

KEY POINTS:

Purchasing Managers' Indices for both Manufacturing and Services activities continued to expand in July 2020, compared to June 2020 benefitting from the normalising of economic activities.

Reflecting that manufacturing activities are gradually approaching the pre-COVID levels with the normalization of business activities, the Manufacturing PMI continued to expand in July 2020 recording 64.6 mainly due to the expansion in New Orders and Production sub-indices.

The New Orders and Production sub-indices expanded, yet at a slower rate, benefitting from new orders received in July 2020. Meanwhile, Employment remained expanded in line with these developments.

The Stock of purchases expanded at a higher rate due to intended accumulation of stocks for future productions, anticipating higher demand with the normalization of economic activities. The Suppliers' Delivery Time continued to lengthen, at a slower pace, during the period.

Variable	Jun	Jul	+/-	Summary
PMI	67.3	64.6	-	Rising, Slower Rate
Sub-Indices of PMI				
New Orders	73.7	69.5	-	Rising, Slower Rate
Production	77.4	73.7	-	Rising, Slower Rate
Employment	51.6	51.6	=	Rising, Same Rate
Stock of Purchases	61.1	61.6	+	Rising, Higher Rate
Suppliers' Delivery Time	63.2	58.9	-	Lengthening, Slower Rate

Source: Central Bank of Sri Lanka

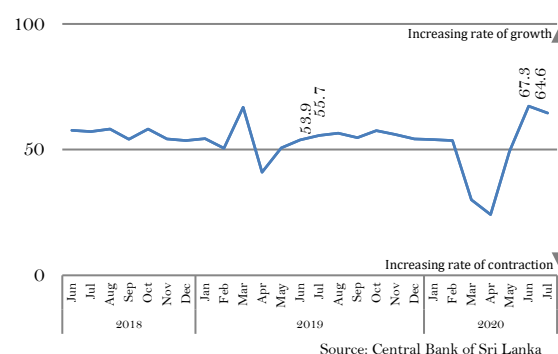
Respondents highlighted that the restrictions imposed on importation of certain categories of goods adversely affected some manufacturing activities.

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

PMI
Index Value
64.6

Decrease of
2.7 index points
compared to June
2020

PMI - Manufacturing



The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 50.3 in July 2020 with an increase of 2.4 index points from June 2020.

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

Source: Markit¹ as at 17th August 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 continued to expand for the second consecutive month with PMI reaching 51.4 in July 2020. This was underpinned by the expansions observed in New Businesses, Business Activities and Expectations for Activity compared to June 2020 indicating a further recovery in the services sector, which was affected by COVID-19 pandemic.

New Businesses, particularly in financial services and insurance sub-sectors, improved in July 2020 with the gradual recovery in economic activities.

Business Activities in most of the sub sectors expanded during the month indicating a broad-based recovery in service activities. With the rise in financial facilities granted, business activities in financial services sub-sector improved in July 2020 compared to the previous month. Further, accommodation, food and beverage sub-sector also recorded an improvement over the last month in line with the improvements in domestic tourism. Moreover, business activities related to wholesale and retail trade, health services and telecommunication sub-sectors also increased during the month. However, respondents, particularly in cargo handling and import trade, were concerned about restrictions imposed on non-essential items.

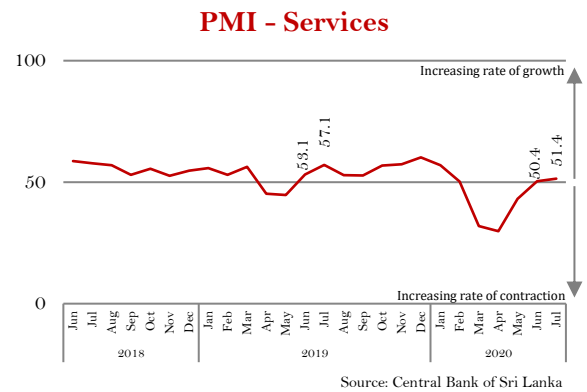
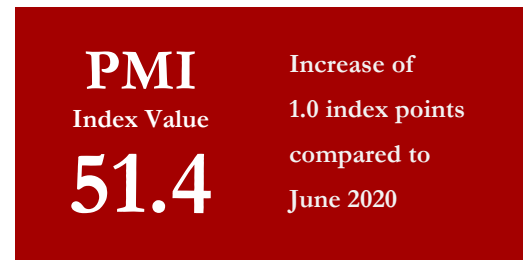
Employment continued to decline in July 2020 for the sixth consecutive month owing to halt in new recruitments.

Further, Backlogs of Work declined in July 2020 since most of the firms are operating under usual working environment.

Variable	Jun	Jul	+/-	Summary
PMI	50.4	51.4	+	Rising, Higher Rate
Sub-Indices of PMI				
New Businesses	53.6	53.5	-	Rising, Slower Rate
Business Activity	54.5	61.0	+	Rising, Higher Rate
Employment	34.7	40.0	+	Falling, Slower Rate
Backlogs of Work	48.4	36.8	-	Falling, Higher Rate
Expectations for Activity	60.7	65.5	+	Rising, Higher Rate

Source: Central Bank of Sri Lanka

Meanwhile, Expectations on Future Business Activities increased in July 2020 with the positive sentiments on revival of economic activities in the forthcoming period.



The World Outlook: Services PMI

Global services PMI increased to 50.5 in July 2020 from 48.0 in June 2020, signalling an expansion in global service activities for the first time since January 2020.

Services PMIs of China and the UK indicated that their services sectors expanded in July 2020 compared to the previous month, while those of Japan and India indicated a deterioration. Services PMI of the USA recorded at neutral of 50.0.

Source: Markit¹ as at 17th August 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.	