

KEY POINTS:

Purchasing Managers' Indices for both Manufacturing and Services activities decreased in July 2022.

Manufacturing PMI declined in July 2022, indicating a contraction in manufacturing activities on a month-on-month basis. Accordingly, Manufacturing PMI recorded an index value of 41.4 in July 2022, with a decline of 2.7 index points from the previous month driven by the decreases in all the sub-indices, except Suppliers' Delivery Time.

The decline in New Orders in July 2022 over the previous month was mainly due to subdued demand conditions, particularly in the manufacture of food & beverage sector. Deterioration of consumer purchasing power and reduced retail footfall due to fuel shortage were among the major reasons for the subdued demand condition. Meanwhile, Production declined on a month-on-month basis, particularly in the manufacture of food & beverage sector, which was a combined outcome of subdued demand conditions and supply side concerns such as shortage of materials and fuel. Employment also declined, particularly in the manufacture of food & beverage sector, mainly due to the discontinuation of casual employees. However, many respondents from the manufacture of textile and apparel sector mentioned that they were able to increase the employment count during the month. The decline in the Stock of Purchases was in line with the decline in New Orders and Production, and partly due to the unavailability of required quantities of inputs in the domestic market and difficulties in importing materials. Moreover, the Suppliers' Delivery Time lengthened during the month, mainly on account of vessel delays, and diesel shortage.

Variable	Jun.	Jul.	+/-	Summary
PMI	44.1	41.4	-	Falling, Higher Rate
Sub-Indices of PMI				
New Orders	38.3	39.0	+	Falling, Slower Rate
Production	36.2	32.0	-	Falling, Higher Rate
Employment	45.7	45.0	-	Falling, Higher Rate
Stock of Purchases	34.8	32.7	-	Falling, Higher Rate
Suppliers' Delivery Time	72.8	62.6	-	Lengthening, Slower Rate

Source: Central Bank of Sri Lanka

Expectations for manufacturing activities for the next three months remained in the negative territory, as manufacturers are concerned over the subdued demand conditions in addition to the continuation of supply-side constraints.

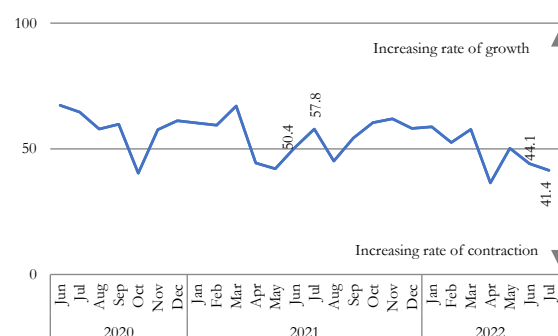
Manufacturing PMI

Index Value

41.4

Decrease of 2.7
index points
compared to
June 2022

PMI - Manufacturing



Source: Central Bank of Sri Lanka

The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 51.1 in July 2022, with a decrease of 1.1 index points from June.

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

Source: S&P Global ¹ as at 14th August, 2022

¹S&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 recorded an index value of 43.0 in July 2022 indicating a contraction in services activities for the fourth consecutive month. This continual contraction was driven by the declines observed in New Businesses, Business Activities, Employment and Expectations for Activity.

New Businesses contracted further in July 2022 compared to June 2022, particularly with the deteriorations observed in transportation, real estate and accommodation, food and beverage sub-sectors.

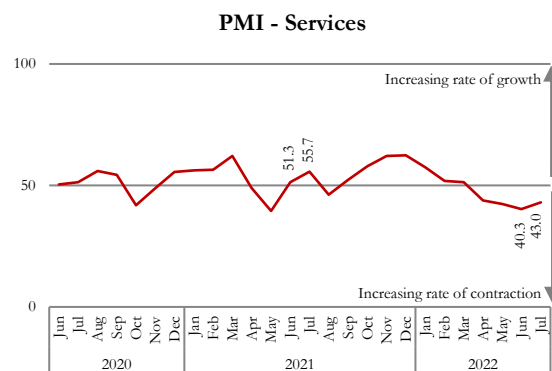
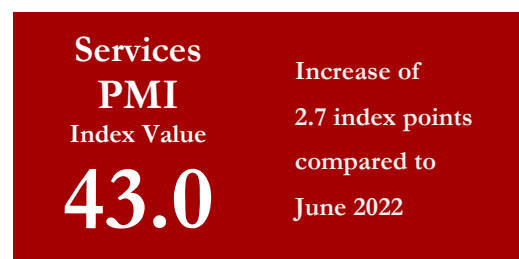
Business Activities dropped further in July with the decreases observed across most of the sub-sectors amid the severe fuel shortage experienced during the month. In addition, as continuously highlighted by many respondents, the other supply side constraints as well as the subdued demand, driven by weakened economic conditions, price escalations and travel limitations also affected the business activities in the services sector negatively. Accordingly, transportation, accommodation, food and beverage and other personal activities sub-sectors recorded considerable deteriorations during the month.

Employment continued to fall in July due to freeze in new recruitments and non-renewal of existing employment contracts amid subdued business activities, retirements and resignations. Meanwhile, Backlogs of Work increased further during the month with supply shortages, especially related to fuel, transportation difficulties faced by staff and power outages.

Variable	Jun.	Jul.	+/-	Summary
PMI	40.3	43.0	+	Falling, Slower Rate
<u>Sub-Indices of PMI</u>				
New Businesses	43.2	41.2	-	Falling, Higher Rate
Business Activity	35.1	36.9	+	Falling, Slower Rate
Employment	38.9	36.7	-	Falling, Higher Rate
Backlogs of Work	52.2	52.2	=	Rising, Same Rate
Expectations for Activity	32.3	48.0	+	Falling, Slower Rate

Source: Central Bank of Sri Lanka

Expectations for Business Activities for the next three months weakend, yet at a slower pace, due to the continuous struggle firms endure amid various supply side uncertainties in the country.



Source: Central Bank of Sri Lanka

The World Outlook: Services PMI

Global services PMI posted 51.1 in July 2022 from 53.9 in June 2022 to indicate an expansion in global services activities.

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

Source: S&P Global¹ as at 14th August 2022

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.