

2019

Inflation Report

Third Quarter of 2019

Research and International Affairs Deputyship
Economic Research Department

مؤسسة النقد العربي السعودي
Saudi Arabian Monetary Authority



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Consumer Price Index (CPI)

The consumer price index (CPI) registered a y/y decline of 1.1 percent in Q3 2019 and a q/q increase of 0.4 percent compared to the second quarter of 2019 (Table 1 and Chart 1).

Developments in Q3 2019

During Q3 2019, housing, water, electricity, gas and other fuels registered the highest y/y decrease of 6.3 percent; followed by communication with 0.6 percent; clothing and footwear with 0.5 percent; and recreation and culture with 0.1 percent.

In contrast, miscellaneous goods and services registered the highest y/y inflation rate of 1.9 percent. Education came second with 1.6 percent, followed by restaurants and hotels with 1.5 percent; transport with

1.3 percent; furnishings, household equipment and maintenance with 1.2 percent; health with 1.0 percent; and food and beverages with 0.8 percent; while tobacco remained unchanged (Table 1 and Charts 2 and 3).

Effect of Sections on the Consumer Price Index

Inflation rates are affected by the changes in CPI's various sections. Classified by their influence on the CPI, housing, water, electricity, gas and other fuels ranked first with 67.7 percent during Q3 2019 against 11.5 percent y/y. Food and beverages ranked second with 6.0 percent compared to 29.4 percent y/y, followed by transport with 5.8 percent compared to 24.8 percent y/y; miscellaneous goods and ser-

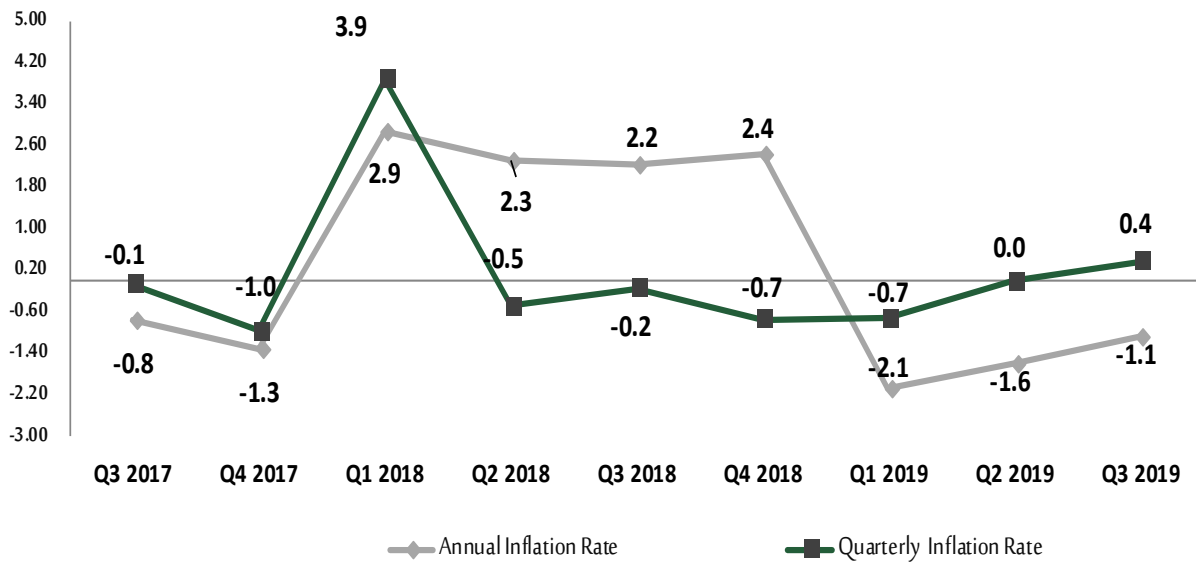
TABLE 1: Consumer price index

(2013=100)

	Weights	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3	(%) change	
							2019Q3 / 2019Q2	2019Q3 / 2018Q3
General index	100.0	107.3	106.5	105.7	105.7	106.1	0.4	-1.1
Food & beverages	18.7	107.0	107.3	106.7	107.0	107.8	0.7	0.8
Tobacco	0.6	192.0	192.1	192.6	192.3	192.0	-0.1	0.0
Clothing & footwear	6.2	92.9	92.5	92.3	92.7	92.3	-0.4	-0.5
Housing, water, electricity, gas & other fuels	25.3	109.4	106.9	104.5	103.2	102.6	-0.6	-6.3
Furnishings, household equipment & maintenance	8.5	102.6	102.4	102.4	102.6	103.8	1.2	1.2
Health	2.3	110.4	110.3	110.4	110.7	111.6	0.8	1.0
Transport	9.9	119.4	119.1	118.7	119.9	121.0	0.9	1.3
Communication	8.4	100.3	100.0	99.8	99.7	99.7	0.0	-0.6
Recreation & culture	3.4	97.1	96.5	96.0	95.7	97.0	1.3	-0.1
Education	4.2	110.2	110.7	111.0	111.4	112.0	0.5	1.6
Restaurants & hotels	6.5	112.1	111.8	112.0	112.7	113.8	0.9	1.5
Miscellaneous goods & services	5.7	102.9	102.2	102.3	102.8	104.9	2.0	1.9

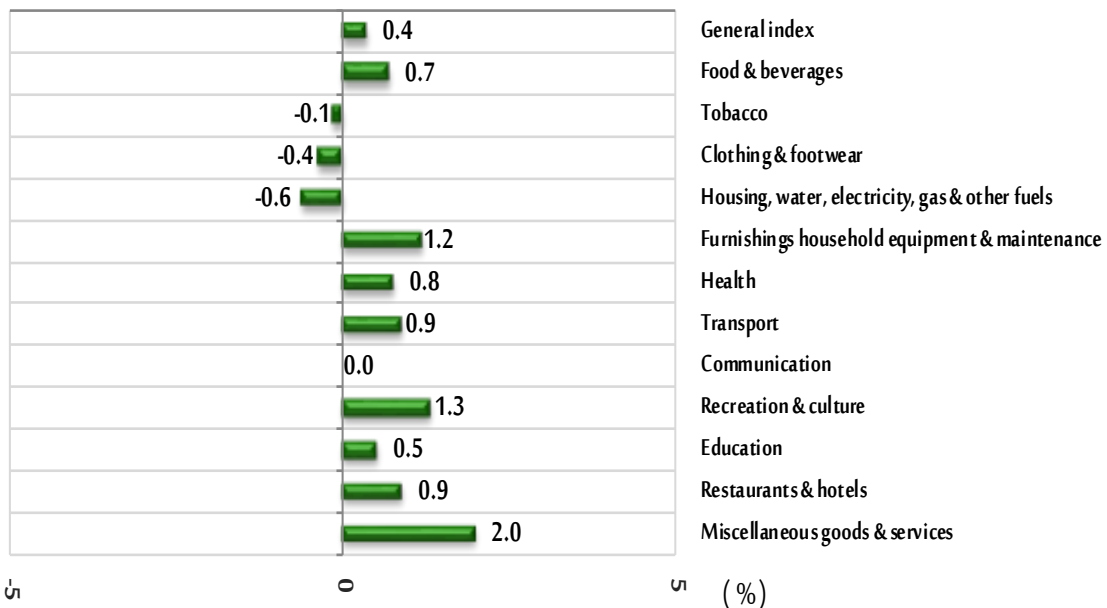
Source: General Authority for Statistics.

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

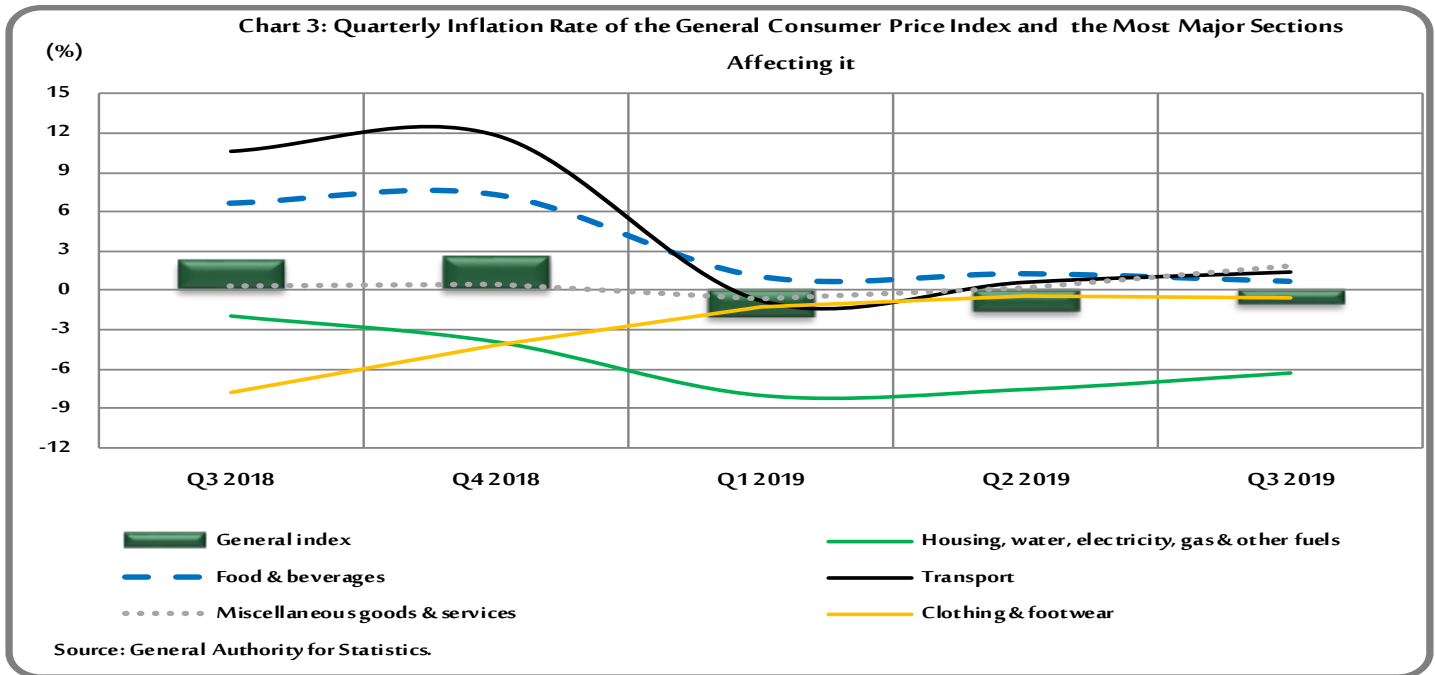


Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Consumer Price Index by Main Sections (Q3 2019/Q2 2019)



Source: General Authority for Statistics.



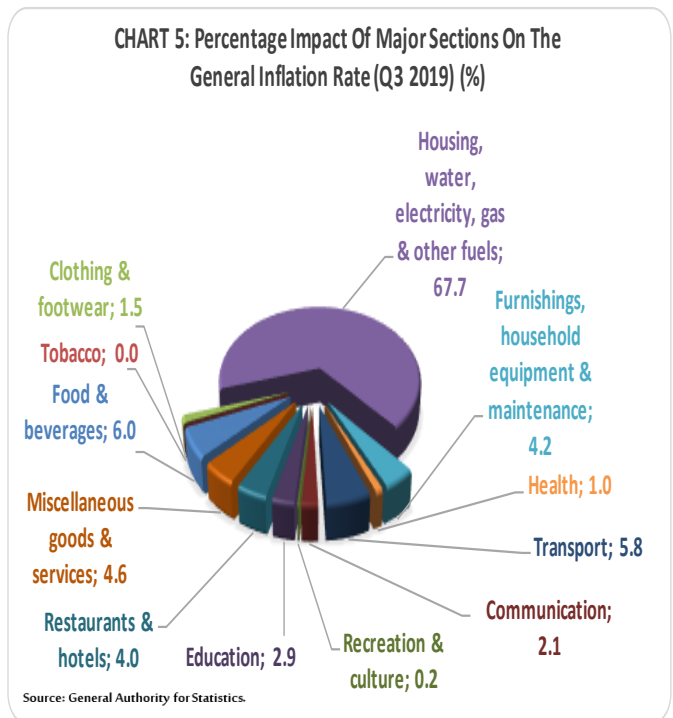
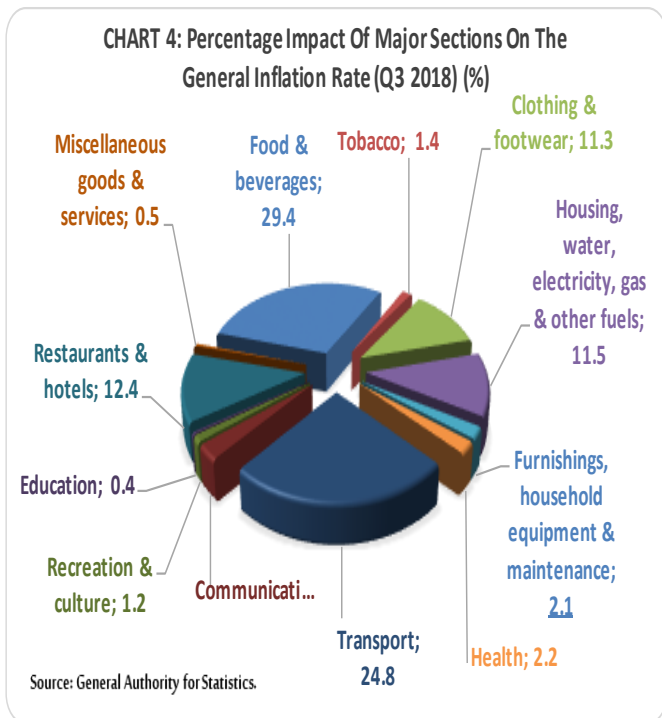
vices with 4.6 percent compared to 0.5 percent y/y; furnishings, household equipment and maintenance with 4.2 percent compared to 2.1 percent y/y; and restaurants and hotels with 4.0 compared to 12.4 percent y/y.

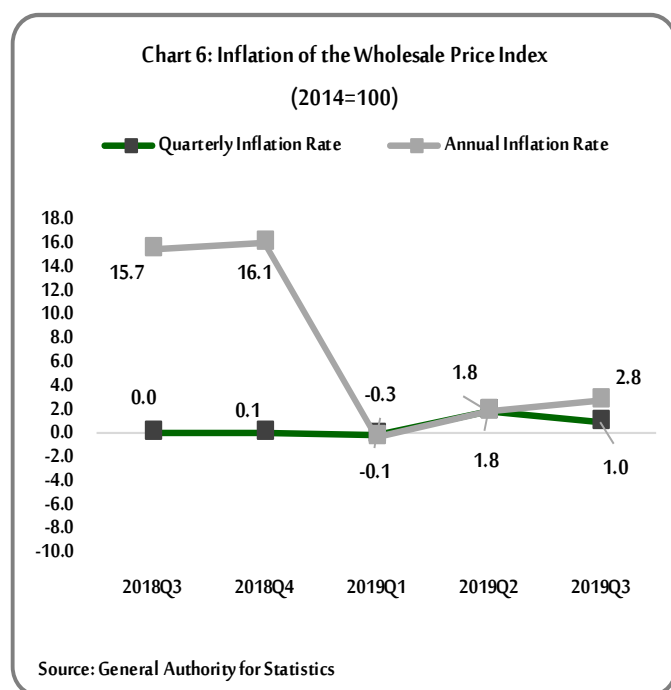
The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages;

and transport) stood at 79.5 percent in Q3 2019 against 65.7 percent in Q3 2018 (Charts 4 and 5).

Wholesale Price Index (WPI)

The wholesale price index in Q3 2019 recorded a y/y rise of 2.8 percent and a q/q increase of 1.0 percent (Chart 6).





Wholesale Price Index by Section

During Q3 2019, ores and minerals registered the highest y/y decrease of 2.3 percent. Agriculture and fishery products ranked second with a y/y decrease of 1.3 percent. Food products, beverages, and tobacco as well as textiles came next with a

y/y decrease of 0.7 percent. On the other hand, machinery and equipment recorded a y/y increase of 6.1 percent, followed by other goods with 2.3 percent (Table 2 and Chart 7).

GDP Deflator

According to the latest data issued by the GaStat, the GDP deflator recorded a y/y decrease of 0.3 percent in Q2 2019 and a q/q rise of 5.9 percent.

Unlike the CPI, 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 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 econo-

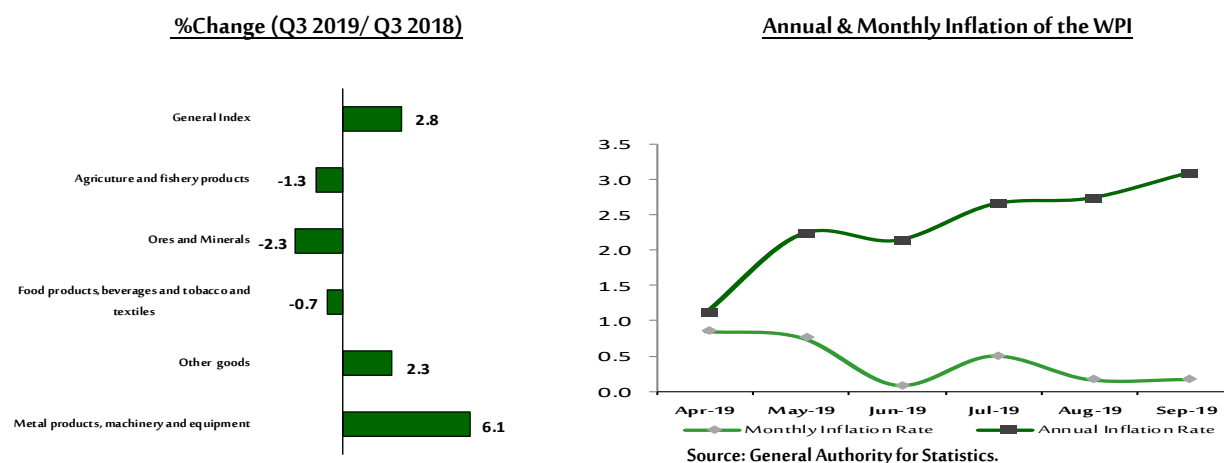
TABLE 2: Wholesale price index (WPI)
(2014=100)

							(%) change	
							2019Q3/2019Q2	2019Q3/2018Q3
	Weights	2018Q3	2018Q4	2019Q1	2019Q2	2019Q3		
General Index	100.0	116.7	116.9	116.7	118.8	120.0	1.0	2.8
Agriculture and fishery products	8.7	102.9	101.7	99.1	99.7	101.6	1.9	-1.3
Ores and Minerals	0.6	99.6	98.2	98.1	97.8	97.3	-0.5	-2.3
Food products, beverages and tobacco and textiles	17.3	108.2	107.8	107.4	107.6	107.4	-0.2	-0.7
Other goods	33.7	143.6	145.0	143.0	144.6	146.9	1.6	2.3
Metal products, machinery and equipment	39.7	100.8	100.5	102.5	106.3	107.0	0.7	6.1

Source: General Authority for Statistics.

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

(2014 = 100)



my. It registered a q/q rise of 4.1 percent in Q2 2019 and a y/y increase of 0.1 percent (Table 3 and Chart 8).

An analysis of GDP deflator data (at constant prices for base year 2010) by econom-

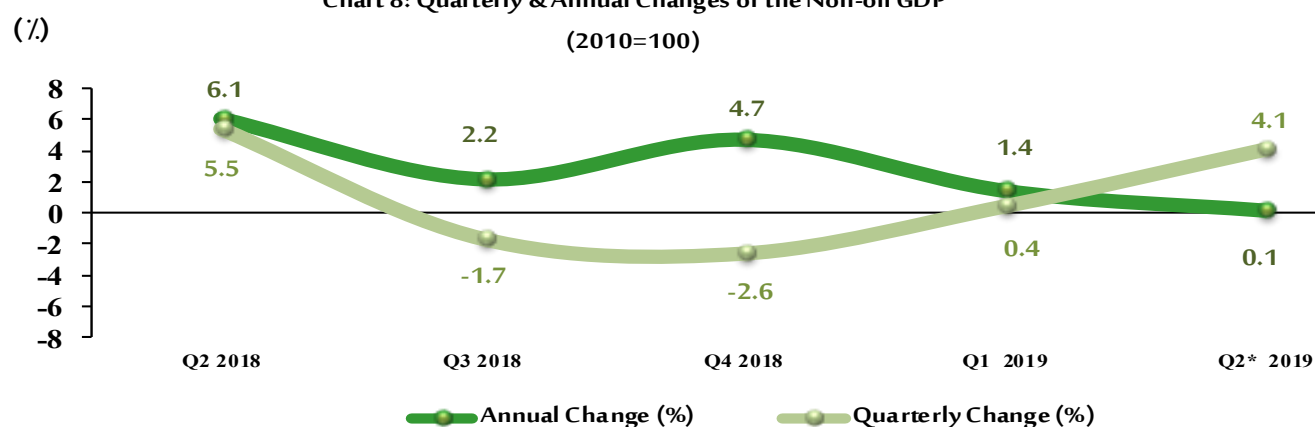
ic activity shows that construction and building registered the highest y/y rise of 4.7 percent in Q2 2019. Wholesale and retail trade, restaurants and hotels; and community, social

TABLE 3: GDP Deflator
(2010=100)

	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2* 2019
GDP (Million Rls):					
At Current Prices	738,851	745,062	766,354	718,543	740,032
At Constant Prices	639,851	654,372	686,990	660,685	642,779
GDP Deflator	115.5	113.9	111.6	108.8	115.1
Quarterly Change (%)	7.3	-1.4	-2.0	-2.5	5.9
Annual Change (%)	16.4	12.8	8.4	1.1	-0.3
Non-oil GDP (Million Rls):					
At Current Prices	484,219	479,723	501,134	496,371	499,150
At Constant Prices	357,845	360,475	386,690	381,371	368,350
Non-oil GDP Deflator	135.3	133.1	129.6	130.2	135.5
Quarterly Change (%)	5.5	-1.7	-2.6	0.4	4.1
Annual Change (%)	6.1	2.2	4.7	1.4	0.1
* Latest Available Data					

Source: General Authority for Statistics.

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



* Latest Available Data

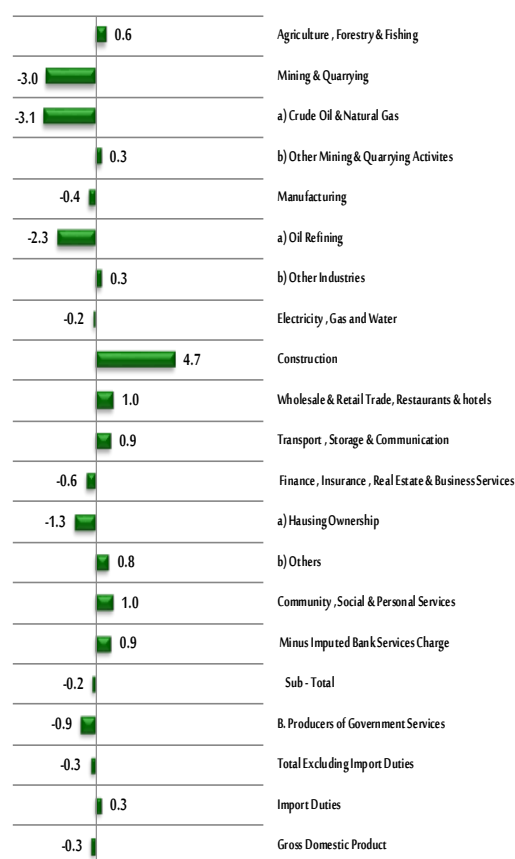
Source: General Authority for Statistics

and personal services came second with 1.0 percent for each; followed by transportation, storage and communications with 0.9

percent; and agriculture, forestry and fishing with 0.6 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 registered a y/y increase of 0.1 percent in Q2 2019. The annual change rate of the wholesale price index increased by 1.8 percent, while the annual inflation rate of the consumer price index registered a decline of 1.6 percent during the same period (Chart 10).

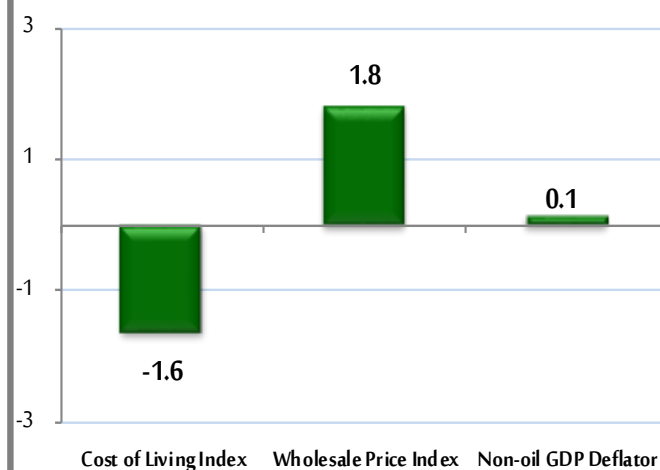
Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices
Q2 2019*/Q2 2018 (%) Change



*Latest Available Data

Source: General Authority for Statistics

Chart 10: Inflation Measurements in Q2, 2019
Change(%)



Source: General Authority for Statistics.

Foreign Trade with Major Trading Partners

According to data of August 2019, the total value of Saudi Arabia's imports stood at SAR 36.2 billion, with a y/y decrease of 2.8 percent. Moreover, Saudi Arabia's imports recorded a monthly decline of 28.4 percent compared to the preceding month.

China came at the top of Saudi Arabia's major trading partners, according to data of August 2019. Saudi Arabia's imports from China amounted to SAR 7.1 billion (19.5 percent of the total value of Saudi Arabia's imports), increasing by 31.7 percent y/y. The United States came second with SAR 4.3 billion (11.9 percent of the total), dropping by 0.3 percent y/y. The UAE came third with SAR 2.6 billion (7.3 percent of the total), de-

creasing by 23.3 percent y/y. Japan came fourth with SAR 1.8 billion (4.9 percent of the total), rising by 42.9 percent y/y, followed in fifth place by India with SAR 1.8 billion (4.9 percent of the total), increasing by 29.9 percent y/y (Table 4 A and 4 B).

Inflation Projections for Q3 2019

Actual data in Q3 2019 show that inflation rate recorded a y/y decrease of 1.1 percent. However, the pace of the annual decline in inflation is expected to slow down during Q4 2019 compared to the three previous quarters due to the relative recovery in housing, water, electricity, gas and other fuels, which represent around 25 percent of total Consumer Price Index (CPI) basket weights.

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

Countries	2017	2018	Change (%)
China	76971	81821	6.3
U.S.A	68086	70642	3.8
U.A.E	32831	43441	32.3
Germany	29797	28306	-5.0
India	20176	21322	5.7
Total	227861	245532	7.8
Ratio to Total	45.10	47.80	6.0

Source: General Authority for Statistics.

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

Countries	Aug-18	Aug-19	Change (%)
China	5362	7064	31.7
U.S.A	4345	4330	-0.3
U.A.E	3440	2640	-23.3
Japan	1261	1803	43.0
India	1366	1775	29.9
Total	15775	17612	11.6
Ratio to Total	42.30	48.60	14.9

Source: General Authority for Statistics.

On the other hand, the World Bank's projections for the primary commodity price index (October 2019) show an increase in deflationary pressures on most of its main sections for 2019. Its projections show a decrease in the prices of beverages by 5.3 percent, energy by 14.6 percent, agricultural materials by 4.7 percent, metals by 9.8 percent and food by 4.9 percent (Table 5).

Summary

The most significant results of the analysis of inflation rates in Q3 2019 in Saudi Arabia can be concluded as follows:

1- The Consumer Price Index (CPI) registered a y/y decrease of 1.1 percent in Q3 2019 and a q/q increase of 0.4 percent.

2- Housing, water, electricity, gas and other fuels registered the highest y/y decrease rate of 6.3 percent; followed by communi-

cation with 6 percent; clothing and footwear with 0.5 percent; recreation and culture with 0.1 percent.

3- The wholesale price index in Q3 2019 recorded a y/y rise of 2.8 percent and a q/q increase of 1.0 percent, metal products, machinery and equipment recorded the highest y/y increase with 6.1 percent.

4- The GDP deflator recorded a y/y decline of 0.3 percent in Q2 2019 and a q/q rise of 5.9 percent.

5- The pace of decrease in the annual rate of inflation is projected to slow down during Q4 2019 compared to the three previous quarters due to the relative recovery in housing, water, electricity, gas and other fuels, which represent around 25 percent of total Consumer Price Index (CPI) basket weights.

TABLE 5: World Bank Commodities Price Indices
(2005=100)

	(Percentage changes)						
	Actual			Projections			
	2016	2017	2018	2019	2020	2021	2022
Energy	-15.0	23.6	27.8	-14.6	3.2	1.8	1.9
Agriculture	-0.5	-0.6	-0.3	-4.7	-0.6	1.9	1.9
Food	1.2	0.7	0.2	-4.9	0.1	2.0	1.8
Raw materials	-3.7	1.2	0.2	-3.7	-1.5	1.6	1.7
Base Metals	-7.2	24.3	6.7	-9.8	-0.5	1.6	1.7
Fertilizers	-20.9	-4.5	11.0	-0.6	2.2	2.1	2.2
Beverages	-20.9	-4.5	11.0	-0.6	-2.1	2.1	2.2

Source: World Bank

