

KEY POINTS:

The COVID-19 induced downturn in the Sri Lankan manufacturing sector deepened during April as reflected by further contraction in Manufacturing PMI, which recorded at an index value of 24.2 with a fall of 5.8 index points from the previous month, reaching the lowest level since the beginning of the survey. This decline in index was mainly driven by New Orders, Production and Employment sub-indices which declined at record rates.

With the continuation of island wide curfew to limit the spread of the virus, almost all the manufacturing establishments either remained closed during the month of April 2020 or operated at a fraction of its usual capacity. Accordingly, New Orders, Production, Employment and Stock of Purchases sub-indices remained far below the neutral threshold. Many respondents in the textile and wearing apparel sector highlighted that they have not received orders for their regular products particularly from US and European buyers due to rapid spread of COVID-19 in those countries. Moreover, decline of Employment was mainly due to discontinuation of some casual/temporary employees. Stock of purchases also decreased in line with decline of production and new orders.

Suppliers' Delivery Time lengthened further during the month of April softening the decline in overall index to a considerable extent. Although, lengthening of Suppliers' Delivery Time typically indicates higher demand for materials with the expanding manufacturing activities, in this instance, the longer lead-times has caused by the delays in shipments and local logistics, linked to the COVID-19 pandemic.

The manufacturers remain cautioned that COVID-19 pandemic would

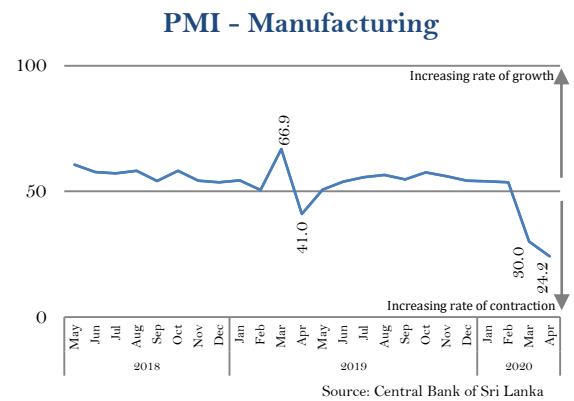
Variable	Mar.	Apr.	+/-	Summary
PMI	30.0	24.2	-	Contracting, Higher Rate
Sub-Indices of PMI				
New Orders	18.7	11.1	-	Contracting, Higher Rate
Production	5.2	3.5	-	Contracting, Higher Rate
Employment	44.8	29.9	-	Contracting, Higher Rate
Stock of Purchases	12.7	9.7	-	Contracting, Higher Rate
Suppliers' Delivery Time	85.8	86.8	+	Lengthening, Higher Rate

Source: Central Bank of Sri Lanka

disrupt the global supply chain as well as demand. However, the overall expectations for manufacturing activities for the next three months increased compared to the previous month, still remaining below the neutral threshold.

PMI
Index Value
24.2

Decrease of
5.8 index points
compared to
March 2020



The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 39.8 in April 2020 with a decrease of 7.5 index points from March 2020.

Manufacturing PMI of India, UK, USA, Russia, Eurozone and China contracted in April 2020 with the adverse impact of COVID 19.

Source: Markit¹ as at 17th May 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 sector PMI declined to a record-low of 29.8 index points in April 2020, down from 32.0 in March 2020 as Business Activities and Employment sub-indices fell at higher rates due to the extended lockdown measures taken to curb the spread of COVID-19 pandemic.

Business Activities sub index declined sharply to 8.9 index points, the lowest value since the beginning of the survey, signifying the extensive impact of COVID-19 pandemic on Services activities. Business Activities of transportation sub sector declined further following prolonged domestic travel restrictions and slowdown in cargo handling due to restrictions and disruptions to international trade. In addition, Business Activities of accommodation, food and beverage sub sector also declined attributable to domestic travel restrictions and zero international tourist arrivals during the month. Despite the prevailing demand for essential goods, Business Activities of wholesale and retail trade sub sector declined due to difficulties in scaling of delivery operations and the complete halt of business operations along with drop in demand for non-essential goods.

Employment in Services sector continued to decline due to discontinuation of the service of contractual and casual employees amidst the freeze of new recruitments.

New Business and Expectations for Activity declined in April 2020, yet at a slower pace. However, respondents in financial, health and professional services, wholesale and retail trade, and transportation sub sectors are rather optimistic on future business activities with the steps taken towards resumption of civilian life and institutions back to normalcy.

Variable	Mar	Apr	+/-	Summary
PMI	32.0	29.8	-	Contracting, Higher rate
<u>Sub-Indices of PMI</u>				
New Businesses	25.7	26.8	+	Contracting, Slower rate
Business Activity	17.1	8.9	-	Contracting, Higher rate
Employment	34.8	33.7	-	Contracting, Higher rate
Backlogs of Work	65.4	60.8	-	Increasing, Slower rate
Expectations for Activity	16.9	18.9	+	Contracting, Slower rate

Source: Central Bank of Sri Lanka

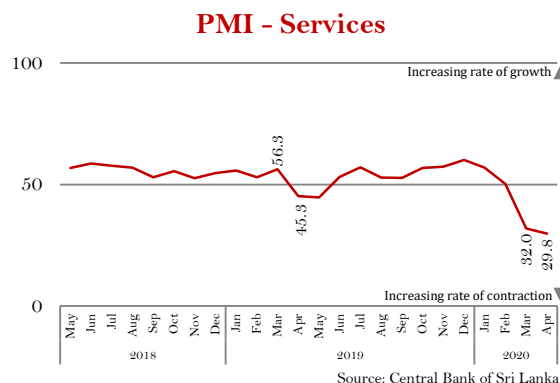
Backlogs of Work continued to increase in April 2020 cushioning the overall index to a greater extent. Though increase in Backlogs of Work usually indicates an expansion in business activities that cannot be met within the existing operating capacity, the increase in April 2020 was primarily due to prolonged restrictions imposed on non-essential services to control the spread of COVID-19 pandemic.

PMI

Index Value

29.8

Decrease of
2.2 index points
compared to
March 2020



The World Outlook: Services PMI

Global services PMI declined sharply to a record-low of 24.0 in April 2020, from revised 36.8 in March 2020, to stay below the neutral 50.0 mark for the third successive month, due to the impact of COVID-19 pandemic.

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

Source: Markit¹ as at 17th May 2020

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.	