



# Inflation Report

3rd Quarter, 2015



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



## Cost of Living Index

The general cost of living index was stable in general in the previous period of 2015. It registered an annual increase of 2.3% in September 2015, as compared to a monthly rise of 0.3%. It recorded an annual increase of 2.2% in Q3, against a quarterly rise of 0.9% (Table 1 and Chart 1).

## Developments in Q3 2015

The general cost of living index rose by 0.9% q/q and advanced by 2.2% y/y in Q3.

Transport group posted the highest q/q inflation rate in Q3, registering a quarterly inflation rate of 1.7%. Clothing and footwear and food and beverages

groups came second with 1.4% each; Housing, water, electricity, gas and other fuels group ranked third with 0.9%; household equipment and maintenance group with 0.8%; health and miscellaneous goods and services groups with 0.6%; Recreation and culture group with 0.5%; and communication group with 0.3%. (Table 1 and Chart 2).

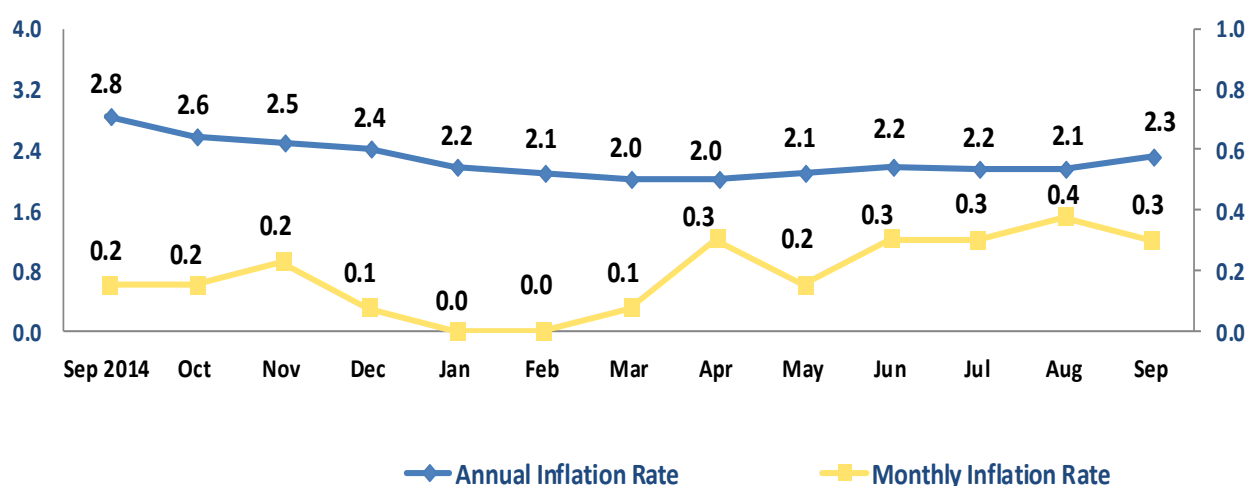
In contrast, restaurants and hotels group recorded a quarterly deflation rate of 1.0% y/y in Q3. (Table 1 and Chart 2).

Education and tobacco groups, however, remained unchanged in Q3.

## Influence of Major Groups on the General Cost of Living Index

The general cost of living index is affected relatively by the changes taking place in its various groups. In terms of the

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



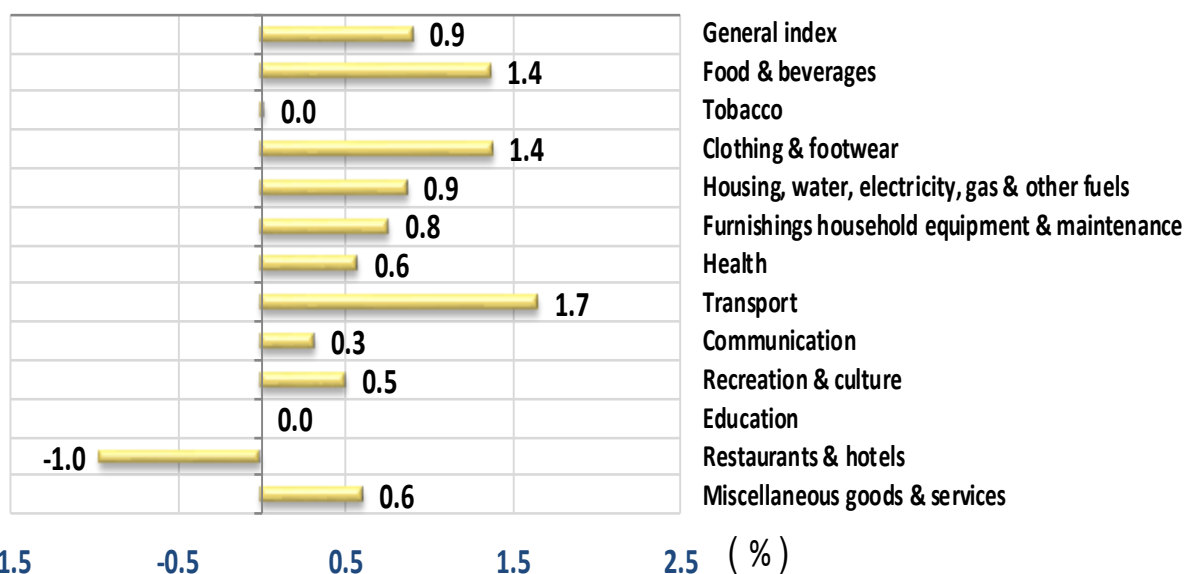


**TABLE 1: COST OF LIVING INDEX**  
(2007=100)

	Weights	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	(% change)	
							Q3 2015/ Q2 2015	Q3 2015/ Q3 2014
<b>General index</b>	<b>100.0</b>	<b>130.6</b>	<b>131.3</b>	<b>131.5</b>	<b>132.3</b>	<b>133.5</b>	<b>0.9</b>	<b>2.2</b>
Food & beverages	21.7	145.1	147.8	146.2	146.1	148.1	1.4	2.1
Tobacco	0.5	162.8	163.5	164.8	165.8	165.8	0.0	1.8
Clothing & footwear	8.4	105.7	106.4	107.3	108.6	110.1	1.4	4.2
Housing, water, electricity, gas & other fuels	20.5	159.7	159.7	161.7	164.3	165.8	0.9	3.8
Furnishings, household equipment & maintenance	9.1	128.4	130.2	130.7	131.2	132.2	0.8	2.9
Health	2.6	113.1	113.9	114.5	115.3	116.0	0.6	2.5
Transport	10.4	110.8	110.9	110.3	110.9	112.8	1.7	1.8
Communication	8.1	93.9	93.7	93.9	94.4	94.7	0.3	0.9
Recreation & culture	3.5	117.7	118.3	119.3	118.8	119.4	0.5	1.5
Education	2.7	115.7	116.3	116.3	116.3	116.3	0.0	0.5
Restaurants & hotels	5.7	130.0	129.5	129.6	128.5	127.3	-1.0	-2.1
Miscellaneous goods & services	6.8	121.5	120.8	120.4	120.7	121.4	0.6	0.0

Source: Central Department of Statistics and Information.

**Chart 2: Inflation Rate of the Cost of Living Index by Main Groups**  
(Q3 2015/Q2 2015)\*



\* Latest Available Data

Source: Central Department of Statistics and Information.

influence rates on the cost of living index, food and beverages group ranked first with 30.1% in Q3 compared to 24.5% during the corresponding quarter. Housing, water, electricity, gas and other fuels group ranked second with 18.1% in Q3 compared to 5.5% during the corresponding quarter. Transport group came next with an influence rate of 17.4% compared to 4.8% during the corresponding quarter, clothing and footwear group with an influence rate of 11.7% compared to 7.9% during the corresponding quarter, and household equipment and maintenance group with an influence rate of 7.0% compared to 11.0% during the corresponding quarter.

The total influence rate of the three

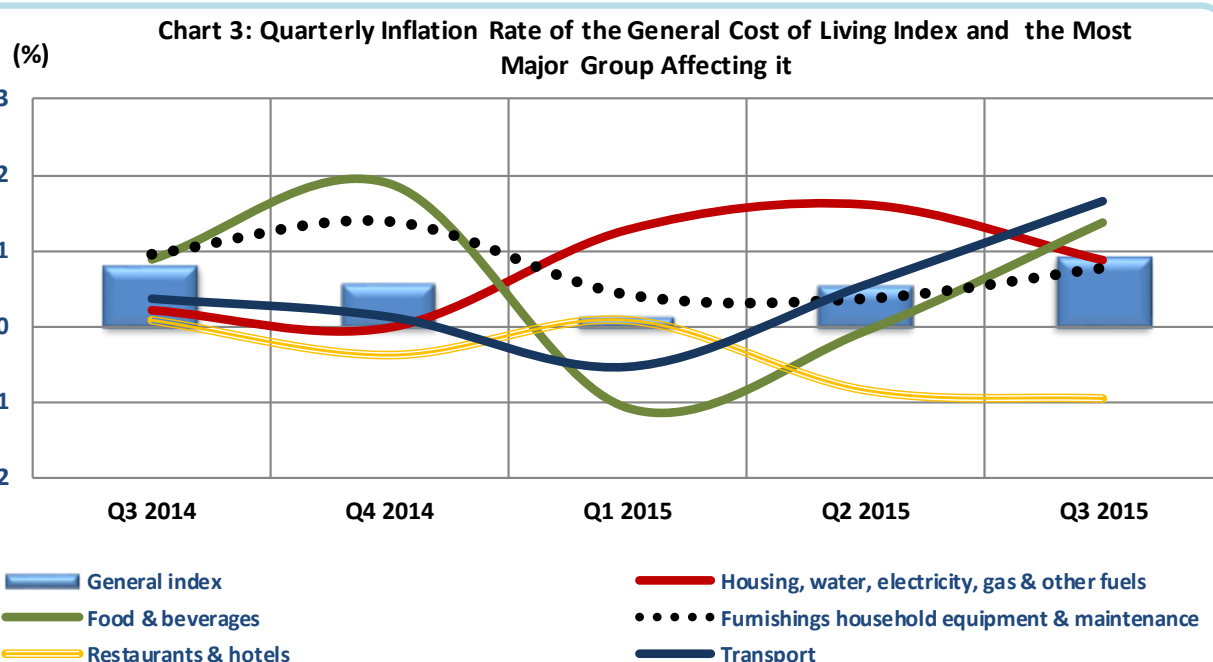
major groups (housing, water, electricity, gas and other fuels; food and beverages; and transport groups) stood at 65.6% in Q3 2015 against 34.8% during the corresponding quarter (Charts 4 and 5).

## Wholesale Price Indices

The wholesale price index registered a q/q rise of 0.3% and a y/y deflation of 1.2% in Q3 2015. It had recorded a q/q deflation of 0.3% in Q3 (Chart 6).

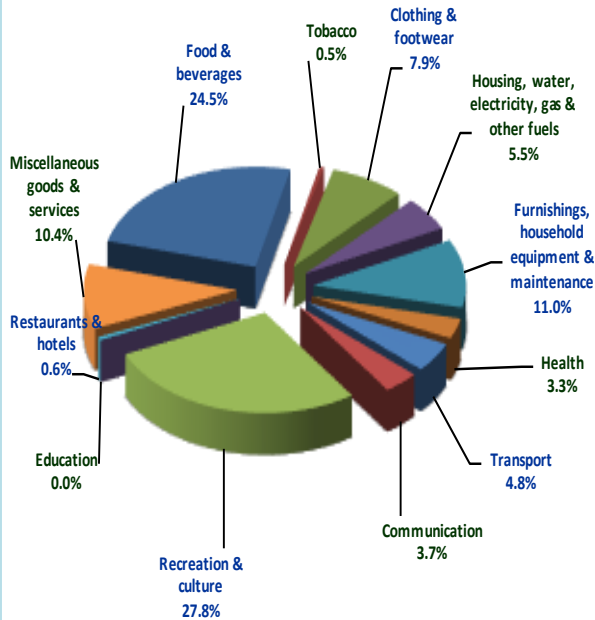
### Wholesale Price Indices by Groups

The group of oils and fats registered the highest y/y increase in Q3 2015. This group denoted an inflation rate of 2.3% y/y due to a rise in the subgroup of vegetable oils and fats by 2.3% during the same

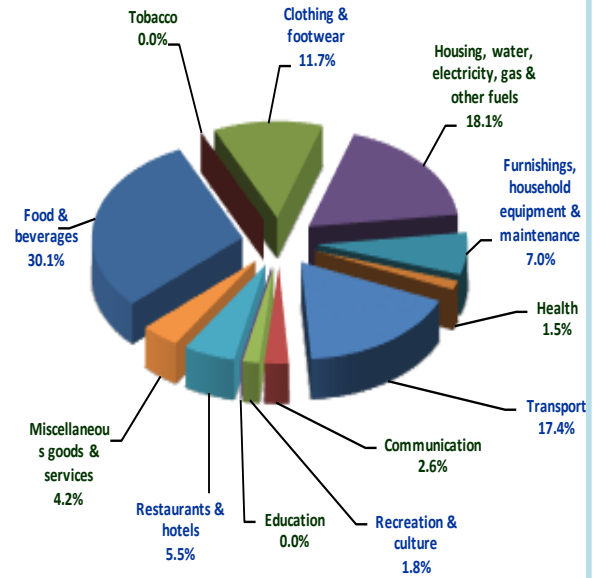




**Chart 4: Percentage Impact Of Major Groups On The General Inflation Rate (Q3 2014)**



**Chart 5: Percentage Impact Of Major Groups On The General Inflation Rate (Q3 2015)**



period. The group of food and live animals recorded the second y/y highest inflation rate of 1.9% in Q3, affected by an increase of 2.8% in the subgroup of fish and crustaceans. The group of crude materials came third with an annual inflation rate of 0.5% y/y in Q2 owing to a 0.5% increase in the subgroup of wood (Table 2 and Chart 7).

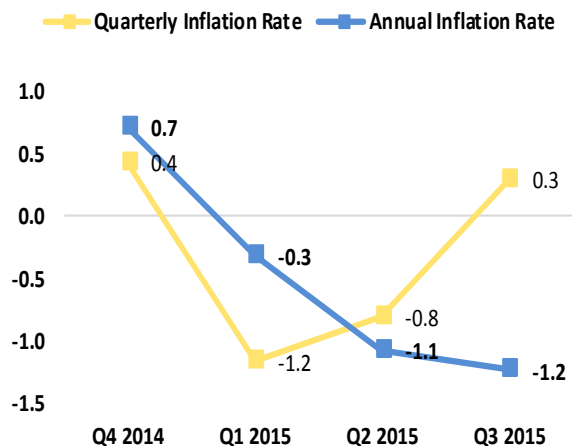
In contrast, the group of other commodities posted the highest y/y deflation rate in Q3, with its inflation rate dropping by 9.6%. The group of chemicals and other related materials ranked second with a deflation rate of 4.1%, followed by the group of manufactured goods classified by materials with a deflation rate

of 3.4% (Table 2 and Chart 7).

## Cost of Living Index by Cities during Q3 2015

All Cities Cost of Living Index increased by 0.9% q/q in Q3 2015. Al-Bahah posted the highest rise of 5.9%.

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



Source: Central Department of Statistics and Information.





Jazan came next with 3.4%; Najran 1.9%; Al-Madinah and Buraydah 1.5% each; Riyadh and Skaka 1.1% each; Makkah and Ara'ar 0.9% each; Al-Hufuf 0.8%; Al-Dammam 0.5%; Ta'if 0.3%; and Jeddah with the lowest increase of 0.1% (Table 3).

In contrast, the cost of living index for Abha registered the lowest q/q deflation rate of 0.6% in Q3. Ha'il and Tabuk came next with 0.5% and 0.3%, respectively (Table 3).

## GDP Deflator

According to the latest data issued

by the Central Department of Statistics and Information, the non-oil GDP deflator decreased by 3.2% q/q in Q2 2015. It posted a rise of 7.0% y/y (Table 4 and Chart 8).

The GDP deflator measures inflation rate at the macroeconomic level, which is different 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

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

	Weights	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	(% change	
							Q3 2015/ Q2 2015	Q3 2015/ Q3 2014
General Index	100.0	159.3	160.0	158.1	156.9	157.3	0.3	-1.2
Food & Live Animals	31.9	187.1	190.7	187.5	188.2	190.6	1.3	1.9
Beverages & Tobacco	1.2	178.6	177.0	178.6	178.8	179.3	0.3	0.4
Crude Materials	0.3	203.2	203.2	204.0	203.5	204.2	0.4	0.5
Minerals & Fuels	10.1	186.3	186.3	186.3	186.3	186.2	-0.1	-0.1
Oils & Fats	0.4	149.3	148.5	150.2	152.0	152.7	0.5	2.3
Chemicals	9.8	209.9	214.3	206.9	191.2	201.3	5.3	-4.1
Manufactured Goods	26.2	143.9	142.9	141.8	141.2	139.0	-1.6	-3.4
Machinery & Transport	13.4	143.3	142.8	141.0	140.3	140.0	-0.2	-2.3
Misc, Manufactured Articles	6.4	138.4	136.4	136.4	136.3	134.1	-1.6	-3.1
Other Commodities	0.3	254.6	254.8	242.5	241.7	230.2	-4.7	-9.6

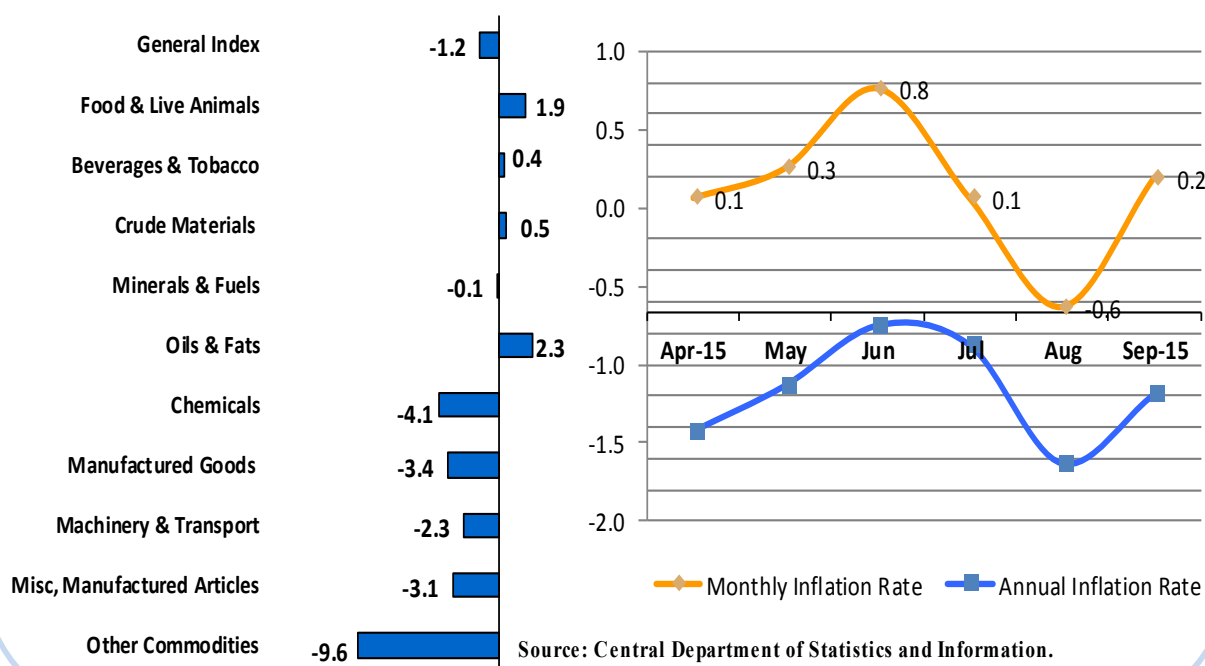
Source: Central Department of Statistics and Information.



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

**% Change (Q3 2015/ Q3 2014)**

**Annual & Monthly Inflation of the WPI**



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.

The non-oil GDP deflator registered an annual increase in Q2 2015, rising by 7.0% compared to 10.9% in Q1 2015 (Table 4 and chart 8).

An analysis of the GDP deflator data (at constant prices for 2010) by economic activity shows that the activity of government services' producers recorded the highest rise of 22.5% y/y in Q2. The activity of electricity, gas and water

ranked second with a rise of 4.4% for the same period. The activity of finance, insurance, real estate and business services came next with an increase of 4.2% as a result of a rise in housing ownership activity by 4.4%. Then, the activity of construction ranked fourth, advancing by 2.4% y/y in Q2 2015.

On the other hand, the activity of mining and quarrying posted the highest deflation in the GDP deflator of 42.5% y/y in Q2 (Chart 9).

A comparison of annual inflation measures in the domestic market indicates



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

General Index	2013	2014	Q1 2015	Q2 2015	Q3 2015	Inflation Rate	
						2014/2013	Q3 2015/ Q2 2015
<b>All Cities Index</b>	126.7	130.1	131.5	132.3	133.5	2.7	0.9
Riyadh	129.9	135.0	138.6	139.1	140.6	3.9	1.1
Makkah	122.6	126.9	128.0	129.2	130.3	3.5	0.9
Jeddah	126.1	129.3	130.0	131.3	131.5	2.6	0.1
Al-Dammam	135.0	133.7	135.0	134.7	135.3	-0.9	0.5
Al-Madinah	120.6	124.7	125.3	125.8	127.7	3.4	1.5
Ta'if	123.1	127.2	127.5	127.0	127.4	3.3	0.3
Al-Hufuf	122.6	124.6	123.9	124.5	125.5	1.6	0.8
Abha	120.3	123.2	123.6	125.9	125.1	2.4	-0.6
Buraydah	122.5	123.9	126.3	126.8	128.6	1.1	1.5
Tabuk	119.5	128.9	121.2	120.1	119.8	7.8	-0.3
Ha'il	125.7	127.2	128.0	128.7	128.1	1.1	-0.5
Jazan	134.1	142.1	146.8	147.5	152.5	6.0	3.4
Najran	125.1	128.5	128.4	131.1	133.6	2.7	1.9
Al-Bahah	125.1	130.5	128.9	130.9	138.7	4.4	5.9
Sakaka	124.6	127.5	129.9	130.7	132.2	2.3	1.1
'Ar'ar	114.5	120.1	124.6	125.4	126.5	4.9	0.9

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

that the inflation rate of non-oil GDP deflator registered the highest increase of 7.0% in Q2. The annual inflation rate of the cost of living index came second with 2.1% during the same period, while the annual change rate of the wholesale price index recorded a deflation of 1.1% during the same period (Chart 10).

## Foreign Trade with Major Trading Partners

According to the latest available data, total value of the Kingdom's

imports stood at SAR 153.6 billion in Q2, posting an increase of 1.2% q/q. The Kingdom's imports dropped by 9.6% y/y in Q2.

China came at the top of the Kingdom's trading partners in Q2. The Kingdom's imports from China amounted to SAR 23.3 billion or 15.2% of the Kingdom's total value of imports in Q2, recording a rise of 6.6% y/y. The United States came second with SAR 22.2 billion or 14.5% of the total value of the Kingdom's imports with an increase of 2.3% y/y. Germany ranked

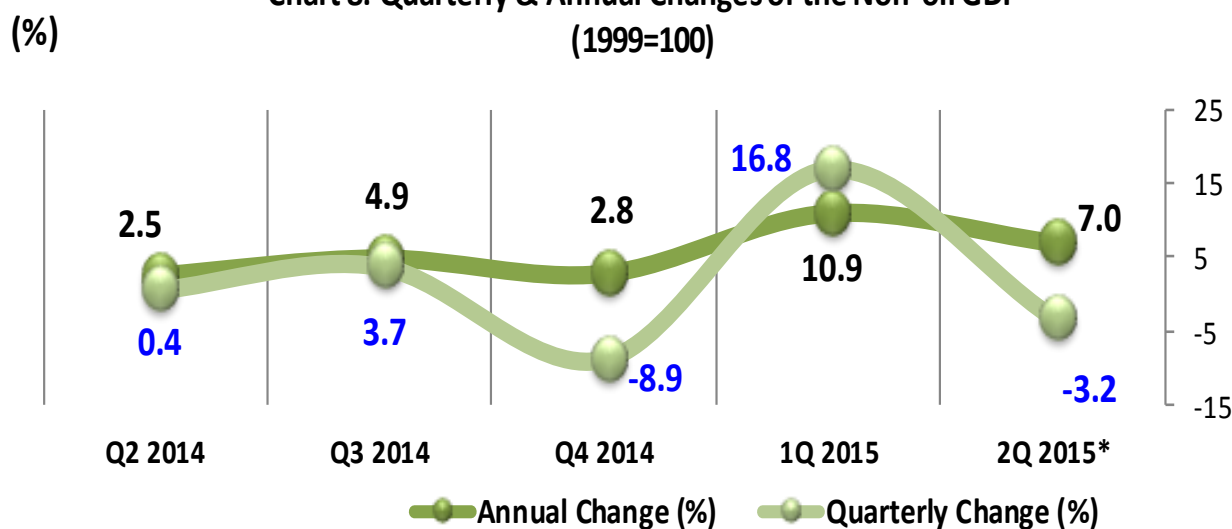




**TABLE 4: GDP Deflator**  
**(2010=100)**

	Q2 2014	Q3 2014	Q4 2014	1Q 2015	2Q 2015*
<b><u>GDP (Million Rls):</u></b>					
At Current Prices	716,523	713,862	631,634	639,059	631,028
At Constant Prices	595,312	604,001	620,149	626,291	617,879.5
<b>GDP Deflator</b>	120.4	118.2	101.9	102.0	102.1
<b>Quarterly Change (%)</b>	0.1	-1.8	-13.8	0.2	0.1
<b>Annual Change (%)</b>	0.1	-0.3	-11.4	-15.1	-15.1
<b><u>Non-oil GDP (Million Rls):</u></b>					
At Current Prices	391,079	409,535	394,846	468,857	431,219
At Constant Prices	332,644	335,782	355,225	361,043	342,882.6
<b>Non-oil GDP Deflator</b>	117.6	122.0	111.2	129.9	125.8
<b>Quarterly Change (%)</b>	0.4	3.7	-8.9	16.8	-3.2
<b>Annual Change (%)</b>	2.5	4.9	2.8	10.9	7.0
<b>* Latest Available Data</b>	<b>Source: Central Department of Statistics and Information.</b>				

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



\* Latest Available Data

Source: Central Department of Statistics and Information.

third with SAR 11.0 billion or 7.1% of the Kingdom's total value of imports, denoting a decline of 17.7% y/y. South Korea followed with a rise of 16.5% y/y to SAR 9.5 billion or 6.2% of the total value of imports in Q2. Japan came fifth with SAR 9.1 billion or 6.0% of the Kingdom's total imports, posting a decline of 3.1% y/y (Table 5).

### **Inflation Projections for Q4 2015**

The projections still show a stable domestic inflation rate as a result of the global fall in commodity prices, which may have a positive impact on the value of Saudi imports. Such impact is supported by the rise in the purchasing power of the U.S. dollar, to which the Saudi riyal is

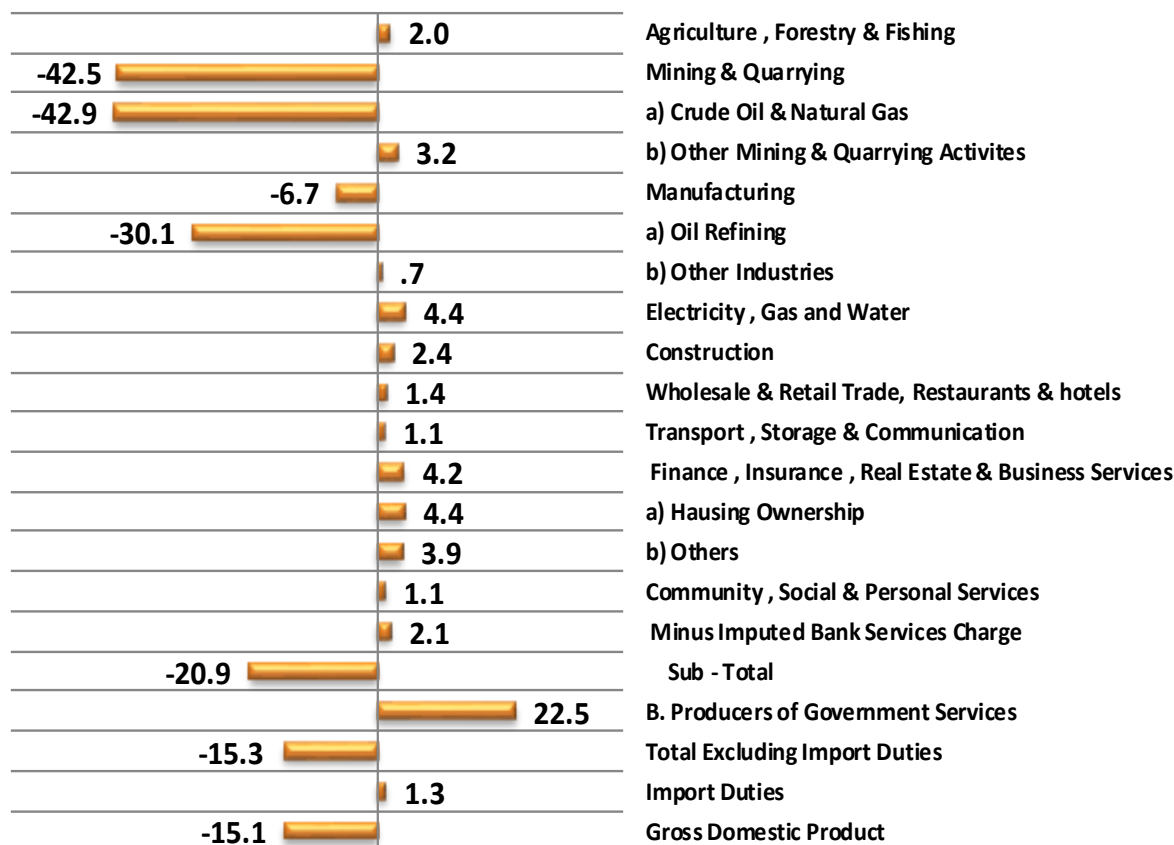
pegged. Consequently, the general level of prices is expected to be relatively stable during Q4 2015.

The IMF projections for commodity prices indicate a contraction in the inflationary pressures on the main groups for 2015. The IMF's projections for 2015 show a deflation in energy prices by 43.9%, metal prices by 22.3%, food and agricultural raw materials prices by 11.8% and 16.8% respectively, followed by beverages prices with the least expected deflation rate of 4.7% in 2015 (Table 7).

As for the group of housing at the domestic level, projections indicate that the inflationary pressures remain unchanged due to the efforts to promote



**Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices  
Q2 2015\*/ Q2 2014 (%) Change**



\*Latest Available Data

Source: Central Department of Statistics and Information.

supply of houses to all classes of the society. Thus, the general level of prices in the Kingdom is expected to be stable during Q4 2015.

On the other hand, SAMA's projections for 2015 indicate that inflation rate will be 2.1% compared to the IMF projections which indicate 2%.

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

Countries	Q2 2014	Q2 2015*	Change (%)
China	21854	23303	6.6
U.S.A	21727	22229	2.3
Germany	13334	10970	-17.7
South Korea	8155	9503	16.5
Japan	9470	9179	-3.1
Total	74540	75184	0.9
Ratio to Total	43.8	45.2	3.2

\*Latest Available Data .

Source: Central Department of Statistics and Information.

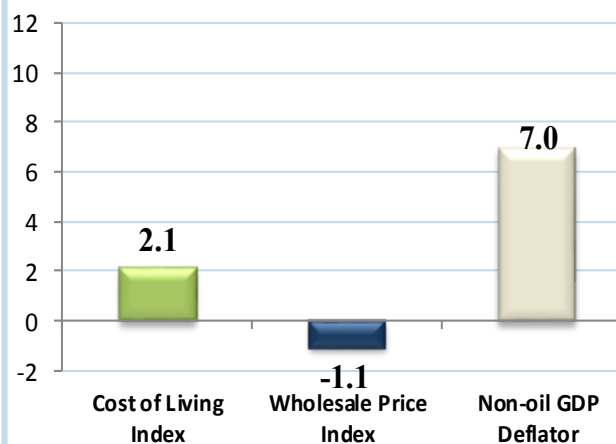


## Conclusion

The most significant results of the analysis of the inflation rates in Q3 in the Kingdom can be concluded as follows:

1. The annual cost of living index registered a rise of 2.3% y/y and 0.3% m/m in September 2015. It registered increases of 2.2% y/y and 0.9% q/q in Q3.
2. The group of transport registered the highest q/q inflation rates in Q3, going up by 1.7%. In contrast, restaurants and hotels group recorded the highest q/q deflation rate of 1.0%.
3. The wholesale price index went up by 0.3% q/q and 1.2% y/y in Q3 2015.
4. The group of vegetable and animal oils and fats recorded the highest annual increase rate of 3.2% in the wholesale price index. In contrast, the group of other commodities posted the highest annual deflation rate of 9.6%.
5. According to the latest available data, the non-oil GDP deflator registered a decline of 3.2% q/q in Q2 2015. The GDP deflator went up by 7.0% y/y in Q2 2015.
6. According to the latest available data, total value of the Kingdom's imports stood at SAR 153.6 billion in Q2 2015,

**Chart 10: Inflation Measurements in Q2, 2015 (%)Change**



Source: Central Department of Statistics and Information.

rising by 1.2% q/q. The Kingdom's imports declined by 9.6% y/y in Q2 2015.

7. The projections still show a stable domestic inflation rate as a result of the global drop in commodity prices and stable US dollar value.

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

	Weights	Actual				Projections			
		2012	2013	2014	2015	2016	2017	2018	
All Primary Commodities	100.0	-3.2	-1.5	-6.2	-34.5	-4.0	4.9	3.9	
Food	16.7	-2.4	1.1	-4.1	-16.8	-4.7	1.2	0.1	
Beverages	1.8	-18.6	-11.9	20.7	-4.7	-1.2	0.8	-0.7	
Agricultural Raw Materials	7.7	-12.7	1.6	1.9	-11.8	-1.4	-2.5	-1.9	
Metals	10.7	-16.8	-4.3	-10.3	-22.3	-9.4	0.7	1.4	
Energy	63.1	0.7	-1.7	-7.4	-43.9	-3.1	8.4	6.8	

Source: IMF