

Monthly Economic Update

May 2023

Economic Intelligence Unit
The Ceylon Chamber of Commerce



The
Ceylon
Chamber of
Commerce

EIU

Highlights

Sri Lankan Economy

Steep Appreciation in LKR against the USD

With the rebounding economic conditions of the Sri Lankan economy, the LKR recorded a steep appreciation of 18.7% thus far in 2023 with the buying rate coming under 300 against the USD.

Foreign Holdings in Government Securities picked up sharply

Improved investor confidence resulted in a 20% sharp pick up of foreign holdings in government securities during May 2023..

Sharp fall in the Trade Deficit during Q1-2023

The merchandise trade deficit recorded a notable decline of 70% during Q1-2023 in comparison to the same period of 2022, to USD 961 Mn. Significant decline in imports of fuel, machinery and apparel recorded during the period, while slight increase in exports of tea and gem and Jewellery during the period under concern.

PMI Contracted in April owing to Holiday Season

Both the Manufacturing and Services sectors of the Purchasing Managers' Index (PMI) recorded contractions during April 2023 owing to Sinhala-Tamil New Year Holidays. In addition, continuation of the subdued global demand conditions, especially for apparel impacted on decline in New orders and thereby manufacturing and related services.

Global Economy

Commodity Prices are Expected to fall by 21% in 2023 and remain most stable in 2024: WB

Global commodity prices are expected to decline this year at the fastest clip since the onset of the COVID-19 pandemic, clouding the growth prospects of almost two-thirds of developing economies that depend on commodities exports, the World Bank stated in their latest Commodity Market Outlook Report. .

'First Republic' Marked the second-largest bank Failure in the US History

The San Francisco-based regional bank, First Republic, made headlines in May as it became the third financial institution to declare insolvency in 2023. This event marked the second-largest bank failure in US history, surpassing the recent failure of Silicon Valley Bank (SVB) a few weeks prior.

China's Economy Grew by better-than expected 4.5% in Q1-2023

China recorded a 4.5% growth during the Q1-2023 which was spearheaded by sharp rebound in consumer spending, especially in the services sector, non-durable goods and semi-durable goods sectors. The IMF projected a strong rebound for China where the country is expected to grow by 5.2% this year and 5.1% in 2024.

Dashboard

Y-o-Y changes, otherwise specified

Economic Growth

-7.8% in 2022

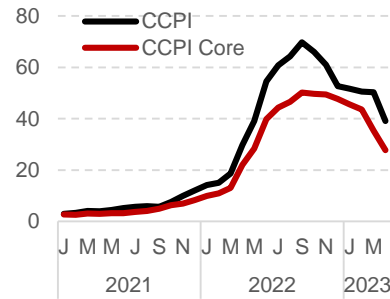
Movement of Purchasing Managers' Index-April 2023

Manufacturing PMI **34.7**
Services PMI **49.6**

Both indices shows a decline mainly due to seasonal holidays in April.

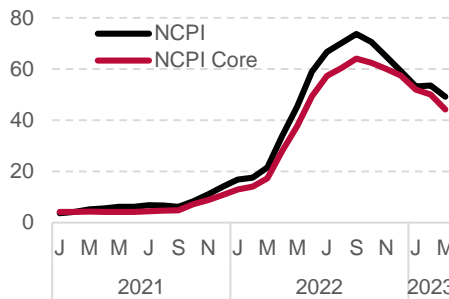
Inflation

CCPI Inflation (%) - Base 2021



Apr. 2023
Headline **39.1%**
Core **27.8%**

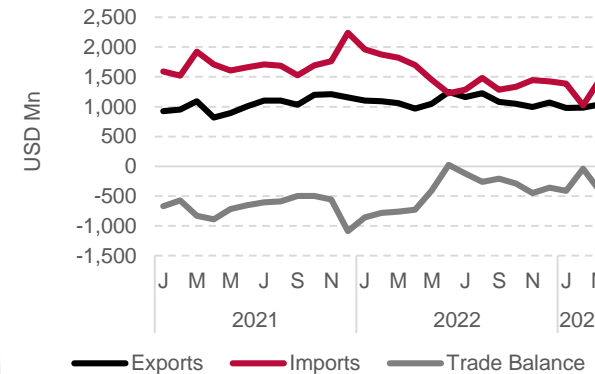
NCPI Inflation (%) - Base 2021



Mar. 2023
Headline **49.2%**
Core **44.2%**

External Sector

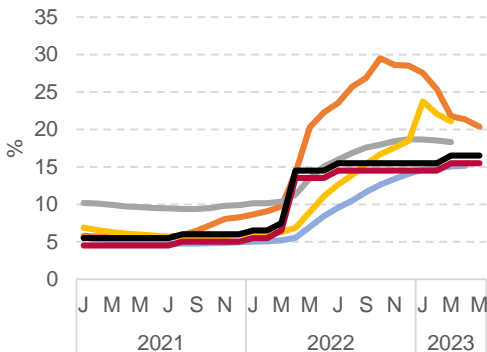
Merchandise Trade



Tourism

Mar. 2023	↓	Apr. 2023	↑
Exports	↓	Arrivals	↑
2%		68%	
Imports	↓	Earnings	↑
20%		47%	
Trade Deficit	↓	Workers' Remittances	↑
46%		82%	

Interest Rates



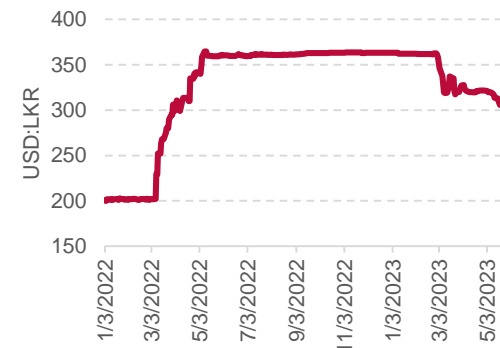
AWDR
AWPR
AWLR
AWFDR
SDFR (Repo)
SLFR (Rev.Repo)

SDFR:14.5%
SLFR:15.5%

Growth in Credit to Private Sector

Mar. 2023
5.1% ↓

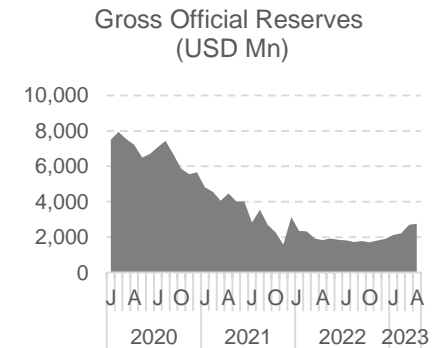
Exchange Rate



Appreciation of LKR thus far 2023

18.7%

Reserves



KEY INSIGHTS

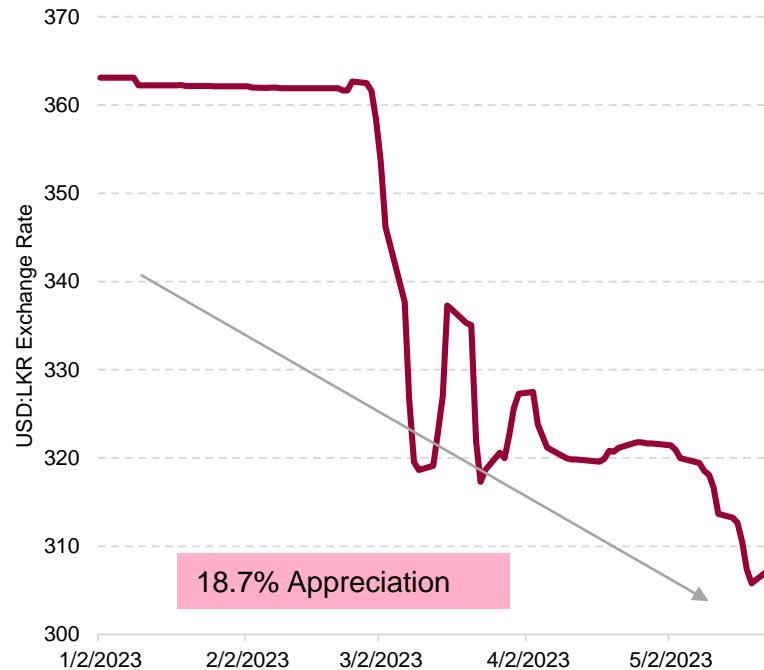
Sri Lankan Economy

Steep Appreciation in LKR against the USD, Foreign Holdings in Government Securities picked up sharply

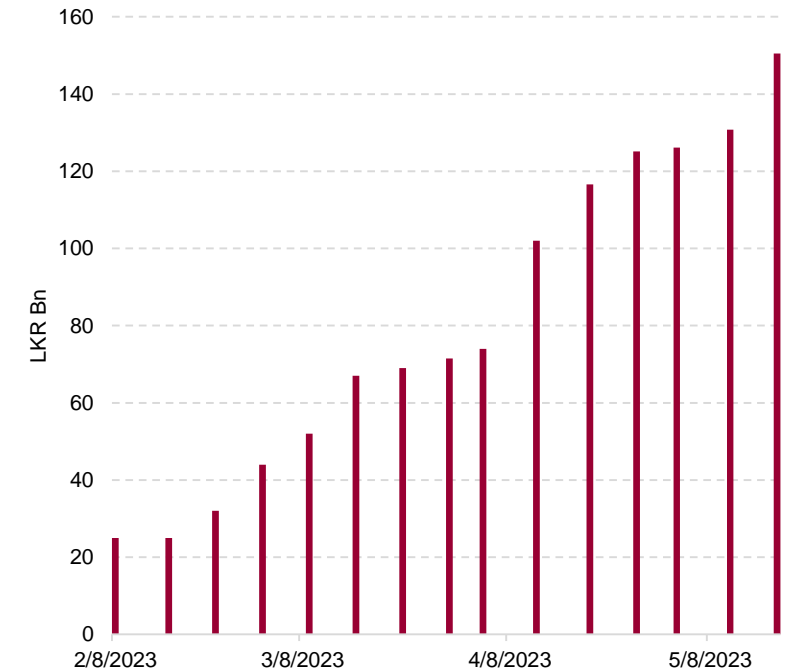
With the rebounding economic conditions of the Sri Lankan economy, the LKR recorded a steep appreciation of 18.7% thus far 2023. Increased workers' remittances inflows, tourism earnings caused higher dollar liquidity in the market, and thereby helped LKR to appreciate.

Commencement of IMF-EFF programme, easing inflation and rebounding economic activity in the country caused improving investor confidence and as a result foreign holdings in government securities recorded a sharp pick up of 20% to LKR 150.52 Bn during the month of May.

Movement of USD:LKR Exchange Rate During 2023



Picking up of Foreign Holdings in Government Securities



KEY INSIGHTS

Sri Lankan Economy

Remarkable Decline in Trade Deficit during Q1-2023, Tourism and Remittances inflows picked up

The merchandise trade deficit recorded a notable decline of 70% during the Q1-2023 in comparison to the same period of 2022, to USD 961 Mn.

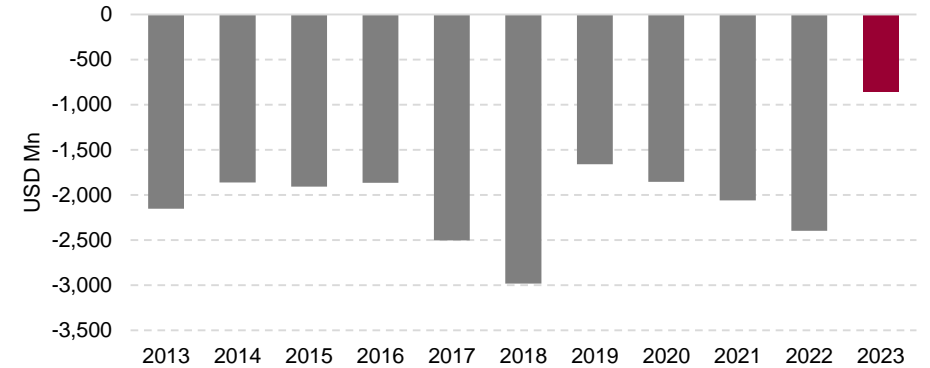
Export earnings for the Q1-2023 were USD 2,998 million, which is a decline of 7.9% compared to Q1-2022. However there had been an increase in exports of gems, diamonds, jewellery and tea compared in Q1- 2023 relative to Q1 of 2022.

Apparel exports in the Q1-2023, have declined Y-o-Y by USD 208 Mn to USD 1.18 Bn reflecting a 15% decrease. Apparel exports to three major markets; USA, EU and UK have dropped by 22%, 13% and 10% respectively during the period in consideration. The industry body Joint Apparel Association Forum (JAAF) warned of cost pressures and decreased competitiveness following the implementation of Gazette no. 2321/62, which faced criticism from exporters and importers. However, it is important to consider the reduced global demand due to unfavorable economic conditions.

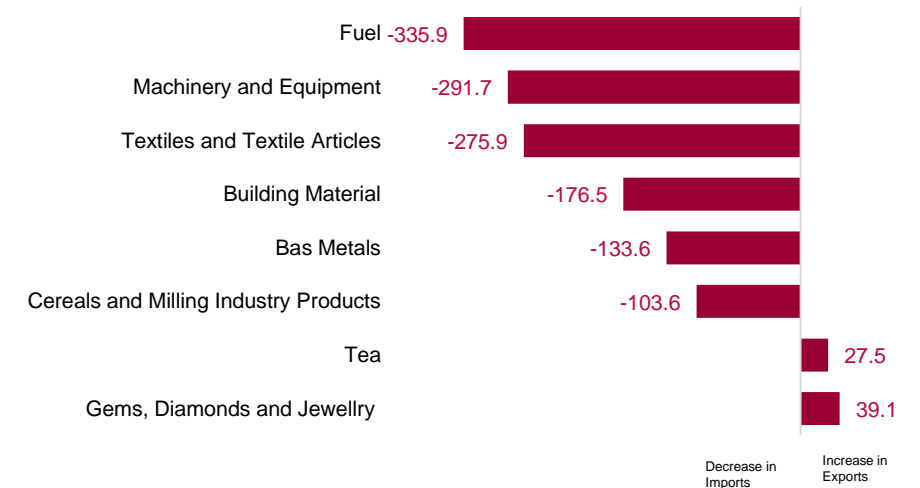
Spending on imports during the Q1-2023 amounted to USD 3,859 Mn, a decline from USD 5,651 Mn in Q1 2022 showing a fall of 31.7%. The major contributory factors for this were in decline in relative imports of fuel (USD 335.9 Mn), machinery & equipment (USD 291.7 Mn), textiles (USD 275.9 Mn), building materials (USD 176.5 Mn) and base metals (USD 133.6 Mn).

Furthermore, worker remittances saw a significant increase of 80.5% and earnings from tourism showed a 9.95% increase during the Q1-2023 on a y-o-Y basis. The number of tourist arrivals also rose to 335,679 in Q1-2023 compared to 285,334 in Q1 of last year. The primary source countries for tourists were Russia, India, UK, Germany, and France.

2023 Recorded the Lowest Q1 Trade Deficit for the Decade



Top Contributors to the change in Trade Deficit during Q1-2023 (USD Mn)



KEY INSIGHTS

Sri Lankan Economy

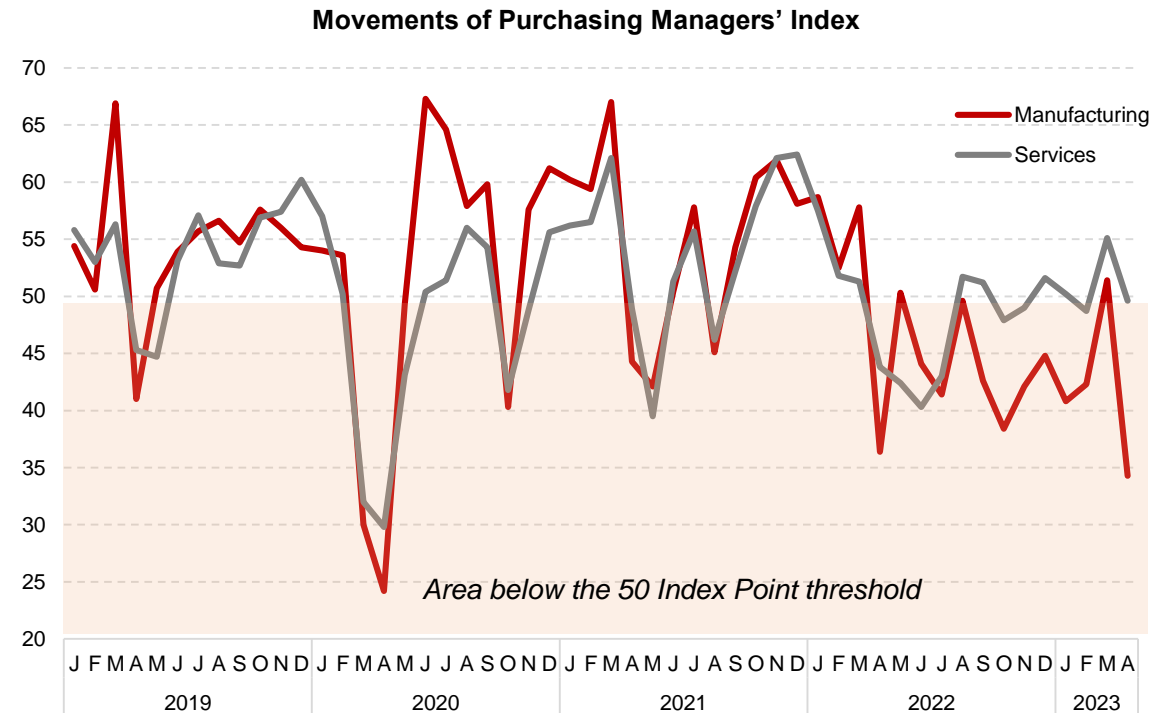
PMI Contracted in April owing to New Year Holiday Season

Both the Manufacturing and Services sectors of the Purchasing Managers' Index (PMI) recorded contractions during April 2023. As illustrated in the graph, we can observe the same pattern historically, due to Sinhala-Tamil New Year Festival fallen in April.

Accordingly, Manufacturing PMI dropped to a significantly low value of 34.7, which is the second lowest level the index recorded historically. The decline in production was primarily due to the temporary closure of most of the factories in April due to festival holidays. Decline in new orders, particularly in the manufacture of food and beverages, was mainly due to the end of the festival season demand. In addition, continuation of the subdued global demand conditions, especially for apparel impacted on decline in new orders. Employment and stock of purchases declined in line with the declines in New orders and Production.

Expectations for manufacturing activities for the next three months indicated an improvement, anticipating a favorable development in the economic activities, says the Central Bank based on their PMI survey.

Services PMI remained slightly below the neutral threshold recording an index value of 49.6 in April 2023, led by the decline observed in New Businesses, Employment and Backlogs of Work.



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Global Economy

Commodity Prices are Expected to fall by 21% in this year and Remain most Stable in 2024: WB

Global commodity prices are expected to decline this year at the fastest clip since the onset of the COVID-19 pandemic, clouding the growth prospects of almost two-thirds of developing economies that depend on commodities exports, the World Bank stated in their latest Commodity Market Outlook Report.

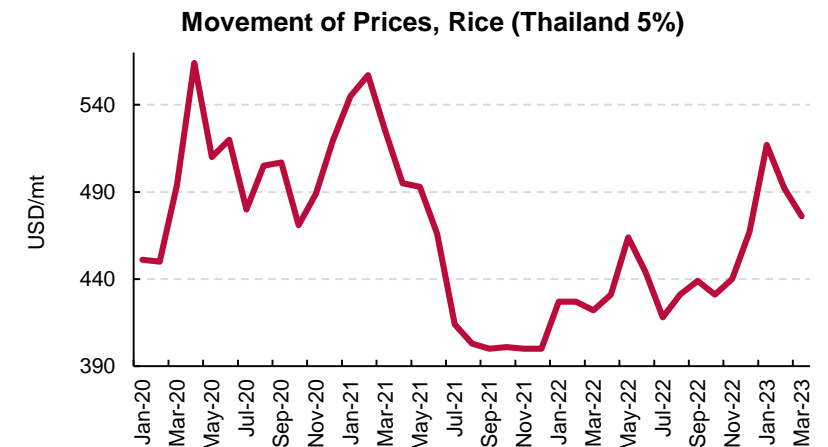
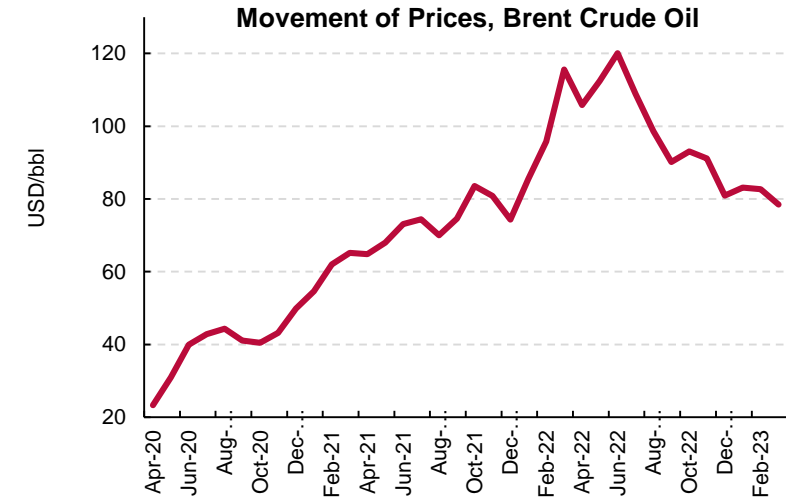
Commodity prices have sharply declined in the past six months, following record-high levels last year. The World Bank commodity price index dropped by 32 percent since its peak in June 2022, marking the steepest decline since the start of the COVID-19 pandemic.

The drop in prices, is expected to bring little relief to the nearly 350Mn people across the world who face food insecurity. Although food prices are expected to fall by 8% in 2023, they will be at the second-highest since 1975. Moreover, as of February 2023, annual food price inflation is at 20% globally, the highest level over the past two decades.

Overall, commodity prices are expected to fall by 21% in 2023 in comparison to the last year. Energy prices are expected to decline by 26% this year. The price of Brent crude oil is expected to average USD 84/barrel this year, down 16% from the 2022 average.

Metal prices, which increased slightly early in 2023, are expected to fall by 8% compared to last year, primarily due to weak global demand and improved supplies, the World Bank says.

Risks to the outlook of global commodity markets are tilted to the upside, primarily as many of the factors underlying the shocks to commodity markets in recent times still prevail, such as weaker-than-expected oil supply, direction of demand from China (as they may tilt towards commodity intensive sectors, and not services, and this would lead higher prices for energy and metals as of larger demand from industry), intensification of geopolitical tensions and unfavorable weather conditions.



KEY INSIGHTS

Global Economy

'First Republic' marked the second-largest bank failure in US history

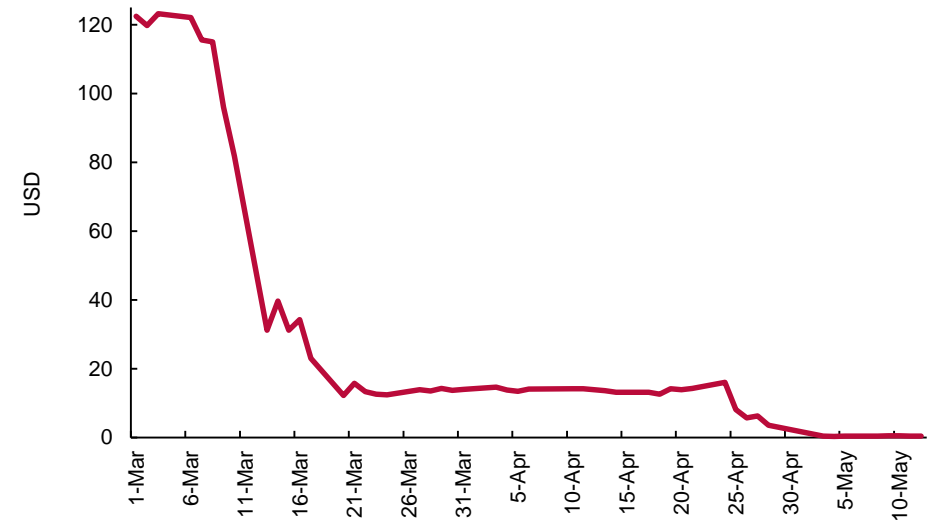
The San Francisco-based regional bank, First Republic, made headlines in May as it became the third financial institution to declare insolvency in 2023. This event marked the second-largest bank failure in US history, surpassing the recent failure of Silicon Valley Bank (SVB) a few weeks prior.

First Republic's collapse was mainly attributed to the bank having significant amount of uninsured deposits, accounting for 67.7% of its total deposits as of the end of 2022 which made it vulnerable for a bank run. Similar to SVB, First Republic had allocated a considerable portion of its customer deposits to long-term assets such as bonds and mortgages, with 81.3% and 62.4% of loans maturing over 5 years and 15 years, respectively (as of year end 2022) . As the federal interest rates rose rapidly in the past year, the value of these assets declined, creating a mismatch between its costs and revenues.

Consequently, when other banks experienced bank runs, First Republic faced a surge of withdrawals within a short period while having its funds tied up in long-term assets that had depreciated in market value. This led to a drastic 61.8% decline in First Republic's stock price. To address the withdrawal needs, the company turned to increased short-term borrowing through the Federal Reserve discount window.

On April 24th, the bank experienced another setback when it released its quarterly earnings report, revealing how the bank performed during the collapse of SVB and it did not impress the public. The report disclosed that the bank faced a withdrawal of USD 100 Bn in customer deposits, resulting in a 40.8% decline in overall deposits. This further declined its stock price where the shares were trading below USD 3 down from USD 123 earlier in March.

Movement of Stock Price



KEY INSIGHTS

Global Economy

China Recorded a better-than expected Growth in Q1-2023

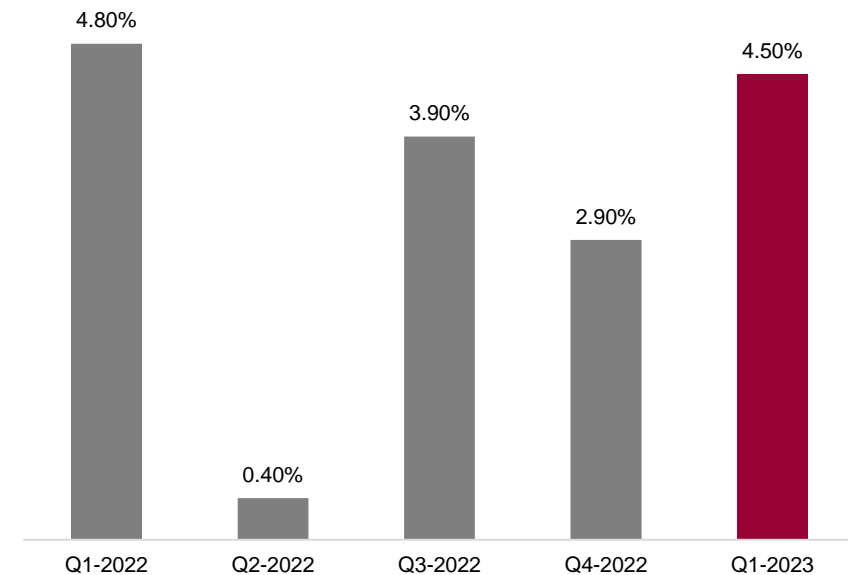
China's economy had a robust start in 2023 following the cessation of the Zero-Covid policy in December of the previous year.

During the Q1-2023, China's GDP expanded by 4.5%, representing the highest growth rate since the corresponding period of the previous year. This stronger-than-anticipated growth in Q1 has generated optimism in the markets regarding China's economic recovery.

However, China's recovery may not be even across all sectors. In Q1 of this year, the services sector rebounded relatively quickly as mobility resumed. In Y-o-Y terms, the value added in services grew by 5.4%, whereas the primary and secondary industries experienced growth rates of only 3.7% and 3.3%, respectively.

China's economy is expanding at a faster pace than previously anticipated, indicating that the country is on track to achieve its full-year growth target around 5% for 2023. In its April World Economic Outlook (WEO) report, the International Monetary Fund (IMF) revised China's growth forecasts to 5.2% and 5.1% for 2023 and 2024, respectively.

Quarterly Growth in China



Datasheet

Latest Available data

External Trade (USD Mn)	Mar-2023	Month Ago	Year Ago
Exports	1,037	982.0	1,057
Agricultural Exports	216.0	201.2	199.3
Industrial Exports	816.4	777.1	853.9
Imports	1,450	1,021.0	1,819
Consumer Goods	266.0	202.2	282.0
Intermediate Goods	971.8	637.7	1,177.8
Investment Goods	358.5	180.9	358.3
Trade Balance	-412	-39	-762
Tourist Arrivals ('000)	105,498 (Apr)	125,495	62,980
Tourism Earnings	166.5 (Apr)	198.1	113.3
Workers' Remittances	454 (Apr)	568.3	248.9
Inflation (%)	Apr-2023	Month Ago	Year Ago
CCPI			
Headline	39.1	50.3	29.8
Core	27.8	35.3	22.0
NCPI			
Headline	49.2 (Mar)	53.6	21.5
Core	44.2 (Mar)	50.1	17.3
Interest Rates (%)		Month Ago	Year Ago
AWPR	20.34 (May)	21.03	21.12
AWLR	18.29 (Mar)	18.50	10.35
AWDR	15.12 (Apr)	15.06	5.52
AWFDR	19.72 (Apr)	19.80	6.84
SDFR	15.50 (May)	15.50	13.50
SLFR	16.50 (May)	16.50	14.50
Growth in Credit to Private Sector	-5.1 (Mar)	3.0	17.9

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Economic Intelligence Unit
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