

STEI in January–June 2019 made 4.3% yoy

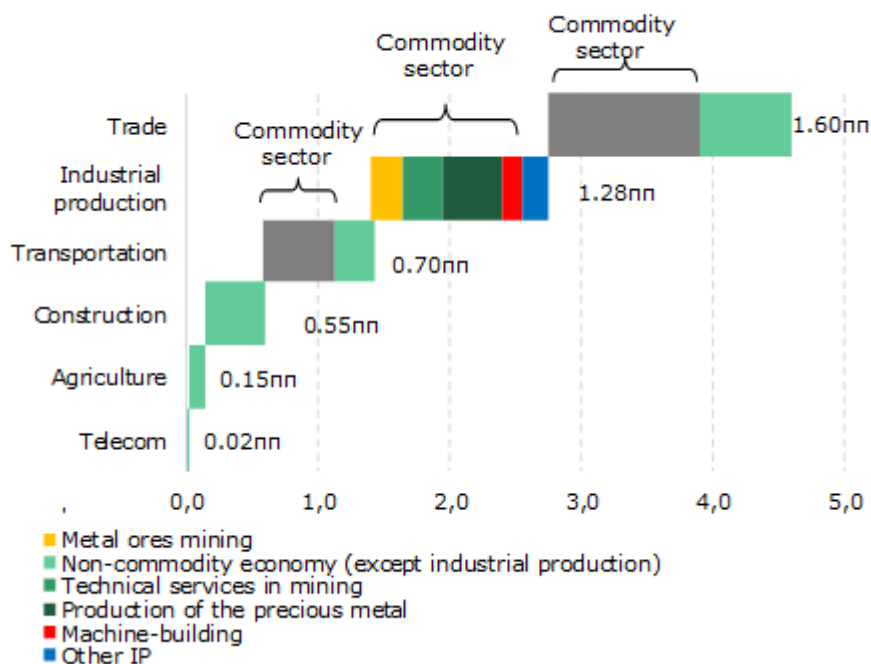
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In January-June 2019, the STEI reached 4.3% yoy, which is lower than in 2017 (5.8% yoy) and in 2018 (5.3% yoy) for the same period. According to our estimates, commodity sector’s contribution to the STEI, including transportation and sales of commodity sector products was 3.14pp, which is about 73% growth.

Since the beginning of the year, domestic trade (wholesale and retail) that grew 7.5% yoy (+ 2.4% yoy 6M2017, + 5.9% yoy 6M2018), transportation by 5.3% yoy (+ 3.9% 6M2017, +4.9% yoy 6M2018) and agriculture by 3.8% yoy (+3,1% 6M2017, + 4.0% yoy 6M2018) contributed the most to the STEI. Industrial production grew 2.6% yoy and as compared with 6M2017 (+ 7.8% yoy) and 6M2018 (+ 5.2% yoy) remains the lowest metrics. Construction in January-June 2019 shadowed all other components of STEI with 11.1% yoy (+5.9% yoy 6M2017, + 3.8% yoy 6M2018). Telecommunication sector in January-June of this year made 1.7% yoy (+ 2.5% yoy 6M2017, + 5.9% yoy 6M2018).

According to the Committee on Statistics of the Ministry of National Economy of Kazakhstan (the CS MNE), in January-June 2019, industrial output grew 2.6% yoy and amounted to T14.292 bn in current prices. According to our estimation, industrial production contributed 1.28pp and shared 49.1% of growth.

Fig.1. STEI in January–June 2019



In mining and quarrying of Kazakhstan, output in January-June 2019 increased by 2.1%. Positive growth dynamics was recorded in the metal ores mining (+ 18.9% yoy) and technical services in the mining industry (+ 21.7% yoy). Thus, production rate of crude oil in January-June 2019 made -2.0% yoy (+6.2% yoy in January-June 2018) and natural gas at 0.1% yoy (+6.4% yoy in January-June 2018).

According to the CS MNE, crude oil and natural gas output in January-June 2019 accounted for 44 257 thousand tons (45 156 thousand tons in January-June 2018). Crude oil and natural gas contribution to STEI, according to our calculations, in January-June 2019 was negative and amounted to -0.43pp.

Manufacturing in the reporting period of 2019 made 3.4% yoy. (+ 5.2% yoy in January-June 2018). Printing and playback of recorded materials 40.9% yoy (+ 5.1% yoy 6M2018), manufacture of basic pharmaceutical products 19.5% yoy (- 0.2% yoy 6M2018), light industry 16.7% yoy (+ 2.4% yoy 6M2018), beverage production 15.8% yoy (- 0.2% yoy 6M2018) and

machine-building 13.4% yoy (+ 17.2% yoy 6M2018) demonstrated a noticeable growth in the analyzed period. Metallurgy showed 1.5% yoy growth in the period (+3.4% yoy 6M2018) due to ferrous metallurgy production cuts by 7.2% yoy (+5.0% yoy 6M2018) and base, precious, and non-ferrous metals output at 8.9% yoy (+2.1% yoy 6M2018).

Domestic trade made 7.5% yoy in January-June 2019 with retail sales of 5.4% yoy (+ 5.6% yoy in January-June 2018), and wholesale 8.0% yoy (+ 6.1% yoy in January-June 2018). According to our calculations, trade contributed to the STEI 1.60pp in January-June 2019. The share of commodity sector in domestic trade (including wholesale and retail trade in oil and oil products, metals and products from them), according to our current estimate, is at least 70% of the total.

Transportation made a 0.70pp contribution in the STEI in January-June 2019 and amounted to 5.3% yoy (4.9% yoy January-June 2018). Positive dynamics of freight turnover was in air transportation (35.1% yoy), in automobile transportation (6.1% yoy). Railroad freight made -0.1% yoy. The sea transport in January-June of the year amounted to 74.7% yoy vs the same period of last year. In transportation by pipelines, freight turnover reduced by 3.8% yoy. Transportation of commodity sector products by all modes of transport, according to our estimates, is at least 75% of the total cargo transportation.

Gross output of agriculture in January-June 2019 made 3.8% yoy (+4.0% yoy in January-June 2018). Cattle breeding output increased by 4.2% yoy while crop production increased by 0.9% yoy. Contribution of agriculture to the STEI in January-June 2019 amounted to 0.15pp.

Construction sector growth in January-June 2019 was 11.1% yoy (3.8% yoy January-June 2018). The contribution of construction to the STEI in the analyzed period was 0.55pp.

Telecommunication contributed the least to the STEI and made 0.02pp in January-June of the current year, evidencing the growth rate of 1.7% yoy (+ 5.9% yoy January-June 2018).

Fixed assets investments in January-June 2019, according to the preliminary data of the CS MNE, grew by 11.7% yoy (+ 25.8% yoy 6M2018). In nominal terms, investments in fixed assets reached T5.253bn within the analyzed period.

Our opinion

In January-June of 2019, economic growth calculated by six industries, showed the best growth rate this year at 4.3% yoy. The growth rate for 12 months in June was a record high of 7.2% yoy (the best metrics since August 2017). In January-June, the high dynamics of the STEI was supported by a significant acceleration of the construction dynamics to 11.1% yoy (January-February 2019 2.0% yoy). Since the beginning of the year, domestic trade has shown growth of at least 7.3-7.5% (the minimum value of January-March 2019 7.2%), which is significantly higher than the growth rate of the industry compared to the corresponding period of the past two years. In January-June, there is a reduction in negative dynamics of growth of crude oil production and an increase in natural gas production, which resulted due to the maintenance work at the Kashagan oilfield in April-May. Metal mining industry, especially precious metals, continues to show a substantial growth. The negative dynamics of iron ore production declined to 0.9% yoy, which suggests that the production of iron ore at the enterprise of JSC ArcelorMittal Temirtau next month will be in a positive growth zone. Double-digit growth rates in the light industry, machine building and manufacture of basic pharmaceutical products support manufacturing output rate of growth at 3.5% yoy. However, if the impressive growth in the industrial production in 2017 was due to the low base effect, and the growth in 2018 was due to the high one, in 2019 the base effect is absent, and industrial production demonstrates an inherent growth at 3.2% (the best indicator in January- March this year). Due to the upcoming maintenance works at the Karachaganak and Tengiz oilfields, the dynamics of industrial production in Kazakhstan will demonstrate a slowdown, which will inevitably affect the STEI (the share of industry in STEI 50%).

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