

## KEY POINTS:

Purchasing Managers' Indices for both Manufacturing and Services activities indicated a subdued performance in May 2022.

**Manufacturing PMI recorded an index value of 50.3 in May 2022, with an increase of 13.9 index points from the seasonally low value in the month of April.** The slight edging up of the PMI was mainly due to the recovery of Employment and the lengthening of Suppliers' Delivery Time. Even though the lengthening of Suppliers' Delivery Time generally reflects the expansion in the manufacturing activities, in this instance it was primarily due to supply side impediments arising from clearance delays of imported goods and fuel shortage. Moreover, Employment edged up during the month, particularly in the manufacture of textiles & apparel sector, partly due to cross-industry employee movements.

Meanwhile, New Orders, Production and Stock of Purchases remained contracted on a month-on-a-month basis, yet at a slower pace, indicating subdued performance in Manufacturing activities in May 2022. The subdued performance in Production and New Orders were particularly witnessed in the manufacture of food & beverage sector. The contraction in the New Orders was partly due to the ending of the festive month. Further, some respondents mentioned that deterioration of purchasing power due to high inflation together with cautious consumer spending amidst prolonged uncertainty over economic woes resulted in the decline in demand, particularly for the goods in non-essential nature. Moreover, Production process of the manufacturing sector has severely hit by numerous supply-side constraints, including a shortage of materials and the ongoing power outages. Further, the Stock of Purchases declined mainly due to the unavailability of required quantities in the domestic market and difficulties in opening letters of credit for importing materials, forcing many producers to significantly slow down their production.

Variable	Apr. 2022	May. 2022	+/-	Summary
<b>PMI</b>	<b>36.4</b>	<b>50.3</b>	<b>+</b>	<b>Rising from Falling</b>
<b>Sub-Indices of PMI</b>				
New Orders	32.0	47.5	+	Falling, Slower Rate
Production	19.0	44.5	+	Falling, Slower Rate
Employment	43.4	51.0	+	Rising from Falling
Stock of Purchases	28.0	49.4	+	Falling, Slower Rate
Suppliers' Delivery Time	70.6	71.7	+	Lengthening, Higher Rate

Source: Central Bank of Sri Lanka

For the next three months, the overall expectations for manufacturing activities continued to deteriorate compared to the previous month due to the prevailing uncertain economic environment in the country.

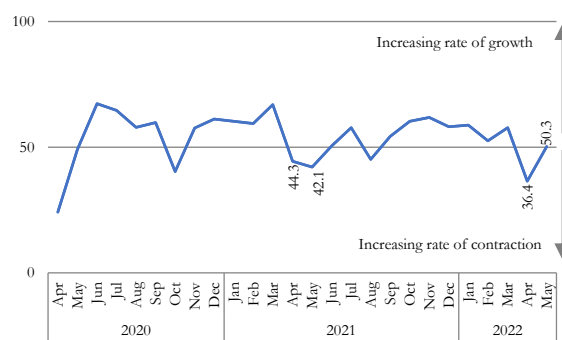
## Manufacturing PMI

Index Value

**50.3**

Increase of 13.9  
index points  
compared to  
April 2022

### PMI - Manufacturing



Source: Central Bank of Sri Lanka

## The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 52.4 in May 2022, with an increase of 0.1 index points from April.

Manufacturing PMIs of Singapore and Russia improved at a higher pace in May 2022 while it increased at a slower rate in Eurozone, USA, UK and India compared to the previous month. However, the manufacturing PMI of China deteriorated in May 2022 compared to the previous month.

Source: S&P Global<sup>1</sup> as at 13<sup>th</sup> June, 2022

<sup>1</sup>S&P Global is identified as the global PMI compiler and compiles PMIs for over 30 countries and also for key regions including the Eurozone.

**Services PMI dropped marginally to an index value of 42.4 in May 2022 indicating a contraction in services activities for the second consecutive month.** This was due to the declines in New Businesses, Business Activities, Employment and Expectations for Activity sub-indices.

New Businesses declined further in May 2022 compared to April 2022, particularly with the decreases observed in accommodation, food and beverage, wholesale and retail trade, real estate, and education sub-sectors.

Decline observed in Business Activities in May was mainly due to supply-side constraints including prolonged power outages and energy shortage. In addition, subdued demand attributable to rising prices and uncertainties in the country also contributed to the decline in business activities. Meanwhile, the civil unrest occurred at the beginning of the month also had a negative effect on the business activities. Accordingly, wholesale and retail trade, other personal activities and transportation sub-sectors recorded major declines during the month. In addition, business activities of accommodation, food and beverage sub-sector was also affected by the continued drop in tourist arrivals.

Employment continued to decline in May due to terminations in line with the decline in business activities, retirements and resignations. Meanwhile, power outages, supply shortages and transportation difficulties led Backlogs of Work to increase further during the month.

Variable	Apr.	May.	+/-	Summary
<b>PMI</b>	<b>43.8</b>	<b>42.4</b>	<b>-</b>	<b>Falling, Higher Rate</b>
<b>Sub-Indices of PMI</b>				
New Businesses	41.5	45.5	+	Falling, Slower Rate
Business Activity	40.5	39.0	-	Falling, Higher Rate
Employment	49.5	38.5	-	Falling, Higher Rate
Backlogs of Work	52.8	51.6	-	Rising, Slower Rate
Expectations for Activity	34.7	37.4	+	Falling, Slower Rate

Source: Central Bank of Sri Lanka

Expectations for Business Activities for the next three months deteriorated further in May due to supply-side constraints, inflationary pressure, and economic and political uncertainties in the country. Further, some respondents were also concerned over increase in interest rates and taxes, whereas some were optimistic on the progress made on IMF discussions and exchange rate

### 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

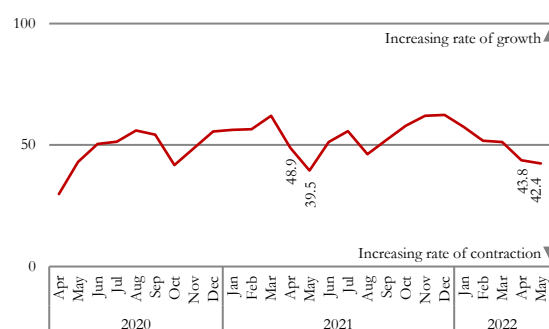
Other variables are self-explanatory.

**Services  
PMI  
Index Value**

**42.4**

**Decrease of  
1.4 index points  
compared to  
April 2022**

**PMI - Services**



Source: Central Bank of Sri Lanka

### The World Outlook: Services PMI

Global services PMI posted 52.2 in May 2022 unchanged from April 2022 to indicate an expansion in global services activities.

Services PMIs of USA, India, UK and Japan indicated that their services sectors expanded in May 2022 compared to the previous month, while that of China indicated a deterioration.

Source: S&P Global<sup>1</sup> as at 13<sup>th</sup> June 2022