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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Colombian manufacturers start 2020 on full steam

KEY FINDINGS

Growth of sales and output at 17-month high

Faster increases in employment and input buying

Business sentiment improves further

The Colombian manufacturing industry powered ahead in January, after losing momentum at the end of 2019, as robust intakes of new work encouraged companies to scale up production, employment and quantities of purchases. Except for price indices, all of the other survey measures increased since December.

Rising to 53.4 in January, from 52.4, the seasonally adjusted Davivienda Colombia Manufacturing PMI™ signalled the strongest improvement in the health of the sector for one-and-a-half years. Moreover, the latest reading was well above its long-run average.

Stronger sales growth provided impetus to the sector's overall performance. New work intakes increased at the fastest rate since August 2018, with many companies noting the approval of pending projects, improved conditions in the wider economy, better demand and the successful launch of new product lines.

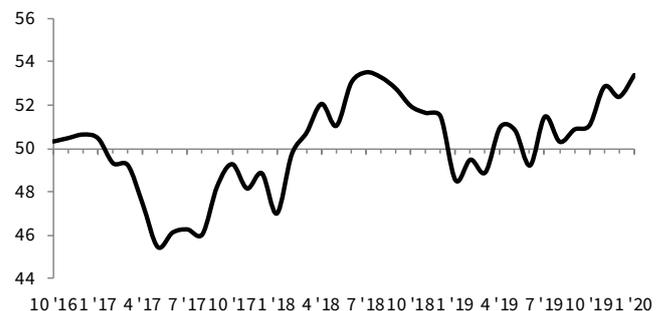
In response, factory output was lifted to a greater extent. The pace of growth was the most marked in 17 months and much stronger than seen on average over the near nine-year survey history.

To cope with additional workloads, Colombian goods producers continued to hire extra staff in January. Employment increased for the seventh straight month and at the joint-fastest rate in a year-and-a-half.

Another factor supporting job creation was positive predictions about output in the coming 12 months. Business sentiment strengthened to its highest level since last July.

Manufacturing PMI

sa, >50 = improvement since previous month



Source: Davivienda, IHS Markit.

Production growth is anticipated to stem from investment, advertising, export opportunities and buoyant demand conditions.

Colombian goods producers were willing to loosen their purse strings in January. Firms not only purchased additional raw materials and semi-finished items, but also at the fastest pace since August 2018.

Subsequently, input stocks increased further at the start of 2020. The accumulation was the third in consecutive months and faster than recorded in December. Stocks of finished goods also rose at a slight pace in January.

Robust demand exerted pressure on the capacity of manufacturers and their suppliers. Factories recorded the quickest expansion in outstanding business since the survey started in April 2011. Concurrently, the time taken for vendors to deliver purchased materials increased solidly.

Input costs continued to rise in January, albeit to a lesser extent. The rate of inflation moderated to the slowest in ten months and was below its long-run average. Anecdotal evidence suggested that lower prices for plastics, textiles and foodstuff restricted the upturn in cost burdens caused by US dollar strength.

Similarly, factory gate charges rose at a slower pace. The rate of inflation was the weakest since last April, and only slight overall, as some firms refrained from price hikes due to subdued cost pressures.

COMMENT

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

"The indicators available for January, both the Davivienda manufacturing PMI and the Davivienda household confidence indicator, show that the year began quite optimistic. The first indicator, which in January reached the highest level since July 2018, and its disaggregation suggest an improvement in all its components but especially in that of orders. Also noticeable, is the better data for the expectation of future production that reached its highest level since July 2019.

"The recovery of Colombia's manufacturing sector seems to come hand in hand with the recovery of manufacturing worldwide, an important relationship we have highlighted in the past.

"As a result of the agreements between the United States and China at the end of 2019, most emerging market currencies have been revalued. The case of Colombia is no exception, so in January - and despite fears about the effects of a coronavirus outbreak in China - we observed exchange rate levels below the historical maximum reached at the end of November. This moderation has had an impact on input costs that is quite visible in the results of the January survey. The growth in input prices has been reduced to its lowest level since March last year. We believe that this is a positive fact that contributes to greater optimism among manufacturers."

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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.

January 2020 data were collected 13-23 January 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. To learn more go to ihsmarkit.com/products/pmi.html.

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