Business conditions in Colombia's manufacturing industry continued to improve at the end of the third quarter of 2019, supported by a renewed increase in new work and a stronger upturn in output. Another positive came from strengthening business confidence regarding growth prospects. While firms reacted to rising sales by lifting headcounts, quantities of purchases contracted in September. Meanwhile, input cost inflation ticked higher, but charges were raised to a lesser extent.

Registering 50.9 in September, the headline seasonally adjusted Davivienda Colombia Manufacturing PMI™ was in expansion territory for the third month running. Moreover, the PMI rose from 50.3 in August, pointing to a stronger improvement in the health of the sector.

One factor contributing to the rise in the headline figure was a resumption of new order growth. Panel members that noted higher inflows of new work indicated that marketing efforts bore fruit. There were also mentions of a pick-up in demand, successful product launches and expanded client numbers. However, the overall upturn in sales was only slight.

Goods producers scaled up production volumes in September on the back of rising order flows, expansion into new markets and stock-building initiatives. Although slight, the pace of output growth quickened from August.

New projects and efforts to fulfil production targets underpinned a further increase in payroll numbers across the Colombian manufacturing industry at the end of the third quarter. Although marginal, the pace of job creation was the fastest in one year.

In turn, higher employment enabled manufacturers to work on outstanding business in September. The rate of backlog depletion was marginal, however.

Outlays on input buying were curbed by liquidity problems, sufficient materials at some firms and a lack of work pending completion. The fall in input buying was marginal overall.

Trends for stocks were mixed. Holdings of manufactured goods increased due to upbeat growth projections and work on new designs. The pace of accumulation was slight. On the other hand, inventories of raw materials and semi-finished items decreased for the fifth straight month in September. Amid reports of peso weakness, input cost inflation accelerated at the end of the third quarter. In response, companies increased their selling prices again. That said, the rate of charge inflation was modest and eased to a three-month low.

Planned product launches, sales-boosting efforts, projects in the pipeline and hopes of better economic conditions all lifted business confidence regarding the 12-month outlook for production. The aggregate level of positive sentiment rose from August and was above its long-run average.
COMMENT

Commenting on the Colombia Manufacturing PMI survey data, Andrés Langebaek Rueda, Chief Economist Bolivar Group at Davivienda, said:

“We are pleased to see that manufacturing conditions in September were better than those observed in August, a month in which we saw a decline in dynamism. Although all the components of the PMI improved in September, we should highlight the dynamism of new orders.

“Already with the figures of the closure of the ninth month of the year, we can conclude that the manufacturing sector fared slightly better in the third quarter than in the second, with stronger production growth, an increase in orders and an improvement in employment. In the third quarter of the year, the rise in product prices was lower than the rise in input prices, which could be a symptom of the deterioration in operational margins. This situation is very much related to the high devaluation of the peso.

“Finally, it should also be noted that the twelve-month production expectations in the third quarter of the year improved slightly.”

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Methodology

The Davivienda Colombia Manufacturing PMI™ is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 350 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index™ (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times Index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

September 2019 data were collected 12-20 September 2019.

For further information on the PMI survey methodology, please contact economios@ihsmarkit.com

About PMI

Purchasing Managers’ Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to ihsmarkit.com/products/pmi.html.

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