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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Manufacturing sector loses growth momentum in October

KEY FINDINGS

Softer increase in new work weighs on output expansion

Weakest rise in employment in nine months

Inflationary pressures cool

After ending the third quarter on a solid footing, factories in Colombia lost some steam. Most manufacturing gauges moved lower in October as softer growth of new work translated into slower increases in production as well as employment and a renewed decline in input purchasing. Encouragingly, input cost inflation moderated, which in turn led to a weaker rise in selling prices.

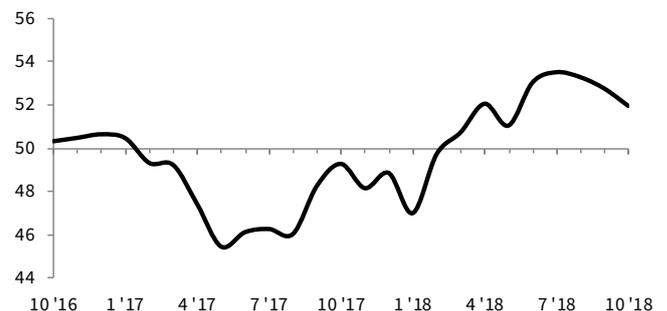
At 52.0 in October, the seasonally adjusted Davivienda Colombia Manufacturing PMI™ pointed to an eighth successive monthly improvement in the health of the sector. However, falling from 52.8 in September, the PMI was indicative of modest growth that was the weakest recorded since May.

Overall, new work rose solidly amid sustained demand growth and fruitful advertising efforts. However, the upturn in factory orders was curtailed by increased competition and subdued sales at some companies. As a result, the expansion was the weakest since May.

Mirroring the trend for order books, output rose solidly but at the slowest pace in five months. According to survey participants, growth was hampered by shortages of materials for use in the production process, competitive pressures and unfavourable weather.

October data pointed to diverging inventory trends. Holdings of finished goods increased on the back of rising output and the introduction of new products, while stocks of inputs declined for the second successive month amid lower buying levels and longer supplier delivery times.

Manufacturing PMI
sa, >50 = improvement since previous month



Not only did vendor performance deteriorate for the fourteenth month in a row, but also to the greatest extent since July 2016. Panellists suggested that lead times increased due to raw material scarcity, heavy rain and issues in receiving imported items.

Colombian manufacturers signalled back-to-back increases in unfinished workloads at the start of the fourth quarter. Nevertheless, the upturn eased from September and was only slight. Input shortages, ongoing new order growth, logistic problems and unfavourable weather were the main factors attributed to the accumulation in outstanding business. Concurrently, quantities of purchases fell for the first time in eight months.

Reflective of higher prices paid for chemicals, metals, plastics, rubber and textiles, average cost burdens increased further in October. That said, inflation moderated to a rate that was below its long-run average amid lower prices for some food items. As a result, output charges were hiked at the joint-weakest pace in almost a year.

Employment continued to rise, but job creation eased to the slowest in the current nine-month sequence of growth as some firms refrained from replacing voluntary leavers and retirees.

Business sentiment remained elevated, despite softening in October. Underpinning optimism were the introduction of new products, capital investments, marketing efforts, exports drives and forecasts of better economic conditions.

COMMENT

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

“Growth of manufacturing activity in Colombia remains in positive territory, but there are evident symptoms that it is losing momentum. In this aspect we begin to coincide with what is happening in the rest of the world, where there is a deceleration in both production and global trade.

“In October, the five components of the PMI show a deterioration compared to the previous month. However, production, orders and employment indices remain above the critical level of 50, which suggests that they continue to grow at positive rates.

“Finally, it is important to note that although future production expectations are also being reduced, they remain above their average historical level.”

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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.

October 2018 data were collected 12-23 October 2018.

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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