News Release

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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Production dips at slower rate amid softer reduction in new work

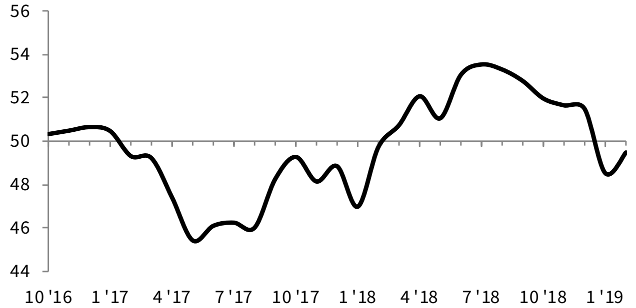
KEY FINDINGS

Sales and output fall for second straight month...

...but rates of contraction ease in February

Business sentiment climbs to series record

Manufacturing PMI
sa, >50 = improvement since previous month



The Colombian manufacturing industry remained in contraction territory in February, with a sustained fall in order books driving further declines in production and input buying. Although some companies maintained a cautious approach to hiring, there was a marginal uptick in overall employment. This was supported by positive expectations regarding future conditions, with sentiment reaching a series peak.

Edging up from 48.5 in January to 49.5 in February, the seasonally adjusted Davivienda Colombia Manufacturing PMI™ pointed to a marginal and slower deterioration in the health of the goods-producing economy. The upward movement in the headline figure was supported by weaker contractions in order books, production and stocks as well as a renewed rise in jobs.

New work fell on the back of subdued demand conditions and an increasingly competitive operating environment. The decline in sales was the second in successive months, but moderated from January.

A softer rate of contraction was likewise evident for output. Among those panellists that indicated lower production, there were reports of subdued sales, raw material scarcity and machinery maintenance.

Fewer production needs and weak sales resulted in another contraction in quantities of purchases during February. That said, input buying fell only slightly and at the slowest rate in the current three-month sequence of reduction.

As a result, stocks of purchases continued to decline, with the pace of decrease the second-fastest in one year. Anecdotal evidence pointed to delivery delays and subdued purchasing efforts.

Delays in the delivery of purchased inputs was also a factor weighing on inventories. Vendor performance reportedly worsened due to shortages of some materials at distributors. A number of firms also suggested that suppliers waited for several orders to be placed before delivering them amid efforts to save on transportation costs.

Businesses were strongly optimistic regarding the prospects for output, with confidence reaching a series high in February. Positive sentiment stemmed from predictions of sales growth, planned investment, innovation and marketing initiatives.

This positive view – coupled with some reports of increased work on new models, sales-boosting efforts and attempts to fulfil contract obligations – translated into a renewed upturn in jobs. Nevertheless, the overall expansion in employment was marginal as some firms maintained a cautious approach to hiring.

Elsewhere, input cost inflation softened to a seven-month low, with charges also hiked to a lesser extent than in January. Improvements in exchange rates reportedly curbed cost inflation.

Finally, post-production inventories decreased, while spare capacity enabled the completion of outstanding workloads.

COMMENT

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

“First of all, we must remark that the official figures from the National Administrative Department of Statistics (Dane) on manufacturing production for the month of December corroborated the weakening of the activity of the sector that the Davivienda PMI had anticipated several months ago.

"The February data suggest that for the Colombian manufacturing sector the situation has become a little more difficult. Although the Davivienda PMI went up in the last month, it continues to be below the critical level of 50, which means that business conditions worsened. In any case it is important to note that the figures show that, in response to a decrease in sales, the contraction in production is relatively modest.

"The good news continue to be that businessmen consider that the fall in manufacturing activity will be a short-term phenomenon. Indeed, twelve-month production expectations are at their highest level in seven years. It is striking that, probably associated with the incentives generated by the latest tax reform, some businessmen are beginning to express their intention to increase their investments this year."

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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.

February 2019 data were collected 12-20 February 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.

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 ATM's 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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