

KEY POINTS:

Purchasing Managers' Indices for both Manufacturing and Services activities expanded in January 2021

Manufacturing PMI remained expanded in January 2021 recording an index value of 60.2 owing to the expansion in New Orders and Production. The increase of Stock of Purchases sub-index also contributed to the overall expansion of the PMI.

New Orders and Production sub-indices remained at healthy levels especially in manufacture of food & beverages sector following the festival season. However, some respondents in this sector highlighted that lower than expected demand due to the COVID-19 situation affected the business activities.

The Employment expanded at a higher rate during this period with new recruitments. However, some manufacturers highlighted that they had to struggle to complete their production on time due to the lack of employee availability mainly with the pandemic related health concerns.

Variable	2020 Dec	2021 Jan	+/-	Summary
PMI	61.2	60.2	-	Rising, Slower Rate
Sub-Indices of PMI				
New Orders	63.5	60.9	-	Rising, Slower Rate
Production	60.1	57.1	-	Rising, Slower Rate
Employment	51.1	51.6	+	Rising, Higher Rate
Stock of Purchases	55.6	59.8	+	Rising, Higher Rate
Suppliers' Delivery Time	75.3	76.1	+	Lengthening, Higher Rate

Source: Central Bank of Sri Lanka

Although the New Orders and Production expanded at a slower pace, the Stock of purchases expanded at a higher rate due to depleting of stocks previously held and intended accumulation of stocks for future requirements, anticipating supply disruptions, due to upcoming Chinese New Year holidays. Further, the Suppliers' Delivery Time sub-index lengthened at a higher pace during the month. Many respondents mentioned that their shipments were delayed due to issues related to port /shipping

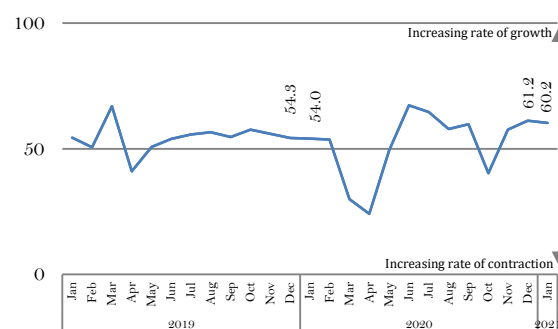
Expectations for manufacturing activities in the next three months improved further with the expectation for the normalisation of economic activities within the country as well as in major export markets.

Manufacturing
PMI
Index Value

60.2

Decrease of
1.0 index points
compared to
December 2020

PMI - Manufacturing



Source: Central Bank of Sri Lanka

The World Outlook:
Manufacturing PMI

The global manufacturing PMI recorded a value of 53.5 in January 2021 with a decrease of 0.3 index points from December 2020.

Manufacturing PMIs of USA, India and Russia continued to increase at a higher rate while those of UK, China and Eurozone increased at a slower rate in January 2021.

Source: Markit¹ as at 15th February 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.

Starting the year with a positive note, services sector PMI recorded a value of 56.2 in January 2021. This indicates a further recovery in the services sector, which was affected by the second wave of COVID-19 pandemic. This increase was underpinned by the expansions observed in new businesses, business activities and expectations for activity.

New businesses increased in January 2021, particularly with the improvements observed in financial services, transportation, and wholesale and retail trade sub-sectors.

Business activities in the services sector increased in January 2021 for the second consecutive month. Goods and passenger transportation sub-sector recorded an improvement during the month with people adopting to the new normal environment. Business activities in accommodation, food and beverage sub-sector improved further with the gradual recovery in domestic tourism owing to the promotional discounts offered during the period. Moreover, financial services, education and other personal services sub-sectors also experienced an increase in business activities in January 2021. However, respondents in import trade continuously cited their concerns over restrictions on non-essential imports.

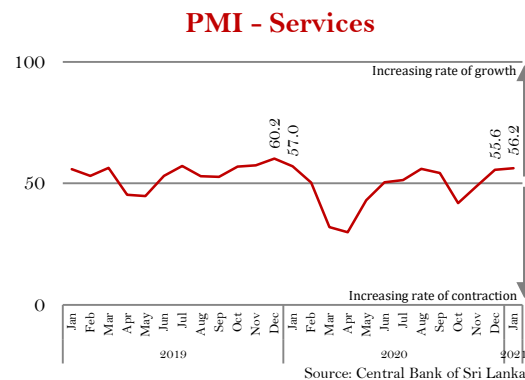
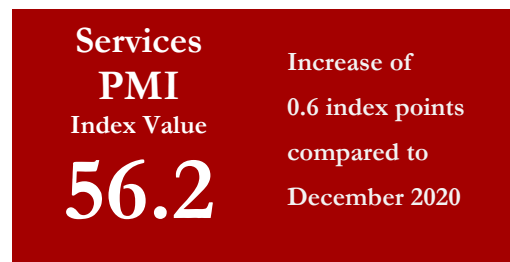
Employment declined in January 2021 due to non-extension of work agreements of the contract employees and retirements amidst delays in new recruitments.

Backlogs of work increased in January 2021 due to the disruptions to business activities caused by the COVID-19 pandemic related health concerns.

Variable	2020 Dec	2021 Jan	+/-	Summary
PMI	55.6	56.2	+	Rising, Higher Rate
<u>Sub-Indices of PMI</u>				
New Businesses	55.0	55.2	+	Rising, Higher Rate
Business Activity	64.5	60.9	-	Rising, Slower Rate
Employment	44.4	43.8	-	Falling, Higher Rate
Backlogs of Work	51.6	53.3	+	Rising, Higher Rate
Expectations for Activity	62.5	67.7	+	Rising, Higher Rate

Source: Central Bank of Sri Lanka

Expectations on future business activities increased further in January 2021 due to the increased optimism on the recovery of economic activities that were affected by the second wave of COVID-19 pandemic with people adopting to the new normal environment.



The World Outlook: Services PMI

Global services PMI declined to 51.6 in January 2021 from 51.8 in December 2020, signalling slowdown in expansion of global service activities.

Services PMIs of USA, China and India indicated that their services sectors expanded in January 2021 compared to the previous month, while that of Japan and UK indicated a deterioration.

Source: Markit¹ as at 15th February 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.	