

# **Inflation Report**

## **First Quarter 2013**



**Saudi Arabian Monetary Agency**  
Research and Statistics Department

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The cost of living index for base year 2007 registered a rise of 0.8 percent in the first quarter of 2013, compared to the fourth quarter of 2012. The highest increase was in the group of house furnishing, equipment, and maintenance by 1.6 percent, and the group of medical care by 1.5 percent. However, the cost of living index registered a rise of 3.9 percent during the first quarter of 2013 compared to the corresponding quarter of 2012. The highest increase was in the group of tobacco by 12.8 percent, and the group of transportation by 8.2 percent.

## 1. All Cities Cost of Living Index

This index is the most common measure of inflation used for all cities in the Kingdom. It measures price changes of goods and services for consumers. The index includes 476 goods and services compiled on a monthly basis from sixteen cities. Chart (1) shows the relative weights of the 12 groups comprising the all cities cost of living index in the Kingdom.

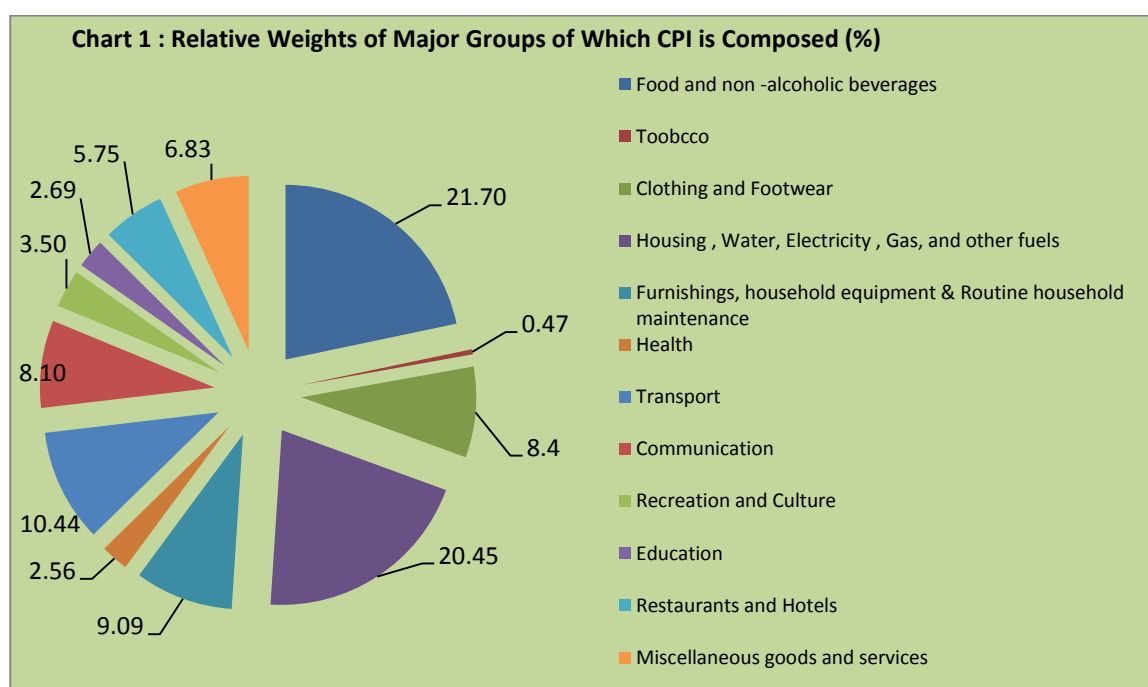


Table (1) and chart (2) show all cities cost of living indices, and the quarterly and annual percentage changes up to the end of the first quarter of 2013 (The base year 2007=100). The table shows that the average general cost of living index registered an increase of 0.8 percent in the first quarter of 2013 compared to the fourth quarter of 2012, where the group of furnishings, household equipment & routine household maintenance went up by 1.4 percent, the group of health by 1.3 percent, the group of transport by 1.2 percent, the group of housing, water, electricity, gas, and other fuels by 1.1 percent, the group of telecommunication and the group of food and non -alcoholic beverages by 0.9 each, the group of tobacco by 0.6 percent, and the group of restaurants and hotels by 0.1 percent. However, the group of clothing and footwear and the group of miscellaneous goods and services registered a decline of 0.4 percent each, the group of recreation and culture declined by 0.3 percent, while The group of education was the sole group that remained unchanged.

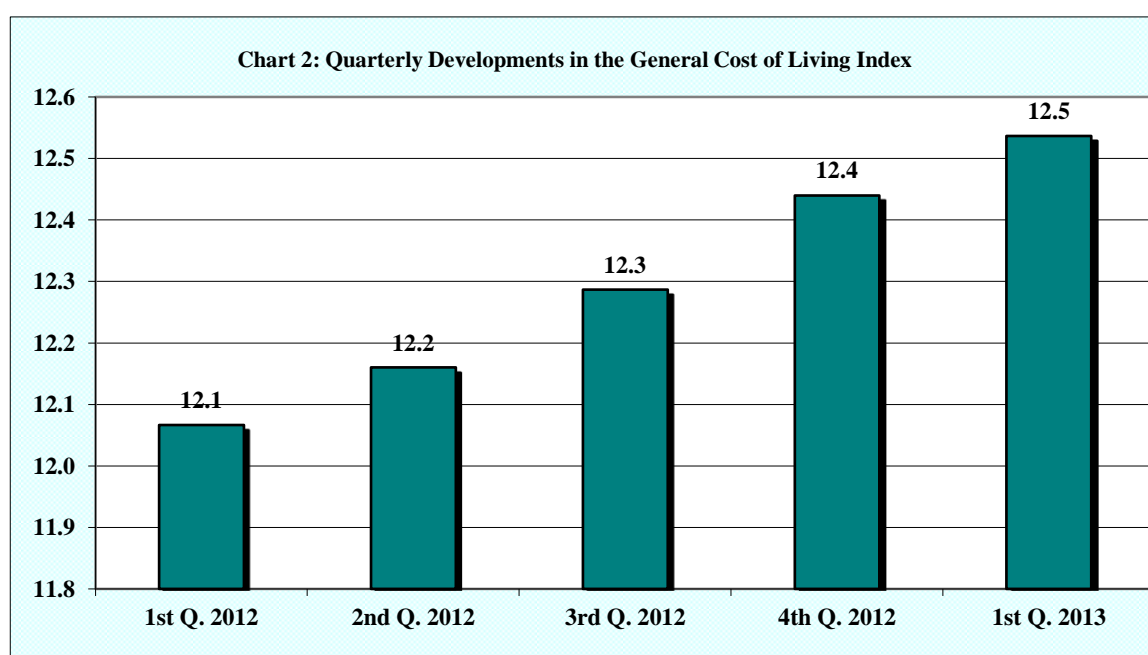
The same table shows annual changes for the first quarter of 2013 compared to the first quarter of 2012. The general cost of living index registered an annual increase of 3.9 percent in the first quarter of 2013 due to a rise in all groups. The group of tobacco recorded the highest increase of 12.8 percent; the group of transport rose by 8.1 percent, followed by the group of restaurants and hotels 7.1 percent, the group of food and non -alcoholic beverages 5.4 percent, the group of clothing and footwear 4.2 percent, the group of housing, water, electricity and fuels 2.8 percent, the group of education 1.7 percent, the group of Furnishings, household equipment & Routine household maintenance and the group of recreation and culture 1.4 percent each, the group of communications and the group of health 1.3 percent each, and finally the group of Miscellaneous goods and services 0.9 percent.

**Table 1: Quarterly and Annual Cost of Living Indices up to the End of the First Quarter of 2013**

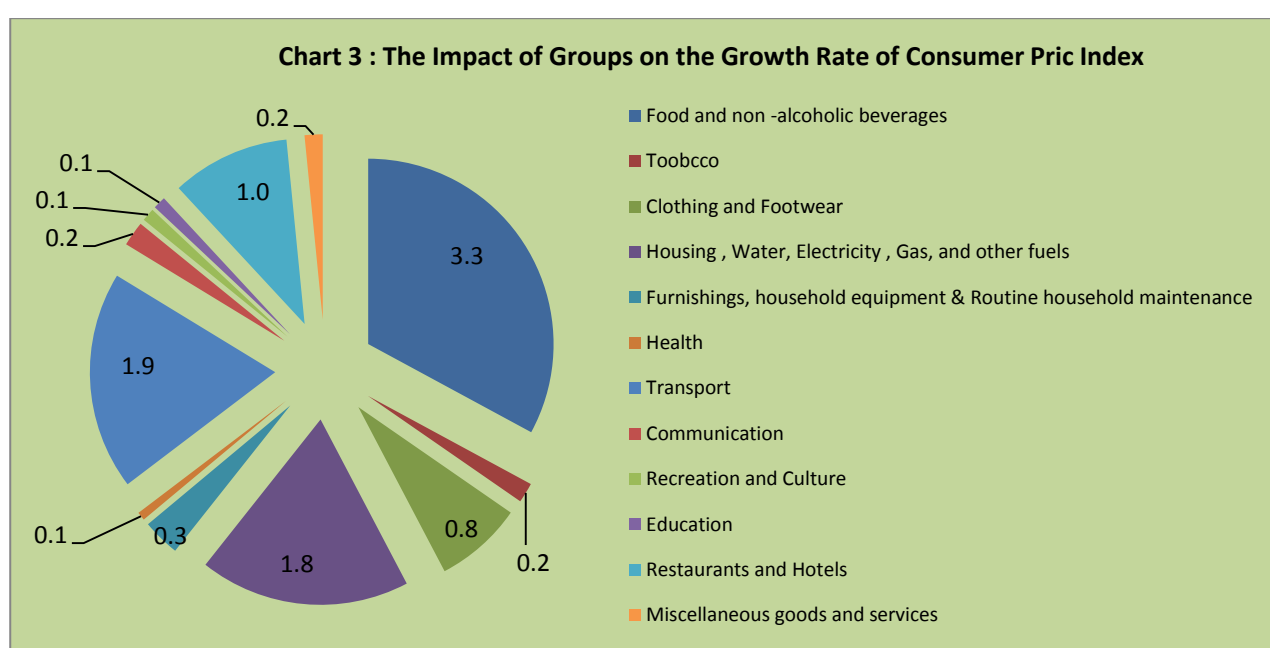
**2007 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 1st quarter 12 against 4th quarter 12	%change of 1st quarter 13 against corresponding quarter of previous year	Change of Annual Average 2012
	2011	2012	First Quarter 2012	Second Quarter 2012	Third Quarter 2012	Fourth Quarter 2012	First Quarter 2013			
<b>General Index</b>	<b>119.0</b>	<b>122.4</b>	<b>120.7</b>	<b>121.6</b>	<b>122.9</b>	<b>124.4</b>	<b>125.4</b>	<b>0.8</b>	<b>3.9</b>	<b>2.9</b>
Food and non -alcoholic beverages	127.1	132.9	130.4	131.3	133.1	136.2	137.4	0.9	5.4	4.6
Tobacco	126.7	141.3	134.5	134.6	145.2	150.8	151.7	0.6	12.8	11.5
Clothing and Footwear	99.7	103.3	100.9	102.3	104.4	105.5	105.1	-0.4	4.2	3.6
Housing , Water, Electricity , Gas, and other fuels	143.9	148.7	147.5	148.1	149.0	150.1	151.7	1.1	2.8	3.3
Furnishings, household equipment & Routine household maintenance	115.5	117.5	118.1	117.7	116.3	118.0	119.7	1.4	1.4	1.8
Health	103.4	105.6	106.4	104.4	105.4	106.3	107.7	1.3	1.3	2.2
Transport	103.1	108.3	103.9	108.1	110.1	111.1	112.4	1.2	8.1	5.0
Communication	92.0	92.1	92.1	91.9	92.1	92.6	93.4	0.9	1.3	0.1
Recreation and Culture	104.7	104.5	103.6	103.5	105.3	105.4	105.1	-0.3	1.4	-0.2
Education	108.7	110.2	109.7	109.7	109.7	111.6	111.6	0.0	1.7	1.4
Restaurants and Hotels	117.0	121.7	116.9	120.4	123.7	125.1	125.3	0.1	7.1	3.9
Miscellaneous goods and services	113.9	117.8	117.4	116.9	117.9	119.0	118.5	-0.4	0.9	3.4

Source: Central Department of Statistics and Information



The group of food and non-alcoholic beverages contributed to the index rise by 32.9 percent of total impact on the general cost of living index. The group of transport accounted for 19.0 percent. The group of housing, water, electricity, gas and other fuel lifted up the index by 18.4 percent, the group of restaurants and hotels by 10.3 percent, the group of clothing and footwear by 7.7 percent, and the rest of the groups contributed less than 5.0 percent to the total impact on the general cost of living index (Chart 3).



## 2. Wholesale Price Index

This index measures wholesale prices for a basket of 160 items sold in the (primary) wholesale markets in the Kingdom. Table (2) and chart (4) show quarterly and annual wholesale price indices up to the end of the first quarter of 2013. The table indicates that the wholesale price index recorded a rise of 1.7 percent during the first quarter of 2013 compared to the corresponding quarter of 2012. This was ascribed to a rise in eight of the groups constituting the wholesale price index. The group of chemicals and related products rose by 10.9 percent, the group of machinery and transport equipment by 3.7 percent, the group of food and live animals, the group of miscellaneous manufactured articles and the group of manufactured goods

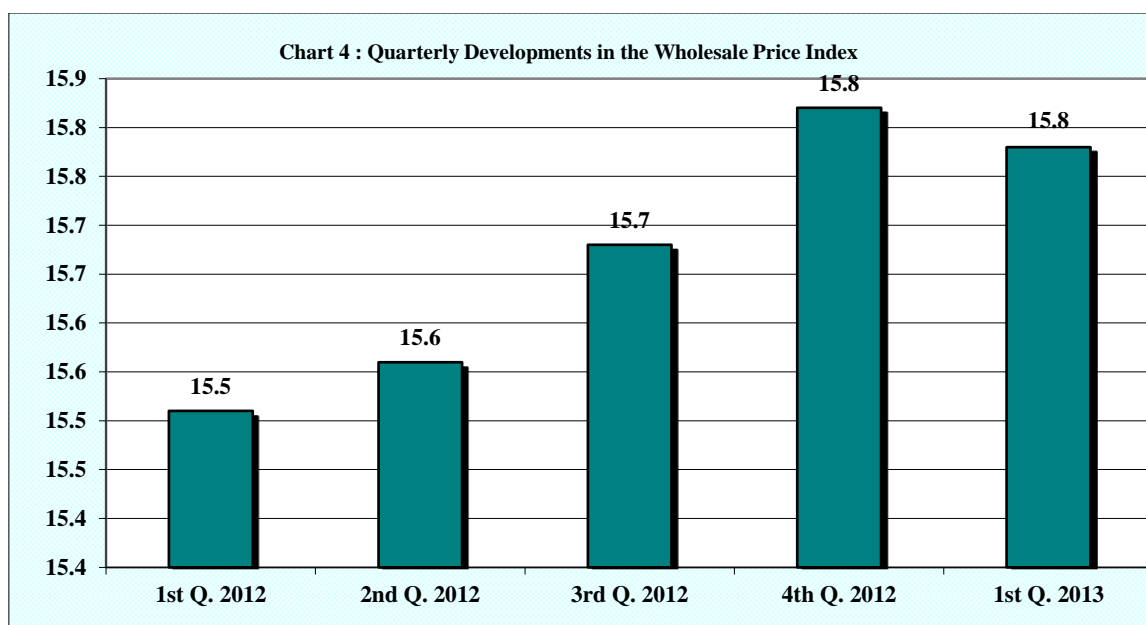
classified by substance by 1.8 percent each, the group of beverages and tobacco and the group of other services by 1.1 percent each, and the group of crude materials (except fuel) by 0.6 percent. In contrast, the group of mineral fuels and related products remained unchanged. However, the group of vegetable and animal oils & fats dropped by 0.7 percent.

The general wholesale price index recorded a decline of 0.3 percent during the first quarter of 2013 compared to the fourth quarter of 2012. This decrease was attributed to four of the groups constituting the wholesale price index. The group of other commodities dropped by 4.9 percent, chemical and related products by 2.8 percent, food and live animals by 1.1 percent, and miscellaneous manufactured articles by 0.7 percent. Mineral fuels and other related products and crude materials (except fuel) were unchanged. However, machinery & transport equipment rose by 2.1 percent, beverages and tobacco by 0.9 percent, manufactured goods classified by substance by 0.6 percent and vegetable and animal oils & fats by 0.1 percent.

**Table 2: Quarterly and Annual Wholesale Price Indices up to the End of the First Quarter of 2013**  
**1988 = 100**

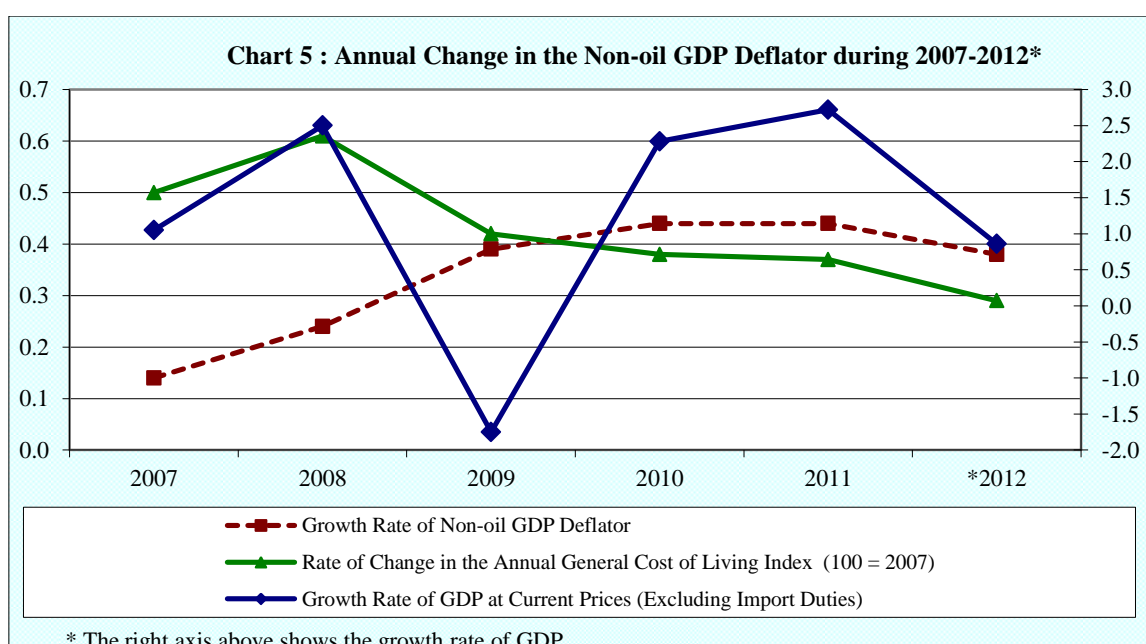
Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 1st quarter 13 against 4th quarter 12	% change of 1st quarter 13 against corresponding quarter of previous year	Change of Annual Average 2012
	2011	2012	First Quarter 2012	Second Quarter 2012	Third Quarter 2012	Fourth Quarter 2012	First Quarter 2013			
<b>General Index</b>	152.6	156.4	155.1	155.6	156.8	158.2	157.8	-0.3	1.7	2.5
Food & Live Animals	174.1	178.6	175.7	177.8	179.8	180.9	178.9	-1.1	1.8	2.6
Beverages & Tobacco	151.4	151.7	151.5	151.5	151.8	151.8	153.1	0.9	1.1	0.2
Crude Materials (except fuel)	211.5	217.5	216.7	217.7	217.5	217.9	217.9	0.0	0.6	2.8
Mineral Fuels & related products	184.8	184.8	184.8	184.8	184.8	184.8	184.8	0.0	0.0	0.0
Vegetable Oils & Fats	147.9	149.3	150.0	149.2	149.3	148.8	149.0	0.1	-0.7	1.0
Chemicals & Related Products	188.6	217.7	205.5	213.6	217.2	234.5	227.9	-2.8	10.9	15.4
Manufactured Goods classified by substance	142.5	144.1	142.7	144.5	144.7	144.4	145.2	6.0	1.8	1.1
Machinery & Transport Equipment	132.0	136.2	134.8	136.2	137.0	136.9	139.8	2.1	3.7	3.2
Msc. Manufactured Articles	145.5	151.9	149.8	150.8	153.3	153.5	152.5	-0.7	1.8	4.4
Other Commodities	288.6	311.0	304.4	295.0	321.0	323.4	307.6	-4.9	1.1	7.7

Source: Central Department of Statistics and Information



### 3. GDP Deflator

This deflator measures the prices of domestically produced commodities through the deflator of the oil and non-oil sectors. The non-oil deflator reflects domestic inflation by excluding change in crude oil prices. Chart (5) shows the non-oil deflator and the growth rate of the annual GDP from 2007 to 2012, in addition to the rate of change in the general cost of living index. The non-oil deflator registered an increase of 3.8 percent in 2012 compared to an increase of 4.4 percent in 2011.





#### **4. Inflation and Foreign Trade with Major Trading Partners of the Kingdom**

The Saudi economy is an open-market based economy. A high degree of economic openness of a country causes the domestic inflation rate to be affected by change in the prices of goods in the country of origin. Table (3) shows the values of the Kingdom's imports from major trading partners during 2012.

The Euro zone accounted for the largest share of 19.5 percent of the Kingdom's imports in 2012, with an inflation rate of 2.5 percent in that zone. The People's Republic of China (PRC) came as the second largest supplier in 2012 with 13.4 percent and inflation rate of 3.0 percent in the same year. Imports from the United States declined from 17.4 percent in 2002 to 13.4 percent in 2012, becoming the third largest supplier to the Kingdom, with inflation rate of 2.0 percent (Table 3). The International Monetary Fund (IMF) data shows an increase in the inflation rate of all trading partners of the Kingdom.

**Table 3: Sources of the Kingdom's Imports and Inflation Rates**

Country	Imports (Million Riyals)		(%) Share of Imports		Inflation Rate (%)	
	2002	2012*	2002	2012*	2002	2012*
United States	19737	72344	17.4	13.4	1.6	2.0
Japan	13405	37418	11.8	6.9	-0.9	0.0
Republic of China	6441	72397	5.7	13.4	-0.8	3.0
United Kingdom	7240	14535	6.4	2.7	1.3	2.7
South Korea	3989	33352	3.5	6.2	2.8	2.2
India	3307	19195	2.9	3.6	4.5	10.3
Australia	4223	7577	3.7	1.4	3.0	2.0
<b>Euro Zone Countries</b>	29016	105122	25.6	19.5	2.3	2.5
of which :						
Germany	10217	39360	9.0	7.3	1.4	2.2
Italy	5203	16943	4.6	3.1	2.6	3.0
France	4350	16884	3.8	3.1	1.9	1.9
Other countries	33730	178417	29.8	33.0		
Total	113240	540357				

\* Provisional Data.

Source: Central Department of Statistics and Information, World Economic Outlook Database, Oct 2012 - IMF.

## 5. Factors Affecting Inflation Rate:

A number of factors affect the domestic inflation rate, and their influence differs from one period to another. Table (4) shows the relative changes of the most significant domestic factors affecting the inflation rate in the Kingdom, which are concentrated on the demand side, resulting from an increase in the government and private expenditure, and its effect on the level of liquidity. Government expenditure recorded an annual growth of 3.1 percent in 2012 compared to a growth rate of 26.4 percent in 2011. Money supply (M3) increased by 2.4 percent in the first quarter of 2013 compared to the fourth quarter of 2012, registering the same rate of the corresponding quarter in the preceding year.

**Table 4 : Most Significant Factors Affecting the Inflation Rate in the Kingdom**

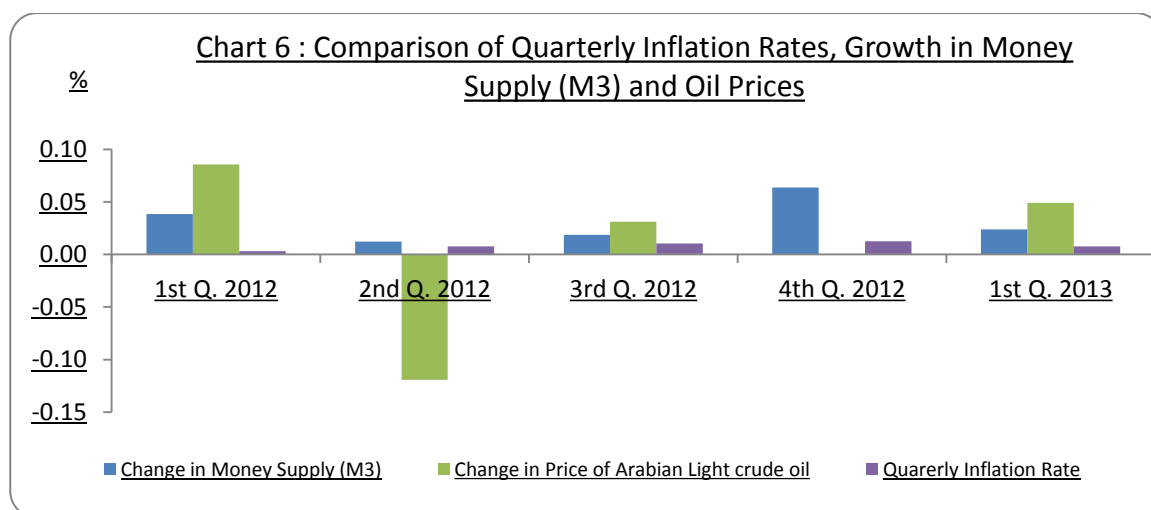
	2006	2007	2008	2009	2010	2011	2012*	% Change of 1st quarter 13 against 4th quarter 12	% change of 1st quarter 13 against corresponding quarter of previous year
<b>Money Supply (M3)</b>	19.3	19.6	17.6	10.7	5.0	13.3	13.9	2.4	2.4
<b>Government Expenditure</b>	13.5	18.5	11.5	14.7	9.6	26.4	3.1	-	-
<b>GDP Growth Rate:</b>	14.7	10.5	25.0	17.5-	22.8	27.2	8.6	-	-
<b>- Private Sector</b>	13.3	15.0	14.8	7.1	13.8	13.4	11.5	-	-
<b>- Government Sector</b>	11.7	4.2	7.0	14.9	15.8	11.3	10.6	-	-

(-) Not Available.    \* Provisional Data.

Source: SAMA, Ministry of Finance and Central Department of Statistics and Information

As for the activity of the private and public sectors, the private sector's GDP at current prices recorded a growth rate of 11.5 percent in 2012, while that of the public sector grew by 10.6 percent during the same year.

Chart (6) indicates the relationship between quarterly inflation rates, growth in money supply (M3) and change in oil prices.



## **6. Inflation Projections for the Second Quarter of 2013**

The inflation rate recorded an annual rise of 3.9 percent in the first quarter of 2013 compared to the corresponding quarter of the preceding year, and increased by 0.8 percent compared to the fourth quarter of 2012.

As for the major trading partners of the Kingdom, the April 2013 IMF World Economic Outlook expects a decrease in the inflation rate in the Euro Zone to 1.7 percent in 2013 from 2.4 percent in 2012. However, it expects stability in the inflation rate in the People's Republic of China at 3 percent in 2013. The IMF expects stability in the inflation rate in emerging and developing economies in 2013 at 6.0 percent, the same rate of 2012, and a decrease in developed economies to 1.6 percent in 2013, compared to 2.0 percent in 2012 due to the slowdown in the global economy.

According to the data of the Food and Agriculture Organization of the United Nations (FAO), the FAO food price index went up by 1.0 percent from February, recording 212.4 points. The sub-index of dairy products registered the highest increase, followed by the sugar sub-index.

Notwithstanding the stable inflationary pressures in the major trading partners of the Kingdom, the relative increase in food prices globally might lead to a relative

and limited increase in the Kingdom's inflationary pressures in the Second quarter of 2013.

## **7. Conclusion**

This report has reviewed the inflation rates in the Kingdom up to the end of the first quarter of 2013 based on the data issued by the Central Department of Statistics and Information on retail consumer prices (the General Cost of Living Index), wholesale prices (wholesale price index), as well as the prices of commodities produced domestically measured by the deflators of the oil and the non-oil sectors. In addition, it has reviewed the most important factors affecting inflation rates. Available data mentioned earlier show an expected slight and limited increase in inflationary pressures during the second quarter of 2013.