



Inflation Report

Third Quarter 2016



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Cost of Living Index

The general level of prices registered a y/y increase of 3.4 percent during Q3 2016 and a slight q/q rise of 0.2 percent. In September 2016, the cost of living index registered a y/y increase of 3.0 percent (Table 1 and Chart 1).

Developments in Q3 2016

During Q3 2016, tobacco registered the highest increase between all major sections, posting a q/q inflation rate of 20.5 percent. Transportation came second with 8.6 percent followed by housing, water, electricity, gas and other fuels with 7.0 percent; health with 6.7 percent; education with 5.4 percent, clothing and footwear with 3.6 percent; household equipment and maintenance

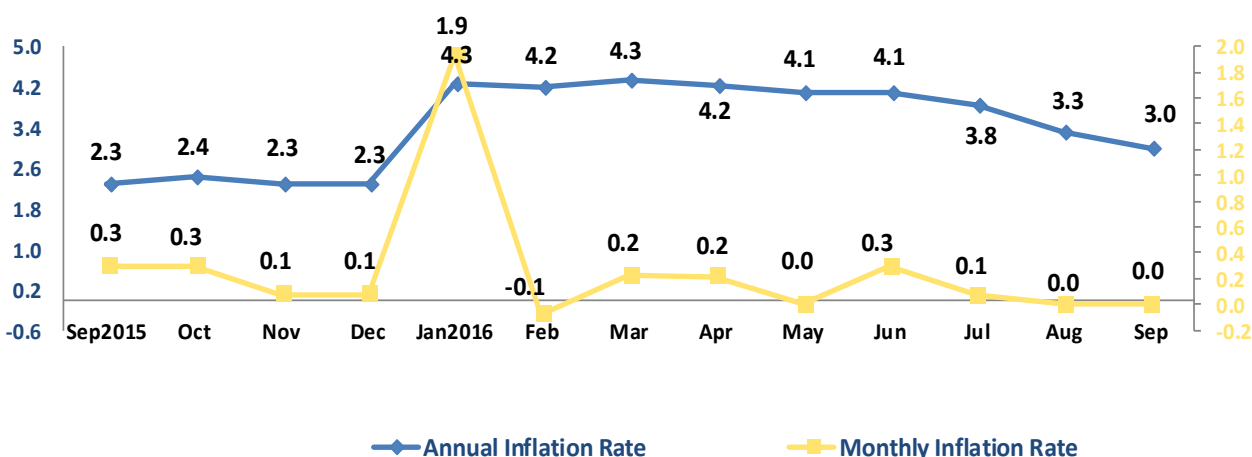
with 2.1 percent; and then communications with 1.2 percent. (Table 1 and Chart 2).

In contrast, restaurants and hotels decreased by 1.4 percent q/q and food and beverages by 0.8 percent during Q3 2016 (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 occurring in the index's various sections. Classified by their influence rates on the general cost of living index, housing, water, electricity, gas and other fuels ranked first with 23.3 percent during Q3 2016 against 18.1 percent in the same quarter of the preceding year. Transportation came second with 22.3 percent compared to 17.4 percent, followed by miscellaneous goods

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



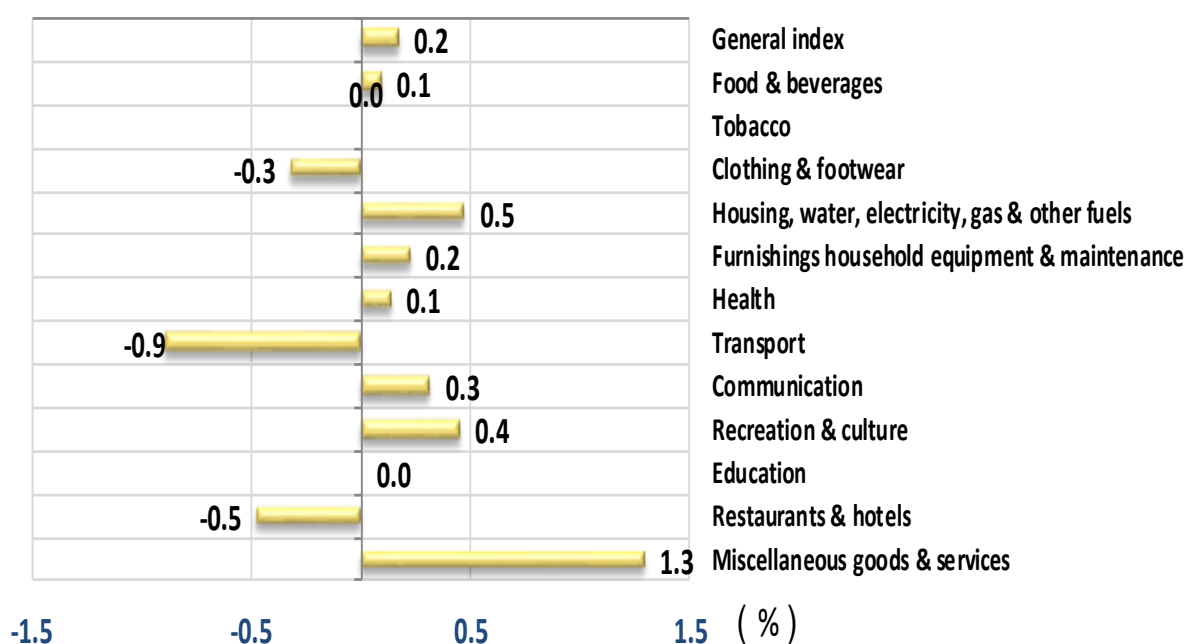
Source: General Authority for Statistics.



	Weights	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	(% change)	
							Q3 2016/ Q2 2016	Q3 2016/ Q3 2015
General index	100.0	133.5	134.4	137.1	137.7	138.0	0.2	3.4
Food & beverages	21.7	148.1	149.5	147.8	146.7	146.9	0.1	-0.8
Tobacco	0.5	165.8	165.8	177.4	199.8	199.8	0.0	20.5
Clothing & footwear	8.4	110.1	111.9	112.4	114.4	114.1	-0.3	3.6
Housing, water, electricity, gas & other fuels	20.5	165.8	166.5	175.2	176.6	177.4	0.5	7.0
Furnishings, household equipment & maintenance	9.1	132.2	132.7	133.3	134.7	135.0	0.2	2.1
Health	2.6	116.0	116.8	120.9	123.5	123.7	0.1	6.7
Transport	10.4	112.8	113.1	124.2	123.5	122.4	-0.9	8.6
Communication	8.1	94.7	94.8	95.0	95.5	95.8	0.3	1.2
Recreation & culture	3.5	119.4	120.5	119.6	119.0	119.5	0.4	0.1
Education	2.7	116.3	122.6	122.6	122.6	122.6	0.0	5.4
Restaurants & hotels	5.7	127.3	126.9	125.9	126.1	125.5	-0.5	-1.4
Miscellaneous goods & services	6.8	121.4	122.4	122.4	124.2	125.8	1.3	3.6

Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Cost of Living Index by Main Sections (Q3 2016/Q2 2016)



Source: General Authority for Statistics.

and services with 21.1 percent compared to 4.2 percent, and finally clothes and footwear with 6.5 percent compared to 11.7 percent in the same quarter of the previous year.

The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages; and transportation) stood at 50.3 percent during Q3 2016 against 65.6 percent in the corresponding quarter of the previous year (Charts 4 and 5).

Wholesale Price Indices

The wholesale price index in Q3 2016 remained unchanged from the previous quarter, with a y/y rise of 3.7

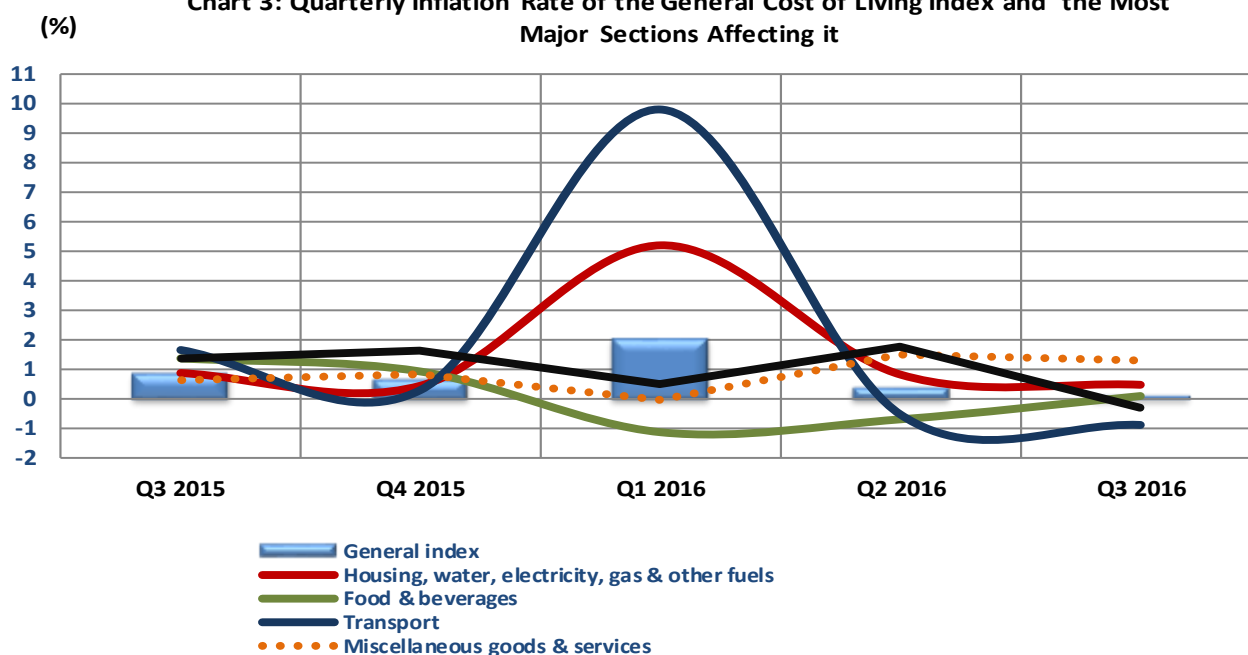
percent (Chart 6).

Wholesale Price Indices by Sections

During Q3 2016, mineral fuels and related materials registered the highest y/y increase, registering an inflation rate of 32.7 percent. Other commodities ranked second with a y/y increase of 14.2 percent. Beverages and tobacco came third with 4.4 percent y/y increase, and finally miscellaneous manufactured articles with 1.7 percent (Table 1 and Chart 7).

In contrast, machinery and transport recorded the highest y/y deflation rate during Q3 2016, dropping by 2.5 percent. Foodstuffs and live animals came second with a deflation rate of 1.8 percent,

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 (Q3 2016) (%)

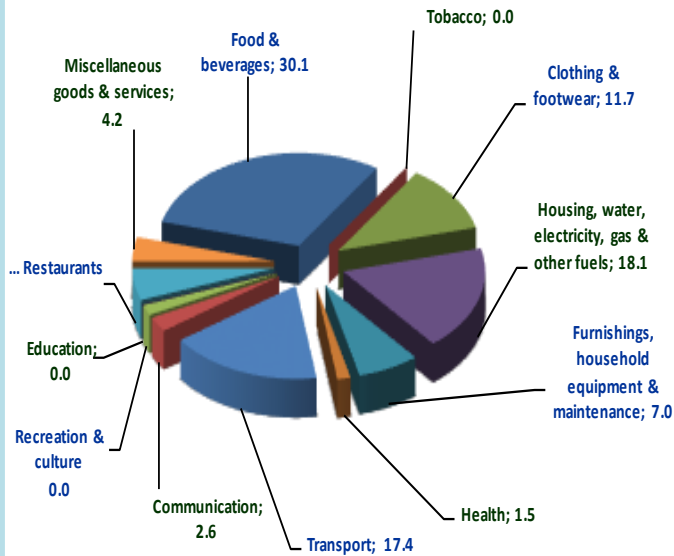
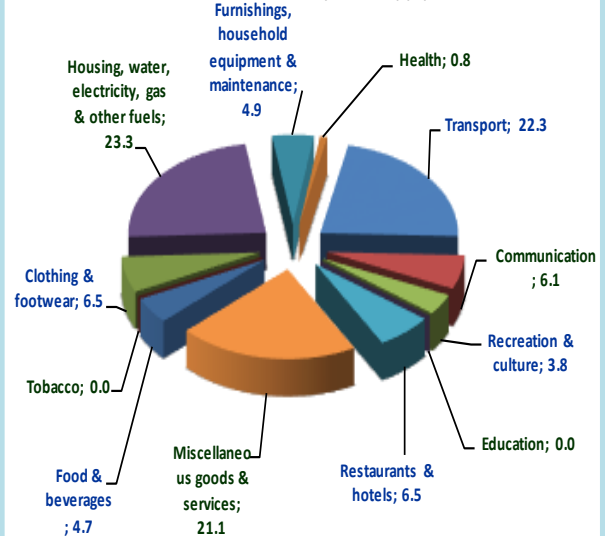


Chart 5: Percentage Impact Of Major Sections On The General Inflation Rate (Q3 2016) (%)



followed by crude materials, except fuels, with 0.9% (Table 2 and Chart 7).

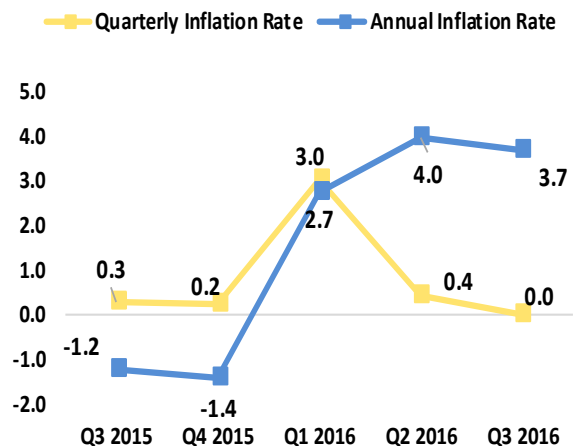
Cost of Living Index by Cities during Q3 2016

All cities' general cost of living index increased by 0.2 percent in Q3 2016 compared to the corresponding quarter of the previous year. Ar'ar recorded the highest rise of 1.5 percent. Al-Baha came next with 0.8 percent, followed by Dammam with 0.7 percent; Taif with 0.5 percent; Abha with 0.3 percent; Al-Madinah and Riyadh with 0.2 percent; and then Jeddah and Hail with 0.1 percent. Average general index decreased in Buraidah by 0.5 percent, Makkah by 0.3 percent and Skaka by 0.2 percent (Table 3).

GDP Deflator

According to the latest data issued by GASTAT, GDP deflator recorded a q/q increase of 7.0 percent in Q2 2016, and a y/y decline of 6.7 percent (Table 4 and Chart 8).

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



Source: General Authority for Statistics



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 on their respective contributions to the 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. The non-oil GDP deflator registered a quarterly increase of 3.0 percent in Q2 2016 compared to the previous quarter and a y/y rise of 0.6

percent (Table 4 and chart 8).

An analysis of the GDP deflator data by economic activity (at constant prices for base year 2010) shows that import duties constituted the highest y/y rise of 3.9 percent in Q2 2016. Producers of government services came second with 1.3 percent and then financial, insurance, real estate and business services with 1.0 percent.

On the other hand, mining and quarrying recorded the highest y/y deflation of 23.4 percent in the GDP deflator in Q2 2016. In addition, manufacturing industries decreased by 4.1 percent (Chart 9).

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

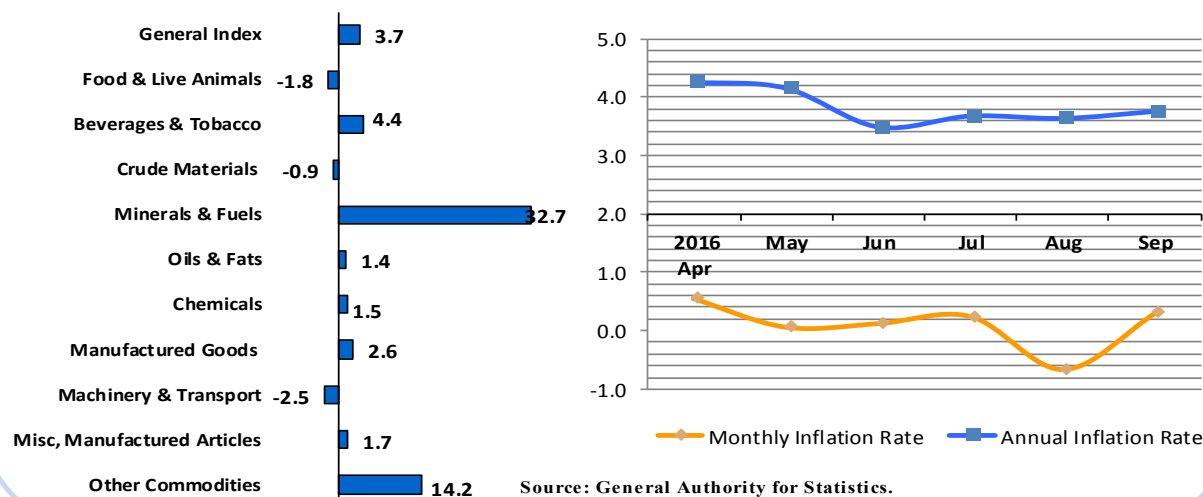
	Weights	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	(% change)	
							Q3 2016/ Q2 2016	Q3 2016/ Q3 2015
General Index	100.0	157.3	157.7	162.5	163.1	163.1	0.0	3.7
Food & Live Animals	31.9	190.6	194.9	190.7	187.0	187.2	0.1	-1.8
Beverages & Tobacco	1.2	179.3	181.7	184.8	187.1	187.1	0.0	4.4
Crude Materials	0.3	204.2	206.1	204.3	202.6	202.5	0.0	-0.9
Minerals & Fuels	10.1	186.2	186.2	247.1	247.1	247.1	0.0	32.7
Oils & Fats	0.4	152.7	155.0	154.2	153.7	154.8	0.7	1.4
Chemicals	9.8	201.3	200.9	199.9	205.0	204.3	-0.3	1.5
Manufactured Goods	26.2	139.0	136.1	137.7	142.1	142.5	0.3	2.6
Machinery & Transport	13.4	140.0	139.2	137.7	137.2	136.5	-0.5	-2.5
Misc, Manufactured Articles	6.4	134.1	135.3	137.0	137.8	136.4	-1.0	1.7
Other Commodities	0.3	230.2	228.0	238.5	254.6	263.0	3.3	14.2

Source: General Authority for Statistics.

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

% Change (Q3 2016/ Q3 2015)

Annual & Monthly Inflation of the WPI



A comparison of the annual inflation measures in the domestic market indicates that the annual inflation rate of non-oil GDP deflator increased slightly by 0.6 percent in Q2 2016. The annual change rate of the wholesale price index went up by 4.0 percent, and the annual inflation rate of the cost of living index registered a rise of 4.1 percent during the same period (Chart 10).

Foreign Trade with Major Trading Partners

According to latest data available during Q2 2016, total value of the Kingdom's imports stood at SAR 137.0 billion, recording a q/q decline of 2.5 percent. The Kingdom's imports dropped

by 19.3% y/y.

China came at the top of the Kingdom's major trading partners during Q2 2016. The Kingdom's imports from China amounted to SAR 20.1 billion (14.5% of the Kingdom's total value of imports), down by 15.5 percent y/y. The United States came second with SAR 18.4 billion (13.4% of the Kingdom's total value of imports), decreasing by 18.8 percent y/y. Germany ranked third with SAR 8.8 billion (6.3% of the Kingdom's total value of imports), falling by 23.0 percent y/y. Japan came fourth with SAR 7.8 billion (5.7% of the Kingdom's total value of imports), dropping by 15.0 percent y/y. UAE came fifth with SAR 7.4



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

General Index	2014	2015	Q1 2016	Q2 2016	Q3 2016	Inflation Rate	
						2015/2014	Q3 2016/ Q2 2016
All Cities Index	126.7	130.1	137.1	137.7	138.0	2.7	0.2
Riyadh	129.9	135.0	144.7	144.6	144.8	3.9	0.2
Makkah	122.6	126.9	132.8	133.9	133.5	3.5	-0.3
Jeddah	126.1	129.3	137.0	140.3	140.4	2.6	0.1
Al-Dammam	135.0	133.7	137.6	138.3	139.3	-0.9	0.7
Al-Madinah	120.6	124.7	129.2	129.7	130.0	3.4	0.2
Ta'if	123.1	127.2	132.3	131.3	131.9	3.3	0.5
Al-Hufuf	122.6	124.6	129.1	129.3	129.2	1.6	-0.1
Abha	120.3	123.2	128.6	128.8	129.2	2.4	0.3
Buraydah	122.5	123.9	131.3	130.4	129.7	1.1	-0.5
Tabuk	119.5	128.9	124.2	124.2	124.0	7.8	-0.1
Ha'il	125.7	127.2	131.3	131.0	131.1	1.1	0.1
Jazan	134.1	142.1	155.9	157.1	156.8	6.0	-0.1
Najran	125.1	128.5	137.2	137.4	137.3	2.7	-0.1
Al-Bahah	125.1	130.5	142.5	141.2	142.4	4.4	0.8
Sakaka	124.6	127.5	137.2	136.7	136.4	2.3	-0.2
'Ar'ar	114.5	120.1	130.3	130.6	132.5	4.9	1.5

Source: General Authority for Statistics.

billion (5.4% of the Kingdom's total value of imports), down by 20.5 percent y/y (Table 5).

Inflation Projections for Q4 2016

Actual data, particularly in the current quarter, shows a downward trend in the inflation rate, indicating a contraction in the inflationary pressures arising from energy prices reform. Rationalization of government spending and the decrease of global food prices and import costs would limit the effect of the rising energy prices. Therefore, the contraction in inflation rate is expected to

continue in Q4 2016 to similar or lower levels than the current levels.

The IMF projections for the primary commodity price index indicate a contraction in the inflationary pressures on most of its main sections for 2016. Its projections for 2016 show a deflation in energy prices by 16.8 percent, raw agricultural materials by 7.6 percent, metal prices by 7.5 percent, and beverages prices by 3.3 percent. However, food prices went up by 1.9 percent as projected (Table 6).

Conclusion

The most significant results of the



**TABLE 4: GDP Deflator
(2010=100)**

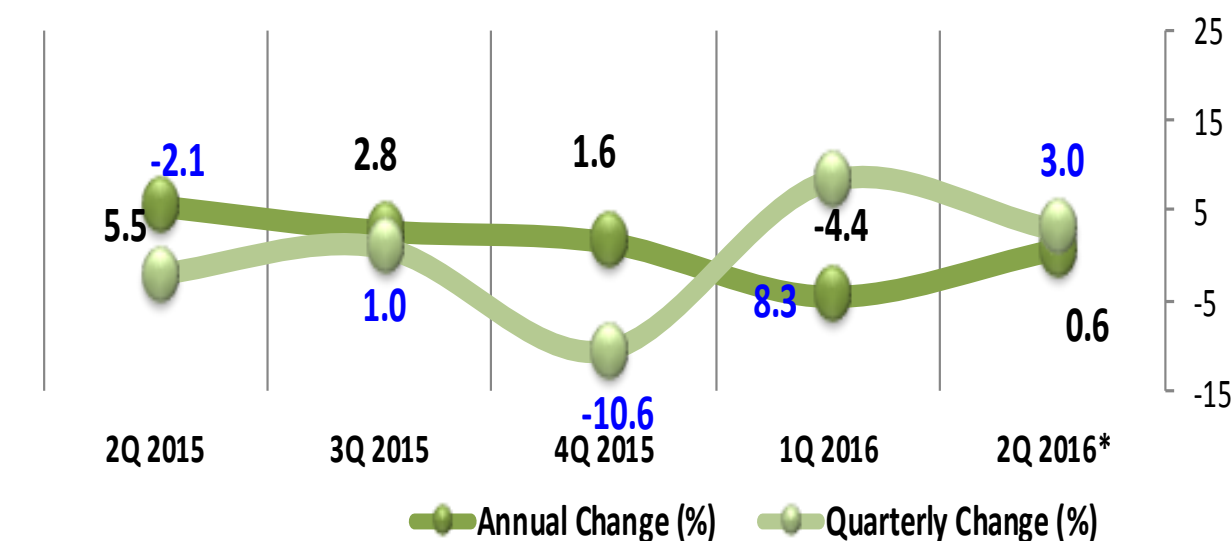
	2Q 2015	3Q 2015	4Q 2015	1Q 2016	2Q 2016*
GDP (Million Rls):					
At Current Prices	631,392	604,220	547,795	565,881	597,291
At Constant Prices	624381.9	627688.1	636985.8	641473.5	633049.7
GDP Deflator	101.1	96.3	86.0	88.2	94.4
Quarterly Change (%)	0.0	-4.8	-10.7	2.6	7.0
Annual Change (%)	-16.8	-19.4	-15.8	-12.8	-6.7
Non-oil GDP (Million Rls):					
At Current Prices	429,393	435089.9	398969.9	444315.2	433820.9
At Constant Prices	345129.2	346379.7	355376.8	365578.8	346621.7
Non-oil GDP Deflator	124.4	125.6	112.3	121.5	125.2
Quarterly Change (%)	-2.1	1.0	-10.6	8.3	3.0
Annual Change (%)	5.5	2.8	1.6	-4.4	0.6

* Latest Available Data

Source: General Authority for Statistics.

**Chart 8: Quarterly & Annual Changes of the Non-oil GDP
(2010=100)**

(%)

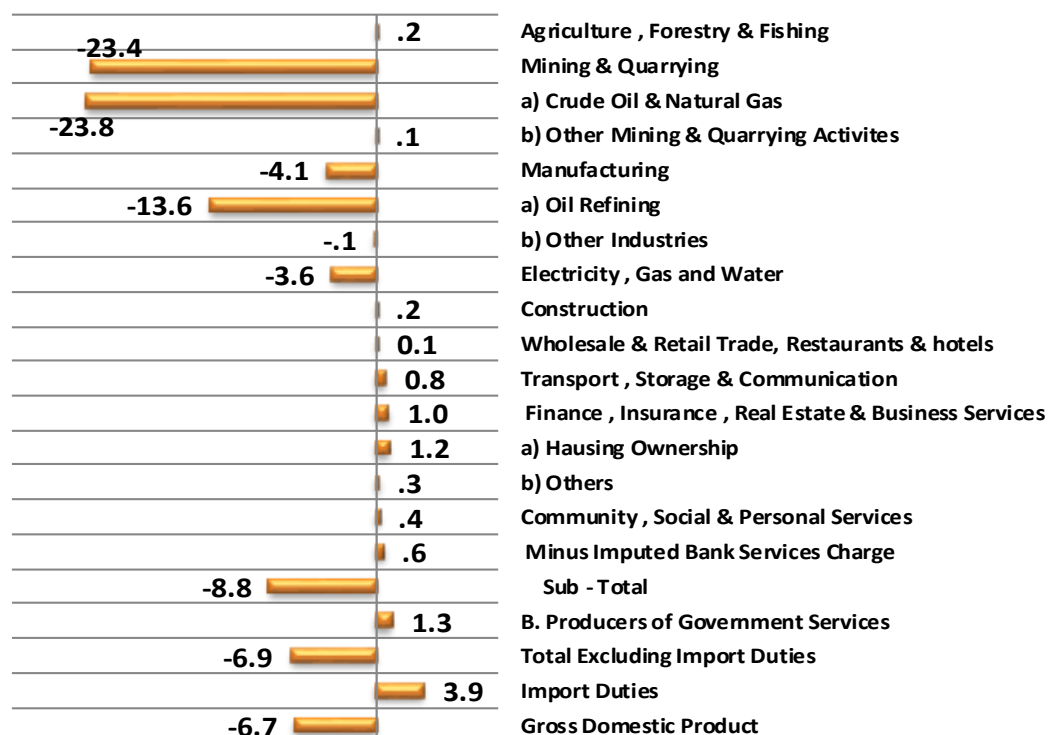


* Latest Available Data

Source: General Authority for Statistics.



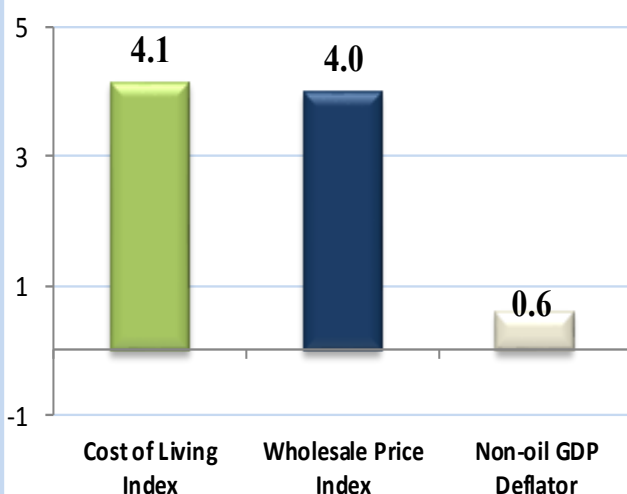
Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices
Q2 2016*/ Q2 2015 (%) Change



*Latest Available Data

Source: General Authority for Statistics

Chart 10: Inflation Measurements in Q2, 2016 (%) Change



Source General Authority for Statistics.

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

Countries	Q2 2015	Q2 2016	Change (%)
China	23734	20048	-15.5
U.S.A	22621	18363	-18.8
Germany	11362	8747	-23.0
Japan	9206.2	7821	-15.0
U.A.E	9274.4	7374	-20.5
Total	76197.6	62353	-18.2
Ratio to Total	44.9	45.5	1.4

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	-2.7	0.9	-0.7	-0.2
Food	16.7	0.7	-4.1	-17.1	1.9	-0.3	-1.0	0.2
Beverages	1.8	-11.9	20.7	-3.1	-3.3	3.7	1.8	1.0
Agricultural Raw Materials	7.7	1.6	1.9	-13.5	-7.6	1.9	-0.2	0.0
Metals	10.7	-4.3	-10.3	-23.1	-7.5	1.7	-1.0	-1.5
Energy	63.1	-1.7	-7.4	-44.8	-16.8	15.6	4.0	2.2

Source: IMF

analysis of inflation rates in Q3 2016 in the Kingdom can be concluded as follows:

1. The general cost of living index registered a y/y increase of 3.4% in Q3 2016 compared to a rise of 0.2%.
2. Tobacco registered the highest y/y inflation rate of 20.5% in Q3 2016. In contrast, restaurants and hotels recorded the highest y/y deflation rate of 1.4%.
3. The wholesale price index in Q3 2016 remained unchanged from the preceding quarter. However, it registered a y/y rise of 3.7% in the same quarter.
4. Mineral fuels and related materials recorded the highest y/y increase of 32.7% in the wholesale price index. In contrast, machinery and transport posted the highest y/y deflation rate of 2.5%.

5. Non-oil GDP deflator recorded a y/y rise of 0.6% in Q2 2016 against a decrease of 4.4% in Q1 2016.

6. Actual data, particularly in the current quarter, shows a downward trend in the inflation rate, indicating a contraction in the inflationary pressures arising from energy prices reform.

Rationalization of government spending and the decrease of global food prices and import costs would limit the effect of the rising energy prices. Therefore, the contraction in inflation rate is expected to continue in Q4 2016 to similar or lower levels than the current levels.