

# STEI is the lowest in January 2019 over the past three years

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STEI indicator in January of the current year was at the level of 2.9% y / y, which is lower than the metrics for 2017 (3.8% y / y) and 2018 (4.7% y / y) for the same period. The contribution of the commodity sector to STEI, taking into account the transportation and sales of products of the commodity sector, was 1.95pp, which is about 67% of growth. All components of STEI in the context of monthly dynamics (January 2019 / December 2018) showed a negative growth.

Domestic trade (wholesale and retail) that increased by 7.5% y / y (+ 0.8% y / y 1M2017, + 7.5% y / y 1M2018.), transportation that grew by 3.7% y / y (+ 0.9% 1M2017, + 2.5% y / y 1M2018) and agriculture that expanded by 3.5% y / y (+ 1% 1M2017, + 3.7% y / y 1M2018) contributed the most to STEI in the analyzed period. Industrial production grew by 1.9% y / y and compared with 1M2017 (+ 4.9% y / y) and 1M2018 (+ 5.2% y / y) is the lowest value in the last three years. Construction in January 2019 evidenced a negative growth rate, which was at the level of 1.8% y / y (-14.9% y/y 1M2018, + 7.1% y/y 1M2017). Telecommunication in January of the current year grew by 1.2% y / y (-2.1% y/y 1M2017, + 4.4% y / y 1M2018). According to Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan (SN MNE), industrial production in January 2019 amounted to T2.157 billion in current prices, which is 1.9% y / y more (+ 5.2% y / y in January 2018) than in the same period of 2018. According to our estimate, contribution of industrial production to the growth of STEI is 0.85pp (the contribution share is about 29.3%).

In the commodity sector of Kazakhstan, the growth rate of output slightly increased and amounted to 6.8% y / y (+ 4.5% y / y in January 2018). The growth rate of crude oil production in January of this year was at 5.3% y / y (+ 7.0% y / y in January 2018). According to the SN MNE, crude oil and gas condensate output in January 2019 amounted to 8 million tons (7.6 million tons in January 2018), which is 9.4% of the planned production output for 2019 (89 million tons according to the plans of the Ministry of Energy of the Republic of Kazakhstan). In metal production sector, there is a significant gap in output growth rates depending on the ore type. Thus, the growth rate non-ferrous metal ores output reached a maximum annual rate of 15.8% y / y (-4.9% y / y in January 2018), and the growth rate of metal ores output was 0.9% y / y (+ 3.8% y / y in January 2018). According to our calculations, in January of the current year the contribution of the crude oil and natural gas production to STEI was 0.55pp. The contribution of commodity sector to STEI, taking into account transportation and sales of products of the sector, was 1.95pp, which is circa 67% of growth.

Manufacturing output in January of 2019 evidenced a negative growth of -5.0% y / y (+ 6.2% y / y in January 2018). As a part of manufacturing, a significant increase in production was demonstrated by light industry 17.5% y / y (-11.1% y / y in January 2018), the beverage production 15.6% y / y (+ 10.5% y / y in January 2018) and the industry of rubber and plastic products 14.3% y / y (+ 7.3% y / y in January 2018). Increase in production of machine building industry in January of this year amounted to 2.7% y / y (+ 7.9% in January 2018), production of precious and non-ferrous metals 2.6% y / y (+5.6 g / in January 2018) and the production of refined products by 5.2% (+ 1.8% in January 2018). Increase in coke and oil refinery products output amounted to 3.3% y / y (+ 1.6% in January 2018). A noticeable decline in ferrous metallurgy amounted to -31% y / y (+ 9.3% y / y in January 2018).

The growth rate of trade sector in the period amounted to 7.5% y / y, with the growth in retail sales that was 4.4% y / y (+ 4.3% y / y in January 2018), and wholesales at 9.6% y / y (+ 9.3% y / y in January 2018). According to our estimates, the contribution of trade to STEI in January of the current year was 1.77pp. The share of the commodity sector in trade (including wholesale and retail trade in oil and oil products, metals and products from them), according to our current estimate, is approaching 70% of the total.

Gross output of transportation services provided 0.16pp of STEI in January of the current year and amounted to 3.7% y / y (2.5% y / y January 2018). Positive dynamics of growth in turnover was observed in pipelines transportation (+ 4.9% y / y) due to an increase in gas transmission by (+ 11.7% y / y) and a decline in crude oil transportation (-0.5% y / y). The growth rate of freight turnover in January of this year by railway and automobile transport was 4.5% and 3.4%, respectively. The growth rate of cargo turnover by sea and air transportation was negative and was at the level of -28% y / y and -23.2% y / y. The share of transportation of commodities by all modes of transport in real terms, in our estimation, is at least 75% of the

total freight transportation.

Gross agricultural output in January of the current year amounted to 3.5% y / y (3.7% y / y in January 2018). The contribution of agriculture in STEI in January 2019 amounted to 0.09pp.

Construction output as of January of the current year was -1.8% y / y (-14.9% y / y January 2018). The contribution of construction to STEI in the analyzed period was -0.02pp.

The smallest contribution to the STEI in January of the current year was by telecommunication services and amounted to 0.02pp with a growth rate of 1.2% y / y (+ 4.4% y / y January 2018).

Investments in fixed assets in January of the current year, according to the express data of CS MNE, was negative and amounted to -2.5% y / y (+ 65.4% y / y in January 2018). In nominal terms, investments in fixed assets reached T645 billion within the analyzed period. Investment in mining industry in January amounted to 56.1% of the total investment. Investments in the transportation and storage was 8.7% of the total investment in January 2019.

### **Our opinion**

In January of this year, only the growth of domestic trade, industrial production and transportation made a significant contribution to the growth of the republic's economy. Construction contributed negatively to the economy. Monthly growth dynamics of all the components of STEI evidenced a negative growth with STEI amounted to 67.1% m/m .

The data of CS MNE shows that the economy of Kazakhstan has not yet overcome the structural imbalances, which are expressed in the growth of commodity sectors of the economy, the growth dynamics of which is determined primarily by external demand, which, in turn, cannot provide economic growth rates above 4.0% - 4.1%. In addition, the instability of external demand in the EU and the US and Chinese trade wars should affect the slowdown of the economy of Kazakhstan in 2019, which, in our opinion, will decrease to 3.6% y/y. Last year and the current year statistics prove it. Manufacturing had been slowing down during the whole of 2018 and as the end of the year accounted for 4.0% y/y, the minimum annual value. Manufacturing evidenced a negative growth of -5% y / y in January of this year. Expansion of mining industry by 6.8% y/y in January 2019 occurred due to an increase in the production of crude oil and natural gas and ores of non-ferrous metals; however, it only indicates the instability of external demand, and is not a steady trend towards its expansion.

Domestic demand of the economy of Kazakhstan is largely determined by the growth of government spending (state development programs) and to a lesser extent by the expansion of household consumption. This happens because the redistribution of income of commodity sectors of the economy into its non-commodity part of the economy is carried out with a certain lag and extremely irregular from sector to sector. One of the channels of such distribution is the mechanism of budget transmission to the real sector of the economy at the amount of a guaranteed transfer from the National Fund. However, the law "On the guaranteed transfer from the National Fund of the Republic of Kazakhstan for 2019-2021", adopted in November last year, implies a reduction in the amount of the transfer to the budget from T2.600 billion in 2018 to T2.450 billion in 2019. This, in our opinion, is the right measure, but cuts in government spending will affect domestic demand and, as a result, the growth rate of the entire economy.

Expansion of domestic trade, which made a significant contribution to economic growth in January 2019, will support the economy in 2019 as well and will be supported by consumer lending by commercial banks (mainly lending to consumer goods imports). Consumer lending will be approximately at the level of last year, i.e. 13-14%. We do not expect a noticeable weakening of the tenge from current levels, and this in turn should have a positive effect on domestic trade.

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