

# STEI in January–May 2019 made 3.7% yoy

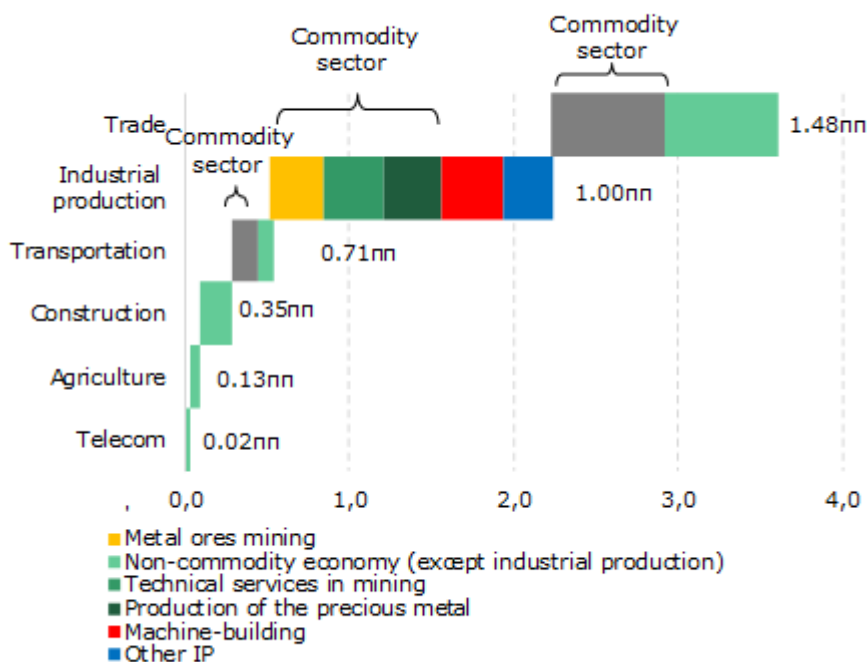
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In January-May 2019, the STEI reached 3.7% yoy, which is lower than in 2017 (5.8% yoy) and 2018 (5.1% yoy) the same period. According to our estimates, commodity sector’s contribution to the STEI, including transportation and sales of commodity sector products, was 2.14pp, which is about 58% growth.

Since the beginning of the year, domestic trade (wholesale and retail) that grew 7.5% yoy (+ 2.6% yoy 4M2017, + 5.8% yoy 5M2018), transportation by 5.3% yoy (+ 3.7% 4M2017, +4.8% yoy 5M2018) and agriculture by 3.7% yoy (+2,7% 5M2017, + 4.8% yoy 5M2018) contributed the most to the STEI. Industrial production grew 2.0% yoy and as compared with 5M2017 (+ 7.8% yoy) and 5M2018 (+ 5.4% yoy) remains the lowest metrics in the last three years. Construction in January-May 2019 shadowed all other components of STEI with 8.8% yoy (+5.1% yoy 4M2017, + 0.3% yoy 5M2018). Telecommunication sector in January-May of this year made 1.2% yoy (+ 2.4% yoy 5M2017, + 6.4% yoy 5M2018).

According to the Committee on Statistics of the Ministry of National Economy of Kazakhstan (the CS MNE), in January-May 2019, industrial output amounted to T11.836bn in current prices. According to our estimation, industrial production contributed 1.00pp and shared 50.2% of growth.

**Fig.1. STEI in January-May 2019**



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In mining and quarrying of Kazakhstan, output in January-May 2019 increased by 0.7% yoy. All mining and quarrying industries in January-May 2019 demonstrated a negative growth ranging 2.0%-4.2% yoy except of metal ores mining (+15.7% yoy) and technical services in the mining industry (+23% yoy). Thus, production rate of crude oil in January-May 2019 made -3.2% yoy (6.4% yoy in January-May 2018) and natural gas at -1.3% yoy (+6.5% yoy in January-May 2018).

According to the CS MNE, crude oil and natural gas output in January-May 2019 accounted for 36 501 thousand tons (37 687 thousand tons in January-May 2018), which is 41.0% of the targeted output for 2019 (89.0 million tons the latest target of the Ministry of Energy of the Republic of Kazakhstan).

Crude oil and natural gas contribution to STEI, according to our calculations, in January-May 2019 was negative and amounted to -0.72pp. Commodity sector contribution to the STEI, including taking into account the transportation and

sales of commodity sector products, was 2.14pp, which is about 58% growth.

Manufacturing in the reporting period of 2019 made 3.6% yoy. (+ 5.5% yoy in January-May 2018). In manufacturing, light industry with 23.0% yoy (+2.5% yoy in January-May 2018), beverage production 18.9% yoy (+ 8.1% yoy in January-May 2018), machine-building 16.0% yoy (+12.2% yoy 5M2018), plastic and rubber products output 12.0% yoy (+ 6.7% yoy in 5M2018). Metallurgy showed zero growth in the period (+4.0% yoy in January-May 2018) due to ferrous metallurgy negative production at 9.1% yoy (+6.0% yoy 5m2018) and base, precious, and non-ferrous metals output at 7.8% yoy (+2.3% yoy 5M2018).

Domestic trade made 7.5% yoy in January-May of 2019 with retail sales of 5.0% yoy (+ 5.3% yoy in January-May 2018), and wholesale 8.0% yoy (+ 6.8% yoy in January-April 2018). According to our calculations, trade contributed to the STEI 1.48pp in January-May 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 0.712pp increase in the STEI in January-May 2019 and amounted to 5.3% yoy (4.8% yoy January-May 2018). Positive dynamics of freight turnover was in air transportation 81.3% yoy, in automobile transportation 9.3% yoy. Railroad freight made 0.4% yoy. The maximum increase of freight is registered in land maritime transport at 97.8% yoy. The sea transport in January-May of the year amounted to 38.9% yoy vs the same period of last year. In transportation by pipelines, freight turnover made -2.3 yoy with oil freight was down by -0.5% yoy and gas by -4.0% 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-May 2019 made 3.6% yoy (+3.9% yoy in January-May 2018). Cattle breeding output increased by 3.6% yoy while crop production was 8.1% yoy. Contribution of agriculture to the STEI in January-May 2019 amounted to 0.13pp.

Construction sector grew in January-May 2019 was 8.8% yoy (0.3% yoy January-May 2018). The contribution of construction to the STEI in the analyzed period was 0.35pp.

Telecommunication contributed the least to the STEI and made 0.02pp in January-May of the current year, evidencing the growth rate of 1.2% yoy (+ 6.4% yoy January-May 2018).

Fixed assets investments in January-May 2019, according to the preliminary data of the CS MNE, was 7.8% yoy (+ 25.3% yoy in 5M2018). In nominal terms, investments in fixed assets reached T3.879bn within the analyzed period.

### **Our opinion**

In January-May of 2019, economic growth calculated by six industries, evidenced a slow down to 3.7% yoy. Maintenance service at Kashagan resulted in total decrease of crude oil and natural gas output by 3.1% yoy. All mining industries, except of precious and non-ferrous metals, evidenced a negative growth that translated at the deceleration of the economy as well as at the decrease of the commodity sector contribution in the growth to 58% (71% in January-March). However, imbalances in the structure of economy remain and output recovery at Kashagan oilfield with an increased production of crude oil to 400 barrels a day will compensated the March-May decline during the summer period. The growth rate of the economy remains lower of the two previous years that indicates that the potential of commodity sector model of growth is dwindling down.

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