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Davivienda Colombia Manufacturing PMI™

Fastest fall in new orders for 19 months sends manufacturing industry back into contraction

Key findings

Renewed declines in sales and production

Finished goods stocks rise at second-fastest pace on record

Subdued demand conditions restrict price pressures

Manufacturing sector conditions in Colombia worsened at the start of 2023, following a brief recovery in December. Companies noted the sharpest downturn in new work intakes since mid-2021, which led them to scale down production as unsold goods were placed into inventories. January saw the second-strongest increase in output stocks in nearly 12 years of data collection. Reduced production requirements also resulted in job shedding and a fall in input purchasing. Concurrently, firms indicated that price pressures retreated.

Posting 48.5 in January, down from 51.1 in December, the seasonally adjusted Davivienda Colombia Manufacturing PMI™ was in sub-50.0 territory for the second time in three months. The latest reading pointed to a modest deterioration in the health of the sector.

Companies operating in the Colombian manufacturing industry experienced the sharpest monthly fall in new business since June 2021. According to panellists, elevated stock levels at clients, a challenging economic landscape and subdued demand conditions all stifled sales.

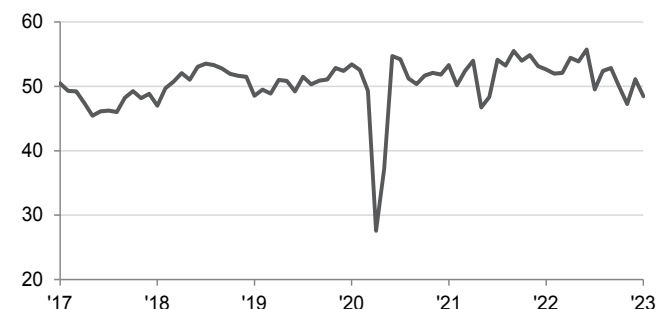
Manufacturers reported high levels of finished goods stocks among themselves. Some stated that unsold items were placed into warehouses amid a wide gap between production and sales volumes. Others linked the accumulation to intentional stock-building initiatives and efforts to meet delivery deadlines. The overall rate of expansion was the second-strongest since the survey started in April 2011.

The combination of sufficient stock levels, falling new orders and ongoing cost increases led firms to scale down production in January. The reduction was moderate, but compared with growth in December.

Although input costs rose further at the start of the year, the rate of inflation retreated to a 23-month low. Still,

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sa, >50 = improvement since previous month



Sources: Davivienda, S&P Global.

Data were collected 12-23 January 2023.

Comment

Andrés Langebaek Rueda, Chief Economist Bolivar Group at Davivienda, said:

“A good part of the growth of the Colombian economy in 2021 and 2022 was encouraged by a high fiscal deficit and an important dynamism of credit thanks to low interest rates. Growth was high but unsustainable. The monetary authorities began a phase of raising interest rates, a circumstance that, added to high inflation, the global economic slowdown and the loss of dynamism in private investment, is producing lower growth in economic activity.”

“The information from the PMI for January suggests an accumulation of inventories of finished products that could be consistent with a sharp drop in domestic demand. This fact should continue to be monitored by the monetary authorities to avoid an excessive adjustment of the economy.”

the latest increase was sharp amid greater gas, material, oil and transportation costs. Firms also noted that peso weakness, the war in Ukraine and a higher minimum wage added to their cost burdens.

Companies continued to transfer cost increases through to their clients in January via upward revisions to selling prices. Despite being historically high, the rate of charge inflation softened to the second-slowest since March 2021.

Wage cost pressures and subdued demand conditions resulted in job shedding among Colombian goods producers. The fall in employment was only slight, but offset the increase recorded in December.

Input and staff shortages meant that goods producers saw a rise in outstanding business volumes in January. The increase was the first in seven months, albeit marginal overall.

Companies also signalled a fall in input buying during January, the fifth in seven months. Anecdotal evidence indicated that a lack of new work, weak demand and troubles sourcing key materials all led to the latest reduction in purchasing activity.

Supply-chain conditions remained challenging in January amid reports of input shortages among vendors and poor road conditions. However, lead times lengthened to the least extent since July 2022.

Concerns surrounding inflation, unfavourable exchange rate movements and labour costs restricted business confidence in January. Although positive, the overall level of sentiment slipped to a 33-month low.

Survey methodology

The Davivienda Colombia Manufacturing PMI™ is compiled by S&P Global 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. Data collection began in April 2011.

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.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

About PMI

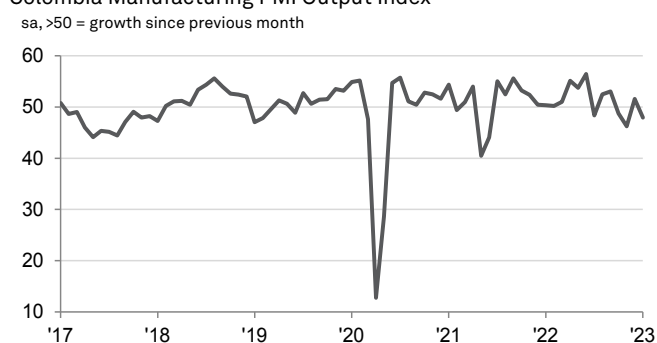
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Colombia Manufacturing PMI Output Index



Sources: Davivienda, S&P Global.

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