

KEY POINTS:

Manufacturing activities expanded further at a higher rate in July 2019, recording an index value of 55.7 which is an increase of 1.8 index points, compared to June 2019. This expansion in manufacturing PMI is mainly attributable to the significant increase in New Orders and subsequent increase in Production, especially, in manufacturing of food & beverages sector. The increase in new orders was mainly due to the gradual recovery of the economy from disruptions related to Easter Sunday attacks. Meanwhile, Employment increased at a slower rate during the month of July although many respondents in the textile and apparel industry highlighted that they experienced higher rate of labour turnover during the month.

Variable	June	July	+/-	Summary
PMI	53.9	55.7	+	Rising, Higher Rate
Sub-Indices of PMI				
New Orders	53.0	59.0	+	Rising, Higher Rate
Production	56.5	57.5	+	Rising, Higher Rate
Employment	55.5	52.0	-	Rising, Slower Rate
Stock of Purchases	51.5	57.0	+	Rising, Higher Rate
Suppliers' Delivery Time	51.0	50.0	-	Lengthening to Neutral

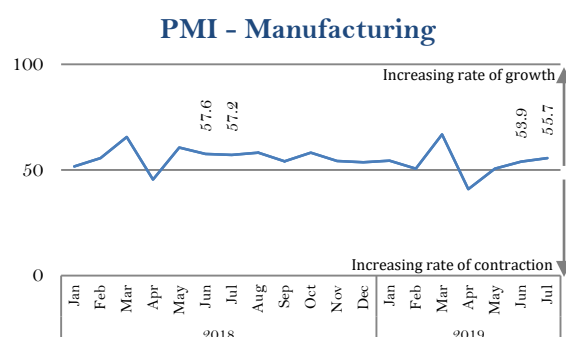
Source: Central Bank of Sri Lanka

The Stock of Purchases increased significantly with the expansion of New Orders and Production as well as a precautionary measure to face possible disruptions during upcoming election period together with festive season demand. Further, Suppliers' Delivery Time lengthened to the neutral level indicating the same delivery time as previous month, mainly due to the normalization of tight security measures deployed after the Easter Sunday attacks.

All sub-indices of PMI Manufacturing, except Suppliers' Delivery Time which was on neutral level, exceeded the threshold of 50.0 (neutral) signalling an overall expansion in manufacturing activities during the period under review.

PMI
Index Value
55.7

Increase of
1.8 index points
compared to
June 2019



Source: Central Bank of Sri Lanka

**The World Outlook:
Manufacturing PMI**

The global manufacturing PMI recorded a value of 49.3 in July 2019 with a decline of 0.1 index points from June 2019.

Manufacturing PMIs of USA and Eurozone slowed down in July 2019. However, manufacturing PMI of Russia, China, India and Singapore improved, while that of UK remained unchanged.

Source: Markit¹ as at 15th August 2019

¹ Markit is a leading global diversified provider of financial information services. It is identified as the global PMI compiler and compiles PMIs for over 30 countries and also for key regions including the Eurozone.

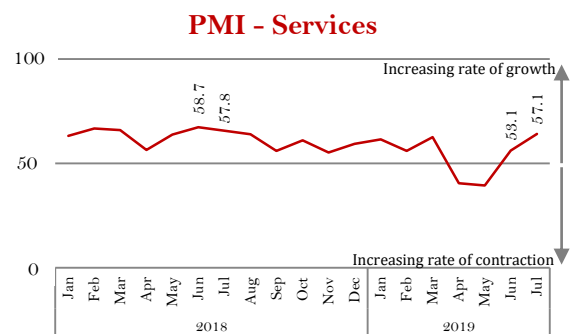
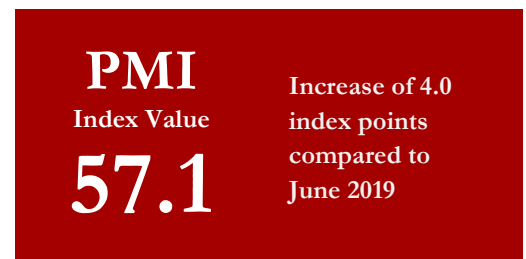
Services sector continued to expand in July 2019, underpinned by accelerated expansion in New Businesses, Business Activity and Expectations for Activity compared to June 2019. This indicates a further recovery of the services sector after the Easter Sunday attack.

Business activities of wholesale and retail trade; accommodation, food and beverage; financial services; and transportation sub sectors expanded for the second consecutive month in July 2019. Service providers' optimism on the next three months business outlook strengthened to a 29-month high, as expectations for activity expanded across most of the sub sectors. However, Employment recorded a deterioration compared to previous month as there is a time lag for filling vacant positions and replacement of labour intensive work by technology.

Variable	June	July	+/-	Summary
PMI	53.1	57.1	+	Rising, Higher rate
Sub-Indices of PMI				
New Businesses	57.4	59.9	+	Rising, Higher rate
Business Activity	57.4	63.5	+	Rising, Higher rate
Employment	44.7	43.2	-	Falling, Higher rate
Backlogs of Work	44.1	47.7	+	Falling, Slower rate
Expectations for Activity	61.8	71.4	+	Rising, Higher rate
Other Indices				
Prices Charged	47.9	49.5	+	Falling, Slower rate
Expectations for Labour Cost	63.4	66.3	+	Rising, Higher rate

Source: Central Bank of Sri Lanka

Respondents in financial services sub sector highlighted that they have reduced lending rates (prices charged) in parallel to the deposit rates reductions. Accordingly, Prices Charged in the Services sector declined in July 2019. Meanwhile, Expected Labour Cost increased at a higher rate in July 2019 due to routine salary increments.



Source: Central Bank of Sri Lanka

The World Outlook: Services PMI

Global services PMI slightly increased to 52.5 in July 2019 from 51.9 in June 2019, indicating a modest improvement in the rate of expansion in global services sector output, as growth strengthened in US, UK and Italy and returned to expansion in India, Brazil and Russia.

Services PMIs of Japan and China also indicated that their services sectors improved in July - compared to June 2019.

Source: Markit¹ as at 15th August 2019

Technical Note

The Index

PMI is calculated as a 'Diffusion Index', where it takes values between 0 and 100.

PMI=50 - sector remained neutral on month-on-month basis; PMI>50 - sector is generally expanding on month-on-month basis

PMI<50 - sector is generally declining on month-on-month basis

Sample

The sampling frame was based on a list of large companies located in the Western province obtained from the EPF Department. Samples for Manufacturing and Services activities were selected based on the GDP sectoral share, with a minimum target of 100 responses for each.

Definitions of Variables

Employment	: Number of staff working for the organization
Stock of purchases	: Raw materials purchased and kept in a warehouse to be used for production
Supplier Delivery Time	: Time lag between order placement and delivery by the supplier
Backlogs of Work	: Uncompleted orders due to increased flow of business activity
Other variables are self-explanatory.	