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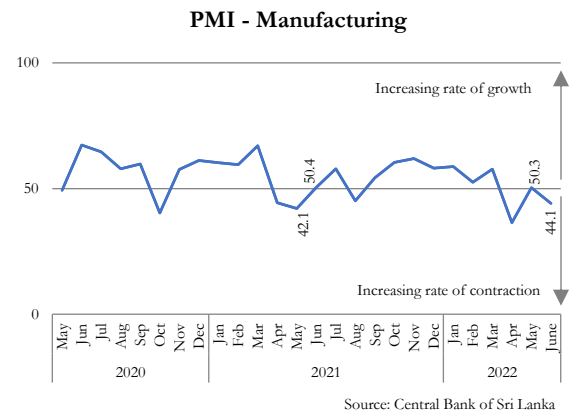
SL Purchasing Managers' Index (PMI) – June 2022

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

Manufacturing PMI declined in June 2022, indicating a setback in manufacturing activities on a month-on-month basis. Accordingly, Manufacturing PMI recorded an index value of 44.1 in June 2022, with a decline of 6.2 index points from the previous month. This was driven by the decrease in all the sub-indices except Suppliers' Delivery Time.

New Orders declined particularly in the manufacturing of food & beverage sector partly due to the deterioration of purchasing power amidst the high inflationary environment. Many export-oriented manufacturing firms also witnessed lower than anticipated orders as foreign buyers are worrying over the fragile political and economic condition prevailing in the county and possible disturbances to order fulfilment. The decline in Production levels in June 2022 over the previous month was mainly because of the shortage of materials and ongoing energy shortage. Scarcity of fuel affected the Production directly, as well as indirectly through difficulties in transportation. Moreover, the Employment sub-index recorded a decline on a month-on-month basis, particularly in the manufacture of food & beverage sector. The Stock of Purchases declined mainly due to the unavailability of required quantities in the domestic market and difficulties in opening letters of credit for importing materials. The Suppliers' Delivery Time further lengthened during the month at a higher pace, mainly on account of delays in clearance of imported goods, COVID-related lockdowns in China, vessel delays, and diesel shortage that affected domestic transportation.

Manufacturing PMI
 Index Value
44.1
 Decrease of 6.2 index points compared to May 2022



Variable	May	Jun.	+/-	Summary
PMI	50.3	44.1	-	Falling from Rising
Sub-Indices of PMI				
New Orders	47.5	38.3	-	Falling, Higher Rate
Production	44.5	36.2	-	Falling, Higher Rate
Employment	51.0	45.7	-	Falling from Rising
Stock of Purchases	39.4	34.8	-	Falling, Higher Rate
Suppliers' Delivery Time	71.7	72.8	+	Lengthening, Higher Rate

Source: Central Bank of Sri Lanka

For the next three months, the overall expectations for manufacturing activities continued to deteriorate compared to the previous month due to the prevailing uncertain economic environment in the country, supply-side constraints and possible weakening of external demand.

The World Outlook: Manufacturing PMI

The global manufacturing PMI recorded a value of 52.2 in June 2022, with a decrease of 0.1 index points from May.

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

Source: S&P Global¹ as at 14th July, 2022

¹S&P Global is identified as the global PMI compiler and compiles PMIs for over 30 countries and also for key regions including the Eurozone.

Services PMI dropped further to an index value of 40.3 in June 2022 indicating a contraction in services activities for the third consecutive month. This was due to the declines in New Businesses, Business Activities, Employment and Expectations for Activity sub-indices.

New Businesses declined further in June 2022 compared to May 2022, particularly with the decreases observed in transportation, accommodation, food and beverage and education sub-sectors.

Continued supply-side constraints including acute fuel shortages led Business Activities in the services sector to decline further in June. Moreover, many respondents highlighted that the subdued consumer spending amid the high inflationary pressures, rising interest rates, transportation related issues and pessimism on economic outlook further weakened the demand, particularly related to discretionary items. In the light of these circumstances, other personal activities, transportation, wholesale and retail trade, accommodation, food and beverage and education sub-sectors recorded sharp declines during the month. Meanwhile, the continued fall in tourist arrivals to Sri Lanka fuelled by the adverse travel advisory warnings also affected the business activities related to several sub-sectors negatively.

Employment continued to decline in June due to freeze in new recruitments, contract expirations, retirements and resignations. As a result of fuel and other supply shortages, transportation difficulties faced by staff and power outages, Backlogs of Work increased further during the month.

Variable	May	Jun.	+/-	Summary
PMI	42.4	40.3	-	Falling, Higher Rate
<u>Sub-Indices of PMI</u>				
New Businesses	45.5	43.2	-	Falling, Higher Rate
Business Activity	39.0	35.1	-	Falling, Higher Rate
Employment	38.5	38.9	+	Falling, Slower Rate
Backlogs of Work	51.6	52.2	+	Rising, Higher Rate
Expectations for Activity	37.4	32.3	-	Falling, Higher Rate

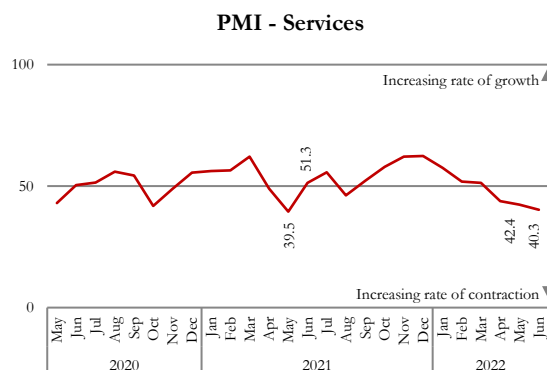
Source: Central Bank of Sri Lanka

Expectations for Business Activities for the next three months slumped further in June due to persistent unfavourable supply and demand conditions amid continued and heightened uncertainties in the country.

**Services
PMI
Index Value**

40.3

Decrease of
2.1 index points
compared to
May 2022



Source: Central Bank of Sri Lanka

The World Outlook: Services PMI

Global services PMI posted 53.9 in June 2022 from 51.9 in May 2022 to indicate an expansion in global services activities.

Services PMIs of China, USA, India, UK and Japan indicated that their services sectors expanded in June 2022 compared to the previous month.

Source: S&P Global¹ as at 14th July 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.