printed in Asia excluding Japan and China. Japan saw the rate of increase cool only slightly from January's all-time high. While selling price inflation remained relatively muted in China, reflecting weaker input costs pressures amid government interventions in commodity markets, the rate of increase nevertheless likewise accelerated.

Factory gate price inflation

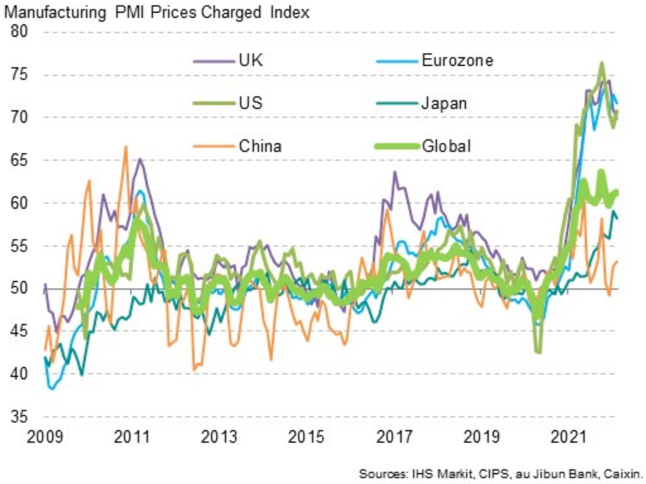
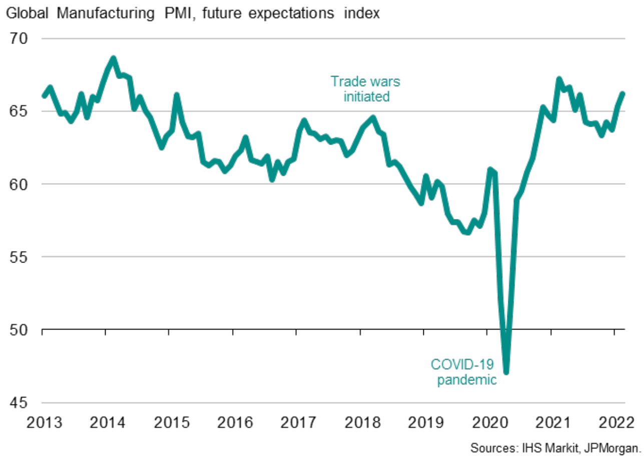


Chart 10: Future expectations improve

A positive sign from the February surveys was an improvement in business expectations for the year ahead to the highest since last April. Companies were optimistic that the worst of the economic impact of the pandemic was behind them, and that supply chains would continue to gradually improve, job markets would recover and that production would increase.

However, it should be noted that the February PMI data were collected prior to the Russian invasion of Ukraine. Few companies had reported that the Ukraine tension affected their business confidence in the February survey results, which will inevitably change in the March survey.

Future output expectations



Key indicators to watch

There will be a number of ways in which the Ukraine crisis is likely to affect the manufacturing economy, signs for which will be assessed in the upcoming March PMI data:

- Energy prices have spiked higher due to the invasion of Ukraine, with agricultural commodity prices also moving higher. most notably in Europe. This will add to firms' input cost pressures and invariably be passed through to customers via higher selling prices.
- Supply chain disruptions will likely be exacerbated by the conflict, again most prominently in Europe but also on a global basis to some extent, worsening the supply-demand imbalance and sustaining upward pressure on prices.
- Safety stock building is likely to be ramped up as companies grow concerned about further price rises and availability.
- Business confidence is likely to have been adversely affected, reducing business investment. Sanctions are also likely to have curbed economic activity, most obviously in Russia but also among companies world-wide affected by sanctions.
- Consumer confidence and spending is also likely to have been affected, again especially in Europe.

Our commentary highlighting the impact of the war and the ongoing pandemic as evidenced by the business surveys will be published free-to-read. **Sign up to receive updated commentary in your inbox here**.

Special Focus

Vietnam: Exports Drive Economic Rebound in Early 2022

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After substantial disruptions to the economy during the second half of 2021 due to the severe COVID-19 Delta wave, Vietnam has shown improving growth momentum during late 2021 and early 2022. Vietnam's GDP growth rate is forecast to strengthen from a pace of 2.6% in 2021 to 6.0% in 2022, as domestic demand and manufacturing exports rebound.

Strong economic growth is forecast over the medium-term, boosted by surging exports as well as rapidly rising private consumption spending.

Economic growth hit by COVID-19 Delta wave in 2021

Despite strong economic momentum in H1 2021 boosted by rapid export growth, Vietnam's economy was hit by the impact of lockdowns in H2 2021. As a result, GDP growth for the calendar year rose at a moderate pace of just 2.6%.

Industrial production grew by 4.8% in calendar 2021, boosted by strong growth in exports during H1 2021. Vietnam's exports grew by 19% y/y in calendar 2021, despite the severe negative impact of lockdowns on manufacturing output in the third quarter.

Manufacturing sector recovering from lockdowns in H2 2021

Vietnam's manufacturing sector was badly hit by the COVID-19 wave that hit the nation in the third quarter of 2021. As a result of the rising pandemic wave, the government authorities put in place strict lockdown restrictions for many provinces. Ho Chi Minh City, a key commercial hub, faced very severe restrictive measures for a wide range of activities, including on public transport and public gatherings, as well as non-essential business activities.

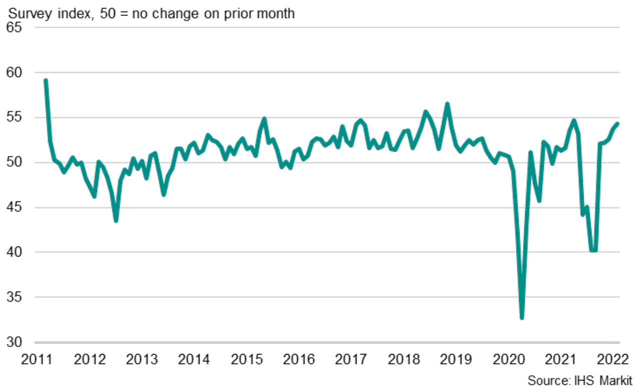
Consequently, Vietnam's GDP contracted by 6.0% y/y in the third quarter of 2021, with consumer spending, construction activity and manufacturing production hit severely by the lockdown measures.

This led to a sharp decline in business conditions for manufacturers during the third quarter of 2021. The IHS Markit Vietnam Manufacturing Purchasing Managers' Index (PMI) plummeted from 53.1 in May to 40.2 by September as strict lockdowns resulted in the temporary closure of many manufacturing facilities.

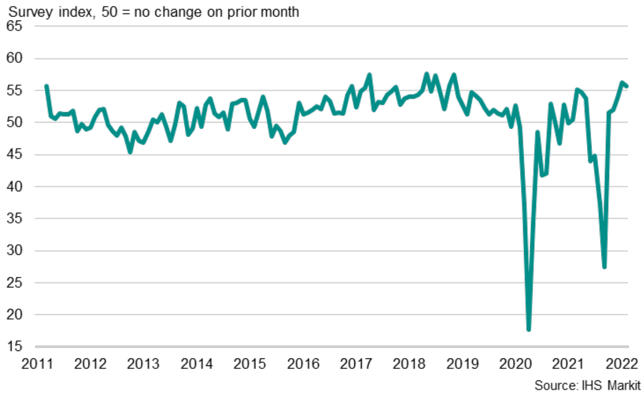
However, by the fourth quarter of 2021, economic activity began to recover, with improving manufacturing output as factories gradually restored operations. GDP growth in the fourth quarter rose by 5.2% y/y. By December, manufacturing output was up 10.9% y/y, while exports rebounded to rapid growth of 24.8% y/y.

The manufacturing recovery has continued into the first quarter of 2022. The Vietnam Manufacturing Purchasing Managers' Index™ (PMI®) rose to 54.3 in February, up from 53.7 in January and signalling a pick-up in growth for the fourth month running. Business conditions have now improved in each of the past five months following the disruption caused by the Delta wave of the COVID-19 pandemic in mid-2021.

Vietnam Manufacturing PMI



Vietnam Manufacturing PMI New Export Orders

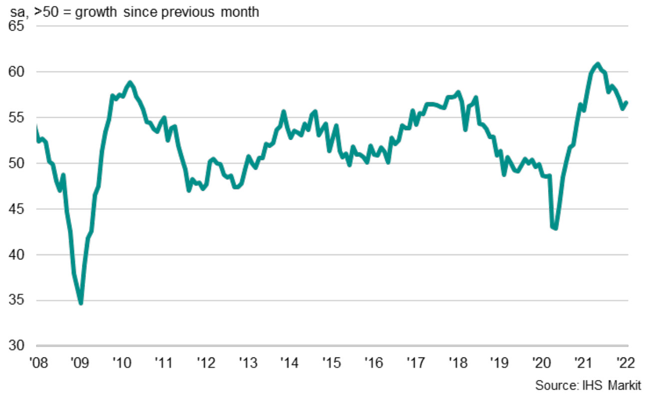


Due to the importance of the electronics industry as a key sector for Vietnam's manufacturing output and exports, the continued strength of global electronics demand is expected to continue to underpin expansion in Vietnam's electronics sector in 2022.

For calendar year 2021, Vietnam's electronics exports continued to show strong growth. Exports of mobile phones rose by 12.4% y/y, while exports of computers, electronic spare parts and other electrical products rose by 14.0% y/y.

Latest survey data indicated a further increase in output at global electronics manufacturers at the start of 2022.The headline seasonally adjusted IHS Markit Global Electronics PMI edged up slightly to 56.6 in January 2022, from 56.0 in December 2021, signalling continued strong expansionary conditions for global electronics producers.

IHS Markit Global Electronics PMI

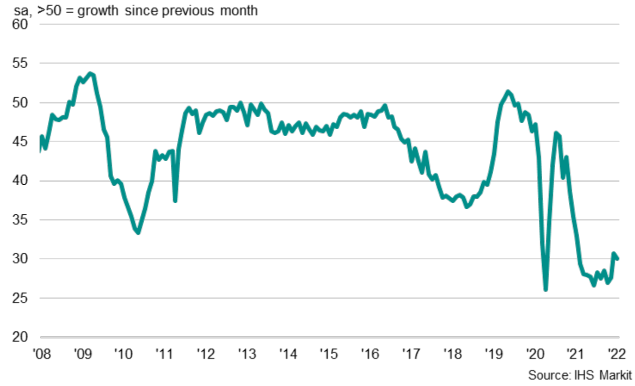


However, ongoing supply issues for raw materials and other inputs and the recent Delta and Omicron COVID-19 waves have continued to impact on global electronics production.

The outlook for the global electronics industry in 2022 continues to be impacted by lengthy suppliers' delivery times, notably for supply of semiconductors. As Vietnam is significantly integrated into South Korea's electronics supply chain for intermediate components and materials, Vietnam is also vulnerable to upstream supply chain disruptions in South Korea.

The seasonally adjusted IHS Markit Global Electronics PMI Suppliers' Delivery Times Index recorded below the neutral 50.0 mark by a substantial margin once again in January, signalling a sharp deterioration in vendor performance. Low stock levels at suppliers, excessively high demand for inputs and logistics issues were mentioned as causes of prolonged delivery times. The seasonally adjusted IHS Markit Global Electronics PMI Backlogs of Work Index posted above the 50.0 no change mark once again in January, indicating stretched capacities at global electronics producers. According to anecdotal evidence, production capabilities were constrained by shortages of staff and materials, as well as rising new orders.

IHS Markit Global Electronics PMI: Suppliers' Delivery Times Index



Medium term growth drivers

The economic impact of the pandemic is expected to recede during 2022 as vaccination rollout becomes more widespread across the population of Vietnam. An additional new favourable factor is the development of tablets by Pfizer and Merck to treat those patients who become COVID-19 positive and are vulnerable to severe illness. The combination of increasing vaccination rollout and having supplies of these new tablets are expected to help to contain the pandemic during 2022.

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. 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 2020 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.

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 February 2022, the UK entered the final phase of its accession negotiations to join the CPTPP. As the UK is the world's fifth largest economy, its accession would significantly increase the overall economic size of the CPTPP grouping, providing Vietnam with substantial competitive advantages for exporting to the UK market as well as attracting UK foreign direct investment.

A very important trade deal that took effect in 2020 is the EU-Vietnam Free Trade Agreement (EVFTA). The EVFTA is an important boost to Vietnam's export sector, with 99% of bilateral tariffs scheduled to be eliminated over the next seven years, as well as significant reduction of non-tariff trade barriers. For Vietnam, 71% of duties were removed when the EVFTA took effect on 1st August 2020. The scope of the EVFTA is wide-ranging, including trade in services, government procurement and investment flows. An EU-Vietnam Investment Protection Agreement has also been signed which will help to strengthen EU foreign direct investment into Vietnam when it is implemented. In 2021, Vietnam's exports of goods to the EU rose by 14.2%, reaching USD 45.8 billion, while imports rose by 16.5% to USD 17.9 billion.

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 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 2020, the US trade deficit with Vietnam for trade in goods further widened, reaching USD 69.7 billion, with the overall bilateral trade deficit for goods and services at USD 68 billion. In 2021, the bilateral deficit for trade in goods widened considerably further, reaching USD 91 billion.

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

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

USTR 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.

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".

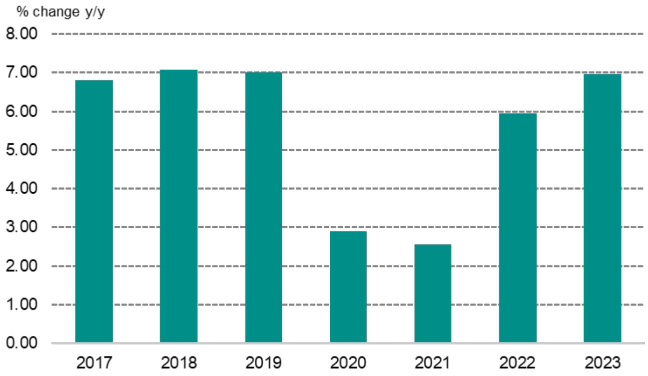
Nevertheless, consistent with the 1988 Act, the US Treasury considers that its continued enhanced engagements with Vietnam, as well as a more thorough assessment of developments in the global economy as a result of the COVID-19 pandemic, will enable the US Treasury to better determine whether Vietnam intervened in currency markets to prevent effective balance of payments adjustment or gain an unfair competitive advantage in trade.

US government concerns about currency manipulation have been further addressed following a bilateral agreement in July 2021 between the US and Vietnam whereby Vietnam has committed to refrain from competitive devaluation of the dong. The agreement was announced in a joint statement by US Treasury Secretary Janet Yellen and State Bank of Vietnam Governor Nguyen Thi Hong. In its December 2021 semi-annual report, 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.

Medium-term 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 is estimated to have moderated to 2.6% in 2021, compared with the 2.9% growth rate recorded in 2020. A strong recovery in GDP growth momentum is forecast for 2022, at a pace of 6.0% y/y, as domestic demand and manufacturing export production return to more normal levels.

Vietnam real GDP growth, 2017-2023



Source: IHS Markit.

The medium-term outlook is for rapid economic expansion, with GDP growth forecast to strengthen to 7% in 2023, with sustained strong growth at a pace of 6.9% per year over 2024-2025.

The ongoing pandemic continues to pose a near-term downside risk to the economic outlook, with a number of ASEAN economies still facing rising Omicron waves during the first quarter of 2022. Surging world energy prices also pose a risk to the near-term inflation outlook, albeit inflation pressures still remain moderate, with the CPI inflation rate at 1.8% year-on-year in January 2022. For calendar 2021, CPI inflation also rose by 1.8% y/y, with lower food prices helping to mitigate the impact of rising energy costs.

Despite these near-term risks, 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.

With strong economic expansion projected over the next decade, Vietnam's total GDP is forecast to increase from USD 270 billion in 2020 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 2,785 per year in 2020 to USD 4,670 per year by 2025 and USD 7,270 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 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.