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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

PMI continues to signal manufacturing sector recovery in September

KEY FINDINGS

Business conditions improve, albeit to lesser extent

New orders fall at softer pace

Output grows further and employment broadly stabilises

Data were collected 11-22 September 2020

Manufacturing sector conditions continued to improve in September, with sustained output growth accompanied by a slower contraction in new orders, a broad stabilisation of employment and strengthened optimism. Firms purchased fewer inputs for use in the production process, opting instead to utilise their existing inventories. On the price front, there was a softer increase in charges despite a pick-up in input cost inflation.

At 50.4 in September (August: 51.2), the seasonally adjusted Davivienda Colombia Manufacturing PMI™ highlighted a fourth consecutive monthly improvement in the health of the sector, rounding off a strong quarterly performance among goods producers. For the third quarter of 2020, the PMI averaged 51.9, a noticeable improvement from 39.8 in the preceding quarter when the economy was severely impacted by the COVID-19 outbreak.

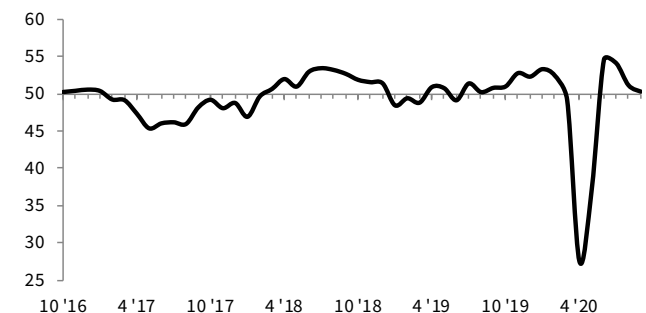
September data pointed to an increase in manufacturing production. Firms that lifted output mentioned that softer quarantine restrictions had enabled growth. That said, the rate of growth eased to the weakest in the current four-month sequence of expansion.

New work intakes declined for the second straight month, but at a softer rate. While a number of firms suggested that the COVID-19 pandemic had restricted demand, a few companies were able to secure sales amid the reopening of some sectors.

Manufacturing employment broadly stabilised during September. A number of companies reduced payroll numbers due to the impact of the coronavirus disease, but some hired

Manufacturing PMI

sa, >50 = improvement since previous month



Source: Davivienda, IHS Markit.

extra workers amid greater production needs.

The quantity of purchases by manufacturers decreased in September, ending a three-month sequence of expansion. Anecdotal evidence indicated that some companies opted to utilise their stocks, instead of buying extra materials, in line with subdued demand conditions amid the COVID-19 pandemic.

Subsequently, there was a renewed decline in pre-production inventories at the end of the third quarter of 2020. The rate of depletion was moderate, however, and much softer than recorded in the immediate aftermath of the COVID-19 outbreak. Holdings of finished goods also decreased, although at the slowest pace in the current three-month period of contraction.

Amid reports of strict hygiene protocols considering the pandemic, US dollar strength and shortages of raw materials, input costs increased further. The rate of inflation accelerated from August and surpassed the long-run series average.

Some firms passed on to their clients part of the additional cost burden by raising output prices. That said, the overall rate of charge inflation was the slowest registered in four months.

Colombian goods producers were confident of a rise in output in the coming 12 months, with the overall level of positive sentiment the highest since February. Firms hope that a reduction in coronavirus cases will lead to softer restrictions and subsequently boost demand. Some panellists foresee exports growth and new client wins.

COMMENT

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

"The recent PMI results for Colombia suggest that conditions in the manufacturing sector continued to improve, but at a slower pace than in the previous month. With an indicator in September greater than 50, four months of positive sequential growth have already been completed. With these figures, we can conclude that the results of the quarter that just ended will be considerably better than those observed in the previous quarter."

"The relaxation of the confinement should give a new stimulus to production in the coming months and this is confirmed by

the businessmen. The twelve-month production expectations indicator reached its maximum since February this year, being even above its historical average.

"Manufacturing employment dynamics remain negative but it is likely that, given positive production expectations, we are close to seeing an increase in this variable after six months of continuous contractions."

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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 2020 data were collected 11-22 September 2020.

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.
ihsmarkit.com/products/pmi.html

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