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Tengri Partners Kazakhstan Services PMI™

Including Tengri Partners Kazakhstan Composite PMI™

Service sector dips back into contraction amid renewed quarantine measures

Key findings

First declines in activity and new work since January

Inflationary pressures remain elevated

Business confidence moderates to eight-month low

Data were collected 12-27 July 2021.

The Kazakh service sector slipped back into contraction territory during July, following a record upturn in June, according to the latest PMI™ survey data from Tengri Partners covering the Kazakh services economy. Tighter quarantine restrictions implemented amid rising virus case numbers stifled client demand, according to panellists, with inflows of new work and activity falling for the first time since January as a result.

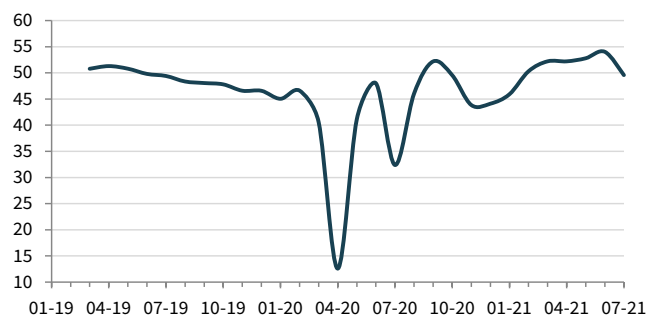
Meanwhile, although still optimistic with regards to output over the next year, the level of positive sentiment weakened to an eight-month low, with many companies citing concerns surrounding the impact of the pandemic and associated measures.

The headline figure is the Business Activity Index. This is calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The index varies between 0 and 100, with a reading above 50 indicating an increase and below 50 a decrease. The index is adjusted for seasonal variation.

The seasonally adjusted Business Activity Index fell from 54.0 in June to 49.6 in July. This signalled the first contraction in Kazakh services output for six months, albeit one that was only fractional.

Central to the renewed decline was the first reduction in new business since January. According to panellists, client demand had weakened amid stricter quarantine measures. The rate of decline in new work was only marginal overall, however.

Tengri Partners Kazakhstan Services PMI Business Activity Index
sa, >50 = growth since previous month



Sources: Tengri Partners, IHS Markit.

As a result, firms again trimmed their staffing levels in July, extending the current sequence of falling employment to three months. Some staff members had left to seek other opportunities, particularly in Russia, and were not being replaced, according to anecdotal evidence. Moreover, the rate of job shedding was the fastest since January and sharp.

At the same time, July data pointed to sustained optimism among service providers towards activity over the next 12 months. Confidence stemmed from hopes that restrictions would again be loosened and demand conditions would improve. Notably, sentiment moderated to an eight-month low, although remained elevated in the context of historical data, with some panellists citing concerns surrounding the lasting economic impact of the pandemic.

Kazakh services firms also recorded further severe inflationary pressures in July. Cost burdens rose for the twelfth month running, with the rate of inflation the second-steepest on record, despite easing on the month. Higher material prices, as well as greater procurement, fuel and utility costs were the main drivers of cost inflation, according to respondents.

As a result, service providers again raised their average charges in July, with firms reportedly passing greater input costs through to clients where possible in efforts to maintain profit margins. The latest increase in charges was also the second quickest on record (behind May) and sharp overall.

Tengri Partners Kazakhstan Composite PMI™

Private sector output stagnates amid rising COVID-19 cases

Private sector output across Kazakhstan was broadly stagnant in July, following record growth in June, as rising COVID-19 case numbers led to stricter quarantine restrictions. The Kazakhstan Composite PMI Output Index* registered 50.1 in July, down from June's peak of 53.4, and pointed to broadly stagnant private sector output. At the sector level, sustained manufacturing growth was offset by a fresh decline in services activity.

Meanwhile, inflows of new work continued to rise, although the rate of growth was the slowest in the current six-month sequence of expansion and only mild. A renewed contraction in new orders at service providers weighed on quicker manufacturing order book growth.

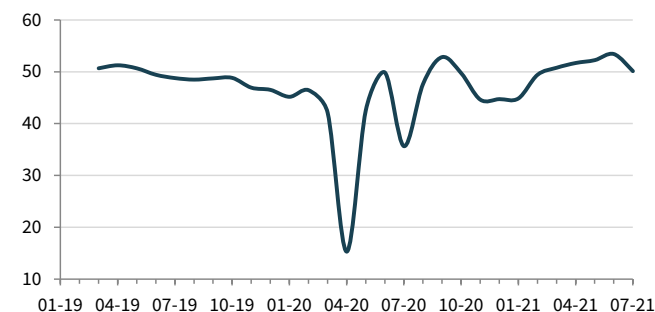
Firms continued to trim their staffing levels in July. The rate of reduction in employment was the quickest since February and sharp overall.

July data also highlighted sustained inflationary pressures in the Kazakh private sector economy. Input costs rose steeply again, although the rate of inflation did ease from June's series high, while companies raised their average charges at the second-fastest rate on record.

Looking ahead, business confidence remained historically elevated in July, but sentiment moderated to an eight-month low.

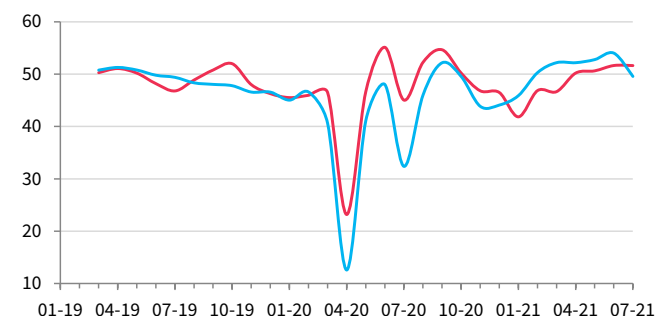
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Kazakhstan Composite Output Index is a weighted average of the Kazakhstan Manufacturing Output Index and the Kazakhstan Services Business Activity Index.

Tengri Partners Kazakhstan Composite PMI Output Index
sa, >50 = growth since previous month



Sources: Tengri Partners, IHS Markit.

Tengri Partners Kazakhstan Manufacturing PMI Output Index
Tengri Partners Kazakhstan Services PMI Business Activity Index
sa, >50 = growth since previous month



Sources: Tengri Partners, IHS Markit.

Comment

Anuar Ushbayev, Managing Partner and Chief Investment Officer at Tengri Partners said:

"July data pointed to a fresh contraction in Kazakh services activity, as the tightening of quarantine measures hindered demand. Both output and new work declined for the first time since January, albeit at mild rates.

"As a result, business confidence moderated to an eight-month low, with some respondents citing concerns about the pandemic, although sentiment remained historically elevated nonetheless.

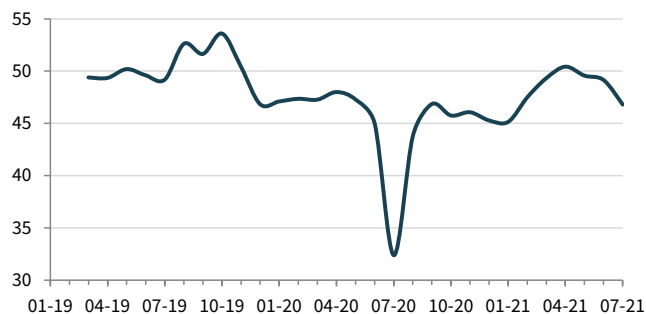
"The renewed downturn in services all-but offset a sustained manufacturing rebound in July, with private sector output broadly stagnant as a result. This did follow a record rate

of increase in July, however, and despite stagnating on the month points to a much less downbeat picture than the closing months of 2020.

"Both goods producers and service providers still anticipate higher output in the next 12 months. However, a rebound is only expected once restrictions are eased and demand released back into the economy."

Services Employment Index

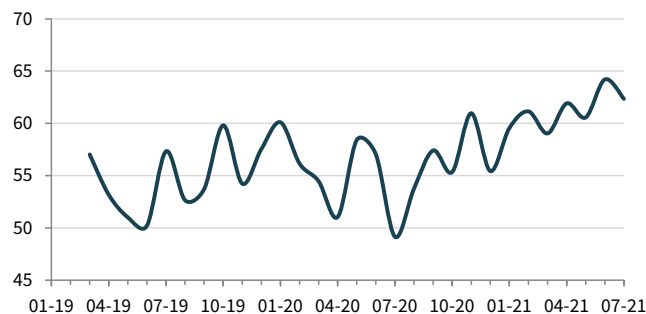
sa, >50 = growth since previous month



Sources: Tengri Partners, IHS Markit.

Services Input Prices Index

sa, >50 = inflation since previous month



Sources: Tengri Partners, IHS Markit.

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Survey methodology

The Tengri Partners Kazakhstan Services PMI™ is compiled by IHS Markit from responses to questionnaires sent to a panel of around 250 service sector companies. The sectors covered include consumer (excluding retail), transport, information, communication, finance, insurance, real estate and business services. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Services Business Activity Index. This is a diffusion index calculated from a question that asks for changes in the volume of business activity compared with one month previously. The Services Business Activity Index is comparable to the Manufacturing Output Index. It may be referred to as the 'Services PMI' but is not comparable with the headline manufacturing PMI figure.

The Composite Output Index is a weighted average of the Manufacturing Output Index and the Services Business Activity Index. The weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Composite Output Index may be referred to as the 'Composite PMI' but is not comparable with the headline manufacturing PMI figure.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

July data were collected 12-27 July 2021.

Data collection began in March 2019.

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Tengri Partners is a diversified Central Asia-based merchant banking group engaged in securities trading, capital markets, investment banking, investment management, commercial finance and principal investments.

About IHS Markit

IHS Markit (NYSE: INFO) is a world leader in critical information, analytics and solutions for the major industries and markets that drive economies worldwide. The company delivers next-generation information, analytics and solutions to customers in business, finance and government, improving their operational efficiency and providing deep insights that lead to well-informed, confident decisions. IHS Markit has more than 50,000 business and government customers, including 80 percent of the Fortune Global 500 and the world's leading financial institutions.

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About PMI

Purchasing Managers' Index™ (PMI™) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends.

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