

2019

Inflation Report

Fourth Quarter of 2019

Research and International Affairs Deputyship
Economic Research Department

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority



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Consumer Price Index (CPI)

The consumer price index (CPI) registered a y/y decline of 0.1 percent in Q4 2019. However, it registered a q/q increase of 0.3 percent (Table 1 and Chart 1).

Developments in Q4 2019

During Q4 2019, housing, water, electricity, gas and other fuels registered the highest y/y decrease of 3.9 percent. Clothing and footwear came next with a decrease of 0.6 percent, followed by communication with 0.2 percent.

In contrast, miscellaneous goods and services registered the highest y/y inflation rate of 2.7 percent. Restaurants and hotels came second with 2.4 percent, followed by education with 2.3 percent; furnishings, household equipment and maintenance

with 1.9 percent; health with 1.8 percent; food and beverages with 1.5 percent; transport with 1.1 percent; and recreation and culture with 0.1 percent. In the meantime, tobacco remained unchanged (Table 1 and Charts 2 and 3).

Effect of Major Sections on the Consumer Price Index

Inflation rates are affected by the changes in the CPI's various sections. Classified by their influence rates on the CPI, housing, water, electricity, gas and other fuels ranked first with 48.2 percent during Q4 2019 against 19.3 percent in Q4 2018. Food and beverages with 13.9 percent compared to 26.9 percent y/y, followed by furnishings, household equipment and maintenance with 7.8 percent compared to 6.9

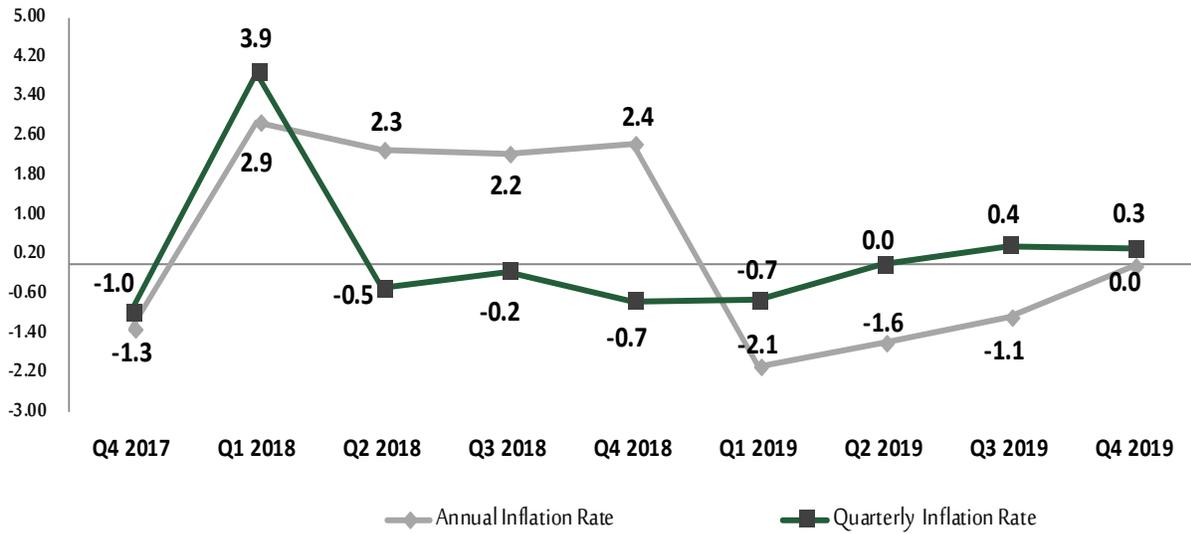
Table 1: Consumer Price Index

(2013=100)

	Weights	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	(% change)	
							2019Q4/ 2019Q3	2019Q4/ 2018Q4
General index	100.0	106.5	105.7	105.7	106.1	106.5	0.3	-0.1
Food & beverages	18.7	107.3	106.7	107.0	107.8	108.9	1.0	1.5
Tobacco	0.6	192.1	192.6	192.3	192.0	192.1	0.1	0.0
Clothing & footwear	6.2	92.5	92.3	92.7	92.3	92.0	-0.4	-0.6
Housing, water, electricity, gas & other fuels	25.3	106.9	104.5	103.2	102.6	102.7	0.1	-3.9
Furnishings, household equipment & maintenance	8.5	102.4	102.4	102.6	103.8	104.3	0.4	1.9
Health	2.3	110.3	110.4	110.7	111.6	112.3	0.7	1.8
Transport	9.9	119.1	118.7	119.9	121.0	120.3	-0.5	1.1
Communication	8.4	100.0	99.8	99.7	99.7	99.7	0.1	-0.2
Recreation & culture	3.4	96.5	96.0	95.7	97.0	96.6	-0.5	0.1
Education	4.2	110.7	111.0	111.4	112.0	113.2	1.1	2.3
Restaurants & hotels	6.5	111.8	112.0	112.7	113.8	114.5	0.6	2.4
Miscellaneous goods & services	5.7	102.2	102.3	102.8	104.9	105.0	0.1	2.7

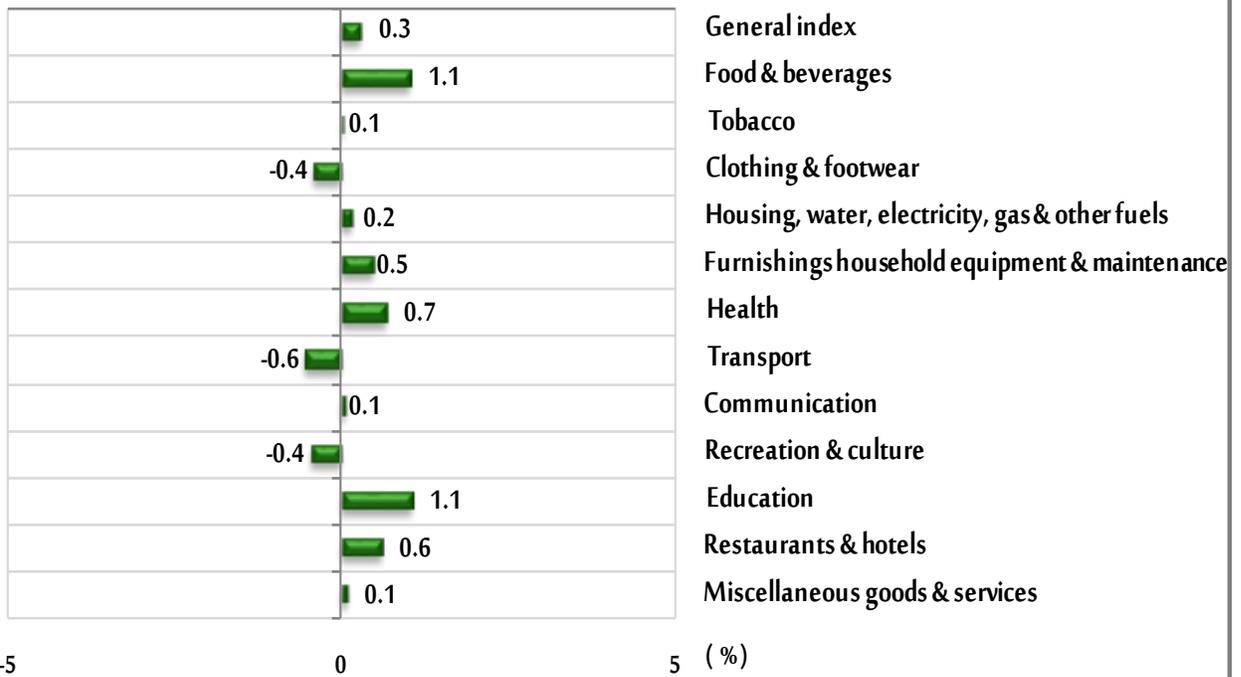
Source: General Authority for Statistics.

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



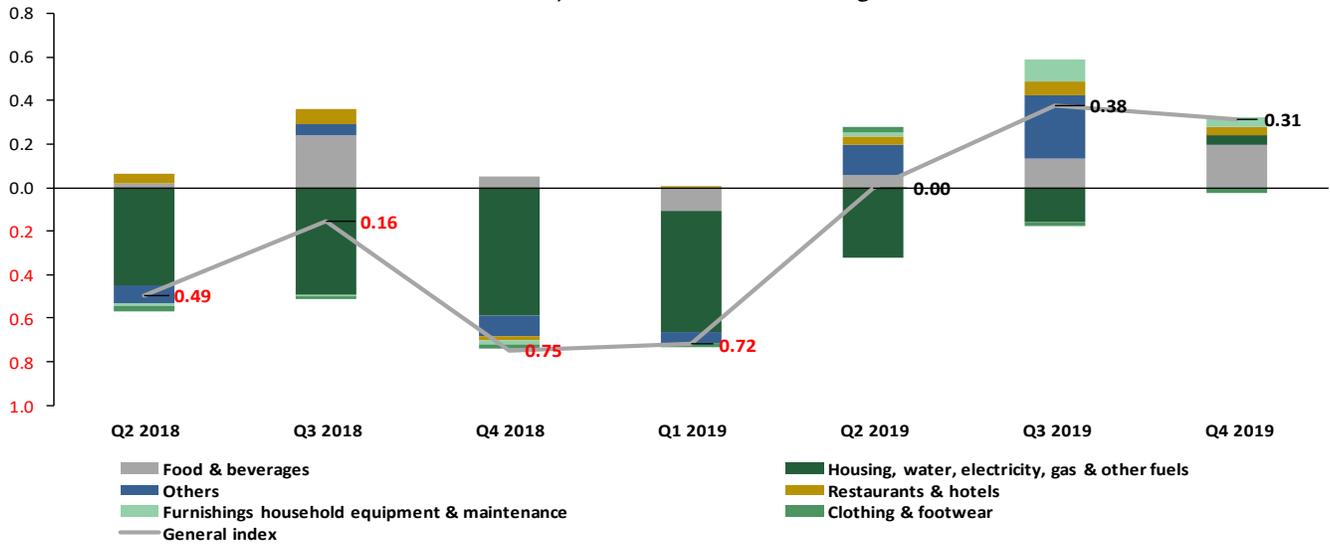
Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Consumer Price Index by Main Sections (Q4 2019/Q3 2019)



Source: General Authority for Statistics.

Chart 3: The quarterly change rate in the general index of consumer prices and the most influential major divisions (annual change)



Source: General Authority for Statistics.

percent y/y; miscellaneous goods and services with 7.7 percent compared to 0.6 percent y/y; restaurants and hotels with 7.4 percent compared to 10.4 percent y/y; and transport with 5.1 percent against 23.0 percent y/y.

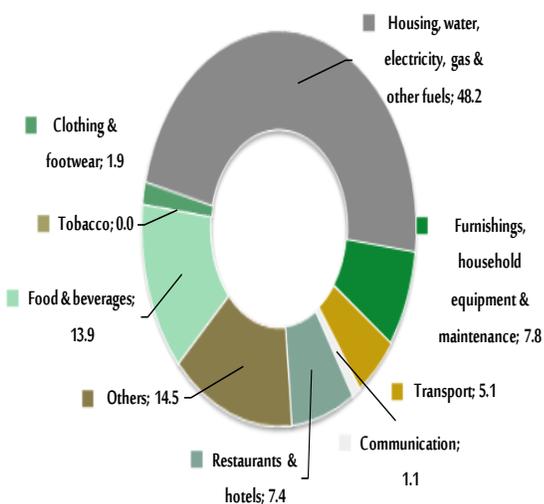
The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages;

and Furnishings, household equipment & maintenance) stood at 69.7 percent in Q4 2019 against 53.1 percent in Q4 2018 (Charts 4 and 5).

Wholesale Price Index (WPI)

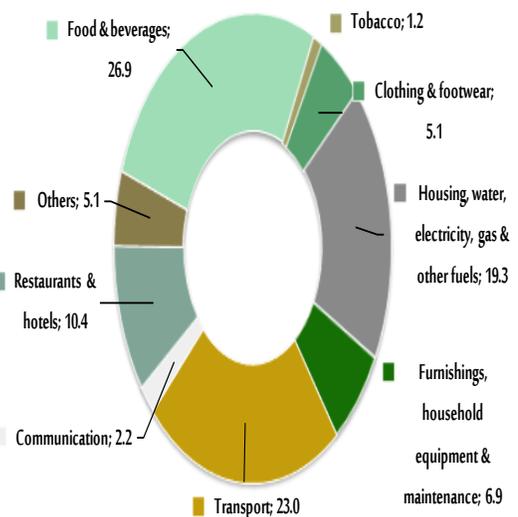
The wholesale price index (WPI) in Q4 2019 recorded a y/y rise of 3.4 percent

Chart 4: Percentage Impact Of Major Sections On The General Inflation Rate (Q4 2019) (%)



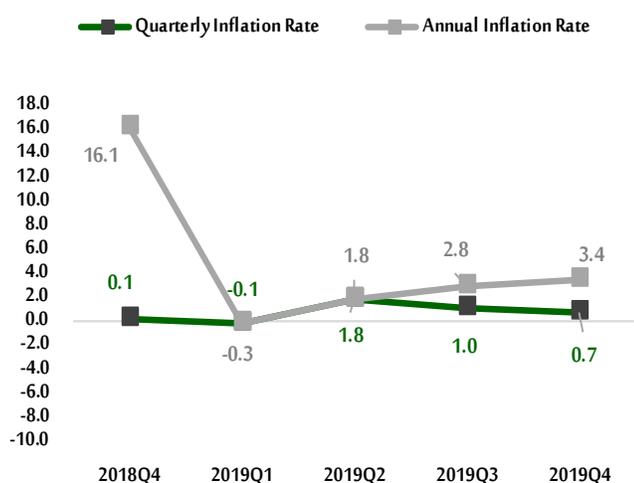
Source: General Authority for Statistics. *Other section include health, recreation and culture, miscellaneous goods and services, and education.

Chart 5: Percentage Impact Of Major Sections On The General Inflation Rate (Q4 2018) (%)



Source: General Authority for Statistics. *Other section include health, recreation and culture, miscellaneous goods and services, and education.

Chart 6: Inflation of the Wholesale Price Index (2014=100)



Source: General Authority for Statistics.

and a q/q increase of 0.7 percent (Chart 6). As for the WPI by sections, ores and minerals registered the highest y/y decrease of 2.2 percent during Q4 2019. Agriculture and fishery products as well as food products, beverages, tobacco and textiles ranked second with a y/y decrease of 0.6 percent

each. On the other hand, metal products, machinery and equipment recorded a y/y increase of 7.9 percent, followed by other goods with 2.0 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 0.5 percent but a q/q decrease of 0.6 percent in Q3 2019.

Unlike the CPI, which measures the final consumption only, GDP deflator measures inflation rate at the macroeconomic level—it targets all consumption, investment and government sectors 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 econo-

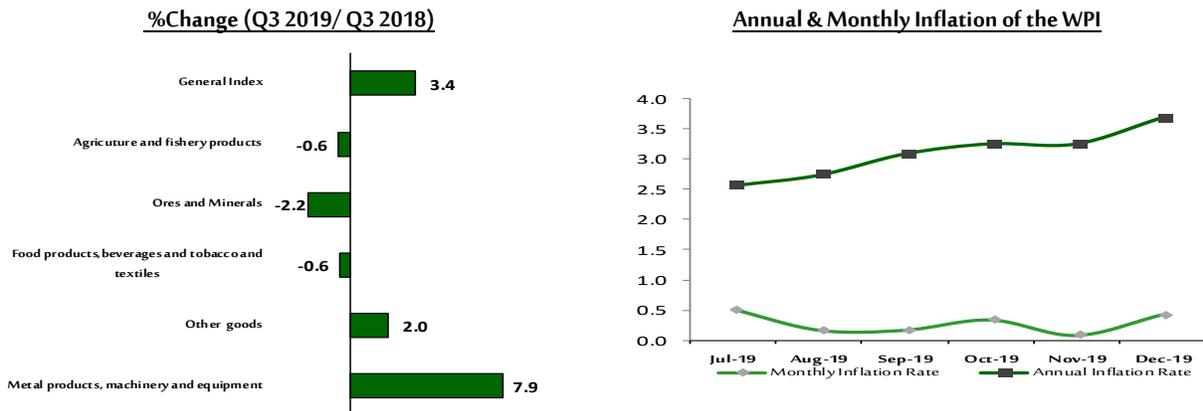
Table 2: Wholesale Price Index (WPI)
(2014=100)

	Weights	2018Q4	2019Q1	2019Q2	2019Q3	2019Q4	(% change)	
							2019Q4/2019Q3	2019Q4/2018Q4
General Index	100.0	116.9	116.7	118.8	120.0	120.8	0.7	3.4
Agriculture and fishery products	8.7	101.7	99.1	99.7	101.6	101.1	-0.5	-0.6
Ores and Minerals	0.6	98.2	98.1	97.8	97.3	96.0	-1.3	-2.2
Food products, beverages and tobacco and textiles	17.3	107.8	107.4	107.6	107.4	107.2	-0.2	-0.6
Other goods	33.7	145.0	143.0	144.6	146.9	147.9	0.7	2.0
Metal products, machinery and equipment	39.7	100.5	102.5	106.3	107.0	108.4	1.3	7.9

Source: General Authority for Statistics.

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

(100 = 2014)



Source: General Authority for Statistics.

my. In Q3 2019, it registered a q/q decline of 0.2 percent, but a y/y increase of 1.6 percent (Table 3 and Chart 8). An analysis of GDP deflator data (at constant prices for base year 2010) by economic activity shows that construction and building as

well as producers of government services registered the highest y/y rise of 4.7 percent each in Q3 2019. Community, social and personal services came second with 1.1 percent, followed by wholesale and retail trade, restaurants and hotels with 0.7 percent; manu-

Table 3: GDP Deflator

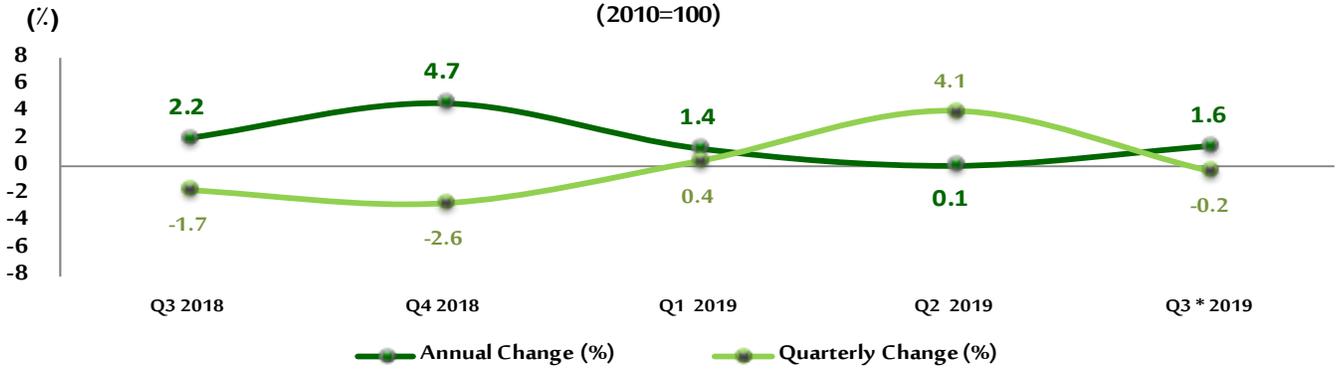
(2010=100)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3* 2019
GDP (Million Rls):					
At Current Prices	745,062	766,354	718,543	740,032	745,369
At Constant Prices	654,372	686,990	660,685	642,779	651,392
GDP Deflator	113.9	111.6	108.8	115.1	114.4
Quarterly Change (%)	-1.4	-2.0	-2.5	5.9	-0.6
Annual Change (%)	12.8	8.4	1.1	-0.3	0.5
Non-oil GDP (Million Rls):					
At Current Prices	479,723	501,134	496,371	499,150	508,443
At Constant Prices	360,475	386,690	381,368	368,351	376,071
Non-oil GDP Deflator	133.1	129.6	130.2	135.5	135.2
Quarterly Change (%)	-1.7	-2.6	0.4	4.1	-0.2
Annual Change (%)	2.2	4.7	1.4	0.1	1.6
* Latest Available Data .					

Source: General Authority for Statistics.

Chart 8: Quarterly & Annual Changes of the Non-oil GDP

(2010=100)



* Latest Available Data.

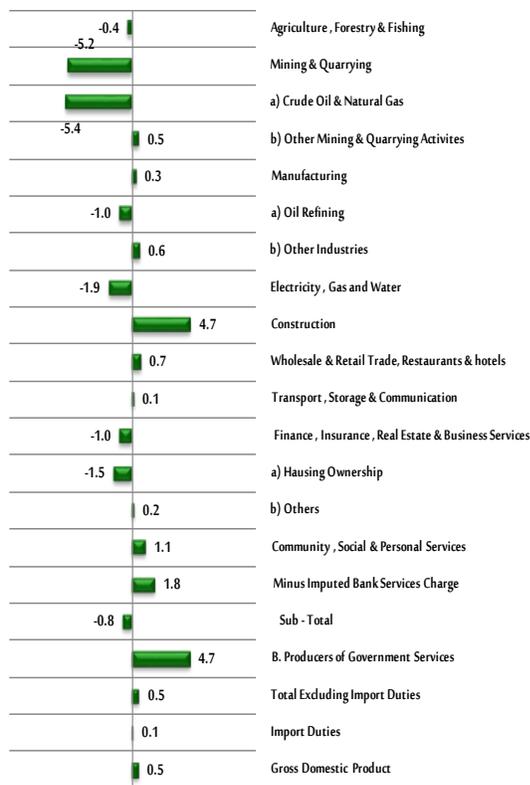
Source: General Authority for Statistics.

facturing with 0.3 percent; and transportation, storage and communications with 0.1 percent. Conversely, mining and quarrying registered the highest y/y deflation of 5.2 percent. Electricity, gas and water came next with 1.9 percent, followed by finance,

insurance, real estate and business services with 1.0 percent and then agriculture, forestry and fishing with 0.4 percent (Chart 9).

A comparison of the annual inflation measures in the domestic market indicates that the annual inflation rate of non-oil GDP deflator recorded a y/y increase of 1.6 percent in Q3 2019. The annual change rate of the WPI went up by 2.8 percent, whereas the annual inflation rate of the CPI fell by 1.1 percent during the same period (Chart 10).

Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices
Q3 2019*/ Q3 2018, (%) Change

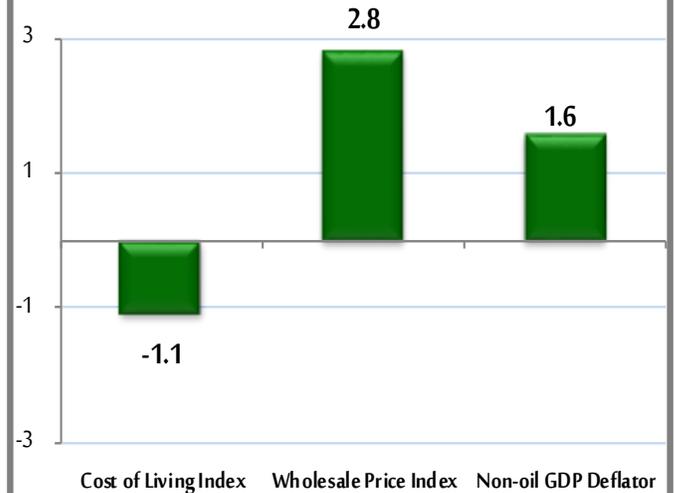


* Latest Available Data.

Source: General Authority for Statistics.

Chart 10: Inflation Measurements in Q3, 2019

Change(%)



Source: General Authority for Statistics.

Inflation Rates in Top Countries Exporting to Saudi Arabia

According to the general levels of CPI for the top countries exporting to Saudi Arabia and according to Q4 2019 data, inflation rate in China, being at the top of Saudi Arabia's trading partners in terms of imports, increased by 2.1 percent y/y and by 1.4 percent q/q. The inflation rate in the United States also went up in Q4 2019 by 2.0 percent y/y and 0.2 percent q/q. In contrast, the rate went down in the UAE by 1.5 percent y/y and 0.5 percent q/q. However, it increased in Japan by 0.5 percent y/y and 0.5 percent q/q. Germany registered a y/y rise of 1.2 percent but q/q decline of 0.4 percent in inflation rate (Table 4).

Inflation Projections for Q1 2020

It is projected that the inflation will rise in Q1 2020 due to several factors, in-

cluding the excise tax levied on sweetened beverages starting from Q4 2019, the removal of subsidies for poultry feed starting from 2020, and the noticeable improvement of local demand during the last months of 2019. It is also expected that such improvement will continue, driven by the continuation of cost-of-living allowance which would enhance private consumption.

On the other hand, the World Bank's projections for the primary commodity price index (October 2019) show deflationary pressures on energy, agriculture and food for 2020. Its projections show a decrease in the prices of energy by 3.1 percent, agricultural commodities by 0.6 percent, and food by 0.1 percent. Nevertheless, the projections show a rise in the prices of beverages by 2.2 percent, fertilizers by 2.2 percent, raw materials by 1.5 percent, and metals by 0.5 percent (Table 5).

Table 4: The Consumer Price Index (CPI) for the top countries exporting to Saudi Arabia

(%)

Countries	2018				2019				Q4 2019 / Q3 2019	Q4 2019 / Q4 2018
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4		
China	102.2	101.8	102.3	102.2	101.8	102.6	102.9	104.3	1.4	2.1
USA	248.8	251.4	252.2	252.1	252.9	255.9	256.6	257.2	0.2	2.0
UAE	111.9	111.2	111.3	110.1	109.2	109.5	108.9	108.4	-0.5	-1.5
Japan	101.2	100.9	101.4	101.8	101.5	101.7	101.8	102.3	0.5	0.5
Germany	102.4	111.2	104.5	104.4	103.8	105.4	106.1	105.7	-0.4	1.2

Source: International Monetary Fund and national statistics offices.

Summary

The key results of the analysis of inflation rates in Q4 2019 in Saudi Arabia can be summarized as follows:

1. The consumer price index (CPI) registered a y/y decline of 0.1 percent in Q4 2019 but a q/q increase of 0.3 percent.
2. Housing, water, electricity, gas and other fuels registered the highest y/y decrease of 3.9 percent. Clothing and footwear came next with a decrease of 0.6 percent, followed by communication with 0.2 percent.
3. The wholesale price index (WPI) in Q4 2019 recorded a y/y rise of 3.4 percent and a q/q increase of 0.7 percent. Metal products, machinery and equipment registered the highest increase in Q4 2019 with 7.9 percent y/y.
4. According to the latest data issued by the GaStat, the GDP deflator recorded a y/y increase of 0.5 percent but a q/q decrease of 0.6 percent in Q3 2019.
5. It is projected that the inflation will rise in Q1 2020 due to several factors, including the excise tax levied on sweetened beverages starting from Q4 2019, the removal of subsidies for poultry feed starting from 2020, and the noticeable improvement of local demand during the last months of 2019. It is also expected that such improvement will continue, driven by the continuation of cost-of-living allowance.

Table 5: World Bank Commodity Price Index
(2005=100)

	(Percentage changes)						
	Actual				Projections		
	2016	2017	2018	2019	2020	2021	2022
Energy	-15.0	23.6	27.8	-14.6	-3.1	1.8	1.9
Agriculture	-0.5	-0.6	-0.3	-4.7	-0.6	1.9	1.9
Food	1.2	0.7	0.2	-4.9	-0.1	2.0	1.8
Raw materials	-3.7	1.2	0.2	-3.7	1.5	1.6	1.7
Base Metals	-7.2	24.3	6.7	-9.8	0.5	1.6	1.7
Fertilizers	-20.9	-4.5	11.0	-0.6	2.2	2.1	2.2
Beverages	-20.9	-4.5	11.0	-0.6	2.2	2.1	2.2

Source: World Bank.

