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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Growth of factory orders and output sustained in May

KEY FINDINGS

Second consecutive rise in manufacturing production

New work expands further...

...but employment stagnates

Economic conditions in Colombia's manufacturing industry improved for the second month running in May, with ongoing growth of new work underpinning output expansion. Companies purchased additional raw materials for use in the production process, but jobs were left unchanged. On the price front, there were accelerations in rates of inflation for both input costs and output charges.

The headline seasonally adjusted Davivienda Colombia Manufacturing PMI™ registered 50.8 in May, falling slightly from 51.0 in April but signalling a second consecutive improvement in the health of the sector. The latest figure was below the average for 2018 as a whole, however.

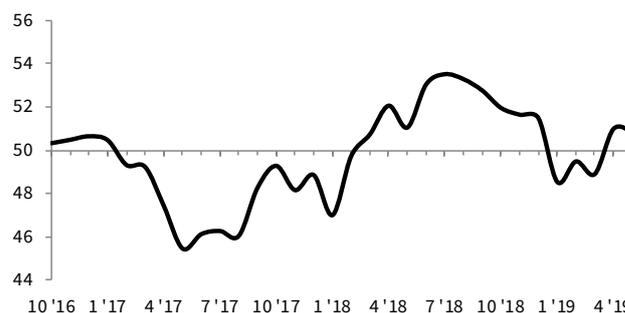
Following contractions throughout the opening quarter of 2019, manufacturing output increased for the second month running in May. Companies that reported growth cited productivity gains and higher sales.

Indeed, total new orders rose for the second successive month. Although slight, the pace of expansion picked up from April. According to anecdotal evidence, some firms were successful in lifting their market shares and launching new products.

Greater output needs encouraged Colombian manufacturers to make additional purchases during May. The rise in input buying was marginal, however, and broadly similar to that registered in April.

After increasing in April for only the second time in six months, employment was unchanged in May. Panellists that lifted headcounts signalled efforts to expand productive

Manufacturing PMI
sa, >50 = improvement since previous month



capacity and greater sales. Those that reported job shedding indicated retirements and resignations. There were also mentions that current payroll numbers were sufficient to cope with existing workloads.

Outstanding business declined for the fourth straight month in May, with companies suggesting that the existence of small-scale projects in the pipeline enabled them to complete unfinished work.

May data pointed to some pressure at suppliers as delivery times lengthened further. Among the reasons listed for the deterioration in vendor performance were issues with transportation, unfavourable weather and stricter traffic restrictions.

Meanwhile, inflationary pressures intensified during May. Input shortages and US dollar strength were cited as the main reasons pushing up cost burdens, which in turn were passed on to clients via higher selling charges. Rates of inflation were at eight- and three-month highs respectively.

Stocks of purchases decreased, following a brief rise in April, while holdings of finished goods fell for the fifth consecutive month.

Lastly, business confidence strengthened from April's four-month low. New product development, marketing efforts and predictions of greater demand were among the reasons boosting sentiment in May.

Continues...

COMMENT

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

"The results of the manufacturing PMI for Colombia in May show a favourable environment for the second consecutive month this year. The optimism in the month was associated with improvements in goods orders and production, since there was a modest drop in inventories of raw materials and employment growth stalled.

"It seems to me that what is the most striking outcome from May's data is the apparent reduction in the margins of firms in the sector, which is occurring as a result of an acceleration in the prices of inputs that is not adequately compensated by the modest rise in prices of final products. It is important to note that, as a result of the US trade war with China, during the month of May the level of the exchange rate reached its highest level since February 2016.

"Finally, it is worth noting that production expectations at entrepreneurs have once again taken a positive trend. In May, 66% of the industrialists consulted forecast an increase in production in the next twelve months."

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
Principal Economist
+44 1491 461 075
pollyanna.delima@ihsmarkit.com

Katherine Smith
Corporate Communications
+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.

May 2019 data were collected 13-22 May 2019.

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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