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SL Purchasing Managers' Index (PMI) – May 2021

Purchasing Managers' Indices for both Manufacturing and Services activities contracted in May

Manufacturing activities contracted during May due to adverse impacts of the third wave of COVID-19 pandemic. The manufacturing PMI recorded an index value of 42.1 in May 2021 with a fall of 2.2 index points from the previous month, mainly driven by the significant contraction in Production, Employment, New Orders and Stock of Purchases sub-indices.

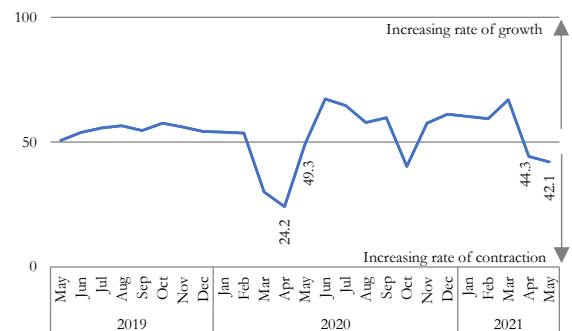
The Production, especially in the manufacture of food & beverages and textiles & wearing apparel sectors, declined significantly together with the decline of Employment mainly due to the continued increase in absents without informing. On top of this, many respondents in those sectors highlighted that their production plans were largely disrupted due to a significant reduction of availability of employees amidst the mobility restrictions imposed in mid-May.

Manufacturing
PMI
 Index Value

42.1

Decrease of
 2.2 index points
 compared to
 April 2021

PMI - Manufacturing



Source: Central Bank of Sri Lanka

Variable	Apr	May	+/-	Summary
PMI	44.3	42.1	-	Contracting, Higher Rate
Sub-Indices of PMI				
New Orders	44.3	42.4	-	Contracting, Higher Rate
Production	33.0	27.9	-	Contracting, Higher Rate
Employment	44.9	38.4	-	Contracting, Higher Rate
Stock of Purchases	40.9	36.0	-	Contracting, Higher Rate
Suppliers' Delivery Time	64.8	73.8	+	Lengthening, Higher Rate

Source: Central Bank of Sri Lanka

The New Orders also declined during the month, especially in the manufacture of food & beverages sector, with the end of seasonal demand and the resurgence of the pandemic. In line with these developments and the deterioration in accumulated stocks of raw material, the Stock of Purchases contracted.

The Suppliers' Delivery Time further lengthened at a higher pace in May 2021 mainly due to the delays in receiving imported and local supplies. Further, many respondents highlighted that elevated freight rates increased the cost of imported raw materials and affected adversely on profit margins.

The sub-index of Expectations for manufacturing activities for the next three months increased with the positive anticipation on the normalisation of economic activities in the coming months supported by the progress of COVID-19 vaccination programme and the curtailing the pandemic with mobility restrictions.

The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 56.0 in May 2021 with an increase of 0.2 index points from April 2021.

Manufacturing PMIs of UK, USA, Russia, Eurozone and China increased at higher rates while that of India increased at a slower pace in May 2021.

Source: Markit¹ as at 14th June 2021

¹ Markit is a leading global diversified provider of financial information services. It is identified as the global PMI compiler and compiles PMIs for over 30 countries and for key regions including the Eurozone.

In line with the escalation of the third wave of COVID-19 pandemic, Services PMI dropped further to 39.5 in May 2021, recording the lowest reading since April 2020. This decline was underpinned by the deteriorations observed in new businesses, business activities, employment and expectations for activity.

New businesses in the services sector declined at a faster pace in May 2021 compared to April 2021 with declines observed in most sub-sectors. However, the human health activities sub-sector saw an improvement with the setup of new COVID-19 treatment centers.

Business activities in the services sector saw a sharper decline in May 2021. Declines were observed almost across all the sub-sectors caused by the drop in demand for non-essentials and constraints to business operations amid travel restrictions imposed to contain the spread of the third wave of COVID-19 pandemic. Wholesale and retail trade, other personal activities and accommodation, food and beverage, and professional services sub-sectors contributed the most towards the decline in overall business activities. Nevertheless, business activities in human health activities, and IT programming consultancy and related activities sub-sectors remained at the same level as in the previous month.

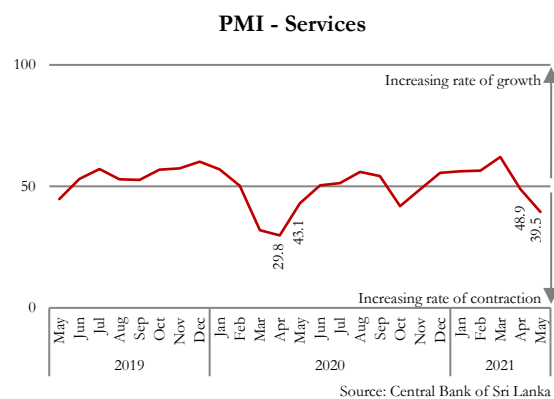
Employment continued to decline in May 2021 due to retirements, resignations and contract expirations amid the absence of new recruitments.

Backlogs of work increased further in May 2021 with continued localized lockdowns and island wide travel restrictions imposed towards the latter part of the month.

Services PMI
Index Value

39.5

Decrease of 9.4 index points compared to April 2021



Variable	Apr	May	+/-	Summary
PMI	48.9	39.5	-	Falling, Higher Rate
<u>Sub-Indices of PMI</u>				
New Businesses	48.9	36.3	-	Falling, Higher Rate
Business Activity	47.9	28.9	-	Falling, Higher Rate
Employment	48.4	32.8	-	Falling, Higher Rate
Backlogs of Work	54.4	60.9	+	Rising, Higher Rate
Expectations for Activity	44.7	38.6	-	Falling, Higher Rate

Source: Central Bank of Sri Lanka

Expectations for business activities for the next three months weakened further in May 2021 due to the anxiety among businesses about growth prospects with the intensification of COVID-19 pandemic.

The World Outlook: Services PMI

Global services PMI increased to 59.4 in May 2021 from 57.0 in April 2021, signalling a further expansion of global service activities.

Services PMIs of USA, China and UK indicated that their services sectors expanded in May 2021 compared to the previous month, while that of India and Japan indicated a deterioration.

Source: Markit¹ as at 14th June 2021

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.