Manufacturing conditions remain dire, despite partial restart in May

KEY FINDINGS

Output and new orders fall markedly...
...but rates of decline soften from April
Input cost inflation at 55-month high

Colombian manufacturers suffered a heavy blow to output levels again in May amid the ongoing coronavirus disease 2019 (COVID-19) pandemic. Despite a partial lifting of lockdown measures, including a push for industry to restart operations, new orders remained weak and production fell at a marked pace. Firms made further cuts to employment and buying activity, especially as rising import costs and growing shortages led to a steep increase in input prices.

The seasonally adjusted Davivienda Colombia Manufacturing PMI™ rose from 27.6 in April to 37.2 in May. Whilst marking a solid increase from April’s record low, the latest reading was the second-lowest in the series history (since April 2011) and pointed to a sharp deterioration in operating conditions.

The rise in the headline index was driven by softer contractions in both output and new orders, as some manufacturers were able to restart operations, albeit often at reduced capacity. The overall fall in production remained steep and was comfortably the second-strongest on record, with most firms noting that the pandemic and associated public health measures continued to stall activity. New orders also decreased at a substantial pace in May, as businesses found that most clients remained closed in both domestic and international markets.

Meanwhile, cost inflationary pressures built further, with firms seeing a large impact on supplier prices from a stronger US dollar. Shortages of raw materials were also reported as the COVID-19 pandemic curtailed goods production across the world and led to slower input deliveries, with lead times increasing markedly when compared with April. The overall uptick in input costs was the sharpest recorded since October 2015.

With cost burdens rising and demand falling, companies continued to limit purchasing activity in May. Adjustments of both pre- and post-production stocks were also carried out, although both decreased at much softer rates than seen in April.

In addition, manufacturing jobs fell for the second month running, with the pace of reduction easing only slightly since April. Businesses highlighted that falling revenues and a lack of new work meant they were forced to cut staffing costs. Nevertheless, despite reduced workforces, spare capacity continued to rise at a sharp pace in the Colombian manufacturing sector due to lower demand.

Higher cost pressures also led manufacturers to mark up output prices over the course of May. That said, the overall rise was modest and weaker than the average seen throughout the series.

Finally, sentiment regarding future output notably improved during May, though it was still the second-lowest in the survey’s history. Firms were generally hopeful that the passing of the COVID-19 crisis would bring a steady recovery in new work and production levels, though some companies were cautious of a quick recovery and noted greater uncertainty around the duration of the pandemic.
COMMENT

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

“Like what we are observing in most economies in the world, the manufacturing PMI for Colombia registered an increase in the month of May. This increase, from 27.6 to 37.2, should be interpreted with caution: remember that figures below 50 mean falls in growth rates. In this sense, what the increase in the value of the index suggests to us is that manufacturing activity continued to fall but at a more moderate rate than that reached in April. In any case, it is important to highlight the less bad results, especially in orders and production, whose indexes rose more than 15 points.

“Another variable that continues to cause concern is the increase in raw material costs, which increased at very high rates in April, which contrasts with the much more moderate increase in the prices of final products. The combination of low demand and falling margins is then registered again, which makes the operation of manufacturing companies critical.

METHODOLOGY

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.

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.

May 2020 data were collected 12-20 May 2020.

For further information on the PMI survey methodology, please contact economia@davivienda.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.

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