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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Manufacturing sector recovery halted by massive national strike

KEY FINDINGS

Factory orders and production fall sharply in May

Protests cause unprecedented lengthening in delivery times

Firms reduce input purchasing and employment

Data were collected 12-20 May 2021

Operating conditions in the Colombian manufacturing sector worsened in May amid a national strike. According to panellists, precautions taken to improve safety meant that some factories and clients' businesses had been closed, while blockades led to an unprecedented increase in supplier delivery times. The latest results highlighted sharp contractions in output, sales, input purchasing, inventories and employment. On the price front, there was another steep rise in input costs, which underpinned the second-fastest upturn in selling prices since data collection started in April 2011.

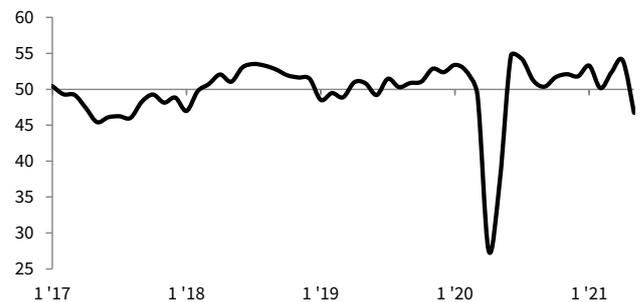
At 46.7 in May, down from 54.0 in April, the seasonally adjusted Davivienda Colombia Manufacturing PMI™ pointed to the first deterioration in the health of the sector in one year. The headline figure was also among the lowest seen in the survey's ten-year history.

New work intakes and production decreased in May, after expanding in each of the prior two months. Companies pinned the declines on business closures, protests and the pandemic. In both cases, rates of contraction were sharp and stronger than any seen prior to COVID-19.

Weak demand and the national strike led companies to trim headcounts halfway through the second quarter. The fall in employment was the first since January and among the sharpest on record. Some firms noted the non-renewal of temporary contracts, dismissals and resignations.

In response to subdued demand conditions, reduced output

Colombia Manufacturing PMI
sa, >50 = improvement since previous month



Source: Davivienda, IHS Markit.

needs, social unrest and business closures, input buying was restricted in May. Moreover, the rate of contraction was the third-fastest in the survey history, slower only than those seen in April and May 2020.

With roads blocked by anti-government protests, suppliers were unable to deliver purchased inputs to goods producers — a situation that was exacerbated by global shortages of raw materials and the shipping crisis. As a result, average lead times lengthened to the greatest extent on record.

Constrained buying activity coupled with supply shortages and delivery delays led to a substantial decline in input stocks at Colombian manufacturers. Inventories of finished goods also decreased sharply in May.

Prices paid for inputs by Colombian manufacturers rose further midway through the second quarter. The rate of inflation was sharp and broadly similar to April's 66-month high.

Ongoing efforts to protect margins from cost increases urged goods producers to lift their selling prices again in May. The rate of charge inflation was little-changed from April's record.

Encouragingly, goods producers were optimistic towards the 12-month outlook for production during May. Panellists hope that investments, export opportunities, the end of protests and vaccine progress will support growth in the year ahead. The overall level of positive sentiment rose from April, but remained below its long-run average.

COMMENT

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

“As a result of the national strike called in the middle of the third wave of Covid-19, manufacturing sector production suffered severely, registering the third largest drop in the history of the indicator after that of April and May of last year. It is sad that this happened at a time when business activity was registering quite positive signs: during the first quarter the economy grew by 1.1% and the manufacturing sector in particular did so at a rate of 7%.

“To this sad news, it must be added that the higher prices of raw materials that have been occurring due to the Covid-19 issues are then added to the effects of unemployment. The input costs indicator continues to be one of the highest in the survey history, which should put pressure on product prices in the coming months.

“On this occasion, the poor results of the PMI coincide with those that we are observing in our confidence indicator, with which we can anticipate that both manufacturing and commercial activities had a significant decline in May.”

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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.

Data were collected 12-20 May 2021.

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.
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