

2018

Inflation Report

Second Quarter of 2018

Research and International Affairs Deputyship
Economic Research Department

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority



Table of Contents

Section	Page No.
Cost of Living Index	3
Developments in Q2 2018	3
Influence of Major Sections on the General Cost of Living Index	3
Wholesale Price Indices	5
Wholesale Price Indices by Section	6
GDP Deflator	6
Foreign Trade with Major Trading Partners	9
Inflation Projections for Q3 2018	9
Summary	10

Cost of Living Index

The general level of cost of living index registered a y/y increase of 2.3 percent in Q2 2018 and a q/q decrease of 0.5 percent (Table 1 and Chart 1).

Developments in Q2 2018

During Q2 2018, tobacco registered the highest y/y inflation rate of 35.8 percent followed by transportation with 10.2 percent; restaurants and hotels with 7.1 percent; food and beverages with 5.6 percent; health with 3.6 percent; communications with 1.4 percent; education with 0.5 percent; and furnishings, household equipment and maintenance with 0.3 percent.

In contrast, clothing and footwear registered the highest y/y decline of 8.2 percent followed by housing, water, elec-

tricity, gas and other fuels with 0.4 percent; and both recreation and culture and miscellaneous goods and services with 0.2 percent (Table 1 and Charts 2 & 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 28.9 percent during Q2 2018 against 12.1 percent in Q2 2017. Transport came second with 28.0 percent compared to 17.4 percent in the corresponding quarter of the previous year, followed by clothing and footwear with 14.1 percent compared to 12.6 percent, then restaurants and hotels with 12.8 percent com-

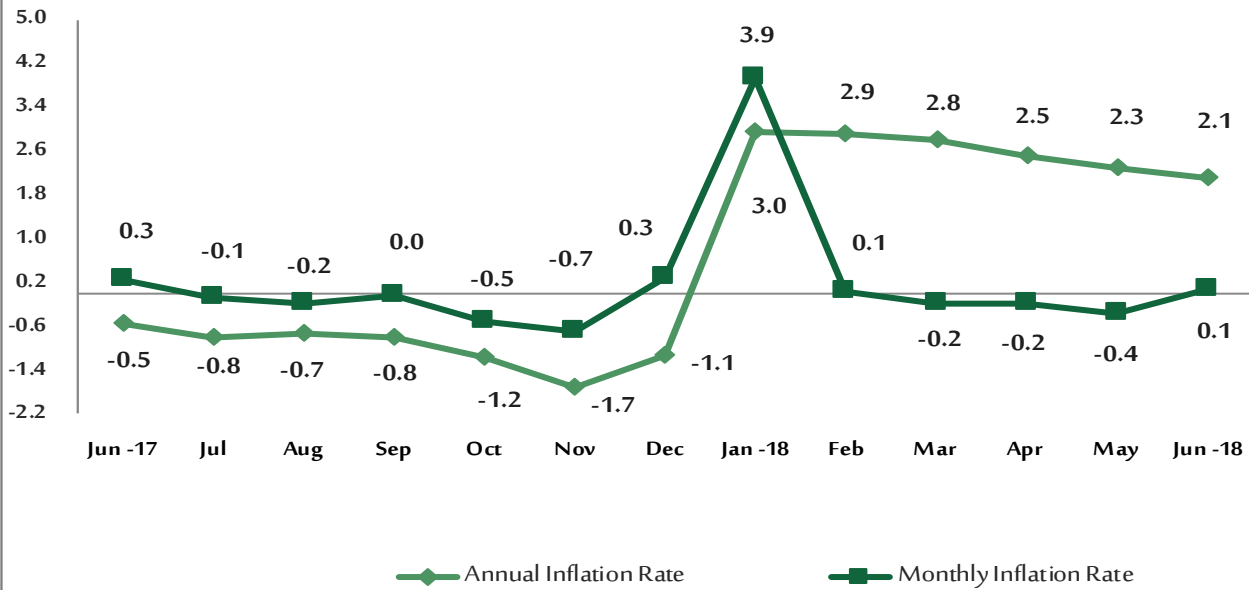
TABLE 1: COST OF LIVING INDEX

(2013=100)

		(%) change						
	Weights	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q2 2018/ Q1 2018	Q2 2018/ Q2 2017
General index	100.0	105.0	105.0	104.0	108.0	107.5	-0.5	2.3
Food & beverages	18.7	100.0	100.3	99.9	105.5	105.6	0.1	5.6
Tobacco	0.6	141.3	174.7	174.4	192.0	192.0	0.0	35.8
Clothing & footwear	6.2	101.4	100.7	96.6	93.5	93.1	-0.4	-8.2
Housing, water, electricity, gas & other fuels	25.3	112.1	111.6	111.2	113.6	111.6	-1.8	-0.4
Furnishings, household equipment & maintenance	8.5	102.3	101.6	98.3	102.8	102.7	-0.1	0.3
Health	2.3	106.2	106.2	106.1	110.3	110.1	-0.1	3.6
Transport	9.9	108.2	107.9	106.5	119.7	119.2	-0.4	10.2
Communication	8.4	99.2	98.9	98.7	100.8	100.6	-0.3	1.4
Recreation & culture	3.4	96.6	95.7	92.9	96.7	96.4	-0.2	-0.2
Education	4.2	109.5	109.8	110.5	109.7	110.0	0.3	0.5
Restaurants & hotels	6.5	103.6	103.7	103.4	110.2	111.0	0.7	7.1
Miscellaneous goods & services	5.7	102.8	102.6	101.7	103.0	102.6	-0.4	-0.2

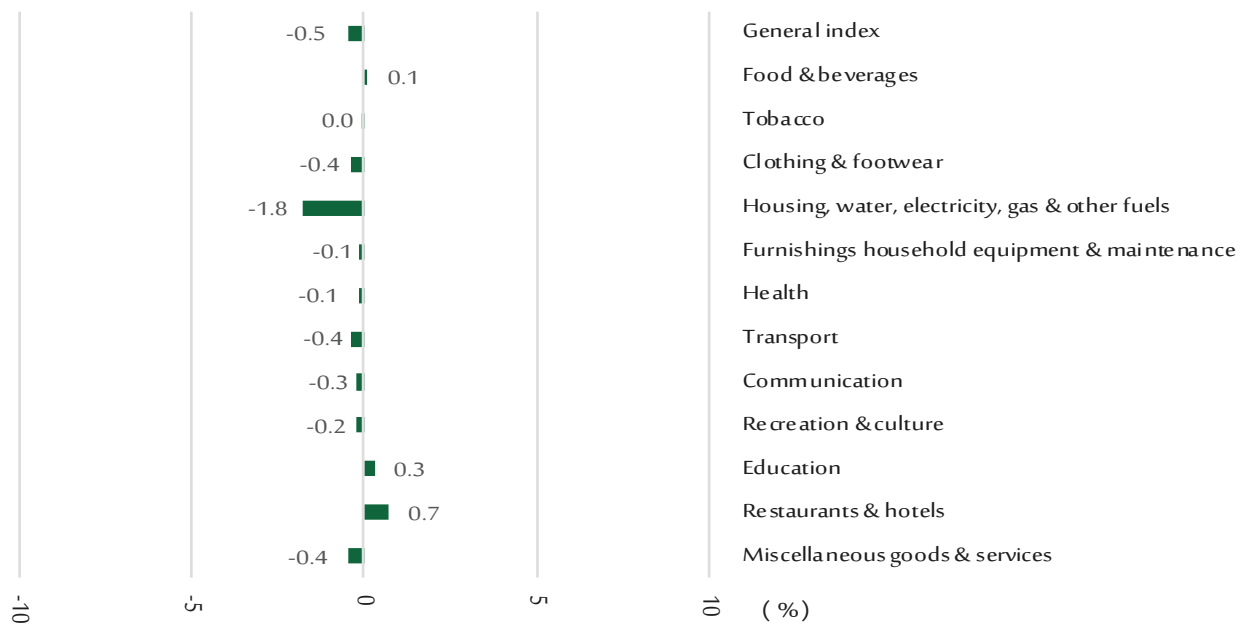
Source: General Authority for Statistics.

Chart 1: Inflation Rate of the General Cost of Living Index
(2013=100)

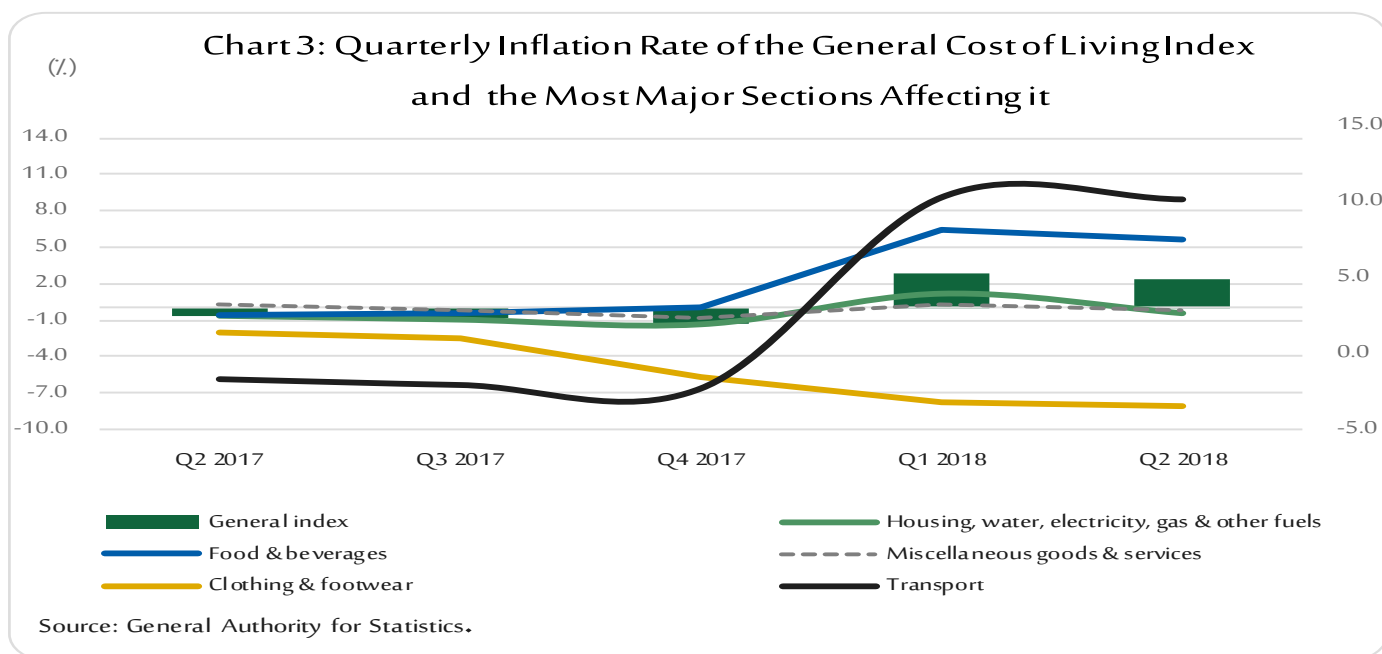


Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Cost of Living Index by Main Sections
(Q2 2018/Q1 2018)



Source: General Authority for Statistics.



pared to 5.0 percent, and tobacco with 6.0 percent compared to 8.3 percent.

The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages; and transportation) stood at 59.8 percent in

Q2 2018 against 45.5 percent in Q2 2017 (Charts 4 and 5).

Wholesale Price Index

The wholesale price index recorded a y/y rise of 15.8 percent and a slight q/q decrease of 0.3 percent in Q2 2018 (Chart 6).

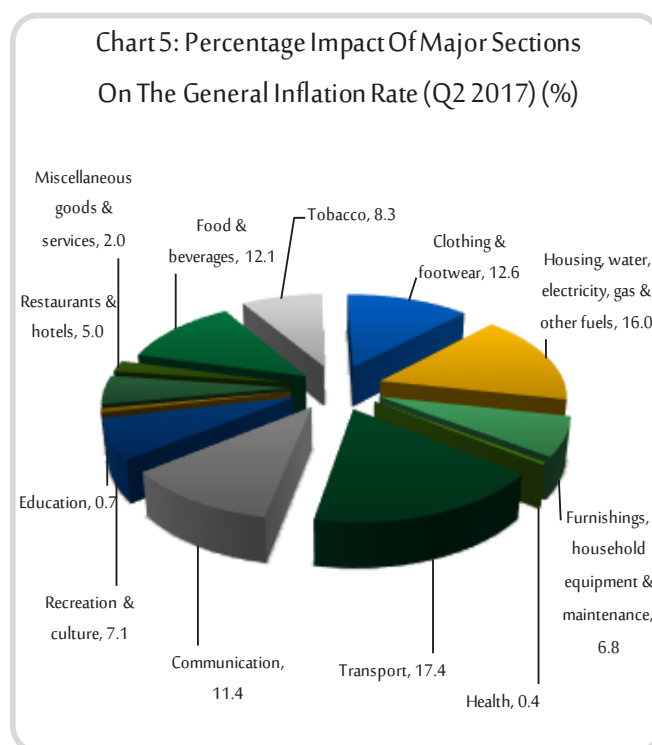
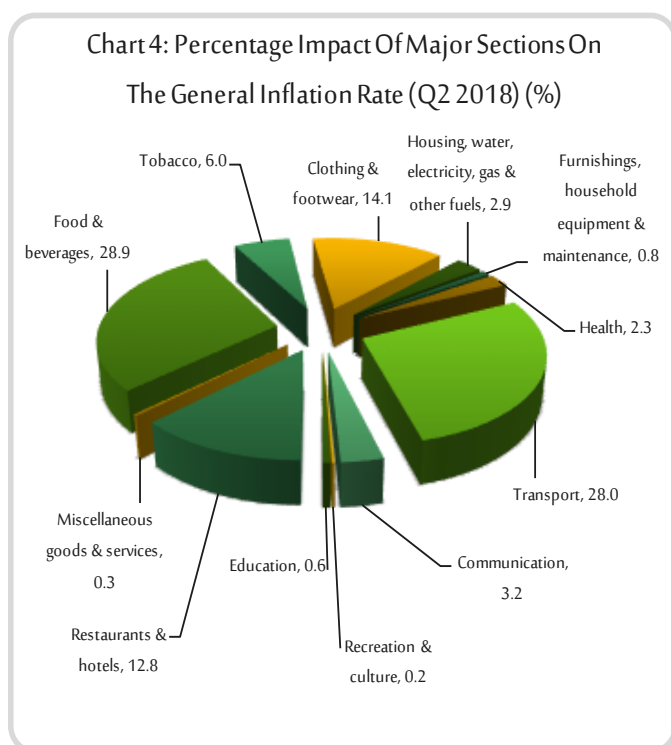
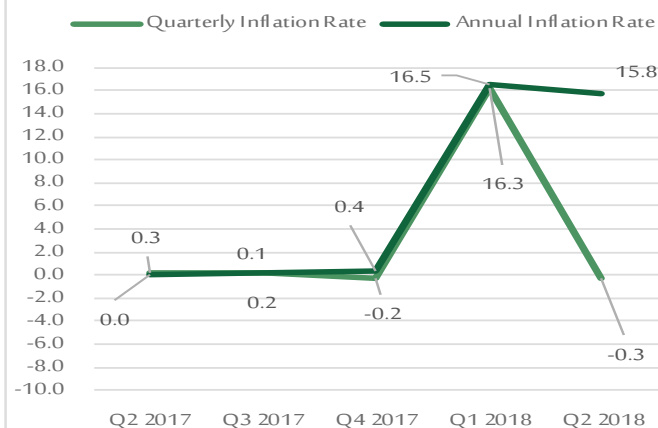


Chart 6: Inflation of the Wholesale Price Index (2014=100)



Source: General Authority for Statistics

highest y/y increase of 26.0 percent. Ores and minerals came second with a y/y rise of 15.6 percent, followed by food, beverages and tobacco and textiles with a y/y rise of 15.4 percent. On the other hand, agriculture and fishery recorded a y/y decrease of 2.5 percent (Table 2 and Chart 7).

GDP Deflator

According to the latest data issued by the GaStat, the GDP deflator recorded a y/y increase of 7.6 percent and a q/q rise of 3.0 percent in Q1 2018.

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

Wholesale Price Indices by Sections

During Q2 2018, metal products, machinery and equipment registered the

TABLE 2: WHOLESALE PRICE INDEX (WPI)

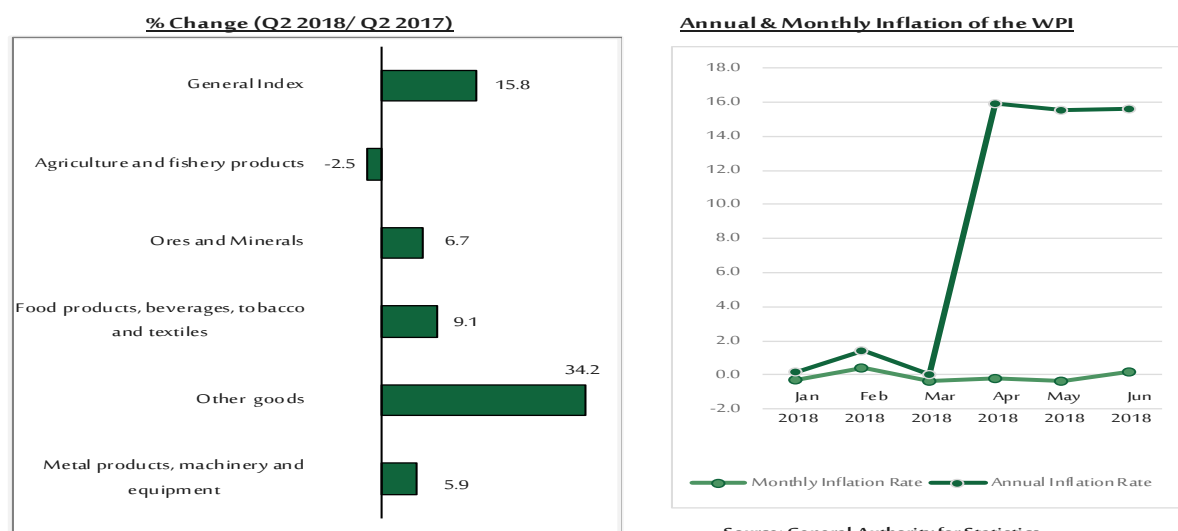
(2014=100)

							(%) change	
	Weights	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q2 2018/ Q1 2018	Q2 2018/ Q2 2017
General Index	100.0	100.8	100.9	100.7	117.1	116.7	-0.3	15.8
Agriculture and fishery products	8.7	104.3	101.6	97.5	101.3	101.7	0.3	-2.5
Ores and Minerals	0.6	92.7	91.3	92.2	98.2	98.9	0.7	6.7
Food products, beverages and tobacco and textiles	17.3	99.1	103.1	102.2	108.2	108.1	-0.1	9.1
Other goods	33.7	106.7	105.9	106.0	143.9	143.2	-0.5	34.2
Metal products, machinery and equipment	39.7	95.7	95.6	96.2	101.8	101.4	-0.4	5.9

Source: General Authority for Statistics.

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

(2014=100)



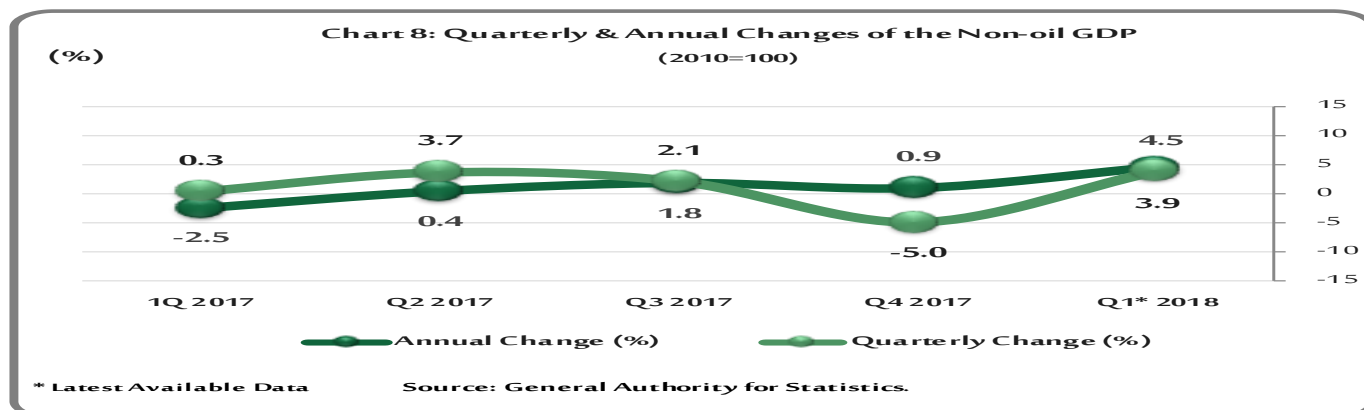
based on their respective contributions to the GDP. Therefore, the deflator is considered an indirect measure of the change in the general level of prices.

The non-oil GDP deflator is commonly used to exclude the impact of change in oil prices on the domestic economy. It registered a q/q rise of 3.9 percent in Q1 2018 and a y/y increase of 4.5 percent (Table 3 and Chart 8).

TABLE 3: GDP Deflator
(2010=100)

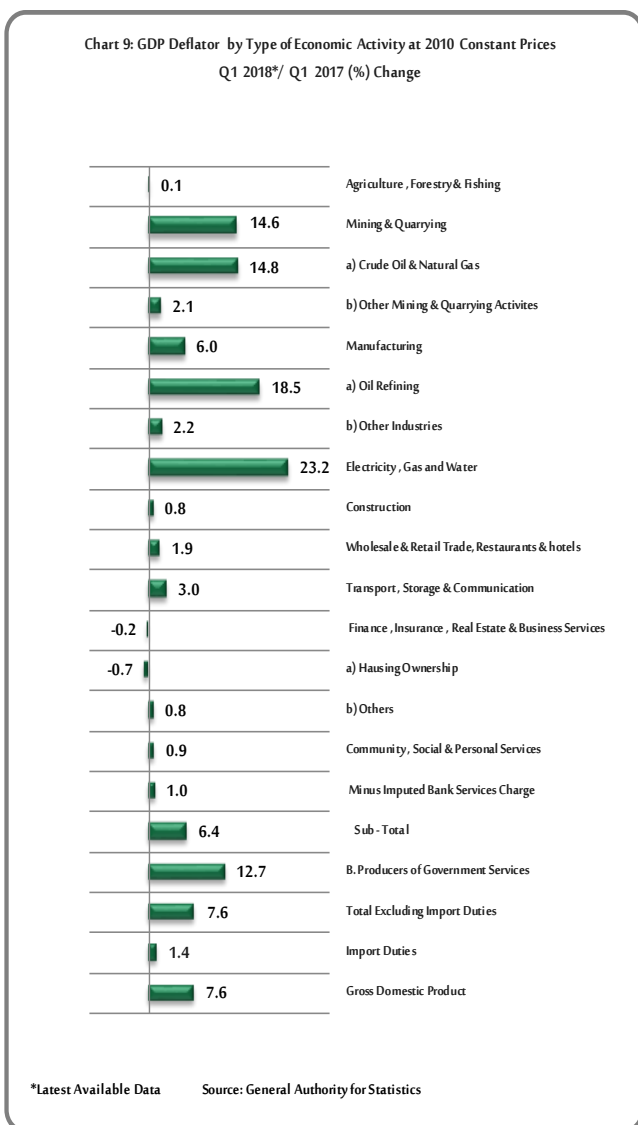
	1Q 2017	Q2 2017	Q3 2017	Q4 2017	Q1* 2018
GDP (Million Rls):					
At Current Prices	632,422	622,246	641,689	678,913	688,131
At Constant Prices	640,387	629,100	637,957	658,147	647,759
GDP Deflator	98.8	98.9	100.6	103.2	106.2
Quarterly Change (%)	3.6	0.2	1.7	2.6	3.0
Annual Change (%)	10.7	4.4	6.4	8.2	7.6
Non-oil GDP (Million Rls):					
At Current Prices	448,891	444,119	459,195	466,779	476,544
At Constant Prices	365,136	348,396	352,686	377,447	371,018
Non-oil GDP Deflator	122.9	127.5	130.2	123.7	128.4
Quarterly Change (%)	0.35	3.69	2.14	-5.02	3.9
Annual Change (%)	-2.5	0.4	1.8	0.9	4.5
*Latest Available Data					

Source : General Authority for Statistic

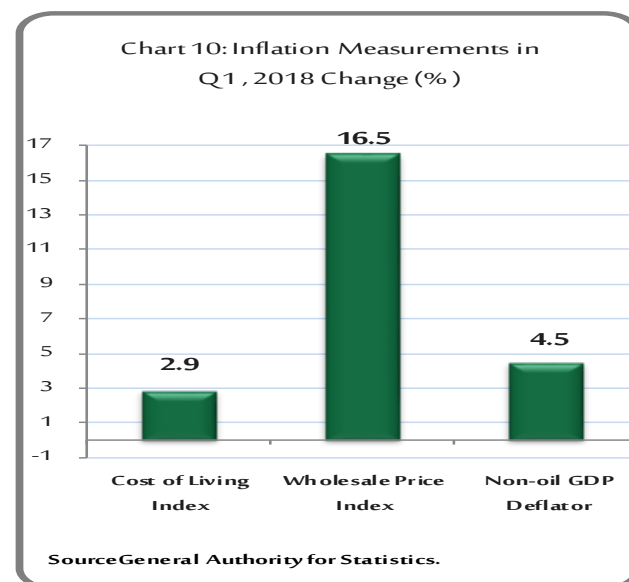


An analysis of GDP deflator's data (at constant prices for base year 2010) by economic activity shows that electricity, gas and water registered the highest y/y rise of 23.2 percent in Q1 2018. Mining and

quarrying came next with 14.6 percent, followed by manufacturing with 6.0 percent. On the other hand, finance, insurance, real estate and business services recorded the highest y/y deflation of 0.2 percent in the GDP deflator (Chart 9).



A comparison of the annual inflation measures in the domestic market indicates that the annual inflation rate of non-oil GDP deflator registered a y/y rise of 4.5 percent in Q1 2018. The annual change rate of the wholesale price index went up by 16.5 percent, and the annual inflation rate of the cost of living index registered a rise of 2.9 percent during the same period (Chart 10).



Foreign Trade with Major Trading Partners

According to data of May 2018, the total value of Saudi Arabia's imports stood at SAR 44.3 billion, with a y/y decrease of 6.4 percent. On the other hand, Saudi Arabia's imports recorded a monthly increase of 3.7 percent compared to the preceding month.

China came at the top of Saudi Arabia's major trading partners, according to data of May 2018. Saudi Arabia's imports from China amounted to SAR 8.2 billion (18.6 percent of the total value of Saudi Arabia's imports), increasing by 3.4 percent y/y. The United States came second with SAR 5.6 billion (12.6 percent), dropping by 5.6 percent y/y. The UAE came third with SAR 3.9 billion (8.8 percent), increasing by 22.5 percent y/y. Germany came fourth

with SAR 2.4 billion (5.4 percent), declining by 6.1 percent y/y, followed in fifth place by India with SAR 2.0 billion (4.6 percent), up by 11.1 percent y/y (Tables 4 A and 4 B).

Inflation Projections for Q3 2018

Actual data in Q2 2018 show that inflation rate recorded a y/y increase of 2.3 percent. Inflation is projected to rise in Q3 2018 due to the implementation of a number of economic reforms, such as the 5.0 percent VAT, the energy price adjustment and the implementation of expat levy which will raise costs and consequently the inflation rate. In addition, the *Hajj* season could increase domestic demand, which in turn would raise the inflation rate for this quarter.

**TABLE 4 A: Top Five Trading Partners by value of Imports
(SAR Million)**

Countries	2016	2017	Change (%)
China	75309	76971	2.2
U.S.A	77728	68087	-12.4
U.A.E	28616	32831	14.7
Germany	34331	29497	-14.1
France	18507	21853	18.1
Total	234491	229239	-2.2
Ratio to Total	44,61	45,44	1,9

Source: General Authority for Statistics

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

Countries	May-17	May-18	Change (%)
China	7953	8224	3.4
U.A.E	5894	5562	-5.6
U.S.A	3174	3890	22.5
Germany	2548	2391	-6.1
India	1840	2044	11.1
Total	21409	22110	3.3
Ratio to Total	45.30	44,25	-6.4

Source: General Authority for Statistics

On the other hand, IMF projections for the primary commodity price index show a decrease in inflationary pressures on most of its main sections for 2018. Its projections show a decline in prices of raw agricultural materials by 2.7 percent, metal prices by 2.0 percent, and energy prices by 1.6 percent. However, IMF projections show a rise of 2.6 percent in food prices and 1.0 percent in beverages prices (Table 5).

Summary

The most significant results of the analysis of inflation rates in Q2 2018 in Saudi Arabia can be concluded as follows:

1. The general cost of living index registered a y/y increase of 2.3 percent in Q2 2018 but a q/q decrease of 0.5 percent.
2. During Q2 2018, tobacco having the highest influence on the index, regis-

tered the highest y/y inflation rate of 35.8 percent due to levying excise tax. In contrast, clothing and footwear recorded the highest y/y deflation of 8.2 percent.

3. The wholesale price index in Q2 2018 recorded a y/y rise of 15.8 percent but a q/q decrease of 0.3 percent.
4. The other goods registered the highest increase of 34.2 percent in wholesale price index.
5. The GDP deflator recorded a y/y increase of 7.6 percent in Q1 2018. In addition, the non-oil GDP deflator registered a y/y rise of 4.5 percent in Q1 2018.
6. Inflation is projected to rise in Q3 2018 due to the implementation of a number of economic reforms, such as the 5.0 percent VAT, the energy price adjustment, and the implementation of expat levy, which will raise costs and consequently inflation rate as well as the impact of the *Hajj* season on domestic demand.

TABLE 5: 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	-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

