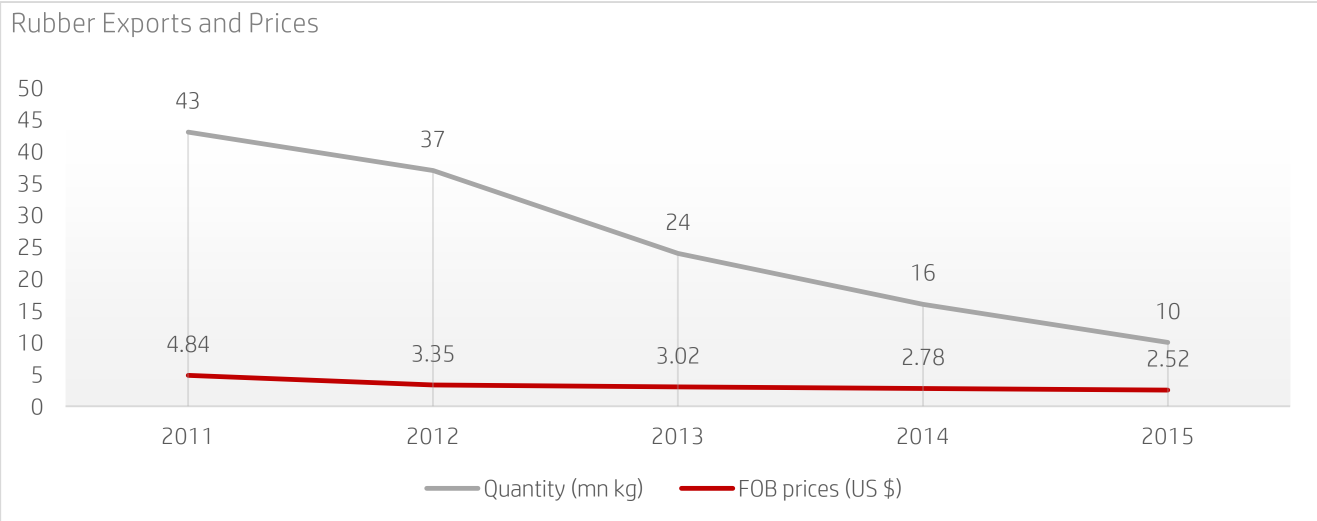
Performance and Outlook of Key Sectors - Edition 1 (April 2016)

Tea Sector	Improvement in Auction prices during March and April 2016 driven by the drop in auction volumes (due to drought) and slight improvements in the Russian market (strengthening of the Ruble v Dollar)
Rubber Sector	Improvement in Auction prices of about 20% during March and April compared to January 2016.
Apparel Sector	First two months of 2016 indicated a substantial recovery - 12.1% growth in total exports, 10% in EU and 12.4% in USA.
Consumer Durables Sector	Double digit growth in both volumes and revenue for some of the market leaders in the sector, driven by seasonal factors, drought conditions (higher demand for relevant products), electricity crisis (generators)
FMCG Sector	Subdued volume growth in the first four months of 2016 ranging at 2% - 3% compared to same period in 2015
Construction Sector	Large infrastructure projects driven by the public sector kick started during Q1 2016; continued growth in projects in the condominium and leisure sectors.
Tourism Sector	22.1% growth in arrivals during Q1 2016, with marked improvement in arrivals from China (46.6%)
Port Sector	Container throughput of the Colombo Port recorded growth of 11.5% (Q1 2016 -1,399,960 TEUs) on YoY basis.

Rubber Sector



- Prices at the Colombo auction have seen an improvement of about 20% during March – April period compared to January 2016 (Auction prices for RSS2 has improved from Rs 180-190 in late January 2016 close to Rs 215 per kg by last week in March 2016).

- Earnings from rubber exports plummeted since 2011, with both the volumes and F.O.B prices recording a declining trend from 2011 to 2015.

- There is a marked improvement in demand for Sri Lankan rubber driven by the decrease in rubber supply from Vietnam as a result of wintering of rubber trees during March – April period (Vietnam doesn’t produce natural rubber during the wintering period and sells built up stocks during this period. New stocks are expected to hit the world market by June – July. The shortage in rubber supply during the wintering period pushes the global prices up setting higher prices for the fresh stocks).

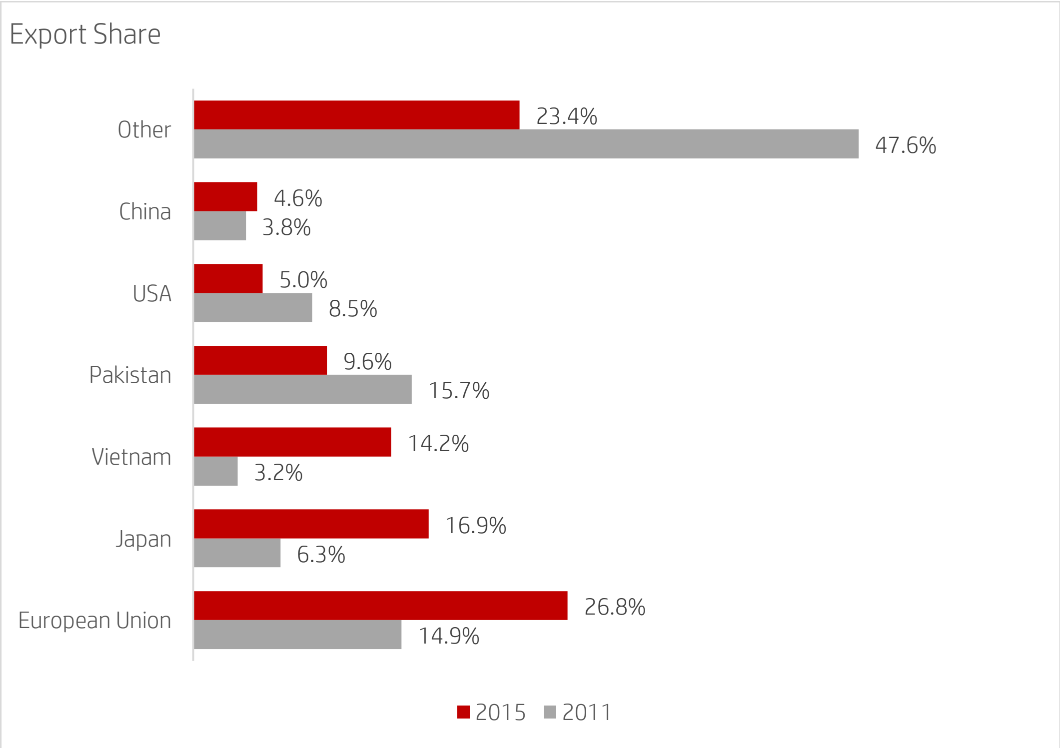
- Natural rubber (NR) prices indicated a slight improvement in key export markets in March 2016 driven by the International Tripartite Rubber Council's (comprising of Thailand, Indonesia and Malaysia which accounts for 60% of the world supply of NR) decision to cut NR exports to China in a bid to arrest further fall in prices.

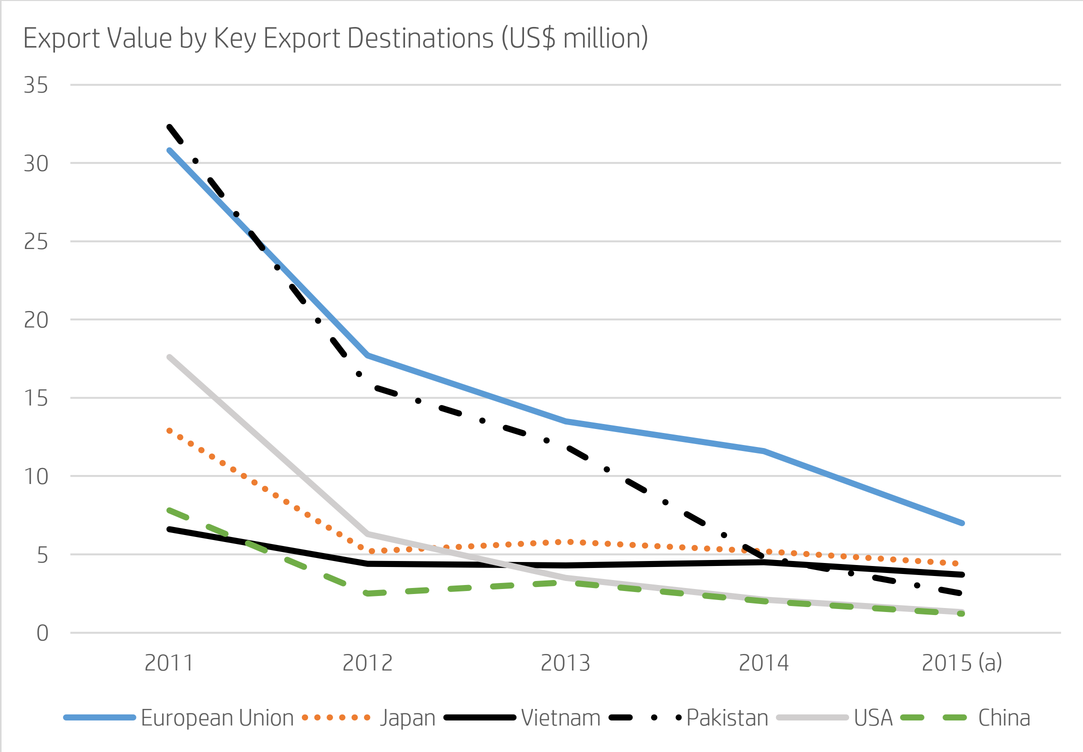
- Weekly average auction prices for RSS grade rubber in Bangkok (RSS3) and Kottayam, India (RSS4) have also indicated 29% and 25% improvement from mid-February to early April 2016.

- There has been a change in export direction during 2011-2015 period, with a shift of export from USA and Pakistan towards the European Union (EU), Japan and Vietnam (refer Charts below)

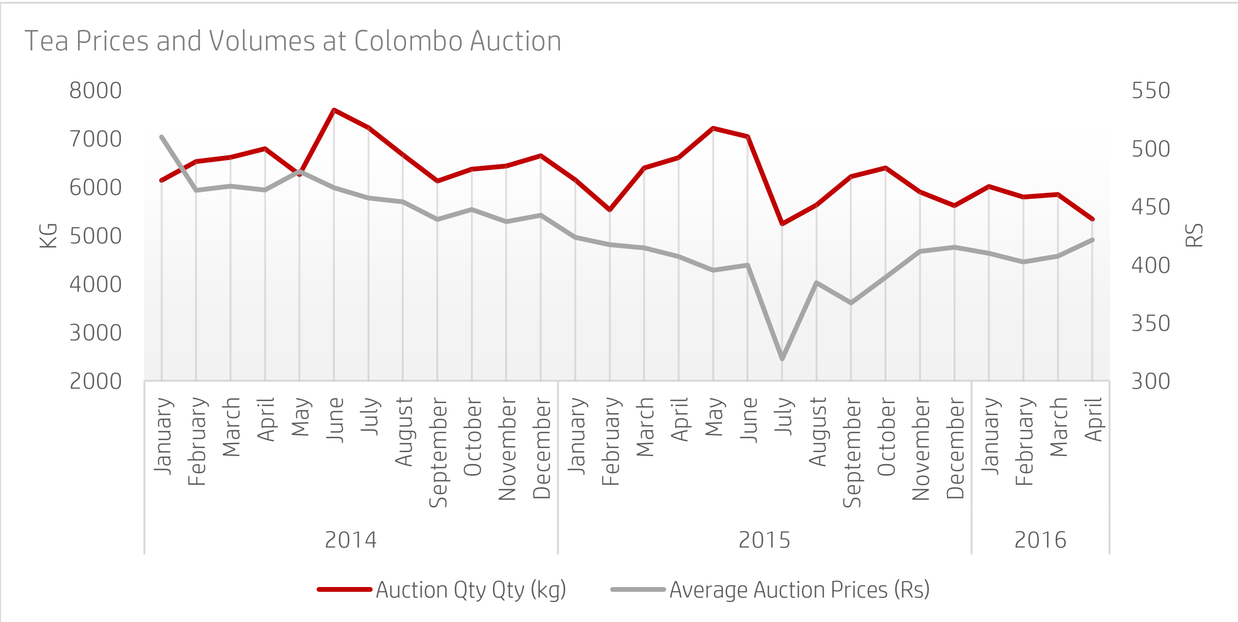
- Sri Lankan rubber industry remains positive on the removal of export CESS on rubber. The removal of CESS has a potential benefit of improving Sri Lanka's price competitiveness with the main competitors such as Vietnam if the removal is correctly timed with the arrival of new Vietnamese stocks to the market in June/July.
- Dealers have increased purchasing from small holders and are currently building stocks in order to gain advantages that could arise from a removal of export CESS on rubber.
- Impact of drought remains a concern due to possible impact it could have on supply quantities.

Export Direction of Rubber





Tea Sector



- An improvement in Auction prices was observed during March and April 2016 driven by the drop in auction volumes and slight improvements in the Russian market.

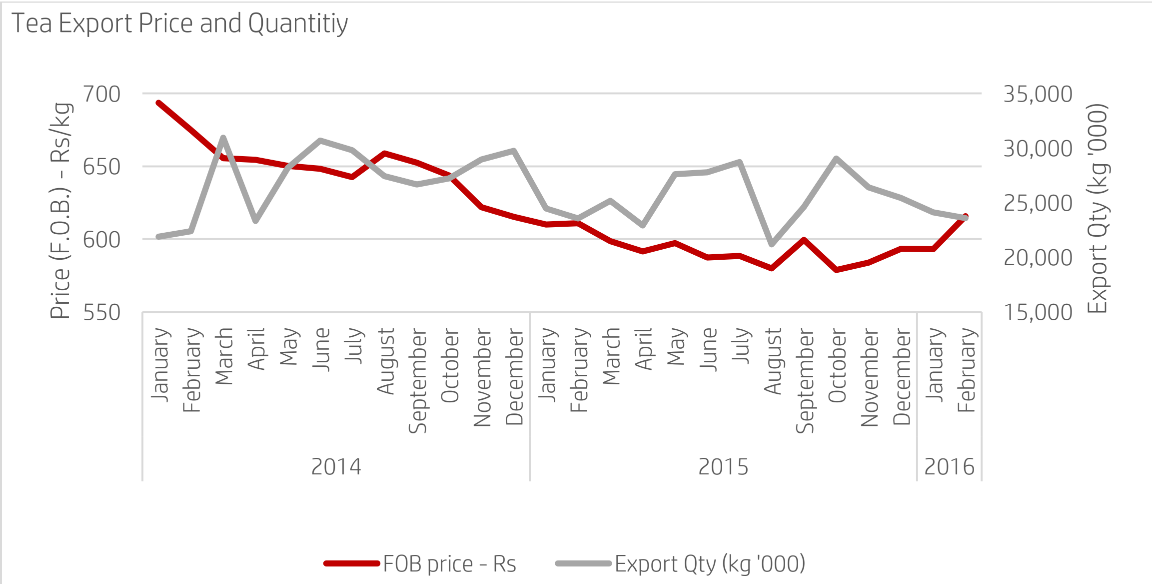
- The improved demand continued in the first auction preceding the Sinhala Tamil New Year with a marked improvement in auction prices driven by lower volumes (33% drop in YoY volumes in the first auction preceding the Sinhala Tamil New Year).

- The biggest export destination of Sri Lanka, Russia continued to indicate signs of recovery with further strengthening of the Russian ruble against the US $ by 20.4% compared to January 29th low of US$/RUB: 82.3 (Russian Ruble further strengthened in March to April 2016, from US$/RUB 68.1 to 65.5 from 28/3/2016 to 27/4/2016).

- Conditions in the Middle East remains gloomy with subdued oil prices and weak fiscal positions of the key Middle Eastern export destinations.

- Industry anticipates a further drop in tea volumes due to the drought conditions and improvement in auction prices in Q2 2016.

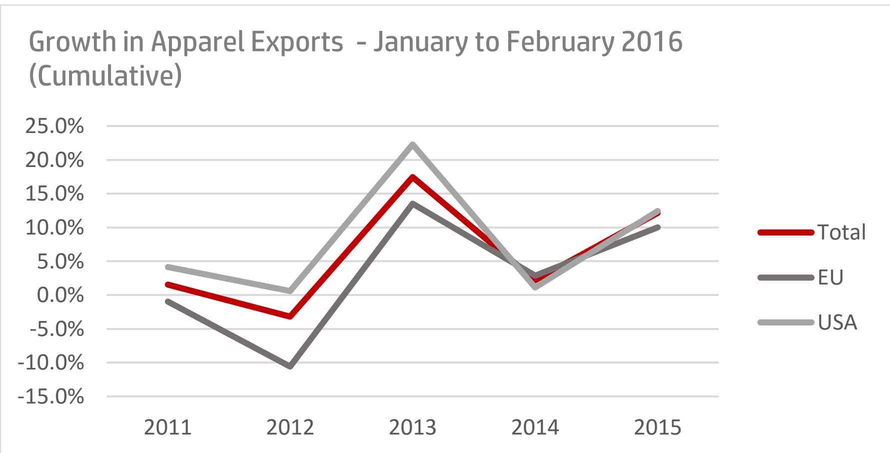
- Positive sentiments on key markets to indicate some improvement towards the latter part of 2016 driven by improved in oil prices and expectations on lessening of EU sanctions on Russia.



Apparel Sector

- Textile and garment exports recorded a negative growth of 2.2% in 2015. Export performance of the first two months of 2016 indicated a major recovery recording a strong 12.1% growth in total exports as well as exports to two key markets, EU (10%) and USA (12.4).

- The biggest export recovery was seen in HS chapter 61 (Articles of apparel and clothing accessories, knitted or crocheted) which recorded a 21% YoY export growth from same period 2015. HS chapter 62 (Articles of apparel and clothing accessories, not knitted or crocheted) grew marginally by 1.9% and 63 (Other made up textile articles; sets; worn clothing and worn textile articles; rags) grew by 10.4%.



Consumer Durables Sector

- Boost in demand following the expansionary fiscal measures of the 2015 Interim Budget had a positive impact on sales volumes of the consumer durables sector marked by double digit growth levels in both volumes and revenue for some of the market leaders in the sector.
- Despite the high growth base, performance of the first four months in 2016 has recorded satisfactory volume and revenue at two digit levels.
- The performance of both the wholesale and retail sector has remained positive backed by strong demand during the March – April season. The drought had a positive impact on demand for consumer durables such as freezers, air conditioners, power generators etc.
- Tighter market conditions are expected from May onwards due to regulatory changes in the tax environment, impact of extreme weather conditions.
- Outlook remains positive but will be driven by lower spending power and a lower growth pace compared to 2015.
- There is speculation that lower spending on high value consumer durables such as automobiles could lead to large spending consumers to opt for other high values consumer durables in the short run.

FMCG Sector

- The volume growth in the first four months of 2016 was subdued ranging at 2% -3% compared to the strong volume growth of 7% - 9% in first four months of 2015 (due to the fiscal stimulus of the January 2015 Interim Budget).
- The confectionary industry has experienced a strong growth in their volumes during March and April making 2016 one of the best performing years in domestic sales. Weak market conditions in EU remains a concern for confectionary exports.
- Tighter market conditions are expected from May onwards due to regulatory changes in the tax environment, impact of extreme weather conditions and performance of the Sri Lankan Rupee against the dollar.
- Outlook remains not so positive for the FMCG sector with big market players anticipating consumers to curtail their consumption habits in response to possible price hikes due to an increase of the VAT rate.
- Market specialists also raised concerns that it could take about three to four quarters for the FMCG sector to recover from a business cycle underpinned weak demand.

Construction Sector

- The construction sector which went through a rough patch in 2015 have begun to indicate signs of recovery with some of the large infrastructure projects driven by the public sector starting to kick start during Q1 2016.

- Projects involving water and drainage and road construction which came to stop halt in 2015 have recommenced in Q1 2016.

- The construction industry anticipates that large construction projects in the condominium sector and the leisure sector will help the sector to record substantial growth in 2016.

- The Construction sector is now increasingly getting engaged in investing in their construction projects which can be seen as a positive development.

- The sector remains watchful on the big ticket projects on the horizon and is keen on collectively lobbying for greater involvement of the Sri Lankan private sector in to gain expertise and increase the domestic value added component of such construction projects.

Tourism Sector

- The tourism sector recorded a 22.1% growth in arrivals during Q1 2016.

- India continued to be the top destination for arrivals claiming a 14.6% share in total arrivals. There was a marked improvement in arrivals from China recording a 46.6% growth during Q1 2016 on YoY basis compared to 2015.

- There was a marked improvement of 6.5% in the direct and indirect employment in the tourism sector in (Total employment - 319,436 in 2015). The upbeat performance of the tourism sector was also marked by a 34.1% growth in credit and loans extended to the tourism sector by commercial banks during 2015.

- A recent research conducted by a Chinese university indicated that the spending power of the Chinese tourists have seen a marked improvement with 70% of Chinese tourists staying in hotels, compared 30% staying in other informal facilities.

- Sri Lanka has commenced a special promotion campaign targeting the Chinese market with an intention of attracting high spending tourists to the country.

- The sector remains positive on the outlook for 2016 and focuses on attracting tourists with higher spending power.

Port Sector

- Container throughput of the Colombo Port recorded a double digit Growth rate of 11.5% (Q1 2016 -1,399,960 TEUs) on YoY basis during Q1 2016. Handling of domestic cargo grew by 6.2% and handling transshipment containers rerecorded a 13.2% growth rate.

- Total number of vessels arrived at all Sri Lankan sea ports stood at 4728 in 2015 recording a YoY growth of 10.9%. The four major ports handled a total cargo volume of which 95% was handled by the port of Colombo.

2015 (Share of Total)	Total Cargo Handled	Vessels Arrived
Colombo	95.0%	88.8%
Galle	0.7%	1.5%
Trincomalee	3.9%	3.5%
Hambantota	0.4%	6.2%

- Revenue earned by the Sri Lanka Ports Authority (SLPA) indicated a growth of 8.8% in 2015.