

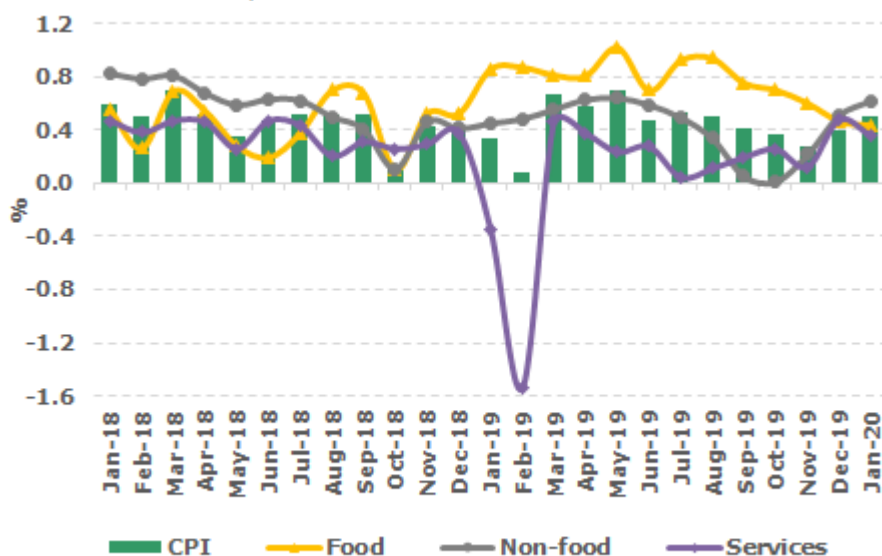
# Inflation started the year with 0.7% growth

Assan Kurmanbekov — February 05, 2020

Inflation in January was at 0.7% mom for the third month in a row, in annual terms a slight increase from 5.4% to 5.6% - the highest level since October 2018. "Defrosting" of tariffs and fuel prices of state monopolies expectedly enforced inflation.

According to the Statistics Committee, inflation in January was at 0.7% mom for the third month in a row, in annual terms a slight increase from 5.4% to 5.6% - the highest level since October 2018. Given the seasonal adjustment (sa), by our estimates, inflation was 0.5% mom. Defrosting of tariffs and fuel prices of state monopolies expectedly enforced inflation.

**Consumer inflation, sa**



Source: CS MNE, Halyk Finance

According to the results of January, inflation in the food product group amounted to 0.9% mom, 0.4% mom sa, providing 0.35pp in the total inflation. Fruits and vegetables rose +3.3% mom, eggs +1.6% mom, dairy products + 0.9% mom. The decrease in prices occurred in rice -0.9% mom, sugar -0.5% mom. Prices for non-food products increased by 0.5% mom (0.6% mom sa), a contribution of 0.15pp to inflation. The cost of household goods increased +0.4% mom, automobiles +0.7% mom, but the main growth was in gasoline +2.7% mom. In the service sector, tariffs increased by 0.5% mom (0.4% mom sa), with a 0.16pp contribution to price increases. The main factors behind the increase were electricity tariffs +1% mom, medicine +0.5% mom, due to more expensive fuel transport services +1.4% mom, legal services turned 5% more expensive.

**Consumer goods and services inflation, %**

Type of good or service	January 2020				January 2019	
	mom	momsa	ytd	yoy	ytd	yoy
<b>All goods and services</b>	<b>0.7</b>	<b>0.5</b>	<b>0.7</b>	<b>5.6</b>	<b>0.5</b>	<b>5.2</b>
<b>Food products</b>	<b>0.9</b>	<b>0.4</b>	<b>0.9</b>	<b>9.2</b>	<b>1.3</b>	<b>5.8</b>
Bakery and cereals	0.5	0.9	0.5	15.8	0.7	4.7
Meat	0.4	0.6	0.4	13.0	0.6	8.0
Fruits and vegetables	3.3	0.0	3.3	4.9	4.8	-4.4
Milk products	0.9	0.8	0.9	6.8	0.5	7.9
Oils, fats	0.4	0.3	0.4	4.8	0.7	9.3
<b>Non-food products</b>	<b>0.5</b>	<b>0.7</b>	<b>0.5</b>	<b>5.2</b>	<b>0.3</b>	<b>6.4</b>
Clothes and footwear	0.2	0.5	0.2	6.4	0.5	7.9
Household appliances	0.4	0.3	0.4	6.1	0.5	7.9
Gasoline	2.7	2.5	2.7	-0.8	-1.2	-3.6
Diesel	0.3	2.2	0.3	1.5	-0.1	29.6
<b>Services</b>	<b>0.5</b>	<b>0.4</b>	<b>0.5</b>	<b>1.4</b>	<b>-0.2</b>	<b>3.4</b>
House maintenance, utilities	0.3	0.4	0.3	-1.3	-1.0	1.3
Rest, leisure, culture	0.3	0.3	0.3	6.5	0.4	6.6
Education	0.1	0.1	0.1	1.6	0.3	4.4
Health care	0.4	0.2	0.4	6.1	0.8	7.0
Transportation	1.6	1.9	1.6	2.9	-0.6	3.4
Telecom services	0.3	0.3	0.3	1.4	0.1	4.2

The table contains the main components of CPI

Source: CS MNE, Halyk Finance

December polls published by the NBK showed an increase in inflation expectations. The share of respondents expecting acceleration in price growth in the next 12 months increased to 26% in December (20% in December 2018) and was at the highest level for the whole of 2019. The share of respondents expecting price increases above 6% was 73% (80% in December 2018), 65% at the minimum in October 2019.

**Our opinion**

Inflation remained high at the beginning of the year and was higher than last January (+0.5% mom). The main influence on price growth was exerted by exactly the same state-regulated utilities and fuel services, tariffs and prices for which were reduced by the state at the beginning of last year, but at the beginning of this year they were slightly released. As a result, we see a chain reaction - transport services have risen in price, and given the fact that fuel and electricity are built into almost all areas of economic activity, we can expect a further transfer of the effect of their rise in price to other goods and services. In turn, inflation expectations also remain at an elevated level, which creates the preconditions for price increases. Against this background, the decision of the regulator to maintain the base rate at its current level of 9.25% made on February 3<sup>rd</sup> seems justified.

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