Manufacturing PMI slumps to record low during April lockdown

Manufacturing output falls greatly as new orders plummet

Jobs collapse at record pace

Cost pressures soar amid currency weakness

Manufacturers in Colombia saw their worst month of activity on record in April, as lockdown measures to fight the virus pandemic impeded production and new orders. Firms made deep cuts to employment and input spending, while cost pressures soared amid a weakening currency.

The seasonally adjusted Davivienda Colombia Manufacturing PMI™ fell to an unprecedented low of 27.6 in April, from 49.3 in March, to signal a substantial deterioration in operating conditions across the manufacturing sector.

Output, new orders, employment and stocks of purchases all saw historic falls in April, placing a large negative influence on the headline figure. The suppliers’ delivery times index also dropped, but is inverted in the PMI calculation.

Production levels at Colombian goods producers collapsed at the start of the second quarter. The steep downturn was initiated by the nationwide lockdown at the end of March, as the government looked to ease the spread of the coronavirus disease 2019 (COVID-19). Most panellists noted that they were either forced to close or operate well below capacity.

New orders for manufactured goods also declined steeply in April. The rate of contraction was the sharpest in the series history as client demand was curbed by the preventative health measures.

Firms subsequently made deep cuts to workforces, in line with falling output requirements. The rate of job shedding was the fastest on record. Despite the fall in employment and much weaker production, companies were able to lower backlogs sharply.

Manufacturers also made efforts to reduce pre- and post-production stocks in April, while latest data also signalled a steep drop in purchasing activity. Declines in all three of these measures were the most marked recorded since data collection began in 2011.

The COVID-19 pandemic placed further difficulties on suppliers, as evidenced by a considerable lengthening of input lead times in April. Many panellists noted that vendors reduced their delivery services due to the lockdown. The rate at which delivery times lengthened was the strongest since the series began in 2011.

Input cost inflation accelerated for the third month running in April. Manufacturers reported that a stronger US dollar led to upwards pressure on input prices, with the rate of increase the fastest since February 2016. However, some firms noted falling prices for raw materials such as oil and metals.

Higher input costs fed into output prices only mildly, as firms aimed to keep charges low due to weaker demand. The rise in selling prices was the softest in almost seven years.

Lastly, the outlook for activity reached a survey low in April. Panellists often noted fears of a prolonged downturn due to the virus pandemic. That said, expectations remained positive overall, as a higher proportion of firms hoped that output will recover in 12 months’ time.
COMMENT

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

“It is not surprising that as a result of the pandemic associated with Covid-19 and the confinement measures decreed, the most important components of the PMI (production, orders and employment) presented the steepest falls and the lowest levels in history. In fact, this collapse is what we have been observing in most countries in the world, with the notable exception of China, where the strongest adjustment had occurred in the month of February and where we observed some recovery in March.

“In the midst of this sad situation, it is interesting to note that of the aforementioned components the one that registered the least deterioration is employment, which shows the efforts that many entrepreneurs are making to preserve jobs in the sector despite the difficult situation. The component with the greatest deterioration in the month was production.

CONTACT

Davivienda

Andrés LANGEBAEK RUEDA
Chief Economist Bolivar Group
+571 3300000 ext: 59100
alangebaek@davivienda.com

Maria Mercedes MARQUEZ
Corporate Communications Officer
+571 3300000 ext: 55507
mmarquezo@davivienda.com

IHS Markit

David Owen
Economist
+44 2070 646 237
david.owen@ihsmarkit.com

Katherine Smith
Public Relations
+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.

April 2020 data were collected 7-22 April 2020.

For further information on the PMI survey methodology, please contact ecomnicos@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 on 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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