



Inflation Report

Fourth Quarter of 2016



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Saudi Arabian Monetary Agency



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Cost of Living Index

The general level of prices registered a y/y increase of 2.2 percent and a slight q/q decline of 0.4 percent in Q4 2016. In December 2016, the cost of living index registered an annual increase of 1.7 percent (Chart 1 and Table 1).

Developments in Q4 2016

During Q4 2016, tobacco registered the highest y/y inflation rate of 20.5 percent. Transportation came second with 7.5 percent; housing, water, electricity, gas and other fuels with 6.4 percent; health with 5.6 percent; communications & Miscellaneous goods & services with 2.0 percent, education with 1.9 percent; clothing and footwear with 1.6 percent, and household equipment and maintenance with 1.2 percent (Table 1 and Chart 2).

In contrast, food and beverages recorded a y/y decline of 3.0 percent,

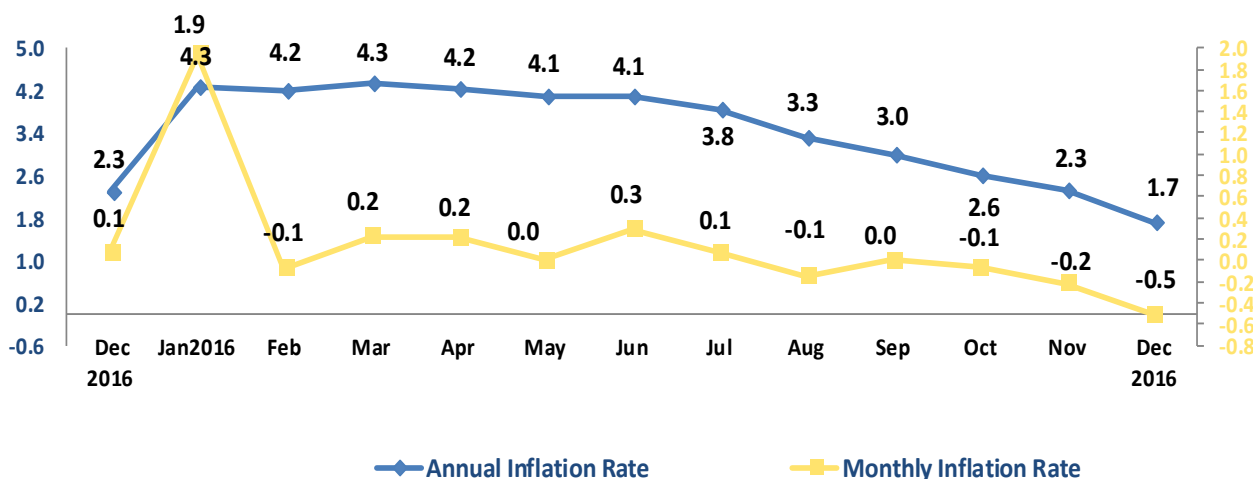
followed by recreation and culture with 1.6 percent and restaurants and hotels by 1.1 percent (Table 1 and Charts 2 and 3).

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 index of cost of living, food and beverages ranked first with 41.6 percent during Q4 2016 against 26.1 percent in the same quarter of the preceding year. Communications came second with 11.3 percent compared to 0.7 percent, followed by transportation with 10.9 percent compared to 4.0 percent, and finally miscellaneous goods and services with 7.7 percent compared to 7.3 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) was 56.5 percent against 41.9

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



Source: General Authority for Statistics.

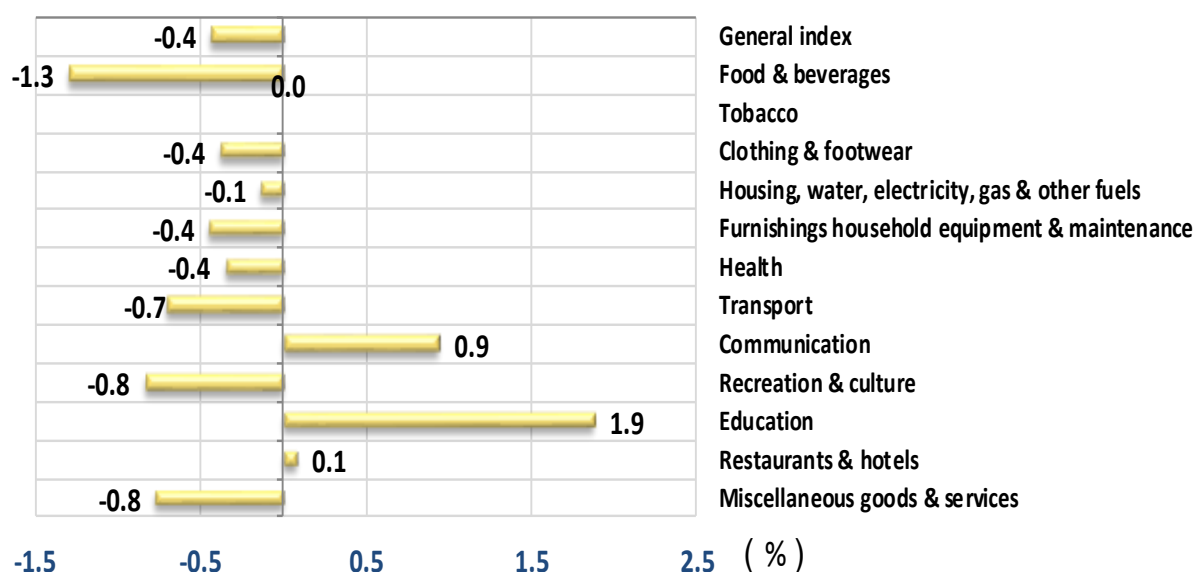


TABLE 1: COST OF LIVING INDEX
(2007=100)

	Weights	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	(% change	
							Q4 2016/ Q3 2016	Q4 2016/ Q4 2015
General index	100.0	134.4	137.1	137.7	138.0	137.4	-0.4	2.2
Food & beverages	21.7	149.5	147.8	146.7	146.9	145.0	-1.3	-3.0
Tobacco	0.5	165.8	177.4	199.8	199.8	199.8	0.0	20.5
Clothing & footwear	8.4	111.9	112.4	114.4	114.1	113.6	-0.4	1.6
Housing, water, electricity, gas & other fuels	20.5	166.5	175.2	176.6	177.4	177.2	-0.1	6.4
Furnishings, household equipment & maintenance	9.1	132.7	133.3	134.7	135.0	134.4	-0.4	1.2
Health	2.6	116.8	120.9	123.5	123.7	123.3	-0.4	5.6
Transport	10.4	113.1	124.2	123.5	122.4	121.6	-0.7	7.5
Communication	8.1	94.8	95.0	95.5	95.8	96.7	0.9	2.0
Recreation & culture	3.5	120.5	119.6	119.0	119.5	118.5	-0.8	-1.6
Education	2.7	122.6	122.6	122.6	122.6	124.9	1.9	1.9
Restaurants & hotels	5.7	126.9	125.9	126.1	125.5	125.6	0.1	-1.1
Miscellaneous goods & services	6.8	122.4	122.4	124.2	125.8	124.8	-0.8	2.0

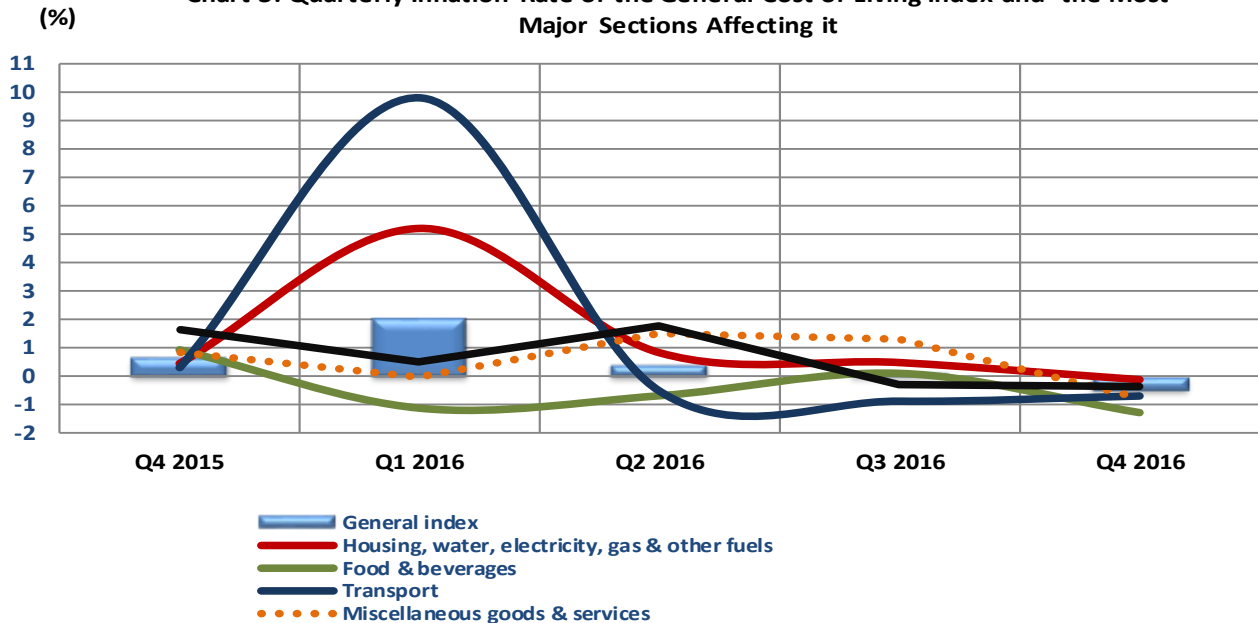
Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Cost of Living Index by Main Sections (Q4 2016/Q3 2016)



Source: General Authority for Statistics.

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



Source: General Authority for Statistics.

percent in the same quarter of the last year (Charts 4 and 5).

Wholesale Price Indices

The wholesale price index in Q4 2016 recorded a q/q decline of 1.4 percent and a y/y rise of 2.0 percent (Chart 6).

Wholesale Price Indices by Sections

During Q4 2016, mineral fuels and related materials section registered the highest y/y increase with an inflation rate of 32.7 percent. Other goods section ranked second with a y/y increase of 7.9 percent. Beverages

Chart 4: Percentage Impact Of Major Sections On The General Inflation Rate (Q4 2015) (%)

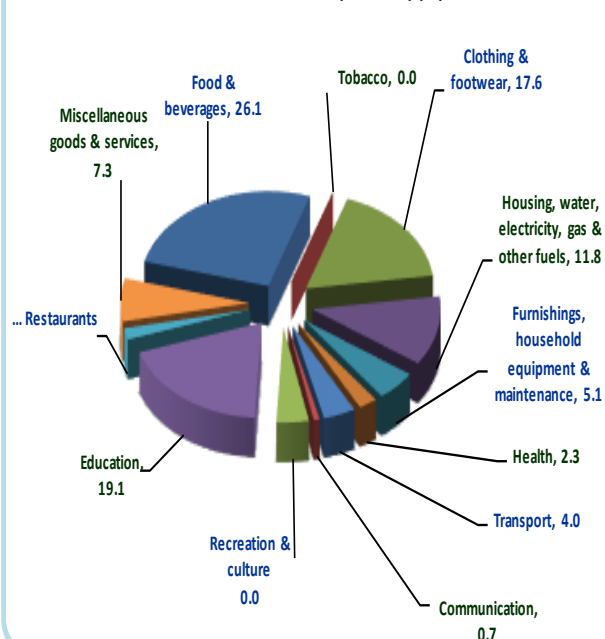


Chart 5: Percentage Impact Of Major Sections On The General Inflation Rate (Q4 2016) (%)

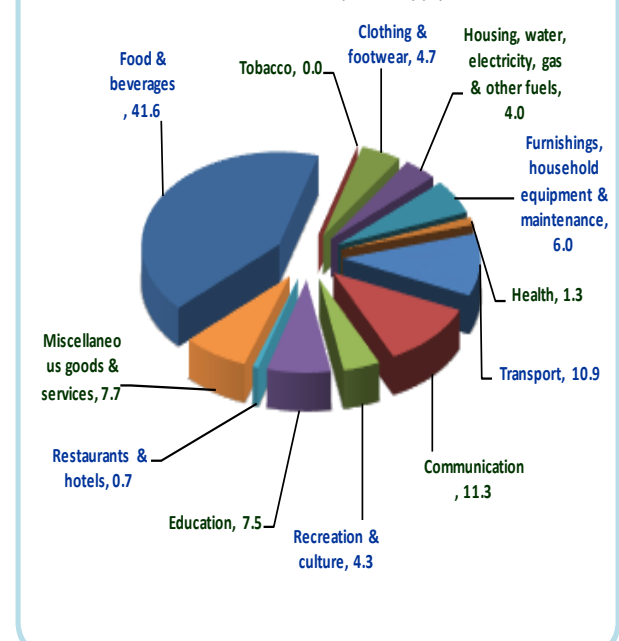
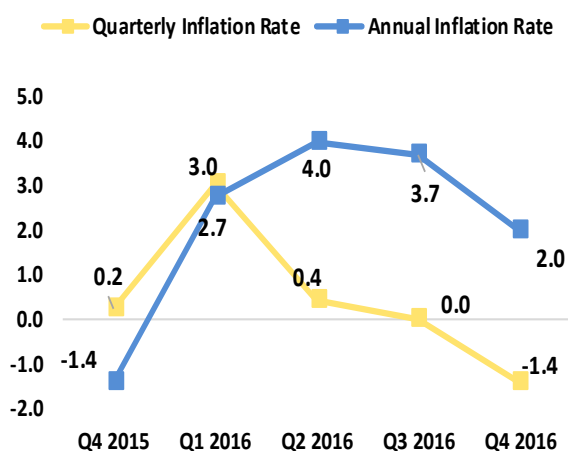




Chart 6: Inflation of the Wholesale Price Index (1988=100)



Source: General Authority for Statistics

and tobacco came third with 3.1 percent, and finally manufactured goods with 2.3 percent (Table 2 and Chart 7).

In contrast, food and live animals posted the highest y/y deflation rate, dropping by 4.1 percent. Chemicals and related materials came second with a deflation rate of 3.6 percent, followed by machinery and transport equipment with 3.2 percent (Table 2 and Chart 7).

Cost of Living Index by Cities during Q4 2016

The average of all cities' Cost of Living Index recorded a q/q decline of 0.4 percent in Q4 2016. Taif posted the highest rise of 0.8 percent, followed by Dammam with 0.3 percent. Jazan came third with 0.1 percent. The Index registered a decline in Buraidah by 1.7 percent, Baha by 1.1 percent, Tabuk by

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

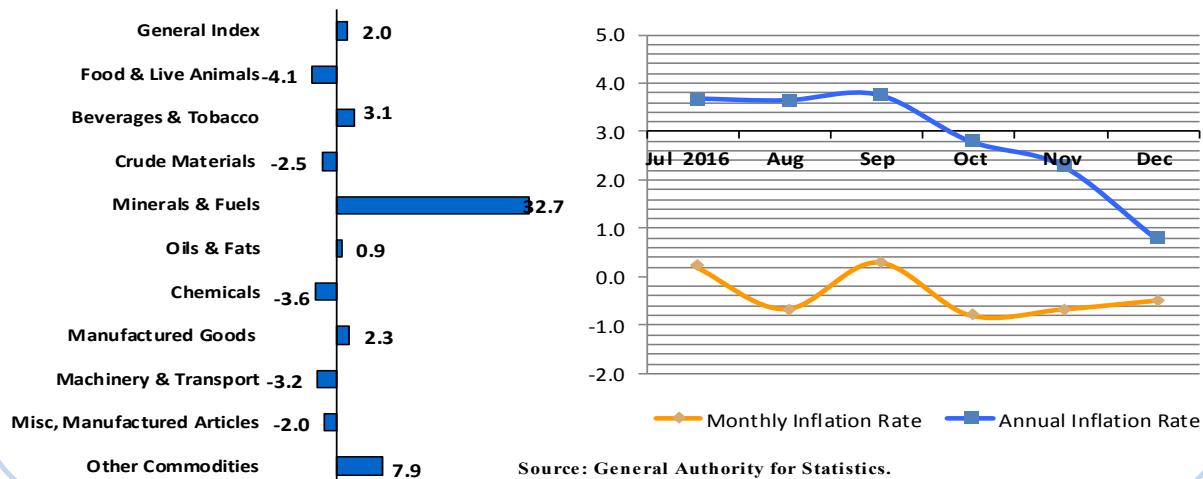
	Weights	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	(% change)	
							Q4 2016/ Q3 2016	Q4 2016/ Q4 2015
General Index	100.0	157.7	162.5	163.1	163.1	160.8	-1.4	2.0
Food & Live Animals	31.9	194.9	190.7	187.0	187.2	187.0	-0.1	-4.1
Beverages & Tobacco	1.2	181.7	184.8	187.1	187.1	187.4	0.1	3.1
Crude Materials	0.3	206.1	204.3	202.6	202.5	201.0	-0.7	-2.5
Minerals & Fuels	10.1	186.2	247.1	247.1	247.1	247.1	0.0	32.7
Oils & Fats	0.4	155.0	154.2	153.7	154.8	156.4	1.0	0.9
Chemicals	9.8	200.9	199.9	205.0	204.3	193.7	-5.2	-3.6
Manufactured Goods	26.2	136.1	137.7	142.1	142.5	139.3	-2.3	2.3
Machinery & Transport	13.4	139.2	137.7	137.2	136.5	134.7	-1.3	-3.2
Misc, Manufactured Articles	6.4	135.3	137.0	137.8	136.4	132.6	-2.8	-2.0
Other Commodities	0.3	228.0	238.5	254.6	263.0	245.9	-6.5	7.9

Source: General Authority for Statistics.

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

% Change (Q4 2016/ Q4 2015)

Annual & Monthly Inflation of the WPI



1.0 percent, Hail by 0.9 percent and Makkah, Skaka and Ar'ar by 0.8 percent (Table 3).

GDP Deflator

According to the latest data issued by GASTAT, GDP deflator recorded a q/q

decline of 0.1 percent in Q3 2016, and a y/y decline of 1.3 percent (Table 4 and Chart 8).

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

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

General Index	2015	2016	Inflation Rate				Q4 2016/ Q3 2016
			Q2 2016	Q3 2016	Q4 2016	2016/2015	
All Cities Index	132.7	137.6	137.7	138.0	137.4	3.7	-0.4
Riyadh	139.8	144.5	144.6	144.8	144.0	3.4	-0.6
Makkah	129.4	133.1	133.9	133.5	132.4	2.9	-0.8
Jeddah	131.4	139.3	140.3	140.4	139.7	6.1	-0.5
Al-Dammam	135.0	138.7	138.3	139.3	139.7	2.8	0.3
Al-Madinah	126.3	129.7	129.7	130.0	129.9	2.7	-0.1
Ta'if	127.7	132.1	131.3	131.9	133.0	3.4	0.8
Al-Hufuf	124.7	129.0	129.3	129.2	128.3	3.4	-0.7
Abha	125.0	128.9	128.8	129.2	128.9	3.1	-0.2
Buraydah	127.3	129.7	130.4	129.7	127.5	1.9	-1.7
Tabuk	120.4	123.8	124.2	124.0	122.7	2.8	-1.0
Ha'il	128.1	130.8	131.0	131.1	129.9	2.1	-0.9
Jazan	149.5	156.7	157.1	156.8	156.9	4.8	0.1
Najran	131.5	137.2	137.4	137.3	136.8	4.3	-0.4
Al-Bahah	133.6	141.7	141.2	142.4	140.9	6.1	-1.1
Sakaka	131.3	136.4	136.7	136.4	135.3	3.9	-0.8
'Ar'ar	126.0	131.2	130.6	132.5	131.5	4.2	-0.8

Source: General Authority for Statistics.



TABLE 4: GDP Deflator
(2010=100)

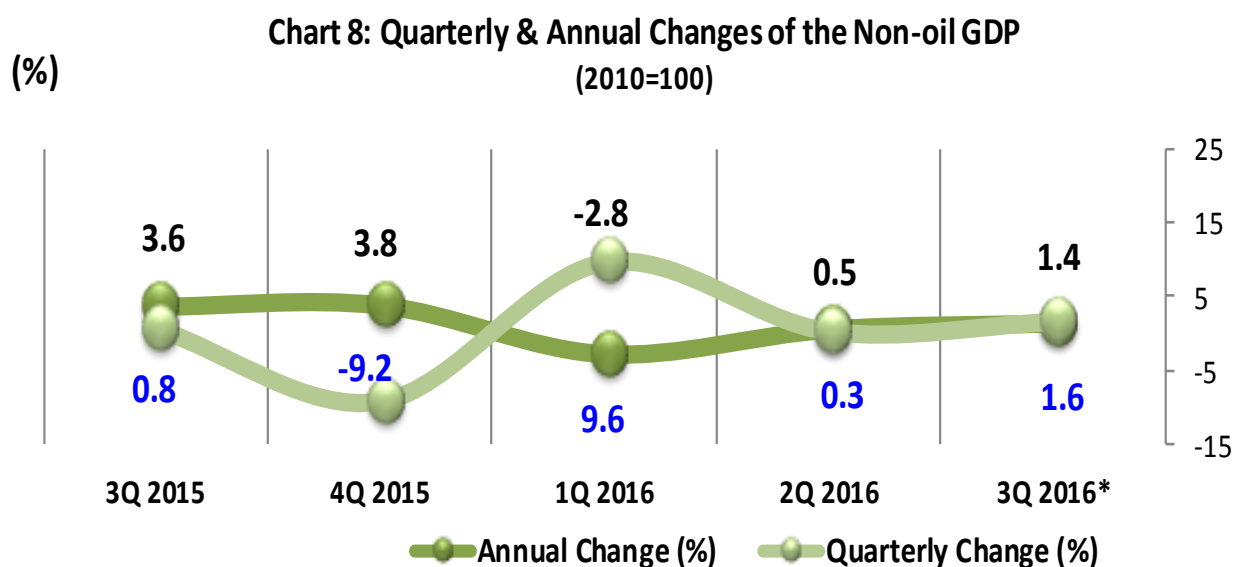
	3Q 2015	4Q 2015	1Q 2016	2Q 2016	3Q 2016*
GDP (Million Rls):					
At Current Prices	604,639	575,466	579,076	598,789	602083.3
At Constant Prices	632683.5	653819.9	642299.5	638328.5	638580.3
GDP Deflator	95.6	88.0	90.2	93.8	94.3
Quarterly Change (%)	-3.9	-7.9	2.4	4.0	0.5
Annual Change (%)	-20.0	-13.9	-11.1	-5.7	-1.3

Non-oil GDP (Million Rls):

At Current Prices	439063.5	422776.5	462225.8	438145.9	441997.8
At Constant Prices	347063.7	368105.4	367231.6	347075.1	344678.5
Non-oil GDP Deflator	126.5	114.9	125.9	126.2	128.2
Quarterly Change (%)	0.8	-9.2	9.6	0.3	1.6
Annual Change (%)	3.6	3.8	-2.8	0.5	1.4

* Latest Available Data

Source: General Authority for Statistics.



* Latest Available Data

Source: General Authority for Statistics.



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 usually used to exclude the impact of change in oil prices on the domestic economy. It registered a q/q increase of 2.5 percent in Q3 2016 and a y/y rise of 1.4 percent (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 9.7 percent in Q3 2016. Import duties came second with 6.6 percent, followed by financial, insurance, real estate and business services with 2.0 percent.

On the other hand, mining and quarrying recorded the highest y/y deflation of 5.2

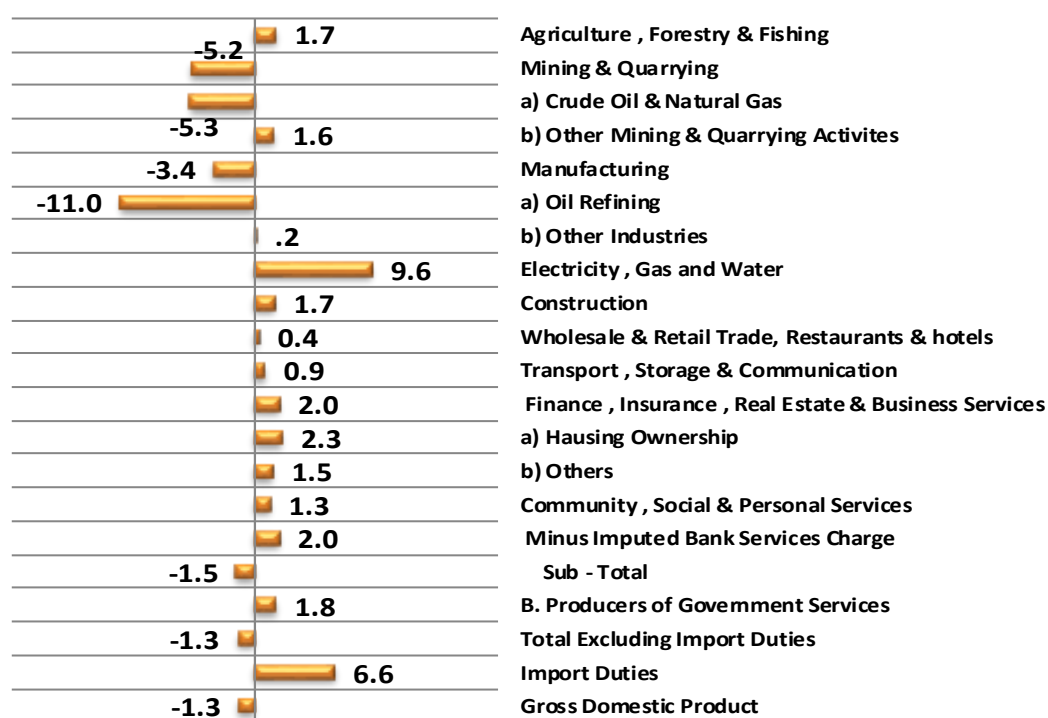
percent in the GDP deflator in Q3 2016. In addition, manufacturing decreased by 3.4 percent (Chart 9).

A comparison of annual inflation measures in the domestic market indicates that the annual inflation rate of non-oil GDP deflator recorded an increase of 1.4 percent in Q3 2016. The annual change rate of the wholesale price index went up by 3.7 percent, while the annual inflation rate of the cost of living index registered a rise of 3.4 percent during the same period (Chart 10).

Foreign Trade with Major Trading Partners

According to the latest available data in Q3 2016, total value of the Kingdom's imports stood at SAR 114.0 billion with a q/q

**Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices
Q3 2016*/ Q3 2015 (%) Change**

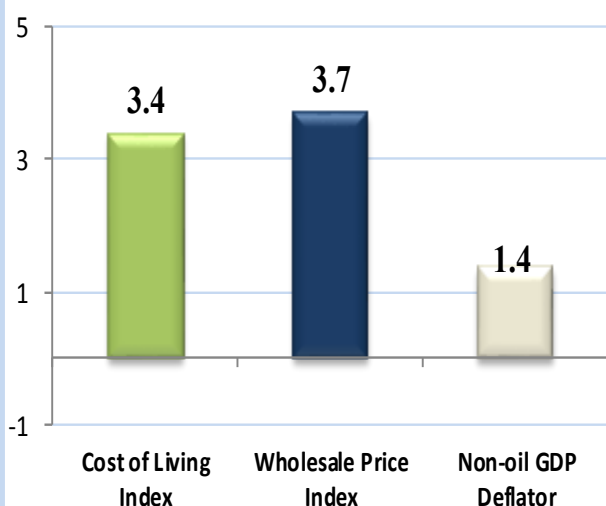


*Latest Available Data

Source: General Authority for Statistics



Chart 10: Inflation Measurements in Q3, 2016 (%)Change



Source: General Authority for Statistics.

decline of 16.7 percent and a y/y decline of 27.5 percent.

According to the latest available data in Q3 2016, China came at the top of the Kingdom's major trading partners. The Kingdom's imports from China amounted to SAR 17.6 billion or 15.4 percent of the total value of imports, down by 21.7 percent y/y. The United States came second with SAR 16.5 billion or 14.5 percent of the total value of imports, decreasing by 20.4 percent y/y. Germany ranked third with SAR 7.0 billion or 6.1 percent of total value of imports, falling by 38.2 percent y/y. Japan came fourth with SAR 5.9 billion or 5.2 percent, dropping by 28.6 percent y/y. UAE came fifth with SAR 5.9 billion or 5.2 percent of the total value of imports, down by 24.3 percent y/y (Table 5 A).

According to data of November 2016, total value of the Kingdom's imports stood at SAR 39.8 billion, with a monthly increase of

0.7 percent as compared to the preceding month. The Kingdom's imports dropped by 22.3 percent compared to the same month of the preceding year.

According to data of November 2016, the United States came at the top of the Kingdom's trading partners. The Kingdom's imports from the United States amounted to SAR 8.3 billion or 20.8 percent of total value of imports, recording a rise of 14.0 percent y/y. China came second with SAR 5.5 billion or 13.8 percent of total value of imports with a decline of 18.2 percent y/y. Germany ranked third with SAR 2.5 billion or 6.4 percent of total value of imports, denoting a decline of 33.6 percent y/y. UAE came fourth with SAR 2.1 billion or 5.3 percent of total value of imports with a decline of 4.5 percent y/y. South Korea came fifth with SAR 1.9 billion or 4.7 percent of total imports, posting a decline of 37.6% y/y (Table 5 B).

The IMF projections for the primary commodity price index indicate a contraction

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

Countries	Q3 2015	Q3 2016	Change (%)
China	22440	17575	-21.7
U.S.A	20774	16532	-20.4
Germany	11329	7000	-38.2
Japan	8244	5890	-28.6
U.A.E	7783	5889	-24.3
Total	70570	52886	-25.1
Ratio to Total	44.9	46.4	3.4

Source: General Authority for Statistics.



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

Countries	Nov 2015	Nov 2016	Change (%)
U.S.A	7273	8291	14.0
China	6701	5480	-18.2
Germany	3824	2538	-33.6
U.A.E	2205	2105	-4.5
South korea	2979	1858	-37.6
Total	22982	20272	-11.8
Ratio to Total	44.94	50.99	13.5

Source: General Authority for Statistics.

in the inflationary pressures on most of its main sections for 2016. Its projections for 2016 show a deflation in energy prices by 16.3 percent, raw agricultural materials and metal prices by 5.7 percent, and beverages prices by 5.0 percent. However, food prices went up by 2.0 percent as projected (Table 6).

Inflation Projections for Q1 2017

Actual data, particularly in the current quarter, shows a downward trend in the inflation rate, indicating a contraction in the inflationary pressures arising from the energy prices reform. Rationalized government spending, low 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 Q1 2017 at levels similar or lower than the current ones.

Conclusion

The most significant results of the analysis of inflation rates in Q4 2016 in the Kingdom can be concluded as follows:

- 1- The general cost of living index registered a y/y increase of 2.2 percent in Q4 2016 compared to a rise of 2.3 percent.

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	16.1	-0.4	-0.4	0.1
Food	16.7	-4.1	-17.1	2.0	1.3	-1.3	0.1	-0.3
Beverages	1.8	20.7	-3.1	-5.0	-3.5	3.5	1.5	0.4
Agricultural Raw Materials	7.7	2.0	-13.5	-5.7	5.6	0.1	-0.1	0.0
Metals	10.7	-10.1	-23.0	-5.7	15.4	-3.7	-2.5	0.2
Energy	63.1	-7.4	-44.8	-16.3	26.1	0.5	-0.2	0.3

Source: IMF



2- Tobacco registered the highest y/y inflation rate of 20.5 percent in Q4 2016.

In contrast, food and beverages recorded the highest y/y deflation rate of 3.0 percent.

3- The wholesale price index recorded a q/q decline of 1.4 percent in Q4 2016. However, it registered a y/y rise of 2.0 percent.

4- Mineral fuels and related materials recorded the highest y/y increase of 32.7 percent in the wholesale price index. In contrast, food and live animals posted the highest y/y deflation rate of 4.1 percent.

5- Non-oil GDP deflator recorded a y/y rise of 1.4 percent in Q3 2016 against an increase of 0.6 percent in Q2 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 the energy prices reform.

Rationalized government spending, low 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 Q1 2017 at levels similar or lower than the current ones.