

STEI in January –March 2019 – expected growth

Dmitriy Sheikin — April 18, 2019

In January-March 2019, the STEI reached 4.2% yoy, which is lower than in 2017 (4.8% yoy) and 2018 (5.3% yoy) the same period. According to our estimates, commodity sector's contribution to the STEI, including transportation and sales of commodity sector products, was 2.98pp, which is about 71% growth.

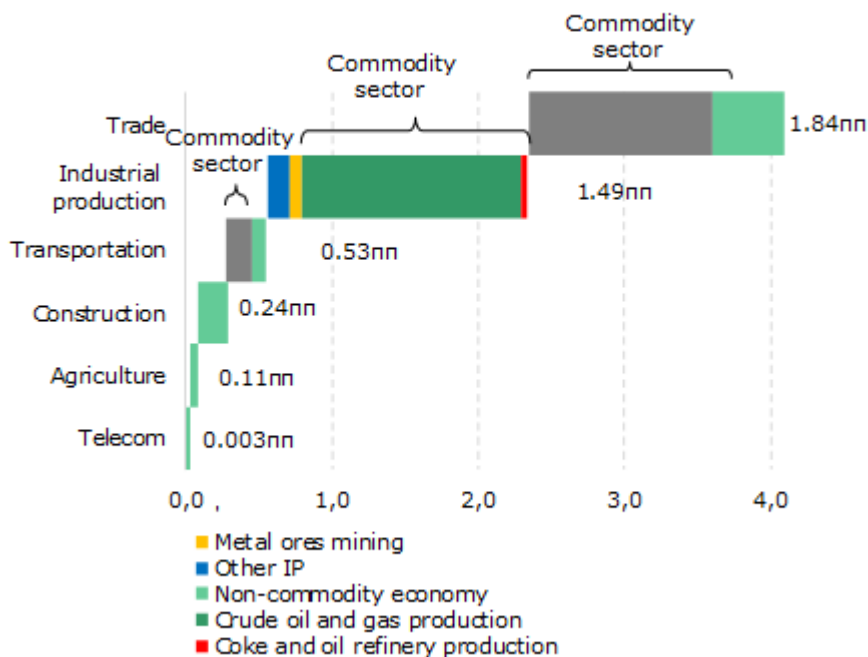
Since the beginning of the year, domestic trade (wholesale and retail) that grew 7.2% yoy (+ 2.9% yoy 3M2017, + 6.2% yoy 3M2018), transportation by 4.4% yoy (+ 3.4% 3M2017, 4.6% yoy 3M2018) and agriculture by 3.6% yoy (+2,9% 3M2017, + 3.6% yoy 3M2018) contributed the most to the STEI.

Industrial production grew 3.2% yoy and as compared with 3M2017 (+ 5.3% yoy) and 3M2018 (+ 5.8% yoy) remains the lowest metrics in the last three years. Construction in January-March 2019 shadowed all other components of STEI with 8.9% yoy (+7.1% yoy 3M2017, + 5.9% yoy 3M2018). Telecommunication sector in January-March of this year made 0.2% yoy (+ 1.3% yoy 3M2017, + 6.3% yoy 3M2018).

According to the Committee on Statistics of the Ministry of National Economy of Kazakhstan (the CS MNE), in January-March 2019, industrial output amounted to T6.845bn in current prices. According to our estimation, industrial production contributed 1.48pp and shared 46.3% of growth.

In mining and quarrying of Kazakhstan, output in January-March 2019 increased by 3.2% yoy (+ 5.3% yoy in January-March 2018). Crude oil output in January-March 2019 made 2.7% yoy (+ 6.1% yoy in January- March 2018). According to the CS MNE, crude oil and natural gas output in January-March 2019 accounted for 19 827 thousand tons (19 047 thousand tons in January-February 2018), which is 22.2% of the targeted output for 2019 (89.0 million tons the latest target of the Ministry of Energy of the Republic of Kazakhstan). Within mining of metal ores, there is a multidirectional growth trend depending on metal ore type. Thus, non-ferrous ores mining reached 16.3% yoy (2.0% yoy in January-March 2018), while iron ore output made -7.2% yoy (+3.7% yoy in January-March 2018).

Crude oil and natural gas contribution to industrial production, according to our calculations, in January-March 2019 amounted to 1.26pp. Commodity sector contribution to the STEI, including taking into account the transportation and sales of commodity sector products, was 2.98pp, which is about 71% growth.

Fig.1. STEI in January-March 2019


Manufacturing in the reporting period of 2019 made 1.6% yoy. (+ 6.2% yoy in January-March 2018). Within manufacturing, light industry with 28.6% yoy (3.0% yoy in January- March 2018), beverage production 19.6% yoy (+ 8.1% yoy in January-March 2018), plastic products production industry 19.1% yoy (+ 8.6% yoy in January-March 2018) demonstrated two-digit increase in production in the period.

The increase in chemical products industry amounted to 9.8% yoy (+ 14.2% in January-March 2018), machine-building 10.0% yoy (+ 9.0% in January-March 2018), basic precious and non-ferrous metals output 6.1% yoy (+3.9 yoy in January-March 2018) and the production of coke and oil refined products 3.3% (+4.9% in January-March 2018). Metallurgy showed a negative growth of -3.3% yoy in the period (+5.6% yoy in January-March 2018). Ferrous metallurgy accounted for -14.2% in January-March (+ 7.7% yoy in January-March 2018).

Domestic trade made 7.2% yoy in January-March of 2019 with retail sales of 4.8% yoy (+ 4.8% yoy in January-March 2018), and wholesale 8.2% yoy (+ 7.0% yoy in January-March 2018). According to our calculations, trade contributed to the STEI 1.84pp in January-March 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 ensured a 0.53pp increase in the STEI in January-March 2019 and amounted to 4.4% yoy (4.6% yoy January-March 2018). Positive dynamics of freight turnover was in air transportation 97.9% yoy, in automobile transportation 7.9% yoy and in railroad 1.1% yoy. In transportation by pipelines, freight turnover decreased (- 1.7% yoy) due to an increase in gas transmission by (- 1.7% yoy) and a reduction in crude oil freight (-0.5% yoy). Freight turnover by sea was negative and made -48.5% 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-March 2019 made 3.6% yoy (+3.6% yoy in January-March 2018). Cattle breeding output increased by 3.8% yoy. Contribution of agriculture to the STEI in January-March 2019 amounted to 0.11pp.

Construction sector grew in January-March 2019 was 8.9% yoy (5.9% yoy January-March 2018). The contribution of construction to the STEI in the analyzed period was 0.24pp.

Telecommunication contributed to the STEI the least and made 0.003pp in January-March of the current year, evidencing the growth rate of 0.2% yoy (+ 6.3% yoy January-March 2018).

Fixed assets investments in January-March 2019, according to the preliminary data of the CS MNE, was 7.0% yoy (+ 39.5% yoy in 3M2018). In nominal terms, investments in fixed assets reached T2.126bn within the analyzed period.

Our opinion

In January-March of 2019, domestic trade, industrial production and transportation contribute the most in the STEI. The STEI in January-March of the current year leveled at 10.3%mom. Analysis of the monthly growth dynamics of all STEI components evidenced a growth trend. In January-March, the industrial production made 3.2% yoy. The growth was relatively not high due to decrease of coal and lignite output (-2.7% yoy), crude oil and gas production (2.7% yoy) and metal ore (-7.2% yoy). In growth in manufacturing at 1.6% yoy (for the first time in three months) compensated the decline in the major industries of mining and quarrying. In manufacturing, metallurgy still demonstrates the negative growth dynamics (-3.3% yoy), although it improves (-6.9% yoy in January-March), however keeps manufacturing from better growth. Maintenance services at the major oilfields and restoration of production output of ArcelorMittal Temirtau JSC condition the observed growth dynamics of the commodity sector of the republic. We had foresaw and input in our projections the decline in industrial production, therefore the observed growth dynamics does not force us to review our annual projections of its growth from 1.8% yoy.

In January-March 2019, commodity sector contributed 71% in the STEI that is less than a month before (72%). Non-commodity sector contributed more in the period. However, its contribution is insufficient to talk about the improvement of growth quality of the economy. Growth dynamics in January-March accelerates, however legs behind of that of 2017-2018. It agrees with our current estimation of economy growth that is to slow down to 3.6% yoy in 2019.

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| Research | Department | Telephone | E-mail |
|--------------------|----------------|-----------|--|
| Stanislav Chuyev | Head | | s.chuyev@halykfinance.kz |
| Assan Kurmanbekov | Macroeconomics | | a.kurmanbekov@halykfinance.kz |
| Dmitriy Sheikin | Macroeconomics | | d.sheikin@halykfinance.kz |
| Zhansaya Kantayeva | Fixed income | | zh.kantayeva@halykfinance.kz |
| Madina Meterkulova | Equity | | m.meterkulova@halykfinance.kz |
| Vladislav Benberin | Equity | | v.benberin@halykfinance.kz |

| Sales | Department | Telephone | E-mail |
|----------------------|---------------|-----------|--|
| Mariya Pan | Head | | m.pan@halykfinance.kz |
| Aizhan Moldakhmetova | Institutional | | a.moldakhmetova@halykfinance.kz |
| Asel Baizhanova | Institutional | | a.baizhanova@halykfinance.kz |
| Zhanna Nuralina | Retail | | zh.nuralina@halykfinance.kz |
| Shynar Zhakanova | Retail | | sh.zhakanova@halykfinance.kz |
| Aliya Abdumazhitova | Retail | | a.abdumazhitova@halykfinance.kz |
| Alya Mukhametzhanova | Retail | | a.mukhametzhanova@halykfinance.kz |

Halyk Finance

Abay av. 109 «B», 5th fl.
 Almaty, Kazakhstan, A05A1B4
 Tel: +7 727 331 59 77
www.halykfinance.kz

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