

Embargoed until 10:00 Bogota (1500 UTC) August 1st 2019

DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Renewed rise in sales underpins production and employment growth

KEY FINDINGS

Sales and output increase in July, after falling in June

Firms lift input buying and staff levels

Business confidence strengthens

Colombia's manufacturing economy sprung back to life in July, boosted by new business gains. Latest data showed renewed increases in production, quantities of purchases and employment, alongside an uptick in business sentiment. On the price front, a further sharp rise in cost burdens pushed output price inflation to a five-month high.

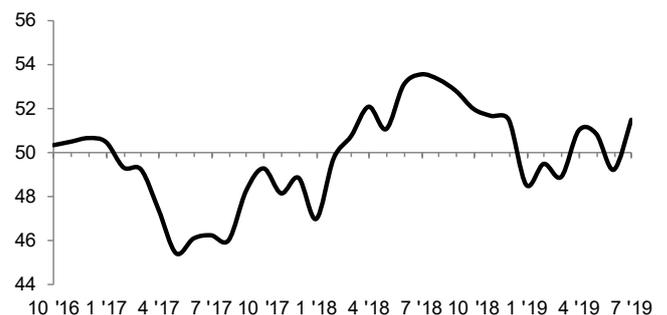
Posting 51.5 in July, the headline seasonally adjusted Davivienda Colombia Manufacturing PMI™ was in expansion territory for the third time in 2019, alongside growth in April and May. The PMI increased from 49.2 in June to its joint-highest since November 2018.

The main driver of overall manufacturing growth was a revival in new orders. Following a contraction halfway through 2019, sales expanded to the greatest extent since last October. Companies associated the upturn with the signing of pending contracts, successful product launches and marketing efforts.

In response, production volumes were raised. Aggregate manufacturing output expanded at the quickest rate in ten months as firms sought to rebuild inventories to fulfil contract obligations. Anecdotal evidence suggested that productivity gains and planned product launches also boosted output.

Renewed sales growth exerted pressures on the capacity of Colombian manufacturers, as signalled by back-to-back increases in unfinished business. The pace of backlog accumulation was slight, but the fastest in nine months.

Manufacturing PMI
sa, >50 = improvement since previous month



Amid reports of sales growth, manufacturers resumed hiring activity at the start of the third quarter. The rise in employment was marginal and the third in the year-to-date.

Companies stepped up input purchasing during July, after a contraction in June. Buying levels increased at the quickest pace since September 2018.

However, the upturn in quantities of purchases was insufficient to lift pre-production stocks, which declined as firms utilised materials in the production process. Depletion also stemmed from longer suppliers delivery times.

On the other hand, holdings of finished goods increased in July. The rise was solid and the strongest in over five-and-a-half years.

Largely due to US dollar appreciation, input costs facing Colombian manufacturers increased in July. Despite easing from June, the rate of inflation was the second-fastest since last September.

Subsequently, factory gate charges increased further in July. The rate of inflation was solid and the strongest in five months.

Predictions of sales growth, greater clientele, infrastructure work, innovation and expansion into new markets underpinned optimism towards the year-ahead outlook for production. Furthermore, the level of positive sentiment improved to a four-month high and surpassed its long-run average.

COMMENT

Commenting on the Colombia Manufacturing PMI survey data, Pollyanna De Lima, Principal Economist at IHS Markit, said:

"Factories in Colombia started the third quarter of 2019 on the right foot, lifting production, input purchasing and employment in response to renewed sales growth. Data for July are in stark contrast to June, when all of the aforementioned measures were in contraction territory. Also encouraging, was an improvement in business sentiment which should translate into further hiring, investment and production growth in the near-term."

"The welcoming news compares with weaknesses in other fellow Latin American nations, with PMI data showing falling output across Brazil and Mexico."

"July also sees strong inflationary pressures persisting, as US dollar strength boosted prices for imported materials. The Colombian peso was down by almost 10% in July on the previous year, and 2.6% lower on a monthly basis, due to tighter global financial conditions, lower crude oil prices and pressures on Colombia's fiscal deficit. Currency weakness has been hurting firms' ability to price competitively, with factory gate charges raised further in July as companies sought to protect margins. Upward inflationary pressures may hamper order flows from price-sensitive customers."

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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.

July 2019 data were collected 12-23 July 2019.

For further information on the PMI survey methodology, please contact economics@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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