PMI™ by S&P Global

Week Ahead Economic Preview

US, China inflation, UK GDP and Fed minutes

6 October 2023

Fed minutes from the September FOMC meeting will be released in the coming week alongside an assessment of US inflation conditions with CPI data. Inflation readings will also be due from mainland China for an update of both factory gate and consumer price developments. Amid concerns over the growth trajectory in the UK and Eurozone, August GDP and industrial production numbers will be updated for the respective economies. Additionally, the S&P Global Investment Manager Index, tallied from survey respondents collectively managing more than USD $3500 billion of assets, will provide the latest US equity market signals.

The US equity market sell-off has been led by concerns over higher-for-longer interest rates, and little reprieve may be expected from the Fed minutes due Wednesday, where clues on what may lead the Fed to start lowering rates will be sought. This is while we await September's CPI reading from the US, which is expected to confirm that inflation will have remained somewhat sticky at the end of the third quarter, reinforcing the Fed's stance to hold rates for longer.

Outside of the US, UK August GDP data, including sector output updates for manufacture, services and construction, will be closely watched after GDP fell 0.5% in July and PMI figures point to sustained economic weakness in August and September. UK recruitment industry survey will meanwhile provide a timely update on changing labour market trends. In the eurozone, the major release is industrial production, for which the PMI data are indicating further weakness.

Finally in APAC, advance GDP from Singapore will be watched for early indications of Q3 growth performance. That said, the highlight will no doubt be mainland China's inflation and trade data after the Chinese economy return from the Golden Week holidays.

Also watch out for the S&P Global Investment Manager Index, which offers an update on money managers' views towards the US equity market. September's survey revealed a risk averse mood and that [equity valuations were the top concern at the end of the third quarter,] and it will be of interest whether that remains so following the paring of gains across major equity indices. Allocation preferences among sectors and markets will also be refreshed this month.

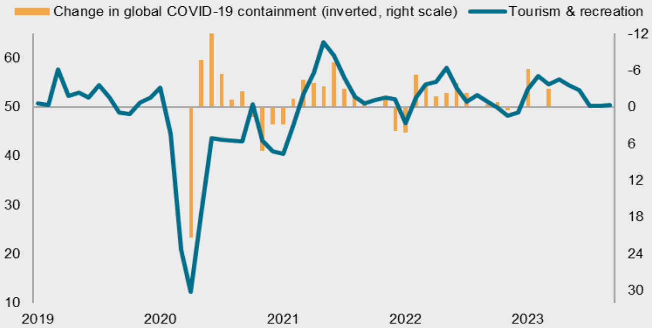
Global economy under stress

Global economic growth remained in the doldrums in September, according to the latest PMI data (see special report). Output worldwide rose only very modestly for a second month in a row, suggesting the pace of expansion has slowed sharply since the upbeat pace seen earlier the year. Things may get worse before they get better: September saw new inflows of work into manufacturing and service sector companies fall for the first time since January.

To see what's changed since the bright picture reported in the second quarter, we can dive into the detailed sector data provided by the PMI. These data highlight two key changes.

First, demand for consumer-oriented services such as travel, tourism and recreation has stalled after strong gains earlier in the year. This isn't surprising, as those buoyant growth rates seen earlier in the year were linked to the full re-opening of the global economy as the final COVID-19 containment measures disappeared. The travel bug has faded, having been overwhelmed by pressure on spending from higher interest rates and the increased cost of living.

Global PMI tourism & recreation new orders and COVID-19



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

Second, also related to higher interest rates, is a marked turnaround in demand for financial services. Spurred earlier in the year in part by hopes of a pivot in central bank monetary policy, demand for financial services is declining again on amid worries over rates staying higher for longer than previously anticipated. New orders for financial services fell for a second month running in September, led by steep declines in banking and real estate. Such financial sector weakness is worrying, as it is often a precursor to wider economic malaise.

Key diary events

Monday 9 Oct
Canada, Japan, South Korea, Taiwan Market Holiday
Indonesia Consumer Confidence (Sep)
Germany Industrial Production (Aug)

Tuesday 10 Oct
Taiwan Market Holiday
Australia NAB Business Confidence (Sep)
Australia Westpac Consumer Confidence (Oct)
Philippines Trade (Aug)
Malaysia Unemployment (Aug)
Norway Inflation (Sep)
Turkey Industrial Production (Aug)
Turkey Unemployment Rate (Aug)
Italy Industrial Production (Aug)
United States Wholesale Inventories (Aug)

Wednesday 11 Oct
South Korea Current Account (Aug)
Australia Building Permits (Aug)
China (Mainland) M2, New Yuan Loans, Loan Growth (Sep)
Indonesia Retail Sales (Aug)
Germany Inflation (Sep, final)
Japan Machine Tool Orders (Sep)
Taiwan Trade (Sep)
Italy Industrial Production (Aug)
Brazil Inflation (Sep)
Canada Building Permits (Aug)
United Kingdom Report on Jobs (Sep)
United States PPI (Sep)
United States FOMC Meeting Minutes (Sep)
S&P Global Investment Manager Index (Oct)

Thursday 12 Oct
Japan Machinery Orders (Aug)
Japan PPI (Sep)
Thailand Consumer Confidence (Sep)
Malaysia Industrial Production (Aug)
United Kingdom monthly GDP, incl. Manufacturing, Services and Construction Output (Aug)
United Kingdom Balance of Trade (Aug)
Germany Current Account (Aug)
India Industrial Production (Aug)
United States CPI (Sep)
United States Initial Jobless Claims

Friday 13 Oct
Thailand Market Holiday
South Korea Unemployment Rate (Sep)
Singapore GDP (Q3, adv)
China (Mainland) CPI, PPI (Sep)
China (Mainland) Trade (Sep)
India WPI (Sep)
France Inflation (Sep, final)
Eurozone Industrial Production (Aug)
India Trade (Sep)
United States Import and Export Prices (Sep)
United States UoM Sentiment (Oct, prelim)

* Access press releases of indices produced by S&P Global and relevant sponsors here.

What to watch

Americas: Fed minutes, US CPI, Brazil CPI

Fed minutes from the September Federal Open Market Committee (FOMC) meeting will be released next week for further insights into Fed's thoughts on the policy path. This comes after the market reacted unfavourably towards indications that the Fed may keep interest rates elevated for a longer than expected duration in a bid to tame inflation. Guidelines on what may be 'convincing evidence' of inflation coming down may be sought just as we await the release of September inflation data. Consensus expectations currently point to US CPI staying little changed in September from 3.7% year-on-year (y/y) in August. Core CPI may likewise continue rising 0.3% month-on-month. According to the S&P Global US Composite PMI price indices, some stickiness in inflation may be expected, backing these forecasts.

EMEA: UK August output, Eurozone industrial production, Germany, France inflation

Following the update of September PMI data, a series of tier-2 economic releases will be due from Europe. The highlight of the week will be August UK monthly GDP data amid concerns over the economic slowdown. The S&P Global / CIPS UK Composite PMI previously revealed that private sector output fell in August for the first time since January, with reduced volumes of business activity in both manufacturing and service sectors. Prior GDP had shown a 0.5% fall in July.

Separately, industrial production figures for the eurozone will be released for August with PMI data preluding weakness for the region. Inflation readings from Germany and France will also be closely watched.

APAC: China inflation, trade data Singapore Q3 GDP

In APAC, CPI and PPI numbers out of mainland China will be the key releases in the coming week. Professional forecasters pencilled in expectations for a slight acceleration for CPI from 0.1% y/y previously, though PPI may stay subdued in deflation territory. Ahead of the Golden Week holidays, Caixin China General Manufacturing PMI data indicated selling prices rose for the first time in seven months, suggesting that we may see a higher factory gate inflation reading. Trade conditions are expected to have improved as well, with a slower contraction in export orders.

Finally, advance Q3 GDP from Singapore will offer a first look into growth conditions in the third quarter serving as a bellwether for the wider APAC region.

Special reports:

Global PMI Signals Near-term Downturn Risks Amid Falling Backlogs of Work | Chris Williamson | **page 4**

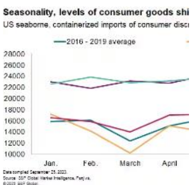
Vietnam GDP Growth Improves in Third Quarter of 2023 | Rajiv Biswas | **page 7**

Recent PMI and economic analysis from S&P Global

Global	Global PMI data hint at higher goods prices offsetting cooler service sector inflation	5-Oct	Chris Williamson
	Worldwide factory prices on the rise again in September	2-Oct	Chris Williamson
	Global manufacturing remains in the doldrums as demand continues to weaken	2-Oct	Chris Williamson
	Flash PMI signal unwelcome combination of economic contraction and rising prices	26-Sep	Chris Williamson
	PMI as a tool for sector rotation investment strategies	15-Sep	Joseph Hayes
	Emerging markets PMI signals encouraging resilience in August	14-Sep	Jingyi Pan
	Monthly PMI Bulletin: September 2023	8-Sep	Jingyi Pan
EMEA	Eurozone flash PMI fuels further downturn worries as demand weakness intensifies	22-Sep	Chris Williamson
	Flash PMI signals deepening UK economic downturn in September	22-Sep	Chris Williamson
US	US flash PMI points to slowing economy expansion amid stubborn price pressures	22-Sep	Chris Williamson
Asia-Pacific	Singapore economy continues to be hit by slumping exports	25-Sep	Rajiv Biswas
	Japan's growth momentum and inflation pressures ease in September	22-Sep	Jingyi Pan
Commodities	Weekly Pricing Pulse: Commodities up as supply concerns grow	24-Aug	Michael Dall

S&P Global Market Intelligence highlights

Time, tariffs and tracking: Supply chain outlook for fourth quarter 2023



Supply chain activity has largely returned to normal, although uncertainties remain around corporate strategy, global trade policy, and environmental measures. Lower consumer demand is evident in US seaborne imports of consumer goods that have fallen by 26%.

Click here to read our research and analysis

PMI Insights: Extreme weather impact

2023 has delivered some extreme weather, from extreme heat in Southern Europe to a dry spell that affected crop yields in Southeast Asia and Australia, often with tragic human consequences. Extreme weather events like droughts and floods also present risks to economies and supply chains.

Click here to listen to this podcast by S&P Global Market Intelligence

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Special Focus

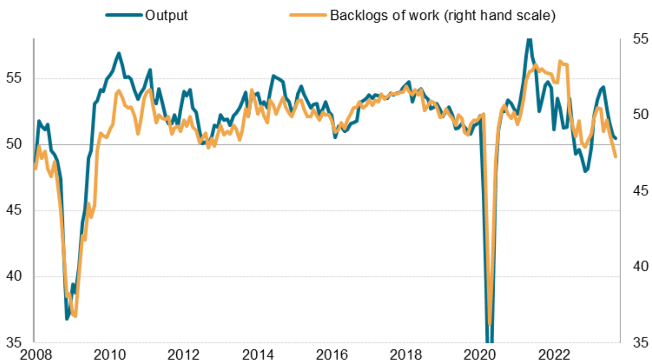
Global PMI Signals Near-term Downturn Risks Amid Falling Backlogs of Work

Global economic growth remained largely stalled for a second consecutive month in September, according to the S&P Global PMI surveys, based on data provided by over 27,000 companies. The data point to a significant loss of global growth momentum after the resurgence of demand seen earlier in the year, which had been fueled in particular by a post-pandemic revival of service sector activity.

Growth is weakest in the developed world, and particularly in Europe, where higher interest rates have combined with the higher cost of living and uncertainty about the outlook to hinder expansions. However, at the same time China's recovery is also waning, acting a drag on emerging market growth.

Near-term global output risks seem skewed to the downside, as backlogs of work fell worldwide in September at the sharpest pace since the global financial crisis when excluding the initial wave of COVID-19, hinting that companies will seek to scale back operating capacity in the months ahead unless demand revives.

Global output and backlogs of work



Data compiled October 2023 including PMI data to September 2023.
PMI index value of 50 = no change on prior month, covers manufacturing and services.
Source: S&P Global PMI with J.P. Morgan.
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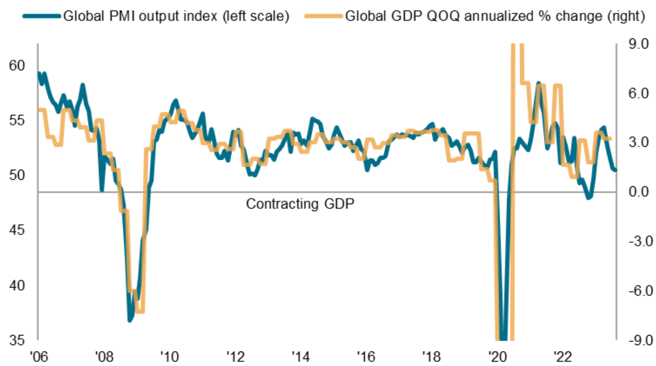
Global recovery remains near-stalled

Global business activity growth remained largely stalled for a second successive month in September, according to the Global PMI data compiled by S&P Global. The headline PMI, covering manufacturing and services across over 40 economies and sponsored by JPMorgan, edged down from 50.6 in August to 50.5 in September, its lowest since the current global economic upturn began in February. Close to the 'no-change' level of 50.0, the PMI registered only very modest growth for a second month in a row.

The current reading takes the PMI further below the survey's long-run average of 53.3 and is broadly consistent with annualized quarterly global GDP growth of just under 1%, well below the pre-pandemic ten-year average of 3.0%.

Global economic growth and the PMI



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Source: S&P Global PMI with J.P. Morgan, S&P Global Market Intelligence.
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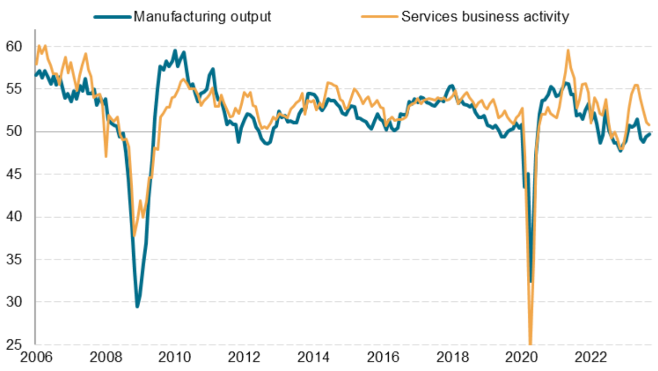
Malaise spreads from manufacturing to services

Manufacturing remained in contraction for a fourth successive month, albeit with the rate of decline moderating globally to signal only a marginal decline. However, new orders received by factories continued to fall, dropping at a faster rate than production, underscoring how producers remain reliant on a finite pipeline of back-orders to sustain growth.

Global service sector activity meanwhile also disappointed, expanding only marginally in September as the rate of growth faltered for a fourth consecutive month from the solid rates seen earlier in the year to register the smallest monthly improvement since January.

Worse may yet come, as new business inflows into the service sector fell worldwide in September for the first time since December. Moreover, backlogs of work in the service sector fell globally at the fastest rate since May 2020. Excluding the early pandemic lockdowns, the drop in backlogs was the steepest since September 2009, underlining the extent to which service providers, like their manufacturing counterparts, are having to eat into backlogs of previously-placed orders to sustain current activity levels in the absence of new orders.

Global PMI output by sector



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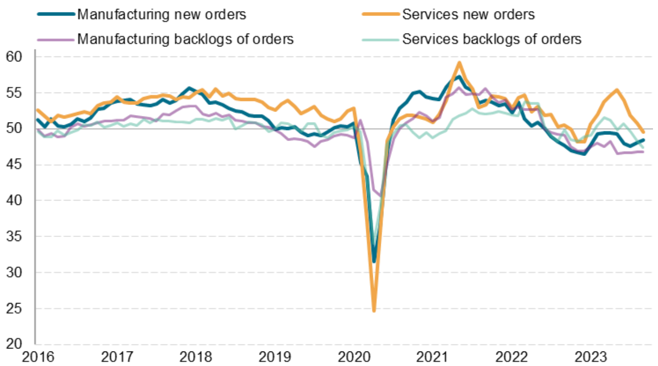
Global PMI new orders



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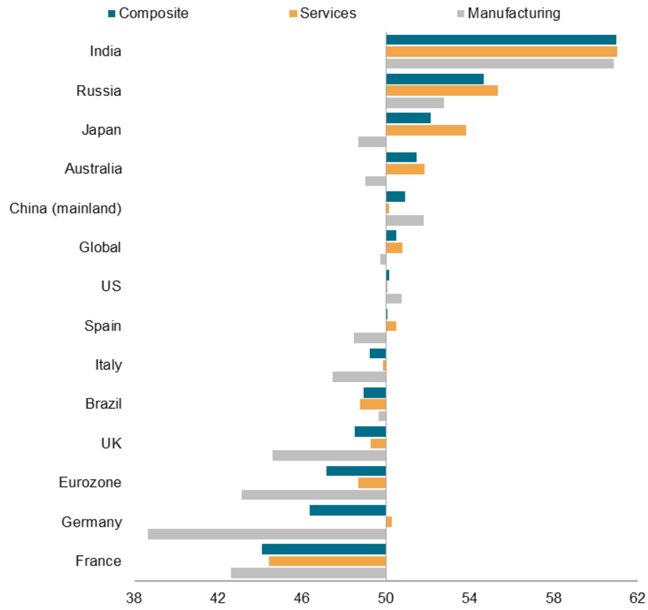
India outperforms

India remained the stand-out performer in September, extending its current boom that has seen both manufacturing and services grow at impressive rates to generate one of the strongest overall expansions seen over the past 15 years.

Robust growth was also reported in Russia, but China's mainland expansion slowed to the weakest since its recovery began in January to signal only very modest growth, thanks mainly to a near-stalled service sector revival. Brazil meanwhile slipped into contraction for the second time in the past three months.

Divergent trends were also seen in the major developed markets. Only Japan reported a sustained expansion of output, enjoying continued robust service sector growth. But the US saw a near-stagnation of output for a second month in a row, with subdued performances recorded across both services and, to a lesser extent, manufacturing. Europe meanwhile remained in contraction amid falling levels of manufacturing and services output. Eurozone output fell for a fourth consecutive month and the UK reported a second successive month of decline.

PMI output index



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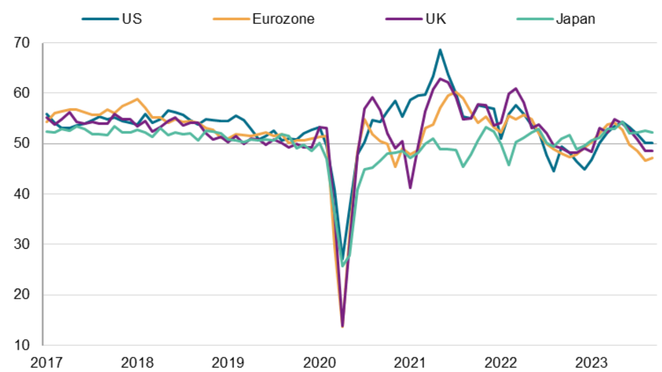
PMI index 50 = no change on prior month.
Sources: S&P Global PMI, J.P. Morgan, HCOB, CIPS, au Jibun Bank, Judo Bank, Caixin.

Major developed economies, output (manufacturing & services)



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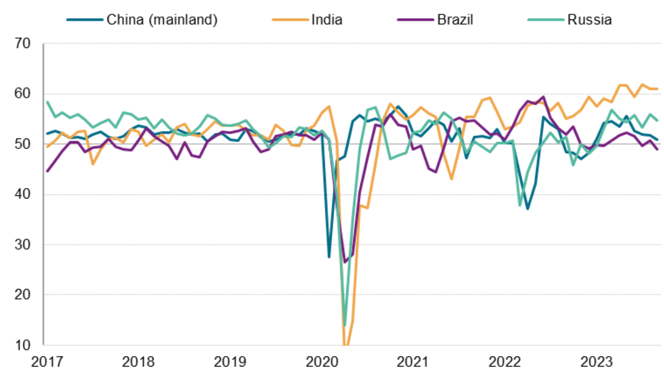
Major emerging economies, output (manufacturing & services)



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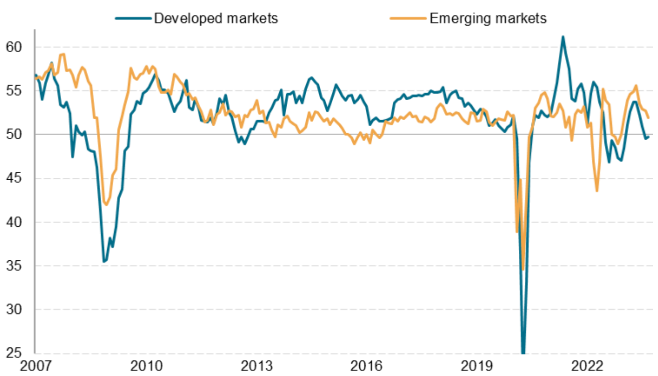
Sources: S&P Global PMI, S&P Global Market Intelligence, Caixin.

Developed world output contracts for second month

The various national performances meant the developed world suffered a marginal overall contraction of output for a second straight month at the end of the third quarter, signaling a marked contrast to the robust improvement seen in the second quarter. The emerging markets meanwhile reported the weakest output gain since January.

Global PMI output by market



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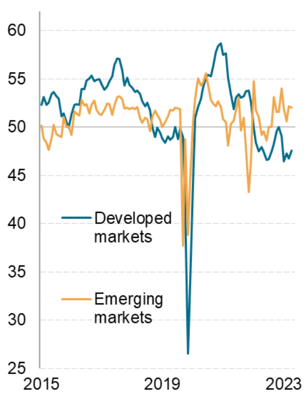
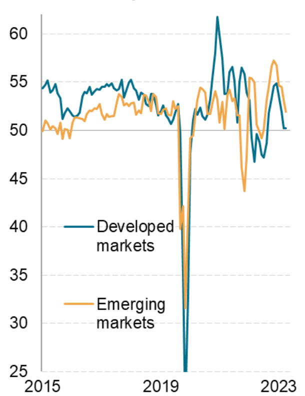
Global PMI manufacturing output



services output



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Outlook

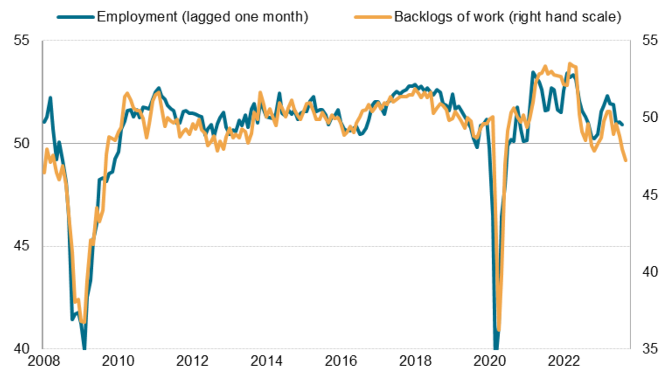
With the worst performances seen in those developed economies where interest rates have risen sharply – namely the US, Eurozone and UK – the surveys hint at further downward pressure on global demand in the coming months, as the lagged effect of rate hikes is likely to continue to feed through.

This dampening of demand poses downside risks to the outlook, as September has already seen inflows of new business fall globally for the first time since January.

This demand decline has caused companies across manufacturing, and increasingly also the service sector, to rely on backlogs of previously placed orders to sustain current production (output) levels. However, these backlogs are now collectively falling worldwide at the sharpest rate since August 2009, if pandemic lockdown months are excluded, suggesting firms could soon be running out of work to justify currently capacity levels.

Output may therefore soon come under pressure from depleted order books (see first chart above), and pressure on headcounts could follow, barring a revival of demand. However, the lagged impact of rate hikes bodes ill for the near-term demand outlook.

Global employment



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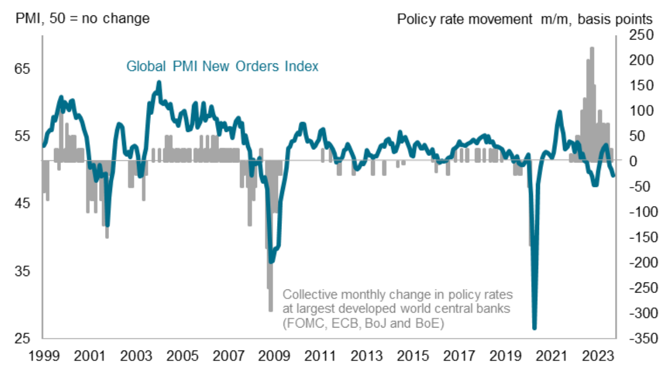
Global PMI output and prices vs. monetary policy



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PMI covers manufacturing and services.
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Access the global PMI press release here.

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Special Focus

Vietnam GDP Growth Improves in Third Quarter of 2023

Vietnam's GDP growth rate improved to a pace of 5.3% year-over-year (y/y) in the third quarter of 2023, compared with 4.1% y/y in the second quarter. Industrial production grew by 5.1% y/y in September, after having contracted by 0.4% y/y in the first eight months of 2023.

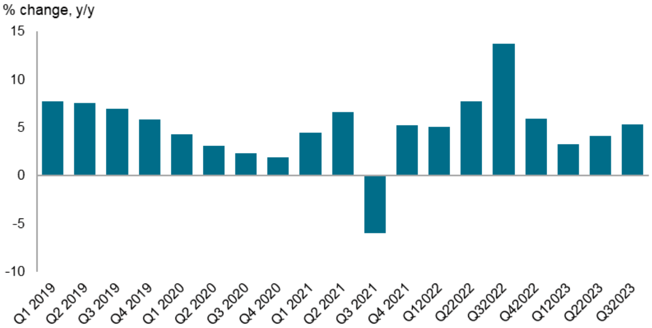
In the near term, Vietnam's manufacturing export sector is still facing significant headwinds due to weak growth in the US and EU, which are two key export markets accounting for around 42% of Vietnam's goods exports. Vietnam's goods exports fell by 8.2% y/y in the first nine months of 2023.

However, despite the downturn in exports during 2023, 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 has moderated in 2023 due to weak exports

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 has moderated significantly in the first three quarters of 2023, to a pace of 4.2% y/y, reflecting the impact of weakening growth in industrial production and exports. GDP growth momentum has been helped by strong growth in the services sector, which recorded a 6.3% y/y rise in output during the first nine months of 2023. Retail sales and consumption service revenues rose by 9.7% y/y during that period.

Vietnam GDP growth, 2019-2023
% change, y/y



Source: S&P Global Market Intelligence.
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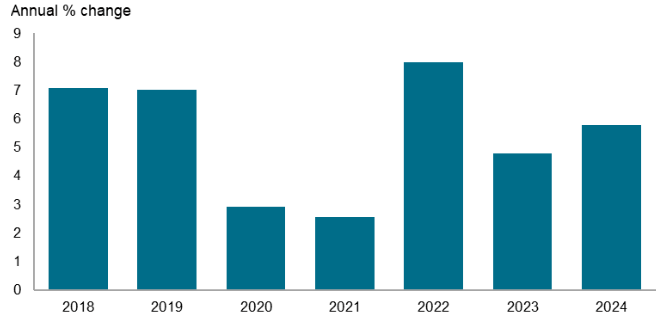
The service sector economy has been helped by a strong rebound in international tourism, with total visitor arrivals reaching 8.9 million in the first nine months of 2023. Tourism arrivals are currently estimated to be running at around 69% of tourism arrivals in the same period of 2019, prior to the COVID-19 pandemic.

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 2023. The export data for the month of August showed a contraction of 6.5% y/y, but an increase of 9.0% month-on-month (m/m).

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 eight months of 2023, merchandise exports to the US fell by 19.3% y/y. Although exports of computers, electrical products and parts showed a small rise of 1.5% y/y for the eight-month period, exports of mobile phones and parts fell by 39.1% y/y, while exports of textiles and garments fell by 22.4% y/y.

Exports to the EU have also been weak, declining by 9.5% y/y in the first eight months of 2023. Exports to the EU of computers, electrical products and components fell by 21.5% y/y in the January-August 2023 period, while exports of textiles and garments to the EU fell by 11.9% y/y.

Vietnam: annual GDP growth
Annual % change



Source: S&P Global Market Intelligence.
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Exports to mainland China have started to show a turnaround after considerable weakness in early 2023. Vietnam's exports to mainland China rose by 2.0% y/y in the first eight months of 2023, after having shown significant declines in early 2023. Exports of computers, electrical products and components to mainland China rose by 13.6% y/y in the January-August 2023 period, showing a considerable turnaround on the 14.9% y/y decline recorded for exports for this segment in the first four months of 2023. However, exports of mobile phones and parts to mainland China showed a small decline in the January to August 2023 period, down by 1.1% y/y, although this was a much smaller decline than in the first half of 2023.

Reflecting the slump in exports, the manufacturing sector has shown weak momentum, with industrial production growing by a marginal 0.3% y/y in the first nine months of 2023. Vietnam's industrial production had risen by 7.8% y/y in calendar year 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 21% y/y in the January to June 2023 period. Steel sales in the first half of 2023 were down by an estimated 17.5% y/y, with steel output down by 20.9% y/y.

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

S&P Global Vietnam Manufacturing PMI

Source: S&P Global Market Intelligence, S&P Global PMI surveys
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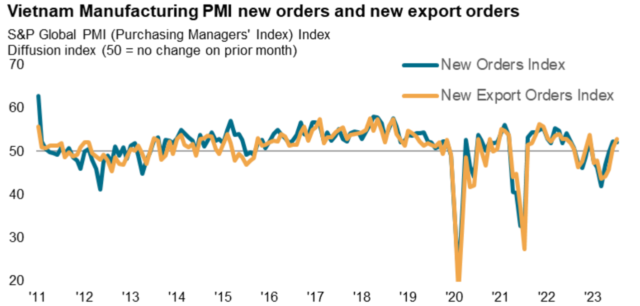
The S&P Global Vietnam Manufacturing Purchasing Managers' Index (PMI) posted 49.7 in September, marginally below the 50.0 no-change mark following a reading of 50.5 in August. The index signalled business conditions were close to neutral for Vietnamese manufacturers.

Vietnam Manufacturing PMI new orders and new export orders



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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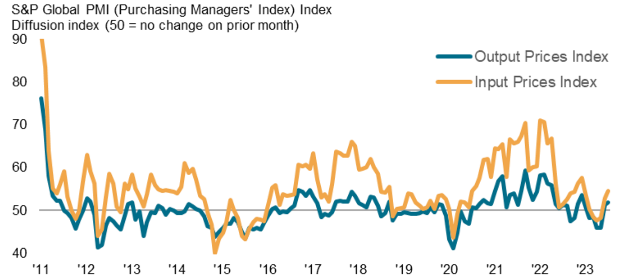
The most positive aspect of the September survey was a second successive monthly increase in new orders, with the rate of expansion broadly in line with that seen in the previous survey period. A number of respondents signalled that strength in new export orders, particularly from other Asian economies, had helped to boost total new business. The rate of expansion in new sales from abroad was solid and more pronounced than that seen in August.

Vietnam Manufacturing PMI input and output prices



Source: S&P Global Market Intelligence, S&P Global PMI surveys
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The rate of input cost inflation quickened according to the September survey, reaching a seven-month high. Rising fuel prices reportedly added to transportation costs, with increases in prices for oil and imported raw materials being key factors contributing to higher input prices. In turn, output prices rose for the second month running, albeit at a modest pace. The CPI inflation rate rose to 3.7% y/y in September from 3.0% y/y in August 2023, reflecting rising oil and food prices.

In response to rising inflation and the strengthening USD versus the dong during 2022, Vietnam's central bank, the State Bank of Vietnam (SBV), had raised its policy rate by 200 basis points (bps) in two 100bp steps during September and October 2022. However, with Vietnam's economy slowing significantly in the first half of 2023, the SBV has started easing monetary policy. The SBV cut its policy rates by 100bps on March 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 50bps rate cut was announced on 23rd May as the economy continued to slow, followed by a further 50bp rate cut on 16th June.

Medium term growth drivers

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

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

Secondly, Vietnam has a relatively large, well-educated labour force compared to many other regional competitors in

Southeast Asia, making it an attractive hub for manufacturing production by multinationals.

Third, rapid growth in capital expenditure is expected, reflecting continued strong foreign direct investment by foreign multinationals as well as domestic infrastructure spending. Total implemented foreign direct investment was estimated at USD 22.4 billion in 2022. Strong investment is expected in infrastructure sector, as the economy continues to grow substantially over the next decade. With strong GDP growth expected to continue to push electricity demand significantly higher over the medium term, the Vietnamese government has estimated that USD 133 billion of new power infrastructure spending is required by 2030, including USD 96 billion for power plants and USD 37 billion to expand the power grid. Severe power shortages during 2023 have highlighted the critical importance of rapid development of new power infrastructure as a key economic policy priority.

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

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

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

Free trade agreements

Vietnam is also set to benefit from its growing network of free trade agreements. The new Comprehensive Economic Partnership Agreement with the US is particularly important for Vietnam since the US is Vietnam's largest export market.

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

Vietnam is also a member of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) among 11 Pacific nations, including the G-20 economies of Canada, Mexico, Japan and Australia. In March 2023, the UK Government concluded negotiations on the UK's accession to the CPTPP. As the UK is the world's sixth largest economy, its accession will significantly increase the overall economic size of the CPTPP grouping, providing Vietnam with substantial competitive advantages for exporting to the UK market as well as attracting UK foreign direct investment.

A very important trade deal that took effect in 2020 is the EU-Vietnam Free Trade Agreement (EVFTA). The EVFTA is an important boost to Vietnam's export sector, with 99% of bilateral tariffs scheduled to be eliminated over the next seven years, as well as significant reduction of non-tariff trade barriers. For Vietnam, 71% of duties were removed when the EVFTA took effect on 1st August 2020. The scope of the EVFTA is wide-ranging, including trade in services, government procurement and investment flows. An EU-Vietnam Investment Protection Agreement has also been signed which will help to strengthen EU foreign direct investment into Vietnam when it is implemented. In 2022, Vietnam's exports to the EU reached USD 56 billion, up 10.2% y/y.

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

US bilateral trade relations

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

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

However, in its April 2021 semi-annual Report on Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States, the US Treasury determined that with reference to the Omnibus Trade and

Competitiveness Act of 1988, there was insufficient evidence to make a finding that Vietnam manipulates its exchange rate for either of the purposes referenced in the 1988 Act and dropped its labelling of Vietnam as a “currency manipulator”.

US government concerns about currency manipulation have been addressed following a bilateral agreement in July 2021 between the US and Vietnam whereby Vietnam has committed to refrain from competitive devaluation of the dong. The agreement was announced in a joint statement by US Treasury Secretary Janet Yellen and State Bank of Vietnam Governor Nguyen Thi Hong. In its December 2021 and June 2022 semi-annual reports, the US Treasury stated that it continues to engage closely with the State Bank of Vietnam to monitor Vietnam’s progress in addressing the US Treasury’s concerns and is thus far satisfied with progress made by Vietnam.

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

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

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

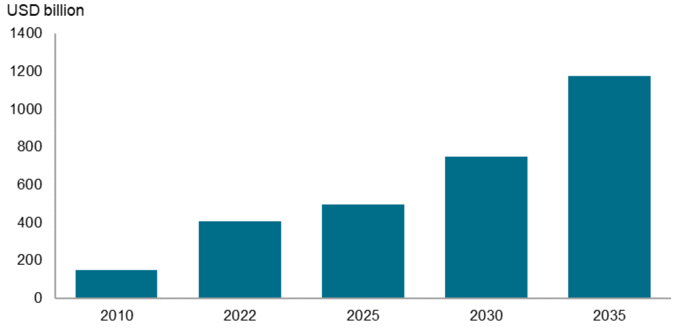
Economic Outlook

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

Despite near-term headwinds to Vietnam’s economic growth, over the medium-term economic outlook, a large number of positive growth drivers are creating favourable tailwinds and will continue to underpin the rapid growth of Vietnam’s economy. This is expected to drive strong growth in Vietnam’s total GDP as well as per capita GDP. The economic outlook from 2024 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 410 billion in 2022 to USD 500 billion by 2025, rising to USD 750 billion by 2030. This translates to very rapid growth in Vietnam’s per capita GDP, from USD 4,150 per year in 2022 to USD 5,000 per year by 2025 and USD 7,300 by 2030, resulting in substantial expansion in the size of Vietnam’s domestic consumer market.

Vietnam long-term GDP outlook



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Vietnam’s role as a low-cost manufacturing hub is also expected to continue to grow strongly, helped by the further expansion of existing major industry sectors, notably textiles and electronics, as well as the development of new industry sectors such as autos and petrochemicals. Vietnam already has a domestic automaker of electric vehicles, Vinfast, which launched its first EV in Vietnam in 2021.

For many multinationals worldwide, significant supply chain vulnerabilities have been exposed by the protracted disruption of industrial production in China as well as some other major global manufacturing hubs during the COVID-19 lockdowns. This will drive the further reshaping of manufacturing supply chains over the medium term, as firms try to reduce their vulnerability to such extreme supply chain disruptions. With US-China trade and technology tensions still remaining high, this is likely to be a further driver for reconfiguring of supply chains. A key beneficiary of the shift in global manufacturing supply chains will be the ASEAN region, with Vietnam expected to be one of the main winners.

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