



nielsen

# Q2 2016 DASHBOARD



Nielsen, Sri Lanka



# IMPRESSIONS!



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*It feels great to be in Sri Lanka! I have been here for little over a month now and feel that's time enough for me to pen down my impressions about Sri Lanka and the opportunities and challenges ahead of us.*

*Continuation of this quarterly document will aim to bring to you Nielsen's perspective on latest happenings on the macro-economic front and its impact on business sentiments, consumer confidence and growth for the FMCG market. I hope you find this useful.*

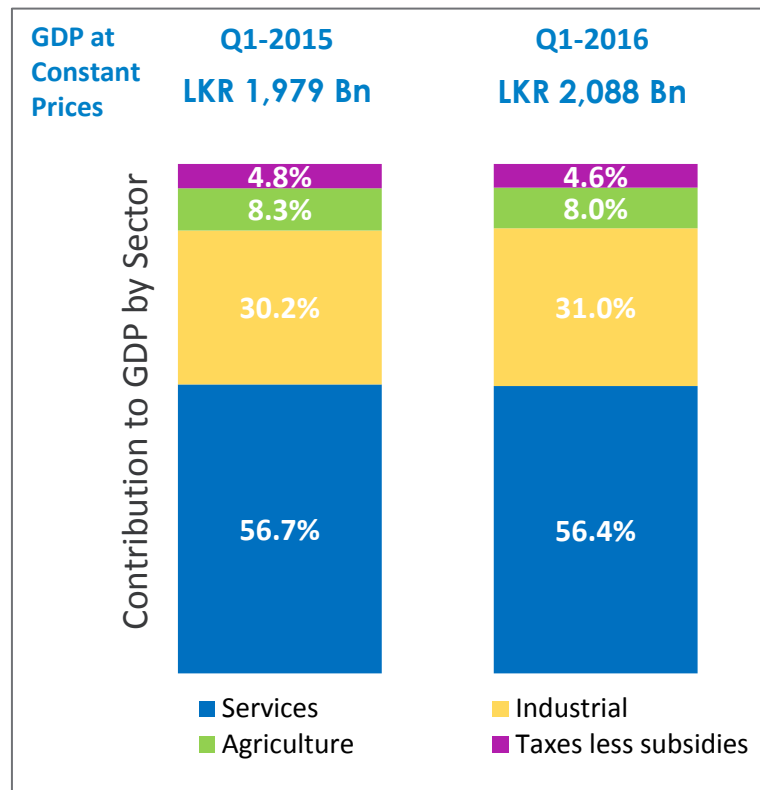
*Do write to me or talk to me for any questions or feedback you may have.*

*Thanks*

# GDP GROWTH SHOWED AN UPTICK IN Q1

Services continued to be the key driver of growth. Increase in contribution from Construction

## QUARTERLY GDP & CONTRIBUTION BY SECTOR



## SUB SECTOR WISE GROWTH % (+ SELECTED SUB SECTORS)

	Q1'15	Q1'16
<b>Q1 GDP Growth (vs. Q1 Previous Quarter)</b>	<b>4.4</b>	<b>5.5</b>
<b>Taxes Less Subsidies on Products</b>	<b>11.3</b>	<b>1.9</b>
<b>Overall Agriculture Sector Growth</b>	<b>5.9</b>	<b>1.9</b>
Growing of Rice	28.7	0.6
Growing of Vegetable	30.1	16.3
Growing of Fruits	33.4	(0.3)
Growing of Tea	7.6	(11.6)
Forestry & Logging	12.4	4.0
Marine Fishing & Marine Aquaculture	(0.6)	(2.6)
<b>Overall Industrial Sector Growth</b>	<b>1.4</b>	<b>8.3</b>
Mining & Quarrying	(5.7)	(1.5)
Manufacturing of Food, Beverages & Tobacco	13.4	1.2
Manufacturing of Textiles, Wearing Apparel & Leather	5.6	1.9
Construction	(11.1)	12.0
<b>Overall Services Sector Growth</b>	<b>5.4</b>	<b>4.9</b>
Wholesale & Retail Trade	3.8	5.7
Transportation of Goods & Passengers	7.2	2.4
Accommodation, Food & Beverage Service Activities	3.8	4.2
Financial Service Activities & Auxiliary Financial Services	14.2	15.9
Real Estate Activities Including Ownership of Dwelling	18.4	(1.0)
Professional Services	(5.1)	(7.5)

Source: Dept. of Census and Statistics

# BUT ALARM BELLS CAME RINGING IN Q2...

## News that made headlines in Q2 2016



### FLOODS IMPACT TO COST AT LEAST \$ 1.5 B- RAVI K

0 / Tuesday, 24 May 2016 00:15

Reuters: The cost of Sri Lanka's landslides and floods will be between \$1.5 billion and \$2 billion at the minimum, the Government said on Mon...



### RAVI K SAYS JAPAN TO LEND SRI LANKA \$ 4.2 B TO HELP SHORE UP FOREX RESERVES

0 / Wednesday, 1 June 2016 00:10

Reuters: Japan will lend \$4.2 billion to Sri Lanka through both a loan and bond financing for budgetary support in the next two years, including in...

### THE IMF BAILOUT

> Sri Lanka is in dire need of an IMF bailout



o The present Government is to blame for this

### IMF BAILOUT IS A DIRE NEED: POLL

0 / Friday, 27 May 2016 00:00

The latest nationwide survey conducted by research firm TNS Lanka, for business magazine LMD, reveals that majority of the ...



### REFORM OR RELAPSE, IMF WARNS SL WITH \$ 1.5 B CASH

1 / Monday, 6 June 2016 00:00

Urgent reforms for revival of an economy showing signs of strain is the emphatic message from the International Monetary Fund (IMF) ...



### PRIVATE SECTOR WARY OVER FRESH MOOT OF CAPITAL GAINS TAX

3 / Saturday, 11 June 2016 00:00

The private sector yesterday expressed concern over the Government's fresh pronouncements of a possible tax on Capital Gains, ...



### SRI LANKA NEEDS TO FIND ALTERNATIVE SOURCES OF FINANCE TO DRIVE ECONOMY FORWARD

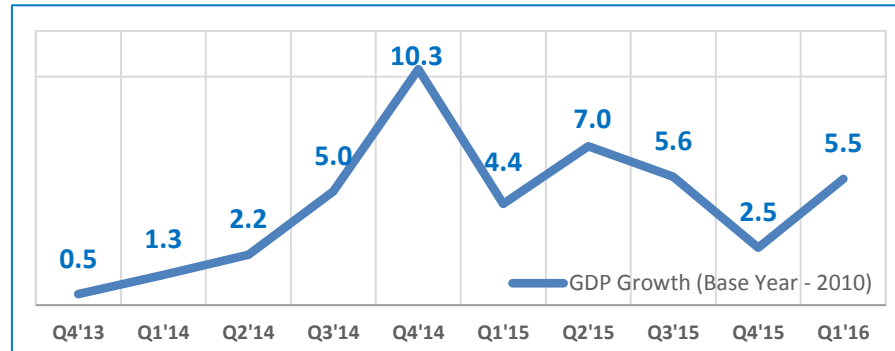
0 / Tuesday, 14 June 2016 00:15

International Consultants Chairman and Vice Chairman of AAOE Ranjiv Goonawardena provided a golden opportunity by sponsoring the 10th Anniversary o...

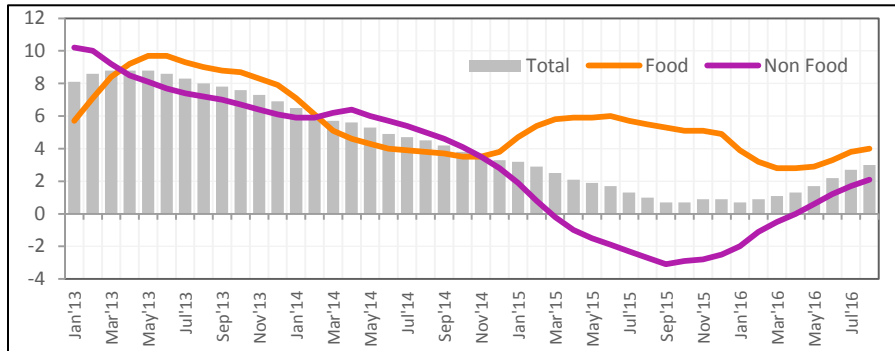
# ..AS MACRO ECONOMIC FACTORS INDICATED DIFFICULT PERIOD AHEAD

Though GDP growth picked up in the first quarter of 2016, increasing inflation and interest rates posed a risk in Q2

QUARTERLY GDP GROWTH % (VS SAME QUARTER OF PREVIOUS YEAR)



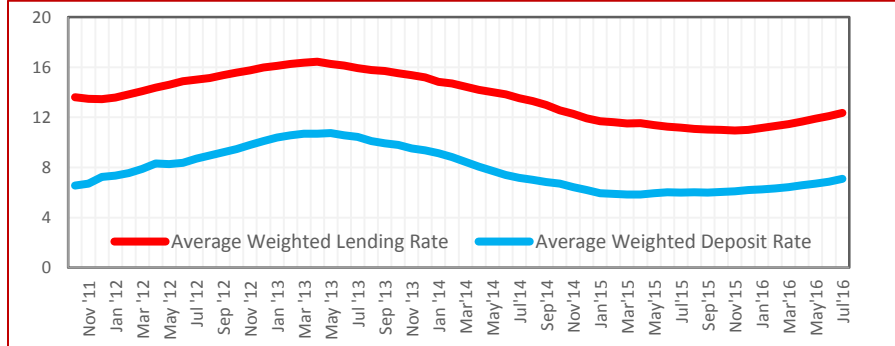
INFLATION % (12 MONTH [ANNUAL] AVERAGE)



USD-LKR EXCHANGE RATE (08 SEPTEMBER 2016)



COMMERCIAL BANKS AVERAGE INTEREST RATES IN %

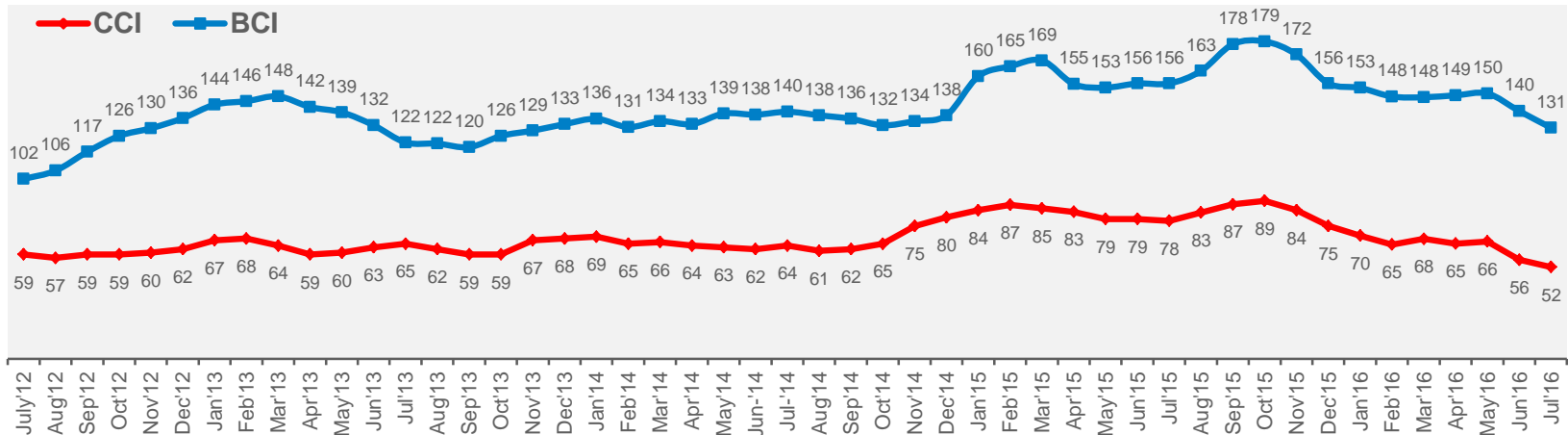


Sources: Central Bank and Dept. of Census and Statistics (GDP and Inflation); BBC Financial Data (Exchange Rate); Central Bank (Interest Rates)

# ..RESULTING IN A DROP IN CONFIDENCE LEVELS

The BCI & CCI witnessed a steep decline as both Businesses and consumers reacted to the increase in VAT

Nielsen Consumer Confidence Index and LMD-Nielsen Business Confidence Index



BCI Base: 3 months rolling sample 100 per month\*

CCI Base: 3 months rolling sample of 100 per month

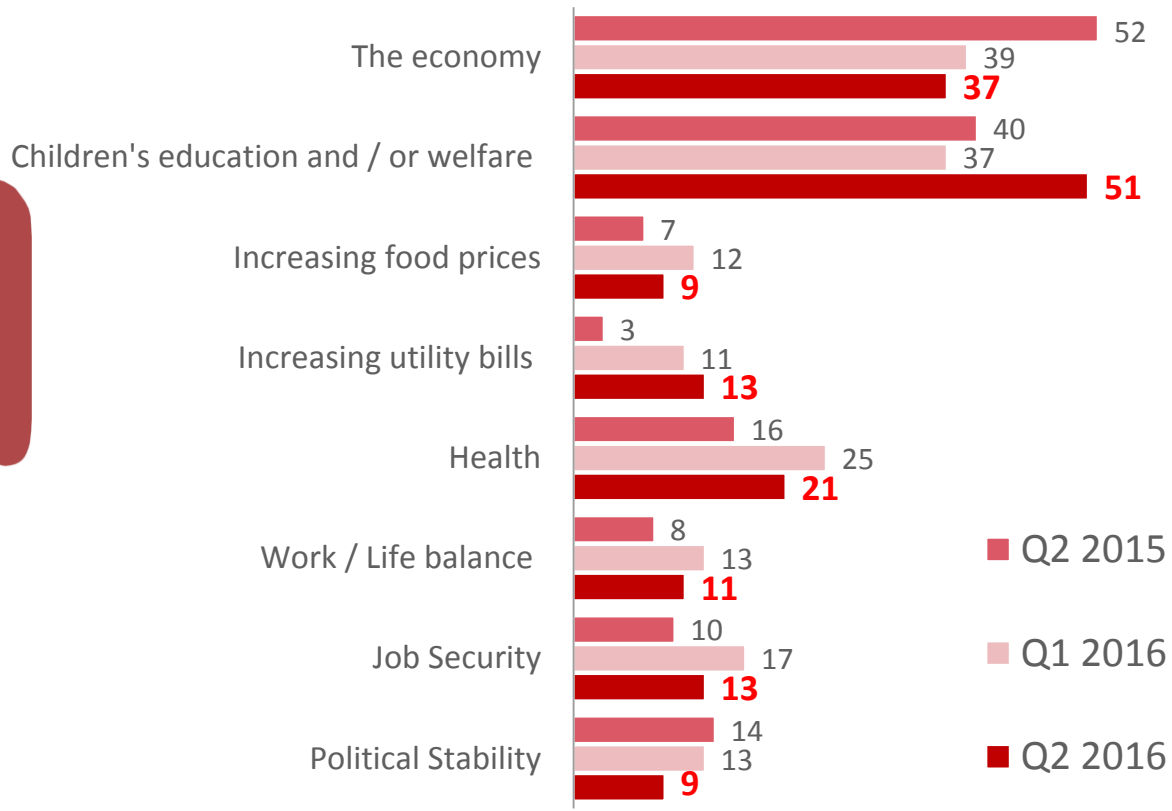
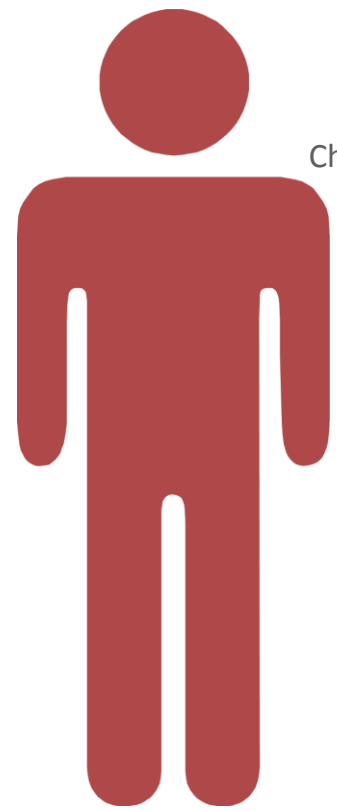
BCI is based on survey of 100 Managers/Senior Executives or above in the city of Colombo carried out by Nielsen and is compiled through series of questions on business conditions and expectations

CCI - From 2011 onwards Nielsen tracks the consumer confidence index every month among 100 consumers in Western, Central and Southern provinces. The Index is developed based on consumers' confidence in the job market, status of their personal finances and readiness to spend.

\* While the BCI is usually published at a monthly level in order to obtain immediate trends, in this analysis the data is rolled over 3 months to see the underlying trends and make it comparable to the CCI as well

# HIGHER TAXES LED TO CONCERNS ON REGULAR SPENDS

Spends on Children's education, Health, Utilities worried consumers



Source: The Nielsen Company Consumer Confidence Report, Frequency: Quarterly; Base: All respondents n=300 per quarter

# BULK OF SPARE CASH WAS BEING PUT INTO SAVINGS FOR FUTURE

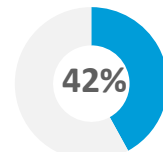
Children's education took priority while home improvement and vacations took back seat

*Change over same quarter last year*

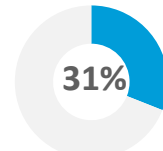
Q2 2016



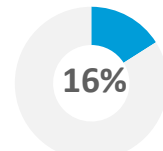
HOW IS SPARE CASH UTILIZED AFTER SPENDING ON ESSENTIAL LIVING EXPENSES?



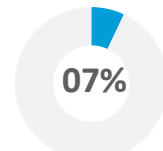
I have no spare cash



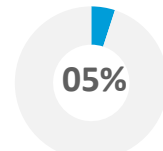
Putting into savings



Savings for children's education



Children's tuition



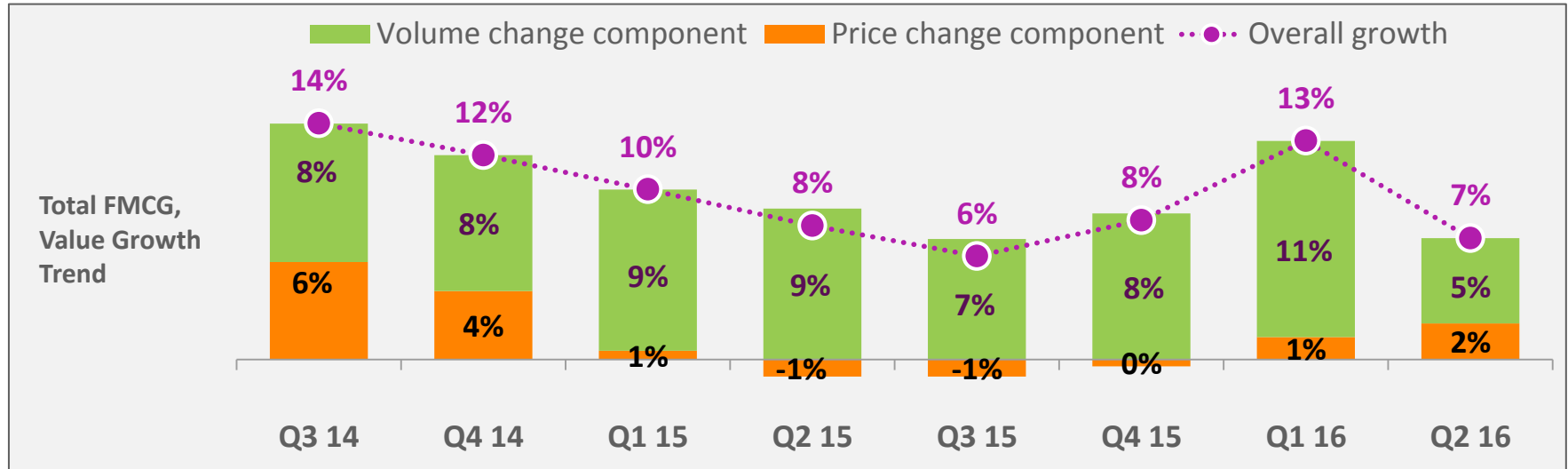
Home improvement





# FMCG CONSUMPTION GROWTH DROPPED AS INFLATION MOVED UP

Consistent low inflation helped consumption grow almost in double digits, but dropped in latest quarter. Marginal revival for Household Care products was seen

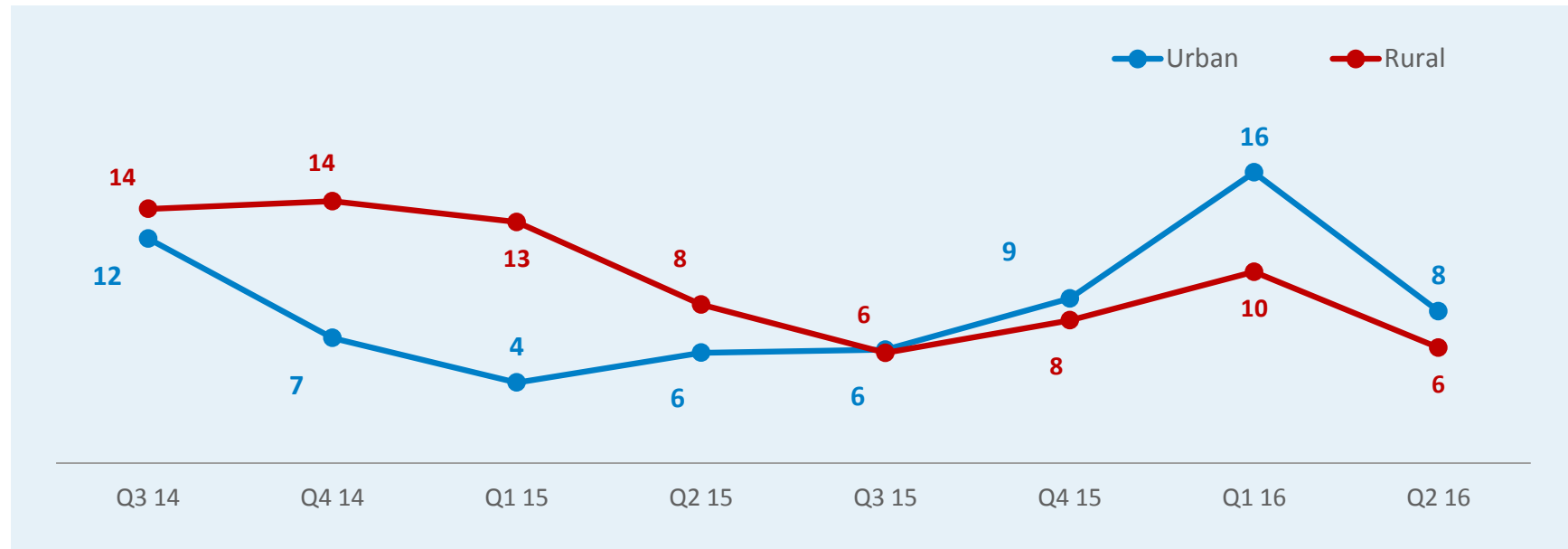


Super Category	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16
Food & Beverages	14%	14%	11%	7%	6%	8%	12%	7%
Household Care	5%	3%	1%	2%	2%	4%	7%	5%
Personal Care	14%	7%	8%	11%	8%	10%	15%	7%
OTC Products	12%	12%	13%	11%	8%	8%	6%	3%

# FMCG GROWTH HALVED IN BOTH URBAN AND RURAL

Growth in Rural Sri Lanka, that was faster earlier, has come down over period

*Urban and Rural Value growth % over same quarter last year*



# THOUGH IN LONG TERM, RETAIL ATTRACTIVENESS HAS IMPROVED

The rank in AT Kearney GRDI has improved over the last three years

## 2016 GRDI country attractiveness

**Sri Lanka Ranking**

18

2014

14

2015

12

2016



# KEY HIGHLIGHTS



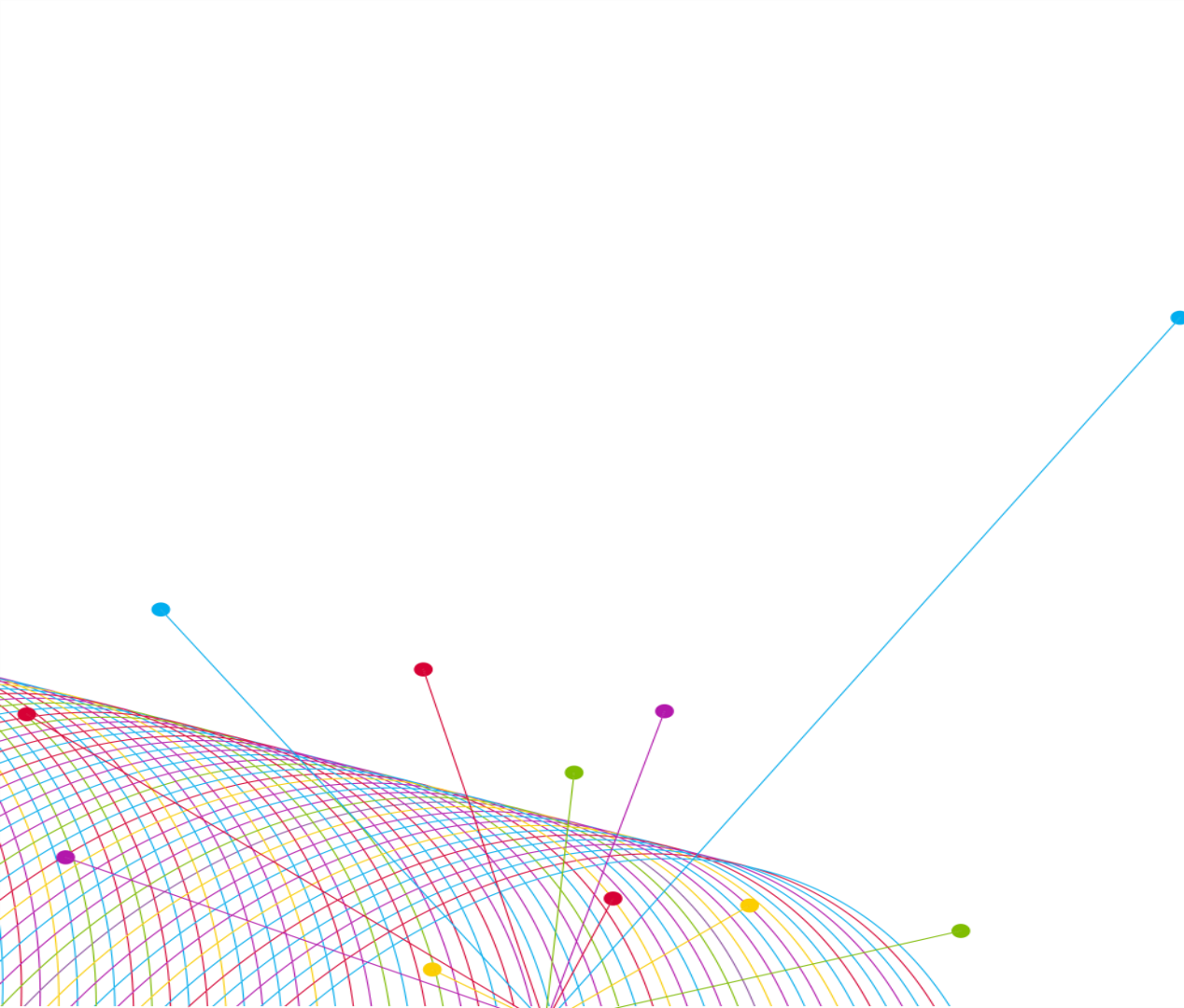
Economic growth picked up in Q1 2016, backed by a strong performance of the Construction sector. However, floods, inconsistent taxes, on set of inflation and increasing bank rates could pull back growth again in Q2 2016.



Immediate impact was seen in Business Confidence as well Consumer Confidence levels that dropped to a new low. Businesses have become vary on investments in the short term as consumers focus on savings rather than discretionary spends.



While in the longer run Sri Lanka improved its attractiveness for the Retail Sector, FMCG growth saw a pull back mainly on account of drop in both supply and consumer demand. Consumers may be watchful in their spending given the increasing inflationary pressure and the price hikes resulting from tax adjustments.



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