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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Colombian manufacturing sector shows signs of revival in April

KEY FINDINGS

PMI in expansion territory for first time in four months

Renewed increase in factory orders

Output growth and job creation reinstated

Operating conditions in Colombia's manufacturing sector improved in April, following deteriorations throughout the opening quarter of 2019. Strength came from a renewed increase in sales, which in turn supported output growth, input buying and job creation. At the same time, native protests weighed on the ability of suppliers to deliver purchased materials on time and exerted upward pressure on cost inflation.

At 51.0 in April, the headline seasonally adjusted Davivienda Colombia Manufacturing PMI™ registered above the critical 50.0 threshold for the first time in the year-to-date. Rising from 48.9 in March, the latest figure pointed to a slight improvement in the health of the sector that was broadly in line with the long-run survey average.

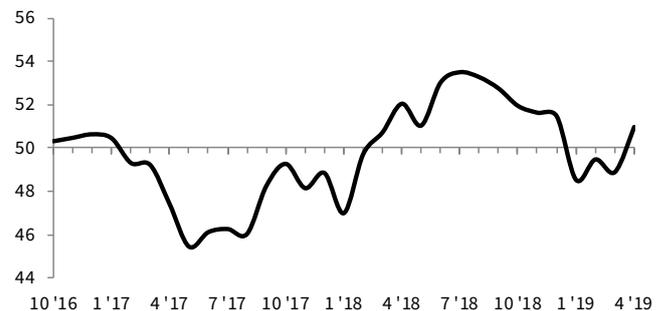
The key factor underpinning the stronger sector performance was an increase in new orders, the first since last December. Improved demand, brand loyalty and greater client bases were among the reasons cited for sales growth. That said, the overall pace of expansion was marginal and softer than seen on average during 2018.

Still, the rise in sales was sufficient to encourage companies to scale up production and employment. Aggregate manufacturing output increased slightly in April and at a rate that matched the long-run series average.

Despite rising only marginally, the upturn in jobs compared with a reduction in March. Those firms that signalled higher payroll numbers mentioned efforts to fulfil contract obligations, improved underlying demand and planning

Manufacturing PMI

sa, >50 = improvement since previous month



ahead of new product launches.

Additional raw materials and semi-finished items were purchased in April, thereby ending a four-month sequence of falling input buying. Despite being slight, the upturn outpaced its long-run average.

Input stocks were little-changed as the increase in quantities of purchases was broadly offset by longer suppliers' delivery times. According to panellists, indigenous protests prevented vendors from delivering materials in a timely manner. The deterioration in supplier performance was the most marked in three months.

Besides exerting pressure on supply chains, protests reportedly contributed to an uptick in input price inflation. The rise in cost burdens was sharp and the quickest in three months. Some firms also blamed inflation on US dollar strength. Colombian manufacturers absorbed most of the increase in cost burdens, as signalled by the weakest rise in factory gate charges in 18 months.

Amid predictions of further improvements in sales, greater efforts to lift client bases, expansion into new markets, advertising initiatives and projects in the pipeline, optimism regarding the year-ahead outlook for production was sustained.

Finally, holdings of finished goods declined as companies sought to fulfil orders from stocks. Raw material scarcity and scheduled maintenance were also cited as factors causing the inventory drawdown.

COMMENT

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

"Coinciding with what seems to be happening in the international arena, the economic climate of the manufacturing sector in Colombia seems to be resuming impulse in the month of April. Of the five components of the PMI, four improved, especially stocks of purchases and new orders. Employment also had an expansion, but marginal."

"Among the elements that have not contributed to the best climate in the sector are the suppliers' delivery times that were affected by the closure of one of the main roads in the country and the high level of rainfall that occurred in the last part of the month."

"Although the figures for the latest month give us back the optimism on the sector, it is important to highlight the apparent deterioration in the margins of firms in the manufacturing sector as a result of pressures on the cost of inputs, encouraged by the devaluation of the peso in recent months and the aforementioned closure of the roads. These input price pressures have not been completely transferred to the prices of the products."

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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.

April 2019 data were collected 10-18 April 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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