

KEY POINTS:

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

Manufacturing PMI declined in October 2022, indicating a contraction in manufacturing activities on a month-on-month basis. Accordingly, Manufacturing PMI recorded an index value of 38.4 in October 2022, with a decline of 4.2 index points from the previous month, driven by decreases recorded in all the sub-indices.

New Orders and Production declined significantly, particularly in the manufacture of food & beverages and textiles & wearing apparel sectors, mainly due to demand-side impediments. Many respondents representing the food & beverages sector mentioned they experienced a notable decline in demand amidst the deteriorating purchasing power of the consumers. Further, export-oriented manufacturers, especially in the apparel sector catering to the North American and European markets, highlighted that the decline in demand observed was mainly attributable to the fear of an economic slowdown in respective destinations. Moreover, manufacturers are still struggling to acquire the required raw materials amidst high input costs. Furthermore, Employment recorded a decrease in October 2022 while Stock of Purchases also decreased in line with the decline in New Orders and Production. Meanwhile, Suppliers' Delivery Time was shortened in October 2022 compared to the previous month.

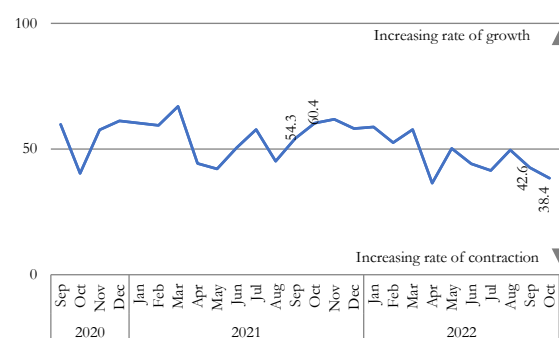
Manufacturing PMI

Index Value

38.4

Decrease of 4.2
index points
compared to
September 2022

PMI - Manufacturing



Source: Central Bank of Sri Lanka

The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 49.4 in October 2022, with a decrease of 0.4 index points from September.

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

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

¹S&P Global is identified as the global PMI compiler and compiles PMIs for over 40 economies worldwide.

Variable	Sep.	Oct.	+/-	Summary
PMI	42.6	38.4	-	Falling, Higher Rate
Sub-Indices of PMI				
New Orders	37.5	33.0	-	Falling, Higher Rate
Production	39.0	32.5	-	Falling, Higher Rate
Employment	50.5	47.0	-	Falling from Rising
Stock of Purchases	38.9	35.9	-	Falling, Higher Rate
Suppliers' Delivery Time	51.0	49.0	-	Shortening from Lengthening

Source: Central Bank of Sri Lanka

Expectations for manufacturing activities for the next three months remained in the negative territory anticipating demand side impediments to continue in the period ahead.

Services PMI dropped below the neutral threshold to an index value of 47.9 in October 2022 due to the declines observed in New Businesses, Employment and Backlogs of Work. Nevertheless, Business Activities and Expectations for Activity continued its increasing momentum during the month.

New Businesses declined slightly in October 2022 compared to September 2022, particularly with the decreases observed in real estate, insurance, and postal and courier activities sub-sectors.

Business Activities in the services sector increased for the fourth straight month in October 2022 in line with the improvements in economic conditions. Accordingly, business activities related to other personal activities, financial services, education, professional services, and programming and broadcasting sub-sectors showed improvements compared to the previous month. However, business activities specifically in wholesale and retail trade, and real estate sub-sectors declined mainly due to diminishing purchasing power of consumers, increase in Value Added Tax (VAT) and imposition of Social Security Contribution Levy (SSCL).

Employment continued to fall in October due to increasing resignations, migrations and retirements in addition to halt in new recruitments. Meanwhile, Backlogs of Work continued to drop during the month amid reduction in new businesses.

Variable	Sep.	Oct.	+/-	Summary
PMI	51.2	47.9	-	Falling from Rising
<u>Sub-Indices of PMI</u>				
New Businesses	56.3	49.0	-	Falling from Rising
Business Activity	58.3	54.2	-	Rising, Slower Rate
Employment	39.6	33.9	-	Falling, Higher Rate
Backlogs of Work	44.0	44.6	+	Falling, Slower Rate
Expectations for Activity	57.8	57.9	+	Rising, Higher Rate

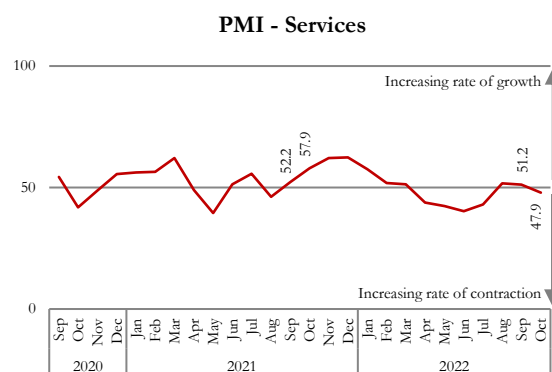
Source: Central Bank of Sri Lanka

Expectations for Business Activities for the next three months improved further due to the festive season and expectations on improvements in economic conditions. However, as continuously mentioned by many respondents supply-side constraints, high direct and indirect taxes, cost of capital, and input prices remain detrimental to their business operations.

Services
PMI
Index Value

47.9

Decrease of
3.3 index points
compared to
September 2022



Source: Central Bank of Sri Lanka

The World Outlook: Services PMI

Global services PMI posted 49.2 in October 2022 from 50.0 in September 2022 to signal a decline in global services activities.

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

Source: S&P Global ¹ as at 14th November 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.