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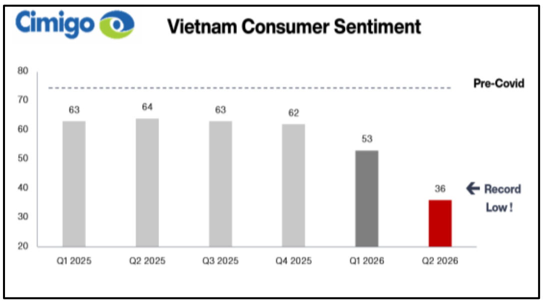
Vietnam's Consumer Paradox: Resilient Spending Despite Receding Sentiment

Inflation Weighed on Local Consumer Sentiment, but Spending Remains Resilient.

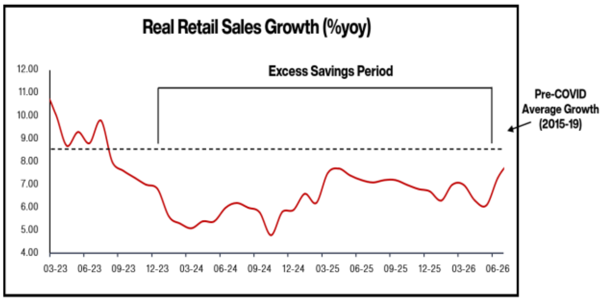
Vietnam's National Statistics Office (NSO) reported a modest recovery in household consumption over the last 12 months, despite a plunge in consumer sentiment according to leading, local market research firm Cimigo. Several factors help explain the divergence between sentiment and spending, including a phenomenon that Stanford University and Brookings Institution economists discussed in a research report titled, "The Paradox Between the Macroeconomy and Household Sentiment[1]". Part of the paradox of solid spending despite soft sentiment stems from how consumers respond to sudden bursts of inflation, according to the Stanford economists.

Specifically, a sudden surge in inflation disproportionately dampens consumer sentiment and then the negative hit to sentiment subsequently decays exponentially. In Vietnam's case, the US-Iran war caused headline CPI inflation to surge from 3.5% at the end of last year to 5.6% YoY in May despite Government efforts to dampen the impact of the war by subsidizing petrol prices. Consequently, sentiment has taken a big hit this year, but the hit from this year's inflation surge should drop by half within 12 months and then drop by another half in the subsequent 12 months and so on, according to the econometric analysis discussed in that report.

Sentiment is at a Record Low...



...But Spending is Picking Up



Another part of the paradox is related to the "K-Shaped economy" phenomenon, which analysts in the US started to articulate in early-2024. VinaCapital introduced the "K-Shaped economy" terminology to the Vietnam market to help assuage concerns about the resilience of Vietnam's exports to the US. Specifically, there were numerous headlines about falling consumer sentiment in the US which led to widespread concerns that a weaker US economy would hurt Vietnam since the US is Vietnam's largest export market. We reassured investors at that time by pointing out that the top 10% of US consumers drive about 50% of total aggregate spending and that those top consumers were very healthy due to stock market gains and surging house prices.

In the end, Vietnam's exports to the US jumped by more than 20% in 2024 and by nearly 30% in 2025, validating our call, and the "K-Shaped economy" phenomenon is now widely discussed in mainstream business press[2]. More importantly, the widely acknowledged phenomenon in which a small segment of consumers drives a large portion of aggregate consumer spending has

[1] The paradox between the macroeconomy and household sentiment, Brookings Institution, October 2024.
[2] Luxury goods and investing in the K-shaped world, Financial Times, October 2025.

The "K-Shaped Economy" Phenomenon is Now Emerging in Vietnam.

now spread to other countries around the world, including Vietnam. The emergence of a "K-Shaped economy" phenomenon in Vietnam helps explain why aggregate spending continues to increase despite dampened sentiment and why consumer-goods firms are increasingly focused on serving the segments whose spending is growing the fastest (that last point gives rise to attractive investment opportunities).

Other factors dampening sentiment include a wide-range of measures by the Government last year to modernize Vietnam's tax collection system[3], which have been so effective that tax collections have exceeded the Government's target by 30% this year.[4] Furthermore, interest rate increases pushed up mortgage payments (discussed here), especially in Q1, when many floating rate mortgages were reset , helping to explain why sentiment was already falling in Q1.

Tax Reforms and Mortgage Resets Also Weighed on Sentiment.

Those last two factors (mortgage rate resets and cottage industry tax collection) directly impact a relatively small proportion of consumers, but both are being very widely discussed and are consequently having a disproportionately large impact on sentiment vis-à-vis the impact on total spending[5]. In contrast, Cimigo has identified a phenomenon that was dampening the spending of many more households in recent years, and which is now abating.

Many households depleted their savings during COVID and have been saving at an extraordinarily high rate since then, despite the fact that their incomes are currently growing circa 6-7%/annually. This "savings rebuilding" dynamic helps explain why real retail sales growth never fully recovered from pre-COVID levels, but enough time has elapsed since the end of COVID that Vietnamese households are gradually resuming their spending at a more normal pace.

Vietnam's Middle-Class: The Fastest Growing Segment

Over the past few weeks, we met with senior executives from a wide range of consumer companies in Vietnam, including personal care, large coffee-shop chains, and fast-moving consumer goods (FMCG) companies. Based on our discussion, we have concluded that:

Vietnam's Fast-Growing Middle Class is Driving "Premiumization".

1) There are still opportunities in Vietnam to sell higher-priced goods to the wealthiest consumers, but many companies are increasingly focused on selling mid-tier priced goods to consumers who are becoming wealthy by delivering a noticeably better experience versus competitors, and

2) Firms are focused on catering to Vietnam's rapidly growing middle-class, both by opening new physical outlets, which is part of the country's on-going transition to modern trade/retailing, and by selling via e-commerce, which is growing at 25% per year and now accounts for over 10% Vietnam's total retail sales of goods and services[6].

Even moderate increases in average income can produce a disproportionate rise in the number of consumers able to afford higher-value products and experiences. As the entire income distribution shifts upward, more households cross the income levels at which discretionary purchases—such as premium personal-care products, travel, and other lifestyle services—

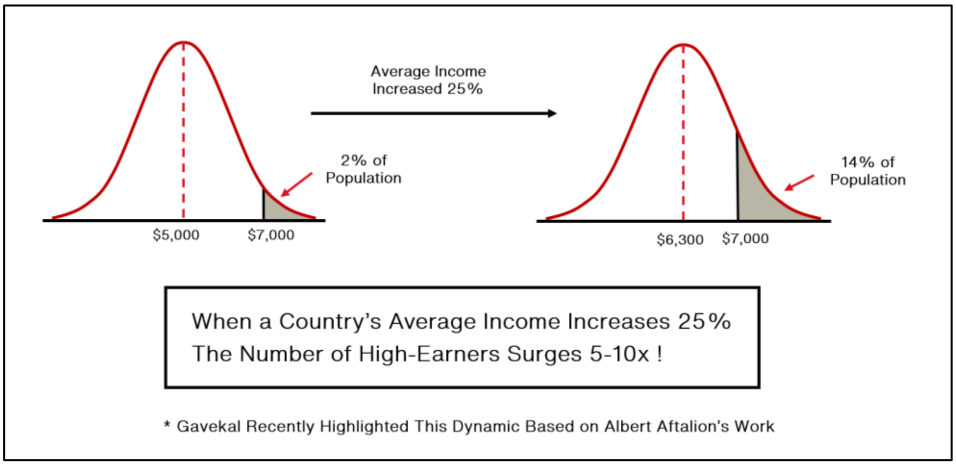
[3] Việt Nam rolls out key tax reforms from July 1 to support fairer system, Vietnam News, June 2025.
[4] Yearly tax collection exceeds $82 billion for the first time, Vietnam News, December 2025.
[5] Obviously, households paying higher mortgage payments drain their ability to spend money on other things as does widening the tax net on household businesses. Our intention is to explain why total spending has remained strong despite weak consumer sentiment. Note also that some market participants have pointed out that leveling the tax playing field for household and formal businesses will ultimately benefit listed retailers.
[6] Vietnam sees strong e-commerce growth in 2025, December 2025, Vietnam News.

become more affordable. Consequently, the addressable market for these categories expanded far faster than average income itself[7] – which is itself growing rapidly in Vietnam.

Modest Income Growth Drives Huge Spending Growth.

Vietnam recently achieved upper-middle income status[8], with a per capita income of around USD5,000, and the Government aims to achieve high-income status by 2045. If Vietnam's average income were to increase by 25% over the next five years to circa $6,300 the addressable market for such products and services to expand dramatically, as illustrated in the diagram below (note that the income in any country does not actually follow a simple "Bell Curve", which is the reason we said below that an average income increase of 25% would boost number of high earners somewhere between 5x and 10x).

Investing in EM Countries: Middle Class Consumption



Beneficiaries of Vietnam's Consumer Economy

As more households cross key income thresholds, demand for aspirational products should expand rapidly, and Vietnamese brands will likely be particularly well positioned. Many of those companies remain privately owned, including large coffee-shop chains, personal-care providers, branded consumer-goods companies, and specialized segments like cosmetic surgery clinic networks, children's education, healthy food and beverage concepts, specialty pharmacies, and digitally native beauty brands[9]. These companies are often less accessible to foreign investors than listed firms, and some still have a way to go to strengthen their corporate governance, financial controls, and reporting standards.

Many Attractive Opportunities in the Consumer Sector Remain Privately Owned.

That said, there are many private companies that have professional management teams, strong cash generation capability, scalable operating models, and the ability to reach consumers nationwide through a combination of physical outlets, digital channels, and third-party distribution. VinaCapital is one of the few investment firms in Vietnam with direct access to many such private opportunities and we have co-invested in selected consumer businesses alongside trusted partners. Alternatively, investors can gain exposure to Vietnam's consumer story through some well-known local companies that are listed on the stock market[10], including:

[7] This phenomenon has been well-studied by several economists, see also The Rise of Mass Consumption Societies, Journal of Political Economy, 2002.
[8] Vietnam officially elevated to upper-middle income status, VnEconomy, July 2026.
[9] Emmié by Happy Skin, OFÉLIA and Lemonade Cosmetics are Vietnam's answer to the hugely successful Glossier brand in the US
[10] These are some selected examples of prominent listed consumer stocks – not recommendations to invest in those companies.

Branded Consumer Goods	Modern Retail & Distribution	Premium / Discretionary Retail	Consumer Services & Experiences
Companies • MCH: Masan Consumer • VNM: Vinamilk • SAB: Sabeco • QNS: Quang Ngai Sugar	**Companies** • MWG: Mobile World • FRT: FPT Retail • DGW: Digiworld	**Companies** • VRE: Vincom Retail • HAX: Haxaco • HUT: Tasco	**Companies** • VJC: VietJet Air • HVN: Vietnam Airlines • VPL: Vinpearl
Pros • Strong brands and distribution • Recurring demand • Benefits from premiumization	**Pros** • Direct exposure to formalization • Benefits from modern retail growth • Expanding online and offline reach	**Pros** • Rising middle-class spending • Higher-value purchases • Significant expansion potential	**Pros** • Exposure to travel and experiences • Strong demand growth • Low premium-segment penetration rate
Cons • Input-cost volatility • Intense competition • Slower growth in mature segments	**Cons** • Thin margins • High working-capital needs • Expansion and execution risk	**Cons** • Sensitive to consumer confidence • High rental and operating costs • Rapidly changing preferences	**Cons** • Capital-intensive operations • Sensitive to tourism and fuel prices • Regulatory and operational risks

Listed companies generally offer greater liquidity and transparency, but do not always provide direct exposure to the fastest-growing niches in Vietnam's consumer economy. Many of the most innovative concepts remain in the private market, where returns can be higher but depend much more heavily on management quality, governance, and execution. Consequently, an effective consumer-investment strategy in Vietnam may require a combination of listed-market exposure and carefully selected private investments.

Conclusions

Local Brands Can Win by Combining Value, Experience, and Scale.

Vietnam's consumer spending remains resilient despite weak sentiment, supported by rising incomes and recovering household savings, although that spending is increasingly concentrated in narrow, but faster-growing, segments. As more households cross key income thresholds, demand for aspirational but accessible products and experiences should expand rapidly. Vietnamese brands that combine quality and value with a strong sense of national identity may be particularly well positioned; the most successful can create an emotional connection in a way that foreign brands cannot.[11] Looking ahead, the strongest opportunities should lie with companies that can pair that local resonance with a noticeably better experience at a mid-tier price point, and then scale it through physical outlets, e-commerce, and nationwide distribution.

[11] Examples include, "X-Men" a Vietnamese men's care product brand, "Diana", a local feminine products brand, and "Highland Coffee", a popular Vietnamese coffee chain with over 1,000 outlets