



Inflation Report

Second Quarter 2016



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Cost of Living Index

The general level of prices registered a y/y increase of 4.1% and a slight q/q rise of 0.4% in Q2 2016. The general cost of living index recorded a y/y increase of 4.1% in June 2016 and a monthly rise of 0.3%. This reflects the possibility of reducing the inflationary effects arising from high prices of energy products in late December 2015. (Figure 1 and Table 1).

Developments in Q2 2016

During the second quarter 2016, tobacco posted the highest q/q increase of 12.6%. Health came second with 2.2%, followed by clothing and footwear with 1.8%; miscellaneous goods and services with 1.5%; household equipment and maintenance with 1.0%; housing, water,

electricity, gas and other fuels with 0.8 percent; communications with 0.6%; and restaurants and hotels with 0.2%. (Table 1 and Figure 2).

On the contrary, food and beverages recorded a q/q decline of 0.7%, followed by both transportation, and recreation and culture with 0.5% each (Table 1 and Charts 2 and 3). Education remained unchanged as compared to the previous quarter.

Influence of Major Sections on the General Cost of Living Index

Inflation rates are affected by the changes taking place in the index's various sections. Classified by their influence rates and based on the quarterly indicators, housing, water, electricity, gas and other fuels ranked first with 18.4% in Q2 2016 against 48.6% in the corresponding quarter. Food and

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

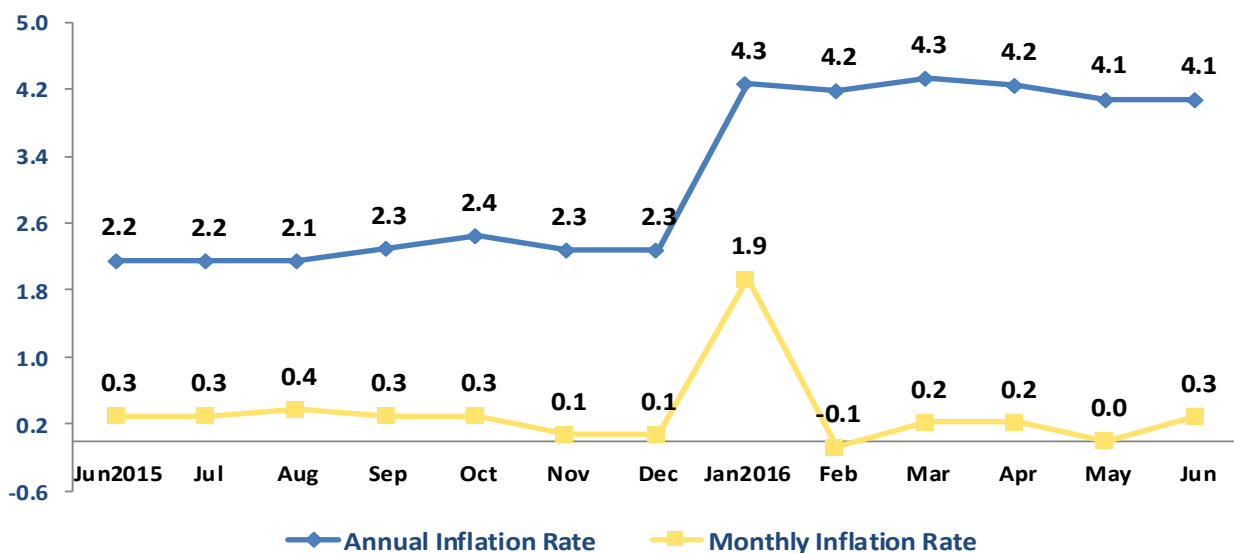


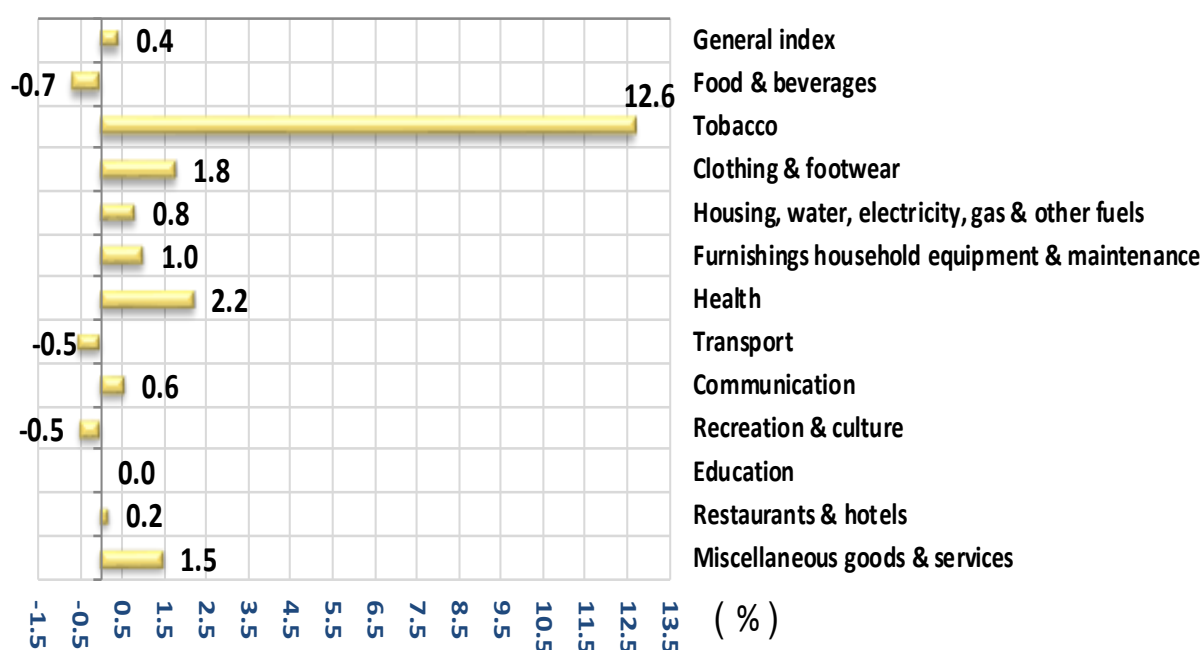


TABLE 1: COST OF LIVING INDEX
(2007=100)

	Weights	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	(%) change	
							Q2 2016/ Q1 2016	Q2 2016/ Q2 2015
General index	100.0	132.3	133.5	134.4	137.1	137.7	0.4	4.1
Food & beverages	21.7	146.1	148.1	149.5	147.8	146.7	-0.7	0.4
Tobacco	0.5	165.8	165.8	165.8	177.4	199.8	12.6	20.5
Clothing & footwear	8.4	108.6	110.1	111.9	112.4	114.4	1.8	5.4
Housing, water, electricity, gas & other fuels	20.5	164.3	165.8	166.5	175.2	176.6	0.8	7.5
Furnishings, household equipment & maintenance	9.1	131.2	132.2	132.7	133.3	134.7	1.0	2.7
Health	2.6	115.3	116.0	116.8	120.9	123.5	2.2	7.1
Transport	10.4	110.9	112.8	113.1	124.2	123.5	-0.5	11.4
Communication	8.1	94.4	94.7	94.8	95.0	95.5	0.6	1.2
Recreation & culture	3.5	118.8	119.4	120.5	119.6	119.0	-0.5	0.1
Education	2.7	116.3	116.3	122.6	122.6	122.6	0.0	5.4
Restaurants & hotels	5.7	128.5	127.3	126.9	125.9	126.1	0.2	-1.9
Miscellaneous goods & services	6.8	120.7	121.4	122.4	122.4	124.2	1.5	2.9

Source: General Authority for Statistics.

**Chart 2: Inflation Rate of the Cost of Living Index by Main Sections (Q2
2016/Q1 2016)***



* Latest Available Data

Source: General Authority for Statistics.

beverages ranked second with 16.6% compared to 2.2%, followed by clothing and footwear with 16.4% against 15.4%, and finally miscellaneous goods and services with 11.0% compared to 2.2%.

The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages; and transportation) stood at 41.5% against 59.1% in Q2 2016 (Charts 4 and 5).

Wholesale Price Indices

The wholesale price index registered a q/q rise of 0.4% and a y/y increase of 4.0% in Q2 2016 (Chart 6).

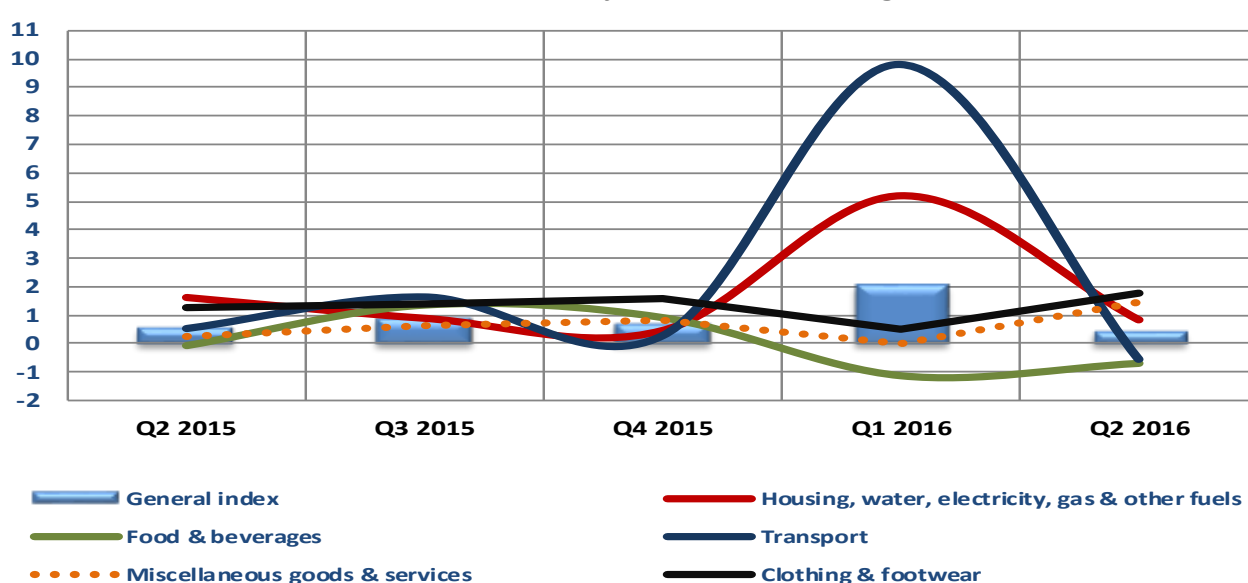
Wholesale Price Indices by Sections

Mineral fuels and related materials registered the highest y/y increase. This section denoted an inflation rate of

32.6% in Q2 2016 due to a rise in (petroleum products and related materials) by 29.1%. Chemicals and related materials recorded the second highest y/y increase of 7.2%, affected by the rise of 35.6% in (chemicals). Other commodities came third with an y/y inflation rate of 5.4%, owing to a 5.3% increase in (gold, bulk). Beverages and tobacco came next with an inflation rate of 4.7%, affected by a 7.8% increase in (tobacco) (Table 2 and Chart 7).

In contrast, machinery and transport posted the highest y/y deflation rate, dropping by 2.2%. Food and live animals came second with a deflation rate of 0.6%, followed by crude materials with 0.4% (Table 2 and Chart 7).

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



Source: General Authority for Statistics.



Chart 4: Percentage Impact Of Major Sections On The General Inflation Rate (Q2 2015)

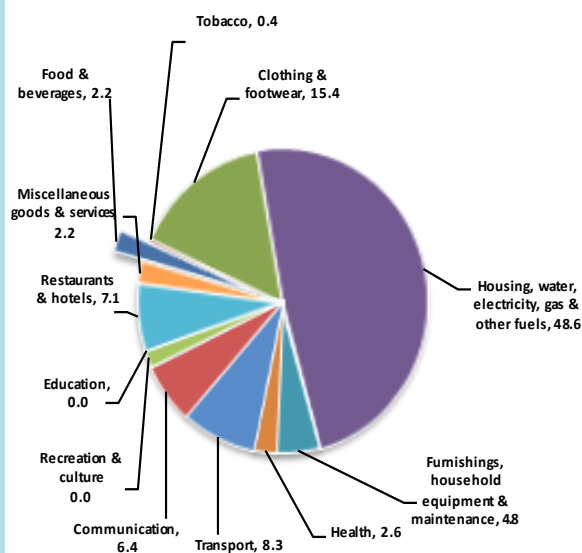
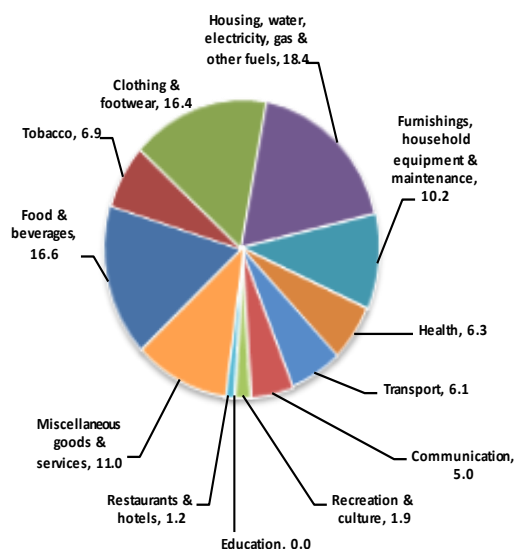


Chart 5: Percentage Impact Of Major Sections On The General Inflation Rate (Q2 2016)



Cost of Living Index by Cities in Q2 2016

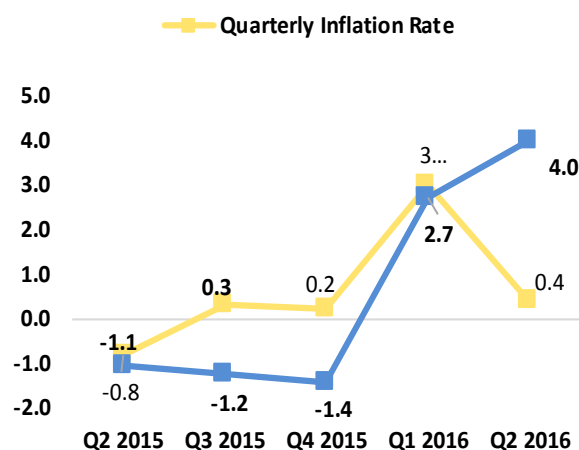
All cities' general cost of living index increased by 0.4% q/q. Jeddah posted the highest rise of 2.4%. Makkah came next with 0.8%; Jazan with 0.7%; Dammam with 0.5%; Al-Madinah with 0.4%; Ar'ar with 0.3%; Hufuf, Abha, and Najran with 0.1% each. In contrast, the general cost of living index decreased in Q2 by 0.9% in Bahah, 0.8% in Taif, 0.7% in Buraidah, 0.4% in Skaka, 0.2% in Hail, and 0.1% in Riyadh. However, Tabuk remained unchanged (Table 3).

GDP Deflator

According to the latest data issued by GASTAT, GDP deflator recorded a q/q increase of 2.6%, and a y/y fall of 12.8%

(Table 4 and Chart 8). 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,

Chart 6: Inflation of the Wholesale Price Index (1988=100)



Source: General Authority for Statistics



investment 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. The non-oil GDP deflator registered an annual decline of 4.4% in Q1 2016 compared to a rise of 1.6% in Q4 2015 (Table 4 and chart 8).

An analysis of the GDP deflator data (at constant prices for base year 2010) by economic activity shows that electricity, gas, and water constituted the highest y/y rise of 12.6% in Q1 2016. Transportation, storage and communications came next

with an increase of 2.1%; and finance, insurance, real estate and business services with 0.9% as a result of a 0.9% rise in housing ownership.

On the other hand, mining and quarrying recorded the highest y/y deflation of 32.6% in the GDP deflator in Q1 2016. Government services' producers ranked second with 15.6%, followed by manufacturing with 8.1% as a result of a 28.3% decline in oil refining (Chart 9).

A comparison of annual inflation measures in the domestic market indicates that the annual inflation rate of non-oil GDP deflator decreased by 4.4% in Q1 2016. The annual change rate of the wholesale price index went up by 2.7%,

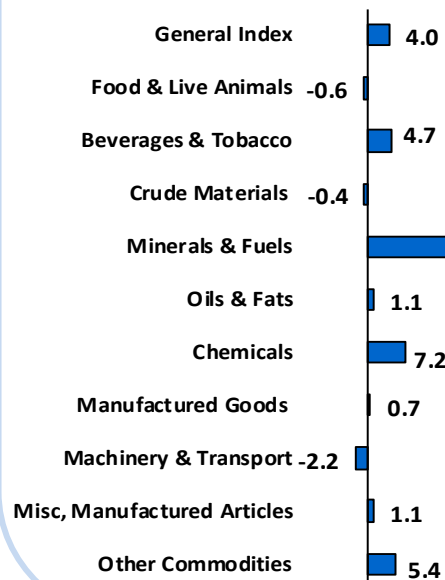
TABLE 2: WHOLESALE PRICE INDEX (WPI)
(1988=100)

	Weights	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	(% change)	
							Q2 2016/ Q1 2016	Q2 2016/ Q2 2015
General Index	100.0	156.9	157.3	157.7	162.5	163.1	0.4	4.0
Food & Live Animals	31.9	188.2	190.6	194.9	190.7	187.0	-1.9	-0.6
Beverages & Tobacco	1.2	178.8	179.3	181.7	184.8	187.1	1.3	4.7
Crude Materials	0.3	203.5	204.2	206.1	204.3	202.6	-0.9	-0.4
Minerals & Fuels	10.1	186.3	186.2	186.2	247.1	247.1	0.0	32.6
Oils & Fats	0.4	152.0	152.7	155.0	154.2	153.7	-0.3	1.1
Chemicals	9.8	191.2	201.3	200.9	199.9	205.0	2.6	7.2
Manufactured Goods	26.2	141.2	139.0	136.1	137.7	142.1	3.2	0.7
Machinery & Transport	13.4	140.3	140.0	139.2	137.7	137.2	-0.4	-2.2
Misc, Manufactured Articles	6.4	136.3	134.1	135.3	137.0	137.8	0.6	1.1
Other Commodities	0.3	241.7	230.2	228.0	238.5	254.6	6.8	5.4

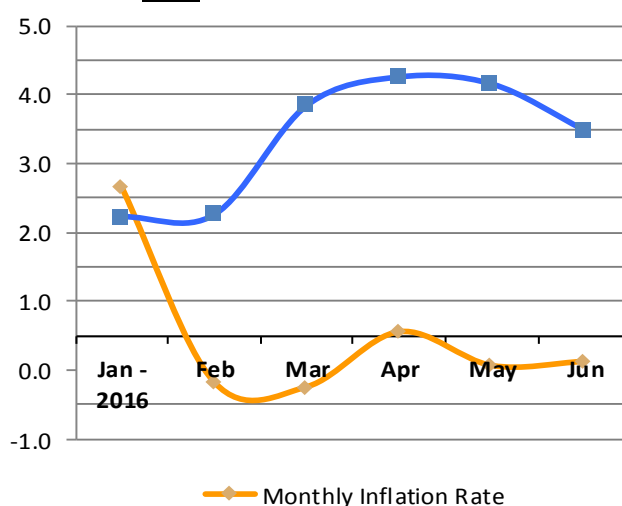
Source: General Authority for Statistics.

**Chart 7: Inflation of the Wholesale Price Index by Main Sections
(1988=100)**

% Change (Q2 2016/ Q2 2015)



Annual & Monthly Inflation of the WPI



Source: General Authority for Statistics.

while the annual inflation rate of the cost of living index registered a rise of 4.3% during the same period (Chart 10).

Foreign Trade with Major Trading Partners

According to the latest available data issued by GASTAT in Q1 2016, total value of the Kingdom's imports stood at SAR 140.5 billion, recording a q/q decline of 14.4%. The Kingdom's imports dropped by 14.3% y/y.

China came at the top of the Kingdom's major trading partners in Q1 2016. The Kingdom's imports from China amounted to SAR 20.2

billion or 14.4% of the Kingdom's total value of imports, down by 18.2% y/y. The United States came second with SAR 19.5 billion or 13.9%, decreasing by 10.3% y/y, Germany ranked third with SAR 9.7 billion or 6.8%, declining by 14.2% y/y. Japan came next with a y/y fall of 6.0% to SAR 8.5 billion or 6.0%. UAE ranked fifth with SAR 7.1 billion or 5.1% of the Kingdom's total imports, down by 22.5% y/y (Table 5).

Inflation Projections for Q3 2016

Inflation rate is expected to register a slight increase in Q3, due to the seasonal patterns of summer vacations and holidays,



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

General Index	2014	2015	Q4 2015	Q1 2016	Q2 2016	Inflation Rate	
						2015/2014	Q2 2016/ Q1 2016
All Cities Index	130.1	132.9	134.4	137.1	137.7	2.2	0.4
Riyadh	135.0	140.1	142.0	144.7	144.6	3.8	-0.1
Makkah	126.9	129.7	131.0	132.8	133.9	2.2	0.8
Jeddah	129.3	131.7	133.9	137.0	140.3	1.8	2.4
Al-Dammam	133.7	135.1	135.4	137.6	138.3	1.0	0.5
Al-Madinah	124.7	126.4	127.1	129.2	129.7	1.4	0.4
Ta'if	127.2	127.8	129.1	132.3	131.3	0.5	-0.8
Al-Hufuf	124.6	124.9	125.8	129.1	129.3	0.3	0.1
Abha	123.2	125.0	125.4	128.6	128.8	1.5	0.1
Buraydah	123.9	127.7	129.0	131.3	130.4	3.0	-0.7
Tabuk	128.9	120.2	119.9	124.2	124.2	-6.7	0.0
Ha'il	127.2	128.2	128.2	131.3	131.0	0.8	-0.2
Jazan	142.1	149.9	152.8	155.9	157.1	5.4	0.7
Najran	128.5	132.0	134.9	137.2	137.4	2.7	0.1
Al-Bahah	130.5	134.5	139.5	142.5	141.2	3.0	-0.9
Sakaka	127.5	131.7	134.2	137.2	136.7	3.4	-0.4
'Ar'ar	120.1	126.5	129.5	130.3	130.6	5.3	0.3

Source: General Authority for Statistics.

which usually record increases in some sections especially restaurants and hotels, recreation and culture, and clothing and footwear. However, low prices of both commodity in global markets and some local food in main cities of the Kingdom might limit such expected rise.

The IMF projections for commodity price index indicate a contraction in the inflationary pressures on its main sections for 2016. Its projections show a deflation in energy prices by 18.6%, raw agricultural

materials by 8.3%, metal prices by 8.0%, and beverages prices by 2.0%, and a rise in food prices by 4.3% (Table 6).

Conclusion

The most significant results of the analysis of inflation rates in Q2 2016 in the Kingdom can be concluded as follows:

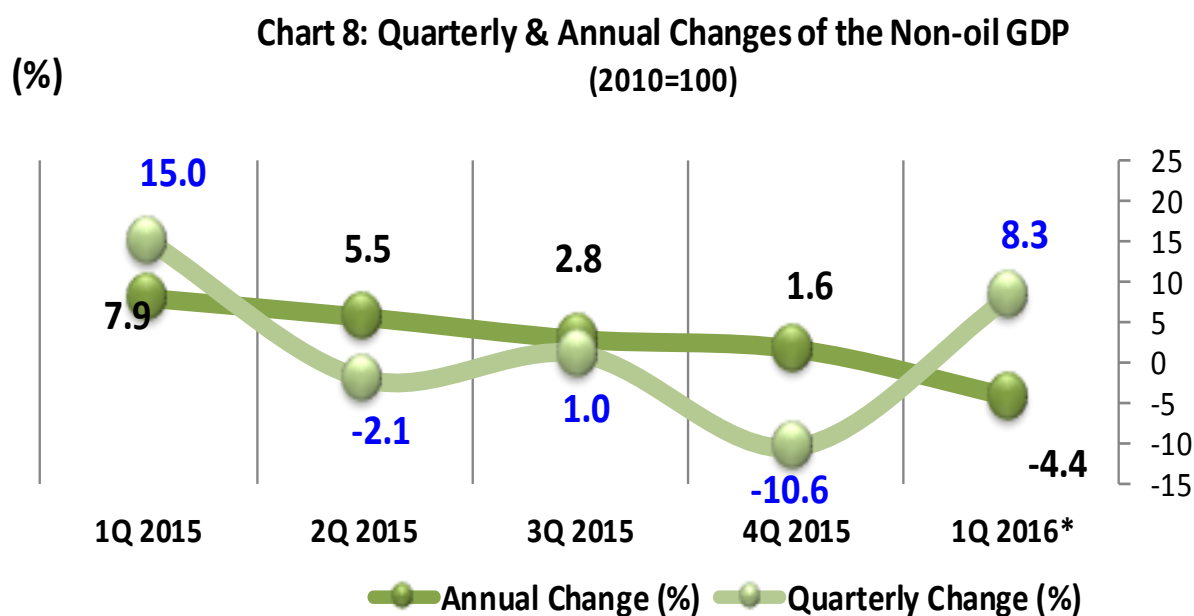
1. The general cost of living index registered a y/y increase of 4.1% and a q/q rise of 0.4% in Q1 2016.
2. Tobacco registered the highest q/q

TABLE 4: GDP Deflator
(2010=100)

	1Q 2015	2Q 2015	3Q 2015	4Q 2015	1Q 2016*
GDP (Million Rls):					
At Current Prices	639,100	631,392	604,220	547,795	565,881
At Constant Prices	631,748	624381.9	627688.1	636985.8	641473.5
GDP Deflator	101.2	101.1	96.3	86.0	88.2
Quarterly Change (%)	-0.9	0.0	-4.8	-10.7	2.6
Annual Change (%)	-16.8	-16.8	-19.4	-15.8	-12.8
Non-oil GDP (Million Rls):					
At Current Prices	467,921	429,393	435089.9	398969.9	444315.2
At Constant Prices	368,062	345129.2	346379.7	355376.8	365578.8
Non-oil GDP Deflator	127.1	124.4	125.6	112.3	121.5
Quarterly Change (%)	15.0	-2.1	1.0	-10.6	8.3
Annual Change (%)	7.9	5.5	2.8	1.6	-4.4

* Latest Available Data

Source: General Authority for Statistics

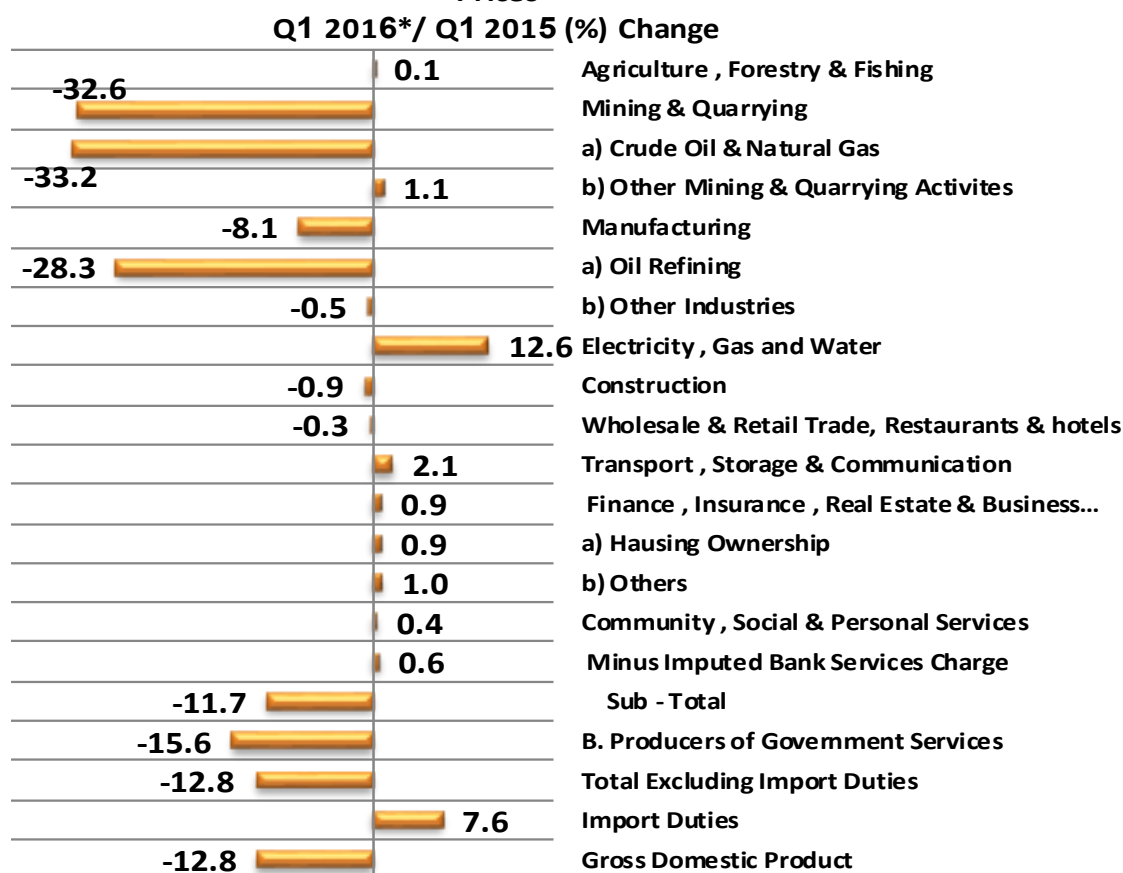


* Latest Available Data

Source: General Authority for Statistics.



Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices



*Latest Available Data

Source: General Authority for Statistics

inflation rate of 12.6% in Q2 2016. In contrast, food and beverages recorded the highest q/q deflation rate of 0.7%.

3. The wholesale price index went up by 0.4% q/q and 4.0% y/y in Q2 2016.

4. Mineral fuels and related materials constituted the highest y/y inflation rate of 32.6% in the wholesale price index. In contrast, machinery and transport posted the highest y/y deflation rate of 2.2%.

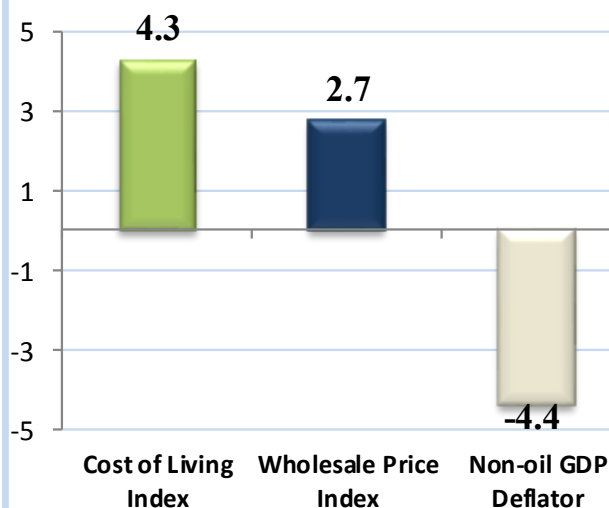
5. Non-oil GDP deflator recorded a y/y

decline of 4.4% in Q1 2016 against a rise of 1.6% in Q4 2015.

6. Inflation rate is expected to register a slight increase in Q3, due to the seasonal patterns of summer vacations and holidays, which usually record increases in some sections especially restaurants and hotels, recreation and culture, and clothing and footwear. However, low prices of both commodity in global markets and some local food in main cities of the Kingdom might limit such expected rise.



Chart 10: Inflation Measurements in Q1, 2016 (%)Change



Source: General Authority for Statistics.

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

Countries	Q1 2015	Q1 2016*	Change (%)
China	24752	20245	-18.2
U.S.A	21796	19544	-10.3
Germany	11262	9658	-14.2
Japan	9009	8464	-6.0
U.A.E	9152	7093	-22.5
Total	75971	65004	-14.4
Ratio to Total	46.4	46.3	-0.2

*Latest Available Data.

Source: General Authority for Statistics.

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

(Percentage changes)

	Weights	Actual			Projections			
		2013	2014	2015	2016	2017	2018	2019
All Primary Commodities	100.0	-1.4	-4.0	-17.5	-1.8	1.3	-0.7	-0.2
Food	16.7	0.7	-4.1	-17.1	4.3	0.6	-1.1	0.0
Beverages	1.8	-11.9	20.7	-3.1	-2.0	8.1	0.9	0.8
Agricultural Raw Materials	7.7	1.6	1.9	-13.5	-8.3	1.0	-0.2	0.0
Metals	10.7	-4.3	-10.3	-23.1	-8.0	1.1	-0.6	-0.9
Energy	63.1	-1.7	-7.4	-44.8	-18.6	14.2	4.9	3.7

Source: IMF