Manufacturing growth continues in July

**KEY FINDINGS**

- Production rises for second month in a row
- New work increases, but at slower rate than in June
- Outlook moderates amid surge in virus cases

Data were collected 13-23 July 2020

The Colombian manufacturing sector extended its recovery from lockdown in July, PMI™ data showed, as both output and new orders strengthened for the second month running and purchasing activity continued to increase. Employment numbers fell for the fourth month in a row, however, amid efforts to reduce excess capacity. Sentiment weakened as firms voiced concerns of rising virus cases and a possible return to lockdown should conditions get worse.

The seasonally adjusted Davivienda Colombia Manufacturing PMI fell from 54.7 in June to 54.2 in July, signalling a further strong improvement in the health of the manufacturing sector. The reading was the second-highest since January 2016.

Firms increased production levels for the second month running during July, as the economy continued to recover from the nationwide lockdown due to coronavirus disease 2019 (COVID-19). The government’s push to restart industrial production allowed companies to reopen and output to increase at the quickest rate in four-and-a-half years.

That said, growth during June and July has so far not recovered output to pre-COVID levels, with expansions remaining mild compared to prior declines in activity. Furthermore, job numbers are yet to increase, with latest data signalling a slight drop in employment over the course of July. Firms often found that they had enough capacity to manage backlogs and meet new orders.

On the demand side, manufacturers saw a solid increase in new work at the start of the third quarter, helped by a boost to business confidence as the economy continued to reopen. However, the rate of growth slowed since June, as some panellists noted that sales remained depressed due to the pandemic.

Lingering concerns around COVID-19 impacted sentiment in July, as the outlook for future activity worsened for the first time in three months. Specifically, pessimism was linked to ongoing growth in virus cases, prompting worries of a second lockdown. Nonetheless, most firms were hopeful that output would rise over the coming 12 months, despite harbouring concerns about the long-run stability of the economy following the pandemic.

Meanwhile, rising new orders drove an increase in purchasing activity for the second month running in July. This led to an uptick in input stocks, albeit one that was marginal. Many firms found that restrictions on roads continued to slow the delivery of inputs, with lead times increasing sharply from June.

Price pressures were again strong in the latest survey period, as input costs were driven higher by upticks in supplier prices and the US dollar. Some panellists noted that supply shortages were also to blame for the latest increase. As a result, firms passed these costs on to consumers with a sharp rise in output charges that was one of the quickest seen for the last three years.
COMMENT

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

“It is very gratifying to see that the manufacturing PMI for Colombia remained above 50 points in July, despite the fact that quarantines and restrictions on mobility were re-established in some parts of the country. Despite the slight decrease in the indicator in the last month, our country will probably continue to belong to the number of countries whose PMI is above this critical limit of 50.

“What happened with the PMI coincides with our consumer confidence index, which despite the new confinements also registered a good result in July.

“Naturally, due to the still weak demand, employment in the sector continues to decline although at a slower rate than that observed in the previous four months. It is very likely that this variable should wait until the end of the year to show positive growth.”

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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 2020 data were collected 13-23 July 2020.

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

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