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Tengri Partners Kazakhstan Services PMI™

Including Tengri Partners Kazakhstan Composite PMI™

Renewed decline in service sector output in October

Key findings

Business Activity Index registers at 49.6 as growth of new business stalls

Job shedding quickens to sharp rate

Business confidence moderates to six-month low

Data were collected 12-27 October 2020.

Following a record expansion in September, the latest PMI™ survey data from Tengri Partners covering the Kazakh services economy highlighted a renewed contraction in service sector output during October, with growth in new orders near stalling. Subsequently, firms cut staff numbers at a quicker rate, whilst the 12-month outlook for activity was the weakest since April.

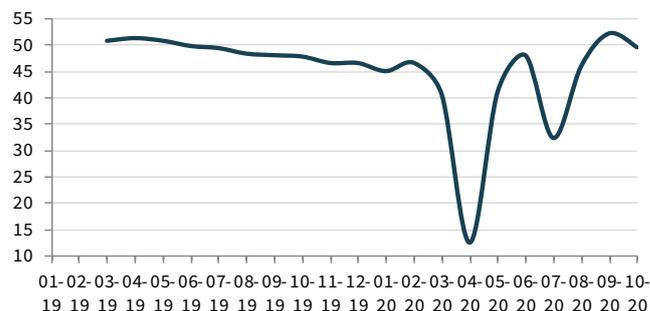
The headline figure is the Business Activity Index. This is calculated from a single question that asks for changes in the volume of business activity compared with one month previously. The index varies between 0 and 100, with a reading above 50 indicating an increase and below 50 a decrease. The index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

The seasonally adjusted Business Activity Index registered 49.6 in October, falling from 52.2 in September, to signal a renewed contraction in service sector output, albeit one that was only slight overall. Panellists linked the reduction with weak sales growth amid ongoing quarantine measures.

At the same time, growth of new business eased noticeably during October, following a modest uptick in the previous survey period. The respective seasonally adjusted index registered only just above the 50.0 mark, indicative of a near stalling in growth of new work. Although some panellists noted a surge in the number of new contracts, companies in other sub-sectors reported that quarantine restrictions had resulted in still muted client demand.

Subsequently, firms continued to cut back on their staff numbers during October, thereby extending the current sequence of

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



Sources: Tengri Partners, IHS Markit.

job shedding to 11 months. Anecdotal evidence primarily attributed the latest fall in employment to the non-replacement of staff who left voluntarily, although there were mentions of redundancies and lay-offs. The rate of decline quickened from that seen in September and was sharp overall.

At the same time, latest data signalled further pressure on margins at Kazakh services firms. Input costs continued to increase during October, with the rate of inflation still solid overall. Companies continued to cut their average charges, however. According to respondents, firms discounted the cost of their services in an attempt to revive weak sales resulting from the COVID-19 pandemic.

Amid a renewed contraction in services activity and near stalling growth of new orders, firms signalled a weaker level of confidence with regards to output over the coming 12 months. The Future Activity Index remained above the 50.0 mark to signal overall optimism though, with confidence linked to hopes of improved demand conditions when coronavirus disease 2019 (COVID-19) related restrictions are lifted. That said, the level of sentiment was the lowest since April and subdued in the context of the series history, as panellists cited concerns around the longevity of the pandemic and timeliness of the economic recovery.

Tengri Partners Kazakhstan Composite PMI™

Renewed decline in private sector output

Following a marginal uptick in September, the Kazakh private sector fell back into contraction territory in October.

The Kazakhstan Composite PMI Output Index* fell from 52.8 in September to 49.7 in October, and signalled contraction in private sector activity, albeit one that was only fractional. At the sector level, a renewed fall in services output drove the overall reduction, outweighing a fractional increase in factory production.

Weighing on the performance of the private sector was a noticeably slower increase in the inflows of new business during October. The latest increase in order book volumes was only marginal overall.

Amid lower production requirements, firms continued to shed staff, with the reduction in employment quickening to a solid pace.

On the price front, cost burdens facing Kazakh private sector firms rose again. The rate of inflation was still sharp, albeit slower than in September. Meanwhile, average charges were broadly stable during October.

Finally, firms' confidence with regards to activity over the year ahead moderated. Although still positive overall, sentiment was the weakest since April.

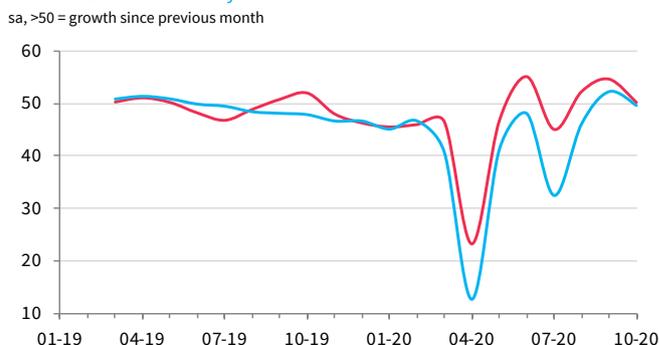
*Composite PMI indices are weighted averages of comparable manufacturing and services PMI indices. Weights reflect the relative size of the manufacturing and service sectors according to official GDP data. The Kazakhstan Composite Output Index is a weighted average of the Kazakhstan Manufacturing Output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

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



Sources: Tengri Partners, IHS Markit.

Manufacturing Output Index
Services Business Activity Index



Sources: Tengri Partners, IHS Markit.

Comment

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

"The Kazakh service sector dipped back into contraction territory during October, with business activity declining amid noticeably slower growth of new orders. The rate of contraction in services output was only slight, but nonetheless a stark contrast to the record rate of growth seen in September. According to survey respondents, sales remained weak, due in part to ongoing quarantine measures.

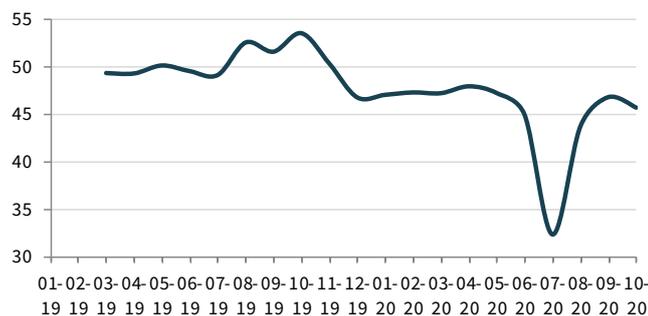
"Consequently, firms made further job cuts in October, with the reduction in employment accelerating to a sharp

pace. Concerns surrounding the longevity of the pandemic and timeliness of the economic recovery hindered firms' confidence, with the 12-month outlook for activity the weakest for six months, albeit still positive.

"The weak performance of the service sector also offset fractional growth in manufacturing production, resulting in a renewed fall in Kazakh private sector output, although the pace of the decline was only marginal. Tighter quarantine restrictions are likely to hinder the recovery, but once restrictions are loosened and the global pandemic back under control, the economy should be well placed to bounce back."

Services Employment Index

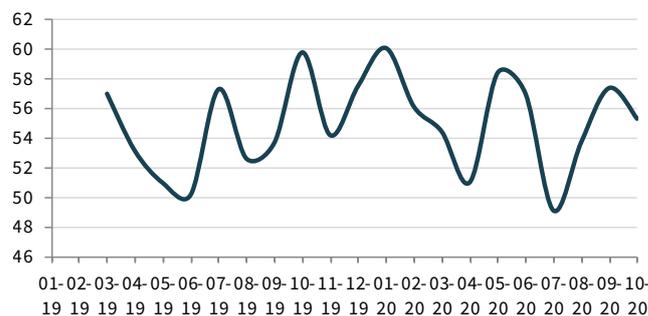
sa, >50 = growth since previous month



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

October data were collected 12-27 October 2020.

Data collection began in March 2019.

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About Tengri Partners

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.

ihsmarkit.com/products/pmi.html