

# Week Ahead Economic Preview

## Central bank meetings in focus

9 June 2023

Central bank meetings in the US, eurozone, Japan, Taiwan and Hong Kong SAR will be the highlights next week as we hear central bankers' views on recent economic trends. Further insights into economic conditions will nevertheless be drawn from various data releases including US CPI, as well as retail sales and industrial production figures from both the US and mainland China. The UK will also publish official labour market and growth figures while the eurozone issues revised inflation numbers.

With the US debt ceiling issue out of the way, risk sentiment recovered this week, though the focus has returned to the Fed ahead of the June 13-14 Federal Open Market Committee meeting. The current consensus points to the Fed pausing in June amid slowing inflation, whereby expectations are for further easing of CPI growth in May. That said, the key lies with what the Fed will do next as the US central bank may merely pause and resume their lifting of rates from July. Projections and Fed chair Jerome Powell's views will therefore be key, with additional interest on the Fed's take towards stubborn looking service sector inflation and a resilient job market, juggled against an already-fragile manufacturing sector.

Likewise with the European Central Bank, another hike in June appears to be on the cards, but whether the ECB will continue hiking beyond June is less certain given recent indications of a slowdown in growth and cooling price pressures. [Divergences in global inflationary trends persisted in May](#) with global manufacturers seeing average prices charged falling for the first time in three years. This split in price trends was also evident in the eurozone, with recent ECB comments highlighting the aggravation of services inflation as a worrying trend.

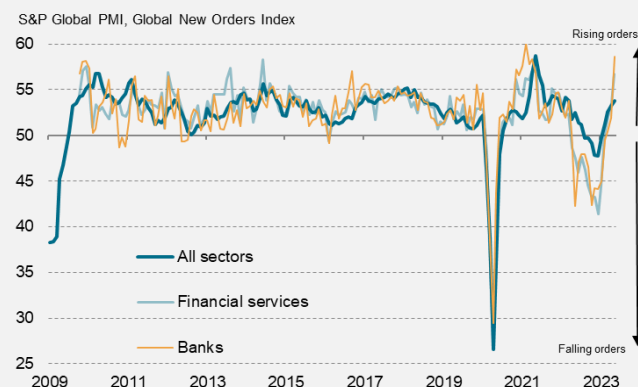
Across in the UK, April GDP growth figures and labour market data will be watched at the country continues to deal with particularly sticky inflation. Policymakers will be especially keen to assess recent pay growth developments.

Finally, amid recent risk-on sentiment in the US equity market and with global supply chains remaining on the mend, the S&P Global Investment Manager Index and the GEP Supply Chain Volatility Index will be two pertinent studies to add to one's reading list.

### The return of the banker

One of the particularly noteworthy findings from the [latest S&P Global PMI surveys](#) was the degree to which global growth was led by the financial services industry in May, for which a broad-based upturn was recorded across the US, Europe and Asia. Global demand for financial services grew at one of the steepest rates since 2014, with new business placed at banks surging at rate amongst the quickest seen since comparable data were available in 2009.

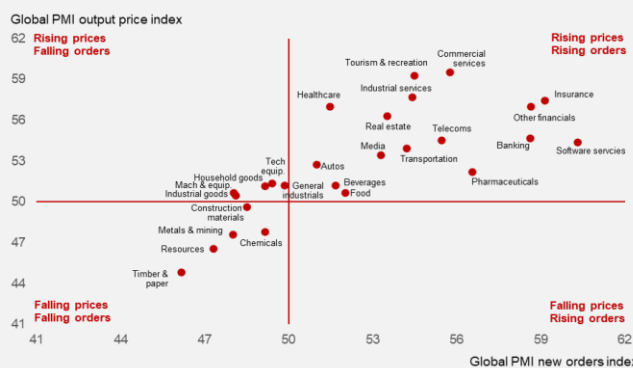
#### Global PMI sector new orders



Source: S&P Global, JPMorgan. © S&P Global 2023.

The upturn is accompanied by rising charges for financial services, however, which also rose at a rate well above anything seen prior to the pandemic. Rising financial services charges therefore represent a major source of upward pressure on overall inflation in the global economy, hinting that rising interest rates are stoking the fire they are seeking to quell, in the short term at least.

#### Global sector PMI new orders and selling price mapping



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

## Key diary events

### Monday 12 Jun

Australia, Philippines Market Holiday  
Japan PPI (May)  
Indonesia Consumer Confidence (May)  
Malaysia Retail Sales (Apr)  
India Industrial Production (Apr)  
India Inflation (May)  
China (Mainland) M2, New Yuan Loans, Loan Growth (May)

### Tuesday 13 Jun

South Korea Market Holiday  
Indonesia Retail Sales (Apr)  
United Kingdom Labour Market Report (Apr)  
Germany Inflation (May)  
Germany ZEW Economic Sentiment (Jun)  
United States CPI (May)  
S&P Global Investment Manager Index\*  
GEP Global Supply Chain Volatility Index\*

### Wednesday 14 Jun

South Korea Import and Export Prices (May)  
New Zealand Current Account (Q1)  
South Korea Unemployment Rate (May)  
China (Mainland) FDI (May)  
United Kingdom monthly GDP, incl. Manufacturing, Services and Construction Output (Apr)  
United Kingdom Balance of Trade (Apr)  
India WPI Inflation (May)  
Eurozone Industrial Production (Apr)  
United States PPI (May)  
United States Fed FOMC Meeting

### Thursday 15 Jun

New Zealand GDP (Q1)  
Japan Balance of Trade (May)  
Japan Machinery Orders (Apr)  
Australia Employment Change (May)  
China (Mainland) House Prices (May)  
China (Mainland) Industrial Production, Retail Sales, Unemployment Rate, Urban FAI (May)  
Hong Kong HKMA Interest Rate Decision  
Indonesia Trade (May)  
Germany Wholesale Prices (May)  
Taiwan CBC Interest Rate Decision  
Eurozone ECB Interest Rate Decision  
Eurozone Balance of Trade (Apr)  
India Trade (May)  
United States Retail Sales, Industrial Production (May)

### Friday 16 Jun

Singapore NODX (May)  
Japan BOJ Interest Rate Decision  
Eurozone Inflation (May, final)  
United States UoM Sentiment (Jun, prelim)

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

## What to watch

### Americas: Fed FOMC meeting, US May inflation, retail sales and industrial production data

Next week's highlight will be the June 13-14 Federal Open Market Committee (FOMC) meeting with the consensus pointing towards a pause in rates at the current 5.00%-5.25% but with much uncertainty about what comes next. As such the updated forecasts will be key alongside comments from Fed chair Jerome Powell at the press conference. Recent Fed comments again emphasised the importance of data and the latest May [S&P Global US Composite PMI](#) revealed still-elevated inflation, underpinned by price increases in the service sector, which could keep the Fed on a tightening bias. Official May CPI figures, due Tuesday, will also be important with the consensus suggesting a slight slowdown to 0.3% month-on-month (m/m).

### Europe: ECB meeting, eurozone inflation, UK GDP

Another 25 basis point rate hike by the European Central Bank has been pencilled in for next week's meeting against the current backdrop of elevated core inflation. That said, given recent [PMI indications of a slowdown in eurozone growth and cooling of inflationary pressures](#), expectations have mounted that peak rates may not be far away, hence rhetoric from the ECB will be in focus next week.

The UK statistics office meanwhile releases labour market and monthly GDP data. UK's private sector output continued to expand in April according to the [S&P Global / CIPS UK Composite PMI](#), though this was underpinned by growth in services activity as manufacturing output contracted.

### Asia-Pacific: BoJ, CBC, HKMA meetings, China retail sales and industrial production, India inflation

Central bank meetings in Japan, Taiwan and Hong Kong SAR will unfold in the coming week with little surprises expected. Data-wise, China's retail sales and industrial production will be scrutinised for assessment of the extent to which consumer confidence and manufacturing output have recovered.

### Investment Manager Index and Supply Chain Volatility

June's S&P Global Investment Manager Index provides insights into the latest thoughts from US investment managers while the GEP Supply Chain Volatility Index will be a unique study providing indications on the extent to which supply chains have further healed.

## Special reports:

**Global Growth at One-and-a-half Year High in May as Demand for Services Continues to Revive** | Chris Williamson | [page 4](#)

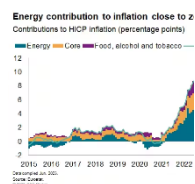
**Vietnam Economy Hit by Slumping Exports and Power Blackouts** | Rajiv Biswas | [page 7](#)

## Recent PMI and economic analysis from S&P Global

Global	<a href="#">Financial services lead global growth higher in May, stoking inflation</a>	7-Jun	Chris Williamson
	<a href="#">Wage pressures keep global inflation elevated, most notably in the UK, but goods prices fall</a>	7-Jun	Chris Williamson
	<a href="#">Global growth at one-and-a-half year high in May as demand for services continues to revive</a>	6-Jun	Chris Williamson
	<a href="#">Global factory output buoyed by healing supply chains, but demand for goods continues to fall</a>	1-Jun	Chris Williamson
	<a href="#">Global producer prices fall for first time in three years</a>	1-Jun	Chris Williamson
Europe	<a href="#">Eurozone Flash PMI at three-month low as steepening factory downturn offsets services revival</a>	23-May	Chris Williamson
	<a href="#">Service sector drives sustained strong UK economic expansion in May, says flash PMI surveys</a>	23-May	Chris Williamson
Asia-Pacific	<a href="#">Singapore economy weakens in early 2023</a>	2-Jun	Rajiv Biswas
	<a href="#">Thailand's economy rebounds in early 2023 as tourism surges</a>	26-May	Rajiv Biswas
	<a href="#">Japan May flash PMI data signal economic acceleration to fastest since 2013 midway into the second quarter</a>	23-May	Jingyi Pan
Commodities	<a href="#">Weekly Pricing Pulse: A tepid Asian market ushers commodity prices lower</a>	1-Jun	Michael Dall

## S&P Global Economics & Country Risk highlights

### Inflection point: Why lower core inflation is key to Europe's economic and financial outlook



Core eurozone inflation rates, while still elevated, are beginning to moderate. Various metrics that we track are indicative of further declines ahead. S&P Global Market Intelligence addresses a series of key questions related to inflation trends in the eurozone and our expectations for monetary policy.

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

### PMI Insights: Evolving trends in sub-Saharan Africa



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

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

### For further information:

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

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Special Focus

# Global Growth at One-and-a-half Year High in May as Demand for Services Continues to Revive

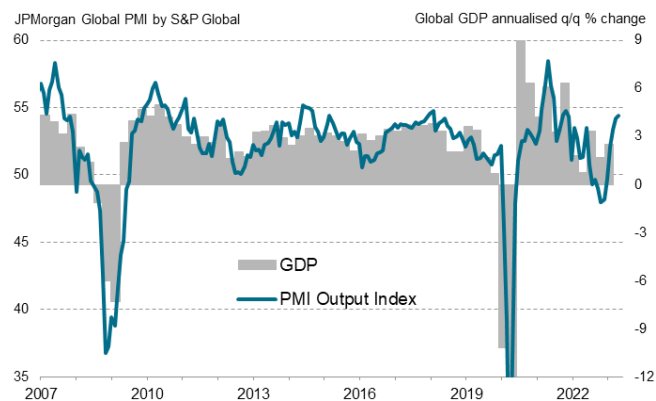
*Global growth hit the fastest for a year and half midway through the second quarter, according to the S&P Global PMI surveys based on data provided by over 27,000 companies. All major economies reported robust growth, in all cases bar India and Russia seeing service sector growth outperform that of manufacturing.*

*While manufacturing suffered a further loss of new orders, led by a steepening downturn in global trade flows, demand growth for services accelerated amid a record rise in exports.*

*Resurgent post-pandemic demand for services has therefore continued to divert spend away from goods to services, which has led to a concomitant switching of inflationary pressures from goods to services. Goods prices are in fact now falling while service sector inflation remains above any highs seen prior to the pandemic.*

*Companies expect this divergence to persist in the near term, with optimism sliding below its long run average in manufacturing yet remaining buoyant in the service sector.*

## Global PMI vs. GDP



## Global output growth at 18-month high

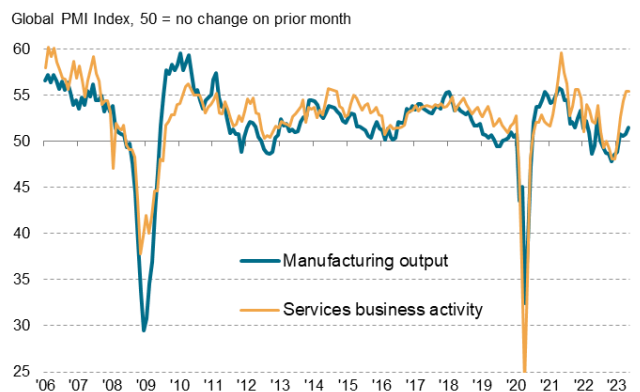
Global economic growth ticked higher in May, accelerating to its fastest for one and a half years. The Global PMI – compiled by S&P Global across over 40 economies and sponsored by JPMorgan – rose for a sixth consecutive month, up from 54.2 in April to 54.4, its highest since November 2021. The current reading is broadly consistent

with robust annualized quarterly global GDP growth of just over 4%.

## Expansion driven by service sector

The expansion was again largely a reflection of resurgent service sector activity, in turn often linked to reviving post-pandemic demand. Services output growth hit the fastest since November 2021, having now risen sharply over the past three months to build on more modest gains seen in the first two months of the year. Manufacturing output meanwhile rose only modestly again, up for a fourth successive month and growing at the fastest rate for four months, yet still lagging the service sector to a marked extent. The divergence between the performance of the two sectors remains among the widest on record.

## Global PMI output by sector



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

## Global services export growth at fresh survey high while goods trade weakens

There was again an even greater sector divergence in terms of new order inflows, where the gap between services and manufacturing grew to its widest since 2009. While demand growth for services accelerated to the steepest since July 2021, manufacturing new orders fell for an eleventh successive month.

The gap between global trade flows for goods and services was even wider. Exports of services saw the largest monthly gain since comparable global data were first available in 2014, yet new export orders for goods fell at an increased rate in May.

### Global PMI new orders by sector

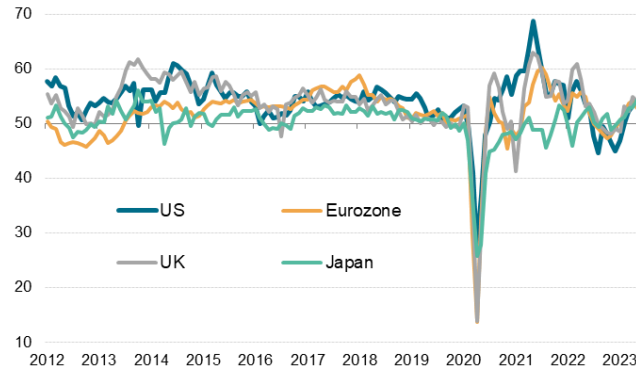
Global PMI Index, 50 = no change on prior month



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

### Major developed economies, output

Composite PMI Output/Business Activity Index



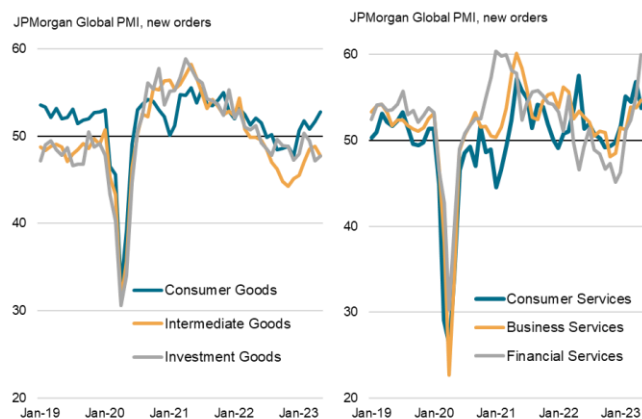
Sources: S&P Global, HCOB, CIPS, au Jibun Bank © S&P Global 2023

## Surging demand for financial services

Looking further into the growth of demand, the largest improvement was recorded for financial services, where growth hit the highest since February 2021 and was the second-strongest since comparable data were first available in 2009. Demand for consumer services and business services also rose sharply.

In the manufacturing sector, demand growth was more varied. Rising demand for consumer goods contrasted with falling demand for investment goods (such as plant and machinery) and intermediate goods (inputs sold to other firms).

### Global PMI new orders



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

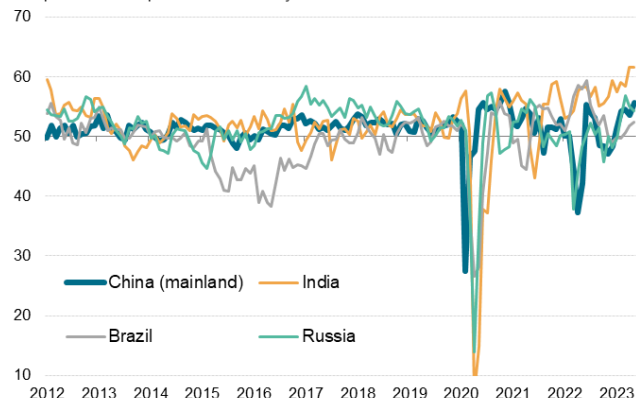
## India leads global expansion

Looking at the major economies, robust expansions of output were recorded across all four of the largest developed world economies, albeit with the eurozone lagging behind slightly as its growth rate slowed to a three-month low. UK growth also slowed slightly, contrasting with accelerating growth in the US and Japan. US growth hit a 13-month high and Japan's expansion was the steepest for a decade.

In the major emerging markets, India once again led the upturn with an expansion of output that matched the near-13-year high achieved in April. Growth also accelerated in mainland China to the fastest since December 2020 and hit a seven-month high in Brazil. Only Russia reported a slowing the pace of expansion, though even here growth remained solid.

### Major emerging economies, output

Composite PMI Output/Business Activity Index



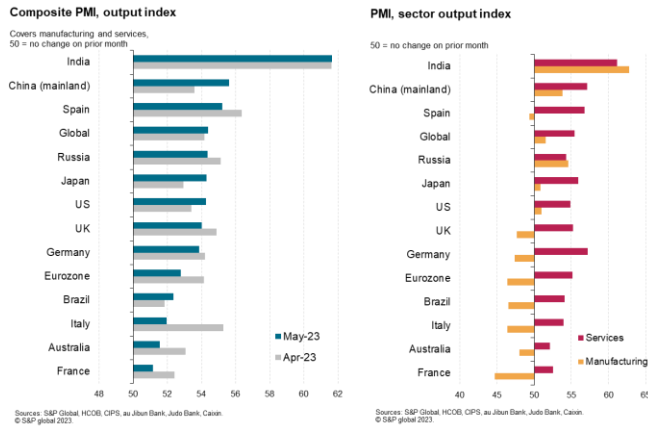
Sources: S&P Global, Caixin. © S&P Global 2023.

## Broad-based service sector outperformance

The outperformance of services relative to manufacturing was evident in all of the 12 largest economies surveyed in May except India and Russia, though the former once again recorded the steepest service sector gain of all economies covered.

While all 12 economies reported growth of service sector activity, manufacturing output fell in France, Italy, Brazil, Germany, the UK, Australia and Spain. Only modest factory gains were meanwhile seen in the US and Japan.

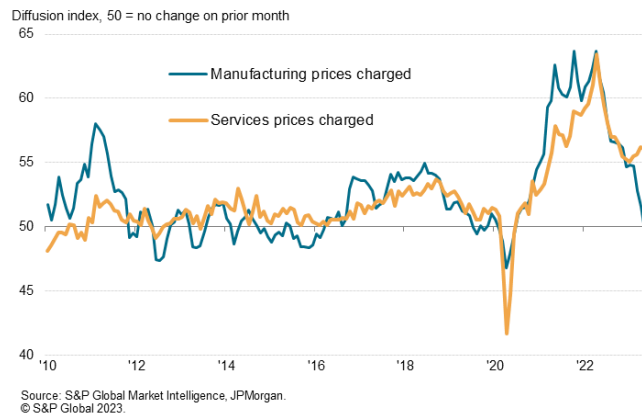




## Diverging price trends for goods and services

The varying demand conditions by sector fed through to divergences in inflationary trends. The further decline in new orders for goods led to increasing instances of discounting by manufacturers, meaning average prices charged for goods leaving the factory gate fell globally in May for the first time in three years, contrasting markedly with the record price hikes seen in early 2022. In the service sector, however, the rate of inflation remained elevated by historical standards. Although down sharply compared to the rate of increase seen in early 2022, and down slightly in April, global service sector inflation remains higher than at any time in the survey history prior to the pandemic.

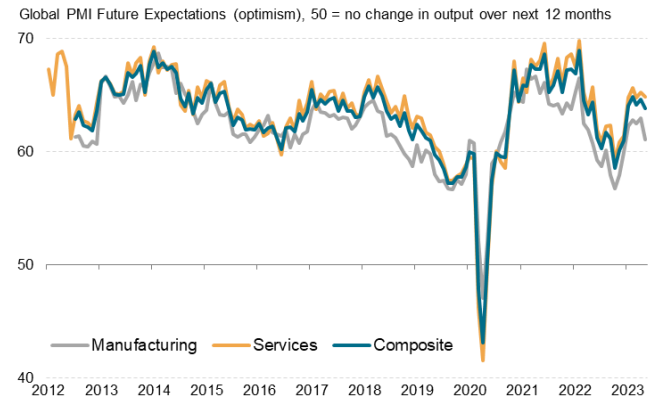
### Global PMI inflation indices



## Brighter outlook for services

The degree to which these sector variations in growth, demand and prices will persist remains a major unknown and a key factor in gauging the economic outlook. Companies themselves expect the sector divergence to persist - manufacturers' expectations of growth over the coming year deteriorated further in May, sinking to a five-month low to sit below the survey's long-run (ten-year) average. Although service sector growth expectations also slipped lower, the overall degree of optimism remains encouragingly resilient and above the survey's long-run average.

### Global business expectations



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

Special Focus

# Vietnam Economy Hit by Slumping Exports and Power Blackouts

Vietnam's GDP growth rate moderated to a pace of 3.3% year-on-year (y/y) in the first quarter of 2023, after rapid GDP growth of 8.0% y/y in 2022. Vietnam's manufacturing export sector has faced increasing headwinds due to slowing growth in the US and EU, which are two key export markets accounting for over 40% of Vietnam's goods exports. Vietnam's goods exports fell by 13% y/y in the four months of 2023.

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

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

## Vietnam's GDP growth softens as exports weaken

Vietnam's real GDP grew by 8.0% in 2022, as the economy rebounded strongly from the economic disruption caused by the COVID-19 pandemic during second half of 2021. However economic growth momentum moderated to 3.3% y/y in the first quarter of 2023, reflecting the impact of weakening growth in industrial production and exports.

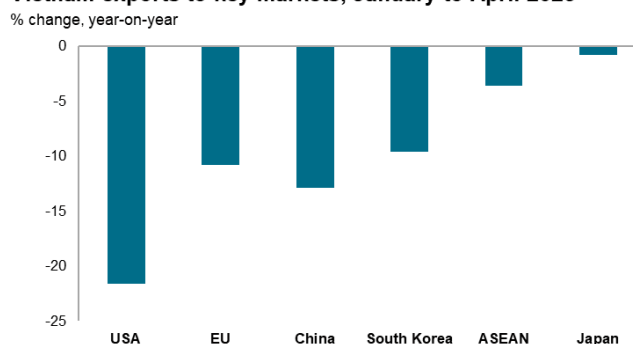
Vietnam's goods exports rose by 10.6% in 2022. However, the economic slowdown in the US and EU, which together account for 42% of Vietnam's total goods exports, has resulted in a significant weakening in exports during the first four months of 2023, with Vietnam's total goods exports declining by 13% y/y.

The US remains Vietnam's largest export market, accounting for 29.4% of total merchandise exports. Vietnam's exports to the US rose by 13.6% in 2022, with the bilateral trade surplus with US increasing to USD 95 billion. However, in the first four months of 2023, merchandise exports to the US fell by 21.6% y/y.

Exports to the EU were also weak, declining by 10.8% y/y in the first four months of 2023. Exports to the EU of computers, electrical products and components fell by 30% y/y in the January-April 2023 period, while exports of textiles and garments to the EU fell by 10.6% y/y.

Exports to mainland China also showed a significant decline, falling by 12.9% y/y in the first four months of 2023. Exports of computers, electrical products and components as well as mobile phones to mainland China fell by 14.9% y/y in the January-April 2023 period.

### Vietnam exports to key markets, January to April 2023



Source: S&P Global Market Intelligence, Vietnam Customs

Reflecting the slump in exports, the manufacturing sector has slowed in early 2023, with industrial production contracting by 1.8% y/y for the first four months of 2023, compared with positive growth of 7.8% y/y in the first four months of 2022. Vietnam's industrial production had risen by 7.8% y/y in 2022, with manufacturing output up by 8.0% y/y.

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

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

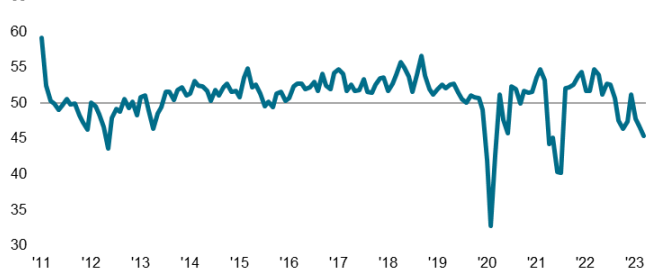
The S&P Global Vietnam Manufacturing Purchasing Managers' Index (PMI) dropped to 45.3 in May from 46.7 in April, thereby signalling a third successive monthly deterioration in operating conditions. Moreover, the latest decline was the most marked since September 2021. There were widespread reports of customer demand weakness across the latest survey.

The impact of this was most clearly felt with regards to new orders, which declined rapidly and to the greatest extent in 20 months. New export orders remained weak, with new business from abroad decreasing for the third month running.

With new orders continuing to fall, firms also reduced output midway through the second quarter of the year. Production was down for the third successive month, and at a marked pace that was the fastest since January. Output decreased across each of the three broad categories of manufacturing, with the sharpest decline at intermediate goods producers.

### S&P Global Vietnam Manufacturing PMI

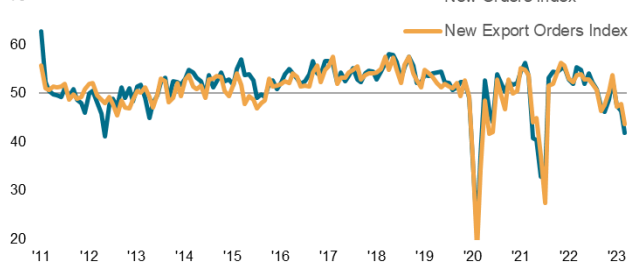
S&P Global PMI (Purchasing Managers' Index) Index  
Diffusion index (50 = no change on prior month)



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

### Vietnam Manufacturing PMI new orders and new export orders

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



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

The May survey also showed that waning demand led suppliers to reduce their prices. Input costs decreased for the first time in three years as a result. The drop in input prices provided some leeway for firms to reduce their own charges in a bid to boost demand. Manufacturing output prices decreased for the second month running.

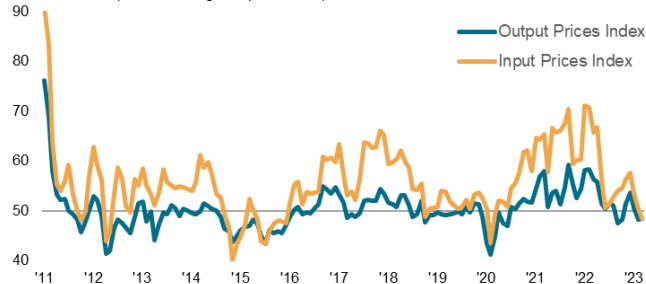
The CPI inflation rate moderated to 2.8% y/y in April 2023 compared with 3.4% y/y in March and 4.3% y/y in February. Core CPI inflation rose by 4.6% y/y in April and was up 4.9% y/y for the first four months of 2023.

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

rising liquidity pressures. A further 50 basis points (bps) rate cut was announced on 23<sup>rd</sup> May as the economy has continued to slow.

### Vietnam Manufacturing PMI input and output prices

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



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

## Medium term growth drivers

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

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

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

Third, rapid growth in capital expenditure is expected, reflecting continued strong foreign direct investment by foreign multinationals as well as domestic infrastructure spending. 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. Severe power shortages during 2023 have highlighted the critical importance of rapid development of new power infrastructure as a key economic policy priority.

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

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



global supply chains for many industries, including autos and electronics.

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

## Free trade agreements

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

Vietnam is also a member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) among 11 Pacific nations, including the G-20 economies of Canada, Mexico, Japan and Australia. In March 2023, the UK Government substantially concluded negotiations on the UK's accession to 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 2022, Vietnam's exports to the EU reached USD 56 billion, up 10.2% y/y.

Vietnam will also benefit from the Regional Comprehensive Economic Partnership (RCEP) free trade agreement that was implemented from 1st January 2022. The fifteen RCEP countries are the ASEAN ten nations, plus China, Japan, South Korea, Australia and New Zealand. Vietnam has already ratified the RCEP agreement and will therefore benefit immediately from the date of RCEP implementation. The RCEP agreement covers a wide range of areas,

including trade in goods and services, investment, e-commerce, intellectual property and government procurement.

## US bilateral trade 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, boosted by Vietnam's growing exports of electronics and machinery to the US. Vietnam had the third largest goods trade surplus with the US in 2021. By 2022, the bilateral trade deficit for trade in goods had increased to USD 116 billion.

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

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

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

However, in its April 2021 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 and June 2022 semi-annual reports, the US Treasury stated that it continues to engage closely with the State Bank of Vietnam to monitor Vietnam's progress in addressing the US Treasury's concerns and is thus far satisfied with progress made by Vietnam.

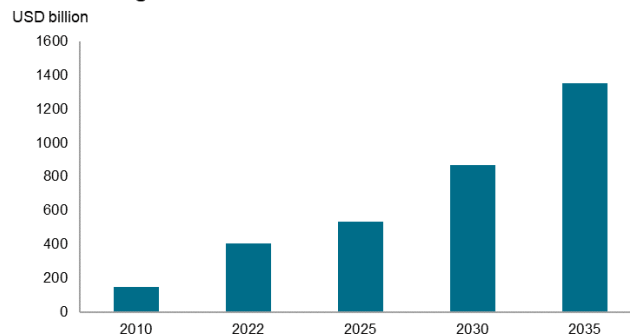
## Economic outlook

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

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

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

### Vietnam long-term GDP outlook



Source: S&P Global Market Intelligence

Vietnam's role as a low-cost manufacturing hub is also expected to continue to grow strongly, helped by the further expansion of existing major industry sectors, notably textiles and electronics, as well as the development of new industry sectors such as autos and petrochemicals. Vietnam already has a domestic automaker of electric vehicles, Vinfast, which launched its first EV in Vietnam in 2021. In March 2022, Vinfast announced a USD 2 billion investment to build an auto manufacturing plant in North Carolina, for manufacturing EV buses and SUVs, as well as EV battery manufacturing, with construction expected to commence in 2023.

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.

### Rajiv Biswas

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

[rajiv.biswas@spglobal.com](mailto:rajiv.biswas@spglobal.com)

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## CONTACT US

### Chris Williamson

Chief Business Economist  
S&P Global Market Intelligence  
London

T: +44 779 5555 061  
[chris.williamson@spglobal.com](mailto:chris.williamson@spglobal.com)

### Jingyi Pan

Economics Associate Director  
S&P Global Market Intelligence  
Singapore

T : +65 6439 6022  
[jingyi.pan@spglobal.com](mailto:jingyi.pan@spglobal.com)

### The Americas

+1-877-863-1306

### EMEA

+44-20-7176-1234

### Asia-Pacific

+852-2533-3565

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