



Inflation Report

1st Quarter, 2016



Monetary Policy and Financial Stability Department
Saudi Arabian Monetary Agency



Cost of Living Index

The general cost of living index increased significantly in Q1 2016. In March 2016, it registered a y/y increase of 4.3% and a monthly rise of 0.2%. In Q1 2016, it also recorded a y/y rise of 4.3% and a q/q rise of 2.0% (Table 1 and Chart 1).

Developments in Q1 2016

In Q1 2016, the general cost of living index registered a q/q rise of 2.0% and a y/y rise of 4.3%.

Transportation posted the highest q/q inflation rate in Q1, registering 9.8% q/q. Tobacco came second with 7.0%; housing, water, electricity, gas and other fuels ranked third with 5.2%; health with 3.5%; clothing and footwear with 0.5%; household equipment and maintenance

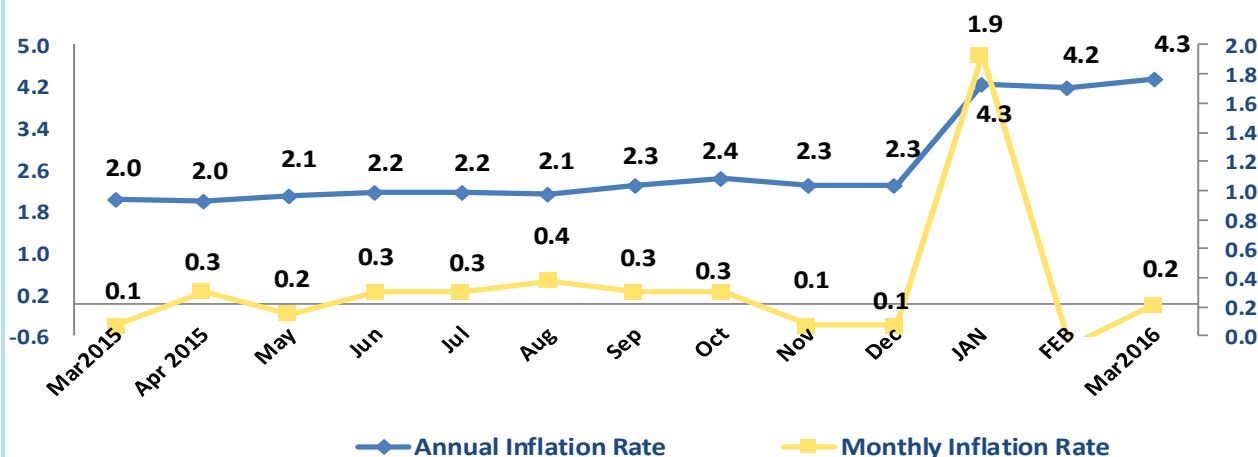
with 0.4%; and communication with 0.2% (Table 1 and Chart 2).

In contrary, food and beverages recorded a q/q decline of 1.1%, followed by restaurants and hotels with 0.8% and recreation and culture with 0.7% (Table 1 and Chart 2). Education, however, remained unchanged in Q1 2016.

Influence of Major Sections on the General Cost of Living Index

The general cost of living index is relatively affected by the changes taking place in its various sections. Classified by their influence rates on the cost of living index, housing, water, electricity, gas and other fuels ranked first with 40.5% against 34.7% y/y. Transportation ranked second with 38.7% compared to 7.5% y/y, food and beverages with 9.4% against 31.3% y/y, and

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



Source: General Authority for Statistics.

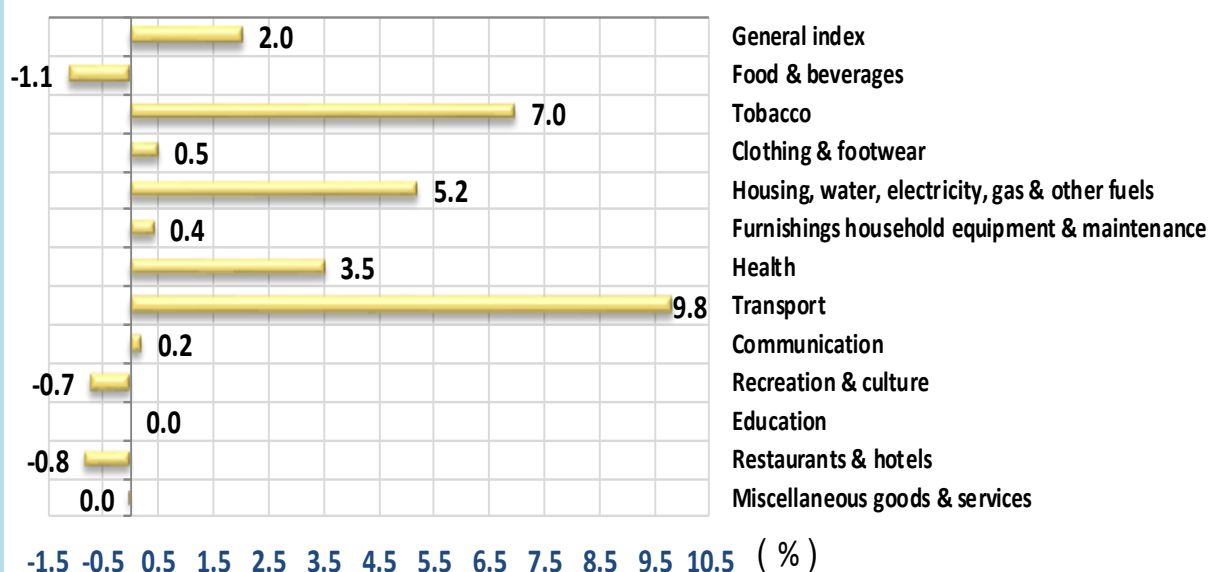


TABLE 1: COST OF LIVING INDEX
(2007=100)

	Weights	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	(% change	
							Q1 2016/ Q4 2015	Q1 2016/ Q1 2015
General index	100.0	131.5	132.3	133.5	134.4	137.1	2.0	4.3
Food & beverages	21.7	146.2	146.1	148.1	149.5	147.8	-1.1	1.1
Tobacco	0.5	164.8	165.8	165.8	165.8	177.4	7.0	7.6
Clothing & footwear	8.4	107.3	108.6	110.1	111.9	112.4	0.5	4.8
Housing, water, electricity, gas & other fuels	20.5	161.7	164.3	165.8	166.5	175.2	5.2	8.3
Furnishings, household equipment & maintenance	9.1	130.7	131.2	132.2	132.7	133.3	0.4	2.0
Health	2.6	114.5	115.3	116.0	116.8	120.9	3.5	5.5
Transport	10.4	110.3	110.9	112.8	113.1	124.2	9.8	12.6
Communication	8.1	93.9	94.4	94.7	94.8	95.0	0.2	1.1
Recreation & culture	3.5	119.3	118.8	119.4	120.5	119.6	-0.7	0.3
Education	2.7	116.3	116.3	116.3	122.6	122.6	0.0	5.4
Restaurants & hotels	5.7	129.6	128.5	127.3	126.9	125.9	-0.8	-2.9
Miscellaneous goods & services	6.8	120.4	120.7	121.4	122.4	122.4	0.0	1.6

Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Cost of Living Index by Main Sections (Q1 2016/Q4 2015)*



* Latest Available Data

Source: General Authority for Statistics.

finally health with 3.5% compared to 1.9% y/y.

The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages; and transportation) totaled 88.6% in Q1 2016 against 73.5% y/y (Charts 4 and 5).

Wholesale Price Indices

In Q1 2016, the wholesale price index registered a q/q rise of 3.0% and a y/y increase of 2.7% (Chart 6).

Wholesale Price Indices by Sections

Mineral fuels and related materials registered the highest y/y increase in Q1. This section denoted an inflation rate of 32.6% due to a rise in the chapter of (petroleum products and related materials) by 29.2% during the same period. Beverages and tobacco recorded

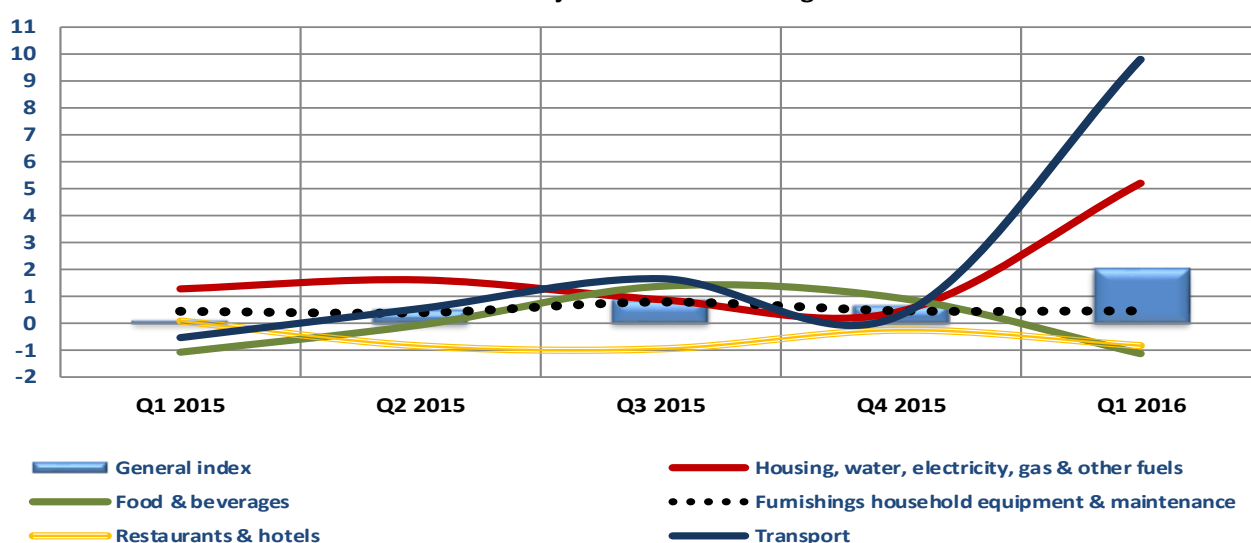
the second highest y/y inflation rate of 3.5%, mainly attributable to the increase in the chapter of (tobacco) by 5%. Animal and vegetable oils and fats came third with a y/y inflation rate of 2.7%, owing to a 2.7% increase in the chapter of (vegetable oils and fats) (Table 2 and Chart 7).

In contrast, chemicals and related products posted the highest y/y deflation rate, dropping by 3.4%. Manufactured goods classified by material ranked second with a deflation rate of 2.9%, followed by machinery and transport equipment with 2.3% (Table 2 and Chart 7).

Cost of Living Index by Cities

All Cities' General Cost of Living Index increased by 2.0% q/q. Tabuk posted the highest rise of 3.6%, and Al-

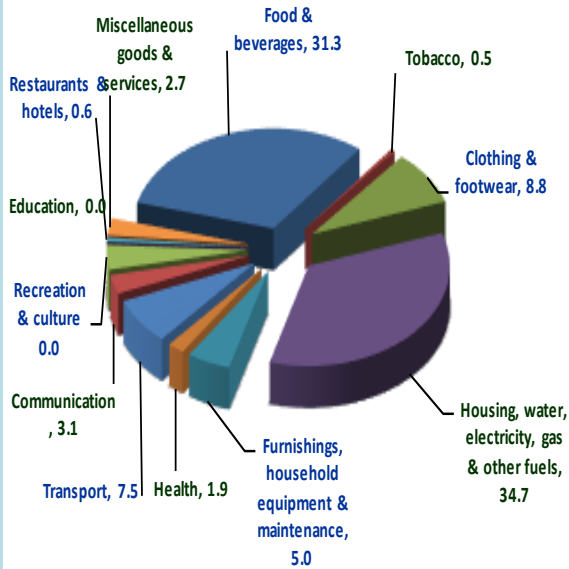
Chart 3: Quarterly Inflation Rate of the General Cost of Living Index and the Most Major Sections Affecting it



Source: General Authority for Statistics.



Chart 4: Percentage Impact Of Major Sections On The General Inflation Rate (Q1 2015) (%)



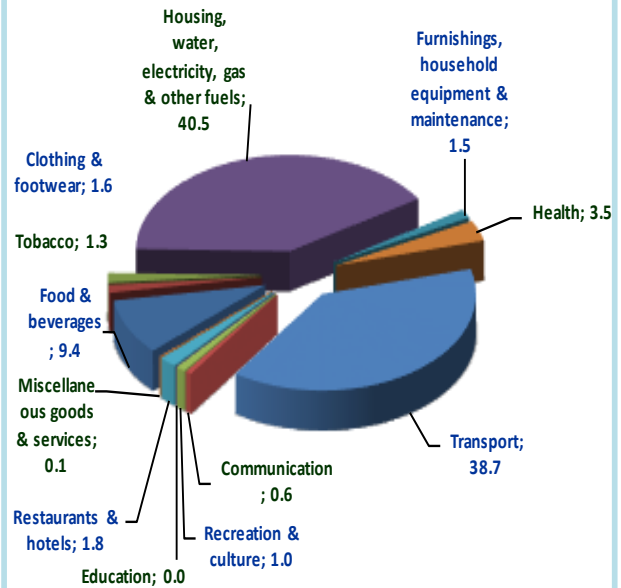
Hufuf came second with 2.7%. Abha came next with 2.6%, Taif 2.5%; Ha'il 2.4%; Jeddah 2.3%; Bahah and Skaka 2.2% each; Jazan 2.1%; Riyadh 1.9%; Buraidah 1.8%; Al-Madinah and Najran 1.7% each; Dammam 1.6%; Makkah 1.3%; and Ar'ar with 0.6% (Table 3).

GDP Deflator

According to the latest data issued by the General Authority for Statistics, non-oil GDP deflator recorded a q/q decrease of 7.0%, and a y/y rise of 2.5% (Table 4 and Chart 8).

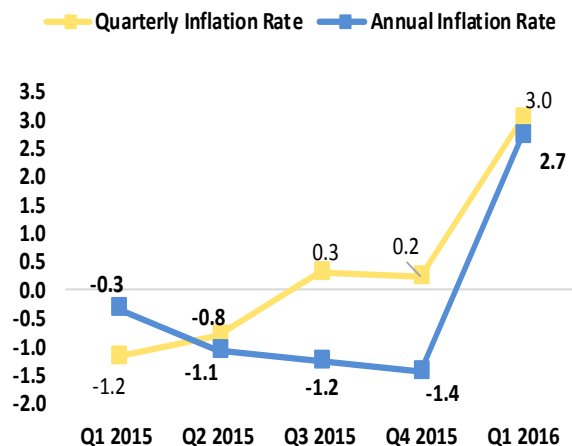
GDP deflator measures inflation rate at the macroeconomic level, which is different from the cost of living index that only targets final consumption. GDP deflator, however, targets all consumption,

Chart 5: Percentage Impact Of Major Sections On The General Inflation Rate (Q1 2016) (%)



investment and government sectors based on their respective contributions to GDP. Therefore, the deflator is considered as an indirect measure of the change in the general level of prices. Non-oil GDP deflator is usually used to exclude the

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



Source: General Authority for Statistics



impact of change in oil prices on the domestic economy. Non-oil GDP deflator registered a y/y rise of 2.5% in Q4 2015 compared to a decline of 0.3% in Q3 2015 (Table 4 and chart 8).

An analysis of the GDP deflator data (at constant prices for base year 2010) by economic activity shows that construction constituted the highest y/y rise of 4.3% in Q4 2015. Wholesale and retail trade, restaurants and hotels ranked second with a y/y rise of 3.3%; financial, insurance, real estate and business services with 2.8% as a result of the rise in housing ownership by 3.0%; and government services' producers with 2.6%.

On the other hand, mining and

quarrying recorded the highest y/y deflation of 35.4% in the GDP deflator in Q4 2015 (Chart 9).

A comparison of annual inflation measures in the domestic market indicates that the annual inflation rate of non-oil GDP deflator increased by 2.5% in Q4 2015. The annual change rate of the wholesale price index went down by 1.4% during the same period, while the annual inflation rate of the cost of living index registered a rise of 2.3% during the same period (Chart 10).

Foreign Trade with Major Trading Partners

According to the latest available data in

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

	Weights	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	(% change	
							Q1 2016/ Q4 2015	Q1 2016/ Q1 2015
General Index	100.0	158.1	156.9	157.3	157.7	162.5	3.0	2.7
Food & Live Animals	31.9	187.5	188.2	190.6	194.9	190.7	-2.2	1.7
Beverages & Tobacco	1.2	178.6	178.8	179.3	181.7	184.8	1.7	3.5
Crude Materials	0.3	204.0	203.5	204.2	206.1	204.3	-0.9	0.1
Minerals & Fuels	10.1	186.3	186.3	186.2	186.2	247.1	32.7	32.6
Oils & Fats	0.4	150.2	152.0	152.7	155.0	154.2	-0.5	2.7
Chemicals	9.8	206.9	191.2	201.3	200.9	199.9	-0.5	-3.4
Manufactured Goods	26.2	141.8	141.2	139.0	136.1	137.7	1.2	-2.9
Machinery & Transport	13.4	141.0	140.3	140.0	139.2	137.7	-1.0	-2.3
Misc, Manufactured Articles	6.4	136.4	136.3	134.1	135.3	137.0	1.3	0.5
Other Commodities	0.3	242.5	241.7	230.2	228.0	238.5	4.6	-1.7

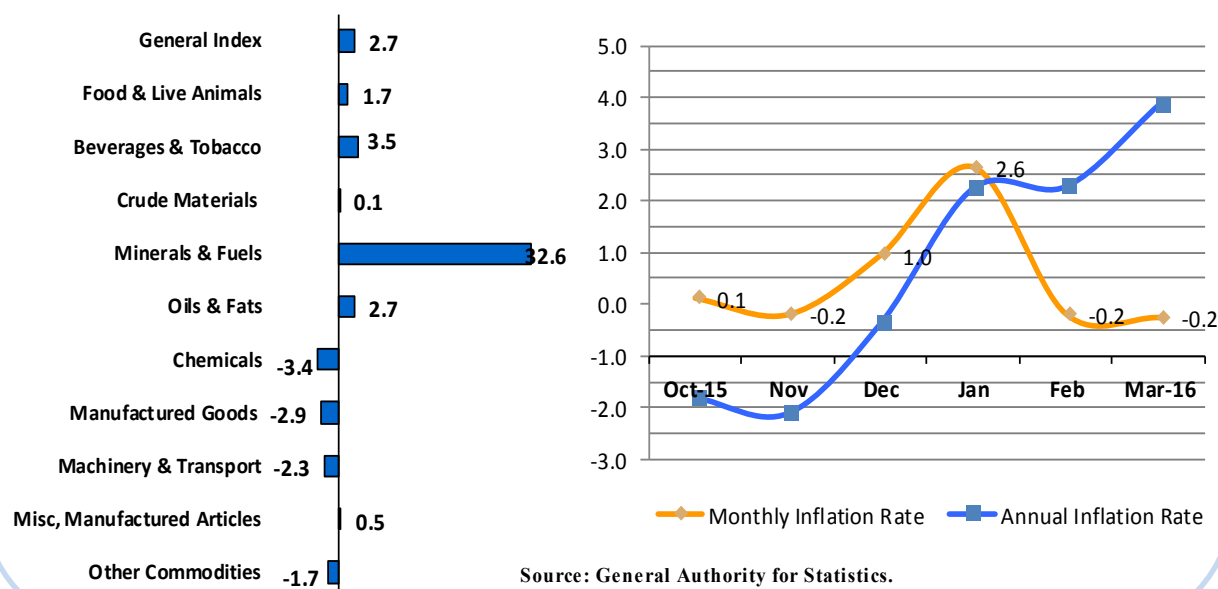
Source: General Authority for Statistics.

Chart 7: Inflation of the Wholesale Price Index by Main Sections

(1988=100)

% Change (Q1 2016/ Q1 2015)

Annual & Monthly Inflation of the WPI



Q3 2015, total value of the Kingdom's imports stood at SAR 141.8 billion, decreasing by 6.5% q/q. The Kingdom's imports dropped by 7.9% y/y.

China came at the top of the Kingdom's major trading partners in Q3 2015. The Kingdom's imports from China amounted to SAR 22.5 billion or 15.9% of the Kingdom's total value of imports, down 5.8% y/y. The United States came second with SAR 20.4 billion or 14.4%, decreasing by 5.3% y/y. Germany ranked third with SAR 11.2 billion or 7.9%, falling 3.1% y/y. South Korea followed with a y/y rise of 20.1% to SAR 8.9 billion or 6.3%, and Japan with 13.8% y/y to SAR

8.2 billion or 5.8% of the Kingdom's total imports (Table 5).

Inflation Projections for Q2 2016

Projections show continued inflationary pressures in Q2 of 2016 due to cutting subsidies on fuel and energy prices. This resulted in higher inflation in Q1 2016, registered especially by housing, water, electricity, gas and other fuels with an influence rate of 40.5% and transportation with 38.7%, accounting for a total of 79.2% of the consumer basket. Moreover, seasonal price changes during Ramadan might add to these inflationary pressures in Q2. However, the decline in commodity prices in global



Table 3 : AVERAGE COST OF LIVING INDEX BY CITY
(2007=100)

General Index	2014	2015	Q3 2015	Q4 2015	Q1 2016	Inflation Rate	
						2015/2014	Q1 2016/ Q4 2015
All Cities Index	130.1	132.9	133.5	134.4	137.1	2.2	2.0
Riyadh	135.0	140.1	140.6	142.0	144.7	3.8	1.9
Makkah	126.9	129.7	130.3	131.0	132.8	2.2	1.3
Jeddah	129.3	131.7	131.5	133.9	137.0	1.8	2.3
Al-Dammam	133.7	135.1	135.3	135.4	137.6	1.0	1.6
Al-Madinah	124.7	126.4	127.7	127.1	129.2	1.4	1.7
Ta'if	127.2	127.8	127.4	129.1	132.3	0.5	2.5
Al-Hufuf	124.6	124.9	125.5	125.8	129.1	0.3	2.7
Abha	123.2	125.0	125.1	125.4	128.6	1.5	2.6
Buraydah	123.9	127.7	128.6	129.0	131.3	3.0	1.8
Tabuk	128.9	120.2	119.8	119.9	124.2	-6.7	3.6
Ha'il	127.2	128.2	128.1	128.2	131.3	0.8	2.4
Jazan	142.1	149.9	152.5	152.8	155.9	5.4	2.1
Najran	128.5	132.0	133.6	134.9	137.2	2.7	1.7
Al-Bahah	130.5	134.5	138.7	139.5	142.5	3.0	2.2
Sakaka	127.5	131.7	132.2	134.2	137.2	3.4	2.2
'Ar'ar	120.1	126.5	126.5	129.5	130.3	5.3	0.6

Source: General Authority for Statistics.

markets and the rise in the purchasing power of the Saudi riyal due to the riyal-dollar peg, might mitigate such inflationary pressures. In contrast, the IMF projections for commodity price index indicate a contraction in the inflationary pressures on its main groups for 2016. The IMF's projections for 2016 show a deflation in energy prices by 29.9%, beverages prices by 15.2%, and metal prices by 14.1%, followed by raw agricultural materials and food prices by 10.3% and 5.6% respectively (Table 6).

Conclusion

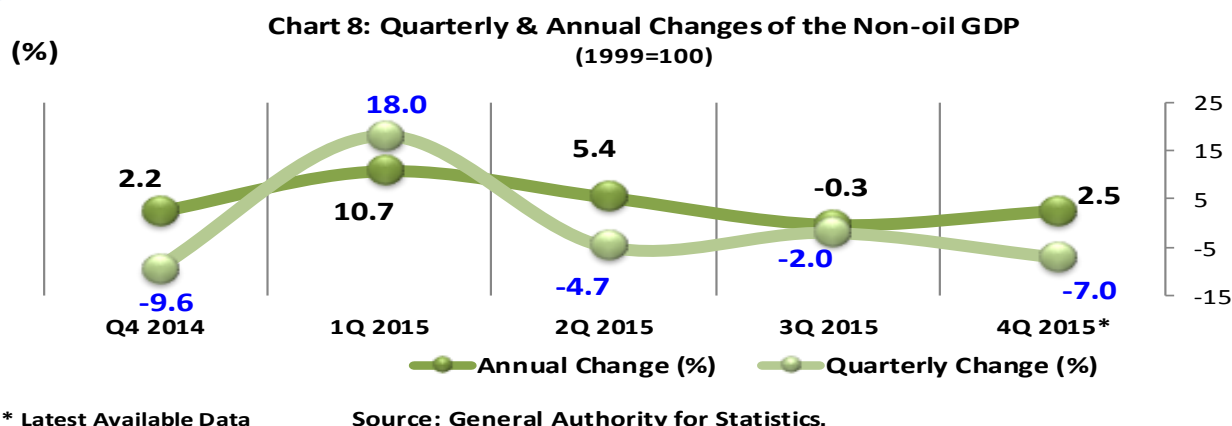
The most significant results of the analysis of the inflation rates in Q1 2016 in the Kingdom can be concluded as follows:

- 1- In March 2016, the general cost of living index registered a y/y increase of 4.3% and a monthly rise of 0.2%. In Q1 2016, it also recorded a y/y rise of 4.3% and a q/q rise of 2.0% .
- 2- Transportation registered the highest q/q inflation rate of 9.8% in Q1 2016. In contrast, food and beverages recorded



TABLE 4: GDP Deflator
(2010=100)

	Q4 2014	1Q 2015	2Q 2015	3Q 2015	4Q 2015*
<u>GDP (Million Rls):</u>					
At Current Prices	638,747	640,506	628,121	593,629	587,316
At Constant Prices	625,490	621,814	622,310.3	625,186.7	648,256.9
GDP Deflator	102.1	103.0	100.9	95.0	90.6
Quarterly Change (%)	-14.5	0.9	-2.0	-5.9	-4.6
Annual Change (%)	-11.2	-15.2	-17.0	-20.5	-11.3
<u>Non-oil GDP (Million Rls):</u>					
At Current Prices	394,846	470,455	429,356	421,552.1	418,920.3
At Constant Prices	357,180	360,572	345,474.6	346,049.5	369,766.1
Non-oil GDP Deflator	110.5	130.5	124.3	121.8	113.3
Quarterly Change (%)	-9.6	18.0	-4.7	-2.0	-7.0
Annual Change (%)	2.2	10.7	5.4	-0.3	2.5
* Latest Available Data	Source: General Authority for Statistics.				



the highest q/q deflation rate of 1.1%.

3- The wholesale price index went up by 3.0% q/q and 2.7% y/y in Q1 2015.

4- Mineral fuels and related materials constituted the highest y/y inflation rate of 32.6% in the wholesale price index. In contrast, chemicals and other related materials posted the highest y/y deflation rate of 3.4%.

5- According to the latest available data, the non-oil GDP deflator registered a q/q decline of 7.0% in Q4 2015. The GDP deflator went up by 2.5% y/y in Q4 2015.

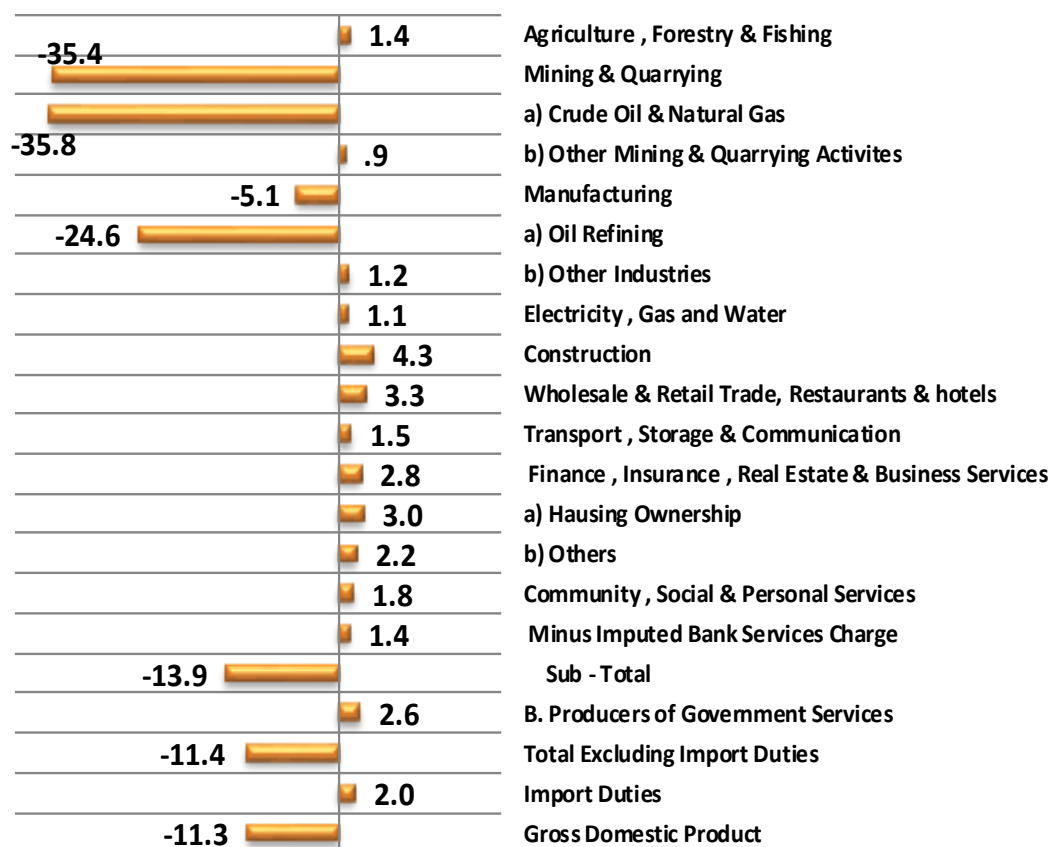
6- According to the latest available data, total value of the Kingdom's imports stood at SAR 141.8 billion in Q3 2015, denoting a q/q decline of 6.5%. The Kingdom's imports also declined by 7.9% y/y in Q3 2015.

7- Projections show continued inflationary pressures in Q2 2016 due to cutting subsidies on fuel and energy prices, which led to higher inflation rates. Moreover,

seasonal price changes during Ramadan might add to these inflationary pressures in Q2. However, the decline in commodity prices in global markets and the rise in the purchasing power of the Saudi riyal due to the riyal-dollar peg, might mitigate such inflationary pressures.



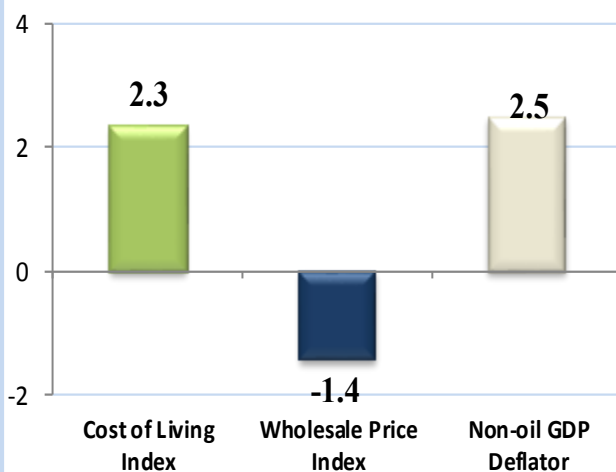
**Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices
Q4 2015*/ Q4 2014 (%) Change**



*Latest Available Data

Source: General Authority for Statistics

**Chart 10: Inflation Measurements in Q4,
2015 (%) Change**



Source: General Authority for Statistics.

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

Countries	Q3 2014	Q3 2015*	Change (%)
China	23924	22538	-5.8
U.S.A	21572	20427	-5.3
Germany	11585	11223	-3.1
South Korea	7401	8888	20.1
Japan	9526	8209	-13.8
Total	74008	71285	-3.7
Ratio to Total	43.8	45.9	4.6

*Latest Available Data.

Source: General Authority for Statistics.



TABLE 6: IMF Commodity Price Index
(2005=100)

(Percentage changes)

	Weights	Actual			Projections			
		2013	2014	2015	2016	2017	2018	2019
All Primary Commodities	100.0	-1.6	-6.2	-35.3	-20.8	6.5	3.7	3.4
Food	16.7	0.7	-4.1	-17.1	-5.6	-0.9	-0.5	0.0
Beverages	1.8	-11.9	20.7	-3.1	-15.2	0.2	1.1	0.0
Agricultural Raw Materials	7.7	1.6	1.9	-13.5	-10.3	0.4	0.4	0.0
Metals	10.7	-4.3	-10.3	-23.1	-14.1	-1.5	0.4	2.2
Energy	63.1	-1.7	-7.4	-44.9	-29.9	14.1	7.1	5.8

Source: IMF