

# **Inflation Report**

## **Second Quarter 2013**



**Saudi Arabian Monetary Agency**  
Monetary Policy & Financial Stability Department

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The cost of living index for base year 2007 registered a rise of 0.6 percent in the second quarter of 2013 compared to the first quarter of 2013. The highest increase was in the group of food and beverages by 1.5 percent, and the group of furnishings, household equipment and maintenance by 1.5 percent. However, the cost of living index registered a rise of 3.8 percent during the second quarter of 2013 compared to the corresponding quarter of 2012. The highest increase was in the group of tobacco by 12.7 percent, and the group of food and beverages by 6.2 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.

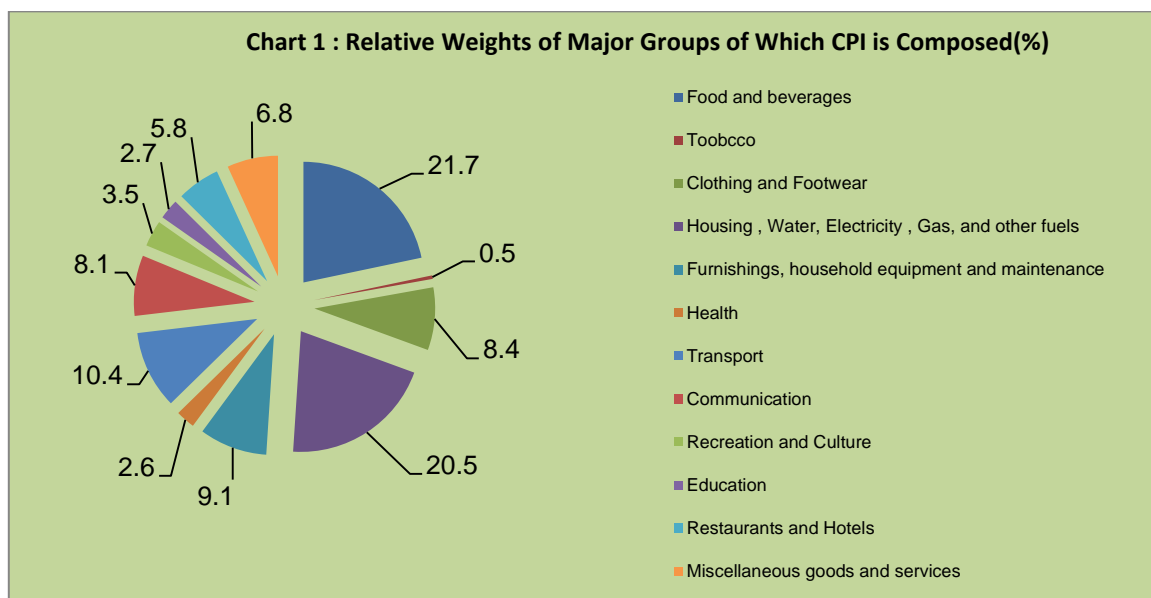


Table (1) and chart (2) show the all cities cost of living indexes, and the quarterly and annual percentage changes up to the end of the second quarter of 2013 (The base year 2007=100).

The table shows that the average general cost of living index registered an increase of 0.6 percent in the second quarter of 2013 compared to the first quarter of 2013, where the group of furnishings, household equipment and maintenance went up by 1.5 percent; the group of food and beverages by 1.5 percent; the group of health by 1.2 percent; the group of housing, water, electricity, gas and other fuels by 1.0 percent; the group of restaurants and hotels by 0.8 percent and the group of communication by 0.4 percent. However, the group of miscellaneous goods and services registered a decline of 1.0 percent; the group of transport fell by 0.7 percent, the group of clothing and footwear also dropped by 0.6 percent, and the group of recreation and culture went down by 0.2 percent, while the group of education and the group of tobacco remained unchanged.

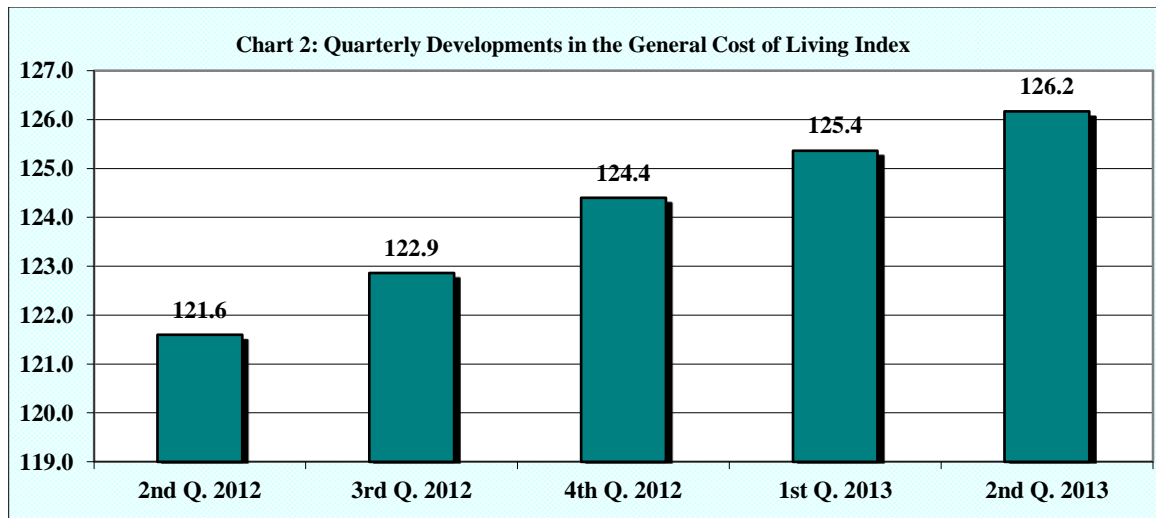
The same table shows annual changes in the second quarter of 2013 compared to the second quarter of 2012. The general cost of living index registered an annual increase of 3.8 percent in the second quarter of 2013 due to a rise in all groups. The group of tobacco recorded the highest increase of 12.7 percent; the group of food and beverages rose by 6.2 percent, followed by the group of restaurants and hotels 4.9 percent, the group of health 4.4 percent, the group of housing, water, electricity, gas and other fuels 3.4 percent, the group of household equipment and maintenance and the group of transport 3.2 percent each, the group of clothing and footwear 2.2 percent, the group of communications 2.1 percent, the group of education 1.7 percent, the group of recreation and culture 1.4 percent, and finally the group of miscellaneous goods and services 0.3 percent.

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

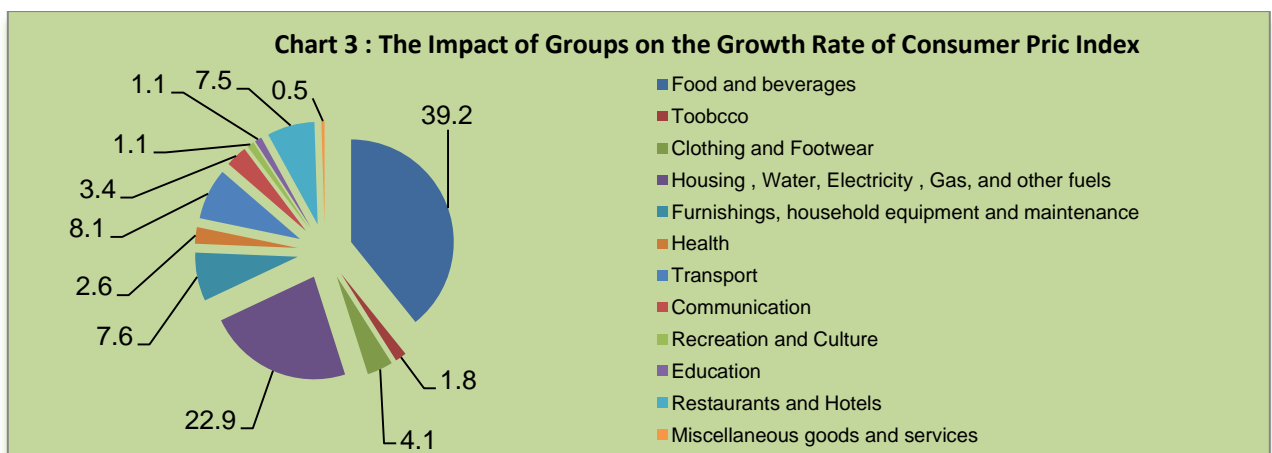
**2007 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 2nd quarter 13 against 1st quarter 13	% change of 2nd quarter 13 against corresponding quarter of previous year	Change of Annual Average 2012
	2011	2012	Second Quarter 2012	Third Quarter 2012	Fourth Quarter 2012	First Quarter 2013	Second Quarter 2013			
<b>General Index</b>	<b>119.0</b>	<b>122.4</b>	<b>121.6</b>	<b>122.9</b>	<b>124.4</b>	<b>125.4</b>	<b>126.2</b>	<b>0.6</b>	<b>3.8</b>	<b>2.9</b>
Food and beverages	127.1	132.9	131.3	133.1	136.2	137.4	139.5	1.5	6.2	4.6
Toobcco	126.7	141.3	134.6	145.2	150.8	151.7	151.7	0.0	12.7	11.5
Clothing and Footwear	99.7	103.3	102.3	104.4	105.5	105.1	104.5	-0.6	2.2	3.6
Housing , Water, Electricity , Gas, and other fuels	143.9	148.7	148.1	149.0	150.1	151.7	153.2	1.0	3.4	3.3
Furnishings, household equipment and maintenance	115.5	117.5	117.7	116.3	118.0	119.7	121.5	1.5	3.2	1.8
Health	103.4	105.6	104.4	105.4	106.3	107.7	109.0	1.2	4.4	2.2
Transport	103.1	108.3	108.1	110.1	111.1	112.4	111.6	-0.7	3.2	5.0
Communication	92.0	92.1	91.9	92.1	92.6	93.4	93.8	0.4	2.1	0.1
Recreation and Culture	104.7	104.5	103.5	105.3	105.4	105.1	104.9	-0.2	1.4	-0.2
Education	108.7	110.2	109.7	109.7	111.6	111.6	111.6	0.0	1.7	1.4
Restaurants and Hotels	117.0	121.7	120.4	123.7	125.1	125.3	126.3	0.8	4.9	3.9
Miscellaneous goods and services	113.9	117.8	116.9	117.9	119.0	118.5	117.3	-1.0	0.3	3.4

Source: Central Department of Statistics and Information



The group of food and beverages contributed to raising the index by 39.2 percent of total impact on the general cost of living index. The group of housing, water, electricity, gas and other fuels lifted up the index by 22.9 percent; the group of transport by 8.1 percent, the group of household equipment and maintenance by 7.6 percent, the group of restaurants and hotels by 7.5 percent, and the rest of the groups contributed by 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 of 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 second quarter of 2013. The table indicates that the wholesale price index recorded a rise of 1.3 percent during the second quarter of 2013 compared to the corresponding quarter of 2012. This was ascribed to a rise in five of the groups constituting the wholesale price index. The group of beverages and tobacco rose by 10.4 percent; the group of machinery and transport equipment by 5.4 percent, the group of food and live animals by 2.9 percent, the group of vegetable and animal oils & fats by 1.2 percent, and the group of mineral fuels and related products by 0.8 percent. In contrast, the group of miscellaneous manufactured articles dropped by 9.6 percent, the group of other commodities by 6.4 percent, the group of crude materials (except fuel) by 6.3 percent, the group of chemicals and related products by 5.8 percent, and the group of manufactured goods classified by substance by 0.1 percent.

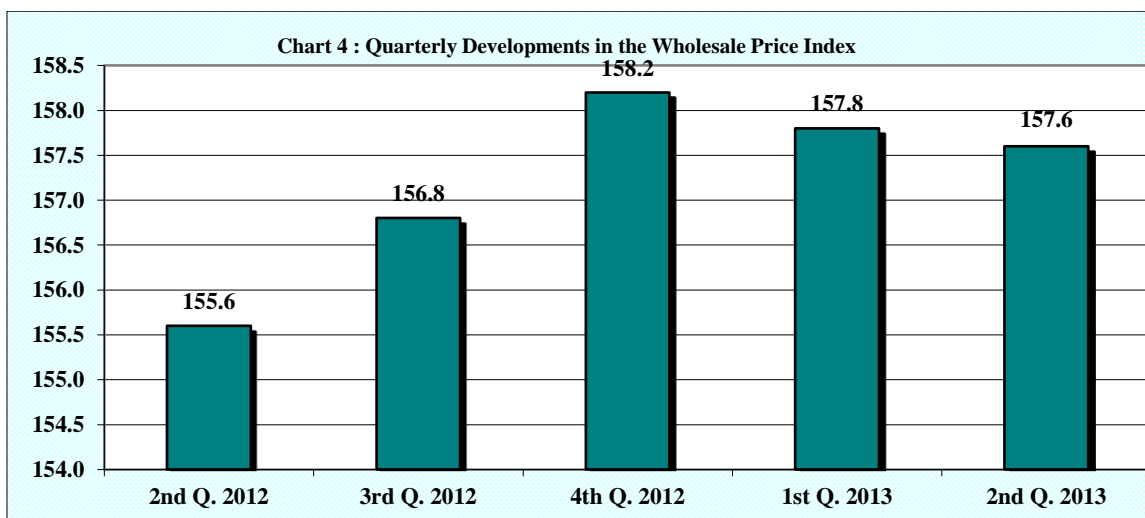
The general wholesale price index recorded a decline of 0.1 percent during the second quarter of 2013 compared to the first quarter of 2013. This decrease was attributed to five of the groups constituting the wholesale price index. The group of chemical and related products dropped by 11.7 percent; miscellaneous manufactured articles by 10.6 percent, other commodities by 10.2 percent, crude materials (except fuel) by 6.4 percent, manufactured goods classified by substance by 0.6 percent. However, beverages and tobacco rose by 9.2 percent, machinery & transport equipment by 2.7 percent, food and live animals and by 2.3 percent, vegetable and animal oils & fats by 1.3 percent, and mineral fuels and other related products by 0.8 percent.

**Table 2: Quarterly and Annual Wholesale Price Indices up to the End of the Second Quarter of 2013**

**1988 = 100**

Groups of Goods and Services	Annual Averages		Quarterly Indices					% change of 2nd quarter 13 against 1st quarter 13	% change of 2nd quarter 13 against corresponding quarter of previous year	Change of Annual Average 2012
	2011	2012	Second Quarter 2012	Third Quarter 2012	Fourth Quarter 2012	First Quarter 2013	Second Quarter 2013			
<b>General Index</b>	152.6	156.4	155.6	156.8	158.2	157.8	157.6	-0.1	1.3	2.5
Food & Live Animals	174.1	178.6	177.8	179.8	180.9	178.9	183.0	2.3	2.9	2.6
Beverages & Tobacco	151.4	151.7	151.5	151.8	151.8	153.1	167.2	9.2	10.4	0.2
Crude Materials (except fuel)	211.5	217.5	217.7	217.5	217.9	217.9	204.0	-6.4	-6.3	2.8
Mineral Fuels & related products	184.8	184.8	184.8	184.8	184.8	184.8	186.3	0.8	0.8	0.0
Vegetable Oils & Fats	147.9	149.3	149.2	149.3	148.8	149.0	151.0	1.3	1.2	1.0
Chemicals & Related Products	188.6	217.7	213.6	217.2	234.5	227.9	201.2	-11.7	-5.8	15.4
Manufactured Goods classified by substance	142.5	144.1	144.5	144.7	144.4	145.2	144.3	-0.6	-0.1	1.1
Machinery & Transport Equipment	132.0	136.2	136.2	137.0	136.9	139.8	143.6	2.7	5.4	3.2
Msc. Manufactured Articles	145.5	151.9	150.8	153.3	153.5	152.5	136.3	-10.6	-9.6	4.4
Other Commodities	288.6	311.0	295.0	321.0	323.4	307.6	276.1	-10.2	-6.4	7.7

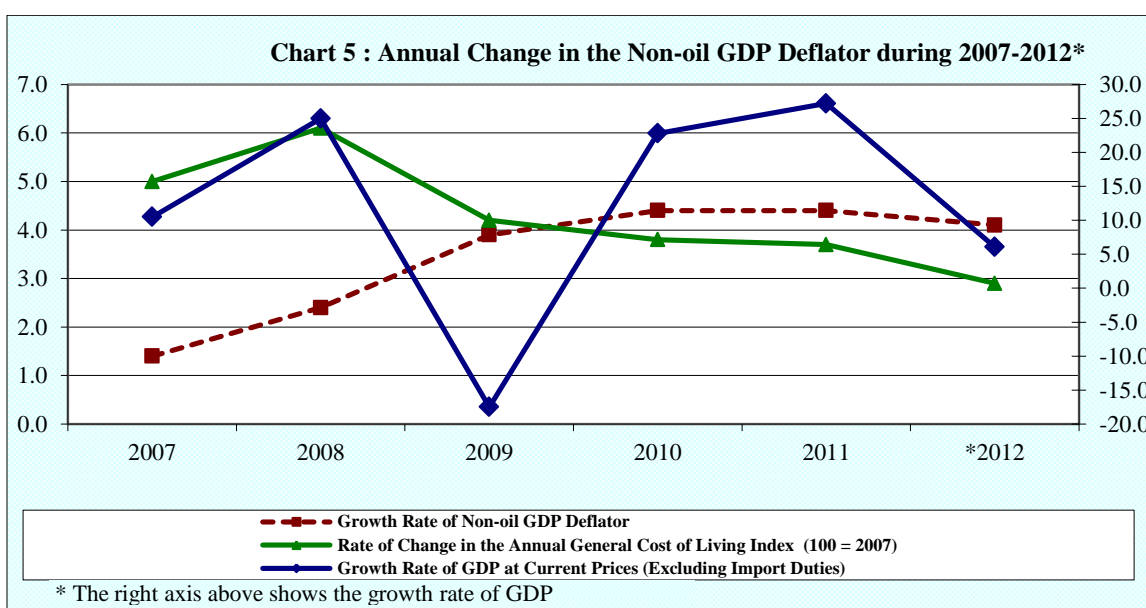
Source: Central Department of Statistics and Information.





### 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 4.1 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 a share of 13.4 percent

and an inflation rate of 2.7 percent in the same year. Imports from the United States declined from 17.4 percent in 2002 to 13.39 percent in 2012, becoming the third largest supplier to the Kingdom, with an inflation rate of 2.1 percent (Table 3). The International Monetary Fund (IMF) data shows a reasonable increase in the inflation rate of all trading partners of the Kingdom except that of India which rose by more than 9.3 percent.

**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, April 2013 - 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 2.7 percent in the second quarter of 2013 compared to the first quarter of 2013, registering a growth rate of 14.0 percent compared to the corresponding quarter in the preceding year.

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

	2008	2009	2010	2011	2012*	% Change of 2nd quarter13 against 1st quarter 13	% change of 2nd quarter 13 against corresponding quarter of previous year
<b>Money Supply (M3)</b>	17.6	10.7	5.0	13.3	13.9	2.7	14.0
<b>Government Expenditure</b>	11.5	14.7	9.6	26.4	3.1	-	-
<b>GDP Growth Rate:</b>	٢٥.٠	- ١٧.٥	٢٢.٨	27.2	٦.١	-	-
<b>- Private Sector</b>	14.8	7.1	13.8	13.4	9.0	-	-
<b>- Government Sector</b>	7.0	14.9	15.8	11.3	9.9	-	-

(-) 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 9.0 percent in 2012, while that of the public sector grew by 9.9 percent at current prices during the same year.

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

The inflation rate recorded an annual increase of 3.8 percent in the second quarter of 2013 compared to the corresponding quarter of the preceding year, and increased by 0.6 percent compared to the first quarter of the same year.

Available data show an expected rise in inflationary pressures in the third quarter of 2013 because of increased domestic demand for food goods during the season of the month of Ramadan. As for the major trading partners of the Kingdom, the July 2013 IMF World Economic Outlook expects a slight decrease in the inflation rate in the

emerging and developing economies to 5.92 percent in 2013 from 5.93 percent in 2012 and a decline in inflation rates in advanced economies to 1.69 percent in 2013 from 1.96 in 2012.

According to the data of the Food and Agriculture Organization of the United Nations (FAO), the FAO food price index recorded consecutive decreases during the last three months. It stood at 211.3 points in last June as a result of the decline in index groups except for meat group, which went up by 3.5 points. This decline was attributable to the improvement in grain and fat in the Northern Hemisphere and Brazil's expected high production of sugar.

## **7. Conclusion**

This report has reviewed the inflation rates in the Kingdom up to the end of the second 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 third quarter of 2013 as a result of increased domestic demand for food goods during the Ramadan season despite the decline in world food prices.