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DAVIVIENDA COLOMBIA MANUFACTURING PMI™

Manufacturing industry slips into contraction in July

KEY FINDINGS

Output and sales fall for first time in over a year

Firms cut input buying and shed jobs

Inflationary pressures escalate

Data were collected 12-21 July 2022

There was a marked turnaround in economic conditions across Colombia's manufacturing sector in July, following a remarkable performance in June. Client hesitancy around the election and price pressures curbed sales, leading firms to scale back production and input buying. Job creation came to an end and companies were less upbeat towards the outlook. Input cost inflation picked up once again, which resulted in a sharper increase in selling prices.

Posting 49.5 in July, the seasonally adjusted Davivienda Colombia Manufacturing PMI™ was down considerably from a near-record high of 55.7 in June. The latest reading pointed to the first deterioration in the health of the sector since mid-2021.

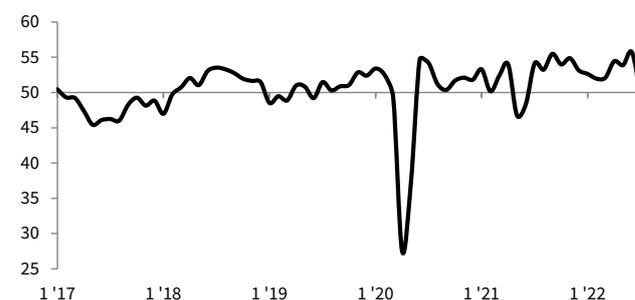
Uncertainty due to the change of government, elevated inflation, input scarcity and weaker demand all dragged down production in July. Although moderate, the decline ended a one-year sequence of monthly expansions.

Colombian manufacturers reported lower levels of new work intakes in July. The reduction was moderate, but compared with the sharpest rise in sales for over seven years in June. According to panel members, demand was constrained by client hesitancy due to the election, peso depreciation and inflationary pressures.

Not only did input costs increase further, but also at a quicker rate that was one of the highest since the survey started in April 2011. Peso depreciation, troubles receiving items from China, the war in Ukraine and global shortages of inputs were listed as the key sources of inflationary

Colombia Manufacturing PMI

sa, >50 = improvement since previous month



Source: Davivienda, S&P Global.

pressures.

Goods producers continued to transfer cost increases to their clients by lifting output prices. The rate of charge inflation also accelerated and was well above its long-run average.

The combination of falling new orders and rising input costs steered firms into cutting buying levels during July. The contraction was the first in 13 months and solid overall.

Subdued sales and an associated reduction in output needs triggered job shedding in the manufacturing industry. This followed a one-year sequence of job creation.

July data pointed to spare capacity among Colombian manufacturers as outstanding business decreased for the first time in 14 months. The clearing of backlogs was often associated with a lack of incoming projects and the fulfilment of existing orders.

Modest increases were seen for both input and output inventories. The rise in holdings of finished products was attributed to the clearing of backlogs and low sales. Concurrently, preventive measures to beat price hikes reportedly underpinned higher stocks of purchases.

Firms generally forecast an improvement in demand conditions in the year ahead, which combined with investment in machinery and marketing efforts are expected to support output. Sentiment slipped from June, however, owing to policy uncertainty, US dollar strength and inflation concerns.

COMMENT

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

"The Colombian economy grew at a good pace during the first half of the year — certainly at one of the best rates in the region — but macroeconomic vulnerabilities, especially the large current account deficit, seem to be taking their toll: the Colombian peso during July was one of the most devalued currencies among emerging countries. It is not surprising that our currency together with the Chilean peso — another country in the region with a large current account deficit — have been the most devalued currencies.

"The sharp devaluation of the peso has real effects on growth, as the PMI for July seems to suggest, by reducing margins and accelerating inflation with the consequent effect on demand. It is therefore convenient that the country, under the new administration, obtains the approval of the desired structural fiscal reform."

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
mmarquez@davivienda.com

S&P Global Market Intelligence

Pollyanna De Lima
Economics Associate Director
+44 149 146 1075
pollyanna.delima@spglobal.com

Katherine Smith
Public Relations
+1 781 301 9311
katherine.smith@spglobal.com

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.

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.

Data were collected 12-21 July 2022.

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.
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