Business conditions improve at a weaker pace

The Colombian manufacturing industry signalled a further improvement in operating conditions in August, albeit only marginal overall. Growth in client demand weakened amid the ongoing coronavirus disease 2019 (COVID-19) as new orders indicated a renewed contraction. That said, the rate of reduction was much slower than the unprecedented declines seen in April and May. Job shedding continued as firms noted that the sustained impact of COVID-19 and associated revenue losses had led to greater efforts to reduce costs. Input price inflation eased from July but remained above the series average. In line with higher cost burdens, factory gate prices also rose, albeit at the slowest rate for three months.

The seasonally adjusted Davivienda Colombia Manufacturing PMI™ fell from 54.2 in July to 51.2 in August, signalling another monthly improvement in the health of the manufacturing sector. Overall growth was driven by an expansion in output as manufacturers resumed operations. The overall rate of improvement was only marginal, however, having softened notably from July.

Firms reported that subdued demand conditions and ongoing client business closures contributed to a renewed fall in new orders in August. Although the rate of contraction was much softer than the record drop seen in April, the decline was still the fourth in the last six months.

As has been the case in the last four months, hiring activity fell in August. Firms often noted that a fall in revenues and cost-saving initiatives led to the dismissal of staff. Workforce numbers contracted at a marginal, although slightly faster, pace. Meanwhile, backlogs of work continued to decline as firms cited sufficient capacity to work through their outstanding orders.

Companies operating in the Colombian manufacturing sector scaled up purchasing activity during August, thereby extending the current sequence of expansion to three months. The upturn was attributed to a rise in production and efforts to maintain inventory levels.

Transportation restrictions and reduced freight activity reportedly resulted in another month of severe decline in supplier performance. The sustained decline in vendor performance was among the worst in the survey to date.

Price pressures remained strong in August, as a further rise in input costs was reportedly driven by higher raw material prices and unfavourable exchange rate movements. Some firms also attributed cost inflation to shortages of supplier goods. The rate of increase in input prices was the slowest for five months, however. Although firms partially passed on greater cost burdens to clients, the pace of charge inflation also eased.

Colombian manufacturing firms reported an improvement in business sentiment midway through the third quarter, amid hopes that the easing of virus-related restrictions will continue. Others stated that confidence was boosted by hopes of new client wins. The degree of optimism was strong overall, despite being below the series average.
COMMENT

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

In line with what has been happening in other parts of the world, the manufacturing PMI for Colombia registered a slight deterioration in August although it continues at levels above 50. The result was due to a decline in new orders. On the other hand, although growth in production levels is still observed, this was more moderate than that observed in the previous two months.

Here it is worth remembering that the component of the PMI that approximates growth in production measures monthly variations while official figures usually measure annual variations. Therefore, and like what is observed in other parts of the world, it is normal for this period to register positive variations compared to the previous month, which, however, will continue to be consistent with negative annual variations.

Among the positive indicators to highlight is that of production expectations for the next twelve months, which after having shown a moderation in July increased again in August. There also seems to be a recovery in the margins of the industrialists because although both the prices of inputs and products are moderating, the former seem to ease to a greater extent than the latter.

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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.

August 2020 data were collected 12-20 August 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.

About Davivienda

DAVIVIENDA BANK is a financial entity that has actively participated in the construction of Colombia for four decades. Davivienda is part of the Bolivar Group, whose market experience of more than 70 years has allowed it to serve people, families and businesses to achieve their goals. Davivienda is the second largest bank by loans in Colombia, with a network of 753 branches and more than 2,000 owned ATMs in around 932 municipalities in Colombia. Davivienda’s operation expands through Central America, with presence in Panama, El Salvador, Honduras and Costa Rica. Davivienda also operates in Miami, United States.

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