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Global Markets Research

Research Alert

Vietnam’s GDP unexpectedly quickened to 7.4% in 3Q

Investment, manufacturing drove the economy amid strong consumer spending

Typhoon Yagi disrupted production and sent food prices up; could shave GDP by 0.2ppts

GDP growth target of 6.8-7.0% appears optimistic given spillover from typhoon in 4Q

Summary

Defying expectations for softer growth after Super Typhoon Yagi disrupted industrial output and farming activities, Vietnam’s economy registered its strongest growth pace in 2 years at +7.4% y/y in 3Q (2Q: +6.9% y/y) and brought growth to 6.8% for the first nine months of 2024. As it is, the uptick in growth for 3Q and YTD was driven largely by the manufacturing sector (YTD: +9.8% y/y), exports (YTD: +16.9% y/y) and foreign direct investment (YTD: +6.8% y/y), further supported by a still strong consumption (+6.2% y/y) on the domestic front.

Exports and FDI drove the manufacturing sector and the economy

Accompanying data showed that growth was broad-based, with the industry & construction (+8.2% y/y vs +2.4% y/y) as well as services (+7.0% y/y and +6.6% y/y) sectors recording stronger growth for the period Jan-Sep 2024 as compared to the prior year. Growth in the agriculture, forestry & fishing sector, was nonetheless more moderate at +3.2% y/y (prior: +3.7% y/y) as production was severely affected by Typhoon Yagi in September, and prolonged heavy rains over a large area in most of the Northern region. On the demand side, exports, final consumption and gross capital formation (investment) grew a strong 16.9% y/y, 6.2% y/y and 6.9% y/y YTD.

Super Typhoon Yagi expected to shave 0.2ppts off GDP, impact be felt in 4Q

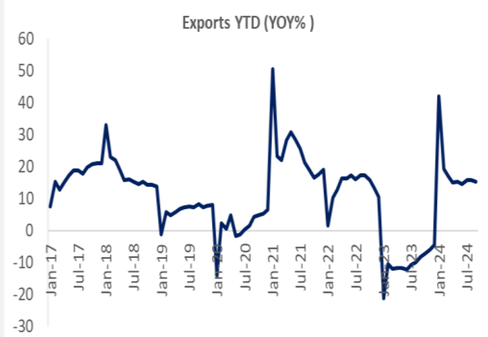
According to the United Nations Development Programme (UNDP), Super Typhoon Yagi is estimated to have affected 3.6m people, damaged 240k homes, left infrastructure in ruins and the country is facing a recovery effort estimated at $1.6bn. The Government also estimated that the storm will shave 0.15ppts off this year’s revised targeted GDP growth of 6.8-7.0% (2023: 5.0%) with the impact seen continuing in the last quarter of 2024.

Data wise, with the exception of disruption in agriculture output and higher food prices (Sept: +3.9% y/y vs +3.7% y/y) in provinces and cities directly affected by the storm, impact elsewhere has been limited at this juncture. Exports (+10.7% y/y and +14.5% y/y) and industrial output (+10.8% y/y and +9.5% y/y) remained strong in September, while headline (2.6% y/y vs 3.5% y/y) and core inflation (2.5% y/y for August & September) remained tame and below government’s target, giving the central bank leeway to lower its interbank rate to aid the recovery post Yagi if need to.

Figure 1: Strongest GDP growth in 2 years

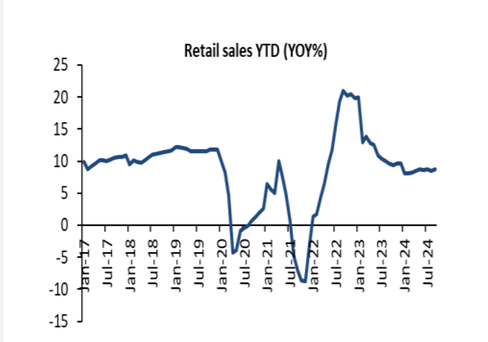
Source: Bloomberg

Figure 2: Double-digit growth for exports in recent months



Source: Bloomberg

Figure 3: Sturdy consumer spending



Source: Bloomberg

6.8-7.0% growth target may be challenging after the typhoon

Balance of risks to growth in 4Q is tilted down on the back of continuous impact from the storm, geopolitical tensions and global economic uncertainties, particularly among its major trading partners such as the US, EU and China that could hurt external demand during the quarter. Coupled with the fact that the economy grew just 6.8% YTD and 4Q GDP will see a high base effect, we nonetheless, expect government's upwardly revised growth target of 6.8-7.0% for 2024 to face some challenges at this juncture.

Over the medium term 2025-2026, economic outlook for Vietnam remains positive, supported by moderate growth for its manufactured exports and tourism, accommodative monetary policies, as well as resilient consumer spending and investment, the latter as Vietnam emerge as a viable alternative to China in the production of electronics and has since pulled in capital from tech giants like Samsung Electronics and Intel. In fact, the World Bank expects Vietnam's private consumption, investment and exports to grow by 5.3%, 6.8% and 11.4% respectively in 2024, and the economy to grow by 6.1% this year (consensus forecast: 6.0%, IMF's 6.1%), strengthening further to 6.5% in 2025 and 2026.

Figure 4: Contained inflationary pressure

Source: Bloomberg

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