

2018

Inflation Report

First Quarter of 2018

Research and International Affairs Deputyship
Economic Research Department

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority



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Cost of Living Index

The general level of cost of living index registered a y/y increase of 2.9 percent in Q1 2018 and a q/q rise of 3.9 percent (Table 1 and Chart 1).

Developments in Q1 2018

During Q1 2018, tobacco registered the highest y/y inflation rate of 54.4 percent. Transport came next with 10.3 percent, followed by food and beverages as well as restaurants and hotels with 6.4 percent each; health with 3.7 percent; housing, water, electricity, gas and other fuels with 1.2 percent; communication with 1.0 percent; furnishings, household equipment and maintenance with 0.3 percent; and both education and miscellaneous goods and services with 0.2 percent each.

In contrast, clothing and footwear recorded a y/y decline of 7.8 percent, followed by recreation and culture with a y/y decline of 0.5 percent (Table 1 and Charts 2 and 3).

Influence of Major Sections on the General Cost of Living Index

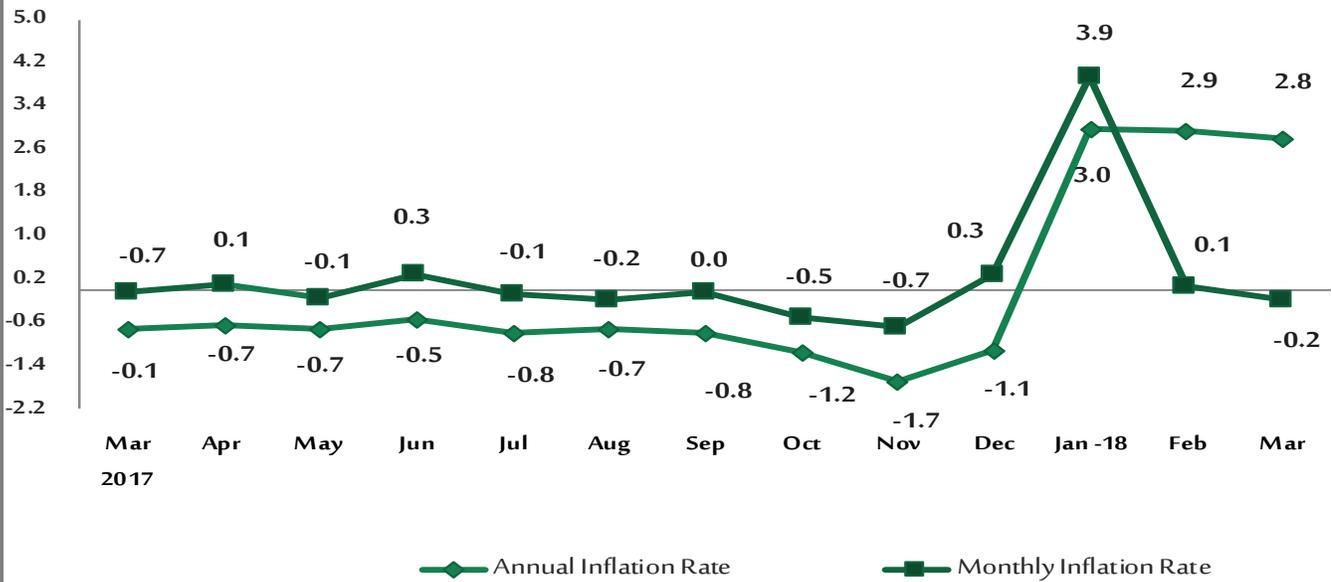
Inflation rates are affected by the changes in the index's various sections. Classified by their influence rates on the general cost of living index, food and beverages ranked first with 30.1 percent during Q1 2018 against 40.5 percent in Q1 2017. Transport came second with 25.6 percent compared to 19.9 percent in the corresponding quarter of the previous year, followed by clothing and footwear with 12.2 percent compared to 10.9 percent, and then

**TABLE 1: COST OF LIVING INDEX
(2013=100)**

		(% change)						
	Weights	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q1 2018/ Q4 2017	Q1 2018/ Q1 2017
General index	100.0	105.0	105.0	105.0	104.0	108.0	3.9	2.9
Food & beverages	18.7	99.1	100.0	100.3	99.9	105.5	5.6	6.4
Tobacco	0.6	124.4	141.3	174.7	174.4	192.0	10.1	54.4
Clothing & footwear	6.2	101.4	101.4	100.7	96.6	93.5	-3.2	-7.8
Housing, water, electricity, gas & other fuels	25.3	112.2	112.1	111.6	111.2	113.6	2.1	1.2
Furnishings, household equipment & maintenance	8.5	102.5	102.3	101.6	98.3	102.8	4.6	0.3
Health	2.3	106.3	106.2	106.2	106.1	110.3	3.9	3.7
Transport	9.9	108.5	108.2	107.9	106.5	119.7	12.4	10.3
Communication	8.4	99.8	99.2	98.9	98.7	100.8	2.1	1.0
Recreation & culture	3.4	97.1	96.6	95.7	92.9	96.7	4.1	-0.5
Education	4.2	109.5	109.5	109.8	110.5	109.7	-0.8	0.2
Restaurants & hotels	6.5	103.6	103.6	103.7	103.4	110.2	6.6	6.4
Miscellaneous goods & services	5.7	102.8	102.8	102.6	101.7	103.0	1.3	0.2

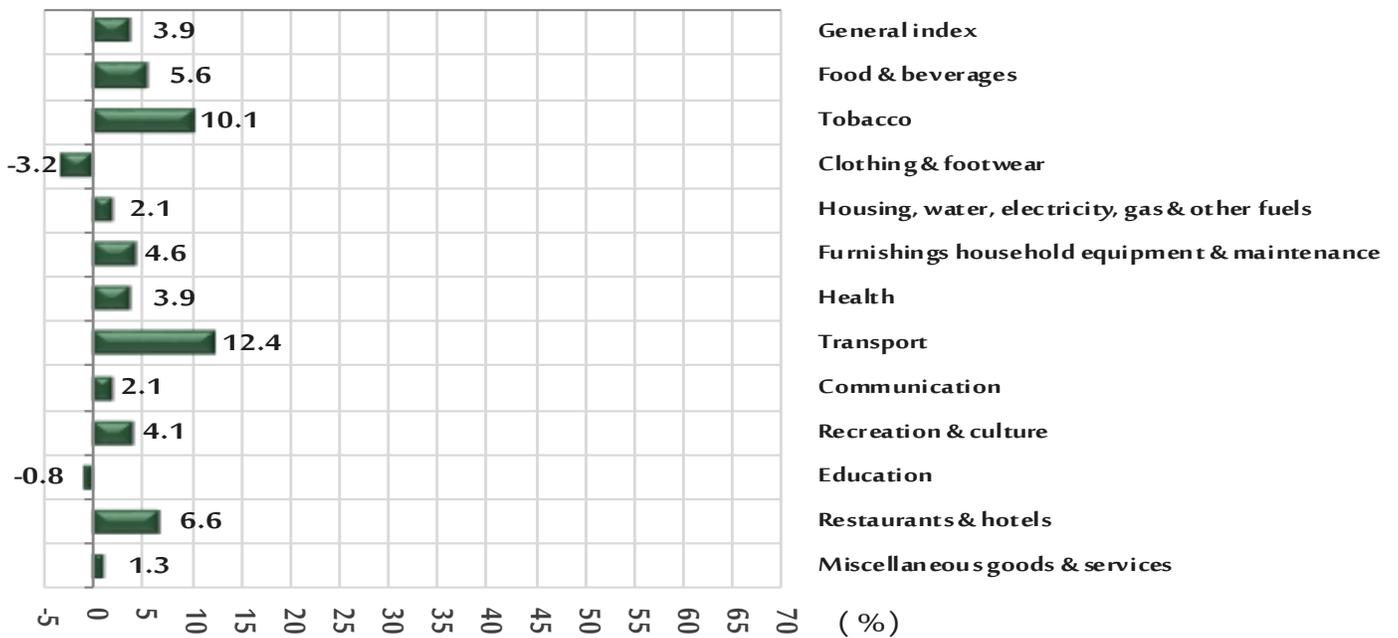
Source: General Authority for Statistics.

**Chart 1: Inflation Rate of the General Cost of Living Index
(2013=100)**

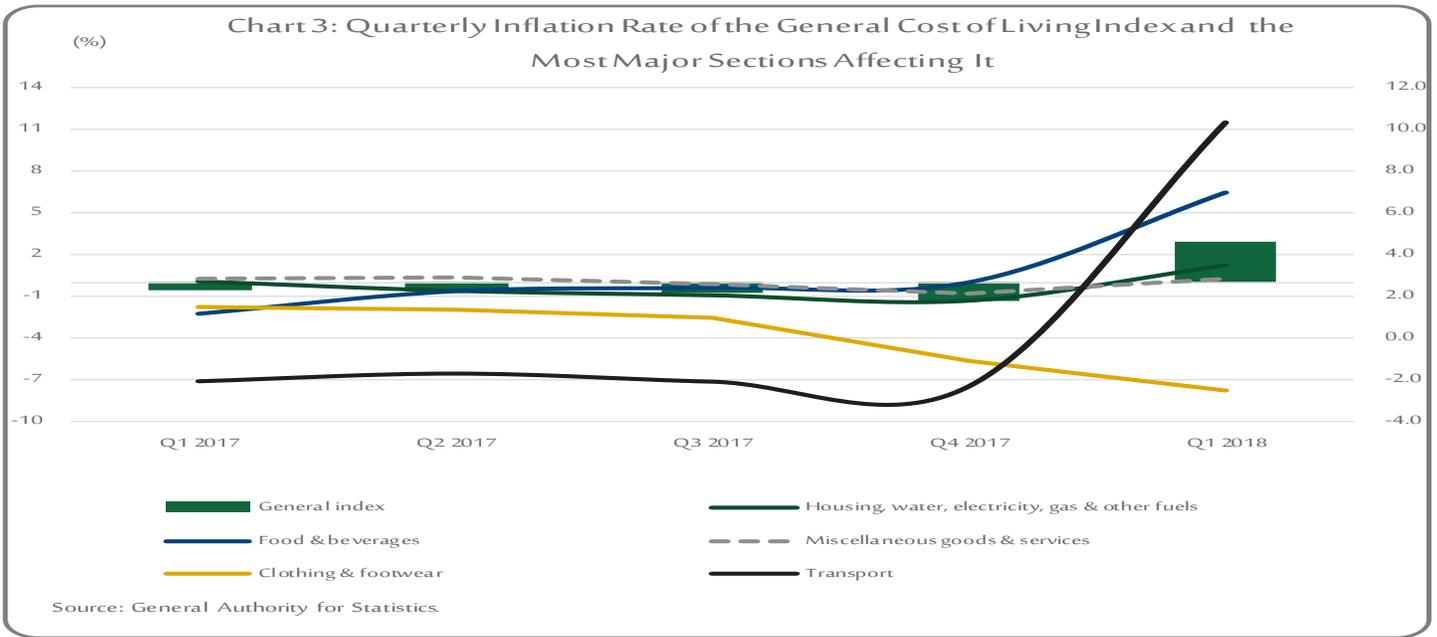


Source: General Authority for Statistics.

**Chart 2: Inflation Rate of the Cost of Living Index by Main Sections
(Q1 2018/Q4 2017)**



Source: General Authority for Statistics.



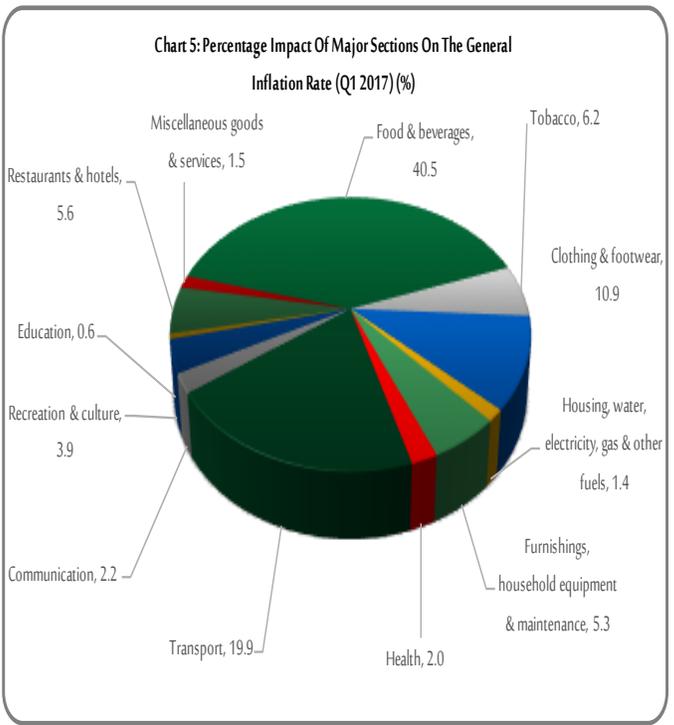
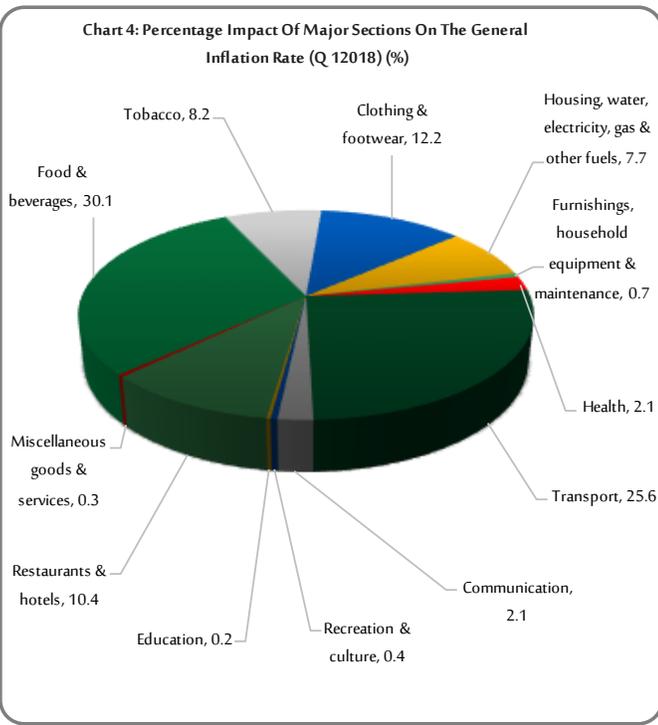
tobacco with 8.2 percent compared to 6.2 percent. Housing, water, electricity, gas, and other fuels came next with 7.7 percent against 1.4 percent in Q1 2017.

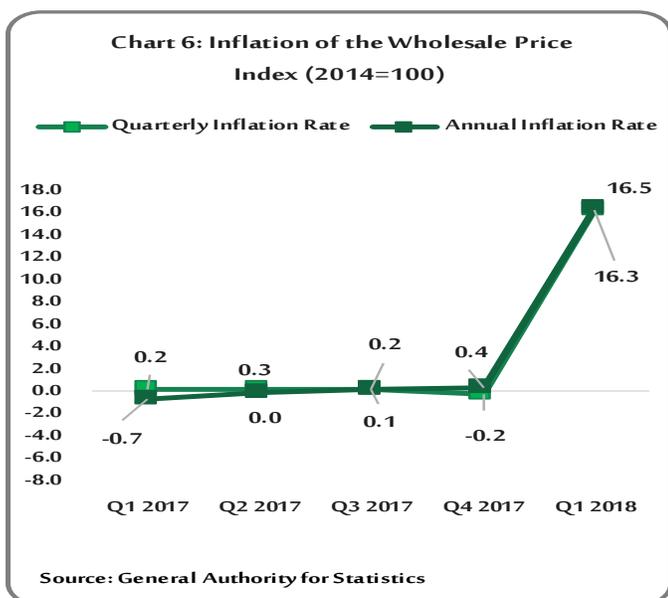
The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages; and transport) stood at 63.4 percent in Q1

2018 against 61.8 percent in Q1 2017 (Charts 4 and 5).

Wholesale Price Index

The wholesale price index in Q1 2018 recorded a y/y rise of 16.5 percent and a q/q increase of 16.3 percent (Chart 6).





and textiles came second with a y/y rise of 10.3 percent, followed by metal products, machinery and equipment with a y/y rise of 6.7 percent. Ores and minerals came next with a y/y increase of 2.8 percent, followed by agriculture and fishery with a y/y rise of 0.5 percent (Table 2 and Chart 7).

GDP Deflator

According to the latest data issued by the GaStat, the GDP deflator recorded a y/y increase of 6.5 percent in Q4 2017 and a q/q rise of 1.2 percent.

Unlike the cost of living index which only measures the final consumption, GDP deflator measures inflation rate at the macroeconomic level—it targets all consumption, investment and government sectors

Wholesale Price Indices by Sections

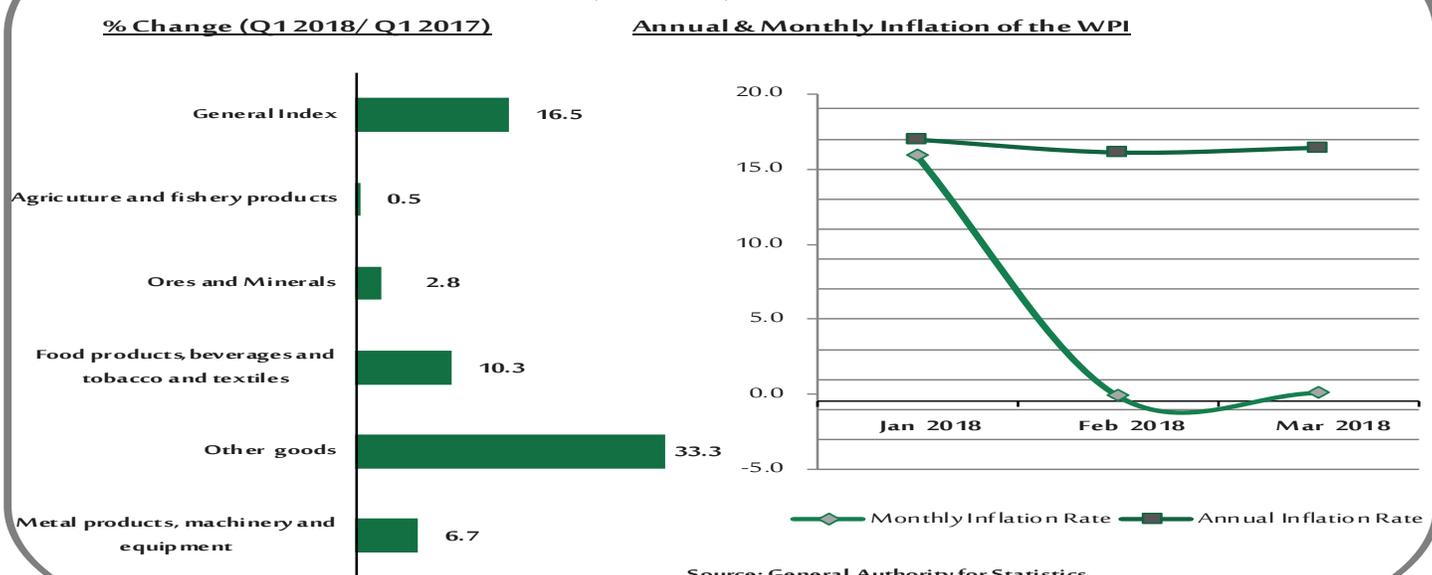
During Q1 2018, other goods registered the highest y/y increase of 33.3 percent. Food products, beverages and tobacco

TABLE 2: WHOLESAL PRICE INDEX (WPI)
(2014=100)

	(% change)							
							Q1 2018/	Q1 2018/
	Weights	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q4 2017	Q1 2017
General Index	100.0	100.5	100.8	100.9	100.7	117.1	16.3	16.5
Agriculture and fishery products	8.7	100.8	104.3	101.6	97.5	101.3	3.9	0.5
Ores and Minerals	0.6	95.6	92.7	91.3	92.2	98.2	6.5	2.8
Food products, beverages and tobacco and textiles	17.3	98.1	99.1	103.1	102.2	108.2	5.8	10.3
Other goods	33.7	107.9	106.7	105.9	106.0	143.9	35.8	33.3
Metal products, machinery and	39.7	95.4	95.7	95.6	96.2	101.8	5.8	6.7

Source: General Authority for Statistics.

**Chart 7: Inflation of the Wholesale Price Index by Main Sections
(2014=100)**



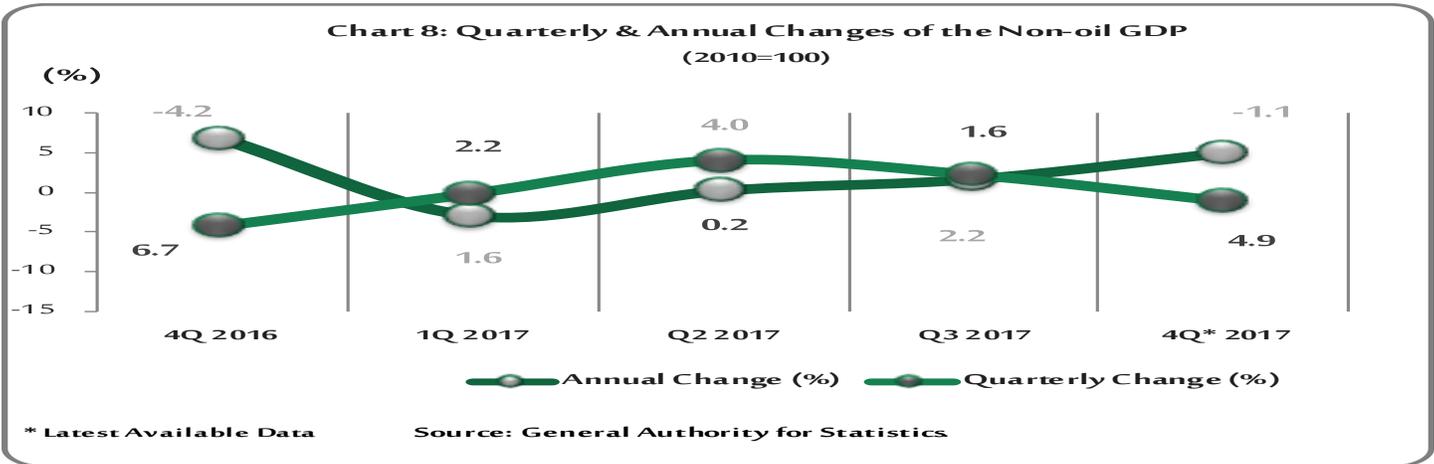
based on their respective contributions to the GDP. Therefore, the deflator is considered an indirect measure of the change in the general level of prices. The non-oil GDP deflator is commonly used to exclude

the impact of change in oil prices on the domestic economy. It registered a q/q decline of 1.1 percent in Q4 2017, while it registered a y/y rise of 4.9 percent (Table 3 and chart 8).

**TABLE 3: GDP Deflator
(2010=100)**

	4Q 2016	1Q 2017	Q2 2017	Q3 2017	4Q* 2017
GDP (Million Rls):					
At Current Prices	636,573	632,754	621,496	639,982	670,119
At Constant Prices	667,661	642,329	629,309	637,335	659,754
GDP Deflator	95.3	98.5	98.8	100.4	101.6
Quarterly Change (%)	0.9	3.3	0.3	1.7	1.2
Annual Change (%)	9.2	10.4	4.3	6.2	6.5
Non-oil GDP (Million Rls):					
At Current Prices	454,132	448,891	443,369	457,497	482,391
At Constant Prices	370,692	367,057	348,593	352,060	375,362
Non-oil GDP Deflator	122.5	122.3	127.2	129.9	128.5
Quarterly Change (%)	-4.21	-0.18	4.00	2.17	-1.10
Annual Change (%)	6.7	-3.0	0.2	1.6	4.9
* Latest Available Data					

Source: General Authority for Statistics.

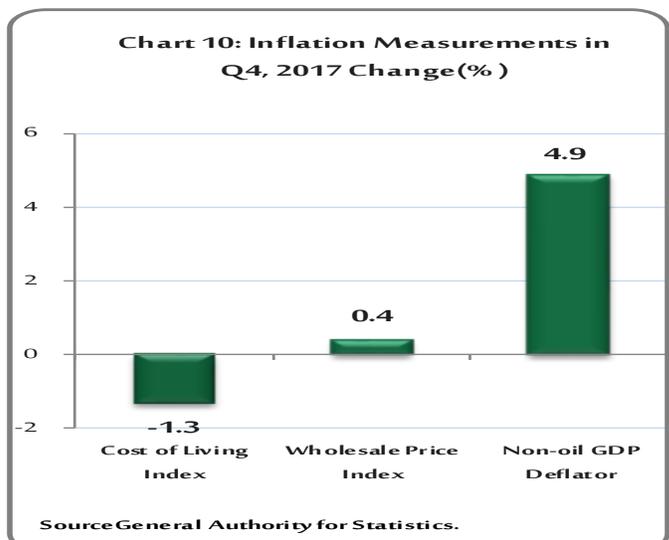
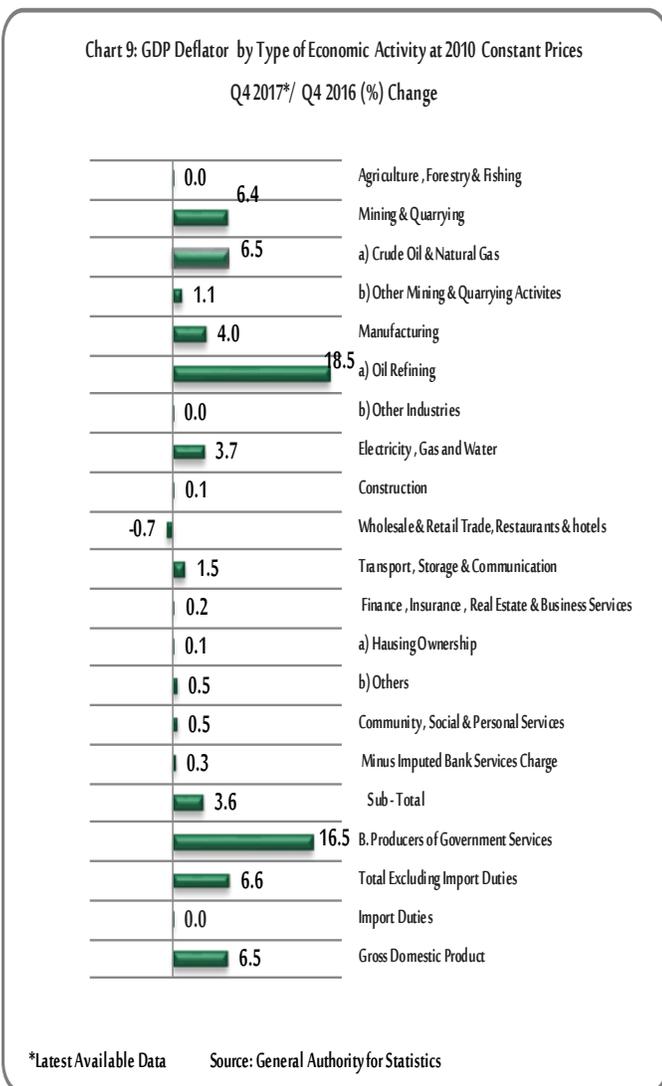


An analysis of GDP deflator's data (at constant prices for base year 2010) by economic activity shows that mining and quarrying registered the highest y/y rise of

6.4 percent in Q4 2017. Manufacturing came next with 4.0 percent, followed by electricity, gas and water with 3.7 percent.

However, wholesale and retail trade and restaurants and hotels recorded a y/y decline of 0.7 percent in Q4 2017 (Chart 9).

A comparison of the annual inflation measures in the domestic market indicates that the annual inflation rate of non-oil GDP deflator registered a y/y rise of 4.9 percent in Q4 2017. The annual change rate of the wholesale price index went up by 0.4 percent, whereas the annual inflation rate of the cost of living index registered a decline of 1.3 percent during the same period (Chart 10).



Foreign Trade with Major Trading Partners

According to data of February 2018 the total value of Saudi Arabia's imports stood at SAR 38.8 billion, with a y/y decrease of 1.1 percent. Moreover, Saudi Arabia's imports recorded a monthly decrease of 0.8 percent compared to the preceding month.

China came at the top of Saudi Arabia's major trading partners according to data of February 2018. Saudi Arabia's imports from China amounted to SAR 5.80 billion (15.0 percent of the total value of Saudi Arabia's imports), increasing by 4.1 percent y/y. The UAE came second with SAR 5.78 billion (14.9 percent of the total), increasing by 145.3 percent y/y. The United States came third with SAR 4.58 billion (11.8 percent of the total), falling by 31.8

percent y/y. Germany came fourth with SAR 2.0 billion (5.2 percent of the total), declining by 27.3 percent y/y, followed in fifth place by Japan with SAR 1.75 billion (4.5 percent of the total), up by 25.6 percent y/y (Table 4 A and 4 B).

Inflation Projections for Q2 2018

Actual data in Q1 2018 show that inflation rate recorded a y/y increase of 2.9 percent. Inflation is projected to rise in Q2 2018 due to the forthcoming month of Ramadan, Eid al-Fitr and Eid al-Adha, which would boost consumer demand.

On the other hand, IMF projections for the primary commodity price index show a decrease in inflationary pressures on most of its main sections for 2018. Its projections show a decline in prices of raw agricultural materials by 2.7 percent, metal

TABLE 4 A: Top Five Trading Partners by value of Imports

(SAR Million)

Countries	2016	2017	Change (%)
China	75309	74797	-0.7
U.S.A	77728	66292	-14.7
U.A.E	28616	31865	11.4
Germany	34331	28675	-16.5
Japan	27821	19936	-28.3
Total	243805	221564	-9.1
Ratio to Total	46.38	45.41	-2.1

Source: General Authority for Statistics.

TABLE 4 B: Top Five Trading Partners by value of Imports

(SAR Million)

Countries	Feb 2017	Feb 2018	Change (%)
China	5571	5797	4.1
U.A.E	2358	5782	145.2
U.S.A	6723	4582	-31.8
Germany	2751	2001	-27.3
Japan	1389	1745	25.6
Total	18792	19907	5.9
Ratio to Total	47.90	51.40	7.3

Source: General Authority for Statistics.

prices by 2.0 percent, and energy prices by 1.6 percent. However, IMF projections show a rise of 2.6 percent in food prices and 1.0 percent in beverages prices (Table 5).

Conclusion

The most significant results of the analysis of inflation rates in Q1 2018 in Saudi Arabia can be concluded as follows:

1. The general cost of living index registered a y/y increase of 2.9 percent in Q1 2018 and a q/q rise of 3.9 percent.
2. During Q1 2018, tobacco, having the highest influence on the index, registered the highest y/y inflation rate of 54.4 percent due to levying excise tax. In contrast, clothing and footwear rec-

orded the highest y/y deflation of 7.8 percent.

3. The wholesale price index recorded a y/y rise of 16.5 percent and a q/q rise of 16.3 percent in Q1 2018.
4. Other goods recorded the highest y/y increase of 33.3 percent in the wholesale price index.
5. The GDP deflator recorded a y/y increase of 6.5 percent in Q4 2017. In addition, the non-oil GDP deflator registered a y/y rise of 4.9 percent in Q4 2017.
6. Inflation is projected to rise in Q2 2018 due to the forthcoming month of Ramadan and Eid al-Fitr, which would boost consumer demand.

TABLE 5: IMF Commodity Price Index

(2005=100)

	Weights	(Percentage changes)						
		Actual			Projections			
		2014	2015	2016	2017	2018	2019	2020
All Primary Commodities	100.0	-6.2	-35.3	-10.0	10.8	-0.7	1.2	0.5
Food	16.7	-4.1	-17.2	2.1	6.1	2.6	-0.7	-2.7
Beverages	1.8	20.7	-3.1	-5.0	-9.0	1.0	3.5	1.0
Agricultural Raw Materials	7.7	2.0	-13.5	-5.7	2.3	-2.7	0.2	0.0
Metals	10.7	-10.1	-23.0	-5.4	16.8	-2.0	-0.8	-0.6
Energy	63.1	-7.4	-44.8	-16.5	14.1	-1.6	2.5	2.2

Source: IMF



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