

Saudi Arabian Monetary Authority
Economic Research Department

Inflation Report

First Quarter of 2017



Inflation Report



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Cost of Living Index

The general level of prices registered a y/y decrease of 0.3 percent and a slight q/q decline of 0.5 percent in Q4 2016. In March 2017, the cost of living index registered an annual decline of 0.4 percent (Chart 1 and Table 1).

Developments in Q1 2017

During Q1 2017, tobacco registered the highest y/y inflation rate of 12.6 percent. Communication came second with 3.0 percent; miscellaneous goods and services with 2.5 percent; health with 2.2 percent; education with 1.9 percent; housing, water, electricity, gas and other fuels with 1.1 percent; clothing and footwear with 0.4 percent, and furnishings, household equipment and routine household

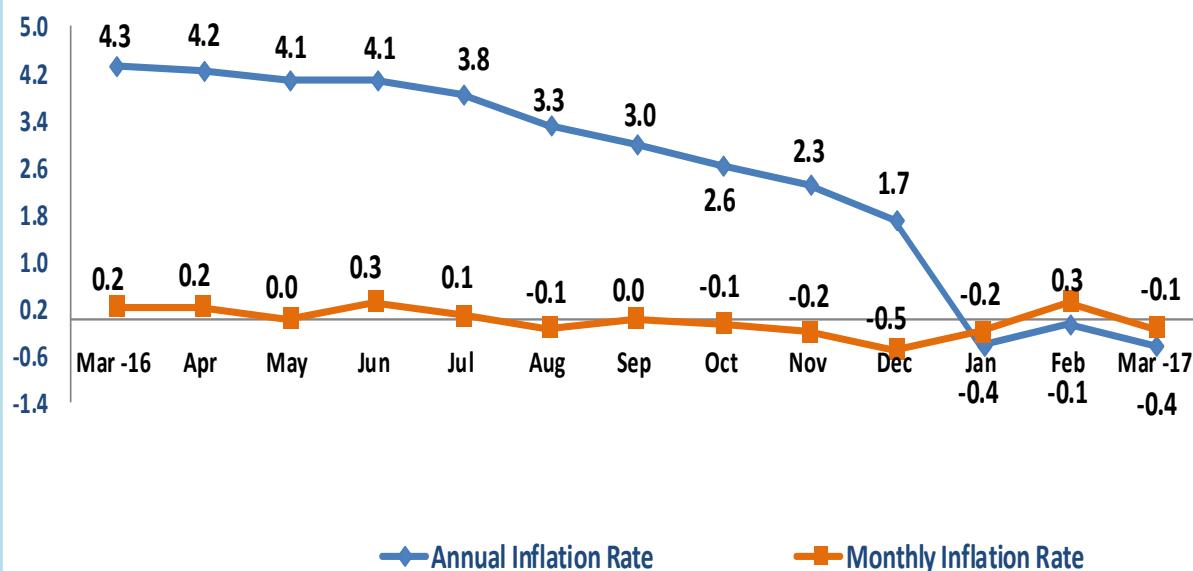
maintenance with 0.3 percent. (Table 1 and Chart 2).

In contrast, food and beverages recorded a y/y decline of 3.5 percent, followed by transport with 2.8 percent; recreation and culture with 2.0 percent, and restaurants and hotels with 1.1 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 46.4 percent during Q1 2017 against 9.4 percent in Q1 2016. Communication came second with 12.8 percent compared to 0.6 percent, followed by

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



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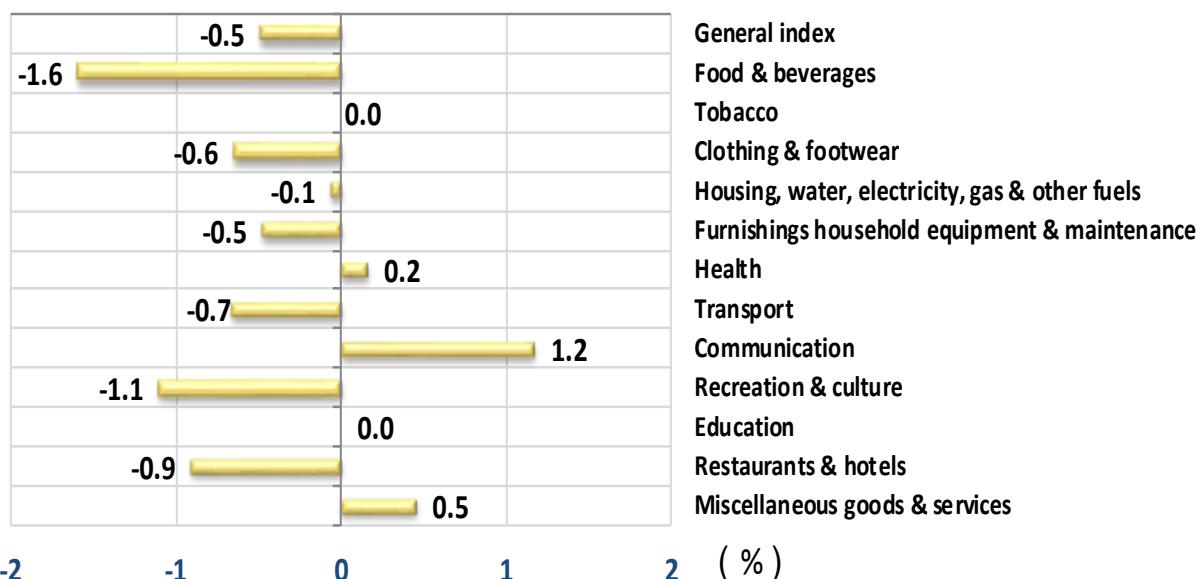


**TABLE 1: COST OF LIVING INDEX
(2007=100)**

	Weights	(% change)						
		Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q1 2017/Q4 2016	Q1 2017/Q1 2016
General index	100.0	137.1	137.7	138.0	137.4	136.7	-0.5	-0.3
Food & beverages	21.7	147.8	146.7	146.9	145.0	142.7	-1.6	-3.5
Tobacco	0.5	177.4	199.8	199.8	199.8	199.8	0.0	12.6
Clothing & footwear	8.4	112.4	114.4	114.1	113.6	112.9	-0.6	0.4
Housing, water, electricity, gas & other fuels	20.5	175.2	176.6	177.4	177.2	177.1	-0.1	1.1
Furnishings, household equipment & maintenance	9.1	133.3	134.7	135.0	134.4	133.7	-0.5	0.3
Health	2.6	120.9	123.5	123.7	123.3	123.5	0.2	2.2
Transport	10.4	124.2	123.5	122.4	121.6	120.8	-0.7	-2.8
Communication	8.1	95.0	95.5	95.8	96.7	97.9	1.2	3.0
Recreation & culture	3.5	119.6	119.0	119.5	118.5	117.2	-1.1	-2.0
Education	2.7	122.6	122.6	122.6	124.9	124.9	0.0	1.9
Restaurants & hotels	5.7	125.9	126.1	125.5	125.6	124.5	-0.9	-1.1
Miscellaneous goods & services	6.8	122.4	124.2	125.8	124.8	125.4	0.5	2.5

Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Cost of Living Index by Main Sections (Q1 2017/Q4 2016)

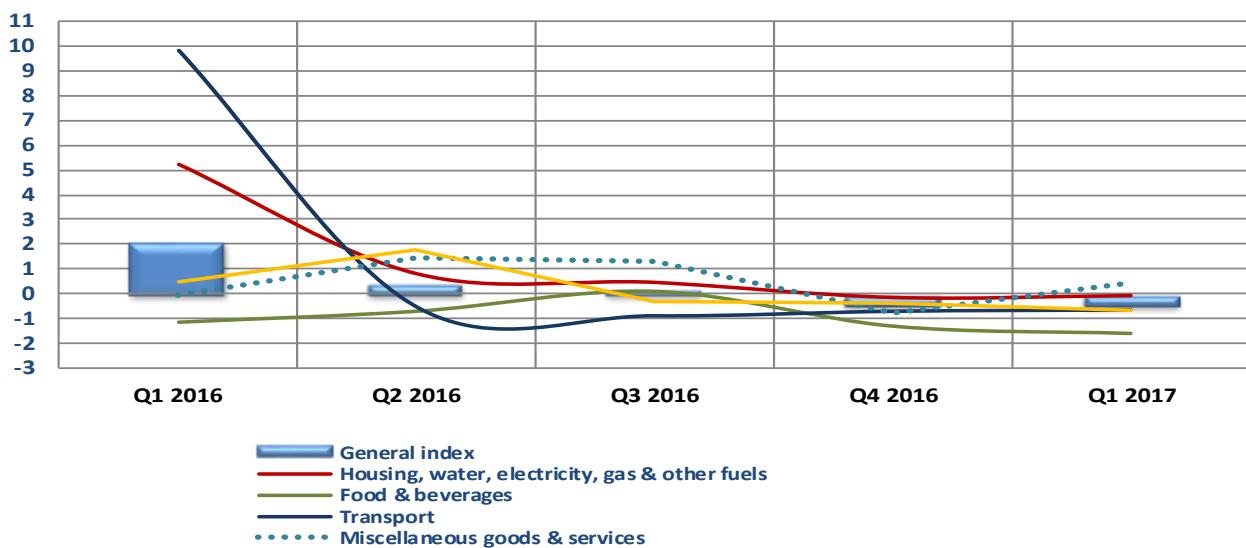


Source: General Authority for Statistics.

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Chart 3: Quarterly Inflation Rate of the General Cost of Living Index and the Most Major Sections Affecting it

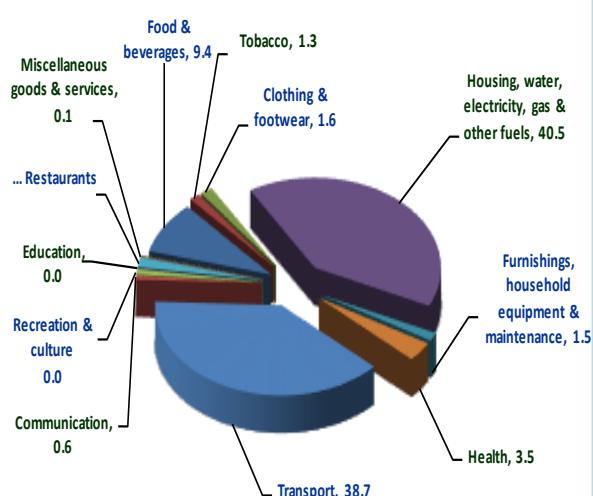


Source: General Authority for Statistics.

transport with 9.2 percent compared to 38.7 percent, and finally clothing and footwear with 7.3 percent compared to 1.6 percent.

The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages; and transport) stood at 57.2 percent in Q1 2017 against 88.6 percent in Q1 2016 (Charts 4 and 5).

Chart 4: Percentage Impact Of Major Sections On The General Inflation Rate (Q1 2016) (%)



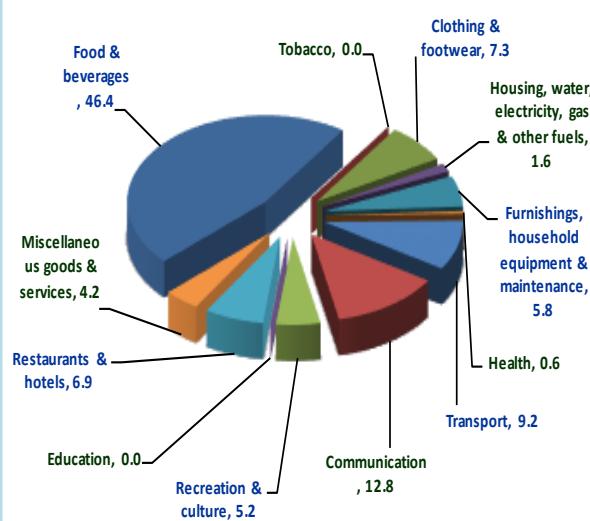
Wholesale Price Indices

The wholesale price index in Q1 2017 recorded a q/q rise of 0.2 percent and a y/y decline of 2.4 percent (Chart 6).

Wholesale Price Indices by Sections

During Q1 2017, ores and minerals registered the highest y/y decrease as inflation rate declined by 7.2 percent.

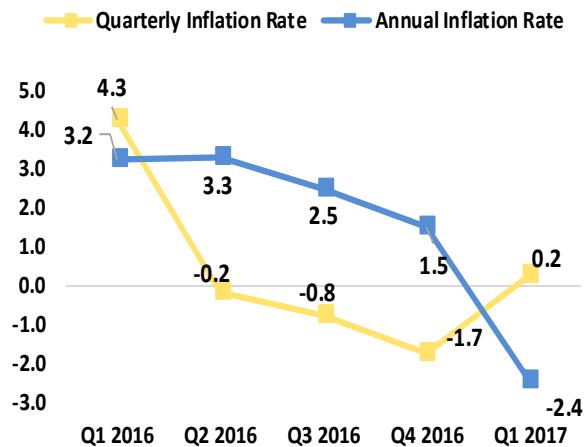
Chart 5: Percentage Impact Of Major Sections On The General Inflation Rate (Q1 2017) (%)



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



Source: General Authority for Statistics

Agriculture and fishery products ranked second with a y/y decline of 5.4 percent. Metal products, machinery and equipment came third with 2.5 percent; other goods with 2.1 percent, and finally food products, beverages and tobacco and textile with 1.7 percent (Table 2 and Chart 7).

Cost of Living Index by Cities

All Cities' General Cost of Living Index went down by 0.5 percent q/q in Q1 2017. Jazan posted the highest rise of 1.7 percent, and Baha came second with 0.1 percent. Average general index fell in Buraidah by 1.6 percent; Hufuf by 1.1 percent; Jeddah by 1.0 percent; Makkah by 0.8 percent; and Tai'f, Tabuk and Ha'il by 0.7 percent each (Table 3).

GDP Deflator

According to the latest data issued by GaStat, GDP deflator recorded a q/q decrease of 0.8 percent in Q4 2016, and a y/y rise of 6.2 percent (Table 4 and Chart 8).

The GDP deflator measures inflation rate at the macroeconomic level, which is different from the cost of living index that only targets final consumption. GDP deflator, however, targets all consumption, investment

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

	Weights	(% change)					
		Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q1 2017/ Q4 2016
General Index	100.0	103.0	102.8	102.0	100.3	100.5	0.2
Agriculture and fishery products	8.7	106.6	105.7	104.2	100.4	100.8	0.4
Ores and Minerals	0.6	103.0	99.5	100.2	96.9	95.6	-1.3
Food products, beverages and tobacco and textiles	17.3	99.8	98.4	97.9	97.5	98.1	0.5
Other goods	33.7	110.2	110.5	109.3	107.3	107.9	0.6
Metal products, machinery and equipment	39.7	97.8	98.0	97.5	96.0	95.4	-0.6

Source: General Authority for Statistics.

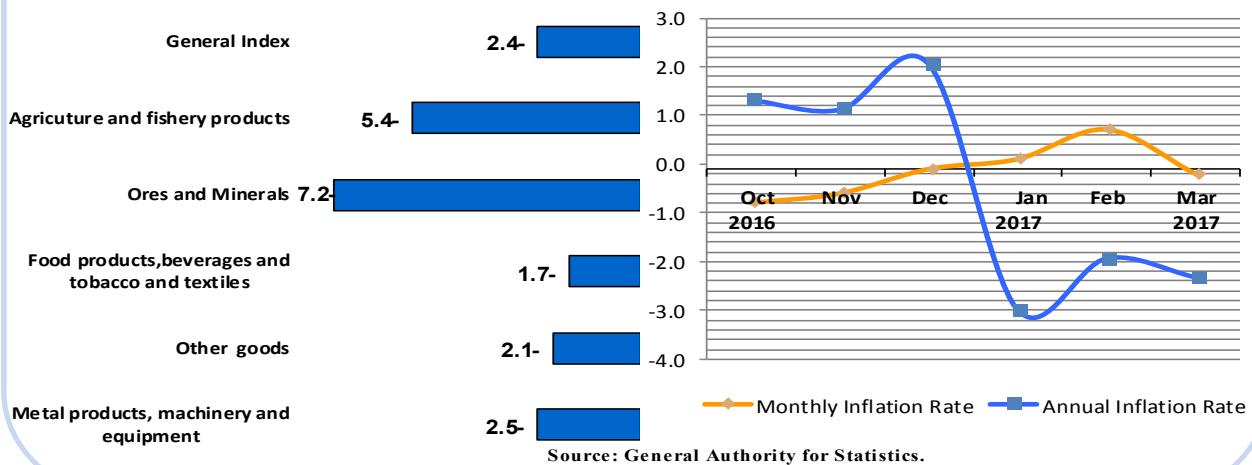
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**Chart 7: Inflation of the Wholesale Price Index by Main Sections
(2014=100)**

% Change (Q1 2017/ Q1 2016)

Annual & Monthly Inflation of the WPI



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

General Index	2015	2016	Q3 2016	Q4 2016	Q1 2017	2016/2015	Q1 2017/ Q4 2016	Inflation Rate
All Cities Index	132.9	137.6	138.0	137.4	136.7	3.5	-0.5	
Riyadh	140.1	144.5	144.8	144.0	143.6	3.2	-0.3	
Makkah	129.7	133.1	133.5	132.4	131.4	2.7	-0.8	
Jeddah	131.7	139.3	140.4	139.7	138.3	5.8	-1.0	
Al-Dammam	135.1	138.7	139.3	139.7	138.9	2.7	-0.6	
Al-Madinah	126.4	129.7	130.0	129.9	129.2	2.6	-0.5	
Ta'if	127.8	132.1	131.9	133.0	132.0	3.4	-0.7	
Al-Hufuf	124.9	129.0	129.2	128.3	126.9	3.2	-1.1	
Abha	125.0	128.9	129.2	128.9	128.1	3.1	-0.6	
Buraydah	127.7	129.7	129.7	127.5	125.5	1.6	-1.6	
Tabuk	120.2	123.8	124.0	122.7	121.8	3.0	-0.7	
Ha'il	128.2	130.8	131.1	129.9	129.0	2.0	-0.7	
Jazan	149.9	156.7	156.8	156.9	159.5	4.5	1.7	
Najran	132.0	137.2	137.3	136.8	136.1	3.9	-0.5	
Al-Bahah	134.5	141.7	142.4	140.9	141.0	5.4	0.1	
Sakaka	131.7	136.4	136.4	135.3	134.6	3.5	-0.5	
'Ar'ar	126.5	131.2	132.5	131.5	131.1	3.8	-0.3	

Source: General Authority for Statistics.

and government sectors based on their respective contributions to GDP. Therefore, the deflator is considered as an indirect measure of the change in the 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. It registered a q/q decline of 5.4 percent in Q4 2016 and a y/y rise of 5.6 percent (Table 4 and chart 8).

An analysis of GDP deflator data (at constant prices for base year 2010) by

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TABLE 4: GDP Deflator
(2010=100)

	4Q 2015	1Q 2016	2Q 2016	3Q 2016	4Q* 2016
GDP (Million Rls):					
At Current Prices	575,466	579,076	598,789	602083.3	618616.0
At Constant Prices	653819.9	642299.5	638328.5	638580.3	661612.0
GDP Deflator	88.0	90.2	93.8	94.3	93.5
Quarterly Change (%)	-7.9	2.4	4.0	0.5	-0.8
Annual Change (%)	-13.9	-11.1	-5.7	-1.3	6.2

Non-oil GDP (Million Rls):

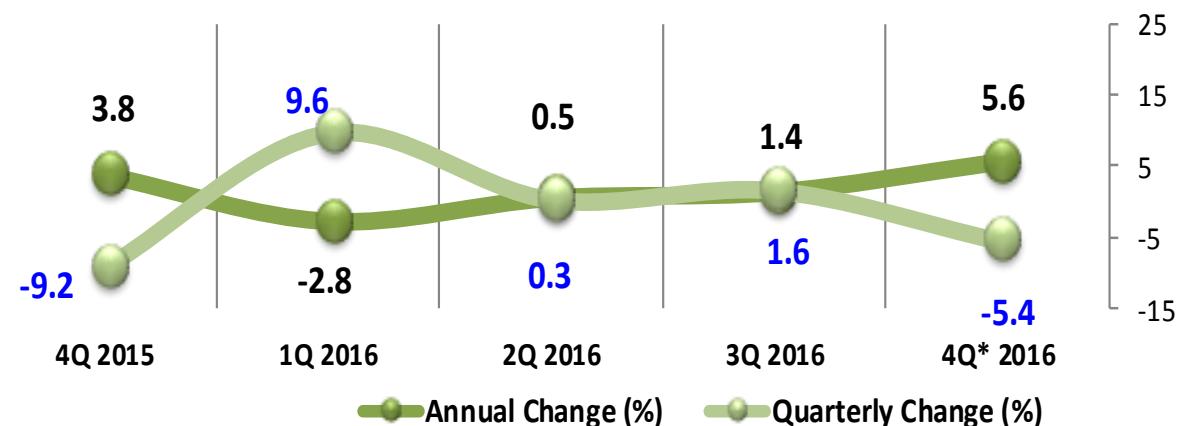
At Current Prices	422776.5	462225.8	438145.9	441997.8	448572.0
At Constant Prices	368105.4	367231.6	347075.1	344678.5	369705.0
Non-oil GDP Deflator	114.9	125.9	126.2	128.2	121.3
Quarterly Change (%)	-9.2	9.6	0.3	1.6	-5.4
Annual Change (%)	3.8	-2.8	0.5	1.4	5.6

* 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.

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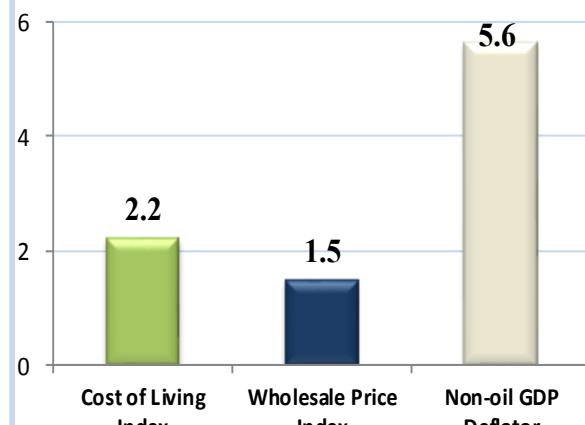
economic activity shows that producers of government services constituted the highest y/y rise of 19.6 percent in Q4 2016. Mining and quarrying came second with 13.4 percent and then finance, insurance, real estate and business services with 2.2 percent.

On the other hand, manufacturing industries recorded the highest y/y deflation of 2.0 percent in the GDP deflator in Q4 2016. In addition, import duties went down by 1.8 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 increased by 5.6 percent in Q4 2016. The annual change rate of the wholesale price index went up by 1.5 percent, and the

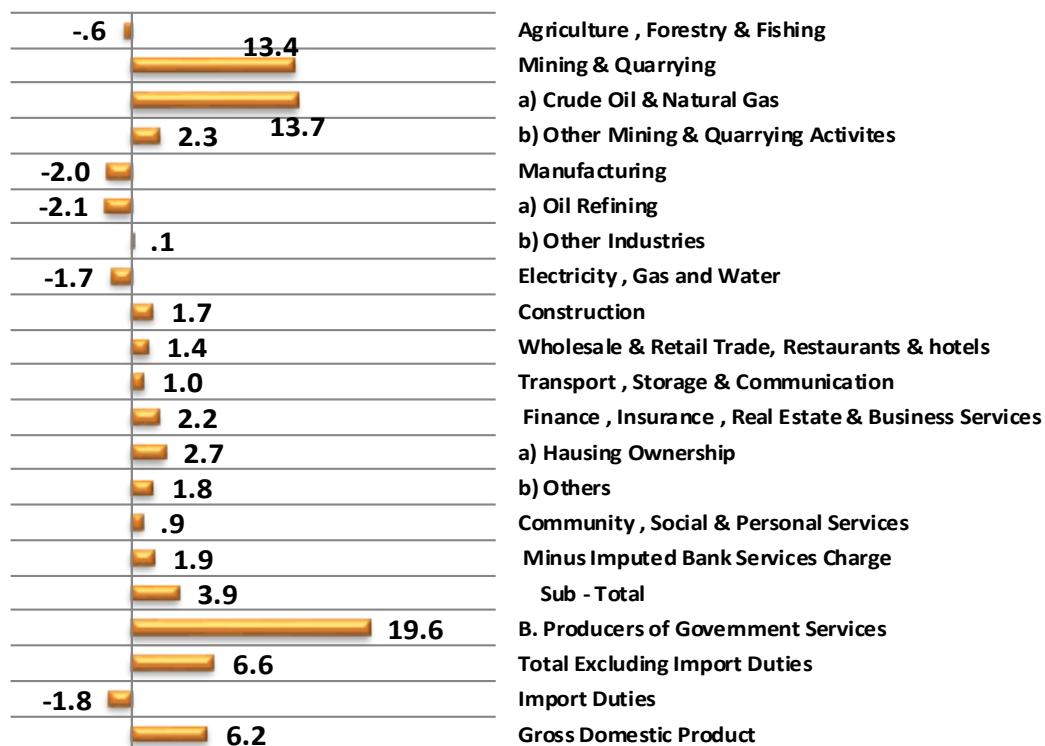
annual inflation rate of the cost of living index registered a rise of 2.2 percent during the same period (Chart 10).

Chart 10: Inflation Measurements in Q4, 2016 (%)Change



Source: General Authority for Statistics.

Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices Q4 2016*/ Q4 2015 (%) Change



*Latest Available Data

Source: General Authority for Statistics

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Foreign Trade with Major Trading Partners

During 2016, the total value of Saudi Arabia's imports stood at SAR 509.6 billion, recording an annual decrease of 22.2 percent.

The United States came at the top of major trading partners exporting to Saudi Arabia in 2016. Saudi Arabia's imports from the United States amounted to SAR 75.8 billion (14.9 percent of Saudi Arabia's total value of imports), down by 15.5 percent y/y. China came second with SAR 74.4 billion (14.6 percent of the total), decreasing by 19.5 percent y/y; Germany with SAR 32.9 billion (6.4 percent of the total), falling by 28.7 percent y/y; Japan with SAR 27.8 billion (5.5 percent of the total), dropping by 25.3 percent y/y; and South Korea with SAR 22.9 billion (4.5 percent of the total), down by 38.6 percent y/y (Table 5 A).

According to data of February 2017, the total value of Saudi Arabia's imports stood at SAR 36.6 billion, with a q/q

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

Countries	2015	2016	Change (%)
China	89678.213	75771.207	-15.5
U.S.A	92397.907	74388.704	-19.5
Germany	46115.773	32865.965	-28.7
Japan	37286.014	27843.94	-25.3
U.A.E	37250.641	22877.744	-38.6
Total	302728.55	233747.56	-22.8
Ratio to Total	46.22	45.87	-0.7

Source: General Authority for Statistics.

decrease of 15.5 percent and a y/y decline of 17.9 percent.

The United States came at the top of Saudi Arabia's major trading partners according to data of February 2017. Saudi Arabia's imports from the United States amounted to SAR 6.1 billion (16.5 percent of Saudi Arabia's total value of imports), increasing by 3.1 percent y/y. China came second with SAR 5.4 billion (14.8 percent of the total), decreasing by 21.1 percent y/y; Germany with SAR 2.5 billion (6.9 percent of the total), falling by 17.2 percent y/y; the UAE with SAR 2.3 billion (6.3 percent of the total), rising by 0.3 percent y/y; and India with SAR 1.6 billion (4.3 percent of the total), down by 11.8 percent y/y (Table 5 B).

Inflation Projections for Q2 2017

Actual data in Q1 2017 shows that inflation rate declined to negative rates. However, it is possible for inflation to return to positive rates during Q2 due to several

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

Countries	Feb 2016	Feb 2017	Change (%)
U.S.A	5873	6055	3.1
China	6860	5413	-21.1
Germany	3031	2510	-17.2
U.A.E	2313	2321	0.3
South Korea	1774	1564	-11.8
Total	19851	17863	-10.0
Ratio to Total	44.50	48.80	9.7

Source: General Authority for Statistics.



factors, the most important of which is restoring allowances and other financial perks for state employees, which will boost confidence and support the purchasing power of customers. In addition, Ramadan, summer vacation and Eid al-Fitr are close.

IMF projections for the primary commodity price index show continued inflationary pressures at a slower pace on most of its main sections for 2017. Its projections show a rise in energy prices by 26.1 percent; metal prices by 15.4 percent; raw agricultural materials by 5.6 percent; and food prices by 1.3 percent. However, beverages prices went down by 3.5 percent as projected (Table 6).

Conclusion

The most significant results of the analysis of inflation rates in Q1 2017 in Saudi Arabia can be concluded as follows:

1. The general cost of living index registered a y/y decline of 0.3 percent in Q1 2017 and a q/q decrease of 0.5 percent.
2. Tobacco registered the highest y/y inflation rate of 12.6 percent in Q1 2017. In contrast, food and beverages recorded the highest y/y deflation rate of 3.5 percent.
3. The wholesale price index went up by 0.2 percent in Q1 2017 compared to the previous quarter. However, it registered a y/y decline of 2.4 percent in the same quarter.
4. Ores and minerals recorded the highest y/y decrease of 7.2 percent in the wholesale price index. In contrast, food products, beverages and tobacco and textile posted the lowest y/y decline of 1.7 percent.
5. Non-oil GDP deflator recorded a y/y rise of 5.6 percent in Q4 2016 against an increase of 1.4 percent in Q3 2016.
6. Actual data in Q1 2017 shows that inflation

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

	Weights	Actual				Projections			
		2014	2015	2016	2017	2018	2019	2020	
All Primary Commodities	100.0	-6.2	-35.3	-9.9	17.9	-1.2	-1.5	-0.2	
Food	16.7	-4.1	-17.1	2.0	3.0	-0.5	-0.3	0.02	
Beverages	1.8	20.7	-3.1	-5.0	-5.7	3.5	1.6	0.0	
Agricultural Raw Materials	7.7	2.0	-13.5	-5.7	7.0	-0.3	-0.2	0.0	
Metals	10.7	-10.1	-23.0	-5.4	23.2	-4.0	-3.9	-0.1	
Energy	63.1	-7.4	-44.8	-16.4	26.7	-1.1	-1.7	-0.4	

Source: IMF

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rate declined to negative rates. However, it is possible for inflation to return to positive rates during Q2 due to several factors, the most important of which is restoring allowances and other financial

perks for state employees, which will boost confidence and support the purchasing power of customers. In addition, Ramadan, summer vacation and Eid al-Fitr are close.