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Island

Value addition increases in Agriculture, Services, declines in Industry

The Central Bank, in a press release, issued on Monday in connection with the release of the country's second quarter GDP estimates (2.5%), says : "The value added increased in agriculture and services by 3.7% and 3.9%, respectively. However, the industry sector continued to contract by 1.1%, thereby partly offsetting the favourable performance of the other two sectors. The Services sector contributed 85% of the overall growth, while the contribution from Agriculture was 27%. The contribution of the Industry sector was a negative 12%.

Agriculture

The Agriculture sector performed well during the quarter mainly due to the return of normal weather conditions. Tea production, which had deteriorated since the latter half of the previous year due to the drought that prevailed, grew by 10% benefiting mainly from improved weather. Similarly, encouraged by the increase in prices, rubber production also went up by 10%, during the second quarter. Depressed prices that had prevailed in the world market for natural rubber in recent years had adversely affected domestic cultivation as most smallholders virtually gave up cultivation. The increase in production in the second quarter was mostly due to the tapping of abandoned cultivations by smallholders. However, the performance of plantation agriculture was marred by the continued decline in coconut production as a result of the lagged effect of the drought

In domestic agriculture, paddy production in the Maha season increased by 9.9% recovering from the depressed output recorded in the previous Maha season. The "other" agriculture category, which covers all the other crops in domestic agriculture and animal husbandry, performed well during the quarter. Vegetable production remained at the same level that prevailed in the corresponding period of the previous year. However, the production of subsidiary food crops improved largely due to the increase in potato production by over 50%. The increase was a consequence of the protection provided through a high tariff on imported potatoes Minor export crops too recorded a noteworthy performance. Of this category, the export volumes of cinnamon, cloves, arecanuts, betel leaves and foliage and cut flowers indicated increases compared to the same period last year. Export earnings from minor export crops grew by 39%, in US dollar terms, during the second quarter. In the animal husbandry category, milk production performed well, but, poultry production suffered a setback due to the power cuts that prevailed till May and increased cost of production owing to the higher prices of poultry feed. Meanwhile, fish production recorded a growth of 7.1% in the second quarter due to increased fishing activities in areas which had earlier been restricted due to security considerations. The increase in production was reflected in the decline in prices of most varieties during the quarter.

Industry

The continued contraction in the Industry sector raises concerns as this sector also influences the activities of the Services sector, the largest sector in terms of value added. While the construction sector and the mining and quarrying sector each grew by 2%, the other two sectors in the Industry category continued to decline in the second quarter of this year. The Manufacturing sector, the largest sector in the industry category, contracted by 2.4% during the second quarter. Of this, the factory industry sub sector, which covers large-scale manufacturing, declined by 3 5%. The decline was due to the delay in the recovery of manufactured exports. The production of apparel and textiles, processed diamonds and ceramic products which serve international markets, declined compared with the second quarter of this year, due to the continuation of the downturn in global demand and increased competition in the world market The depressed consumer confidence prevailing in the USA, the largest market for Sri Lanka's garment exports and the over supply situation existing in the world apparel market adversely affected the recovery of the apparel and textiles sector. Of Manufacturing, apart from the factory industries, the value addition in the processing of plantation crops improved as a consequence of the increased production of tea and rubber. However, the value added in the small industry sub sector continued to decline in line with the developments in factory industries. In general, rising input costs such as for power and transport, mitigated the value addition in the manufacturing sector.

The Construction sector, which suffered from the contraction in both overall economic growth and investment activities in the previous year, improved marginally during the second quarter of this year. The improvement was largely due to housing construction activities and some reconstruction activities taking place in the North and East following on the peace initiative. The delay in the start of large-scale infrastructure projects has also adversely affected the performance of this sector. Meanwhile, the electricity, gas and water sectors continued its declining trend. The Electricity sub sector suffered a setback with the continuation of the drought that prevailed, but showed signs of recovery since the middle of the second quarter, when the power cuts that had prevailed since the middle of last year were discontinued.

Services

The Services sector grew by 3.9% and contributed most to the overall growth. Of service activities, the banking, insurance and real estate sector recorded the highest growth of 7%. This sector, which grew marginally in the first quarter of last year, excelled in the second quarter mainly due to the performance of the commercial banking sector. Commensurate with the decline in interest rates, net interest income of the commercial banking sector grew as the decline in deposit rates was greater than that in lending rates.

The Transport, storage and communication sector grew by 5.9% during the second quarter of this year. The telecommunication sub-sector, which managed to grow at its usual high pace even under depressed economic performance in the previous year, provided the impetus for this growth, expanding further by 18%. The provision of cellular phones increased by 34% during the period under review, while that of internet and email services grew by 21%. The Transport sector also performed comparatively well with the increase in goods and passenger transport activities to the Northern and Eastern provinces following the ceasefire. Meanwhile, the wholesale and retail trade sector also showed a turnaround with the improvements reported in the import and domestic trade sub sectors. In the previous year, sluggish performance of the external trade sector contributed the most to the negative growth. In the second quarter of this year, despite the drop in the value of imports in US dollar terms, the import trade sub sector showed a partial recovery, with an increase of 10.5% in the volume of imports. However, the export trade sub-sector deteriorated further, by 10.1% in volume terms. The ongoing peace process has stimulated the domestic trade sector, with enhanced trading activities between the North and East and other parts of the country.

All other services activities performed positively, except for a contraction in the public administration and defence sector. The government policy of streamlining its current expenditure, resulting in a freezing of public sector recruitment, has curtailed growth in this sector.

The services (n.e.s.) category, which includes all other unclassified services, grew by 1.0% during the second quarter of the year. This growth was stimulated by the improved performances in sectors such as private sector education, health services, entertainment and advertising services. However, the hotel related services sub sector contracted, as reflected by the drop in tourists arrivals by 13% during the quarter. In addition, the performance of the private security sub sector, which had grown consistently in the recent past, deteriorated during the period under review, probably due to the improved security situation in the country. This was also reflected in the steady increase in tourist arrivals during recent months, although the growth potential seen in the first half of last year is yet to be achieved."