

KEY POINTS:

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

Benefitting from the gradual normalising of economic activities in the country, the Manufacturing PMI continued to increase in December 2020, on a month-on-month basis, recording an index value of 61.2. This was mainly attributable to the increases observed in Production, New Orders, Employment, and Stock of Purchases sub-indices.

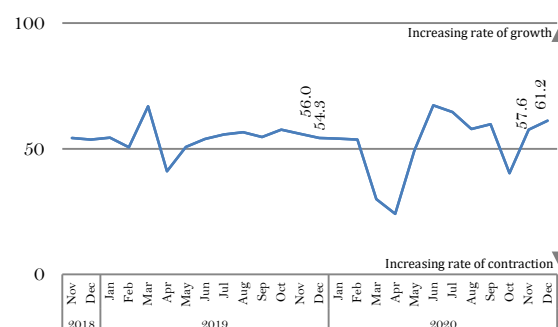
The significant increase in Production and New Orders sub-indices, particularly in the manufacture of food & beverages sector, has mainly contributed to the improvement in the overall index. Meanwhile, Employment sub index also increased during the month of December 2020. Some respondents in the manufacture of food & beverages and textiles & wearing apparel sectors highlighted that they could better utilize employees amidst the improved factory operations with increased demand.

Manufacturing
PMI
Index Value

61.2

Increase of
3.6 index points
compared to
November 2020

PMI - Manufacturing



Source: Central Bank of Sri Lanka

Variable	Nov	Dec	+/-	Summary
PMI	57.6	61.2	+	Rising, Higher Rate
Sub-Indices of PMI				
New Orders	61.8	63.5	+	Rising, Higher Rate
Production	52.2	60.1	+	Rising, Higher Rate
Employment	48.9	51.1	+	Rising from Falling
Stock of Purchases	47.2	55.6	+	Rising from Falling
Suppliers' Delivery Time	77.0	75.3	-	Lengthening, Slower Rate

Source: Central Bank of Sri Lanka

The Stock of Purchases sub-index increased significantly in line with the expansion in New Orders and Production, as well as with the intended accumulation of stocks anticipating supply chain disruptions in coming months, particularly due to upcoming Chinese new year holidays. Further, the Suppliers' Delivery Time sub-index lengthened at a slower pace in December. Many respondents mentioned that their shipments were rescheduled, causing considerable delays in arrival/clearance of required materials, mainly due to the continuous delays at the Port of Colombo.

Expectations for manufacturing activities in the next three months improved further with the expectation for the normalisation of economic activities within the country as well as in major export markets.

The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 53.8 in December 2020 with an increase of 0.1 index points from November 2020.

Manufacturing PMIs of UK, Eurozone, USA and India continued to increase at a higher rate while that of China increased at a slower rate in December 2020. Manufacturing PMI of Russia declined, yet at a slower rate, during the month with the continuation of adverse impact of COVID-19.

Source: Markit1 as at 15th January 2021

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.

Reaching 55.6, Services PMI returned to the growth territory in December 2020, after recording index values less than the threshold level of 50.0 for two consecutive months. This increase was led by the expansions observed in new businesses, business activities, backlogs of work and expectations for activity compared to November 2020, indicating a recovery in the services sector, which was affected by the second wave of COVID-19 pandemic.

New businesses increased further in December 2020, particularly with the improvements observed in financial services and insurance sub-sectors.

Business activities in the services sector increased in December 2020 after declining for two consecutive months. Accommodation, food and beverage sub-sector saw an improvement during the month mainly due to the growth in domestic tourism during the holiday season. Further, business activities in transportation, and wholesale and retail trade sub-sectors expanded owing to relaxation of travel restrictions to some extent during December 2020. Moreover, financial services and other personal services sub-sectors also experienced an increase in activities in December 2020. However, respondents in freight forwarding and import trade cited their concerns over import restrictions.

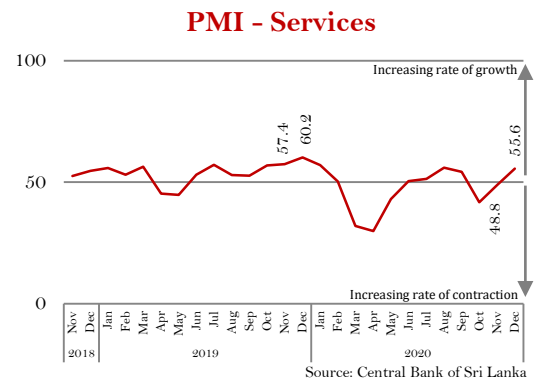
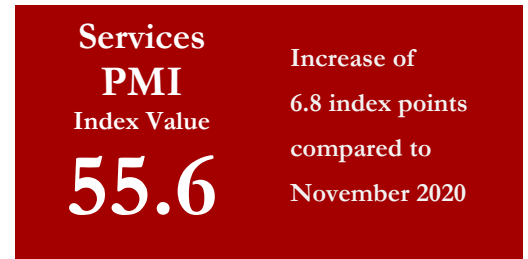
Employment sub-index increased reflecting a moderation of decline in employment in December 2020 since some firms have started to hire new employees in line with the rise in business activities.

Backlogs of work slowed down in December 2020 indicating comparatively lesser disruptions to business activities compared with the previous month.

Variable	Nov	Dec	+/-	Summary
PMI	48.8	55.6	+	Rising from Falling
<u>Sub-Indices of PMI</u>				
New Businesses	50.5	55.0	+	Rising, Higher Rate
Business Activity	43.0	64.5	+	Rising from Falling
Backlogs of Work	39.0	44.4	+	Falling, Slower Rate
Employment	58.5	51.6	-	Rising, Slower Rate
Expectations for Activity	53.0	62.5	+	Rising, Higher Rate

Source: Central Bank of Sri Lanka

Expectations on future business activities increased notably in December 2020 with increased optimism on the recovery of economic activities that were affected by the second wave of COVID-19 pandemic.



The World Outlook: Services PMI

Global services PMI declined to 51.8 in December 2020 from 52.2 in November 2020, signalling slowdown in expansion of global service activities.

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

Source: Markit¹ as at 15th January 2021

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.	