



December 2022

Price barometer

Contents:

■	Risks and prospects	3
■	Global trend	4
■	Domestic inflation	5
■	Appendix	7

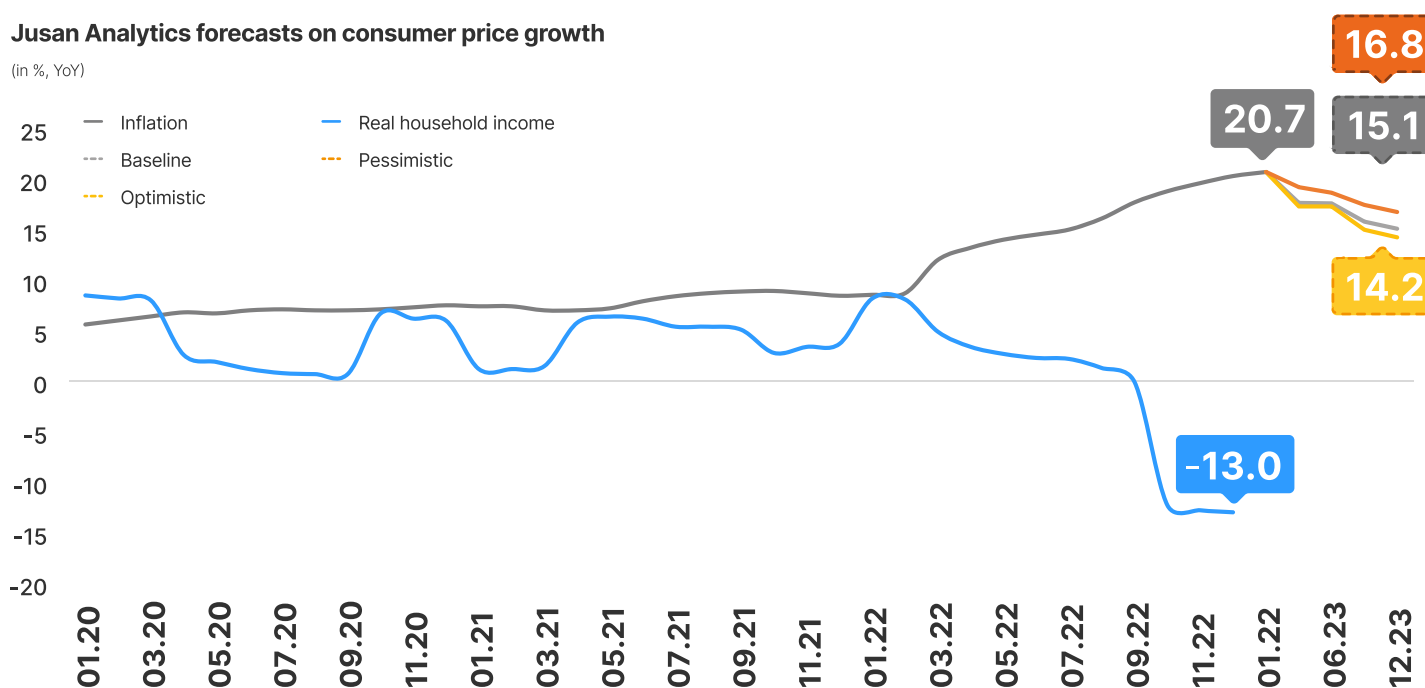
Risks and prospects

- The CPI inflation growth rate in the last month of 2022 surprised us with the uncharacteristic slowdown in consumer price growth rates in December.
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- The declining volume of the household's real incomes probably contributed to a more restrained household consumer demand in December, despite its usual growth on the eve of the preparations for the New Year.
-
- The observed slowdown in price growth is not a sign of an inflationary cooling yet. The continued acceleration of core inflation indicators and the deterioration of inflation expectations are signals of a long-term trend of higher prices and different rates with directions of prices of consumer goods and services.
- Entered into force on January 1, 2023, new values of the key calculated indicators may give an additional short-term inflationary impulse due to an increase in the household's nominal income.
- According to our forecasts, inflation in annualized terms will continue to accelerate during the first quarter of 2023. And in the future, prices will slowly decline if there are no additional growth triggers.

- Following the estimates, the current high inflation and the restraining monetary conditions supported by the regulator will reduce the consumer spending plans of all economic agents during the first half of the year.
- **We expect a slowdown in price growth in annualized terms to 14.2-16.8% by the end of 2023**, which will be mostly explained by the maintenance of monetary conditions close to restraining, the technical effect of the high base of last year, as well as the gradual mitigation of impacts of the excessive demand and lack of supply in the domestic market.
- Potential price spikes for the production, purchase and logistics of goods caused by external factors with new geopolitical threats are still among the key risks and may contribute to maintaining increased rates of price growth in the coming months of 2023.

Jusan Analytics forecasts on consumer price growth

(in %, YoY)



Global trend

Global inflationary pressure is gradually decreasing. **We can note a decrease in the growth rate of production costs and producer prices, as well as an increase in the entrepreneur business confidence as positive signals.**

According to J.P. Morgan Global Composite PMI, **global economic activity has slightly improved compared to November 2022** (the lowest in almost two and a half years) but still does not reach the "green zone". The business activity growth factor was an increase in the volume of production and services in India and Ireland.

The FAO Price Index was 132.4 points, which is 1.0% lower than in the same period in 2021. The decline in the Index is due to a drop in prices for vegetable oils, grains and meat. But despite the decline in world food prices observed for 3 quarters in a row, they remain as high as possible compared to the last 11 years. Production is at the lowest level in the last more than 2 years. And implement the FAO goal (to eliminate hunger and ensure food security by 2030) is becoming harder in the current conditions.

Consumer prices in the EU are slowing down. Annual inflation fell to 9.2% by the end of December. A sharp decline in energy prices allowed the inflationary environment to cool down somewhat. However, the core inflation rate is still growing and reached a maximum of 5.2%.

According to the latest IMF forecasts, **half of the EU countries will face a recession in 2023**. The IMF economists are more confident about the future recession this time, and the uncertainty concerns only how long and deep the recession will be.

Inflation is also gradually decreasing in the US, at the end of the year it was at the level of 6.5%, which is the minimum for 2022. The decline was due to a sharp drop in gasoline prices. At the same time, the core inflation rate continues to grow and corresponds to 5.7% in annualized terms. There are several steadily growing hotbeds of inflation in the United States, such as **food inflation and housing cost inflation, which have increased contrary to the general trend.**

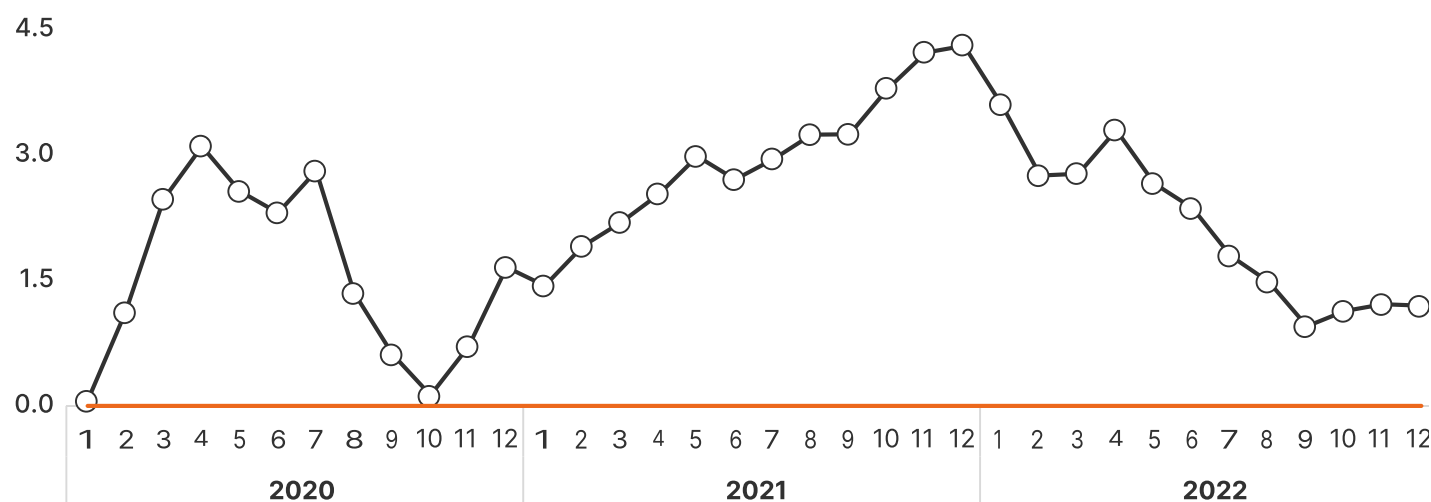
The Chinese authorities withdrew from the zero-COVID policy in December and lifted all restrictive measures. Due to a sharp deviation from the current course, there was an explosive excess incidence which slowed down business activity in China again. **The absence of a certain transition period in the measure easing raises doubts about the imminent revival of China's economy and the corresponding increase in supply and demand on world trading platforms.**

The increased pressure on supply chains is explained by the ongoing geopolitical tensions and problems in China that is the main consumer of raw materials and producer of finished products.

Supply Chain Pressure Index

(number of standard deviations from the average)

Source: www.newyorkfed.org



Domestic inflation

2022 showed an annual increase in consumer prices at a 20.3% level (1.2% MoM). The Consumer Price Index was slightly lower than our estimates, which is explained by the uncharacteristic slowdown in price growth rates for all components of consumer inflation at the end of the year:

- Food commodities– 25.3% (1.6% MoM vs. 1.8% a month earlier);
- Non-food goods– 19.4% (1.3% vs. 1.6%);
- Market services– 14.1% (0.5% vs. 0.8%).

Following the NBK, household inflation expectations have reached 21.3%, and the expectations of business representatives are 15.4%, according to AFK. **At the same time, none of these estimates shows a decrease in response to the observed slowdown in actual price growth, and both indicators differ significantly from the official forecasts of the NBK.**

The continued core inflation acceleration and inflation expectations are signs of a long-term trend of higher prices. The surge in prices that took place in the second half of 2022 due to excessive demand caused by the influx of Russian citizens to Kazakhstan, as well as the periodic shortages of goods in certain markets lead to an abnormally high level of

price growth in annualized terms for some types of goods and services. Moreover, the decline in pressure by the supply or demand contributes softly to a retaliatory price decline to pre-shock values.

Due to the high and still growing inflation rate for most of the year, consumers have some difficulties purchasing goods and services that go beyond their primary needs.

The volume of consumer loans increased by a quarter (+25.2%) in 2022, and by 36.6% in 2021, which is an indirect indicator that the population does not have enough available income to pay for their needs and it replaces part of it with borrowed funds. **As a result, the substitution of the short income for borrowed funds, as well as the continuing high social assistance by the state, distort the process of automatic adjustment of demand in response to price changes.**

CPI inflation and inflation expectations for the next 12 months

(in %, YoY)

Year	Month	CPI inflation YoY	YoY including weights			Inflation expectations by		
			Food	Non-food goods	Market services	NBK	AFK	JA*
2021	December	8.4	3.9	2.5	2.0	10.3	7.5	19.3
2022	January	8.5	4.0	2.6	2.0		7.4	19.4
	February	8.7	4.1	2.6	2.1	6.2	8.3	19.6
	March	12.0	6.3	3.3	2.4	11.4	8.7	19.7
	April	13.2	7.3	3.3	2.6	11.4	9.4	19.2
	May	14.0	7.7	3.6	2.7	13.8	11.7	18.8
	June	14.5	7.8	4.0	2.7	14.9	10.3	18.3
	July	15.0	8.0	4.3	2.7	16.5	11.9	17.7
	August	16.1	8.5	4.7	2.9	16.5	11.7	17.1
	September	17.7	9.0	5.1	3.6	16.9	12.5	16.5
	October	18.8	9.4	5.4	3.9	18.3	12.9	16.1
	November	19.6	9.8	5.6	4.1	18.2	13.9	15.8
	December	20.3	10.3	5.9	4.1	21.3	14.3	15.4

* Expectations are calculated as a weighted value of the price growth actual level in period t and Jusan Analytics forecasts for inflation in period t+1

Source: Bureau of National Statistics of the Republic of Kazakhstan, Jusan Analytics calculations, AFK, NBK

Domestic inflation

Chart 3: CPI inflation

Source: Bureau of National Statistics of the Republic of Kazakhstan

(in %, MoM)

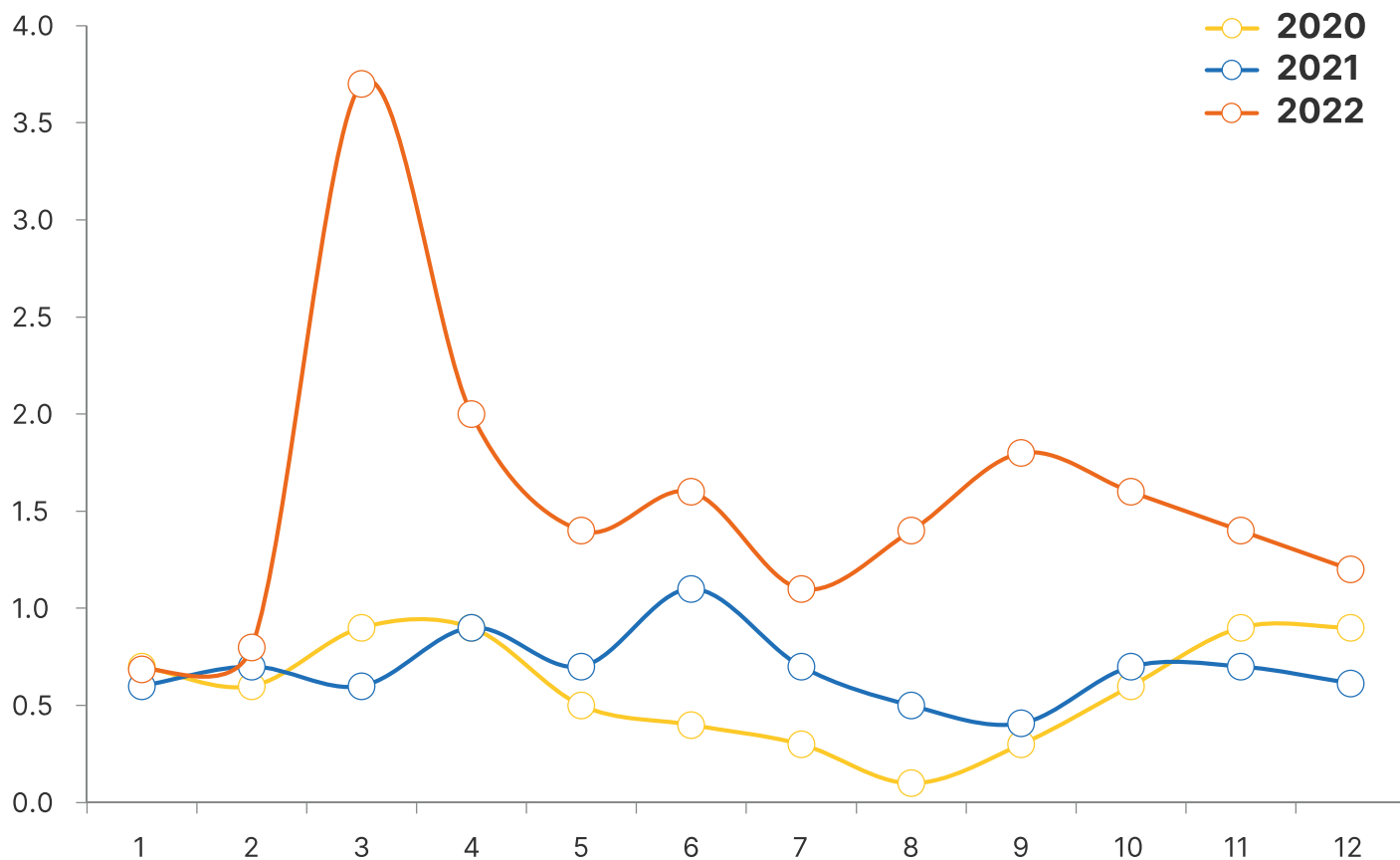
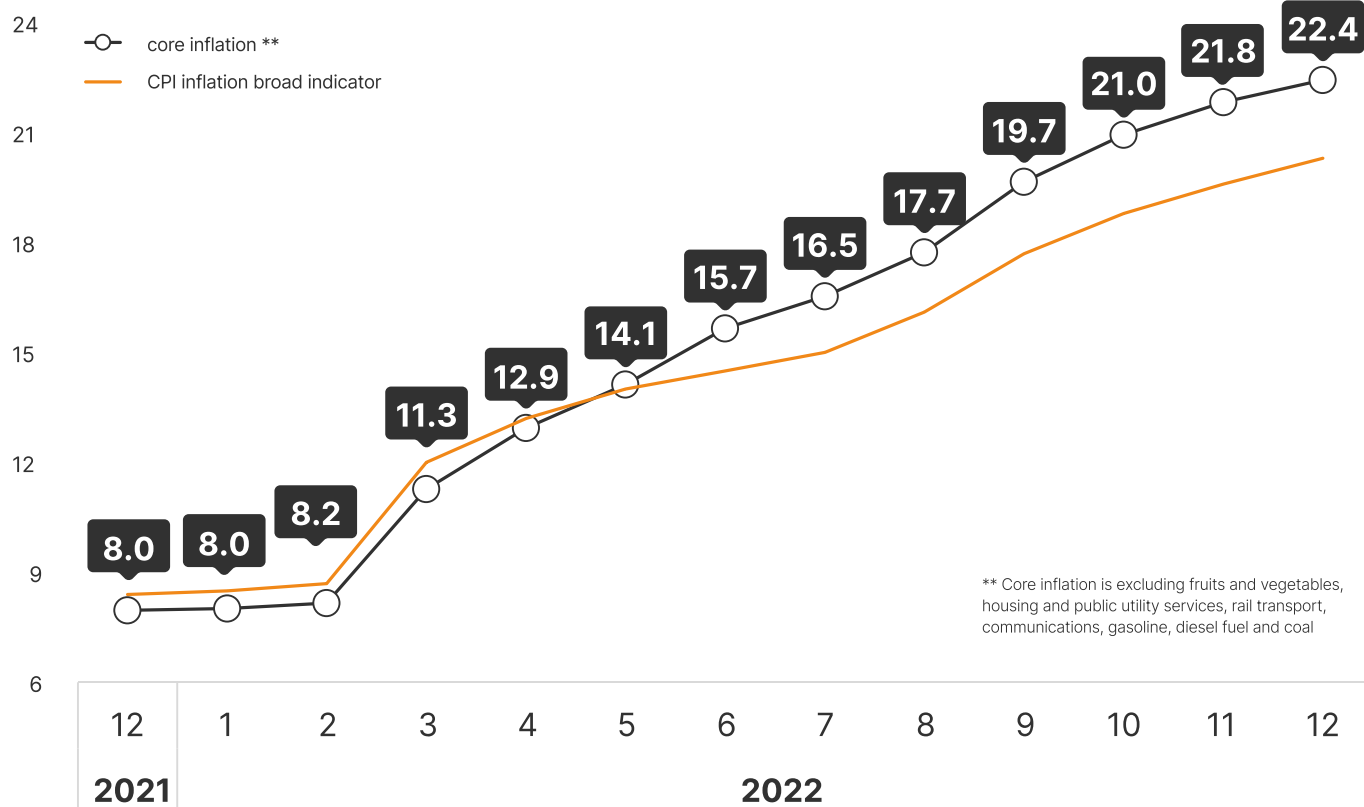


Chart 4: Core inflation**

Source: Bureau of National Statistics of the Republic of Kazakhstan

(in %, YoY)



Domestic inflation

The growth rate of food prices has slowed down for the first time in 4 months. At the same time, the slowdown in the price hikes of products is not a sign of cooling inflationary pressure since all products (except for granulated sugar and fresh lemons) keep positive price growths.

The price hikes for non-food goods in December were even more restrained than a month earlier (Chart 7). The slowdown in monthly price growth was observed for most of the basket of non-food goods.

The most noticeable decrease in the price growth rate was noted in clothing and footwear, which was facilitated by seasonal sales. And a less significant slowdown was observed in detergents and cleaning products, spare parts for personal vehicles, books and office supplies, and personal goods. But the cost of audiovisual equipment and information processing equipment has increased significantly.

Chart 6: Dynamics of food inflation

Source: Bureau of National Statistics of the Republic of Kazakhstan

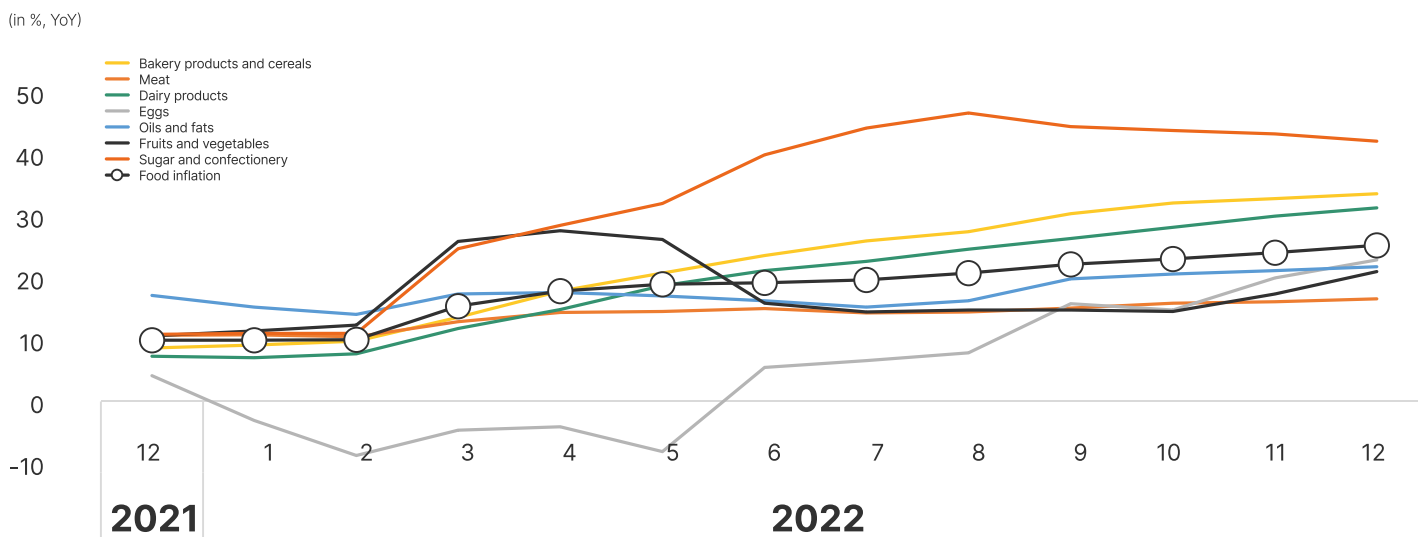
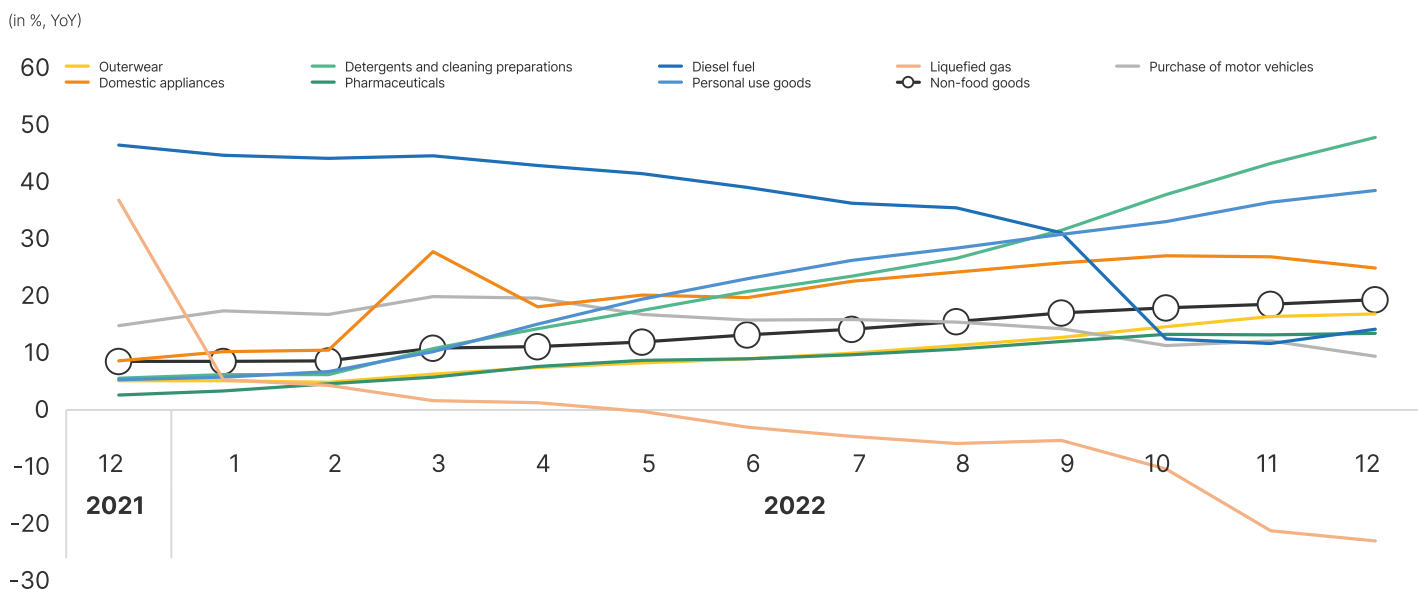


Chart 7: Dynamics of non-food inflation

Source: Bureau of National Statistics of the Republic of Kazakhstan



Domestic inflation: services

Service inflation slowed down both in monthly and annualized terms, showing a minimum monthly increase for the entire of 2022 (Chart 8). Following the results of December, we note deflationary processes in rental services and utilities for central heating and hot water.

There is a continuing trend of advancing tariffs for housing maintenance, cold water and waste with garbage disposals, which creates additional pressure on the cost of other consumer goods.

Personal vehicle maintenance and repair continue to become more expensive since the price of consumables, equipment and tools increases due to supply disruptions by the

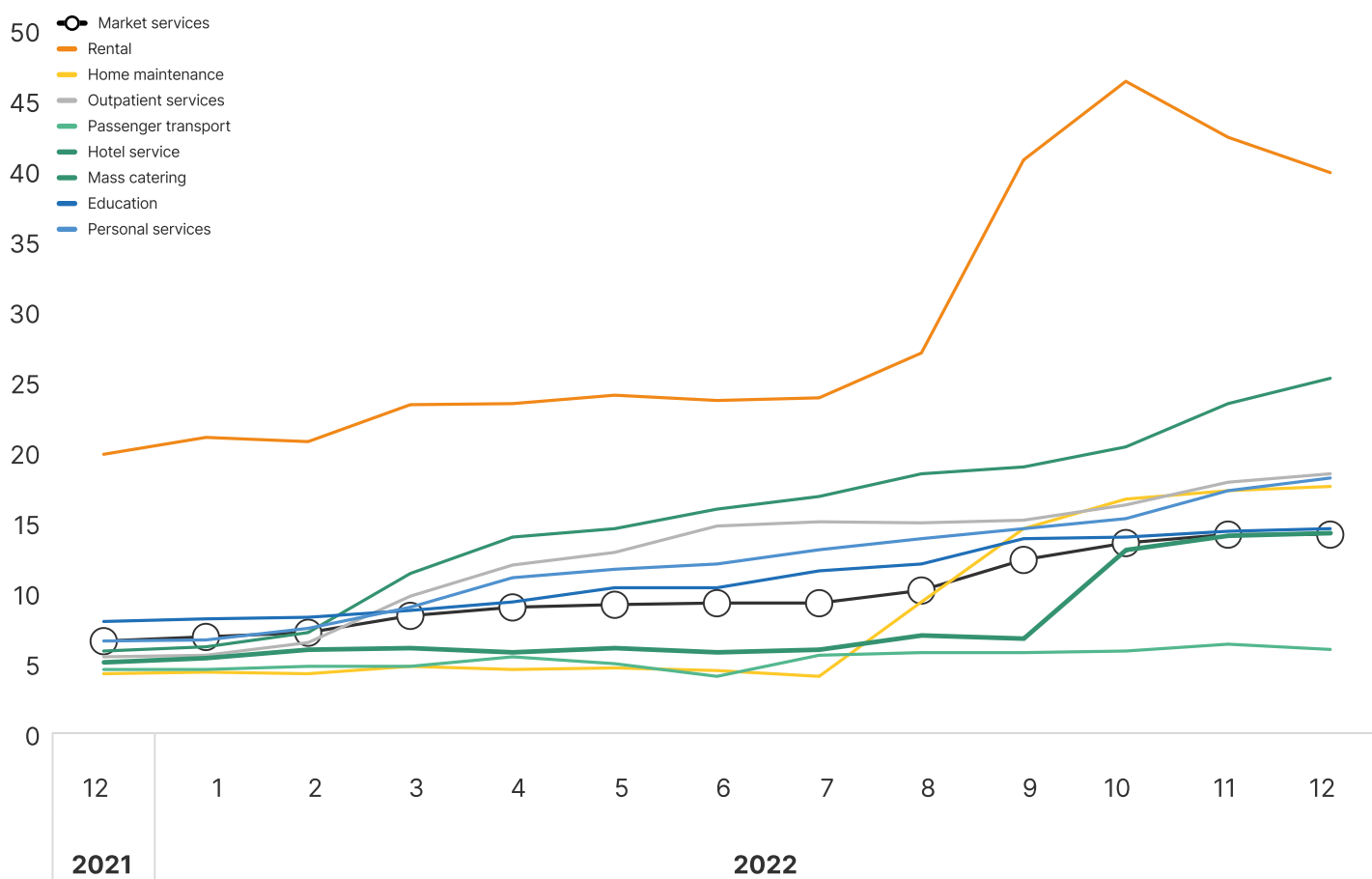
anti-Russian sanctions imposed, and the cost of logistics rises due to the need to reorient imports. At the same time, the growth in demand for the service also contributes to higher prices.

The cost of courier services has increased dramatically. The cost of air and rail passenger transport is growing. There was a temporary increase in demand for cultural and entertainment services because of the New Year's Eve season, and this contributed to a corresponding price hikes.

Chart 8: Dynamics of service inflation

(in %, YoY)

Source: Bureau of National Statistics of the Republic of Kazakhstan



Regional inflation

Annual inflation by regions was in the range of 17.7-24.0%. Thus, regional inflation was as heterogeneous as possible by the end of the year (Table 1). The maximum annual increase in consumer prices was still observed in Mangystau region (due to the country's record increase in food prices - 31.6% and market services - 17.8%). The minimum is in Almaty region (the cost of non-food goods and market services showed deflation in annualized terms). The maximum regional variation in growth rates continues to persist in non-food inflation.

The maximum regional variation in growth rates continues to persist in non-food inflation.

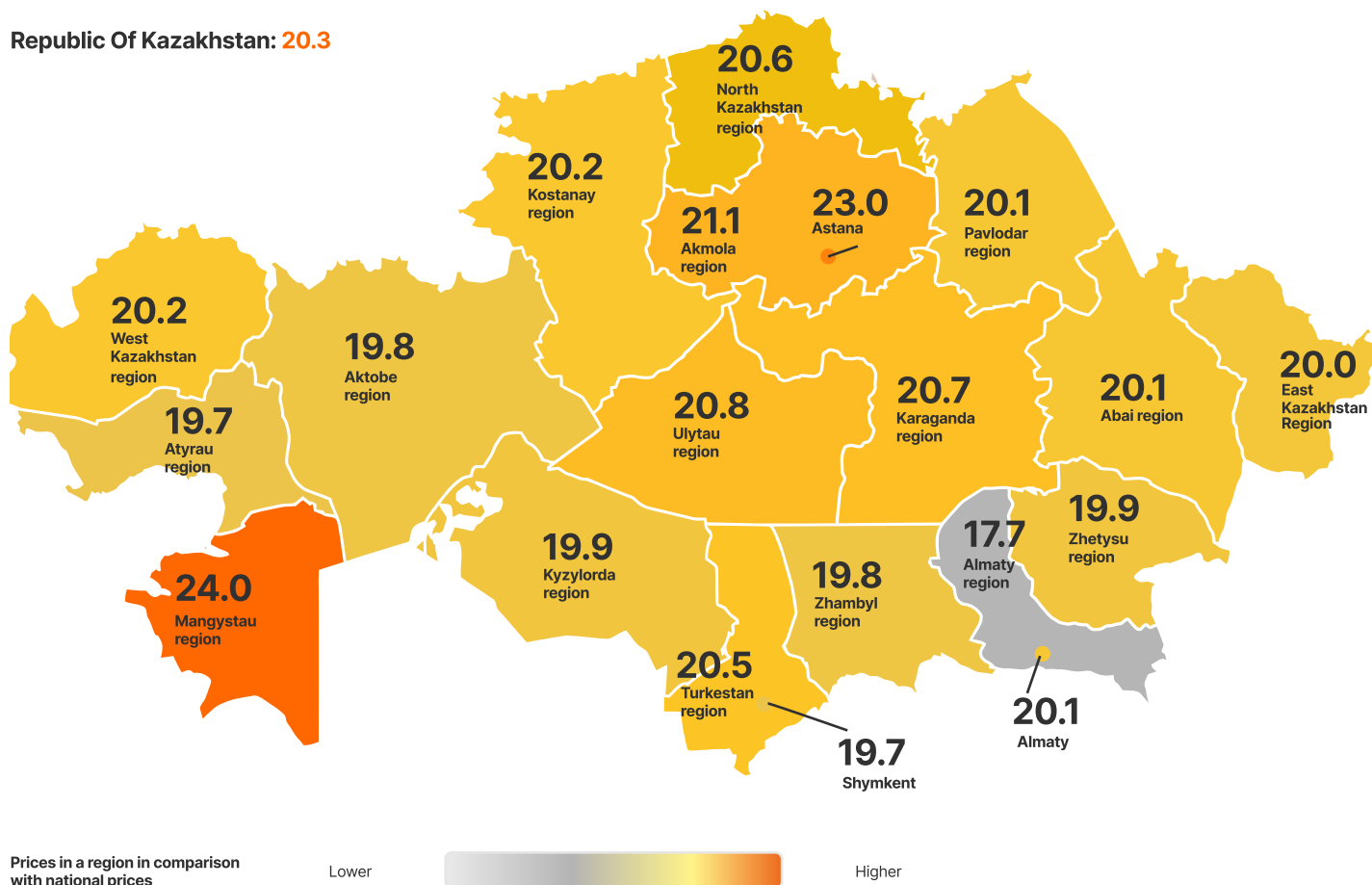
Due to the rapid increase in prices for food commodities, we see a significant acceleration in the growth of consumer prices in Turkestan and Zhambyl regions compared to the previous month.

Table 1: CPI inflation by regions

(December 2022 results, in %)

Source: Bureau of National Statistics of the Republic of Kazakhstan

Republic Of Kazakhstan: **20.3**



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