

2018

Inflation Report

Fourth 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 2.4 percent in Q4 2018 but a q/q decrease of 0.7 percent (Table 1 and Chart 1).

Developments in Q4 2018

During Q4 2018, transport registered the highest y/y inflation rate of 11.8 percent. Tobacco came second with 10.2 percent; restaurants and hotels with 8.2 percent; food and beverages with 7.3 percent; furnishings, household equipment and maintenance with 4.1 percent; health with 4.0 percent; recreation and culture with 3.9 percent; communication with 1.3 percent; miscellaneous goods and services with 0.5 percent; and education with 0.2 percent.

In contrast, clothing and footwear recorded the highest y/y decline in Q4 2018 of 4.2 percent, followed by housing, water, electricity, gas and other fuels with 3.9 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 26.9 percent during Q4 2018 against 0.1 percent in Q4 2017. Transport came second with 23.0 percent compared to 12.0 percent in the corresponding quarter of the previous year,

TABLE 1: COST OF LIVING INDEX

(2013=100)

	Weights	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	(%) change	
							Q4 2018/ Q3 2018	Q4 2018/ Q4 2017
General index	100.0	104.0	108.0	107.5	107.3	106.5	-0.7	2.4
Food & beverages	18.7	99.9	105.5	105.6	107.0	107.3	0.3	7.3
Tobacco	0.6	174.4	192.0	192.0	192.0	192.1	0.1	10.2
Clothing & footwear	6.2	96.6	93.5	93.1	92.9	92.5	-0.4	-4.2
Housing, water, electricity,	25.3	111.2	113.6	111.6	109.4	106.9	-2.3	-3.9
Furnishings, household	8.5	98.3	102.8	102.7	102.6	102.4	-0.2	4.1
Health	2.3	106.1	110.3	110.1	110.4	110.3	-0.1	4.0
Transport	9.9	106.5	119.7	119.2	119.4	119.1	-0.3	11.8
Communication	8.4	98.7	100.8	100.6	100.3	100.0	-0.3	1.3
Recreation & culture	3.4	92.9	96.7	96.4	97.1	96.5	-0.7	3.9
Education	4.2	110.5	109.7	110.0	110.2	110.7	0.4	0.2
Restaurants & hotels	6.5	103.4	110.2	111.0	112.1	111.8	-0.3	8.2
Miscellaneous goods & ser-	5.7	101.7	103.0	102.6	102.9	102.2	-0.7	0.5

Source: General Authority for Statistics.

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

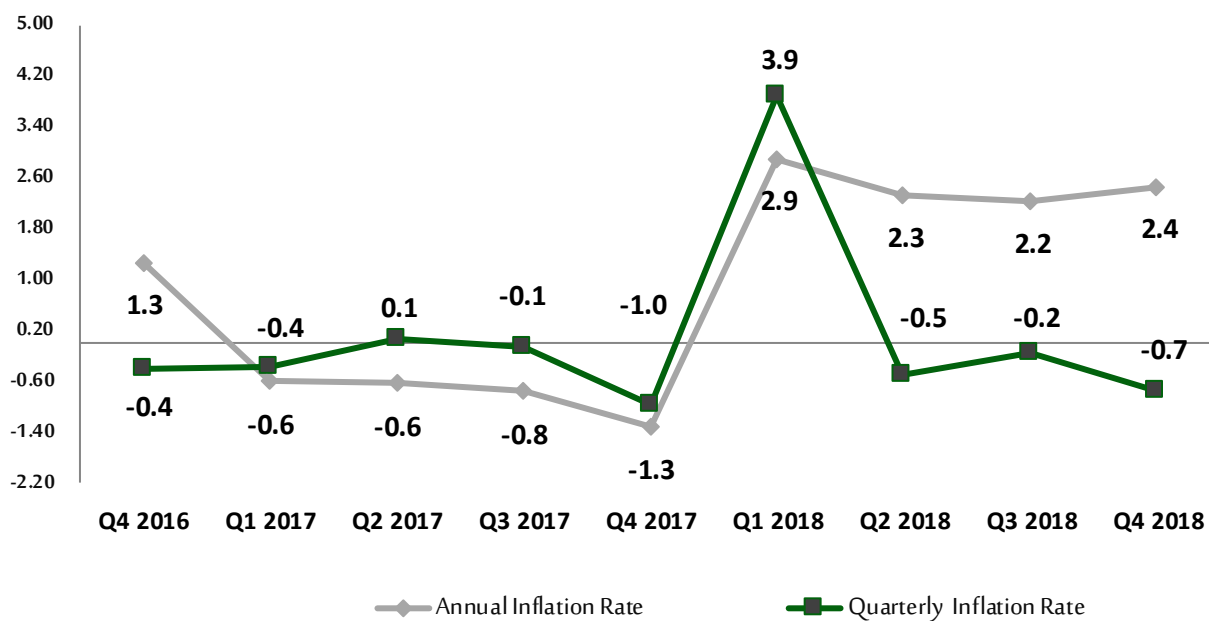
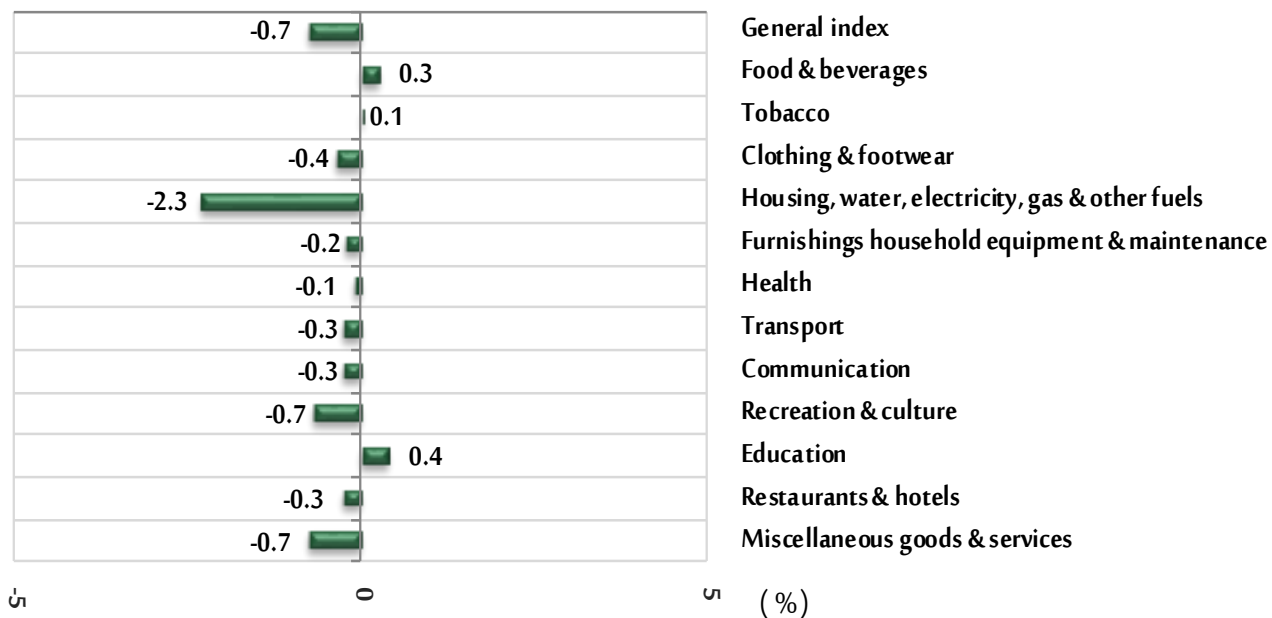
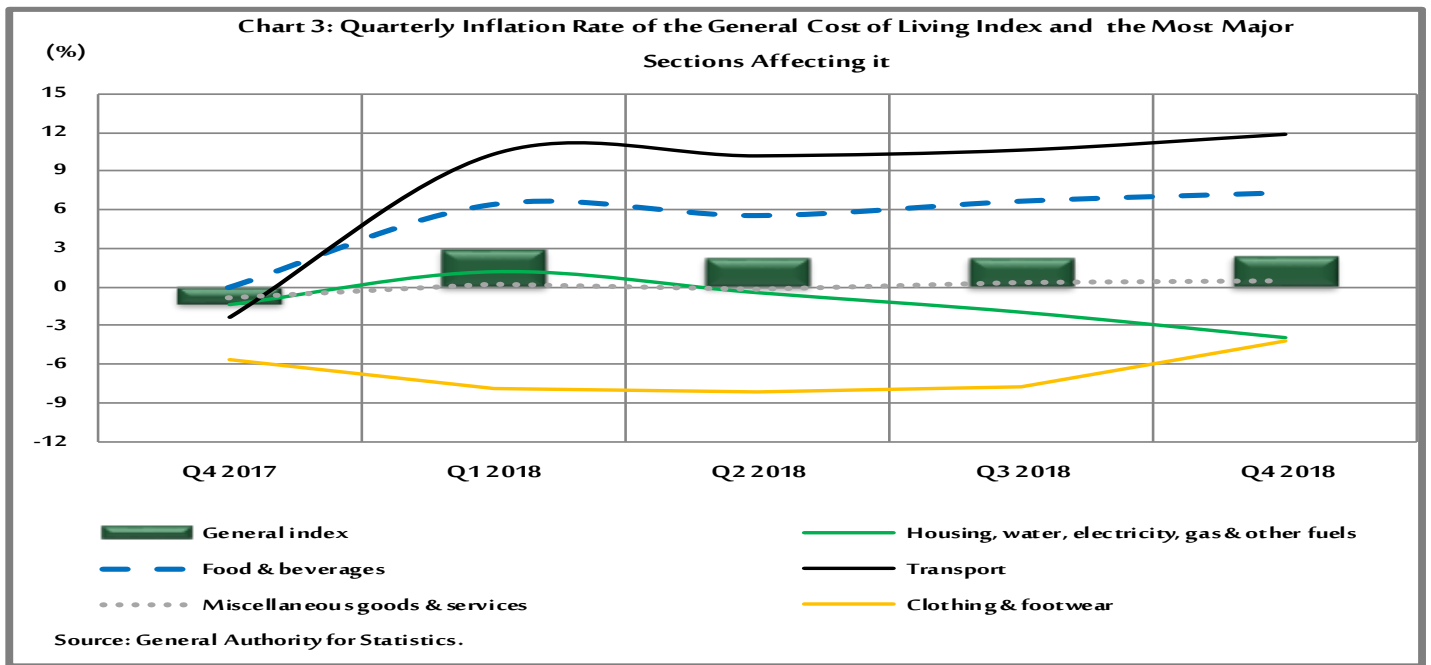


Chart 2: Inflation Rate of the Cost of Living Index by Main Sections (Q4 2018/Q3 2018)





housing, water, electricity, gas and other fuels with 19.3 percent compared to 17.4 percent in Q4 2017, followed by restaurants and hotels with 19.3 percent compared to 17.4 percent in Q4 2017, and furnishings, household equipment & maintenance with 6.9 percent compared to 20.5 percent in Q4 2017. The total influence rate of the three major sections (housing, water,

electricity, gas and other fuels; food and beverages; and transport) stood at 69.2 percent in Q4 2018 against 29.5 percent in Q3 2017 (Charts 4 and 5).

Wholesale Price Index

The wholesale price index in Q4 2018 recorded a y/y rise of 16.1 percent and a slight q/q increase of 0.1 percent (Chart 6).

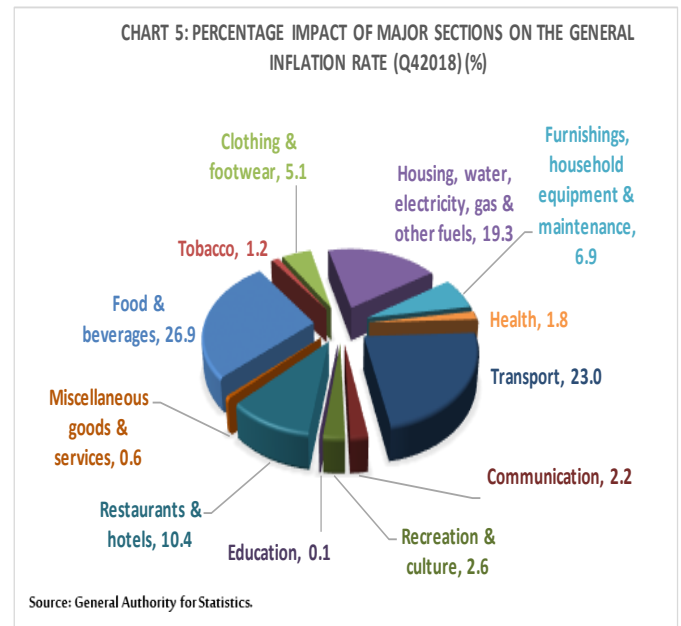
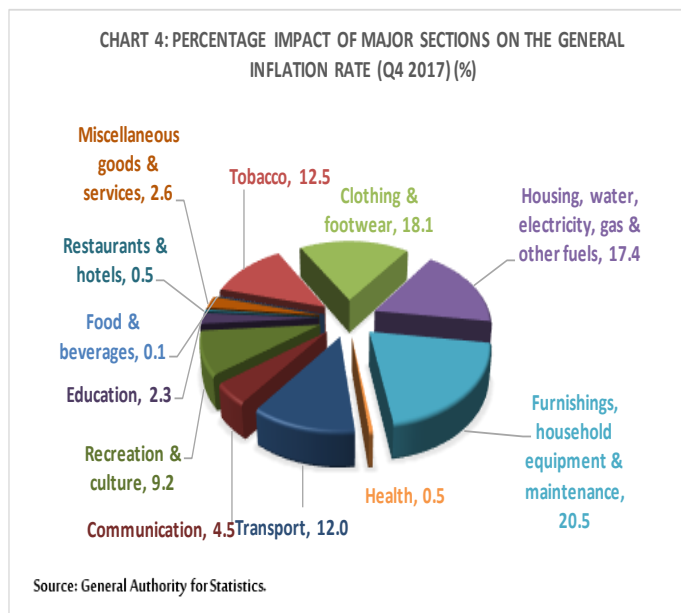
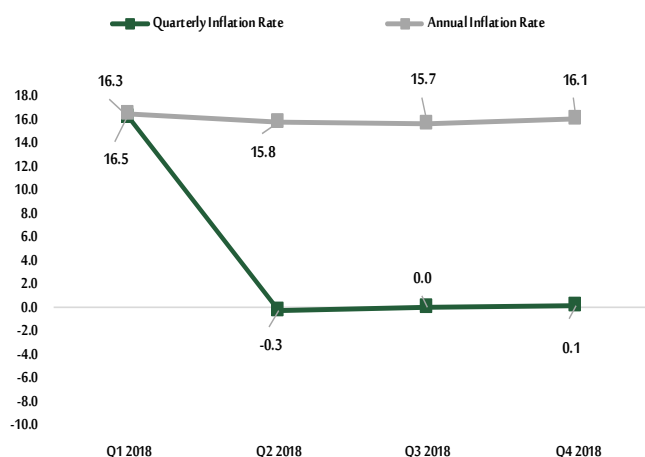


Chart 6: Inflation of the Wholesale Price Index (2014=100)



Source: General Authority for Statistics

Wholesale Price Indices by Sections

During Q4 2018, other goods registered the highest y/y increase of 36.8 percent. Ores and minerals came next with

a y/y increase of 6.4 percent. Food products, beverages, tobacco and textiles followed with a y/y increase of 5.4 percent, and then Metal products, machinery and equipment with a y/y increase of 4.4 percent. Agriculture and fishery products came last with a y/y increase of 4.3 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 11.9 percent in Q3 2018, and a q/q decline of 1.8 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 based

TABLE 2: WHOLESALE PRICE INDEX (WPI)

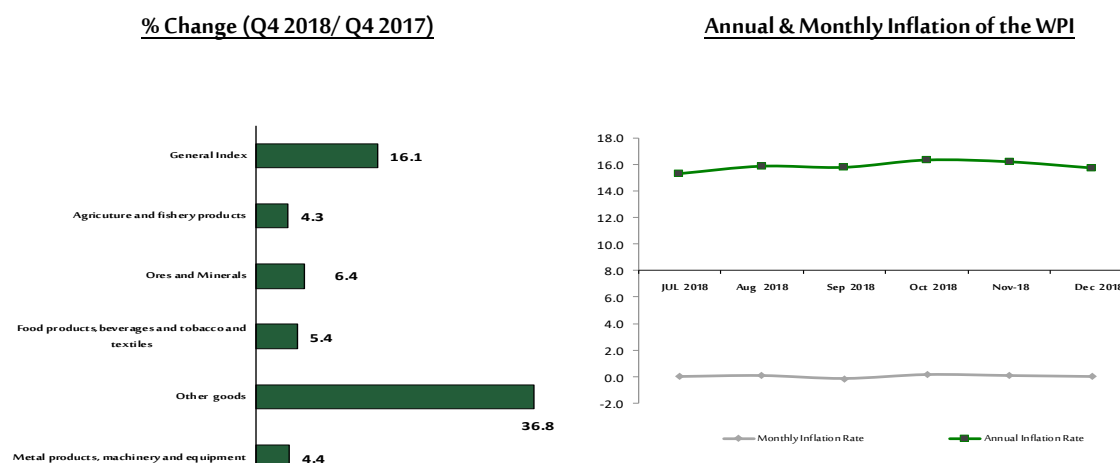
(2014=100)

							(%) change	
	Weights	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q4 2018/ Q3 2018	Q4 2018/ Q4 2017
General Index	100.0	100.7	117.1	116.7	116.7	116.9	0.1	16.1
Agriculture and fishery products	8.7	97.5	101.3	101.7	102.9	101.7	-1.6	4.3
Ores and Minerals	0.6	92.2	98.2	107.2	99.6	98.2	-1.7	6.4
Food products,beverages and tobacco and textiles	17.3	102.2	108.2	114.4	108.2	107.8	-0.4	5.4
Other goods	33.7	106.0	143.9	101.0	143.6	145.0	1.2	36.8
Metal products, machinery and equipment	39.7	96.2	101.8	120.6	100.8	100.5	-0.6	4.4

Source: General Authority for Statistics.

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

(2014=100)



Source: General Authority for Statistics.

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 do-

mestic economy. It registered a q/q decline of 1.3 percent in Q3 2018, but a y/y rise of 2.3 percent (Table 3 and Chart 8).

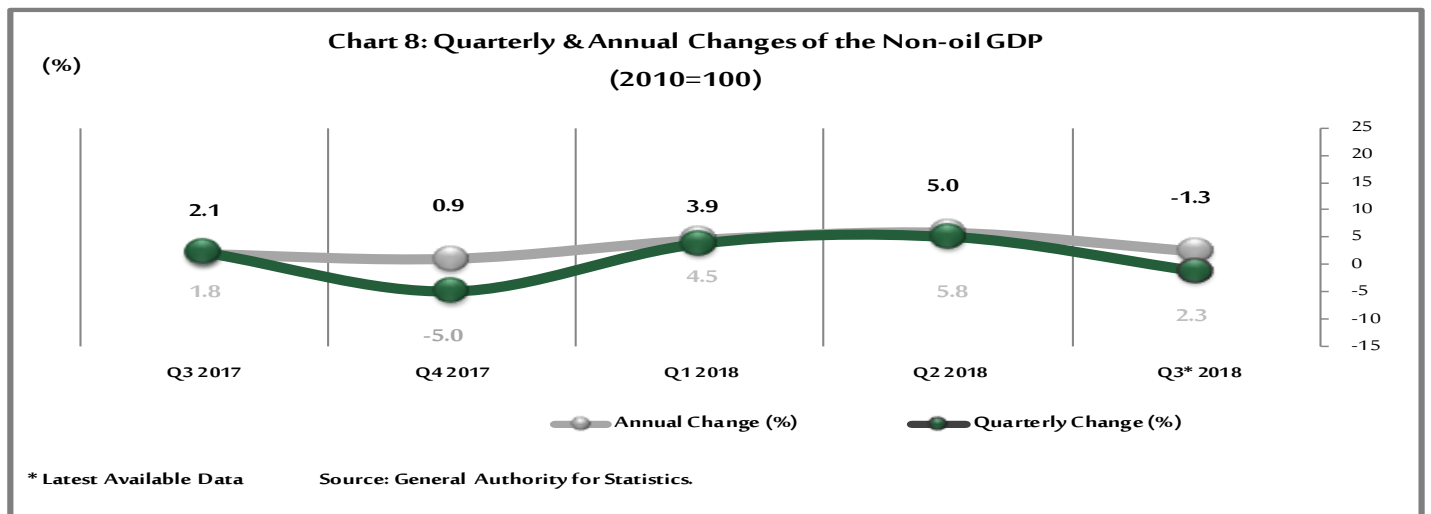
An analysis of GDP deflator's data (at constant prices for base year 2010) by economic activity shows that mining and quarry-

TABLE 3: GDP Deflator
(2010=100)

	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3* 2018
GDP (Million Rls):					
At Current Prices	641,689	678,913	688,131	732,747	736,099
At Constant Prices	637,957	658,147	647,759	639,248	653,714
GDP Deflator	100.6	103.2	106.2	114.6	112.6
Quarterly Change (%)	1.7	2.6	3.0	7.9	-1.8
Annual Change (%)	6.4	8.2	7.6	15.9	11.9
Non-oil GDP (Million Rls):					
At Current Prices	459,195	466,779	476,544	481,377	479,411
At Constant Prices	352,686	377,447	371,018	356,877	359,921
Non-oil GDP Deflator	130.2	123.7	128.4	134.9	133.2
Quarterly Change (%)	2.14	-5.02	3.9	5.0	-1.3
Annual Change (%)	1.8	0.9	4.5	5.8	2.3

* Latest Available Data

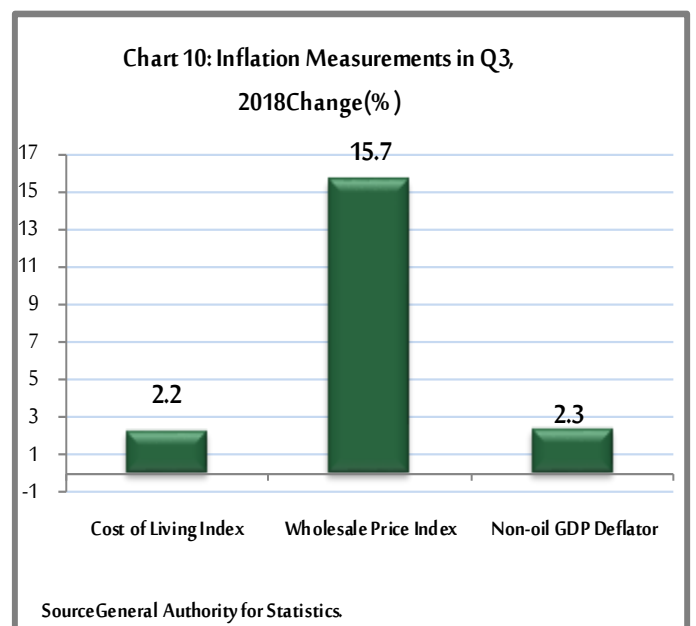
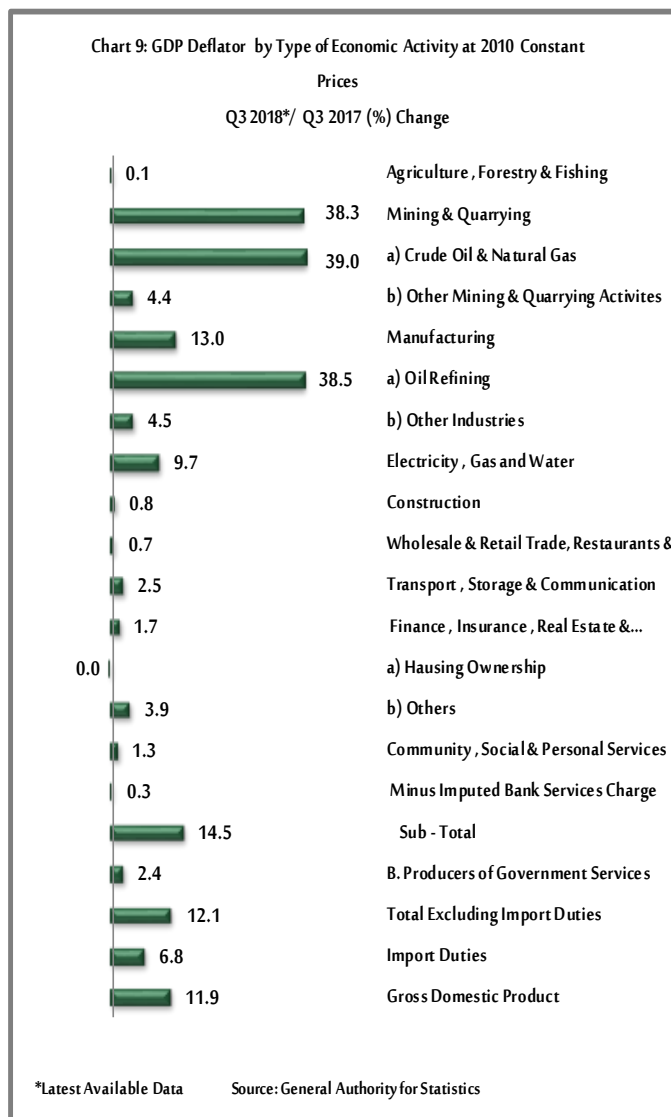
Source: General Authority for Statistics.



ing registered the highest y/y rise of 38.3 percent in Q3 2018. Manufacturing came next with 13.0 percent, followed by elec-

tricity, gas and water with 9.7 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 registered a y/y rise of 2.3 percent in Q3 2018. The annual change rate of the wholesale price index went up by 15.7 percent, and the annual inflation rate of the cost of living index registered a rise of 2.2 percent during the same period (Chart 10).



Foreign Trade with Major Trading Partners

According to data of November 2018, the total value of Saudi Arabia's imports stood at SAR 37.2 billion, with a y/y decrease of 8.5 percent. Moreover, Saudi Arabia's imports recorded a monthly decrease of 14.8 percent compared to the previous month.

China came at the top of Saudi Arabia's major trading partners, according to data of November 2018. Saudi Arabia's imports from China amounted to SAR 6.3 billion (16.8 percent of the total value of Saudi Arabia's imports), increasing by 17.1 percent y/y. The United States came second with SAR 4.4 billion (11.9 percent of the total), dropping by 27.5 percent y/y. The UAE came third with SAR 3.5 billion (9.4 percent of the total), increasing by 19.8 percent y/y.

Japan came fourth with SAR 1.8 billion (4.8 percent of the total), rising by 0.6 percent y/y, followed in fifth place by Germany with SAR 1.7 billion (4.7 percent of the total), down by 30.7 percent y/y (Table 4 A and 4 B).

Inflation Projections for Q1 2019

Actual data in Q4 2018 show that inflation rate recorded a y/y increase of 2.4 percent. In addition, inflation rate is projected to show a y/y slow down in Q1 2019 due to the effect of value-added tax on most goods and services gradually tapering off at the beginning of 2018.

On the other hand, the World Bank's projections for the primary commodity price index (October 2018) show a decrease in inflationary pressures on most of its main sections for 2019. Its projections

TABLE 4 A: Top Five Trading Partners by value of Imports
(SAR Million)

Countries	2016	2017	Change (%)
China	75,309	74,797	-0.7
U.S.A	77,728	66,292	-14.7
U.A.E	28,616	31,865	11.4
Germany	34,331	28,675	-16.5
Japan	27,821	19,936	-28.3
Total	243,805	221,564	-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	Nov-17	Nov-18	Change (%)
China	5,354	6,269	17.1
U.S.A	6,123	4,440	-27.5
U.A.E	2,910	3,485	19.8
Germany	1,779	1,790	0.6
India	2,495	1,729	-30.7
Total	18,662	17,713	-5.1
Ratio to Total	45.90	47.60	3.7

Source: General Authority for Statistics.

show a decrease in the prices of energy by 0.6 percent, metals by 2.1 percent, raw materials by 0.1 percent, food by 0.4 percent, agricultural materials by 0.3 percent, and beverages by 0.4 percent (Table 5).

Summary

The most significant results of the analysis of inflation rates in Q4 2018 in Saudi Arabia can be concluded as follows:

1. The general cost of living index registered a y/y increase of 2.4 percent in Q4 2018, whereas it registered a q/q decrease of 0.7 percent.

2. During Q4 2018, transport, having the highest influence on the index, registered the highest y/y inflation rate of 11.8 percent. In contrast, clothing and footwear recorded the highest y/y deflation of 4.2 percent.

3. The wholesale price index in Q4 2018 recorded a y/y rise of 16.1 percent, while remaining unchanged at the level it was at the 2nd and 3rd quarters of 2018.

4. Other goods recorded the highest y/y increase of 36.8 percent in the wholesale price index.

5. The GDP deflator recorded a y/y increase of 11.9 percent in Q3 2018. In addition, the non-oil GDP deflator registered a y/y rise of 2.3 percent in Q3 2018.

6. Inflation rate is projected to show a y/y slow down in Q1 2019 due to the effect of value-added tax on most goods and services gradually tapering off at the beginning of 2018.

TABLE 5: World Bank Commodity Price Index

(2010 =100)

(Percentage changes)

	Actual				Projections		
	2015	2016	2017	2018	2019	2020	2021
Energy	-39.2	-11.9	19.7	34.3	-0.6	-8.2	-1.4
Agricultural Raw Materials	-5.5	3.7	-4	0.3	-0.3	-0.1	-0.1
Beverages	2.1	1.1	-12	-5	-0.4	-0.1	0
Food	-9.1	5.7	-3.1	1.1	-0.4	-0.2	-0.2
Raw Materials	0.2	0.2	-2.2	1.4	-0.1	0.1	0.1
Fertilizers	7.3	-17.7	-7.7	10.2	0	0.4	0.4
Metals and minerals	-12.6	-2	20	6.1	-2.1	-1.4	-1.3

Source: World Bank (Oct 2018)

