



مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority

Inflation Report

Second Quarter of 2017



Research and International Affairs Deputyship
Economic Research Department



Table of Contents

Cost of Living Index	3
Developments in Q2 2017	3
Influence of Major Sections on the General Cost of Living Index	5
Wholesale Price Indices	6
Cost of Living Index by Cities in Q2 2017	9
GDP Deflator	10
Foreign Trade with Major Trading Partners	11
Inflation Projections for Q3 2017	12
Conclusion	12

Cost of Living index

The general level of cost of living index registered a y/y decrease of 0.6 percent in Q2 2017 and a slight q/q rise of 0.2 percent. In June 2017, the cost of living index registered an annual decline of 0.4 percent (Chart 1 and Table 1).

Developments in Q2 2017

During Q2 2017, tobacco registered the highest y/y inflation rate of 24.8 percent. Communication came second with 2.0 percent; education

with 1.8 percent; miscellaneous goods and services with 1.3 percent; and housing, water, electricity, gas and other fuels with 0.3 percent.

In contrast, food and beverages recorded a y/y decline of 2.3 percent, followed by transport, clothing and footwear, restaurants and hotels with 1.9 percent, recreation and culture with 1.6 percent, furnishings, household equipment and maintenance with 0.7 percent and health with 0.1 percent (Table 1 and Charts 2 and 3).

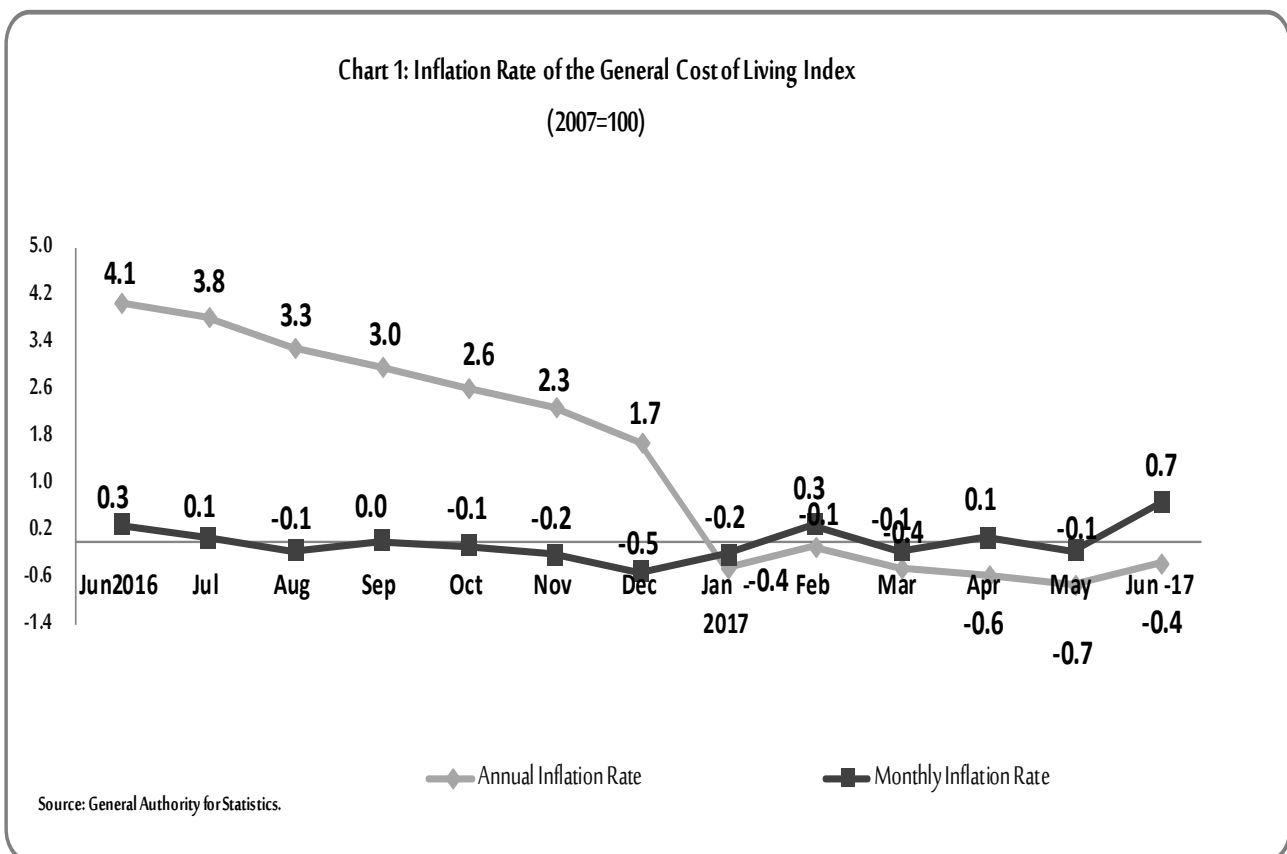
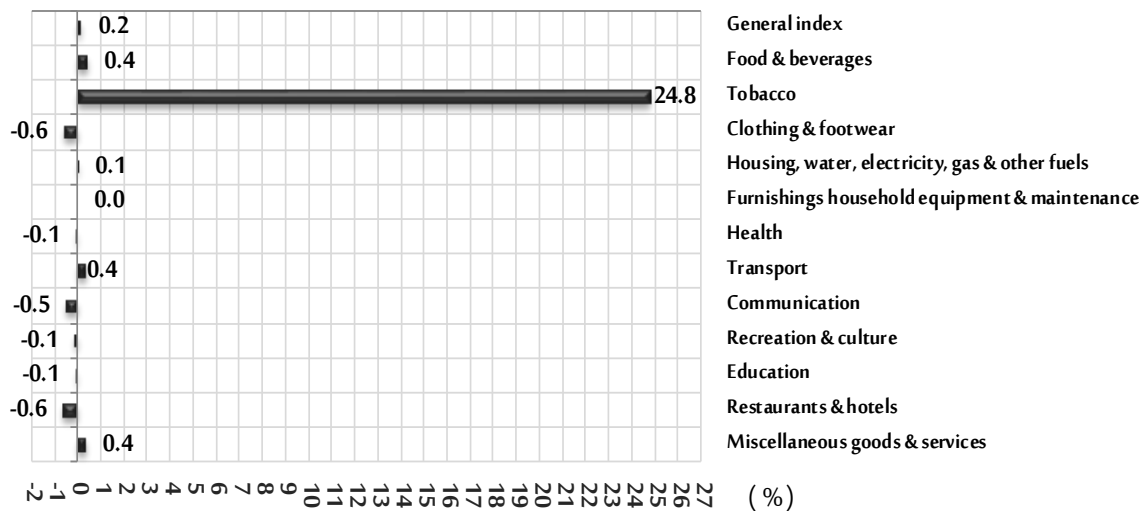


TABLE 1: COST OF LIVING INDEX
(2007=100)

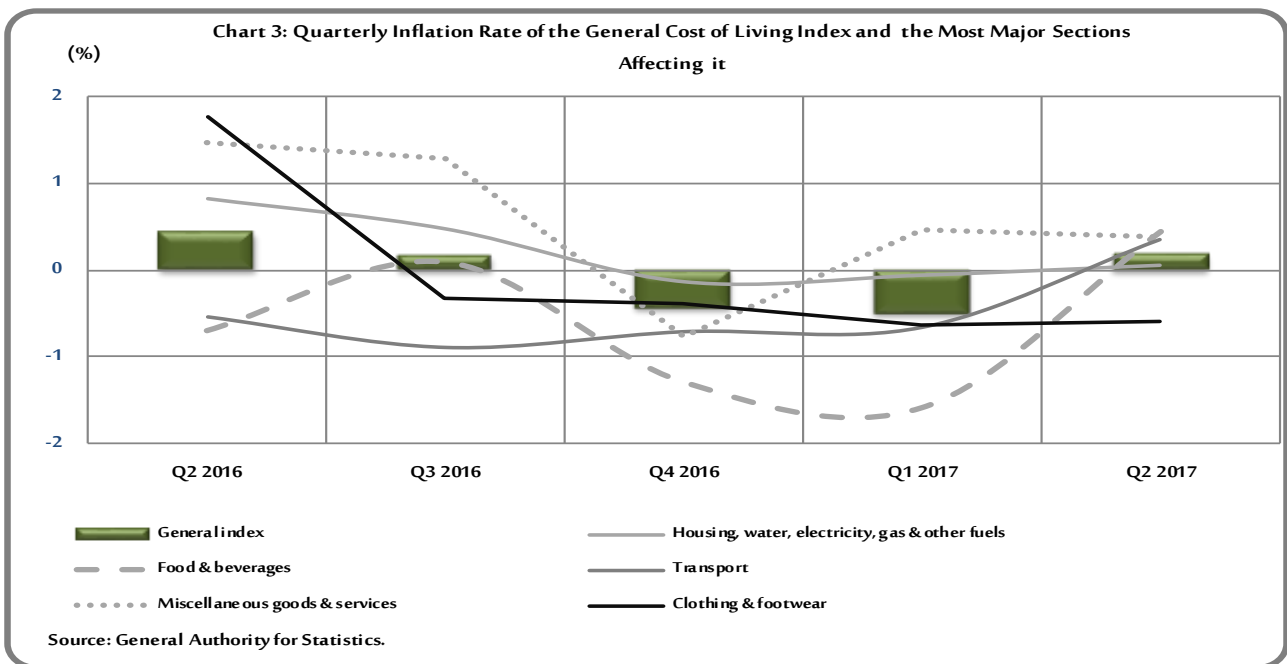
	Weights	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	(% change)	
							Q2 2017/ Q1	Q2 2017/ Q2
							2017	2016
General index	100.0	137.7	138.0	137.4	136.7	137.0	0.2	-0.6
Food & beverages	21.7	146.7	146.9	145.0	142.7	143.3	0.4	-2.3
Tobacco	0.5	199.8	199.8	199.8	199.8	249.4	24.8	24.8
Clothing & footwear	8.4	114.4	114.1	113.6	112.9	112.2	-0.6	-1.9
Housing, water, electricity, gas & other fuels	20.5	176.6	177.4	177.2	177.1	177.2	0.1	0.3
Furnishings, household equipment & maintenance	9.1	134.7	135.0	134.4	133.7	133.7	0.0	-0.7
Health	2.6	123.5	123.7	123.3	123.5	123.4	-0.1	-0.1
Transport	10.4	123.5	122.4	121.6	120.8	121.2	0.4	-1.9
Communication	8.1	95.5	95.8	96.7	97.9	97.4	-0.5	2.0
Recreation & culture	3.5	119.0	119.5	118.5	117.2	117.1	-0.1	-1.6
Education	2.7	122.6	122.6	124.9	124.9	124.8	-0.1	1.8
Restaurants & hotels	5.7	126.1	125.5	125.6	124.5	123.7	-0.6	-1.9
Miscellaneous goods & services	6.8	124.2	125.8	124.8	125.4	125.9	0.4	1.3

Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Cost of Living Index by Main Sections (Q2 2017/Q1 2017)



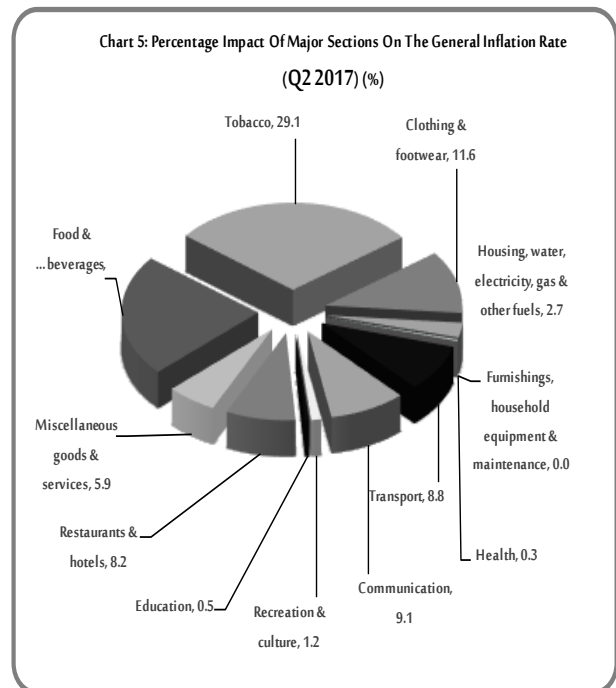
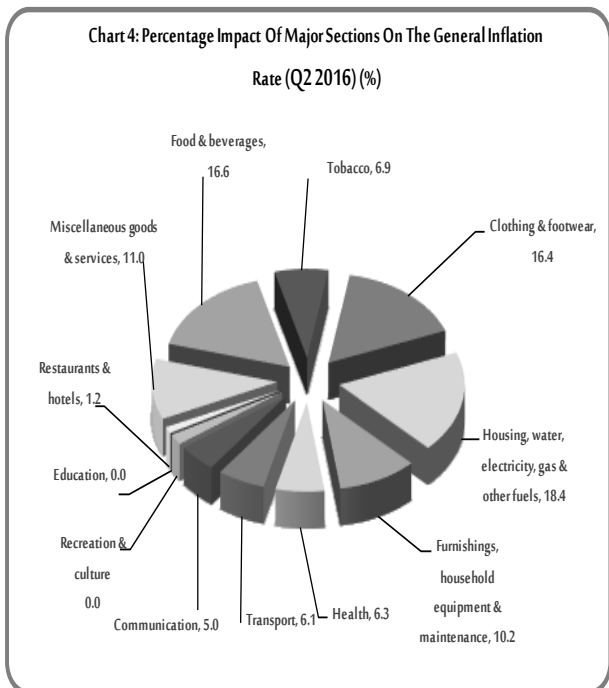
Source: General Authority for Statistics.

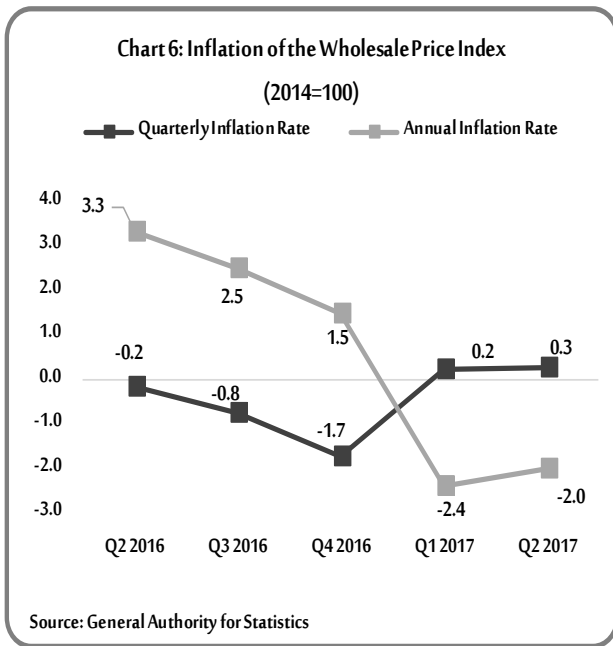


Influence of Major Sections on the General Cost of Living Index

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, tobacco ranked first with 29.1 percent during Q2 2017 against 6.9 percent in the corresponding quarter of the previous year. Food and beverages came second with 22.6





percent compared to 16.6 percent, followed by clothing and footwear with 11.6 percent compared to 16.4 percent, and finally communication with 9.1 percent compared to 5.0

percent.

The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages; and transport) stood at 34.1 percent in Q2 2017 against 41.1 percent in Q2 2016 (Charts 4 and 5).

Wholesale Price Indices

The wholesale price index recorded a q/q rise of 0.3 percent and a y/y decline of 2.0 percent in Q2 2017 (Chart 6).

Wholesale Price Indices by Sections

During Q2 2017, ores and

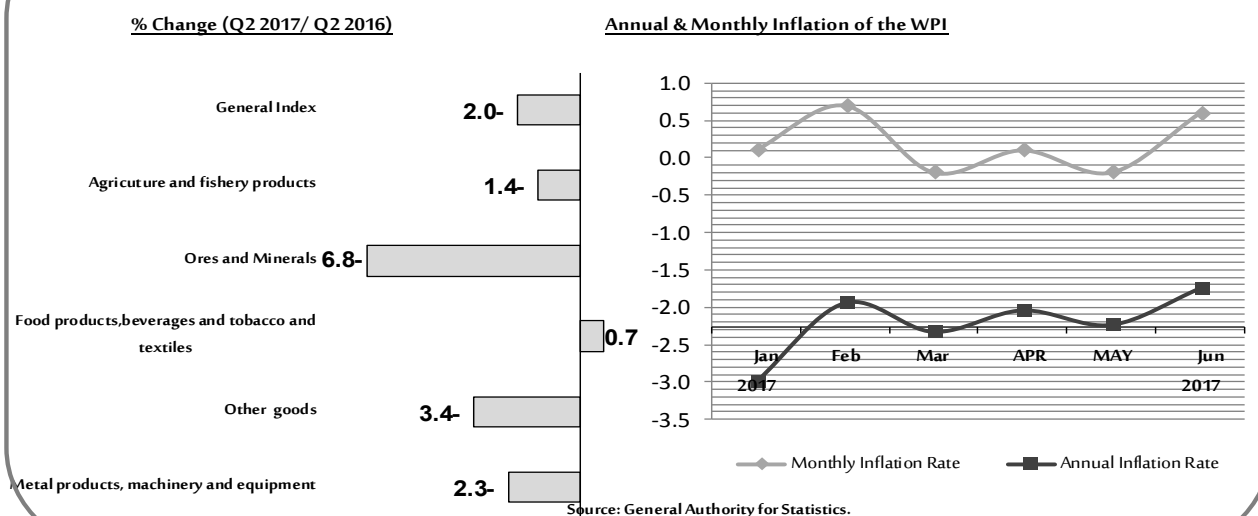
TABLE 2: WHOLESAL PRICE INDEX (WPI)
(2014=100)

	Weights	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017	(% change)	
							Q2 2017/ Q1 2017	Q2 2017/ Q2 2016
General Index	100.0	102.8	102.0	100.3	100.5	100.8	0.3	-2.0
Agriculture and fishery products	8.7	105.7	104.2	100.4	100.8	104.3	3.4	-1.4
Ores and Minerals	0.6	99.5	100.2	96.9	95.6	92.7	-3.0	-6.8
Food products, beverages and tobacco and textiles	17.3	98.4	97.9	97.5	98.1	99.1	1.1	0.7
Other goods	33.7	110.5	109.3	107.3	107.9	106.7	-1.1	-3.4
Metal products, machinery and equipment	39.7	98.0	97.5	96.0	95.4	95.7	0.3	-2.3

Source: General Authority for Statistics.

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

(2014=100)



Source: General Authority for Statistics.

Table 3 : AVERAGE COST OF LIVING INDEX BY CITIES

(100=2007)

General Index	Inflation Rate						
	2015	2016	Q4 2016	Q1 2017	Q2 2017	2016/2015	Q2 2017/ Q1 2017
All Cities Index	130.1	132.9	138.0	137.4	136.7	2.2	-0.5
Riyadh	135.0	140.1	144.8	144.0	143.6	3.8	-0.3
Makkah	126.9	129.7	133.5	132.4	131.4	2.2	-0.8
Jeddah	129.3	131.7	140.4	139.7	138.3	1.8	-1.0
Al-Dammam	133.7	135.1	139.3	139.7	138.9	1.0	-0.6
Al-Madinah	124.7	126.4	130.0	129.9	129.2	1.4	-0.5
Ta'if	127.2	127.8	131.9	133.0	132.0	0.5	-0.7
Al-Hufuf	124.6	124.9	129.2	128.3	126.9	0.3	-1.1
Abha	123.2	125.0	129.2	128.9	128.1	1.5	-0.6
Buraydah	123.9	127.7	129.7	127.5	125.5	3.0	-1.6
Tabuk	128.9	120.2	124.0	122.7	121.8	-6.7	-0.7
Ha'il	127.2	128.2	131.1	129.9	129.0	0.8	-0.7
Jazan	142.1	149.9	156.8	156.9	159.5	5.4	1.7
Najran	128.5	132.0	137.3	136.8	136.1	2.7	-0.5
Al-Bahah	130.5	134.5	142.4	140.9	141.0	3.0	0.1
Sakaka	127.5	131.7	136.4	135.3	134.6	3.4	-0.5
'Ar'ar	120.1	126.5	132.5	131.5	131.1	5.3	-0.3

Source: General Authority for Statistics.

minerals registered the highest y/y decrease as its inflation rate declined by 6.8 percent. Other goods ranked second with a y/y decline of 3.4

percent. Metal products, machinery and equipment came third with y/y decline of 2.3 percent; and agriculture and fishery products came last with

TABLE 4: GDP Deflator

(2010=100)

	1Q 2016	2Q 2016	3Q 2016	4Q* 2016	1Q 2017
GDP (Million Rls):					
At Current Prices	583,112	603,856	602,460	634,715	642,145
At Constant Prices	646371.6	634733.5	640432.7	668023.3	642962.8
GDP Deflator	90.2	95.1	94.1	95.0	99.9
Quarterly Change (%)	3.4	5.5	-1.1	1.0	5.1
Annual Change (%)	-11.5	-5.6	-1.9	8.9	10.7

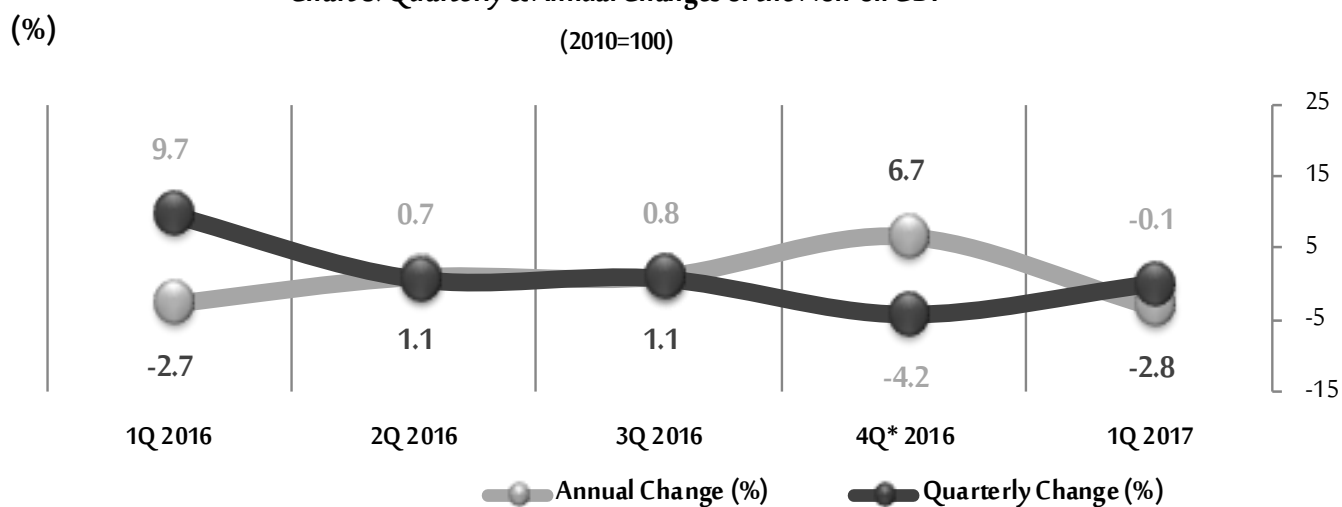
Non-oil GDP (Million Rls):

At Current Prices	461474.5	440568.2	440978.4	454131.6	451223.5
At Constant Prices	366224.6	347144.4	344747.4	370614.1	368464.9
Non-oil GDP Deflator	126.0	126.9	127.9	122.5	122.5
Quarterly Change (%)	9.7	0.7	0.8	-4.2	-0.1
Annual Change (%)	-2.7	1.1	1.1	6.7	-2.8

* Latest Available Data

Source: General Authority for Statistics.

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



* Latest Available Data

Source: General Authority for Statistics

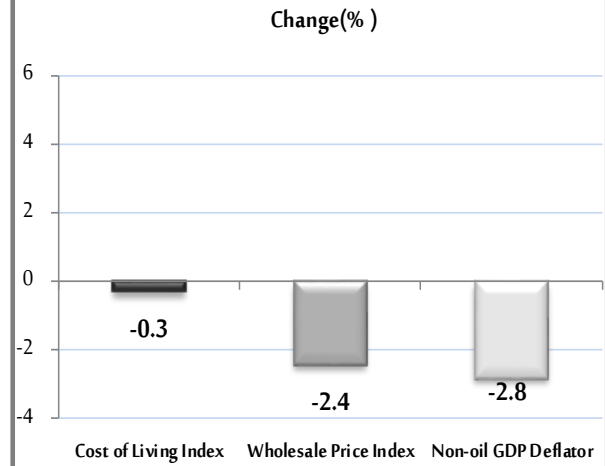
1.4 percent. In contrast, food products, beverages and tobacco and textile registered an annual rise of 0.7 percent in Q2 2017 (Table 2 and Chart 7).

Cost of Living Index by Cities

All Cities' General Cost of Living Index went up by 0.2 percent q/q in Q2 2017. Riyadh and Makkah posted the highest rise of 0.7 percent, and Abha came next with 0.6 percent. Average general index fell in Ar'ar by

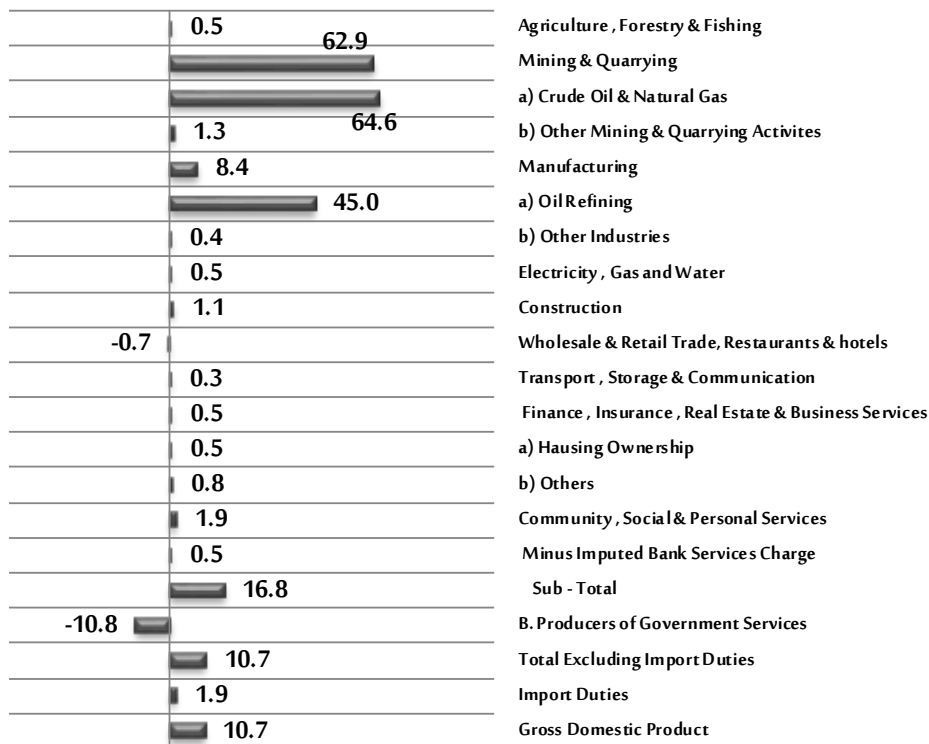
1.8 percent; Jeddah by 0.5 percent; and Tabuk and Al-Baha by 0.1

Chart 10: Inflation Measurements in Q1, 2017



Source: General Authority for Statistics.

Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices
Q1 2017*/Q1 2016 (%) Change



*Latest Available Data

Source: General Authority for Statistics

percent each (Table 3).

GDP Deflator

According to the latest data issued by GaStat, GDP deflator recorded a q/q increase of 5.1 percent in Q1 2017, and a y/y rise of 10.7 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 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 commonly used to exclude the impact of change in oil prices on the domestic economy. It registered declines of 0.1 percent q/q in Q1 2017 and 2.8 percent y/y (Table 4 and chart 8).

An analysis of GDP deflator data (at constant prices for base year 2010) by economic activity shows that mining and quarrying constituted the highest y/y rise of 62.9 percent in Q1 2017. Manufacturing industries came next with 8.4 percent and then

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

Countries	2015	2016	Change (%)
China	89678	75771	-15.5
U.S.A	92398	74389	-19.5
Germany	46116	32866	-28.7
Japan	37286	27844	-25.3
U.A.E	37251	22878	-38.6
Total	302729	233748	-22.8
Ratio to Total	46.22	45.87	-0.7

Source: General Authority for Statistics.

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

Countries	May 2016	May 2017	Change (%)
China	7282	7557	3.8
U.S.A	6267	5358	-14.5
U.S.E	2558	2872	12.3
Germany	3317	2288	-31.0
France	1695	1806	6.5
Total	21119	19881	-5.9
Ratio to Total	42.91	45.53	6.1

Source: General Authority for Statistics.

collective, social and personal services with 1.9 percent.

On the other hand, producers of government services recorded the highest y/y deflation of 10.8 percent in the GDP deflator in Q1 2017. In addition, import duties went up by 1.9 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 decreased by 2.8 percent in Q1 2017. The annual change rate of the wholesale price index went down by

2.4 percent, and the annual inflation rate of the cost of living index registered a decline of 0.3 percent during the same period (Chart 10).

Foreign Trade with Major Trading Partners


According to data of May 2017, the total value of Saudi Arabia's imports stood at SAR 43.7 billion, with a q/q rise of 2.1 percent and a y/y decline of 11.3 percent.

China came at the top of Saudi Arabia's major trading partners according to data of April 2017 where

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

	Weights	(Percentage changes)						
		Actual			Projections			
		2014	2015	2016	2017	2018	2019	2020
All Primary Commodities	100.0	-6.2	-35.3	-10.0	10.8	-0.7	1.2	0.5
Food	16.7	-4.1	-17.2	2.1	6.1	2.6	-0.7	-2.7
Beverages	1.8	20.7	-3.1	-5.0	-9.0	1.0	3.5	1.0
Agricultural Raw Materials	7.7	2.0	-13.5	-5.7	2.3	-2.7	0.2	0.0
Metals	10.7	-10.1	-23.0	-5.4	16.8	-2.0	-0.8	-0.6
Energy	63.1	-7.4	-44.8	-16.5	14.1	-1.6	2.5	2.2

Source: IMF



Saudi Arabia's imports amounted to SAR 7.6 billion (17.3 percent of Saudi Arabia's total value of imports), rising by 3.8 percent y/y. The US came second with SAR 5.4 billion (12.3 percent of the total), declining by 14.5 percent y/y. UAE came third with SAR 2.9 billion (6.6 percent of the total), increasing by 12.3 percent y/y; Germany fourth with SAR 2.3 billion (5.2 percent of the total), falling by 31.0 percent y/y; and France fifth with SAR 1.8 billion (4.1 percent of the total), rising by 6.5 percent y/y (Table 5 A and 5 B).

Inflation Projections for Q3 2017

Actual data in Q2 of the current year shows that inflation rate declined to negative rates. If the causative factors continue, negative inflation is expected to be seen during the coming period. However, it is possible for inflation to return to positive rates during Q3 due to several factors, the most important of which is reforming the labor market and prices of

production factors as well as seasonal factors, such as Hajj season.

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 metal prices by 16.8 percent; energy prices by 14.1 percent; food prices by 6.1 percent; and raw agricultural materials by 2.3 percent. However, beverages prices went down by 9.0 percent as projected (Table 6).

Conclusion

The most significant results of the analysis of inflation rates in Q2 2017 in Saudi Arabia can be concluded as follows:

1. The general cost of living index registered a y/y decline of 0.6 percent in Q2 2017 and a q/q rise of 0.2 percent.
2. Tobacco registered the highest y/y inflation rate of 24.8 percent in Q2 2017. In contrast, food and beverages recorded the highest y/y deflation rate of 2.3 percent.



3. The wholesale price index went up by 0.3 percent in Q2 2017 compared to the previous quarter. However, it registered a y/y decline of 2.0 percent in the same quarter.
4. Ores and minerals recorded the highest y/y decrease of 6.8 percent in the wholesale price index. In contrast, agriculture and fishery products posted the lowest y/y decline of 1.4 percent.
5. Non-oil GDP deflator recorded a y/y decline of 2.8 percent in Q1 2017 against an increase of 6.7 percent in Q4 2016.
6. Actual data in Q2 of the current year shows that inflation rate declined to negative rates. However, it is possible for inflation to return to positive rates during Q3 due to several factors, the most important of which is reforming the labor market and prices of production factors as well as seasonal factors, such as Hajj season.