

KEY POINTS:

Purchasing Managers' Indices for both Manufacturing and Services activities expanded in August 2020.

Recovery of manufacturing activities continued in August 2020 as reflected by PMI, benefitting from the normalisation of business activities in the country. Both New Orders and Production sub-indices remained at expansionary levels in August 2020 while a noticeable development was observed in Employment sub-index.

The expansion of manufacturing activities was mainly supported by the manufacturing of food & beverages sector. Some respondents in the sector highlighted that they have recruited new employees with the anticipation of upcoming seasonal demand.

The Stock of purchases expanded at a slower rate in line with the movements of Production and New Orders. The Suppliers' Delivery Time continued to lengthen, at a higher pace, due to issues in logistics such as unavailability of direct shipping services.

Variable	Jul	Aug	+/-	Summary
PMI	64.6	57.9	-	Rising, Slower Rate
Sub-Indices of PMI				
New Orders	69.5	58.5	-	Rising, Slower Rate
Production	73.7	57.5	-	Rising, Slower Rate
Employment	51.6	54.0	+	Rising, Higher Rate
Stock of Purchases	61.6	57.5	-	Rising, Slower Rate
Suppliers' Delivery Time	58.9	62.5	+	Lengthening, Higher Rate

Source: Central Bank of Sri Lanka

Also, respondents highlighted that the continuation of restrictions imposed on importation of certain categories of goods including machinery parts adversely affected the smooth functioning of manufacturing activities.

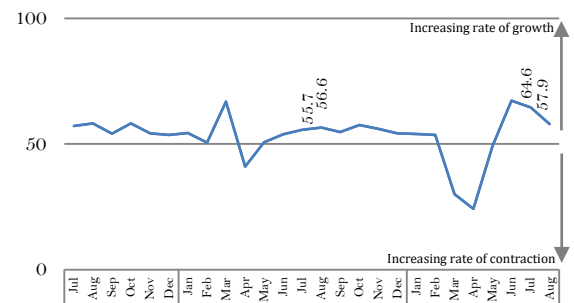
The overall expectations for manufacturing activities for the next three months improved, yet some manufacturers are still concerned that the relatively weak demand particularly from external front prevent them from reaching pre-COVID levels.

Manufacturing
PMI
Index Value

57.9

Decrease of
6.7 index points
compared to
July 2020

PMI - Manufacturing



Source: Central Bank of Sri Lanka

**The World Outlook:
Manufacturing PMI**

The global manufacturing PMI recorded a value of 51.8 in August 2020 with an increase of 1.2 index points from July 2020.

Manufacturing PMI of UK, China, USA and Eurozone continued to expand while India and Russia recovered to positive territory in August 2020 after lockdown restrictions eased amid the COVID-19.

Source: Markit¹ as at 15th September 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 third consecutive month with PMI reaching 56.0 in August 2020. This was underpinned by the expansions observed in New Businesses, Business Activities and Expectations for Activity compared to July 2020 indicating the gradual recovery of services sector activities to the pre-pandemic levels.

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

Business Activities sub index increased for the fourth successive month and reached to 66.7 signifying a swift recovery in services sector activities compared to the previous month. In line with the increase observed in apparel and pharma protective masks exports, business activities in the transportation sub-sector improved in August 2020 compared to the previous month. Further, respondents in the accommodation, food and beverage sub-sector cited that they were able to attract more domestic tourists through promotions in August 2020. Moreover, business activities related to financial services and other personal services sub-sectors also increased during the month.

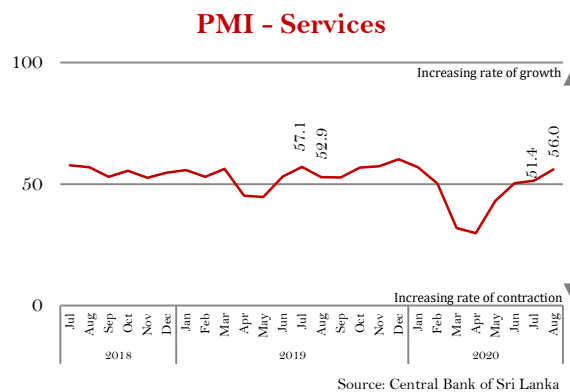
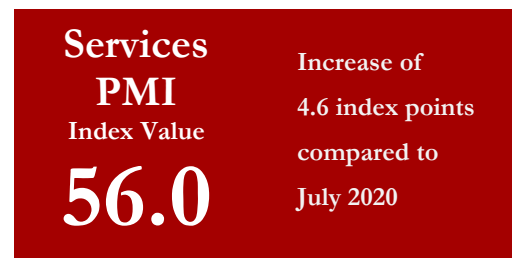
Backlogs of Work continued to remain in the negative territory indicating that any increase in demand can be met with the existing capacity.

Accordingly, Employment declined in August 2020 owing to non-extension of work agreements of the contract employees amidst halt in new recruitments.

Variable	Jul	Aug	+/-	Summary
PMI	51.4	56.0	+	Rising, Higher Rate
<u>Sub-Indices of PMI</u>				
New Businesses	53.5	58.3	+	Rising, Higher Rate
Business Activity	61.0	66.7	+	Rising, Higher Rate
Backlogs of Work	36.8	45.8	+	Falling, Slower Rate
Employment	40.0	38.2	-	Falling, Higher Rate
Expectations for Activity	65.5	70.8	+	Rising, Higher Rate

Source: Central Bank of Sri Lanka

Meanwhile, Expectations on Future Business Activities increased in August 2020 due to positive sentiments on revival of economic activities and political stability in the forthcoming period.



The World Outlook: Services PMI

Global services PMI increased to a seven-month high of 51.9 in August 2020 from 50.6 in July 2020, signalling an expansion in global service activities for the second consecutive month.

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

Source: Markit¹ as at 15th September 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.	