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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Manufacturing industry remains in expansion mode

KEY FINDINGS

Factory orders, production and employment all rise...

...though growth rates ease in May

Business confidence climbs to survey high

COLOMBIA MANUFACTURING PMI



LAST SIX MONTHS



Business conditions in the Colombian manufacturing sector continued to improve, with growth of order books, production, employment and input purchasing sustained in May. However, rates of expansion softened in all cases. Anecdotal evidence suggested that the upturn was curbed by the presidential election and weaker-than-expected sales. Nevertheless, goods producers were strongly optimistic towards growth prospects, with the level of positive sentiment climbing to a series peak.

The seasonally adjusted Davivienda Colombia Manufacturing PMI™ posted above the no-change mark of 50.0 for the third month in a row during May, signalling a further strengthening in the health of the sector. That said, the headline figure fell from 52.1 in April to 51.1, highlighting a slowdown in growth.

Although new business inflows continued to increase, the rate of expansion softened from April's 19-month peak. A weaker rise in output was likewise noted in May, with the upturn the slowest in three months. According to survey participants, the expansion was underpinned by the securing of new work from domestic and external sources, with pending contracts having been signed over the month. At the same time, growth was reportedly undermined by uncertainty arising from the 2018 presidential election.

Goods producers continued to hire additional workers, but job creation moderated amid the

non-replacement of voluntary leavers at some factories. Nevertheless, the upturn in workforce numbers was sufficient to enable the completion of outstanding work, as signalled by a renewed decline in backlogs.

Inventory trends showed similar patterns, with both pre- and post-production stocks falling slightly in May. The decrease in holdings of raw materials and semi-finished items occurred due to a combination of weaker input purchasing and delivery delays among suppliers.

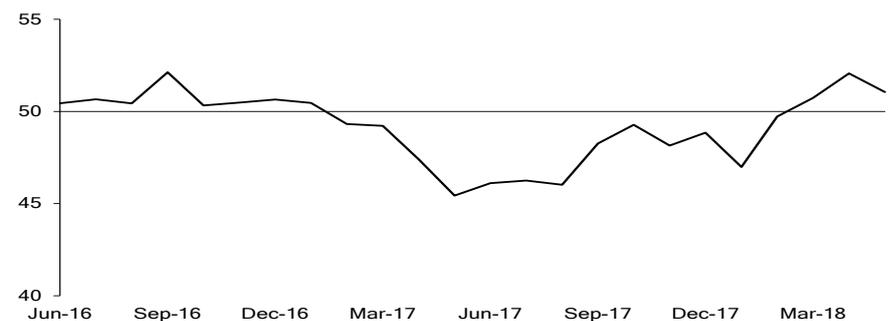
Indeed vendor performance deteriorated further during May, with panellists linking longer lead times to floods, landslides and road closures.

May data showed a moderation of input cost inflation across Colombia's manufacturing sector. Companies cited higher prices paid for chemicals, metals, plastics and textiles, but the overall rate of inflation was at a three-month low. Conversely, output charges increased at the quickest pace since last September as some firms sought to pass through to their clients ongoing rises in cost burdens.

Finally, manufacturers were at their most upbeat since confidence data were first collected in April 2012. Boosting sentiment were hopes that market conditions will improve after the elections. Firms also cited export opportunities, new collections and business expansion plans as potential drivers of output growth.

Manufacturing PMI

sa, >50 = improvement since previous month



COMMENT

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

"While manufacturing activity lost some momentum in May, it is important to note that it continued to expand during the month. The five components of the PMI lost some dynamics but the one that catches the most attention is the suppliers' delivery times: the climatic conditions significantly affected the state of the roads and this was reflected in delays. This situation should improve soon with the gradual disappearance of the La Niña phenomenon.

"Although not part of the five components of the PMI, it is very significant that production expectations for the next twelve months have reached their historic maximum (since April 2012).

"In conclusion, everything seems to indicate that manufacturing activity will continue to expand, that the slowdown observed in May corresponds to a temporary phenomenon and that activity will continue with a good dynamic in the coming months."

CONTACT

Davivienda

Andrés Langebaek Rueda

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

María Mercedes Marquez

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

IHS Markit

Pollyanna De Lima

Principal Economist
+44 1491 461 075
pollyanna.delima@ihsmarkit.com

Joanna Vickers

Corporate Communications
+44 207 260 2234
joanna.vickers@ihsmarkit.com

Methodology

The Colombia Manufacturing PMI™ is based on data compiled from replies 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 mid-month and denote the direction of change compared with the previous month. A diffusion index is calculated for each survey indicator. 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 and below 50 an overall decrease. The diffusion indices are then seasonally adjusted using an in-house method developed by IHS Markit.

The Purchasing Managers' Index (PMI) is a weighted average of the following five diffusion 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.

IHS Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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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