

June 19, 2020

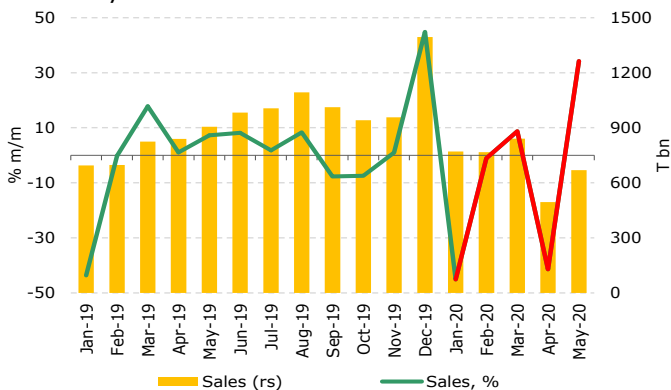
As a result of quarantine and the recession in the economy, the retail sector in April and May lost about a third of the total turnover from the pre-crisis level. Despite a sharp increase in May, according to the results of the current year, it is expected that the economic downturn will cause a significant reduction in the turnover of trade, and its negative dynamics will significantly outstrip the pace of economic decline in general.

The growth of consumer activity due to the removal of quarantine and the strengthening of tenge helped to move trade towards recovery

After the April decline of 41.4% compared with March, retail sales turned to a quick recovery in May with an increase of 34.2% mom. The depth of the fall in trade volumes in April was comparable to the seasonal decline in sales in January, which amounted to 45.1% in monthly terms. Thus, we can say that this year the trade sector experienced two months of sales decline instead of the usual one. Relative to March, sales in April and May were almost a third lower. The trade turnover in April amounted to just T496bn and was the lowest since the beginning of 2016, when oil prices were also at their lows - just above \$30 per barrel. Note that the main contribution to the drop in sales in April was due to a decrease in sales of non-food products, which fell by more than half from March, while sales of food products decreased by only 19%. Considering that quarantine began to be lifted after May 10, the recovery growth in trade turnover will be noticeably expressed in trade statistics for June as well. In annual terms, the depth of the decline in trade turnover in May decreased to 30.8% compared with 44.7% in April. In general, over five months the drop in retail sales is even more modest -16.2% yoy.

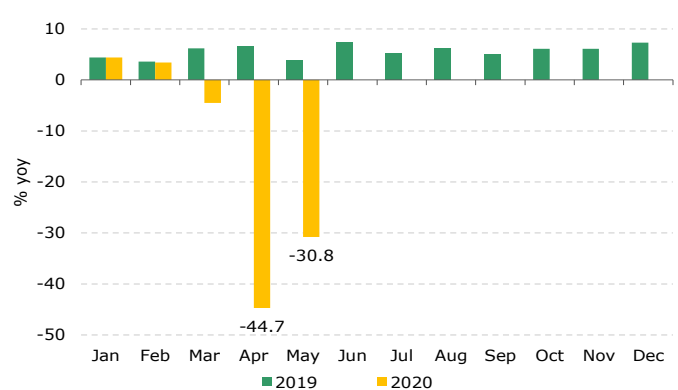
Strengthening tenge was an important driver of restoring trade: in May, the national currency strengthened by 4% against the US dollar. However, in May, the tenge exchange rate against remained almost unchanged in May, having decreased by 6% since the beginning of the year, as a result of which we can speak of a generally neutral effect of changes in the exchange rate on the sphere of trade in the first five months of this year. In addition, the currencies of developing countries have also fallen against the dollar by about 6% since the beginning of this year. Accordingly, the pressure on inflation from the weakening tenge should be minimal. A moderate increase in prices is favorable for trade in the conditions when the economy of Kazakhstan for the first time in more than 20 years enters into recession - the reduction in GDP in January-May amounted to 1.7% compared to the same period last year.

Figure 1. Trade turnover seeks V-shaped recovery so far in May



Source: CS MNE

Figure 2. The decline in trade turnover in May slowed down to 30.8% in annual terms



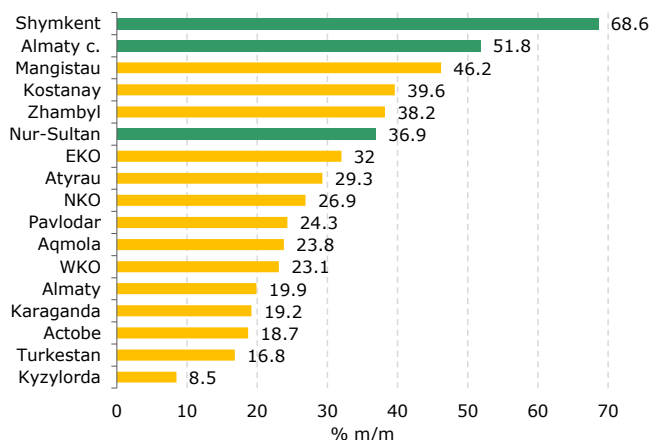
Source: CS MNE

The most noticeable growth in trade was in Almaty and Shymkent, the share of food adjusted to 40% of total sales from a level above 50% a month earlier

Almost all regions, with the exception of Kyzylorda region, showed double-digit retail growth in May. The fastest growth rates in comparison with quarantined April were demonstrated by the cities of Shymkent with growth of almost 70% and Almaty with growth of more than 50%. A relatively more modest increase was observed in the city of Nur-Sultan (+37%). Also, noticeably more modest growth rates below 20% were demonstrated by such economically large regions as Almaty, Karaganda and Aktobe (Fig. 3).

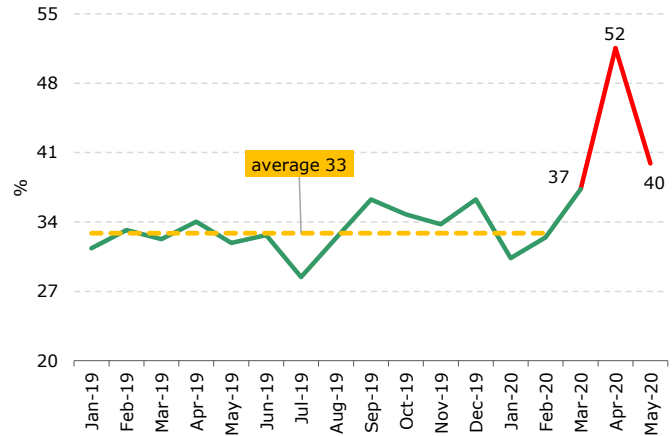
The trade structure also signals the recovery process that has begun. In March, the share of food products in total sales increased to 37%, in April jumped to 52%, and in May it adjusted to 40%, with an average of 33% (Fig. 4). Based on the current dynamics of trade, it can be expected that in the second half of this year the structure of trade will approach the pre-crisis level.

Figure 3. Almaty and Shymkent trade growth leaders in May



Source: CS MNE

Figure 4. The share of food in trade turnover began to normalize in May



Source: CS MNE

Salaries began to decline mainly in the private sector, unemployment rates are still at a stable level

The labor market, due to its opacity, has not yet reflected the deterioration of the economy. The data for the first quarter on unemployment remains unchanged, showing a stable unemployment rate of 4.8% since mid-2018. In turn, wages show a small but noticeable decrease: since the beginning of the year, nominal wages have fallen by 6% from T209 thousand in December 2019 to T195 thousand in May (Fig. 5). For comparison, during the same period last year, salaries remained virtually unchanged, showing a correction to the traditionally high December of less than 1%. It is known that the state increased salaries in the public sector this year - expenditures on salaries from the state budget increased by 38% yoy in April. However, the private sector was seriously affected due to strict quarantine, not to mention the fall in prices for Kazakhstan's main export product, oil. As a result, there is a serious drawdown in income in the private sector, but due to the lack of a transparent labor market and a high share of the shadow economy, the corresponding data are not reflected in the statistics. This is especially noticeable in contrast to statistics in the United States, where the labor market immediately responded to the crisis with unemployment rising from 3.5% at the beginning of the year to over 13% in May. At the same time, in Kazakhstan only 72 thousand people applied to the employment centers as job seekers in May, while about 2mln people are vulnerable in terms of labor and are self-employment, not counting those employed in small enterprises.

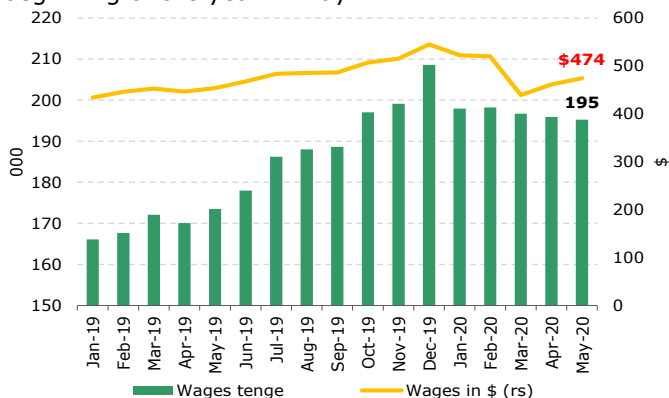
Comparison of current retail trade indicators with the crisis year of 2009 demonstrates noticeable differences in the dynamics of trade before and in this crisis. The bottom of retail sales decline in 2009 was at -11.3% yoy occurred in the middle of the year, while the slide was smooth as well as recovery. Due to the introduction of strict quarantine, which became full-scale in April, the decline in trade this year was sharp and deep, although not catastrophic - i.e. the fall in April did not go beyond the seasonal recession that occurs every year in January.

The restoration of trade turnover will depend on the State support and the resumption of credit activity of banks

In June, we expect further recovery of trade, but in the future, its growth will largely depend on measures to support the economy by the state, as well as on the dynamics of lending to the population, one of the main drivers of retail trade. Recall that lending to the population in 2019 increased by 26%, while in the five months of 2020, loans to individuals increased by only 1%.

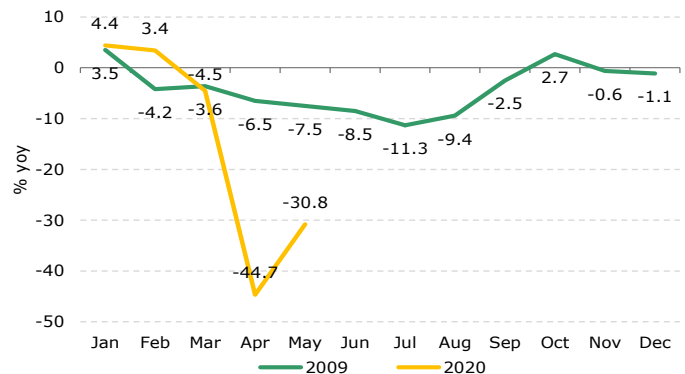
In our opinion, the potential for weakening tenge this year has not yet been exhausted, just as a new drop in oil prices and other raw materials is not ruled out. The economic downturn that began in April will continue for at least the second quarter, with a deeper decline in trade compared to the economy. At the same time, we do not expect the resumption of harsh quarantine measures similar to those that took place this spring. One need to understand that quarantine has a detrimental effect on the economy, the state will seriously lose in economic and political potential in comparison with those countries that are struggling with a pandemic, but at the same time minimize the restriction of economic activity. To highlight, the trade sector is the most labor-intensive industry in Kazakhstan, providing 16% in total employment.

Figure 5. Salaries decreased by 6% since the beginning of the year in May



Source: CS MNE

Figure 6. The sharp decline of retail trade in April was replaced by growth in May



Source: CS MNE

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