ECONOMIC PERFORMANCE AFFECTED BY TYPHOON YAGI

Senior Analyst

Bui Thi Quynh Nga

ngabui@phs.vn

- Typhoon Yagi has severely impacted the northern economic region of Vietnam. In the near future, there are two key issues to note: First, inflationary pressure may slightly increase in the short term due to a spike in commodity prices, especially food, after the storm. Second, Typhoon Yagi will affect GDP growth in 3Q and the annual average for 2024. We cautiously adjust 3Q GDP growth to around 6.7%. However, we emphasize that these impacts will only be temporary and will not alter the growth target for 2025.
- In the near future, the Government and the SBV will need to take stronger measures to implement supportive policies aimed at restoring the economy, helping to maintain solid growth momentum. Especially with the exchange rate having significantly decreased, the SBV will have more room to pursue a "looser" monetary policy.
- Following the impact of Typhoon Yagi, production and export activities are expected to recover quickly in Q4 to meet the high demand during the end-of-year festival season in European and US markets. A soft landing of the US economy will remain a key factor supporting the recovery and growth of Vietnam's production and export activities for the remainder of the year.

CPI PHS forecasts that the CPI will increase by 0.5% in September compared to the previous month due to factors related to education as students return to school, the holiday period at the beginning of the month (September 2nd), and the impact of storms and floods in the northern region, which may affect commodity prices. However, the inflation outlook for the full year of 2024 remains stable, expected to stay below 4%. For 2025F, we project average inflation to be around 3.7%-3.9%.

Retail sales in August only saw a slight increase, marking the lowest growth rate MoM in three months. Entertainment activities cooled down as the summer travel season ended, and shopping was limited during the Ghost Month. Consumer demand remains relatively weak, and total retail sales heavily supported by foreign tourists.

The IIP continued to grow well in August (+2% MoM). Compared to the same period last year, August's IIP increased by only 9.5%, down from the 11.1% growth seen in July due to the high base from last year. However, the cumulative 8-month IIP reached its highest growth since March 2024, at 8.6% YoY. Vietnam's manufacturing PMI reached 52.4 points in August, down from 54.7 in July but still indicating strong improvement in business conditions mid-3Q. We continue to see a positive outlook for Vietnam's manufacturing sector, driven by a strong influx of orders amid geopolitical tensions affecting competitors. However, manufacturing in September may face challenges due to the early-month holiday and the destructive effects of Typhoon Yagi in the northern region, impacting both FDI and domestic enterprises. Nonetheless, we believe these impacts will be short-term, mainly affecting 3Q's economic growth.

Trade activity continued to boom in August. The total import-export turnover reached nearly $72 billion, the highest ever recorded, with exports setting a new record at nearly $38 billion. If this growth momentum continues, the annual import-export turnover is expected to break new records, surpassing the $732 billion mark achieved in 2022. Notably, despite signs of a global economic slowdown, Vietnam's exports have achieved record milestones, indicating the country's growing advantage in the trade race and its increasing ability to attract FDI.

FDI Total registered FDI cap in August reached $2.5 billion, slightly slowing compared to the peak periods in June and July. However, Vietnam's appeal to foreign investors remains strong. PHS expects that actual FDI inflows could still exceed $24 billion in 2024 and over $26 billion in 2025.

Public investment spending showed signs of improvement in August. However, for the first eight months of the year, disbursement of public investment reached only 40.4% of the plan, lower than the same period in 2023, and about VND 25 trillion less in absolute terms. After the storm, we believe that the disbursement of public investment capital will accelerate, not only to address post-disaster recovery but also to optimize fiscal easing policies. The current budget surplus creates ample fiscal space, allowing the government to be more aggressive in implementing easing measures. According to PHS's forecast, increased public spending and some tax and fee support packages are likely to be strongly pushed forward in the remaining months of 2024 and throughout 2025.

	2023A	Jan-24	Feb-24	Mar-24	Apr-24	May-24	Jun-24	Jul-24	Aug-24
GDP (YoY)	5.1			5.7			6.9		
CPI (YoY)	3.3	3.4	4.0	4.0	4.4	4.4	4.3	4.4	3.5
Retail sales (YTD YoY)	9.6	8.1	8.1	8.2	8.5	8.7	8.6	8.7	8.5
Export (YoY)	-4.5	46.2	-5.2	13.5	11.7	15.1	17.0	19.6	15.9
Import (YoY)	-9.1	34.6	0.3	9.7	19.9	25.9	18.9	25.8	15.6
Trade Bal (Bil USD)	28.3	3.6	1.4	2.8	1.2	-0.4	3.2	2.7	4.1
Realized FDI (Bil USD)	23.2	1.5	1.3	1.8	1.7	2.0	2.6	1.7	1.6

Sources: GSO, PHS compiled