

## **Effectiveness of Purchasing Managers' Index as an Indicator of the Economic Growth in Sri Lanka**

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Purchasing Managers' Index (PMI) is an indicator of the economic health of manufacturing and service sector of a country and it provides information on current business conditions to company decision makers, purchasing managers and analysts. PMI surveys have become key benchmark indicators of economic conditions in the world's largest economies and emerging markets. Under Sri Lankan context, PMI is prepared on monthly basis. As sub-indices of PMI directly connect with the factors which include in GDP, it is worthwhile to examine the representativeness of PMI for economic growth. Hence, the objective of this study is to examine the effectiveness of PMI as an indicator of economic growth in Sri Lanka. Considering the period May, 2015 - December, 2016, this study used simple linear regression and Pearson Correlation analysis to analyze data. Weighted PMI (WPMI) was used to make sure the accuracy of the results. According to the results of Pearson Correlation analysis, the correlation between WPMI and GDP is 0.60 which indicates that the positive correlation between these two variables is considerably high. Likewise, the correlation between PMI\_M (manufacturing) and GDP\_I (industrial) is 0.43 and, 0.58 is the correlation coefficient between the PMI\_S (Services) and GDP\_S (Services) indicating that service sector of GDP and PMI is slightly higher than the manufacturing sector's positive correlation. According to the results of OLS regression analysis WPMI is significant at 1% significant level and the coefficient is 0.29 and the R-squared is 46% indicating that WPMI explains the GDP growth rate only in some extent. Hence, the overall result implies that PMI seems to be a good indicator in explaining economic growth in Sri Lanka but, it is not a perfect indicator since it doesn't cover all components of GDP suggesting that compilation of PMI should concern wider range of economic activities to become a more effective indicator of the economic growth in Sri Lanka.

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