PMI data for Colombia indicated that improvements in manufacturing conditions seen in April and May were temporary, with June highlighting renewed contractions in new work intakes, output and employment. An acceleration in input cost inflation – to a 28-month high – was unwelcome by companies, who in turn scaled down their input buying and lifted selling prices. Business sentiment took a hit, fading to the weakest in one-and-a-half years.

At 49.2 in June (May: 50.8), the headline seasonally adjusted Davivienda Colombia Manufacturing PMI™ was below the crucial 50.0 threshold for the fourth time in 2019 so far and highlighted a deterioration in the health of the sector. However, owing to relatively strong readings in April and May, the average for the second quarter of the year remained inside growth territory.

Manufacturers reported lower sales in June, which they linked to weak underlying demand and an increasingly competitive environment. Although slight, the latest fall in new work intakes ended a two-month sequence of expansion. Companies responded by scaling back their production volumes, which declined in June for the fourth time in the year-to-date after growth had been registered in both April and May.

The weak trend for sales meant that cashflows came under pressure in June, according to survey participants. Subsequently, companies lowered workforce numbers for the first time in three months.

The lack of available funds also led goods producers to reduce input buying at the end of the second quarter. The contraction ended a two-month sequence of expansion.

Companies were concerned that money shortages, subdued sales and the bankruptcy of some clients could hamper output growth in the coming 12 months. Although firms remained optimistic, confidence faded to the weakest level in one-and-a-half years. There were also worries about the entry of Chinese goods into the market, which were reportedly priced below manufacturers’ production costs.

Concurrently, a modest rise in factory gate charges was noted in June, one that was broadly similar to that noted in May but much weaker than seen for cost burdens.

There was a broad-based depletion of inventories in June, with pre- and post-production stocks declining further. Rates of contraction were moderate in both cases.

Finally, money shortages and raw material scarcity caused an increase in outstanding business held by Colombian goods producers. The rise in backlogs was the first in five months, albeit marginal.
COMMENT

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

"What happened with the PMI reveals a deterioration in the most important components of the indicator (production, orders and employment) for Colombia in the month of June. We believe that a large part of this behaviour is associated with the deterioration of global manufacturing conditions, adding to the significant deterioration in the margins of local producers affected by greater growth in input than output inflation.

"In addition to the deterioration in the PMI, it is worth noting the drop in twelve-month production expectations, which reached their lowest figure since December 2017.

"It is worth mentioning that the trends observed in the PMI continue to be reflected in the official manufacturing recovery since December last year has fluctuated, with no clear trend towards recovery or deterioration, around a growth rate of 1.42%. The PMI figures, for the same period, suggest a fluctuation around the invariability threshold of 50."

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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.

June 2019 data were collected 12-20 June 2019.

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

About Davivienda
DAVIVIENDA BANK is a financial entity that has actively participated on the construction of Colombia for four decades. Davivienda is part of the Bolivar Group, whose market experience of more than 70 years has allowed it to serve people, families and businesses to achieve their goals. Davivienda is the second largest bank by loans in Colombia, with a network of 753 branches and more than 2,000 owned ATMs in around 932 municipalities in Colombia. Davivienda’s operation expands through Central America, with presence in Panama, El Salvador, Honduras and Costa Rica. Davivienda also operates in Miami, United States.

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