

### Purchasing Managers' Indices for both Manufacturing and Services activities contracted in February 2023

**Manufacturing PMI recorded an index value of 42.3 in February, indicating a continued setback in manufacturing activities on a month-on-month basis.** This setback was driven by subdued performance observed in New Orders, Production, Employment and Stock of Purchases .

The decline in New Orders and Production was mainly driven by subdued demand observed in the manufacture of food & beverages, and textile & wearing apparel sectors. Many respondents representing the food & beverages sector mentioned that the decline in demand was mainly due to deterioration of purchasing power of the consumers. However, they expect demand to increase on a month on month basis, targeting the festive season in April. Further, many manufacturers mentioned that the latest round of electricity tariff hike adversely affected their cost structure. Meanwhile, Employment and Stock of Purchases also continued to decline in line with the decline in New Orders and Production. It was observed that the manufacturers maintained material stock inventory at a minimum level, considering subdued demand conditions and the declining trend of global commodity prices, freight and exchange rates. Further, Suppliers' Delivery Time remained unchanged at the previous month's level.

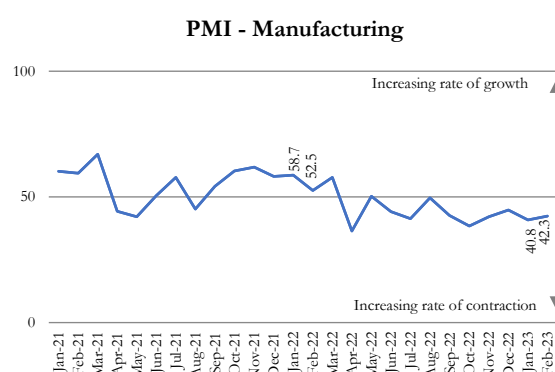
Variable	Jan.	Feb.	+/-	Summary
<b>PMI</b>	<b>40.8</b>	<b>42.3</b>	<b>+</b>	<b>Falling, Slower Rate</b>
Sub-Indices of PMI				
New Orders	38.0	41.5	+	Falling, Slower Rate
Production	37.5	40.0	+	Falling, Slower Rate
Employment	41.0	40.0	-	Falling, Higher Rate
Stock of Purchases	35.5	43.5	+	Falling, Slower Rate
Suppliers' Delivery Time	55.0	50.0	-	Remain Unchanged

Source: Central Bank of Sri Lanka

Expectations for manufacturing activities for the next three months indicated an improvement, anticipating an increase in demand and production targeting the upcoming festive season, despite the adverse impact of the decline in disposable income.

**Manufacturing  
PMI**  
February 2023

# 42.3



Source: Central Bank of Sri Lanka

### The World Outlook: Manufacturing PMI

The global manufacturing PMI reached the neutral threshold of 50.0 in February 2023, with an increase of 0.9 index points from January 2023.

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

Source: S&P Global<sup>1</sup> as at 14<sup>th</sup> March, 2023

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

**Services sector PMI dropped to an index value of 48.7 in February 2023 indicating a deterioration across the services sector.** This was driven by the declines observed in New Businesses, Business Activities, Employment and Backlogs of Work.

New Businesses declined in February 2023 compared to January 2023, particularly with the decreases observed in transportation, insurance and postal and courier sub-sectors.

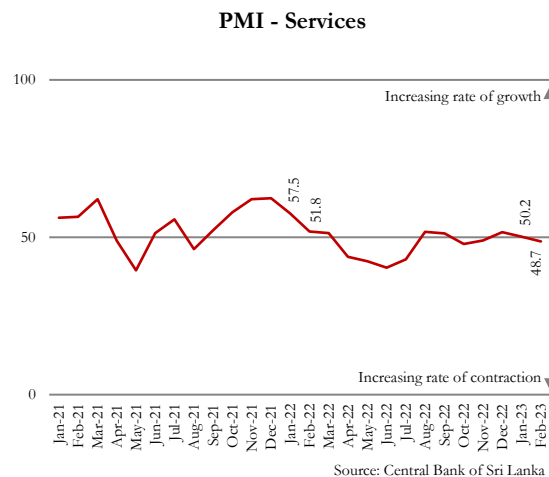
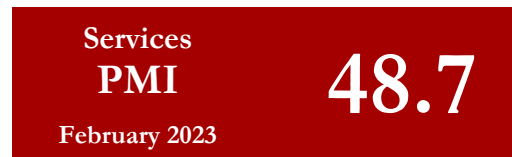
Business Activities in the services sector declined in February 2023 after six months of continuous growth. Accordingly, business activities related to wholesale and retail trade sub-sector continued to deteriorate amid subdued consumer demand driven by diminishing purchasing power. Further, transportation sub-sector also continued to decline due to drop in freight volumes. Meanwhile, human health, insurance and postal and courier sub-sectors also showed decreases during the month. Nevertheless, financial sector continued to improve with the improvements in deposits.

Employment continued to decline in February due to resignations, migrations and retirements occurred during the month. Meanwhile, Backlogs of Work also decreased during the month in line with the reduction in new businesses.

Variable	Jan.	Feb.	+/-	Summary
<b>PMI</b>	<b>50.2</b>	<b>48.7</b>	<b>-</b>	<b>Falling from Rising</b>
<u>Sub-Indices of PMI</u>				
New Businesses	56.0	49.0	-	Falling from Rising
Business Activity	51.5	45.0	-	Falling from Rising
Employment	39.4	42.5	+	Falling, Slower Rate
Backlogs of Work	44.1	43.6	-	Falling, Higher Rate
Expectations for Activity	60.1	63.5	+	Rising, Higher Rate

Source: Central Bank of Sri Lanka

Expectations for Business Activities for the next three months improved in February amid increase in tourist arrivals, upcoming festive season and expectations on greater economic stability. Nevertheless, some respondents expressed their concerns over shrinking margins in line with high taxes and electricity tariff and subdued demand due to decline in disposable income.



### The World Outlook: Services PMI

Global services PMI rose to 52.6 in February 2023 from 50.0 in January 2023, signalling an expansion in global services activities.

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

Source: S&P Global<sup>1</sup> as at 14<sup>th</sup> March 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.