

RESULTS OF PMI MANUFACTURING AND PMI SERVICES INDICES

KEY POINTS:

Benefitting from the normalizing of economic activities in the country following the complete relaxation of restrictions for mobility, the Manufacturing PMI increased significantly in June 2020 recording 67.3 with a month-on-month increase of 18.0 index points compared to May 2020.

This increase in manufacturing PMI is underpinned by the significant improvement in Production, New Orders and Employment especially in the manufacturing of food & beverages and textiles & wearing apparels subcategories, where many respondents highlighted that their factories were operated throughout the month of June receiving more new orders than in the previous month mainly supported by the local demand. In line with the growth of New Orders, Production and Stock of Purchases also increased at a higher rate during the month.

Employment sub-index increased beyond 50-threshold with the improved manufacturing activities. As the COVID-19 outbreak adversely affected the global supply, the Suppliers' Delivery Time continued to lengthen, albeit at a slower pace, during the period.

Variable	May	Jun	+/-	Summary
PMI	49.3	67.3	+	Rising from Falling
Sub-Indices of PMI				
New Orders	47.3	73.7	+	Rising from Falling
Production	51.1	77.4	+	Rising, Higher Rate
Employment	37.8	51.6	+	Rising from Falling
Stock of Purchases	47.9	61.1	+	Rising from Falling
Suppliers' Delivery Time	66.5	63.2	-	Lengthening, Slower Rate

Source: Central Bank of Sri Lanka

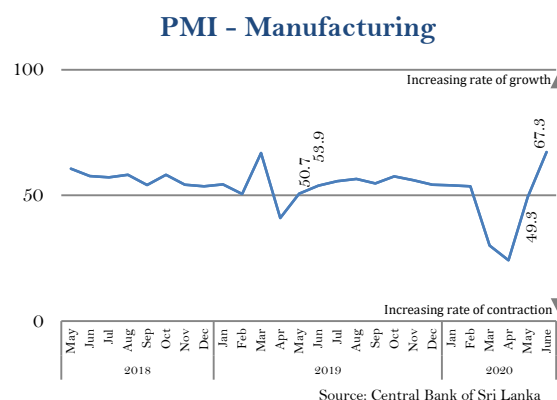
The overall expectations for manufacturing activities for the next three months significantly improved compared to the previous month, yet the manufacturers are still concerned that the subdued external demand due to the COVID-19 pandemic would continue to put pressure on their business activities.

PMI

Index Value

67.3

Increase of 18.0 index points compared to May 2020



The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 47.8 in June 2020 with an increase of 5.4 index points from May 2020.

Manufacturing PMI of China and UK expanded while Eurozone, USA, Russia and India remained contracted in June 2020 with the adverse impact of COVID-19.

Source: Markit¹ as at 15th July 2020

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 for key regions including the Eurozone.

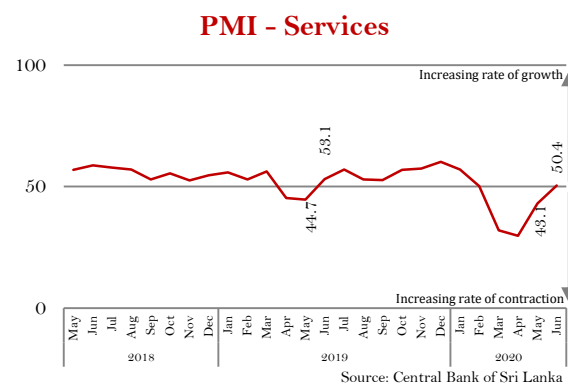
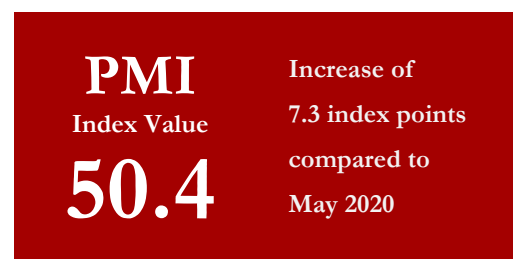
Services PMI returned to growth territory in June 2020 reaching 50.4, after recording index values less than 50.0 threshold level for three consecutive months. This was underpinned by increases observed in New Businesses, Business Activities, Employment and Expectations for Activity sub-indices.

New Businesses, particularly in financial services, insurance and wholesale and retail trade sub-sectors improved in June 2020 with the gradual normalisation of economic activities.

Business Activities also expanded during the month indicating an expansion in Service activities. With the complete lifting of domestic travel restrictions, business activities in transportation sub-sector improved in June 2020 compared to the previous month. Further, business activities related to wholesale and retail trade, financial services and other personal services also increased during the month. However, respondents, particularly in transportation and accommodation, food and beverage sub-sectors, were concerned about possible impact of deterioration in international trade and prevailing international travel restrictions on their business activities.

However, Employment continued to decline in June 2020 compared to previous month due to halt of new recruitments.

Further, Backlogs of Work declined in June 2020 implying that any increase in demand could be met with the existing capacity of service providers.



The World Outlook: Services PMI

Global services PMI recorded at 48.0 in June 2020, an increase from 35.1 in May 2020, signalling a contraction in global service activities for five successive months.

Services PMIs of US, Japan, UK and India indicated that their services sectors deteriorated in June 2020 compared to the previous month, while that of China indicated an improvement.

Source: Markit¹ as at 15th July 2020

Variable	May	Jun	+/-	Summary
PMI	43.1	50.4	+	Rising, from falling
Sub-Indices of PMI				
New Businesses	45.7	53.6	+	Rising, from falling
Business Activity	34.2	54.5	+	Rising, from falling
Employment	27.7	34.7	+	Falling, slower rate
Backlogs of Work	61.0	48.4	-	Falling, from rising
Expectations for Activity	46.7	60.7	+	Rising, from falling

Source: Central Bank of Sri Lanka

Meanwhile, expectations on future business activities increased in June 2020 indicating a further recovery in economic activities in the coming months.

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 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.	