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SL Purchasing Managers' Index (PMI) – August 2021

Purchasing Managers' Indices for both Manufacturing and Services activities contracted in August 2021

The resurgence of the COVID-19 pandemic in August 2021 has slowed down the manufacturing activities in the country. Accordingly, the manufacturing PMI recorded an index value of 45.1 in August 2021 with a fall of 12.7 index points from the previous month, mainly driven by the decrease in New Orders, Production, Employment, and Stock of Purchases sub-indices.

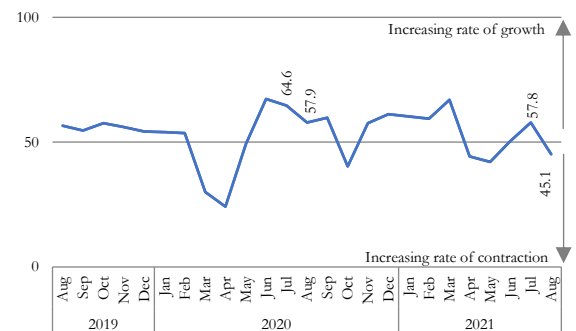
The decline in New Orders and Production, especially in the manufacture of food & beverages, furniture, and textiles & wearing apparel sectors, have mainly contributed to the overall decrease of the manufacturing PMI. Many respondents in those sectors highlighted that their local orders and distribution channels were affected due to the lockdown imposed as a measure of containing the pandemic. Further, many of them also emphasised that factory operations were disrupted due to the spread of the COVID-19 virus among employees. Employment sub-index also declined in line with these developments.

Manufacturing
PMI
Index Value

45.1

Decrease of
12.7 index points
compared to July
2021

PMI - Manufacturing



Source: Central Bank of Sri Lanka

| Variable | Jul. | Aug. | +/- | Summary |
|--------------------------|------|------|-----|--------------------------|
| PMI | 57.8 | 45.1 | - | Falling from Rising |
| Sub-Indices of PMI | | | | |
| New Orders | 61.5 | 42.6 | - | Falling from Rising |
| Production | 54.0 | 37.8 | - | Falling from Rising |
| Employment | 52.0 | 44.1 | - | Falling from Rising |
| Stock of Purchases | 51.0 | 43.1 | - | Falling from Rising |
| Suppliers' Delivery Time | 69.0 | 64.9 | - | Lengthening, Slower Rate |

Source: Central Bank of Sri Lanka

The decrease of Stock of Purchases was in line with the decline in New Orders and Production. Further, the difficulties encountered in placing purchase orders and in settling foreign payments also adversely affected the supply chain of raw materials and production schedules. Many respondents stressed that the continuous increase in the cost of imported raw materials adversely affected their profit margins. Meanwhile, Suppliers' Delivery Time lengthened at a slower rate in August 2021.

The manufacturers cautioned that the uncertainty over the COVID-19 pandemic would continuously hinder the prospects of the manufacturing sector, yet, overall expectations for manufacturing activities for the next three months remained above the neutral threshold.

The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 54.1 in August 2021 with a decrease of 1.3 index points from July 2021.

Manufacturing PMIs of India, USA, Europe and UK expanded at a slower rate. Meanwhile, Manufacturing PMI of China contracted while that of Russia indicated a further deterioration in August 2021.

Source: Markit¹ as at 14th September 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.

Services PMI dropped to an index value of 46.2 in August 2021 with the restrictions imposed to contain the further spread of the COVID-19. New Businesses, Business Activity, Employment and Expectations for Activity sub-indices recorded declines.

New Businesses decreased in August compared to the previous month mainly with the declines observed in wholesale and retail trade, insurance, real estate, and education sub-sectors.

Business Activities across most of the sub-sectors such as, wholesale and retail trade, real estate, insurance and other personal activities reported considerable declines indicating the adverse effects of travel restrictions on their business operations. Nevertheless, transportation sub-sector recorded some improvements solely due to the growth in freight volumes. Moreover, financial services sub-sector also indicated improvements despite the disturbances from travel restrictions.

Employment continued to fall at a higher pace as retirements and voluntary resignations exceeded the number of recruitments carried out during the month.

Backlogs of Work increased at a higher pace in August along with the reduction in staff availability amid travel restrictions and growing COVID-19 infections of staff.

| Variable | Jul. | Aug. | +/- | Summary |
|---------------------------|-------------|-------------|----------|----------------------------|
| PMI | 55.7 | 46.2 | - | Falling from Rising |
| <u>Sub-Indices of PMI</u> | | | | |
| New Businesses | 58.6 | 40.2 | - | Falling from Rising |
| Business Activity | 63.5 | 35.3 | - | Falling from Rising |
| Employment | 49.0 | 47.5 | - | Falling, Higher Rate |
| Backlogs of Work | 53.2 | 60.8 | + | Rising, Higher Rate |
| Expectations for Activity | 54.5 | 47.1 | - | Falling from Rising |

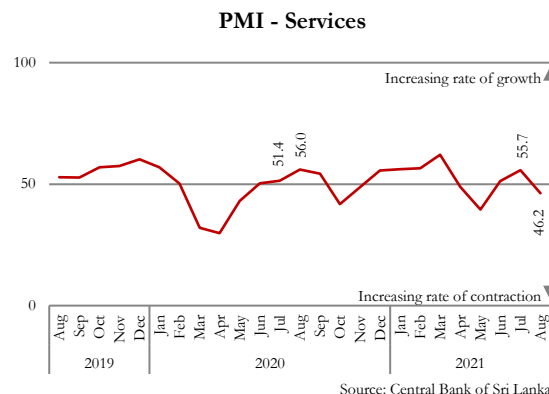
Source: Central Bank of Sri Lanka

Expectations for Business Activities for the next three months dropped in August, after increasing for two consecutive months, amid extended travel restrictions and growing concerns with regard to import restrictions and its related adverse effects on business operations.

Services PMI
Index Value

46.2

Decrease of
9.5 index points
compared to
July 2021



Source: Central Bank of Sri Lanka

The World Outlook: Services PMI

Global services PMI dropped sharply to a seven-month low of 52.9 in August 2021 down from 56.3 in July 2021.

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

Source: Markit¹ as at 14th September 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.