In January 2023, Purchasing Managers Indices indicated that Services activities remained slightly expanded while Manufacturing activities continued to deteriorate.

Manufacturing PMI signals a continued setback in manufacturing activities on a month-on-month basis in January 2023. Accordingly, Manufacturing PMI recorded an index value of 40.8 in January 2023, with a decline of 4.0 index points from the previous month driven by the decreases in all the sub-indices, except Suppliers' Delivery Time.

The decline in New Orders and Production was mainly attributable to the subdued demand condition observed, particularly in the manufacture of food & beverages, and textiles & wearing apparel sectors. Many respondents involved in the manufacture of food and beverages mentioned they experienced a notable decline in demand mainly due to the deteriorating purchasing power of the consumers, in addition to the seasonal drop in demand following the December festival season. Export-oriented manufacturers such as those in the textiles & wearing apparel sector observed that the export demand remains subdued amidst a slowdown in major export destination economies, forcing them to run factories significantly below the full capacity. Meanwhile, Employment and Stock of Purchases also declined in line with the decline in New Orders and Production. Many respondents mentioned that they intentionally reduced material purchases with the inventory build-up. Further, Suppliers' Delivery Time lengthened in January 2023, compared to the previous month on a month-on-month basis.

Variable	Dec. 2022	Jan. 2023	+/-	Summary
PMI	**44.8**	**40.8**	**-**	**Falling, Higher Rate**
Sub-Indices of PMI				
New Orders	45.5	38.0	-	Falling, Higher Rate
Production	40.5	37.5	-	Falling, Higher Rate
Employment	44.5	41.0	-	Falling, Higher Rate
Stock of Purchases	41.9	35.5	-	Falling, Higher Rate
Suppliers' Delivery Time	53.0	55.0	+	Lengthening, Higher Rate

Source: Central Bank of Sri Lanka

Expectations for manufacturing activities for the next three months indicated an improvement, anticipating an increase in demand during the upcoming festive season, despite the decline in disposable income.

Manufacturing PMI
January 2023
40.8
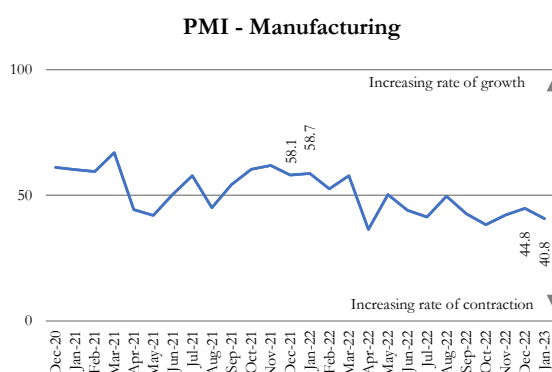
PMI - Manufacturing

Source: Central Bank of Sri Lanka

The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 49.1 in January 2023, with an increase of 0.4 index points from December 2022.

Manufacturing PMI of Singapore improved at a higher pace in January 2023 while it increased at a slower rate in India and Russia compared to the previous month. However, manufacturing PMIs of Eurozone, UK, USA and China deteriorated in January 2023 compared to the previous month.

Source: S&P Global [1] as at 14th February, 2023

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

Services PMI recorded an index value of 50.2 in January 2023, remaining slightly above the threshold level. This was underpinned by the improvements observed in New Businesses, Business Activities and Expectations for Activity.

New Businesses improved at a faster pace in January 2023 compared to December 2022, particularly with the increases observed in financial services, education and real estate sub-sectors.

Business Activities in the services sector continued to increase at a slower pace in January 2023. Accordingly, financial services, education and telecommunication sub-sectors showed improvements during the month. Further, in line with the increase in tourist arrivals, there were some improvements in business activities related to other personal activities and accommodation, food and beverages sub-sectors. However, business activities related to wholesale and retail trade sub-sector continued to deteriorate amid off season and reduced purchasing power of consumers. Furthermore, transportation sub-sector also declined due to decrease in freight volumes, particularly related to textiles & wearing apparel sector.

Employment declined in January at a faster pace due resignations, migrations and retirements occurred during the month. Backlogs of Work also decreased at a faster pace during the month.

Variable	Dec. 2022	Jan. 2023	+/-	Summary
PMI	**51.6**	**50.2**	**-**	Rising, Slower Rate
Sub-Indices of PMI				
New Businesses	52.0	56.0	+	Rising, Higher Rate
Business Activity	54.0	51.5	-	Rising, Slower Rate
Employment	45.5	39.4	-	Falling, Higher Rate
Backlogs of Work	47.4	44.1	-	Falling, Higher Rate
Expectations for Activity	59.0	60.1	+	Rising, Higher Rate

Source: Central Bank of Sri Lanka

Expectations for Business Activities for the next three months continued to improve amid upcoming festive season. Positive sentiments on improvements in the economic conditions also lifted the expectations further. Nevertheless, reduced purchasing power along with new tax structure and proposed electricity rate hike were mentioned by some respondents as detrimental towards their future activities.
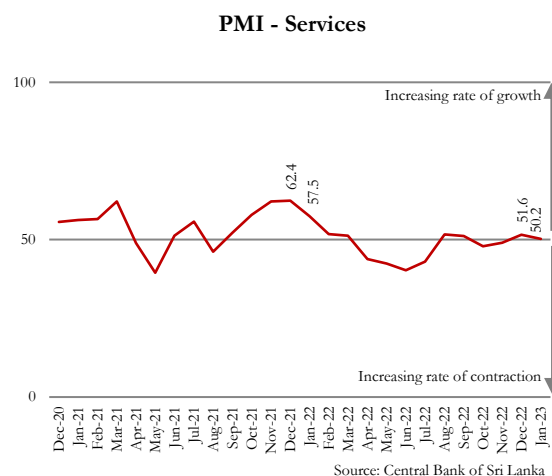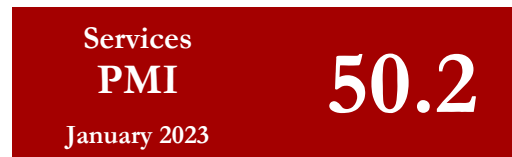
PMI - Services

Source: Central Bank of Sri Lanka

The World Outlook: Services PMI

Global services PMI rose to 50.1 in January 2023 from 48.1 in December 2022, signalling an expansion in global services activities.

Services PMIs of China, India and Japan indicated that their services sectors expanded in January 2023 compared to the previous month, while PMIs in UK and US indicated a deterioration in their services activities.

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Source: S&P Global [1] as at 14th February 2023

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
Other variables are self-explanatory.