

KEY POINTS:

Purchasing Managers' Indices for both Manufacturing and Services activities contracted in October

Manufacturing activities indicate subdued performance in October 2020 due to adverse impacts of the second wave of COVID-19 pandemic erupted in the country in early October. Accordingly, manufacturing PMI declined to 40.3 in October 2020 with a significant decline in Production, New Orders, Employment, and Stock of Purchases sub-indices, particularly in the manufacturing of wearing apparel and food & beverages sectors.

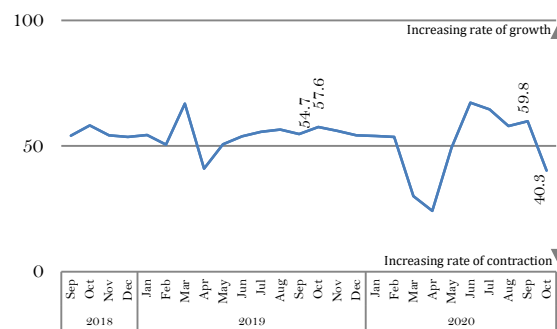
The Production of all manufacturing sectors declined significantly together with the decline of Employment in October. Many respondents in the manufacturing of food & beverages and textiles & wearing apparel sectors highlighted that their factory operations were largely disrupted due to localized curfew imposed during the month to contain the spread of the pandemic. Further, they mentioned that some employees were reluctant to report to work due to fear of the pandemic while many employers refrain from employing their full workforce following health authority guidelines, causing a significant reduction of availability of employees.

Manufacturing
PMI
Index Value

40.3

Decrease of
19.5 index
points
compared to
September 2020

PMI - Manufacturing



Source: Central Bank of Sri Lanka

Variable	Sep	Oct	+/-	Summary
PMI	59.8	40.3	-	Falling from Rising
Sub-Indices of PMI				
New Orders	61.7	43.3	-	Falling from Rising
Production	63.3	30.3	-	Falling from Rising
Employment	51.6	25.8	-	Falling from Rising
Stock of Purchases	56.9	37.1	-	Falling from Rising
Suppliers' Delivery Time	63.3	72.5	+	Lengthening, Higher Rate

Source: Central Bank of Sri Lanka

Further, Stock of Purchases sub-index also decreased at a higher pace in line with the decline in Production and New orders, as well as increased uncertainty. The Suppliers' Delivery Time sub-index lengthened at a higher pace, where many respondents highlighted that they experienced a considerable delay in port/custom clearance.

The sub-index of Expectations for manufacturing activities for the next three months declined significantly due to the ongoing second wave of the spread of the COVID-19 pandemic, particularly in the Western Province.

The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 53.0 in October 2020 with an increase of 0.6 index points from September 2020.

Manufacturing PMIs of India, UK, USA and China continued to expand at a higher rate while that of Eurozone expanded at a slower rate in October 2020. Further, Manufacturing PMI of Russia contracted during the month with the continuation of adverse impact of COVID-19.

Source: Markit¹ as at 16th November 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 41.8 in October 2020 reflecting the adverse impact of the second wave of COVID-19 pandemic on the services sector of the economy, which was gradually recovering during the past four months from the impact of first wave. This contraction was underpinned by the declines observed in all sub-indices of services PMI except for the index of backlogs of work.

New businesses, particularly in financial services and insurance sub-sectors, declined in October 2020 compared to the previous month.

Business activities also declined in October 2020 mainly in wholesale and retail trade, transportation, and accommodation, food and beverage sub-sectors with the localized curfew imposed to contain the spread of the second wave of COVID-19 pandemic. Further, business activities related to insurance and educational services sub-sectors also saw declines during the month. Moreover, 59.3% of the respondents cited that the decline in business activities is attributable to the negative impact of the second wave of COVID-19 pandemic on demand.

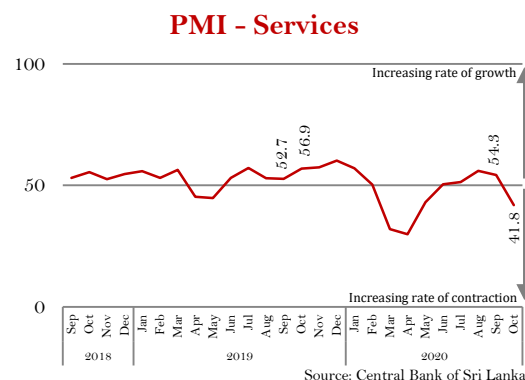
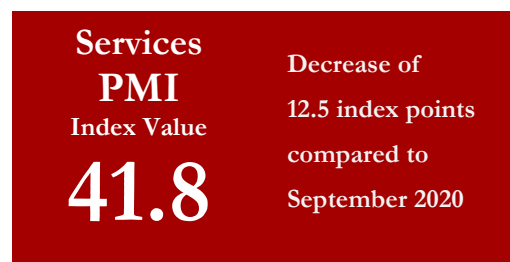
As cited by several respondents backlogs of work increased in October 2020 with the disruptions to their business activities due to the absence of employees who are resided in lockdown areas. In addition, reluctance of employees to report to work and unwillingness of employers to employ their full workforce due to the pandemic related issues have also affected the smooth operation of business activities during the month.

Variable	Sep	Oct	+/-	Summary
PMI	54.3	41.8	-	Falling from Rising
<u>Sub-Indices of PMI</u>				
New Businesses	58.9	40.1	-	Falling from Rising
Business Activity	60.4	35.7	-	Falling from Rising
Backlogs of Work	43.2	58.7	+	Rising from Falling
Employment	49.5	39.3	-	Falling, Higher Rate
Expectations for Activity	59.6	35.2	-	Falling from Rising

Source: Central Bank of Sri Lanka

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

Meanwhile, expectations on future business activities also declined in October 2020 due to the pessimism prevailing with country experiencing the second wave of COVID-19 pandemic.



The World Outlook: Services PMI

Global services PMI increased to 52.9 in October 2020 from 52.0 in September 2020, signalling an expansion in global service activities for the fourth consecutive month.

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

Source: Markit¹ as at 16th November 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.	