

Michael Kokalari, CFA  
Chief Economist

## Demand for “Stay at Home” Goods is Boosting Vietnam’s Economy

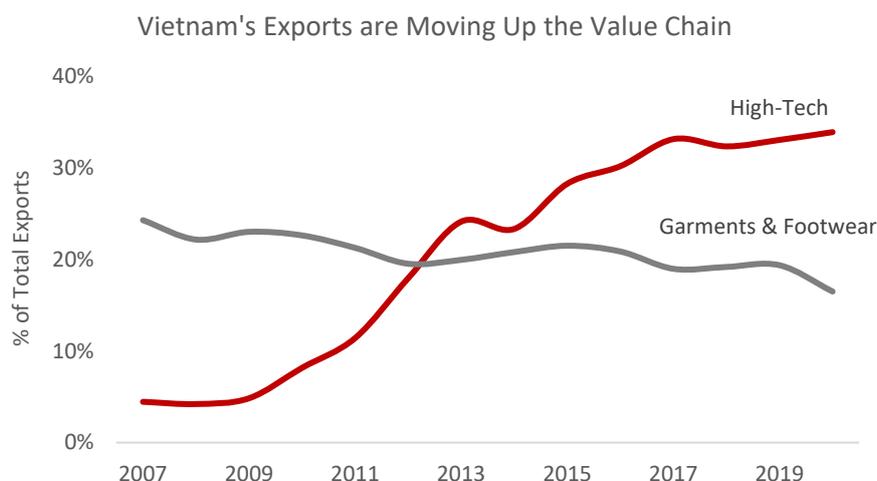
Economic data released in the US and Vietnam over the last two weeks support our view that the demand for “Made in Vietnam” products by consumers in the US and other developed countries will continue to boost Vietnam’s economy in 2021 just as it did in 2020.

We prefer to focus on Vietnam-specific issues in these “*Insights From VinaCapital*” reports - such as the Government’s adept handling of the current COVID outbreak, discussed in previous reports.<sup>1</sup> However, we expect Vietnam’s GDP growth to surge from 2.9% in 2020 to 6.5-7% in 2021 based on two key assumptions: 1) a rebound in household consumption (~66%/GDP) from circa 0% in 2020 to 8-9% growth in 2021, and 2) a rebound in the growth of the country’s manufacturing output (~20%/GDP) from 5.8% growth in 2020 to 12% in 2021.<sup>2</sup>

Further to that last point, Vietnam’s manufacturing sector is focused on producing products that are exported, as was the case for the other “Asian Tiger” economies, so healthy demand for the products Vietnam exports is necessary for a rebound in the country’s GDP growth. Furthermore, manufacturing jobs are relatively well paid, so a healthy manufacturing sector supports workers’ incomes, which in turn supports domestic demand as well as the stock prices of consumer companies, banks, and other direct beneficiaries of domestic demand.

### Vietnam is Well Positioned to Supply “Stay at Home” Goods

Vietnam’s exports have been moving up the value chain, which is fortuitous because social distancing lockdowns in developed countries prompted a surge in demand for “stay at home” goods, including electronics, home office equipment, and furniture. Had the surge in demand for these products occurred a decade ago, it would not have benefitted Vietnam, as can be seen in the diagram below.



<sup>1</sup> At the time this report is being published, there have been 803 COVID cases reported - including 36 cases in HCMC and 35 cases in Hanoi - since the 3<sup>rd</sup> COVID outbreak emerged on January 28<sup>th</sup>. Over 77% of the cases reported were in Hai Duong province, and the outbreak looks likely to be contained within the next few weeks.

<sup>2</sup> The assumptions supporting our 2021 GDP forecasts can be found in the above mentioned “*Looking Ahead 2021*” report, [here](#).

### Strong US Retail Sales Propel Vietnam's Exports

Last week, the US Department of Commerce announced that US retail sales were much stronger than expected in January, which in turn drove a surge in Vietnam's exports:

- The growth in US retail sales surged from -1% month-on-month in December, to +5.3% m-o-m in January, which was much higher than the market's +1.1% consensus expectation and also well above the most optimistic forecasts in the market.
- Sales of "Stay at Home" products, such as those made in Vietnam, were particularly strong. US electronics sales rose 14.7% m-o-m in January, which was the fourth-largest surge ever, and furniture sales increased 12% m-o-m, which was the third largest ever surge.
- The *month-on-month* figures mentioned above were widely discussed on international media. but for our purposes, it is more relevant to consider the *year-on-year* growth in US retail sales, which rose from +2.5% y-o-y in December to a 10-year high of +7.5% y-o-y in January.
- The surge in US retail sales drove a ~70% y-o-y jump in Vietnam's exports to the US in January and a 46% y-o-y increase in the Vietnam's total electronics exports. Consequently, Vietnam's trade balance swelled from a USD300 million trade deficit in January 2020 to a USD2.1 billion trade surplus in January 2021.<sup>3</sup>

Finally, note that Vietnam's exports to the EU grew 55% yoy in January, driven by similar dynamics as in the US. However, the US Commerce Department's economic statistics are more timely, detailed, and widely reported, so we have focused on last week's US retail sales numbers in this report.

### Strong Outlook for the Rest of 2021

US retail sales fell for three months in a row up to December 2020, before surging in January (and recouping all of the Oct-Dec decline), largely because the US government sent stimulus checks to US households at the end of December. It has become increasingly clear over the last two weeks that the passage of the proposed USD1.9 trillion fiscal stimulus program is imminent, with more stimulus checks likely to be sent to US households around April.

The US government is likely to spend a total of 10-15%/GDP of fiscal stimulus in 2021, which should boost US retail sales and consequently boost Vietnam's exports to the US. Many economists have also started assessing the indirect, positive impact this massive spending will have on other countries, which is discussed in an article in this week's *The Economist* magazine, titled, "*What a hot American economy means for the rest of the world*".

The IMF estimates that 1%/GDP worth of US fiscal spending also boosts Canada's economy by about 1%. No such projections are available for the "spill over" benefits to Vietnam from US fiscal spending, but the US is Vietnam's largest export market at over 25%/total exports, and Vietnam's trade-to-GDP ratio<sup>4</sup> of ~200%, is the highest for any country in modern history (with the exception of city-states like Hong Kong), so the imminent US fiscal stimulus should significantly benefit Vietnam.

<sup>3</sup> Note that Vietnam's impressive export growth and trade surplus in January 2021 was partly attributable to the timing of the Lunar New Year Holiday. Tet was in February this year versus in late January last year, so Vietnam's factories were shut for about one-quarter of the month in January 2020. That said, this seasonal issue only exacerbated the country's already-strong year-on-year performance. Vietnam's exports surged 55% from January 2020 to January 2021, which was partly due to the timing of the Tet holiday, but exports surged nearly 20% yoy in the first half of January 2021, which was not impacted by the timing of Tet.

<sup>4</sup> The total trade-to-GDP ratio is calculated by adding Vietnam's imports/GDP and exports/GDP ratios, which are both around 100% of GDP.

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