

STATISTICS DEPARTMENT CENTRAL BANK OF SRI LANKA

RESULTS OF PMI MANUFACTURING AND PMI SERVICES INDICES

KEY POINTS:

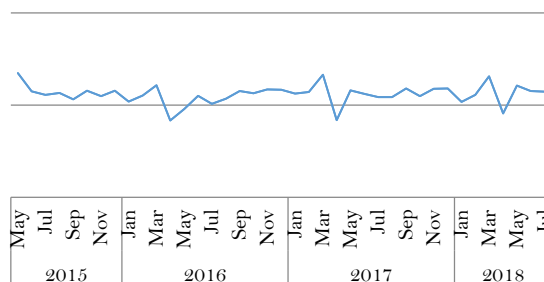
## Manufacturing growth marginally slowed down at the beginning of third quarter

The Manufacturing Sector PMI decreased to 57.2 index points in July 2018 from 57.6 index points observed in the previous month. The marginal slowdown observed in manufacturing activities in July was mainly driven by slowdown in employment due to the difficulties in replacing unskilled employees to account for high labour turnover especially in the Food and Beverages, and Textiles and Apparel sectors. Moreover, new orders in July 2018 slightly slowed down. However, production and stock of purchases show some improvement, especially in manufacturing of chemicals and pharmaceutical products with the expected positive outlook for the next three months. Meanwhile, lengthening of suppliers' delivery time usually indicates that economy is booming with expanding activities in the short run. However, in this instance, suppliers' delivery time lengthened due to scarcity of raw materials in the world market and unfavourable weather conditions. Thus, it does not indicate an expansion in economic activities. Overall, all the sub-indices of PMI recorded values above the neutral 50.0 threshold signalling an overall expansion in July albeit at a slower rate during the month. Meanwhile, the Expectation for activities indicates an improvement for the next three months.

|                          | Y\M         | Jan  | Feb  | Mar  | Apr  | May  | Jun  | Jul         | Aug  | Sep  | Oct  | Nov  | Dec  |
|--------------------------|-------------|------|------|------|------|------|------|-------------|------|------|------|------|------|
| <b>PMI Manufacturing</b> | <b>2016</b> | 51.9 | 55.3 | 60.7 | 41.6 | 47.9 | 55.1 | 50.6        | 53.5 | 57.7 | 56.5 | 58.4 | 58.3 |
|                          | <b>2017</b> | 56.2 | 57.1 | 66.5 | 41.8 | 57.9 | 56.1 | 54.3        | 54.4 | 59.0 | 54.8 | 58.8 | 59.1 |
|                          | <b>2018</b> | 51.7 | 55.6 | 65.6 | 45.5 | 60.6 | 57.6 | <b>57.2</b> | -    | -    | -    | -    | -    |

| Variable                  | June        | July        | +/-      | Summary                    |
|---------------------------|-------------|-------------|----------|----------------------------|
| <b>PMI</b>                | <b>57.6</b> | <b>57.2</b> | <b>-</b> | <b>Rising, Slower rate</b> |
| <b>Sub-Indices of PMI</b> |             |             |          |                            |
| New Orders                | 60.5        | 59.5        | -        | Rising, Slower rate        |
| Production                | 57.0        | 57.5        | +        | Rising, Higher rate        |
| Employment                | 58.5        | 55.0        | -        | Rising, Slower rate        |
| Stock of Purchases        | 53.5        | 57.5        | +        | Rising, Higher rate        |
| Suppliers' Delivery Time  | 54.5        | 55.0        | +        | Lengthening, Higher rate   |

Manufacturing PMI

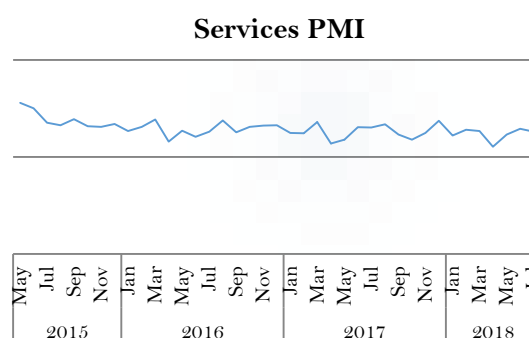


## Services growth marginally declined at the start of third quarter

The Services Sector PMI declined to 57.8 index points in July 2018 from 58.7 index points recorded in June 2018. This indicates that the Services sector continued to expand, albeit at a slower pace, in July 2018 supported by faster growth in New Businesses, Business Activity and Expectations for Activity. The growth in New Businesses and Business Activities was mainly observed in financial services and insurance sectors. Respondents cited establishment of digital banking units and improvements to service delivery channels as contributory factors to this growth. Employment levels expanded at a slower rate compared to the strong pace of job creation in the previous two months. Declining backlogs of work usually indicates a contraction of the economy in the short run. However, in this instance, backlogs of work declined partly due to expansion in employment. Thus, it does not indicate a contraction in economic activities. Service providers' optimism on the three months business outlook strengthened to a 17-month high, particularly among financial services, accommodation food & beverage, other personal services and transportation sectors. Prices Charged of the Services sector increased at a slower rate and recorded three-month low in July 2018, owing to absence of any unforeseen price hikes during the month. Expected Labour Cost in the services sector also increased at a slower rate during July.

|              | Y\M  | Jan  | Feb  | Mar  | Apr  | May  | Jun  | Jul         | Aug  | Sep  | Oct  | Nov  | Dec  |
|--------------|------|------|------|------|------|------|------|-------------|------|------|------|------|------|
| PMI Services | 2016 | 58.0 | 59.3 | 61.6 | 54.7 | 58.1 | 56.3 | 57.8        | 61.2 | 57.7 | 59.3 | 59.7 | 59.8 |
|              | 2017 | 57.5 | 57.3 | 60.8 | 54.2 | 55.3 | 59.2 | 59.1        | 60.1 | 57.0 | 55.3 | 57.4 | 61.2 |
|              | 2018 | 56.6 | 58.4 | 58.0 | 53.2 | 56.9 | 58.7 | <b>57.8</b> | -    | -    | -    | -    | -    |

| Variable                  | June | July | +/- | Summary                 |
|---------------------------|------|------|-----|-------------------------|
| PMI                       | 58.7 | 57.8 | -   | Rising, Slower rate     |
| <b>Sub-Indices of PMI</b> |      |      |     |                         |
| New Businesses            | 58.8 | 59.9 | +   | Rising, Higher rate     |
| Business Activity         | 62.0 | 63.7 | +   | Rising, Higher rate     |
| Employment                | 58.8 | 51.1 | -   | Rising, Slower rate     |
| Backlogs of Work          | 46.1 | 42.9 | -   | Falling, Higher rate    |
| Expectations for Activity | 67.7 | 71.3 | +   | Positive, Higher extent |



### 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.