

Next, many factories located in the industrial suburbs of HCMC continue to operate, albeit at reduced capacity. We are monitoring some unorthodox indicators of industrial activity at factories that produce high-value products (inspired by hedge funds use of unorthodox data, such as satellite imagery of Walmart parking lots). From early-July, we observed many busses transporting workers back-and-forth between hotels in central HCMC, and the factories located in Vietnam's industrial suburbs. This week, we have not seen a noticeable drop in the number of busses transporting workers.

The busses currently being used to transport workers typically have signs in the windshield indicating the company they are ferrying workers to in the morning, including Panasonic, Sanyo, and Samsung, as well as which hotel they are transporting workers to in the evening. The busses drop workers at several hotels in downtown HCMC, and we have also been closely monitoring the visible occupancy of a few centrally located hotels since the pandemic emerged.

Prior to early-July, those hotels appeared to have few rooms occupied every day (i.e., room lights were on in just 1-2 rooms in the evening). In early-July, when stricter social distancing measures in HCMC were introduced, the occupancy rate of those hotels appeared to increase to 20%, because firms reportedly housed more of their middle-managers in hotels (an Intel spokesperson said the company is spending USD6 million a month on housing its workers, as well as other COVID remediation measures). This week, the occupancy rate of those hotels appears to have shot up to over 70%, apparently motivated by this week's imposition of stricter social distancing measures in greater HCMC.

Slower 2021 GDP Growth

The FDI companies discussed above can afford to house employees at hotels and/or take other COVID mitigation steps, but the profit margins of firms that produce low value-added products such as garments and furniture are much lower than those of consumer electronics manufacturers. Consequently, companies producing garments, shoes, and other low-margin products are having a hard time maintaining their production, and Vietnam's exports of such products plunged in August, according to data from VN Customs. This drop will drag on Vietnam's GDP growth, as will a drop in personal mobility in HCMC to levels far below those during the first COVID wave in April 2020², which will impede domestic consumption.

Given all of the above, the consensus forecast for 2021 GDP growth fell from around 6% a few weeks ago to about 4.5% at present (the World Bank cut its forecast to 4.8% this week), but those consensus forecasts are probably too optimistic. We are currently revising our GDP growth forecast and note that our forecasts have consistently been below and more accurate than the consensus. We also believe that the consensus expectations for 38% EPS growth in 2021 are too optimistic. That said, earnings should rebound vigorously next year, so we caution investors not to play the "market timing" game by selling Vietnamese stocks now and attempting to time their re-entry to the market.

Controlling COVID in HCMC

The Government aims to have HCMC's current COVID epidemic "under control" by September 15th, by which it means:

- 1) A 20% reduction in the daily number of COVID deaths
- 2) A 20% reduction in the number of hospitalized COVID patients in critical condition, and
- 3) The number of daily new COVID hospitalizations is less than the number of COVID patients discharged from the hospital each day

The Government is currently conducting a mass COVID testing program, and targets 70% of Ho Chi Minh City's adult population to get the first dose of a vaccine by September 15th (up from less than 20% who received at least one shot in late July). The Government is prioritizing vaccinating people in the greater HCMC area, given the region's economic importance (HCMC, together with the industrial suburbs of Binh Duong, Dong Nai, and Long An account for over one-third of the country's GDP). Finally, note that the proportion of Vietnam's adults who received at least one dose of a COVID vaccine increased from less than 5% in late-July to more than 15% at present.

Conclusion

A surge in HCMC's Delta variant cases prompted a tightening of social distancing measures, but the Government's strategy now incorporates objective criteria to assess COVID risk in individual neighborhoods, which should make it easier to roll back the current measures once certain public health milestones are met. Those milestones include reductions in the number of daily new COVID cases and deaths, as well as an increase in the number of people who are vaccinated.

² The Google index for mobility to workplaces will probably drop to -90 versus pre-COVID levels this week, compared to a circa -40% drop when COVID first hit Vietnam in April 2020.

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