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## Vietnam's Q1 GDP Growth was Better than the Numbers Indicate

Vietnam's GDP grew 4.5% year-on-year (yoy) in Q1, which was a better performance than the numbers suggest, because: 1) modest social distancing restrictions were in place for much of Q1 (including in selected neighborhoods in HCMC and Hanoi), following a third COVID outbreak that emerged at the end of January in northern Vietnam, and 2) the number of foreign tourist arrivals effectively collapsed from 3.7 million in 1Q20 to zero in 1Q21.

Regarding #1, Vietnam's GDP grew by 4.5% yoy in both Q4 and again in Q1, despite the fact that there were almost no social distancing measures in place at the end of last year, and modest restrictions in place from the end-January to end-March. Regarding #2, foreign tourists contributed about 8% of Vietnam's GDP pre-COVID, so the collapse of foreign tourism dealt a major blow to the economy, but GDP growth actually *accelerated* slightly, from 3.8% in 1Q20 to 4.5% in 1Q21, despite that collapse.

Both of these points clearly demonstrate the fundamental strength of the country's economy and paint a stronger picture than many observers realize. The Q1 results also make it very likely that Vietnam's GDP growth will reach 6.5% this year, driven by the two factors that have continued to support the country's economy throughout the pandemic, personal consumption and manufacturing:

	2020 Growth	2021F Growth	1Q21 Growth
GDP	2.9%	6.5%	4.5%
Personal Consumption <sup>1</sup>	1%	7%	9%
Manufacturing	6%	11%	9.5%

Strong personal consumption growth in Q1 reflects Vietnam's high consumer confidence, which in-turn is a direct result of the Government's adept handling of COVID. Meanwhile, the manufacturing sector is being supported by the production and export of "stay at home goods" to the US and other developed countries. Government infrastructure spending, which surged 35% in 2020, did not contribute much to GDP growth in Q1, but we expect infrastructure development to pick up as 2021 progresses and Vietnam's new Government leaders settle into their new jobs, which is another reason we expect Vietnam's GDP growth to accelerate as the year progresses.<sup>2</sup>

A resumption of Vietnam's strong growth trajectory, following the 2020 COVID setback, should drive stock prices higher in 2021 and 2022 by lifting the earnings of Vietnamese companies. Strong Q1 economic growth drove an increase in the consensus 2021 EPS growth from 18% at the beginning of the year to over 26% at present, partly because banking sector earnings are being revised higher as non-performing loan worries fade, and higher commodity prices are boosting the share prices of some producers, including steel makers.

Finally, our projections for personal consumption and manufacturing output growth in the table above are in-line with the 5-year average trend growth of each, pre-COVID. We do not expect foreign tourism to resume this year – despite increasing hope for vaccine passports – and expect personal consumption growth to taper off later in 2021, owing to tougher year-on-year comparisons later in 2H21.

### **Manufacturing: Strong Leading Indicators**

A recent Wall Street Journal article titled, "The Vietnamese Recovery is Made in America" observed that "Vietnam's economy is returning to solid export-fuelled growth that will likely continue thanks to US fiscal stimulus", because the USD600 stimulus checks that the US government sent out to households at the end of December prompted a 7.7% month-on-month surge in US retail sales in January, which in-turn drove a 39% yoy surge in Vietnam's exports to the US in Q1 (to USD21 billion).

<sup>1</sup> Note that Vietnam's General Statistics Office (GSO) does not publish direct statistics about the personal consumption, so we have estimated these figures based on the available data (by stripping out the impact of foreign tourists, etc.).

<sup>2</sup> The agriculture sector (15%/GDP) also contributed to the yoy improvement in Vietnam's GDP growth, primarily because African Swine Fever is now under control and Vietnam's pig population growth soared by 12% yoy.

Furthermore, surging new export orders lifted Vietnam's manufacturing PMI to its highest level in over two years and led FDI companies to ramp up imports of the components required to manufacture high tech products by 30% yoy. US retail sales surged by an astounding 9.8% mom in March, which was driven by the payment of USD1,400 stimulus checks to households and which should continue to support Vietnam's exports to the US.

Some people raised concerns that Vietnam's surging trade surplus with the US could prompt US Government officials to impose stiff tariffs on Vietnamese exports because the US Treasury Department labelled Vietnam a currency manipulator in December 2020. However, last week it was announced that Vietnam is **no longer** considered a currency manipulator by the US Government, effectively eliminating the risk of tariffs.

**Numerous Surveys Indicate the *Work-At-Home* Phenomenon is Here to Stay**

 ZipRecruiter*	60% of Applicants prefer remote-work
 pwc	72% Want to work at home 2+ days/week
 Stanford University	US Workers want to work at home ~½ week; employers expect workers to work at home 1-2 days/week
 Manpower*	Over 20% of employers to allow more work at home in the future
 McKinsey & Company	¼ Employees could work at home 3-5 days/week

Another concern is that the demand for “stay at home” goods in the US/developed countries will evaporate as people get vaccinated and resume working at their companies’ offices, which would dampen the demand for stay-at-home goods. However, an increasing number of surveys show that employees have a strong desire to continue working at home, so the production and export of laptops, televisions, furniture and other products that people need to stay and work at home will probably remain robust until well into 2022.

**Resilient Stock Market**

The VN-Index (VNI) is up 15% YTD, versus a 4% YTD increase in the MSCI-EM index, and a modest drop in the stock markets of Vietnam's four EM Asian peers (Philippines/Thailand/Indonesia/Malaysia), despite USD800 million of foreign withdrawals from the Vietnamese stock market in 2021. Foreign investors have been taking profits on Vietnamese stocks, motivated by the VNI's surge to record-high levels, but selling by foreigners has been more than offset by the purchases of local investors – which was the subject of an earlier report that can be found [here](#) (the trends described in this report accelerated since the time we published that report).

Importantly, unlike some stock markets that are surging to new record-highs (or to multi-year highs) based on QE fueled price-earnings multiple expansion, Vietnam's stock market is being driven up by higher earnings, so the forward P/E ratio of the VN-Index has only increased from 14.7x at the beginning of the year to 15.7x at present.

**Summary**

Vietnam's Q1 GDP growth was very resilient in the face of adverse conditions caused by COVID. Similarly, the VN-Index continues to hit new record-highs, despite significant foreign selling/profit-taking. The resilience of both the economy and the stock market in the face of strong headwinds demonstrates the underlying strength of both and should make investors confident about the prospects for continued, strong stock market gains going forward.

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