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Davivienda Colombia Manufacturing PMI™

Input costs fall for first time in survey history

Key findings

First decline in purchase costs in over 12 years of data collection

Output charges decrease for first time in a decade

Contractions in new orders and production slow

The PMI™ data for June highlighted a blend of positive and challenging developments across Colombia's manufacturing industry. There were further contractions in new orders, production and employment amid tepid demand. On the plus side, the rates of decline eased and were only fractional, while inflationary pressures dissipated. The reduction in purchasing costs, the first in the survey history, was attributed to fierce competition among suppliers against a backdrop of adverse international demand for inputs and peso appreciation (against the US dollar). Firms also sought to stimulate sales via discounting their own charges.

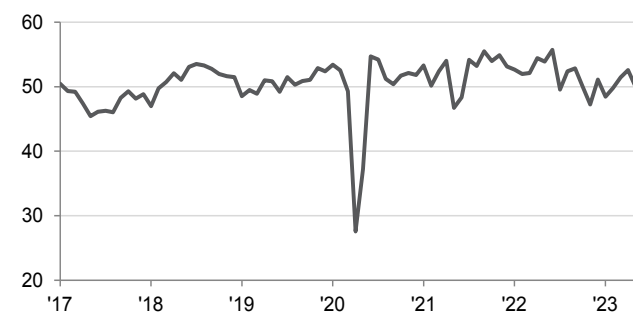
The seasonally adjusted Davivienda Colombia Manufacturing PMI™ was at 49.8 in June, little-changed from 49.9 in May and thereby signalling broadly no change in the health of the sector. The PMI averaged 50.8 in the second quarter, an improvement from 49.9 in the first three months of the year.

The main positives from the latest results included declines in both input costs and output charges. In the case of the former, the latest fall was marginal but the first in over 12 years of data collection. PMI panellists attributed lower input costs to peso appreciation and reductions offered by suppliers due to competitive pressures.

Supported by cost reductions, goods producers sought to stimulate sales at their units by offering discounts for their goods. Factory gate charges decreased for the first time in a decade, albeit marginally.

Despite marking down their fees in June, manufacturers noted another decline in new work intakes. The latest contraction was associated with subdued investment among clients, hesitancy to sign pending quotations and testing economic times. Nevertheless, sales fell only

Davivienda Colombia Manufacturing PMI
sa, >50 = improvement since previous month



Sources: Davivienda, S&P Global PMI.
Data were collected 12-23 June 2023.

Comment

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

“Everything seems to indicate that Colombia joined the group of emerging countries in which the interest rate set by the central bank entered a phase of invariability. The recent results for economic activity, with a 0.8% annual drop in April, and the appreciation of the peso which has translated into a reduction in the cost of imported inputs, allow us to think that the need for an adjustment in interest rates has diminished.

“However, we believe that in terms of inflation there will be limits to the moderation. It is probable that the space left by the revaluation will be used by the national government to continue, or even accelerate, adjustments in fuel prices. This, added to the behaviour of service inflation and the temporary increase in the price of perishable foods — due to the El Niño phenomenon — will counterbalance the reduction in input costs.”

fractionally.

In turn, the sustained fall in new orders triggered cutbacks to production volumes. As was the case for sales, however, the rate of contraction was fractional overall.

Faced with lower levels of new work, goods producers diverted resources towards the completion of pending workloads. Backlogs decreased for the first time in 2023 so far, although marginally. Spare capacity caused another round of job shedding in June, but the decline in employment was slight and slower than in May.

Encouraged by falling input costs, Colombian manufacturers purchased additional raw materials and semi-finished items in June. Despite being moderate, the pace of expansion strengthened from May.

For the first time since August 2017, average lead times on inputs shortened at the end of the second quarter. Faster deliveries were often attributed to a lack of pressure on supplier capacity.

Input buying growth coupled with improvements in supply chains underpinned a back-to-back increase in pre-production inventories. The upturn was slight, however, and softer than that seen midway through the second quarter. Holdings of finished goods also rose slightly during June.

Predictions that demand conditions will improve supported positive assessments towards the year-ahead outlook for output. New product releases, advertising and beliefs that pending agreements will be assigned also boosted optimism. The overall level of business confidence climbed to a ten-month high in June.

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

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. ihsmarkit.com/products/pmi.html.

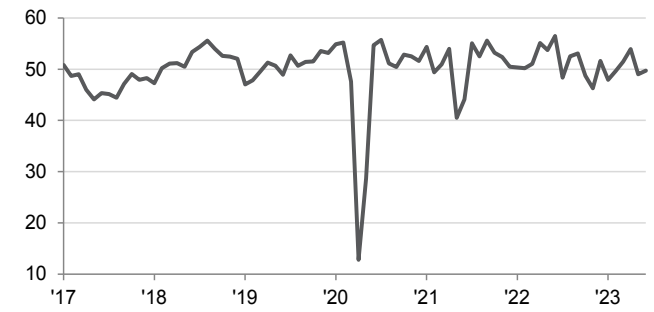
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Colombia Manufacturing PMI Output Index

sa, >50 = growth since previous month



Sources: Davivienda, S&P Global PMI.

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