

2018

Inflation Report

Third Quarter of 2018

Research and International Affairs Deputyship
Economic Research Department

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority



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Cost of Living Index

The general level of cost of living index registered a y/y increase of 2.2 percent in Q3 2018 but a q/q decrease of 0.2 percent (Table 1 and Chart 1).

Developments in Q3 2018

During Q3 2018, transport registered the highest y/y inflation rate of 10.6 percent. Tobacco came second with 9.9 percent; restaurants and hotels with 8.2 percent; food and beverages with 6.7 percent; health with 4.0 percent; recreation and culture with 1.5 percent; communication with 1.4 percent; furnishings, household equipment and maintenance with 1.1 percent; and education as well as miscellaneous goods and services with 0.4 percent.

In contrast, clothing and footwear recorded the highest y/y decline in Q3 2018 of 7.8 percent, followed by housing, water, electricity, gas and other fuels with 1.9 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 cost of living index, food and beverages ranked first with 29.4 percent during Q3 2018 against 5.4 percent in Q3 2017. Transport came second with 24.8 percent compared to 15.6 percent in the corresponding quarter of the previous year, followed by restaurants and hotels with 12.4

TABLE 1: COST OF LIVING INDEX								
(100=2013)								
	Weights	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	(%)Change	
							Q3 2018/ Q2 2018	Q3 2018/ Q3 2017
General index	100.0	105.0	104.0	108.0	107.5	107.3	0.2-	2.2
Food & beverages	18.7	100.3	99.9	105.5	105.6	107.0	1.3	6.7
Tobacco	0.6	174.7	174.4	192.0	192.0	192.0	0.0	9.9
Clothing & footwear	6.2	100.7	96.6	93.5	93.1	92.9	0.2-	7.8-
Housing, water, electricity, gas & other fuels	25.3	111.6	111.2	113.6	111.6	109.4	1.9-	1.9-
Furnishings, household equipment & maintenance	8.5	101.6	98.3	102.8	102.7	102.6	0.1-	1.1
Health	2.3	106.2	106.1	110.3	110.1	110.4	0.3	4.0
Transport	9.9	107.9	106.5	119.7	119.2	119.4	0.1	10.6
Communication	8.4	98.9	98.7	100.8	100.6	100.3	0.3-	1.4
Recreation & culture	3.4	95.7	92.9	96.7	96.4	97.1	0.7	1.5
Education	4.2	109.8	110.5	109.7	110.0	110.2	0.2	0.4
Restaurants & hotels	6.5	103.7	103.4	110.2	111.0	112.1	1.0	8.2
Miscellaneous goods & services	5.7	102.6	101.7	103.0	102.6	102.9	0.4	0.4
Source: General Authority for Statistics.								

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

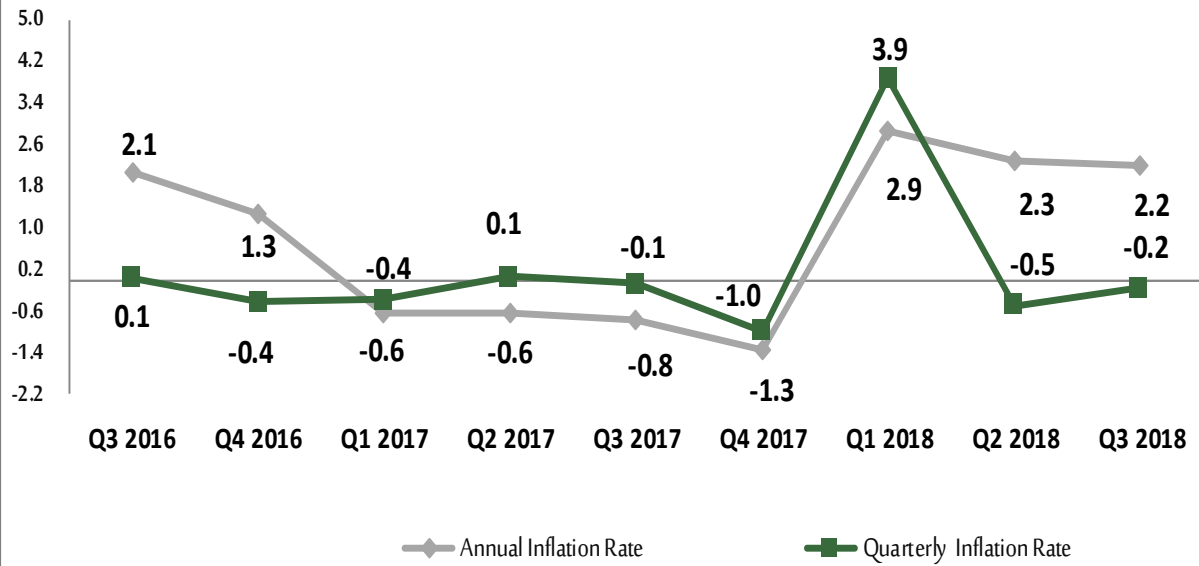
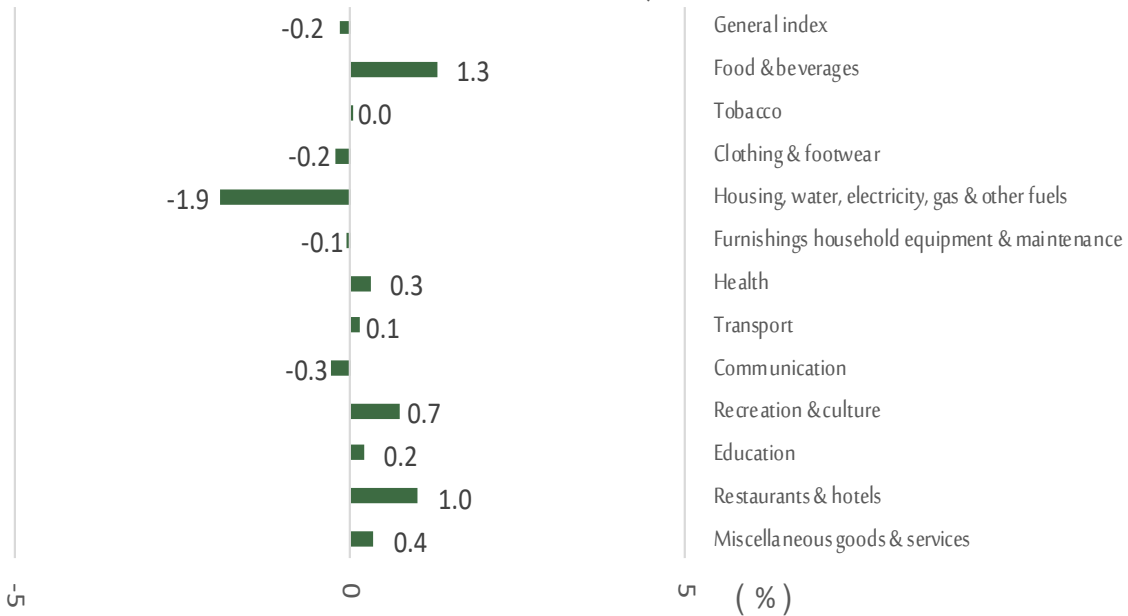
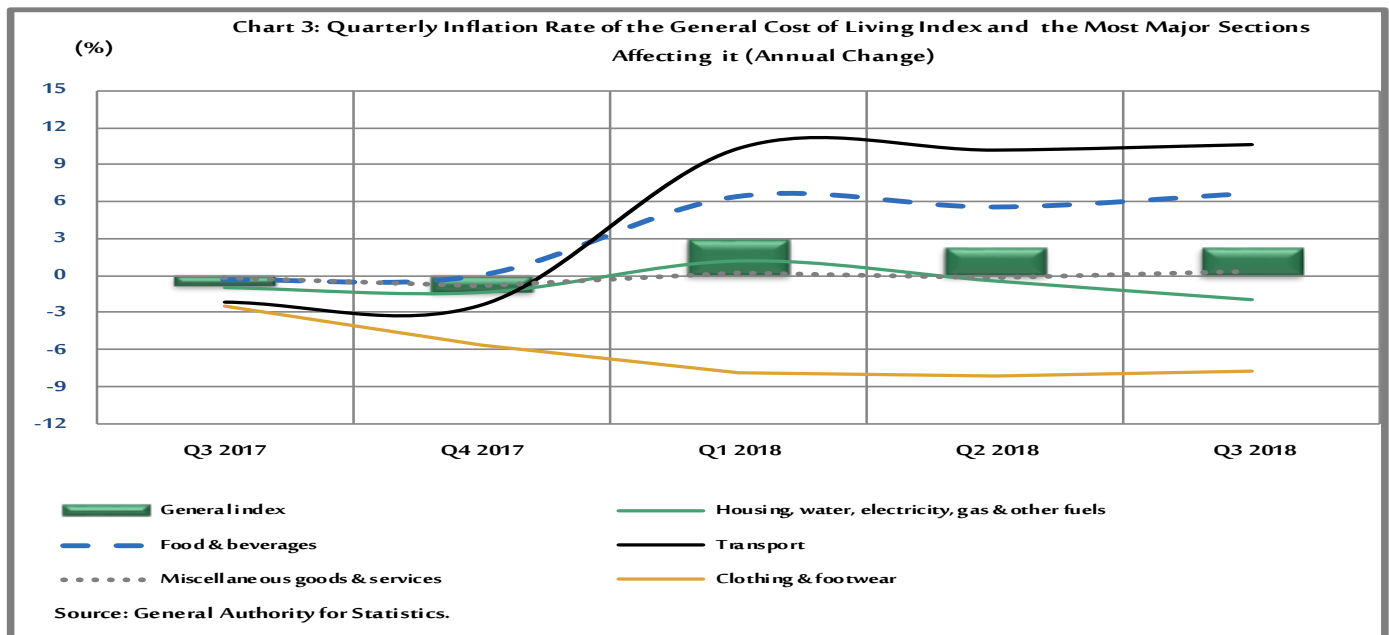


Chart 2: Inflation Rate of the Cost of Living Index by Main Sections (Q32018/Q2 2018)





percent compared to 1.9 percent and housing, water, electricity, gas and other fuels with 11.5 percent compared to 17.8 percent. Clothing and footwear came next with 11.3 percent against 11.7 percent in Q3 2017.

The total influence rate of the three major sections (housing, water, elec-

tricity, gas and other fuels; food and beverages; and transport) stood at 65.7 percent in Q3 2018 against 38.8 percent in Q3 2017 (Charts 4 and 5).

Wholesale Price Index

The wholesale price index in Q3 2018 recorded a y/y rise of 15.7 percent

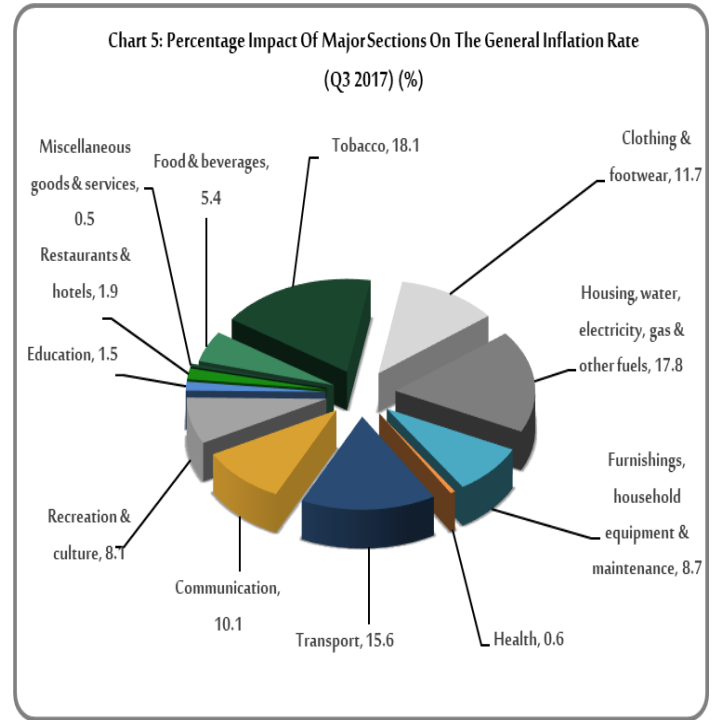
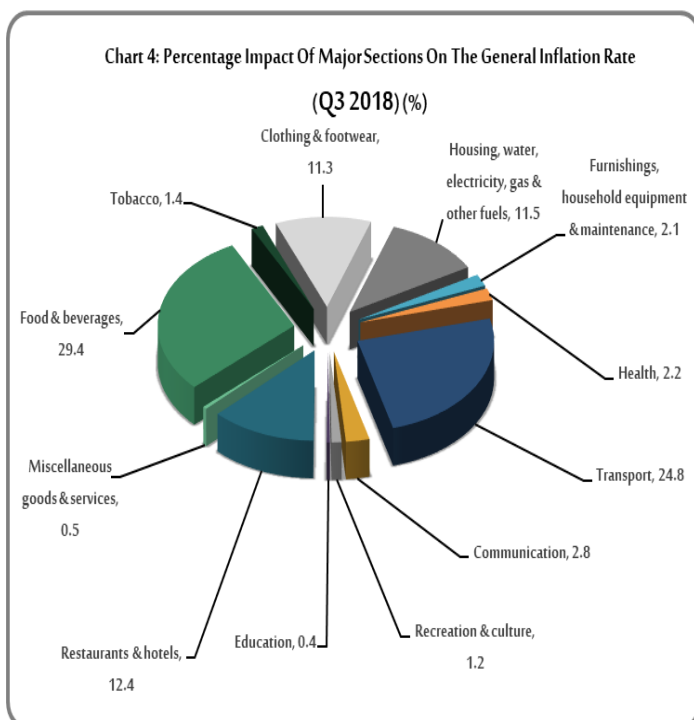
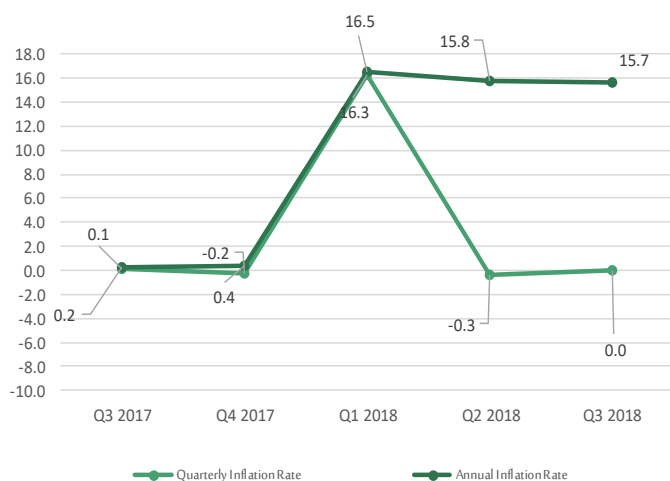


Chart 6: Inflation of the Wholesale Price Index (2014=100)



Source: General Authority for Statistics

while remaining unchanged from the previous quarter (Chart 6).

Wholesale Price Indices by Sections

During Q3 2018, other goods registered the highest y/y increase of 35.5 percent. Ores and minerals ranked second with a y/y increase of 9.1 percent. Metal products, machinery and equipment came third with 5.4 percent; food products, beverages and tobacco as well as textiles with 4.9 percent, and finally agriculture and fishery products with 1.3 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 15.9 percent in Q2 2018 and a q/q rise of 7.9 percent.

Unlike the cost of living index which only measures the final consumption, GDP deflator measures inflation rate at the mac-

TABLE 2: WHOLESale PRICE INDEX (WPI)

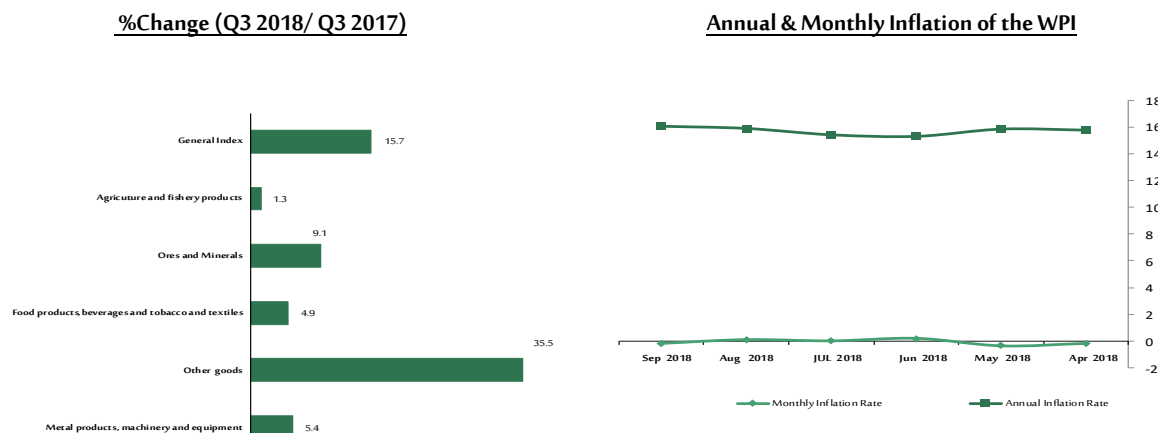
(2014=100)

	Weights						(% change)	
		Q3 2017	Q4 2017	Q1 2018	q2 2018	q3 2018	Q3 2018/ Q2 2018	Q3 2018/ Q3 2017
General Index	100.0	100.9	100.7	117.1	116.7	116.7	0.0	15.7
Agriculture and fishery products	8.7	101.6	97.5	101.3	101.7	102.9	1.2	1.3
Ores and Minerals	0.6	91.3	92.2	98.2	107.2	99.6	-7.1	9.1
Food products,beverages and tobacco and textiles	17.3	103.1	102.2	108.2	114.4	108.2	-5.4	4.9
Other goods	33.7	105.9	106.0	143.9	101.0	143.6	42.2	35.5
Metal products, machinery and equipment	39.7	95.6	96.2	101.8	120.6	100.8	-16.4	5.4

Source: General Authority for Statistics.

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

(100=2014)



Source: General Authority for Statistics.

roeconomic level. The GDP deflator targets all consumption, investment and government sectors 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 5.0 percent in Q2 2018 and a y/y increase of 5.8 percent (Table 3 and Chart 8).

TABLE 3: GDP Deflator

(2013=100)

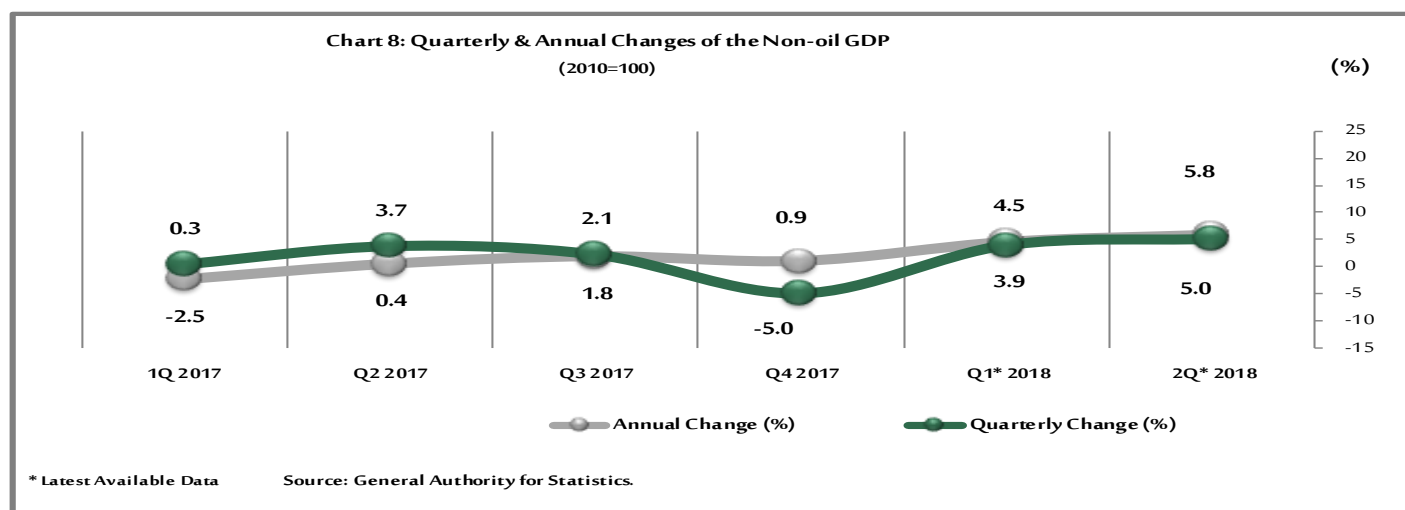
	1Q 2017	Q2 2017	Q3 2017	Q4 2017	Q1* 2018	2Q* 2018
GDP (Million RIs):						
At Current Prices	632,422	622,246	641,689	678,913	688,131	732,747
At Constant Prices	640,387	629,100	637,957	658,147	647,759	639,248
GDP Deflator	98.8	98.9	100.6	103.2	106.2	114.6
Quarterly Change (%)	3.6	0.2	1.7	2.6	3.0	7.9
Annual Change (%)	10.7	4.4	6.4	8.2	7.6	15.9

Non-oil GDP (Million RIs):

At Current Prices	448,891	444,119	459,195	466,779	476,544	481,377
At Constant Prices	365,136	348,396	352,686	377,447	371,018	356,877
Non-oil GDP Deflator	122.9	127.5	130.2	123.7	128.4	134.9
Quarterly Change (%)	0.3	3.7	2.1	-5.0	3.9	5.0
Annual Change (%)	-2.5	0.4	1.8	0.9	4.5	5.8

* Latest Available Data

Source: General Authority for Statistics.

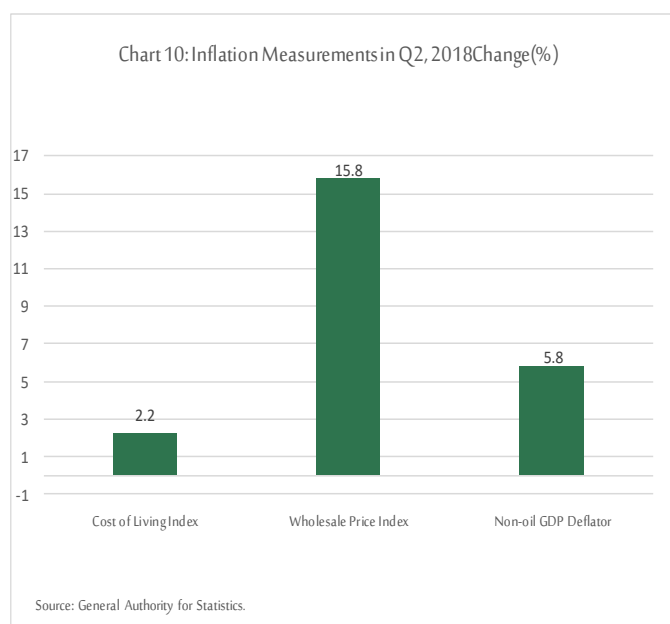
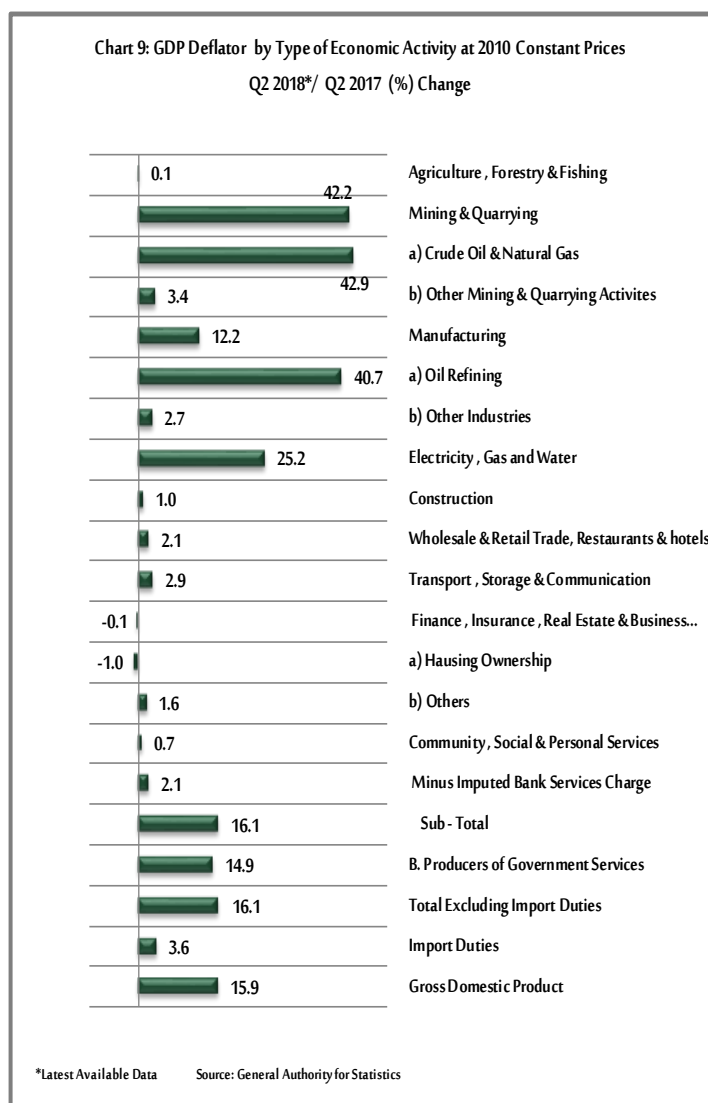


An analysis of GDP deflator data (at constant prices for base year 2010) by economic activity shows that mining and quarrying constituted the highest y/y rise of

42.2 percent in Q2 2018. Electricity, gas and water came next with 25.2 percent, followed by manufacturing with 12.2 percent.

On the other hand, finance, insurance, real estate and business services recorded y/y deflation of 0.1 percent in the GDP deflator in Q2 2018 (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 5.8 percent in Q2 2018. The annual change rate of the wholesale price index went up by 15.8 percent and the annual inflation rate of the cost of living index by 2.2 percent dur-



ing the same period (Chart 10).

Foreign Trade with Major Trading Partners

According to data of August 2018, the total value of Saudi Arabia's imports stood at SAR 33.6 billion, with a y/y decrease of 22.8 percent. Moreover, Saudi Arabia's imports recorded a monthly decrease of 20.5 percent compared to the preceding month.

China came at the top of Saudi Arabia's major trading partners according to data of August 2018. Saudi Arabia's imports from China amounted to SAR 5.2 billion (15.6 percent of the total value of Saudi Arabia's imports), decreasing by 23.3 percent y/y. The United States came second with SAR 4.1 billion (12.0 percent of the total), falling by 28.4 percent y/y. The UAE came third

with SAR 3.3 billion (9.7 percent of the total), increasing by 2.1 percent y/y. Germany came fourth with SAR 1.8 billion (5.3 percent of the total), declining by 18.9 percent y/y. India came in fifth place with SAR 1.3 billion (3.8 percent of the total), declining by 27.9 percent y/y (Table 4 A and 4 B).

Inflation Projections for Q4 2018

Actual data in Q3 2018 show that inflation rate recorded a y/y increase of 2.2 percent. In addition, inflation rate is projected to register a y/y rise in Q4 2018 due the continuous effects of economic reforms and decisions being implemented in 2018. The reinstatement of allowances is also projected to affect domestic consumption due to the expected increase in income in the short term.

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

Countries	2016	2017	Change (%)
China	75,309	74,797	-0.7
U.S.A	77,728	66,292	-14.7
U.A.E	28,616	31,865	11.4
Germany	34,331	28,675	-16.5
Japan	27,821	19,936	-28.3
Total	243,805	221,564	-9.1
Ratio to Total	46.38	45.41	-2.1

Source: General Authority for Statistics.

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

Countries	Aug 2017	Aug 2018	Change (%)
China	6,813	5,228	-23.3
U.A.E	5,652	4,047	-28.4
U.S.A	3,195	3,262	2.1
Germany	2,184	1,772	-18.9
India	1,777	1,281	-27.9
Total	19,621	15,590	-20.5
Ratio to Total	45.10	46.40	2.9

Source: General Authority for Statistics.

On the other hand, World Bank projections for the primary commodity price index (October 2018) show an increase in inflationary pressures on most of its main sections for 2018. Its projections show an increase in prices of energy by 34.3 percent, fertilizers by 10.2 percent, metals and minerals by 6.1 percent, raw materials by 1.4 percent, and food by 1.1 percent. However, World Bank projections show a decrease of 5.0 percent in beverages prices (Table 5).

Summary

The most significant results of the analysis of inflation rates in Q3 2018 in Saudi Arabia can be concluded as follows:

1. The general cost of living index registered a y/y rise of 2.2 percent in Q3 2018 but a q/q decline of 0.2 percent.
2. During Q3 2018, transport had the highest influence on the index, as its y/y in-

flation rate reached 10.6 percent. In contrast, clothing and footwear recorded the highest y/y decline of 7.8 percent.

3. The wholesale price index in Q3 2018 recorded a y/y rise of 15.7 percent while remaining unchanged compared to the previous quarter.
4. Other goods recorded the highest y/y increase of 35.5 percent in the wholesale price index.
5. The GDP deflator recorded a y/y increase of 15.9 percent in Q2 2018. In addition, the non-oil GDP deflator registered a y/y rise of 5.8 percent in Q2 2018.
6. Inflation rate is projected to register an increase in Q4 2018 due the continuous effects of economic reforms and decisions being implemented in 2018. Further, the reinstatement of allowances is also projected to affect domestic consumption due to the expected increase in income in the short term.

TABLE 5: World Bank Commodity Price Index

(2010 =100)

(Percentage changes)

	Actual			Projections			
	2015	2016	2017	2018	2019	2020	2021
Energy	-39.2	-11.9	19.7	34.3	-0.6	-8.2	-1.4
Agricultural Raw Materials	-5.5	3.7	-4.0	0.3	-0.3	-0.1	-0.1
Beverages	2.1	1.1	-12.0	-5.0	-0.4	-0.1	0.0
Food	-9.1	5.7	-3.1	1.1	-0.4	-0.2	-0.2
Raw Materials	0.2	0.2	-2.2	1.4	-0.1	0.1	0.1
Fertilizers	7.3	-17.7	-7.7	10.2	0.0	0.4	0.4
Metals and minerals	-12.6	-2.0	20.0	6.1	-2.1	-1.4	-1.3

Source: World Bank (Oct 2018)

