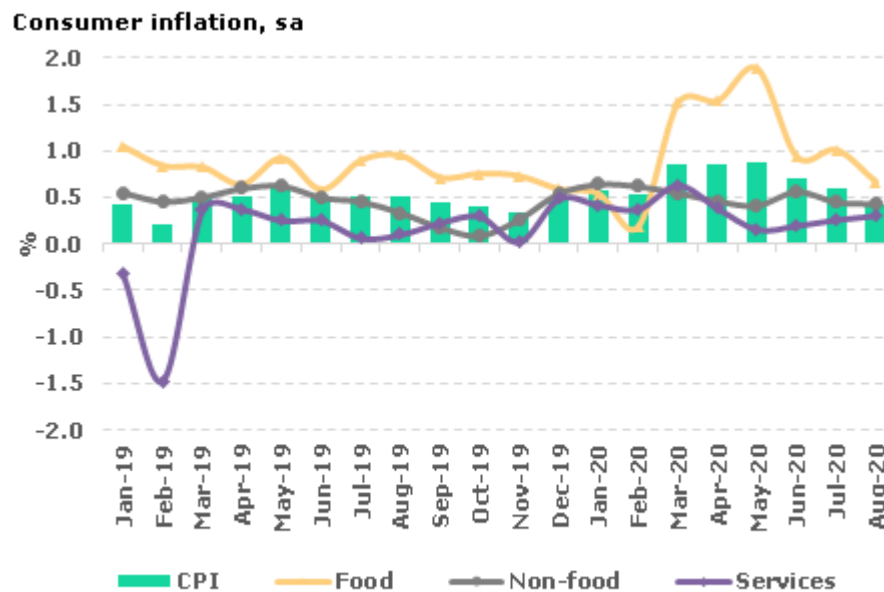


September 3 2020

Inflation returned to 7% yoy in August

Inflation in August slowed down to 0.1% mom from 0.3% mom in the previous month. In annual terms, the growth in prices slightly weakened from 7.1% to 7%. The weakening of inflation in August mainly occurred against the background of a seasonal drop in prices for agricultural products, while prices for non-food products slightly accelerated their growth, and the dynamics of changes in tariffs for services did not change. We keep our inflation forecast for the end of this year at 7.3% yoy.

According to the Committee on Statistics, inflation in August continued to slow down to 0.1% mom from 0.3% mom in the previous month. On an annualized basis, price increases slightly corrected to 7% from 7.1% in July. Taking into account the seasonal adjustment (sa), according to our estimates, inflation eased to 0.4% mom from 0.6% mom.



Source: CS MNE, Halyk Finance

The change in prices for food products in August amounted to -0.2% mom (+0.7% mom sa), providing -0.08pp in headline inflation, which was facilitated by a seasonal decline in prices mainly for vegetables. Prices for cereals went up (+1.2% mom), oils and fats (+0.9% mom), lamb (+1% mom). The prices for fruits and vegetables decreased (-4.7% mom), eggs (-0.3% mom).

Prices for non-food products increased by 0.5% mom (+0.4% mom sa), providing a 0.14pp contribution to inflation. The cost of jewelry (+4.8% mom), antiseptics (+2.8% mom), shoes (+0.7% mom), detergents and cleaning products (+0.4% mom), medicines (+1.1% mom). The cost of gasoline and diesel fuel has decreased (by -0.1% mom).

In the service sector, tariffs grew by 0.3% mom (+0.3% mom sa), contributing to the rise in prices by 0.1pp. Increased tariffs for cold water (+0.4% mom), electricity (+0.9% mom), funeral services (+1.3% mom).

Consumer goods and services inflation, %

| Type of good or service | August 2020 | | | | August 2019 | |
|-------------------------------|-------------|------------|------------|-------------|-------------|------------|
| | mom | momsa | ytd | yoy | ytd | yoy |
| All goods and services | 0.1 | 0.4 | 4.6 | 7.0 | 3.0 | 5.5 |
| Food products | -0.2 | 0.7 | 7.3 | 10.9 | 6.1 | 9.0 |
| Bakery and cereals | 0.6 | 0.8 | 7.4 | 13.4 | 9.9 | 12.6 |
| Meat | 0.4 | 0.2 | 7.1 | 11.3 | 8.9 | 12.8 |
| Fruits and vegetables | -4.7 | 0.6 | 10.6 | 13.0 | 4.1 | 2.0 |
| Milk products | 0.6 | 0.8 | 5.8 | 9.8 | 2.6 | 5.6 |
| Oils, fats | 0.9 | 1.1 | 6.5 | 9.0 | 2.6 | 8.2 |
| Non-food products | 0.5 | 0.7 | 3.4 | 5.5 | 2.9 | 5.7 |
| Clothes and footwear | 0.5 | 0.4 | 2.5 | 5.0 | 4.1 | 7.4 |
| Household appliances | 0.3 | 0.3 | 5.0 | 7.0 | 4.2 | 7.8 |
| Gasoline | -0.1 | -0.2 | 2.6 | 2.4 | -4.5 | -5.0 |
| Diesel | -0.1 | -0.9 | -3.2 | -1.2 | -0.9 | 9.6 |
| Services | 0.3 | 0.3 | 2.0 | 3.4 | -0.6 | 0.8 |
| House maintenance, utilities | 0.3 | 0.2 | 0.8 | 2.5 | -4.3 | -3.9 |
| Rest, leisure, culture | 0.2 | 0.0 | 1.3 | 2.6 | 5.2 | 8.5 |
| Education | 0.0 | 0.2 | 0.8 | 2.3 | 0.3 | 3.1 |
| Health care | 0.9 | 1.0 | 5.4 | 6.8 | 5.2 | 7.9 |
| Transportation | 0.2 | 0.2 | 4.0 | 5.1 | 0.4 | 2.2 |
| Telecom services | 0.1 | 0.1 | 2.1 | 2.5 | 0.8 | 2.2 |

The table contains the main components of CPI

Source: CS MNE, Halyk Finance

At the regional level, the highest inflation in August was observed in Nur-Sultan at 7.8% yoy and in Mangistau oblast at 7.4% yoy, while prices in the capital decreased by 0.4% versus the previous month. The lowest inflation was recorded in the south - in Shymkent at 6.4% yoy and in Turkestan oblast - 6.5% yoy. In eight regions, inflation was below 7% yoy, in five regions, including Almaty, at 7% yoy, and in five other regions, above 7% yoy.

Our opinion

Inflation slowed slightly in August for the fourth month in a row. The inflation rate for 8 months of this year is half as higher than the inflation rate for the same period last year – 4.6% versus 3%. At the same time, in comparison with the summer of last year in June-August of this year, inflation accelerated by only one third – from 0.6% to 0.8%, which indicates a gradual weakening of inflationary pressure. The acceleration of inflation was driven the most by the increase in tariffs for services, which increased by 2% in January-August 2020, against their decline by 0.6% in January-August 2019 and an increase in food prices by 7.3% in January-August 2020, against their increase by 6.1% in the same period in 2019. In turn, prices for non-food products showed a more moderate change, which is explained by a more significant decrease in demand for durable goods.

During the quarantine period, more than 2 million people received special allowances of T42.5 thousand every month, which is comparable to 25% of the total working population. Such a significant mass of people who actually remained temporarily unemployed undoubtedly depresses consumer demand and restrains the influence of such pro-inflationary factors as the weakening of the tenge against the dollar, the increase in tariffs of state monopolies and the growth in demand for medical supplies and drugs provoked by the pandemic. In addition, the economic crisis and the impact of the pandemic have reduced aggregate demand in the economy broad wide. We maintain our end-of-year inflation forecast at 7.3% yoy.

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