



Inflation Report

2nd Quarter, 2014



Monetary Policy and Financial Stability Department
Saudi Arabian Monetary Agency



Cost of Living Index

The annual cost of living index went up by 2.7 percent in June 2014 compared to the same month in the preceding year, whereas the annual inflation rate for all the months of the second quarter in 2014 stood at 2.7 percent. The cost of living index also registered monthly increases of 0.3 percent and 0.1 percent in April and May respectively, then it stood at 0.2 percent in June 2014 (Chart 1).

Developments of the Second Quarter, 2014

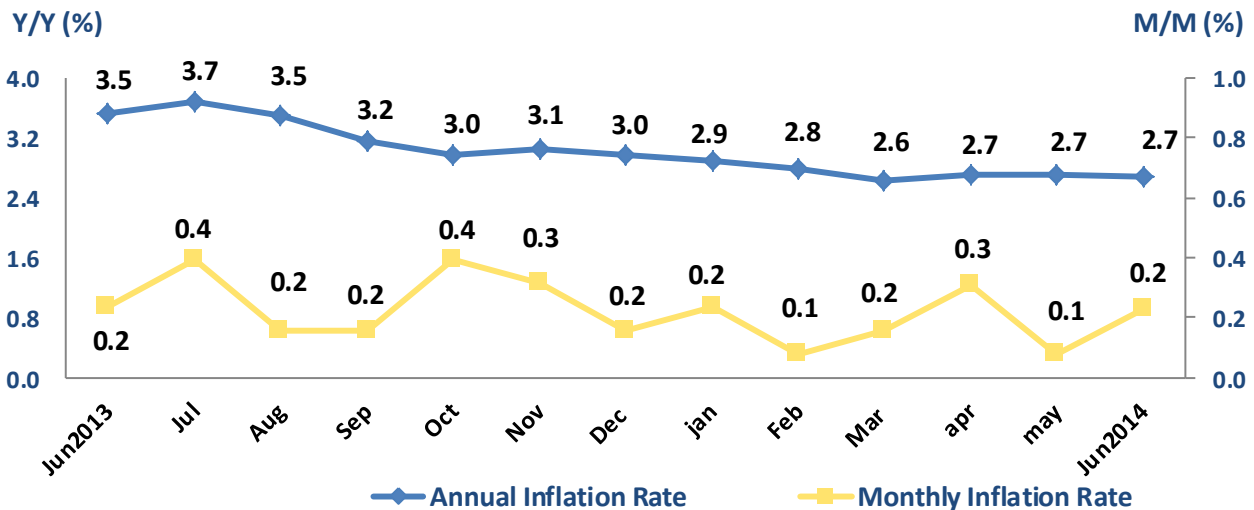
The general cost of living index rose by 0.6 percent in the second quarter of 2014 as compared to the preceding quarter, and by 2.7 percent in the second quarter of 2014 compared to the corresponding quarter of the

previous year.

Tobacco group recorded the highest inflation rate during the second quarter of 2014 as compared to the corresponding quarter in the previous year, registering a quarterly inflation rate of 6.5 percent. Recreation and culture came second with 5.7 percent; next was furnishings, household equipment and maintenance group 4.7 percent; then housing, water, electricity, gas and other fuels 4.1 percent. Then education group registered 3.7 percent, followed by food and beverages with 3.1 percent during the same period (Table 1 and Chart 2).

In contrast, the transport and communications groups registered a deflation of 1.1 percent and 0.2 percent, respectively, in the second quarter of 2014 compared to the

**Chart 1: Inflation Rate of the General Cost of Living Index
(2007=100)**



Source: Central Department of Statistics and Information.

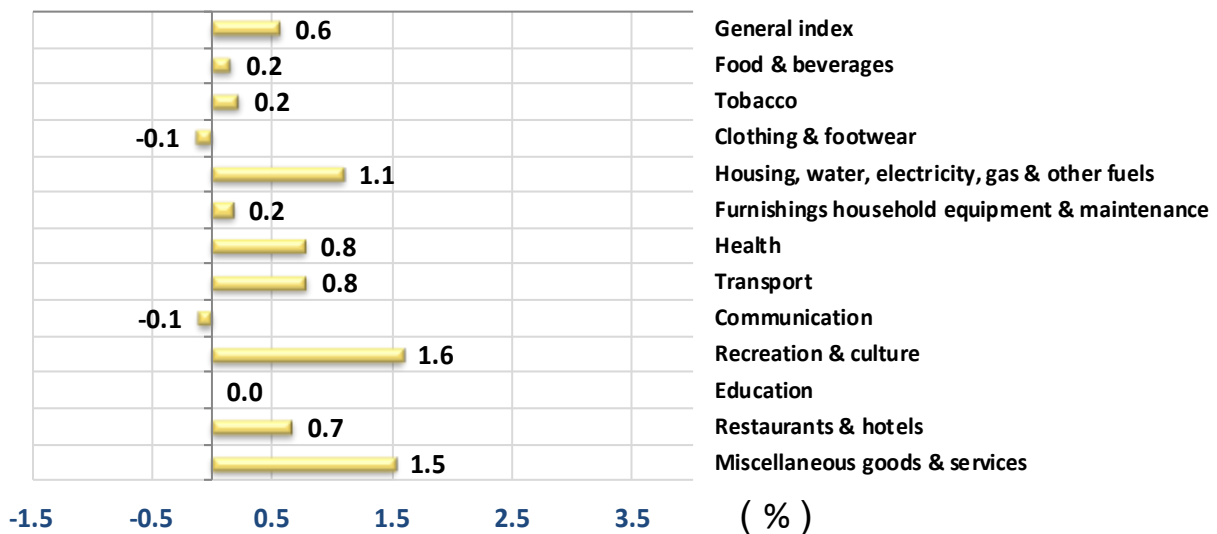


TABLE 1: COST OF LIVING INDEX
(2007=100)

	Weights	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	% change	
							Q2 2014/ Q1 2014	Q2 2014/ Q2 2013
General index	100.0	126.2	127.1	128.1	128.8	129.6	0.6	2.7
Food & beverages	21.7	139.5	141.6	143.4	143.6	143.8	0.2	3.1
Tobacco	0.5	151.7	151.7	157.2	161.2	161.6	0.2	6.5
Clothing & footwear	8.4	104.5	104.6	104.8	105.0	104.9	-0.1	0.4
Housing, water, electricity, gas & other fuels	20.5	153.2	154.9	155.5	157.7	159.4	1.1	4.1
Furnishings, household equipment & maintenance	9.1	121.5	123.3	126.0	127.0	127.2	0.2	4.7
Health	2.6	109.0	109.5	110.0	111.2	112.0	0.8	2.8
Transport	10.4	111.6	110.4	109.5	109.5	110.4	0.8	-1.1
Communication	8.1	93.8	93.6	94.3	93.6	93.5	-0.1	-0.2
Recreation & culture	3.5	104.9	106.4	108.9	109.1	110.8	1.6	5.7
Education	2.7	111.6	111.6	115.7	115.7	115.7	0.0	3.7
Restaurants & hotels	5.7	126.3	127.4	128.2	129.0	129.9	0.7	2.9
Miscellaneous goods & services	6.8	117.3	117.3	117.5	118.2	120.0	1.5	2.4

Source: Central Department of Statistics and Information.

Chart 2: Inflation Rate of the Cost of Living Index by Main Groups
(Q2 2014 / Q1 2014)



Source: Central Department of Statistics and Information.

same quarter in the previous year. Chart 3 shows the quarterly change rates in major groups with the most effect on the general inflation rate during the period from the second quarter of 2013 up to the second quarter of 2014.

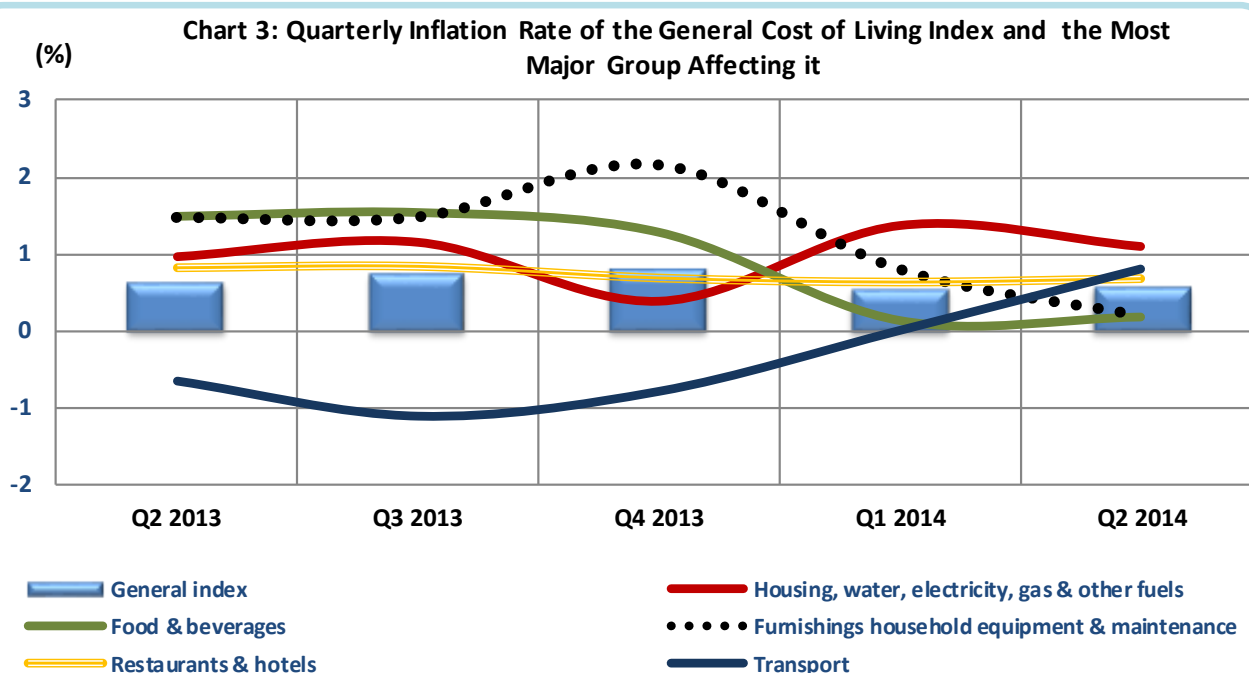
Major Groups' Effects on the General Cost of Living Index

The effect of major groups were in variable degrees on the general cost of living index. In terms of its influence on the cost of living index, housing, water, electricity, gas and other fuels group ranked first with 37.7 percent in the second quarter of 2014 compared to 20.6 percent in the same quarter of the previous year; followed by miscellaneous goods and services with an influence rate of 17.3 percent compared to 7.2

percent in the same quarter of the previous year; next was transport group with an influence rate of 13.8 percent compared to 7.1 percent for the corresponding quarter of the preceding year.

In contrast, the effect of food and beverages group on the annual change rate of the general index went down significantly from 33.4 percent in the second quarter of 2013 to 5.9 percent in the second quarter of 2014. The effect of furnishings, household equipment and maintenance group also decreased from 14.0 percent in the second quarter of the previous year to 2.8 percent during the second quarter of 2014.

The total effect rate of the three major groups most affected by inflation (housing, water, electricity, gas and other fuels, miscellaneous goods and services, and



Source: Central Department of Statistics and Information.



Chart 4: Percentage Impact Of Major Groups On The General Inflation Rate (Q2 2013)

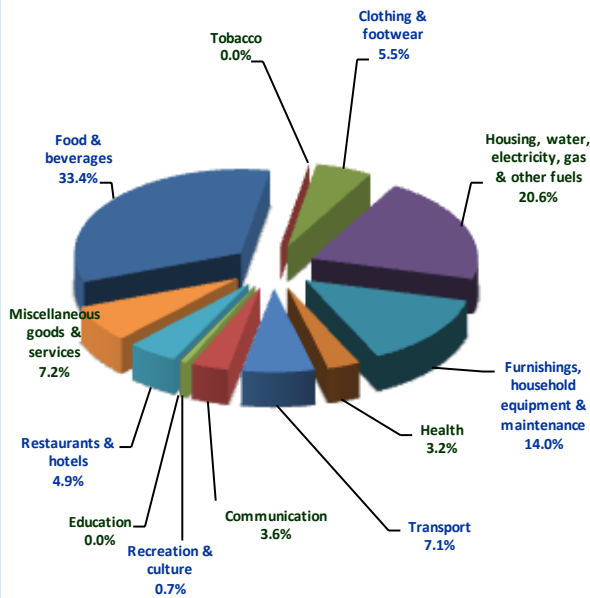
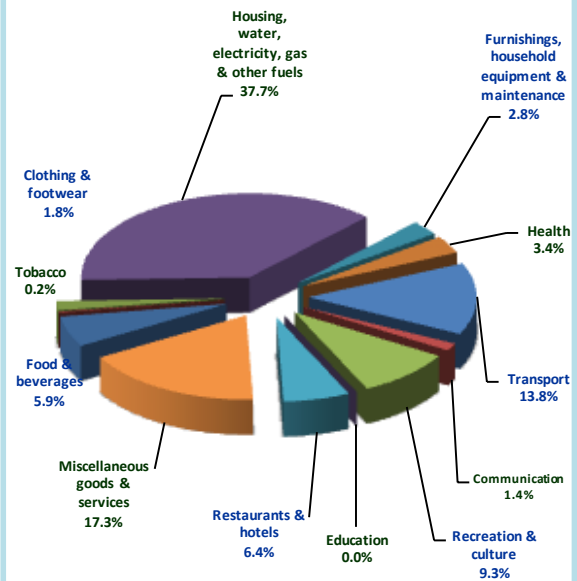


Chart 5: Percentage Impact Of Major Groups On The General Inflation Rate (Q2 2014)



transport groups) stood at 68.8 percent in the second quarter of 2014 as compared to 34.9 percent in the respective quarter of the previous year (Charts 4 and 5).

from 1.3 percent in the second quarter of the previous year to 0.6 percent in the second quarter of 2014 (Chart 6).

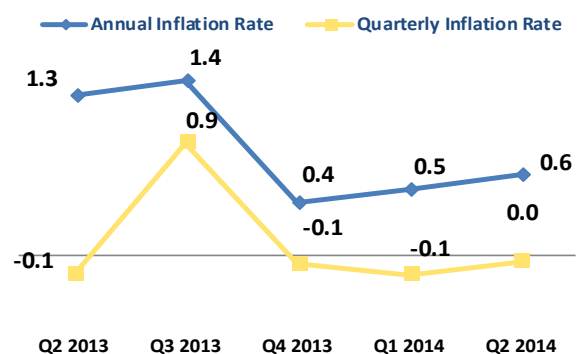
Wholesale Price Indices

The wholesale price index remained unchanged during the second quarter of 2014 compared to the previous quarter. However, it recorded an annual increase of 0.6 percent in the second quarter of 2014 compared to the same quarter of the previous year. The index registered a decline during the first and second quarters of the previous year by 0.1 percent each, and recorded an increase during the third quarter of the previous year by 0.9 percent. This led, positively, to a decline in the annual inflation rate of the wholesale price indices

Wholesale Price Indices by Groups

The group of beverages and tobacco recorded the highest increase rate during the second quarter of 2014 compared to the same

Chart 6: Inflation of the Wholesale Price Index (1988=100)



Source: Central Department of Statistics and Information.



quarter of the preceding year. This group recorded an inflation rate of 6.2 percent due to a rise of 10.0 percent in the subgroup (tobacco). During the same period, the group of chemicals recorded the second highest inflation rate of 4.0 percent. This group was affected by the increases of 20.3 and 6.6 percent in the subgroup of chemicals and polyethylene, respectively, in the same period. The group of miscellaneous manufactured articles came third with an annual inflation rate of 1.3 percent during the second quarter of 2014. Most of the group's items were relatively stable, except for the subgroups (sinks and lights) and (apparel and its related materials) which increased by 2.9 percent and by 2.8 percent, respectively, during the second

quarter of 2014 compared to the same quarter of the previous year.

In contrast, the group of other commodities registered the highest deflation rate during the second quarter of 2014 compared to the same quarter of the previous year. This group's inflation rate decreased by 5.6 percent due to a decline in prices of fine gold (24 carat) by 5.6 percent during the same period, followed by the group of oils and fats registering a decrease of 2.1 percent during the second quarter of 2014 (Table 2 and Chart 7).

TABLE 2: WHOLESALE PRICE INDEX (WPI)
(1988=100)

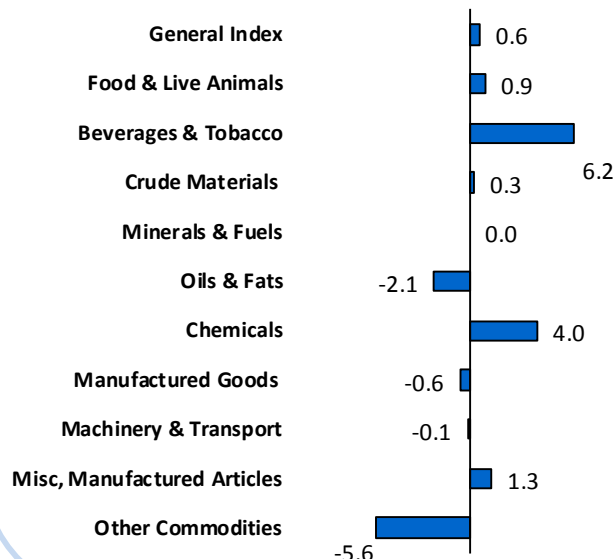
	Weights	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	% change	
							Q2 2014/ Q1 2014	Q2 2014/ Q2 2013
General Index	100.0	157.6	159.0	158.9	158.6	158.6	0.0	0.6
Food & Live Animals	31.9	183.0	187.7	188.4	184.3	184.8	0.3	0.9
Beverages & Tobacco	1.2	167.2	174.3	175.4	175.9	177.5	0.9	6.2
Crude Materials	0.3	204.0	204.2	204.3	204.8	204.6	-0.1	0.3
Minerals & Fuels	10.1	186.3	186.3	186.3	186.3	186.3	0.0	0.0
Oils & Fats	0.4	151.0	150.7	150.9	149.9	147.8	-1.4	-2.1
Chemicals	9.8	201.2	204.5	204.8	213.7	209.3	-2.1	4.0
Manufactured Goods	26.2	144.3	144.1	143.7	143.6	143.4	-0.1	-0.6
Machinery & Transport	13.4	143.6	143.7	143.5	144.1	143.4	-0.5	-0.1
Misc, Manufactured Articles	6.4	136.3	135.4	134.0	135.1	138.1	2.2	1.3
Other Commodities	0.3	276.1	266.8	253.4	259.2	260.7	0.6	-5.6

Source: Central Department of Statistics and Information.

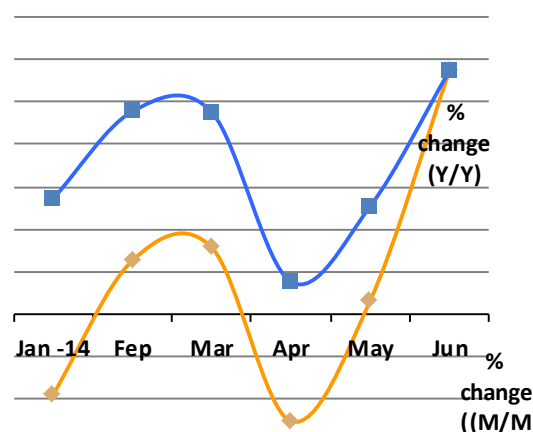


**Chart 7: Inflation of the Wholesale Price Index by Main Groups
(1988=100)**

% Change (Q2 2014/ Q2 2013)



Annual & Monthly Inflation of the WPI



Source: Central Department of Statistics and Information.

Cost of Living Index by Cities during the Second Quarter of 2014

All cities Cost of Living Index recorded an increase of 0.6 percent during the second quarter of 2014 compared to the preceding quarter. The city of Ha'il recorded the highest rise of 2.5 percent. Riyadh ranked second by 1.6 percent, then Dammam by 1.2 percent, followed by Hufuf by 0.9 percent, and Ta'if by 0.8 percent. Tabuk registered the highest decline of 2.9 percent, followed by

Buraydah by 2.1 percent, then Abha and 'Ar'ar by 0.3 and 0.1 percent, respectively. However, Jazan recorded no change. (Table 3)

GDP Deflator

The non-oil GDP deflator increased by 3.8 percent during the first quarter of 2014 as compared to the fourth quarter of 2013 and by 2.9 percent compared to the same quarter of the preceding year. (Table 4 & Chart 8).

The GDP deflator measures inflation rate at the macroeconomic level



Table 3 : AVERAGE COST OF LIVING INDEX BY CITY

(2007=100)

General Index	2012	2013	Q4 2013	Q1 2014	Q2 2014	Inflation Rate	
						Annual	Quarterly
All Cities Index	122.4	126.7	128.1	128.8	129.6	3.5	0.6
Riyadh	119.4	122.6	124.5	125.7	127.7	2.7	1.6
Makkah	126.9	129.9	133.1	132.8	133.8	2.3	0.7
Jeddah	126.9	135.0	132.2	132.6	133.1	6.4	0.4
Al-Dammam	121.7	126.1	126.7	127.2	128.7	3.6	1.2
Al-Madinah	121.0	123.1	125.3	126.7	126.8	1.7	0.1
Ta'if	117.3	120.6	122.6	123.6	124.6	2.9	0.8
Al-Hufuf	115.7	120.3	120.6	121.2	122.3	4.0	0.9
Abha	120.5	122.6	125.0	125.0	124.7	1.7	-0.3
Buraydah	115.6	119.5	127.6	136.9	134.0	3.4	-2.1
Tabuk	119.8	122.5	124.8	124.9	121.2	2.3	-2.9
Ha'il	127.9	134.1	136.7	137.8	141.2	4.9	2.5
Jazan	125.9	125.7	126.8	127.2	127.2	-0.1	0.0
Najran	122.4	126.8	129.2	130.6	131.5	3.6	0.7
Al-Bahah	121.8	125.1	127.4	128.2	128.4	2.7	0.2
Sakaka	111.9	114.5	116.8	117.5	118.3	2.4	0.7
'Ar'ar	120.6	124.6	126.4	126.8	126.6	3.4	-0.2

Source: Central Department of Statistics and Information, Ministry of Economy and Planning

and differs from the cost of living index, which only targets final consumption. The GDP deflator, however, targets all consumption, investment and government sectors according to their respective contributions to the GDP. Therefore, the deflator is considered as an indirect measure of the change in the general level of prices. The non-oil GDP deflator is usually used to exclude the impact of change in oil prices on the domestic economy.

Over the last three years, the

non-oil GDP deflator recorded the highest annual increase rate of 9.0 percent during the third quarter of 2012 compared to the same quarter of 2011. Then, it started to decrease gradually to 2.0 percent during the fourth quarter of 2013, then increased to 2.9 percent in the first quarter of 2014. (Table 4 and chart 3).

An analysis of the GDP deflator data (at constant prices for 1999) by economic activity shows that the activity of import duties registered the highest increase of 4.4 percent in the first

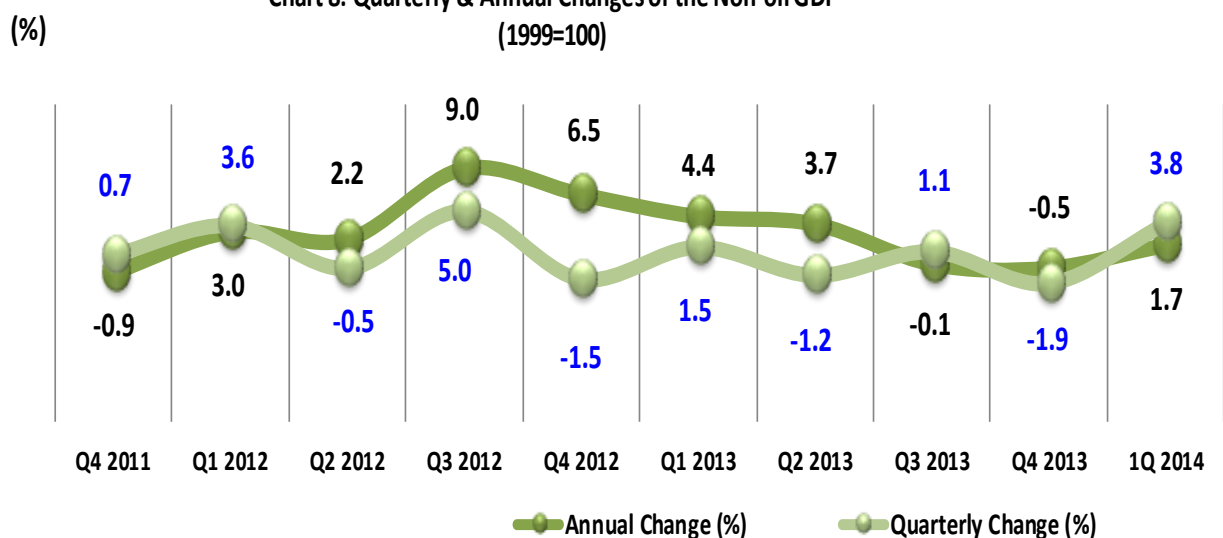


TABLE 4: GDP Deflator
(1999=100)

	Q4 2011	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013	Q3 2013	Q4 2013	1Q 2014
<u>GDP (Million Rls):</u>										
At Current Prices	655038	708,741	678,164	680,124	685,304	691,909	676,884	711,999	713,980	734,375
At Constant Prices	296748	308,438	302,849	305,921	308,685	316,761	314,326	318,194	323,164	336,567
GDP Deflator	220.7	229.8	223.9	222.3	222.0	218.4	215.3	223.8	220.9	218.2
Quarterly Change (%)	0.8	4.1	-2.5	-0.7	-0.1	-1.6	-1.4	3.9	-1.3	-1.2
Annual Change (%)	9.7	10.8	1.9	1.6	0.6	-4.9	-3.8	0.6	-0.5	-0.1
<u>Non-oil GDP (Million Rls):</u>										
At Current Prices	308955	336,579	325,417	345,288	346,980	369,361	357,367	360,460	361,769	396,298
At Constant Prices	228816	240,663	233,830	236,397	241,213	252,901	247,567	246,972	252,722	266,766
Non-oil GDP Deflator	135.0	139.9	139.2	146.1	143.8	146.0	144.4	146.0	143.1	148.6
Quarterly Change (%)	0.7	3.6	-0.5	5.0	-1.5	1.5	-1.2	1.1	-1.9	3.8
Annual Change (%)	-0.9	3.0	2.2	9.0	6.5	4.4	3.7	-0.1	-0.5	1.7

Source: Central Department of Statistics and Information.

Chart 8: Quarterly & Annual Changes of the Non-oil GDP
(1999=100)



Source: Central Department of Statistics and Information.

quarter of 2014 as compared to the preceding quarter. The activity of community, social and personal services came second with 3.2 percent, followed by finance, insurance, real estate and business services with 2.5 percent due to an increase of 3.2 percent in the activity of house ownership. The building and construction activity ranked fourth with an increase of 1.9 percent in the first quarter of 2014 compared to the first quarter of 2013.

Mining and quarrying activity registered the highest contraction level of 3.5 percent in the GDP deflator during the first quarter of 2014 as compared to the corresponding quarter in the preceding year due to a contraction of 3.7 percent in

the crude oil and natural gas activity in the same period. (Chart 9).

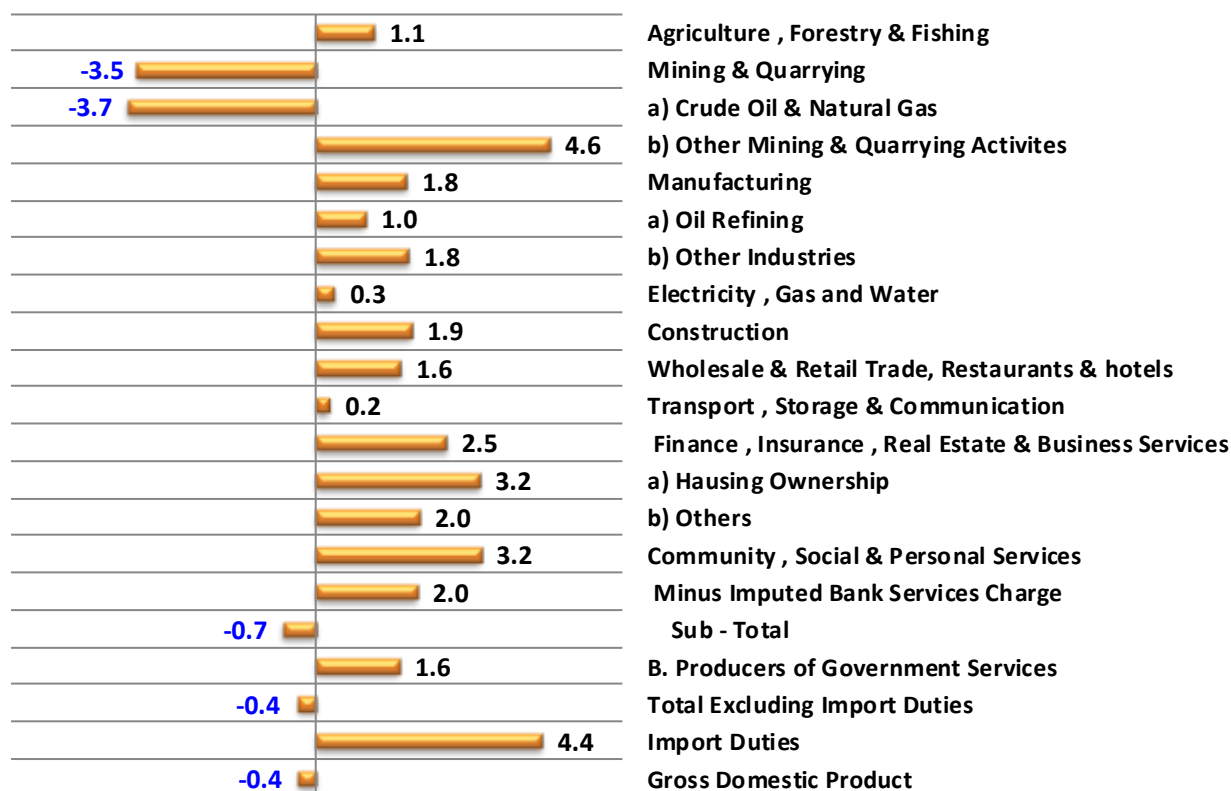
A comparison of annual inflation measures in the domestic market indicates that the annual inflation rate of the non-oil GDP deflator registered the highest increase of 2.9 percent in the first quarter of 2014. Annual inflation rate of the cost of living index came second with 2.8 percent during the same period, while the annual change rate of the wholesale price index increased by 0.5 percent during the same period (Chart 10).

Foreign Trade with Major Trading Partners

Total value of the Kingdom's imports stood at SAR 142.1 billion during the first quarter of 2014, declining by 5.0



**Chart 9: GDP Deflator by Type of Economic Activity at 1999 Constant Prices
Q2 2014 (% Change)**



Source: Central Department of Statistics and Information.

percent from the fourth quarter of 2013 and decreasing by 9.4 percent over the first quarter of 2013.

China came at the top of the Kingdom's trading partners list during the first quarter of 2014. The Kingdom's imports from China amounted to SAR 20.0 billion or 14.1 percent of the Kingdom's total imports. The United States came second with SAR 19.7 billion or 13.7 percent of the total value of the Kingdom's imports. Germany came third with SAR 11.1 billion or 7.8

**TABLE 5: Top 5 Trading Partners by
value of Imports (Rls Million)**

Countries	Q1 2013	Q1 2014	Change (%)
CHINA	20840	20025	-3.9
U.S.A	19477	19685	1.1
GERMANY	10515	11106	5.6
JAPAN	9261	8551	-7.7
SOUTH KOREA	10290	8155	-20.7
Total	70383	67522	-4.1
Ratio To Total	44.9	44.4	-1.1

Source: Central Department of Statistics and Information.

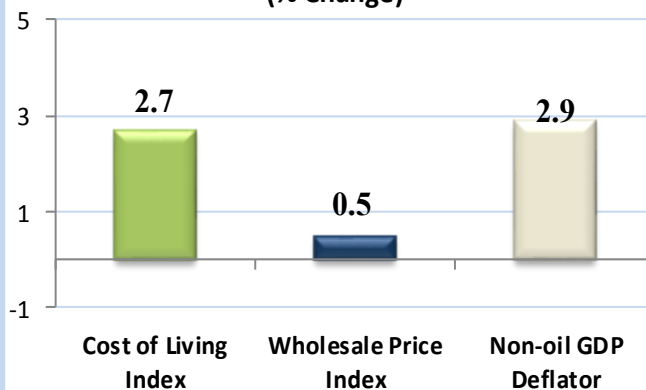


percent of the Kingdom's total imports. Japan ranked fourth with SAR 8.6 billion or 6.0 percent of the total value of imports. South Korea came fifth with SAR 8.2 billion or 5.7 percent of the Kingdom's total imports during the first quarter of 2014 (Table 5).

The total value of the Kingdom's imports stood at SAR 614.5 billion in 2013. The order of the countries from which the Kingdom imported was as follows:

1. The United States with a value of SAR 83.2 billion, or 13.5 percent of the Kingdom's total imports. The annual inflation rate in the U.S. was 1.5 percent in 2013.
2. China with a value of SAR 79.4 billion, or 12.9 percent of the Kingdom's total imports. The annual inflation rate in China was 2.5 percent in 2013.
3. Germany with a value of SAR 42.4 billion, or 6.9 percent of the Kingdom's total imports. The annual inflation rate in Germany was 1.5 percent in 2013.
4. South Korea with a value of SAR 35.3 billion, or 5.8 percent of the Kingdom's total imports. The annual inflation rate in South Korea was 0.9 percent in 2013.
5. Japan with a value of SAR 34.3 billion, or 5.6 percent of the Kingdom's total imports. The annual inflation rate in Japan was 1.2 percent in 2013.
6. United Arab Emirates with a value of SAR 32.0 billion, or 5.2 percent of the Kingdom's total imports. The annual

Chart 10: Inflation Measurements in Q1 2014
(% Change)



Source: Central Department of Statistics and Information.

inflation rate in U.A.E. was 1.4 percent in 2013.

7. India with a value of SAR 21.4 billion, or 3.5 percent of the Kingdom's total imports. The annual inflation rate in India was 9.8 percent in 2013.
8. Italy with a value of SAR 20.0 billion, or 3.3 percent of the Kingdom's total imports. The annual inflation rate in Italy was 0.7 percent in 2013.
9. Switzerland with a value of SAR 19.4 billion, or 3.2 percent of the Kingdom's total imports. The annual inflation rate in Switzerland was 0.1 percent in 2013.
10. France with a value of SAR 18.8 billion, or 3.1 percent of the Kingdom's total imports. The annual inflation rate

in France was 0.7 percent in 2013.

inflation rate in Brazil was 5.9 percent in 2013.

11. The United Kingdom with a value of SAR 15.8 billion, or 2.6 percent of the Kingdom's total imports. The annual inflation rate in the UK was 2.5 percent in 2013.

15. Australia with a value of SAR 8.1 billion, or 1.3 percent of the Kingdom's total imports. The annual inflation rate in Australia was 2.1 percent in 2013.

12. Thailand with a value of SAR 13.2 billion, or 2.2 percent of the Kingdom's total imports. The annual inflation rate in Thailand was 2.1 percent in 2013.

Inflation rates in the second quarter of 2014 were affected by the increases recorded in the group of tobacco, the

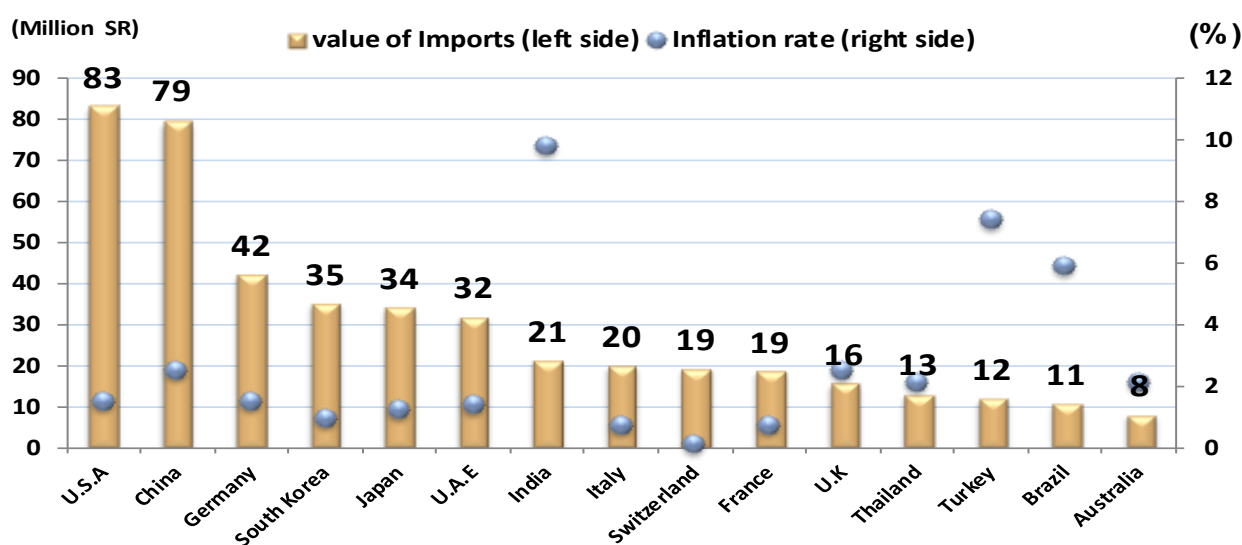
13. Turkey with a value of SAR 12.1 billion, or 2.0 percent of the Kingdom's total imports. The annual inflation rate in Turkey was 7.4 percent in 2013.

Inflation Projections for the Third Quarter of 2014

14. Brazil with a value of SAR 10.8 billion, or 1.8 percent of the Kingdom's total imports. The annual

group of housing, water, electricity, gas and other fuels, and the group of food and beverages and furnishings and household equipment. The group of housing, water, electricity, gas, and

Chart 11: Top Trading Partners by Value of Imports 2013



Source: Central Department of Statistics and Information.



TABLE 6: Top Trading Partners by value of Imports 2013

Countries	Value (Million SR)	Ratio To Accum.		Inflation Rate (%)	Most Imported Commodities	
		Total (%)	Ratio (%)			Commodity Name
U.S.A	83233	13.54	13.5	1.5	Private Cars, Jeeps, Parts Of Aeroplanes Or Helicopters.	
China	79443	12.93	26.5	2.5	Telephones For Cellular Networks And Wireless, Portable Auto Data Processing Machine, Machines For Reception, Conversion And Transmission.	
Germany	42401	6.90	33.4	1.5	Cigarettes, Private Cars, Gas Turbines.	
South Korea	35368	5.75	39.1	0.9	Private Cars, Telephones For Cellular Networks And Wireless.	
Japan	34361	5.59	44.7	1.2	Jeeps, Private Cars, Light Trucks, Chassis-Cabs.	
U.A.E	32004	5.21	49.9	1.4	Gold Ingots, Brass, Bars And Rods Of Refined Copper.	
India	21495	3.50	53.4	9.8	Rice, Telephones For Cellular Networks Or For Other Wireless Networks, Benzene .	
Italy	20066	3.26	56.7	0.7	Cocks, Medicine Containing Penicillins Or Derivatives, Safety .	
Switzerland	19447	3.16	62.9	0.1	Gold Ingots, Cigarettes, Wrist Watches.	
France	18819	3.06	59.7	0.7	Uncut Frozen Meat, Perfumes, Medicine Containing Penicillins Or Derivatives.	
U.K	15805	2.57	62.3	2.5	Parts Of Aeroplanes Or Helicopters, Generating, Medicine Containing Antibiotics.	
Thailand	13231	2.15	64.5	2.1	Pickups.	
Turkey	12058	1.96	66.4	7.4	Semi-Finished Iron And Steel Products, Partially-Worked Iron Or Steel Bars, Non-Alloy Pig Iron.	
Brazil	10845	1.76	68.2	5.9	Uncut Frozen Meat, Agglomerated Iron, Frozen (Chickens).	
Australia	8146	1.33	69.5	2.1	Solid milk not exceeding, Wheat normal, Private cars.	

Source: Central Department of Statistics and Information, IMF.



other fuels registered the highest effect ratio on the general inflation rate in June 2014, increasing from 23.6 percent in March 2014 to 32.0 percent in June 2014 (Chart 12).

The inflation rates in the Kingdom are expected to be stable during the third quarter of 2014 despite continuous inflationary pressures on the major groups affecting the general index and the rise in domestic demand during the month of Ramadan. The stability is attributable to the ongoing decline in inflationary pressures on the group of food and beverages and some other groups, such as the group of transportation.

The IMF projections for primary commodity prices indicate a deflation in the inflationary pressures on all its main groups for 2014, except for the group of beverages and the group of raw agricultural materials where they are expected to rise by 15.6 percent and 2.6 percent, respectively. The IMF's projections for major commodity indices in global markets also show a deflation in food prices by (-1.8 percent), metal prices by (-6.2 percent), and energy prices by (-0.4 percent) in 2014 and thus, the general

price index for primary commodity prices in the global markets is expected to record a deflation of (-0.8 percent) in 2014 compared to the preceding year (Table 7).

The IMF projections (according to latest available data) show stability in the average inflation rate in the top fifteen exporting countries to the Kingdom from 2.9 percent in 2013 to 2.8 percent in 2014.

On the other hand, the annual inflation rate in FAO's food price index went down to 2.8 percent in June 2014 compared to a rise by 5.1 percent in the corresponding month of the preceding year. It also declined by 0.1 percent in June 2014 as compared to the beginning of the year.

Conclusion

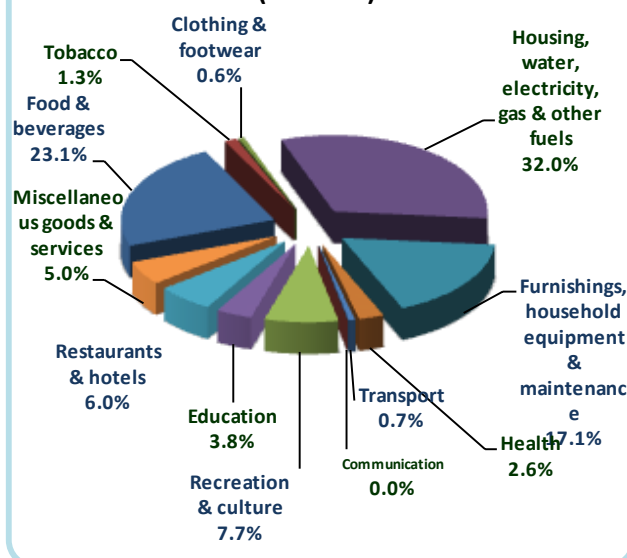
The most significant results of the analysis of the inflation rates during the second quarter of 2014 in the Kingdom can be concluded as follows:

1. The annual cost of living index registered a rise of 2.7 percent in June 2014 as compared to the corresponding month of the preceding year, while the average inflation rate for all months of

the second quarter of 2014 was stable at 2.7 percent as a result of the stability of the group of food and beverages and some other groups, such as the group of transportation.

- Both the groups of tobacco and recreation and culture registered the highest quarterly inflation rates of 6.5 percent and 5.7 percent, respectively, during the second quarter of 2014 as compared to the corresponding quarter of the preceding year.
- The wholesale price index recorded an increase of 0.6 percent during the

Chart 12: Percentage Impact Of Major Groups On The General Inflation Rate (Jun 2014)



second quarter of 2014 compared to the corresponding quarter of the preceding year.

- The wholesale prices of the group of beverages and tobacco recorded the highest

TABLE 7: IMF Commodity Price Index (2005=100)
(Percentage From Previous Period)

	Weights	Actual		Projections				
		2011	2012	2013	2014	2015	2016	2017
All Primary Commodities	100.0	26.2	-3.2	-1.5	-0.8	-3.9	-3.1	-1.8
Food	16.7	19.9	-2.4	1.1	-1.8	-5.6	-0.8	-0.1
Beverages	1.8	16.6	-18.6	-11.9	15.6	-0.2	-1.4	-2.0
Agricultural Raw Materials	7.7	22.7	-12.7	1.5	2.6	0.4	-6.2	-3.3
Metals	10.7	13.5	-16.8	-4.3	-6.2	-3.2	0.6	0.4
Energy	63.1	31.5	0.7	-1.7	-0.4	-4.1	-4.0	-2.5

Source: IMF



increase rate during the second quarter of 2014 compared to the same quarter of the preceding year. The group denoted an inflation rate of 6.2 percent due to an increase of 10.0 percent in the subgroup (tobacco) during the same period.

5. The non-oil GDP deflator recorded a rise of 3.8 percent during the first quarter of 2014 compared to the fourth quarter of the preceding year, and the GDP deflator declined by 1.9 percent during the first quarter of 2014 compared to the same quarter of the preceding year.