

2020

Inflation Report

First Quarter of 2020

Research and International Affairs Deputyship
Economic Research Department

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority



Table of Contents

Section	Page No.
Consumer Price Index (CPI)	3
Developments in Q1 2020	3
The Effect of Major Section on Consumer Price Index	3
Wholesale Price Index (WPI)	6
GDP Deflator	6
Inflation Rates in Top Countries Exporting to Saudi Arabia	9
Inflation Projections for Q2 2020	10
Summary	11

Consumer Price Index (CPI)

The consumer price index (CPI) registered a y/y increase of 1.1 percent in Q1 2020 and a q/q increase of 0.2 percent (Table 1 and Chart 1).

Developments in Q1 2020

During Q1 2020, transport section registered the highest y/y inflation rate of 3.3 percent. Food and beverages came second with a y/y increase of 3.1 percent, followed by restaurants and hotels with 1.9 percent; miscellaneous goods and services with 1.7 percent; education with 1.6 percent; recreation and culture with 1.1 percent; furnishings, household equipment and maintenance with 1.0 percent; tobacco with

0.8 percent; and clothing and footwear with 0.4 percent.

In contrast, housing, water, electricity, gas and other fuels registered the highest y/y decrease of 1.1 percent. Communication came next with a decline of 0.8 percent, followed by health with 0.2 percent (Table 1 and Charts 2 and 3).

The Effect of Major Section on the Consumer Price Index

Inflation rates are affected by the changes in CPI's various sections. Classified by their influence on the CPI, food and beverages ranked first with 31.4 percent in Q1 2020 against 8.3 percent in Q1 2019. Transport came second with 23.7 percent

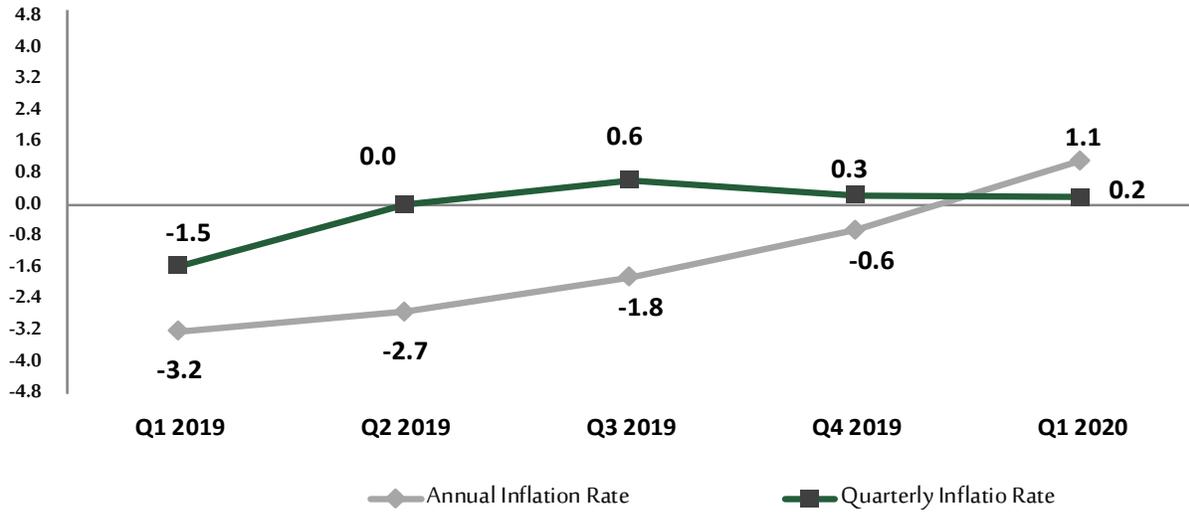
TABLE 1: CONSUMER PRICE INDEX

(2018 = 100)

	Weights	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	(% change)	
							2020Q1 / 2019Q4	2020Q1 / 2019Q1
General index	100.0	97.5	97.5	98.2	98.4	98.6	0.2	1.1
Food & beverages	18.8	101.2	101.4	102.4	103.4	104.3	0.8	3.1
Tobacco	0.6	101.2	100.9	100.8	101.0	102.0	1.0	0.8
Clothing & footwear	4.2	97.7	98.9	99.1	98.6	98.1	-0.5	0.4
Housing, water, electricity, gas & other fuels	25.5	92.2	91.1	90.9	91.3	91.2	-0.1	-1.1
Furnishings, household equipment & maintenance	6.7	99.0	99.0	99.5	100.0	100.1	0.1	1.0
Health	1.4	100.1	99.9	100.3	100.2	99.9	-0.3	-0.2
Transport	13.1	96.9	98.1	99.4	100.0	100.1	0.2	3.3
Communication	5.6	99.0	98.9	98.6	98.4	98.2	-0.2	-0.8
Recreation & culture	3.1	97.4	97.9	99.7	98.4	98.5	0.1	1.1
Education	2.9	101.9	102.1	102.6	103.4	103.5	0.1	1.6
Restaurants & hotels	5.6	102.1	102.9	103.8	104.1	104.0	-0.1	1.9
Miscellaneous goods & services	12.6	98.9	99.1	100.7	99.7	100.6	0.9	1.7

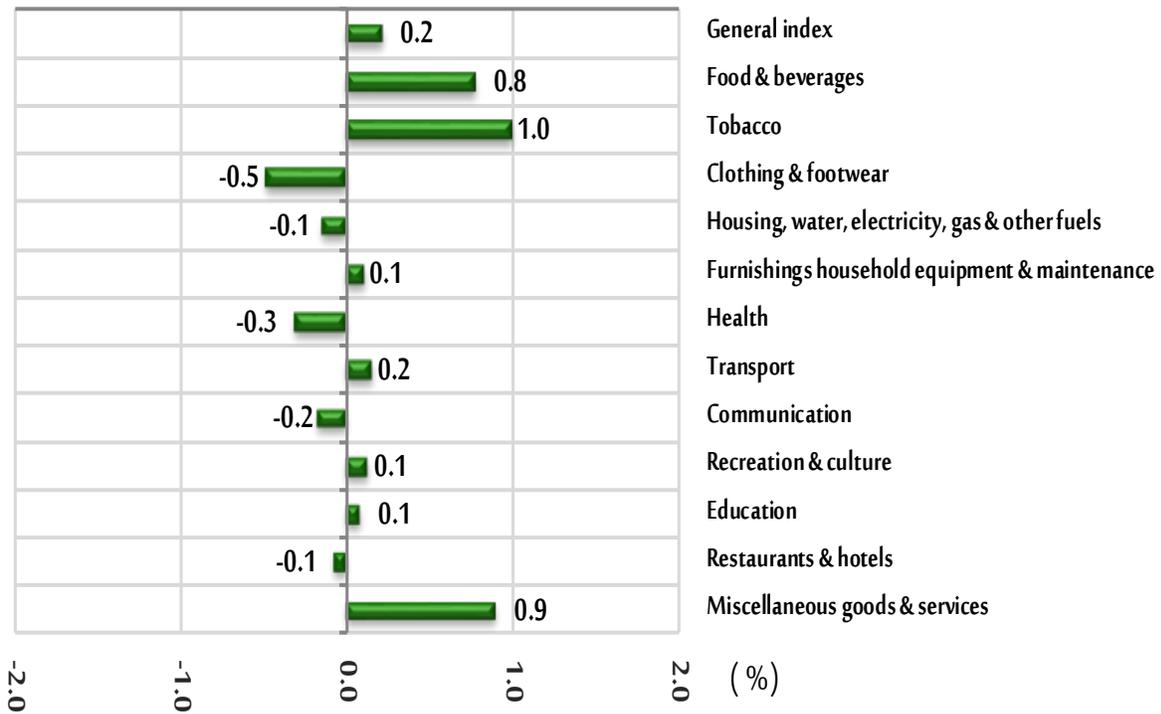
Source: General Authority for Statistics.

Chart 1: Inflation Rate of The Consumer Price Index
(2018 = 100)



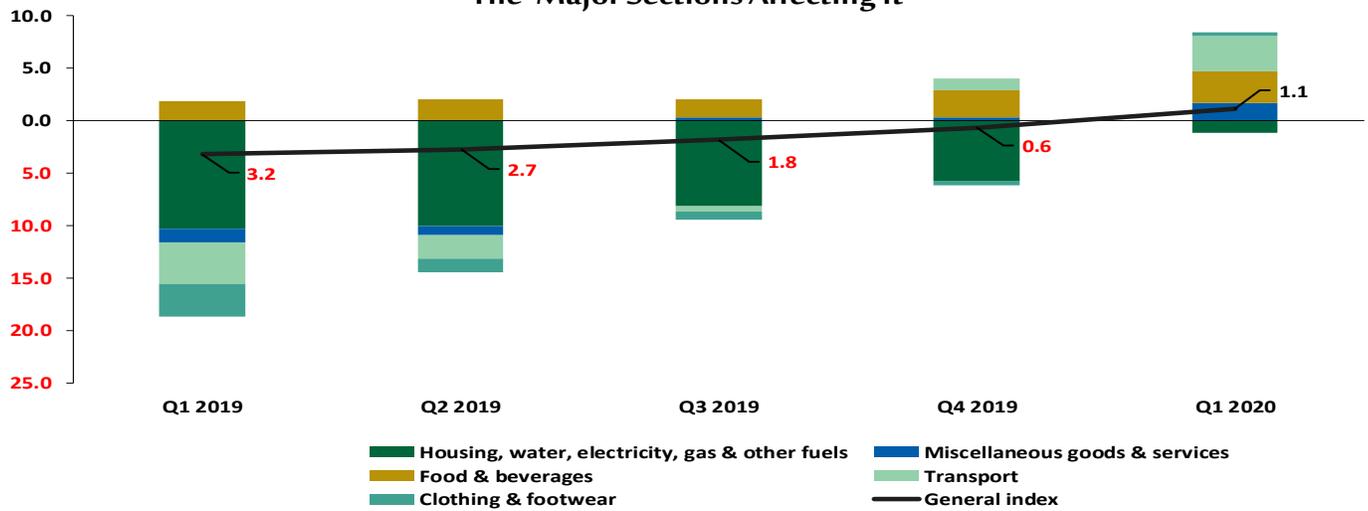
Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Consumer Price Index by Main Sections (Q4 2019/Q1 2020)



Source: General Authority for Statistics.

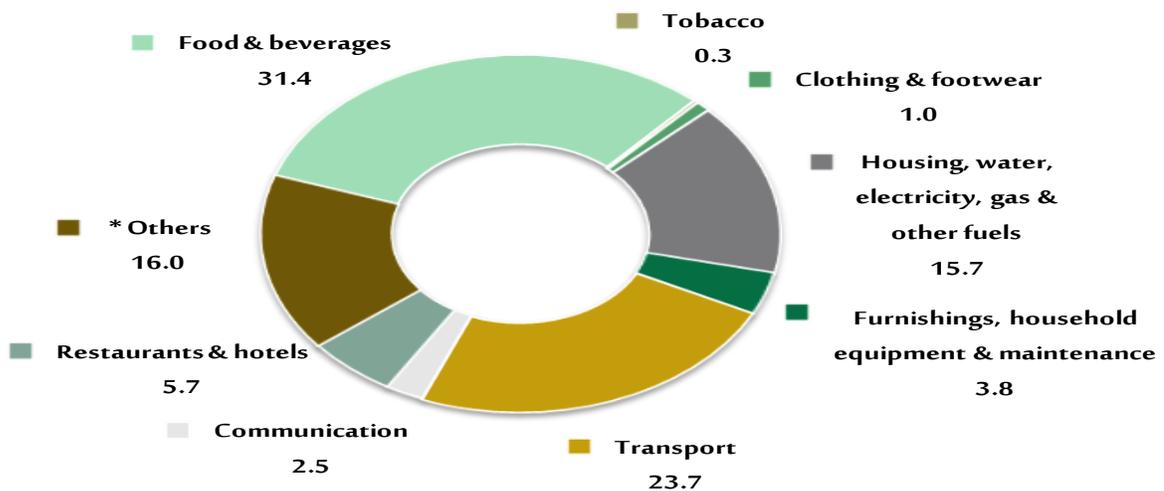
Chart 3: The Annual Inflation Rate Of The General Consumer Price Index and The Major Sections Affecting it



compared to 12.1 percent y/y, followed by housing, water, electricity, gas and other fuels with 15.7 percent against 61.1 percent y/y; restaurants and hotels with 5.7 percent compared to 4.1 percent y/y; furnishings, household equipment and maintenance with 3.8 percent compared to 2.1 percent y/y; and communication with 2.5 percent compared to 1.7 percent y/y.

The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages; and transport) stood at 70.8 percent in Q1 2020 against 81.5 percent in Q1 2019 (Chart 4).

Chart 4: Percentage Impact Of Major Sections On The Consumer Price Index (Q1 2020)



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

Wholesale Price Index (WPI)

The wholesale price index in Q1 2020 recorded a y/y rise of 4.0 percent and a q/q increase of 0.5 percent (Chart 5).

As for the WPI by sections, metal products, machinery and equipment registered the highest y/y increase of 6.5 percent during Q1 2020. Agriculture and fishery products ranked second with a y/y rise of 4.6 percent, followed by other goods with 3.1 percent and food products, beverages, tobacco and textiles with 1.0 percent. On the other hand, ores and minerals recorded a y/y decrease of 2.8 percent (Table 2 and Chart 5).

GDP Deflator

According to the latest data issued by the GaStat, the GDP deflator recorded a y/y increase of 0.7 percent. However, it registered a q/q decrease of 1.8 percent in Q4 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 economy. During Q4 2019, the non-oil GDP deflator registered a q/q decrease of 3.8 percent but a y/y rise of 0.3 percent (Table 3 and Chart 6).

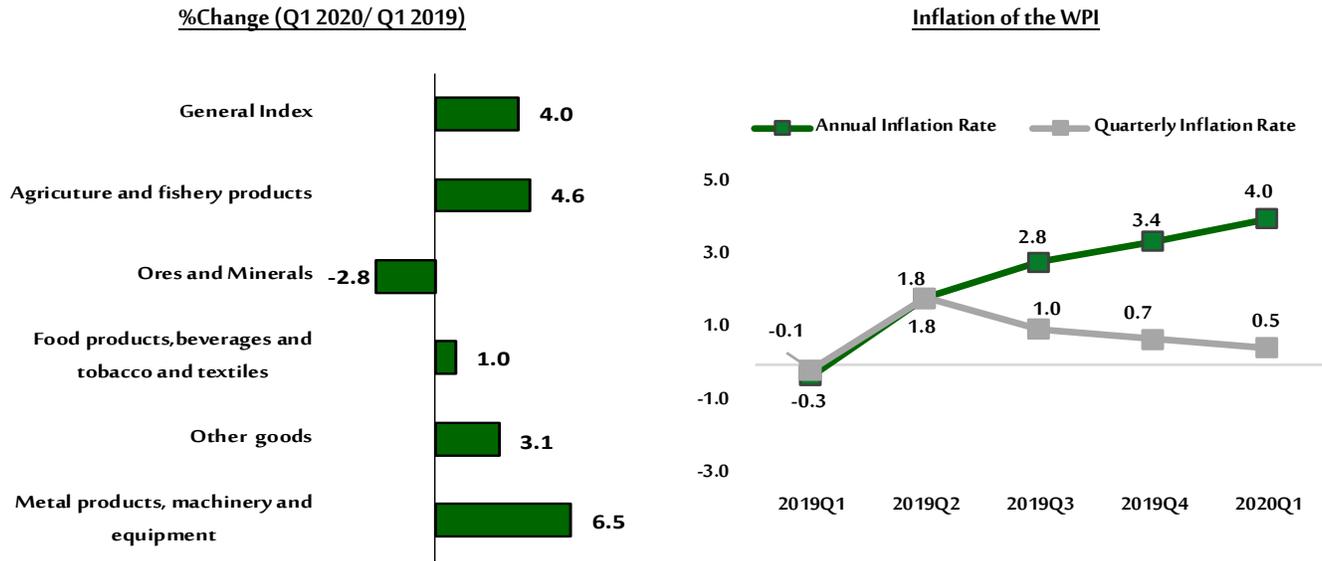
An analysis of GDP deflator data (at constant prices for base year 2010) by economic activity shows that construction and building registered the highest y/y rise of 1.2 percent in Q4 2019. Producers of gov-

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

	Weights	2019Q1	2019Q2	2019Q3	2019Q4	2020Q1	(% change)	
							2020Q1/ 2019Q4	2020Q1/ 2019Q1
General Index	100.0	116.7	118.8	120.0	120.8	121.4	0.5	4.0
Agriculture and fishery products	8.7	99.1	99.7	101.6	101.1	103.6	2.5	4.6
Ores and Minerals	0.6	98.1	97.8	97.3	96.0	95.3	-0.7	-2.8
Food products, beverages and tobacco and textiles	17.3	107.4	107.6	107.4	107.2	108.5	1.2	1.0
Other goods	33.7	143.0	144.6	146.9	147.9	147.4	-0.3	3.1
Metal products, machinery and equipment	39.7	102.5	106.3	107.0	108.4	109.2	0.7	6.5

Source: General Authority for Statistics.

Chart 5: Inflation of the Wholesale Price Index by Main Sections
(2014 = 100)

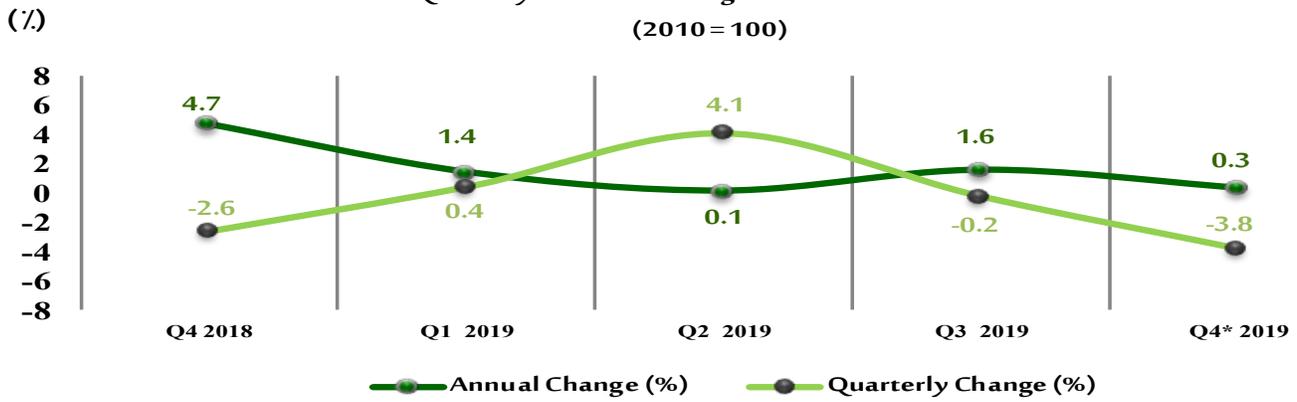


Source: General Authority for Statistics.

TABLE 3: GDP Deflator
(2010 = 100)

	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4* 2019
GDP (Million Rls):						
At Current Prices	745,062	766,354	718,543	740,032	745,369	769,681
At Constant Prices	654,372	686,990	660,685	642,779	651,392	684,959
GDP Deflator	113.9	111.6	108.8	115.1	114.4	112.4
Quarterly Change (%)	-1.4	-2.0	-2.5	5.9	-0.6	-1.8
Annual Change (%)	12.8	8.4	1.1	-0.3	0.5	0.7
Non-oil GDP (Million Rls):						
At Current Prices	479,723	501,134	496,371	499,150	508,443	522,101
At Constant Prices	360,475	386,690	381,368	368,351	376,071	401,514
Non-oil GDP Deflator	133.1	129.6	130.2	135.5	135.2	130.0
Quarterly Change (%)	-1.7	-2.6	0.4	4.1	-0.2	-3.8
Annual Change (%)	2.2	4.7	1.4	0.1	1.6	0.3
* Latest Available Data Source: General Authority for Statistics.						

Chart 6: Quarterly & Annual Changes of the Non-oil GDP Deflator (2010 = 100)

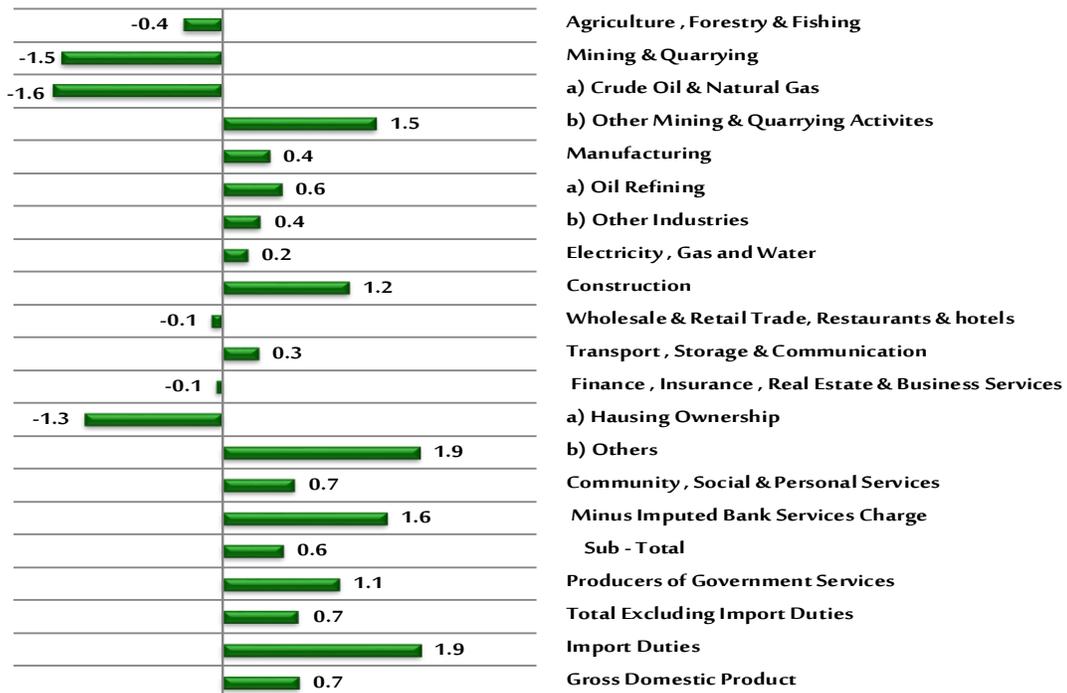


* Latest Available Data Source: General Authority for Statistics.

ernment services came second with 1.1 per cent, followed by community, social and personal services with 0.7 percent; manufacturing with 0.4 percent; transportation, storage and communications with 0.3 percent; and electricity, gas and water with 0.2 percent. Conversely, mining and quarrying

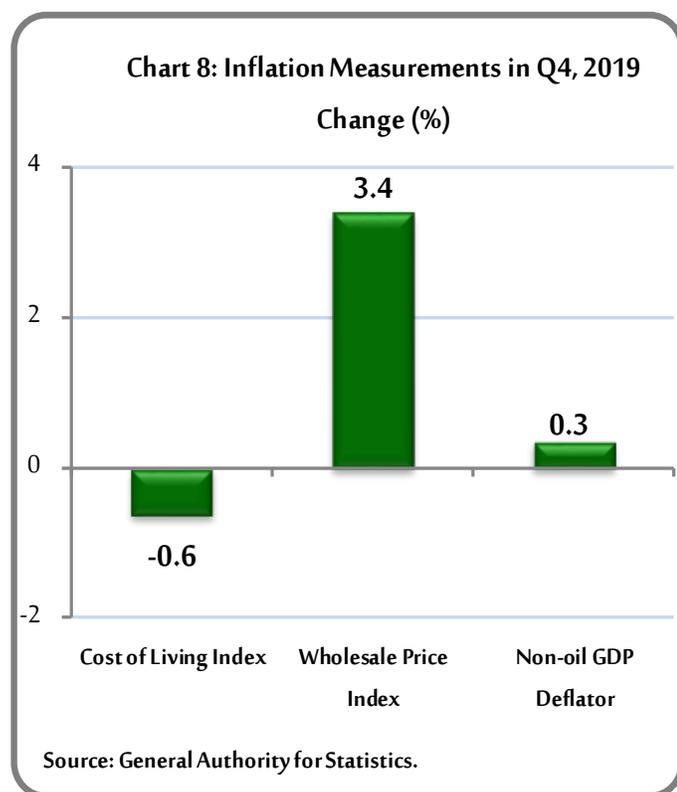
recorded the highest y/y deflation of 1.5 percent. Agriculture, forestry and fishing came next with 0.4 percent, followed by finance, insurance, real estate and business services; wholesale and retail trade; and restaurants and hotels with 0.1 percent each (Chart 7).

Chart 7: GDP Deflator by Type of Economic Activity at 2010 Constant Prices Q4 2019/ Q4 2018 Change



* Latest Available Data Source: General Authority for Statistics

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 increase of 0.3 percent in Q4 2019. The annual change rate of the WPI went up by 3.4 percent, whereas the annual inflation rate of the CPI fell by 0.6 percent during the same period (Chart 8).



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 Q1 2020 data, inflation rate in China, being at the top of Saudi Arabia's trading partners in terms of imports, increased by 3.1 percent y/y and by 0.7 percent compared to Q4 2019. The inflation rate in the United States also went up in Q1 2020 by 2.1 percent y/y and 0.4 percent q/q. In Japan, the rate registered a y/y increase of 0.5 percent but a q/q decrease of 0.3 percent. Moreover, Germany recorded a y/y rise of 1.6 percent but q/q decline of 0.2 percent in inflation. In contrast, the rate went down in the UAE by 1.5 percent y/y and 0.7 percent q/q (Table 4).

TABLE 4: The Consumer Price Index (CPI) For The Most Important Counties Exporting To The Kingdom of Saudi Arabia

(%)

Countries	2019				2020	Q12020 / Q4 2019	Q12020 / Q1 2019
	Q1	Q2	Q3	Q4	Q1		
China	101.8	102.6	102.9	104.3	105.0	0.7	3.1
USA	252.9	255.9	256.6	257.2	258.3	0.4	2.1
UAE	109.2	109.5	108.9	108.4	107.6	-0.7	-1.5
Japan	101.5	101.7	101.8	102.3	102.0	-0.3	0.5
Germany	103.8	105.4	106.1	105.7	105.5	-0.2	1.6

Source: General Authority for Statistics

Inflation Projections for Q2 2020

It is projected that the annual inflation rate will be stable during Q2 2020. Despite seasonal inflationary pressures expected during the month of Ramadan, the projections show that the inflation rate will be affected by the coronavirus crisis and the precautionary measures taken in response to the pandemic; in other words, the impact on the inflation can come from two sources. First, the rise in food demand (since the start of coronavirus outbreak in Saudi Arabia) may contribute to an inflation increase in food and beverages section which constitutes about 19 percent of the total CPI. Second, some economic sectors have been negatively impacted by the precautionary lockdown measures, leading to

a decline in demand for some goods and services. This decline includes goods and services provided under transport; restaurants and hotels; recreation and culture; clothing and footwear; and furnishings, household equipment and maintenance. These sections form together around 32 percent of the total CPI. On the other hand, the World Bank's projections for the primary commodity price index (April 2020) show deflationary pressures on all sections in 2020. Its projections show a decrease in the prices of energy by 40.4 percent, metals by 13.8 percent, fertilizers by 10.0 percent, beverages by 5.4 percent, agricultural commodities by 1.1 percent, raw materials by 0.8 percent, and food by 0.6 percent (Table 5).

TABLE 5: World Bank Commodity Price Index
(2010=100)

(Percentage changes)

	Actual			Projections			
	2017	2018	2019	2020	2021	2022	2023
Energy	23.6	27.8	-12.6	-40.4	19.0	5.4	5.5
Agriculture	-0.6	-0.3	-3.9	-1.1	1.8	1.8	1.9
Food	0.7	0.2	-3.8	-0.6	1.8	1.9	1.9
Raw materials	1.2	0.2	-4.2	-0.8	1.6	1.7	1.6
Base Metals	24.3	6.7	-9.9	-13.8	5.0	3.0	3.0
Fertilizers	-4.5	11.0	-1.3	-10.0	3.1	3.2	3.1
Beverages	-9.0	-4.8	-3.7	-5.4	2.4	2.3	2.3

Source: World bank.

Summary

The key results of the analysis of inflation rates in Q1 2020 in Saudi Arabia can be summarized as follows:

1. The consumer price index (CPI) registered a y/y increase of 1.1 percent in Q1 2020 and a q/q increase of 0.2 percent.
2. Transport registered the highest y/y inflation rate of 3.3 percent. Food and beverages came second with a y/y increase of 3.1 percent, followed by restaurants and hotels with 1.9 percent.
3. The wholesale price index in Q1 2020 recorded a y/y rise of 4.0 percent. Metal products, machinery and equipment registered the highest y/y increase of 6.5 percent.
4. According to the latest data issued by the GaStat, the GDP deflator recorded a y/y increase of 0.7 percent but a q/q decrease of 1.8 percent in Q4 2019.
5. It is projected that the annual inflation rate will be stable during Q2 2020. Despite seasonal inflationary pressures expected during the month of Ramadan, the projections show that the inflation rate will be affected by the coronavirus crisis and the precautionary measures taken in response to the pandemic; in other words, the impact on the inflation can come from two sources. First, the rise in food demand (since the start of coronavirus outbreak in Saudi Arabia) may contribute to an inflation increase in food and beverages section. Second, some business activities have been negatively impacted by the precautionary lockdown measures, leading to a decline in demand for some goods and services provided by sectors, such as transport, restaurants and hotels, and recreation and culture.

