Service sector downturn intensifies in July

The latest PMI™ survey data from Tengri Partners covering the Kazakh services economy highlighted a noticeable intensification of the downturn in July. Both business activity and new business dropped at the second-quickest rate on record, behind only April, as the reintroduction of quarantine measures to curb the coronavirus disease 2019 (COVID-19) pandemic halted operations and slashed client demand. Subsequently, firms continued to cut staffing levels, with the rate of job shedding the quickest on record.

At the same time, renewed falls in both input prices and average charges were recorded.

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 registered 32.4 in July, dropping from 48.0 in June, to signal a fourteenth successive reduction in service sector output. Moreover, the rate of decline was the most severe since April and the second-fastest on record.

Central to the marked contraction in activity was a rapid reduction in incoming new business. As was the case for output, the latest reduction was the second-quickest in the series history, behind only April. Panellists linked the drop to weak client demand as a result of renewed quarantine measures.

With demand conditions deteriorating further in July, Kazakh service providers continued to reduce their staffing levels. Moreover, the rate of job shedding was the most marked since the survey’s inception in March 2019. Respondents highlighted quarantine restrictions and weak demand amid the coronavirus pandemic as contributing factors towards the latest round of job cuts, with firms also mentioning further redundancies, lay-offs and the non-replacement of voluntary leavers. Workforce numbers have now declined for eight successive months.

Meanwhile, input prices declined for the first time in the series history in July, amid many reports of lower overall costs as operations were temporarily suspended, although the rate of decline was only marginal overall.

Similarly, average selling prices fell, following no-change in the previous survey period. Panellists cited discounting efforts in order to attract customers amid fierce competition as the main driver of the decrease.

Looking ahead, the 12-month outlook for services activity weakened slightly in July, although the Future Activity Index remained well above the 50.0 neutral mark to signal overall optimism. Anecdotal evidence linked confidence to hopes that the reintroduced quarantine measures would be lifted swiftly, as well as hopes of an uptick in client demand and expectations of a forthcoming economic recovery.
Kazakh private sector firms recorded a fourteenth successive reduction in output during July, as reimposed lockdown measures to tackle the COVID-19 pandemic hit the economy.

The Kazakhstan Composite PMI Output Index* posted 35.6 in July, falling from 49.9 in June, to signal a marked decline in private sector activity that was the second-fastest on record, behind only April. Services was again the primary source of weakness, with activity dropping at the quickest pace for three months.

Central to the overall decline was a renewed fall in new business, which fell markedly following a slight uptick in the previous survey period amid reports of business closures and muted client demand.

With demand conditions weak, firms continued to cut staffing levels, with the rate of job shedding the quickest on record. Nonetheless, the 12-month outlook for output remained positive, despite sentiment dipping slightly from June.

Meanwhile, input prices rose further. The rate of inflation was the slowest for over a year, albeit sharp. Average charges were broadly stagnant, however.

*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.

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

“July data indicated a disappointing performance for the Kazakh services sector as we enter the second half of 2020. Both business activity and inflows of new orders declined rapidly, with the rate of contractions second only to April’s unprecedented nadir. As a result, staff numbers fell further, with the rate of job shedding accelerating to a fresh series record.

“The figures are not surprising, however, as the necessary reintroduction of quarantine measures to curb the COVID-19 pandemic has stymied any moves towards a recovery. Nonetheless, firms are hopeful that once restrictions are lifted, demand can be revived again, with survey data indicating overall optimism with regards to the 12-month outlook for activity.”
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 13-28 July 2020.
Data collection began in March 2019.

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