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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Manufacturers begin recovery as economy reopens

KEY FINDINGS

Output and new orders strengthen in June

Employment fall, but only marginally

Output price inflation up to 39-month high

Data were collected 12-22 June 2020

The Colombian manufacturing sector took its first step to recovery in June, as latest survey data signalled renewed increases in output and new work amid government efforts to restart economic activity. The strong expansions were the first seen in four months, driving an uplift in purchasing activity and leading employment to approach stabilisation.

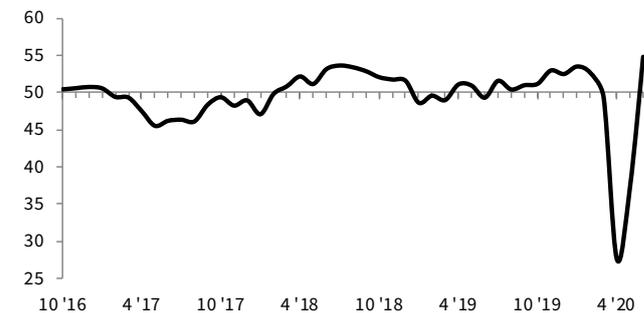
Supplier performance declined again however, as travel restrictions stopped vendors from meeting delivery schedules. Meanwhile, a steep rise in average cost burdens, brought on by raw material shortages and rising import costs, led firms to raise selling charges at a sharp rate.

The seasonally adjusted Davivienda Colombia Manufacturing PMI™ rose by over 17 points to 54.7 in June, to signal a marked improvement in business conditions at goods producers. The reading was the highest seen since May 2011, and contrasted with the two lowest readings in the series of 27.6 in April and 37.2 in May.

Upturns in both output and new orders were observed across the manufacturing sector during June, as businesses were largely able to restart operations following closures caused by the coronavirus disease 2019 (COVID-19) pandemic. Production rose for the first time since February, and sharply overall, with firms also seeing a strong improvement in new work that was the sharpest recorded for 22 months.

That said, this represented only a part reversal of the COVID-19-induced downturn. On the negative side, some businesses struggled to boost output due to weak capacity and the inability to source raw materials, which partly led to

Manufacturing PMI
sa, >50 = improvement since previous month



Source: Davivienda, IHS Markit.

higher backlogs of work. Employment meanwhile fell for the third month in a row, although the rate of job reduction was far softer than in May and only marginal.

Efforts to improve stocks of inputs meanwhile led firms to raise purchasing activity in June, marking the first expansion since February and the quickest seen in six-and-a-half years. Stocks were slower to arrive though, as vendors continued to face travel restrictions with increased checks on roads and at ports.

Rising average input costs were again evident at Colombian manufacturers. Panellists noted that raw material shortages led some suppliers to raise prices, while a stronger US dollar led to increased import costs. The overall rate of inflation was steep, but eased from May's 55-month high. At the same time, firms raised selling charges at the quickest pace since March 2017.

Lastly, the overall degree of sentiment toward future manufacturing production rose to its highest in four months during June. Firms highlighted recent government measures to reopen the economy after the lockdown, noting that this would likely lead to a recovery in sales. Most firms expect output to grow over the coming months, although some respondents were wary of increasing case numbers in the region and the associated risk to activity growth.

COMMENT

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

“The strong confinement to which Colombian society was subjected in the months of April and May, added to the sharp drop in oil prices, translated into a huge reduction in productive activity, and an unprecedented increase in unemployment and in the exchange rate against the dollar. As confinement has moderated and social distancing rules have been applied, a rebound in economic activity is noticeable in the June PMI. We could also say that the recovery in Colombia seems to be stronger than what we observed in several developed countries for which provisional PMI figures were known few days ago.

“Two PMI components attract attention for their improvement: production and orders. Additionally, the figures suggest that producers' margins have improved as a result of input prices that grow less than product prices.

“Although it is a long way to know the sustainability of this recovery, since it all depends on the spread of the virus being controlled and on hospital capacity improvements in the coming weeks, it is a first step in the right direction.”

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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.

June 2020 data were collected 12-22 June 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.
ihsmarkit.com/products/pmi.html

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