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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Factory orders and production expand solidly in August

KEY FINDINGS

Back-to-back increases in sales and output in August

Record rise in backlogs leads firms to boost employment

Rate of output charge inflation reaches survey peak

Data were collected 12-20 August 2021

August PMI™ data showed a further recovery of the Colombian manufacturing industry, as companies stepped up production in line with a solid upturn in new work intakes. Sustained efforts to lift inventories underpinned another strong expansion in input buying, while a record rise in backlogs of work supported job creation. Concurrently, raw material scarcity continued to push up cost burdens, which in turn resulted in an unprecedented increase in output charges.

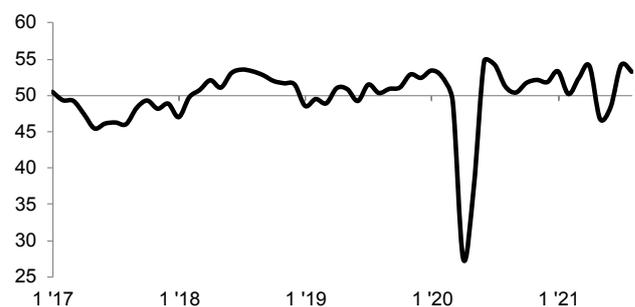
Registering 53.2 in August, the seasonally adjusted Davivienda Colombia Manufacturing PMI™ pointed to a second consecutive monthly improvement in the health of the sector. Despite falling from 54.2 in July, the reading was indicative of a solid rate of expansion.

August data highlighted back-to-back increases in factory orders, with the rate of expansion remaining solid in spite of softening from July. Where growth was reported, survey members mentioned accommodative demand conditions and the reopening of other economic sectors.

In turn, sustained sales growth underpinned a second straight rise in manufacturing output. The pace of expansion softened from July, but was nonetheless solid and above its long-run average.

The latest data pointed to an intensification of capacity pressure among Colombian goods producers, with backlogs of work rising at a record pace. According to panellists, the upturn stemmed from strong sales growth, raw material scarcity and staff shortages.

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



Source: Davivienda, IHS Markit.

In response, companies took on additional staff midway through the third quarter. The increase in employment was the second in successive months and the strongest in over five-and-a-half years.

Firms also attempted to safeguard against stock shortages by purchasing additional inputs in August. Although softer than July's record, the pace of buying growth was marked.

There was only a fractional increase in stocks of purchases during August, however, as global shortages of raw materials and limited freight capacity led to another lengthening of supplier delivery times. Vendor performance worsened markedly, but to the least extent in five months.

Raw material scarcity subsequently led to a further increase in input prices. Companies also indicated that unfavourable exchange rates, logistical issues and a lack of container availability pushed up cost burdens. The overall rate of cost inflation was steep and the third-highest in the survey history.

Part of this additional cost burden was passed on to clients via hikes to selling prices. Factory gate charges increased at an unprecedented monthly rate.

Colombian goods producers were confident that output would increase over the course of the coming year. Growth is predicted to be supported by the launch of new product lines, advertising, quotations pending approval and planned expansions into new markets.

COMMENT

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

“Despite the slight slowdown in the PMI in August, it is good news that it continues to grow and that the high level of backlogs of work supported an increase in hiring levels.

“Undoubtedly, the most significant fact with the new information comes from the price figures for both inputs and products. As a result of a global phenomenon related to the different rates of economic opening associated with the Covid-19 dynamics, the closure of companies, the lack of investment in means of transport, the increase in oil prices and the good pace of world growth, the prices of raw materials and freights have been growing very strongly in both Colombia and the world.

“The sharp increase in prices can eventually disrupt real wages and induce a subsequent fall in demand. Whether or not this situation will occur depends on how transitory this unusual price increase is.”

CONTACT

Davivienda

Andrés Langebaek Rueda
Chief Economist Bolivar Group
+571 3300000 ext: 59100
alangebaek@davivienda.com

María Mercedes Marquez
Corporate Communications Officer
+571 3300000 ext: 55507
mmarquez@davivienda.com

IHS Markit

Pollyanna De Lima
Economics Associate Director
+44 149 146 1075
pollyanna.delima@ihsmarkit.com

Katherine Smith
Public Relations
+1 781 301 9311
katherine.smith@ihsmarkit.com

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 August 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.
ihsmarkit.com/products/pmi.html

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