

2020

Inflation Report

Third Quarter of 2020

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 year-over-year increase of 6.0 percent and a quarter-over-quarter rise of 5.7 percent in Q3 2020 (Table 1 and Chart 1).

Developments in Q3 2020

During Q3 2020, food and beverages registered the highest YoY inflation rate of 13.5 percent. Tobacco came second with a YoY increase of 12.9 percent. Communication ranked third with a YoY rise of 9.6 percent, followed by household furnishings, equipment and maintenance with 8.4 percent; transportation with 7.7 percent; restaurants and hotels with 7.4 percent; clothing and footwear with 5.6 percent; miscellaneous goods and services with 5.4 percent; recreation and culture with 2.7 percent; health with 2.1 percent; and hous-

ing, water, electricity, gas and other fuels with 0.1 percent.

In contrast, education decreased by 1.9 percent YoY during Q3 2020 (Table 1 and Charts 2 and 3).

Effect of Main Expenditure Categories on Consumer Price Index

Inflation rates are affected by the changes in CPI's various categories. Classified by their influence on the CPI, food and beverages ranked first with 40.6 percent in Q3 2020 against 11.1 percent in Q3 2019. Transportation came next with 16.2 percent compared to the same quarter of last year, followed by household furnishings, equipment and maintenance with 9.1 percent against 1.3 percent in the same quarter of last year; communication with 8.6 percent

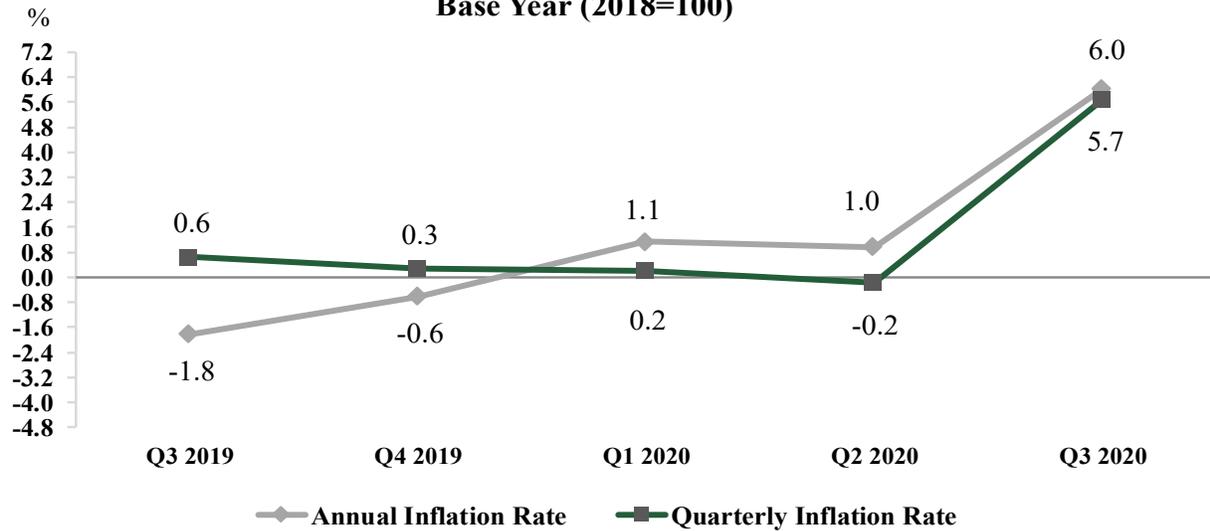
Table 1: Consumer Price Index

Base Year (2018=100)

	Weights	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	change (%)	
							Q3 2020 / Q2 2020	Q3 2020 / Q3 2019
General index	100.0	98.2	98.4	98.6	98.5	104.1	5.7	6.0
Food & beverages	18.8	102.3	103.4	104.2	107.9	116.1	7.6	13.5
Tobacco	0.6	100.8	101.0	102.0	102.1	113.8	11.5	12.9
Clothing & footwear	4.2	99.2	98.6	98.2	98.3	104.7	6.5	5.6
Housing, water, electricity, gas & other fuels	25.5	90.9	91.3	91.2	90.7	91.0	0.4	0.1
Furnishings, household equipment & maintenance	6.7	99.5	100.0	100.1	100.4	107.8	7.4	8.4
Health	1.4	100.3	100.2	99.9	99.9	102.4	2.5	2.1
Transport	13.0	99.4	100.0	100.1	95.0	107.1	12.7	7.7
Communication	5.6	98.6	98.4	98.2	98.2	108.1	10.1	9.6
Recreation & culture	3.1	99.7	98.4	98.5	97.6	102.4	4.9	2.7
Education	2.9	102.6	103.4	103.5	103.4	100.6	-2.7	-1.9
Restaurants & hotels	5.6	103.8	104.1	104.0	103.4	111.4	7.7	7.4
Miscellaneous goods & services	12.6	100.7	99.7	100.6	101.1	106.1	4.9	5.4

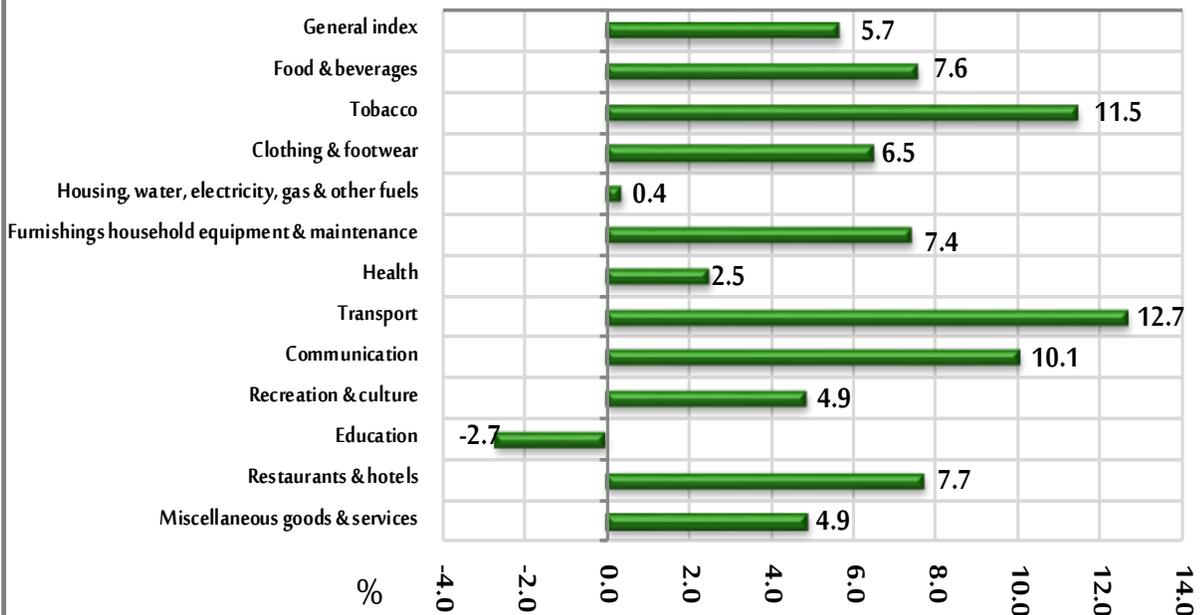
Source: General Authority for Statistics.

**Chart 1: Inflation Rate of the General Cost of Living Index
Base Year (2018=100)**



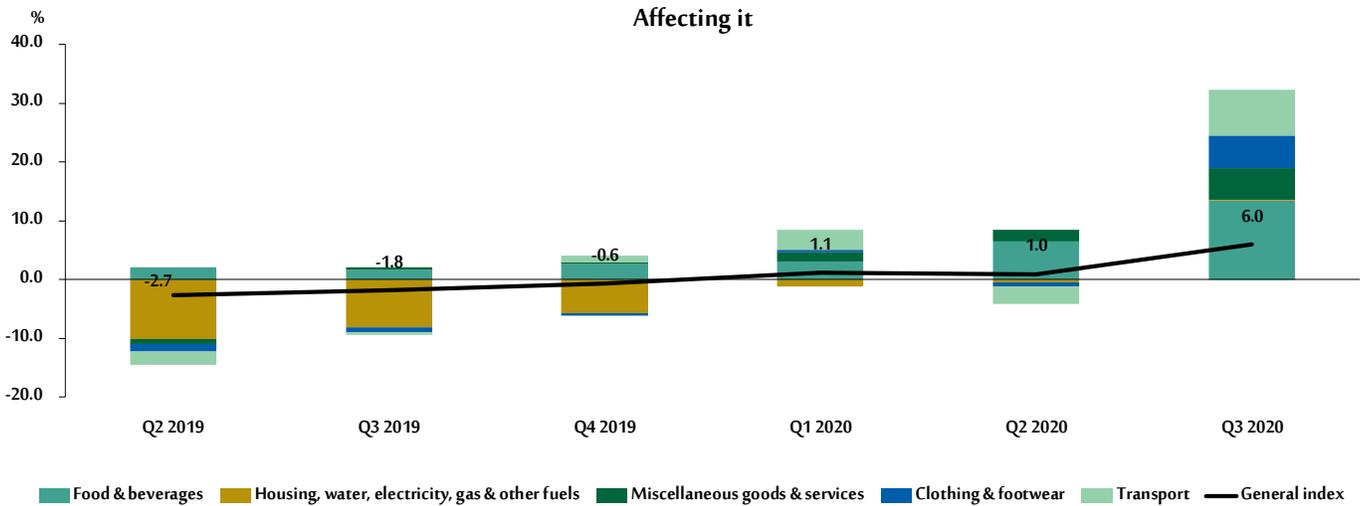
Source: General Authority for Statistics.

**Chart 2: Inflation Rate of the Consumer Price Index by Main Sections
Q3 2020 / Q2 2020**



Source: General Authority for Statistics.

Chart 3: Quarterly Inflation Rate of the General Consumer Price Index and the Most Major Sections



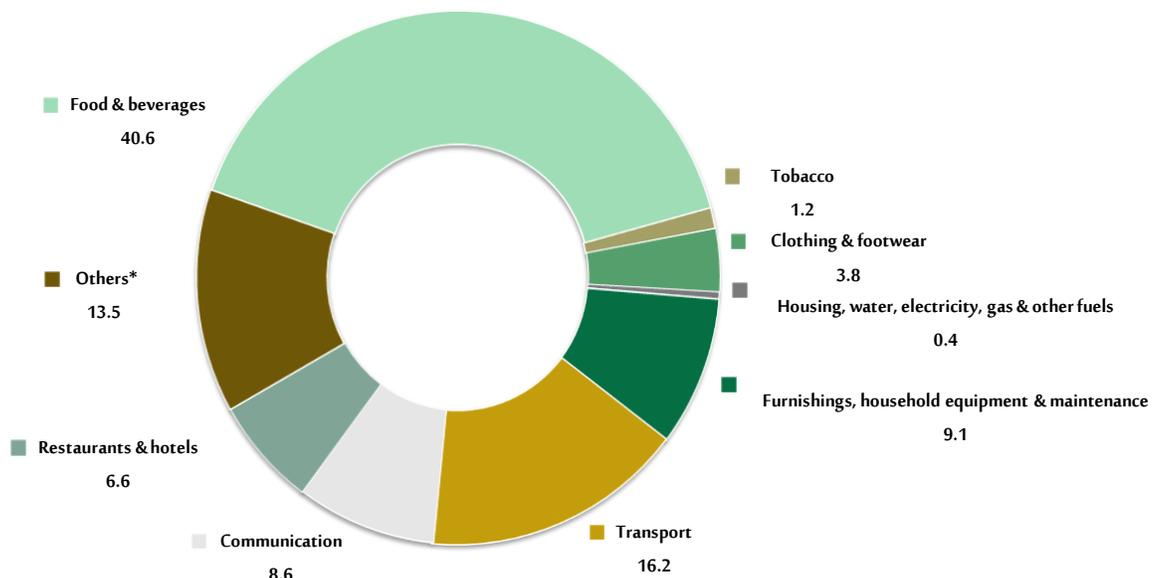
Source: General Authority for Statistics.

compared to 2.6 percent during Q3 of last year; restaurants and hotels with 6.6 percent compared to 5.6 percent during Q3 of last year; clothing and footwear with 3.8 percent compared to 1.1 percent during the same quarter of last year; tobacco with 1.2 percent against 0.2 percent in Q3 of last year; and housing, water, electricity, gas

and other fuels with 0.4 percent against 70.7 percent in Q3 of last year.

The total influence rate of the three main categories (housing, water, electricity, gas and other fuels; food and beverages; and transportation) stood at 57.1 percent in Q3 2020 against 83.9 percent in Q3 2019 (Chart 4).

Chart 4: Percentage Impact Of Major Section On The General Inflation Rate (Q3 2020)

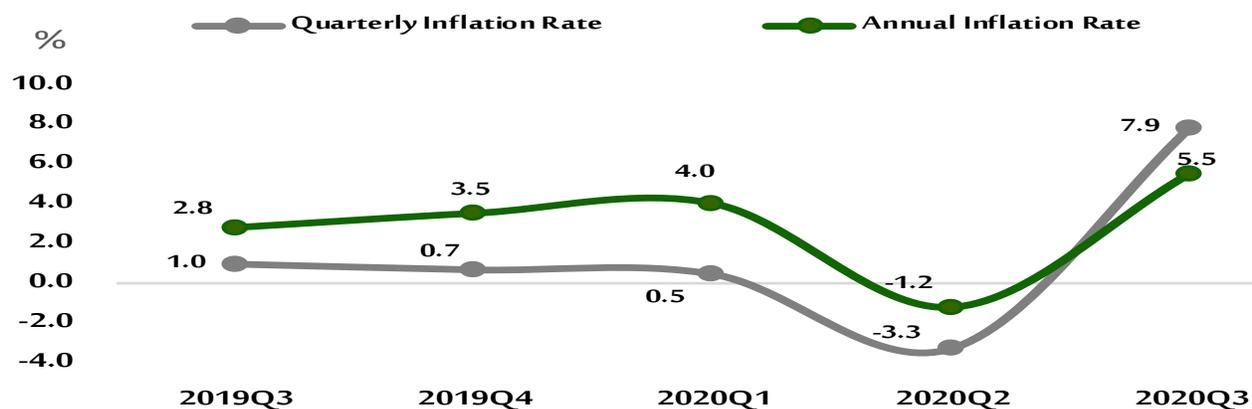


* Other departments include the health, recreation and culture, the miscellaneous goods and services, and education section.

Source: General Authority for Statistics.

Chart 5: Inflation of the Wholesale Price Index

Base Year (2014=100)



Source: General Authority for Statistics

Wholesale Price Index (WPI)

The wholesale price index (WPI) in Q3 2020 recorded a YoY rise of 5.5 percent and a QoQ increase of 7.9 percent (Chart 5).

As for the WPI by product category, agriculture and fishery products posted the

highest YoY increase of 16.0 percent during Q3 2020. Metal products, machinery and equipment ranked second with a YoY rise of 13.3 percent, followed by food products, beverages, tobacco and textiles with 12.2 percent. Ores and minerals came next with a YoY increase of 5.7 percent (Table 2 and Chart 5).

Table 2: Wholesale Price Index (WPI)

Base Year (2014=100)

	Weights						change (%)	
		2019Q3	2019Q4	2020Q1	2020Q2	2019Q3	2019Q3 / 2020Q2	2019Q3 / 2019Q3
General Index	100.0	120.0	120.8	121.4	117.4	126.7	7.9	5.5
Agriculture and fishery products	8.7	101.6	101.1	103.6	112.5	117.8	4.7	16.0
Ores and Minerals	0.6	97.3	96.0	95.3	94.4	102.9	9.0	5.7
Food products, beverages and tobacco and textiles	17.3	107.4	107.2	108.5	109.7	120.4	9.8	12.2
Other goods	33.7	146.9	147.9	147.4	132.7	138.9	4.6	-5.5
Metal products, machinery and equipment	39.7	107.0	108.4	109.2	109.3	121.3	11.0	13.3

Source: General Authority for Statistics.

GDP Deflator

According to the latest data issued by the GaStat, the GDP deflator recorded a YoY fall of 18.0 percent and a QoQ drop of 11.3 percent in Q2 2020.

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 economy. It registered a QoQ rise of 3.4 percent and a YoY increase of 0.7 percent in Q2 2020 (Table 3 and Chart 6).

An analysis of GDP deflator data (at constant prices for base year 2010) by economic activity shows that mining and quarrying registered the highest YoY decline of

57.7 percent in Q2 2020. Manufacturing came next with 9.5 percent, followed by producers of government services with 2.1 percent and construction and building with 1.7 percent.

On the other hand, agriculture, forestry and fishing recorded the highest YoY rise of 10.5 percent in Q2 2020. Community, social and personal services ranked second with 1.5 percent, followed by electricity, gas and water with 1.4 percent; wholesale and retail trade and restaurants and hotels with 0.7 percent; and finance, insurance, real estate and business services as well as transportation, storage and communication with 0.1 percent each (Chart 7).

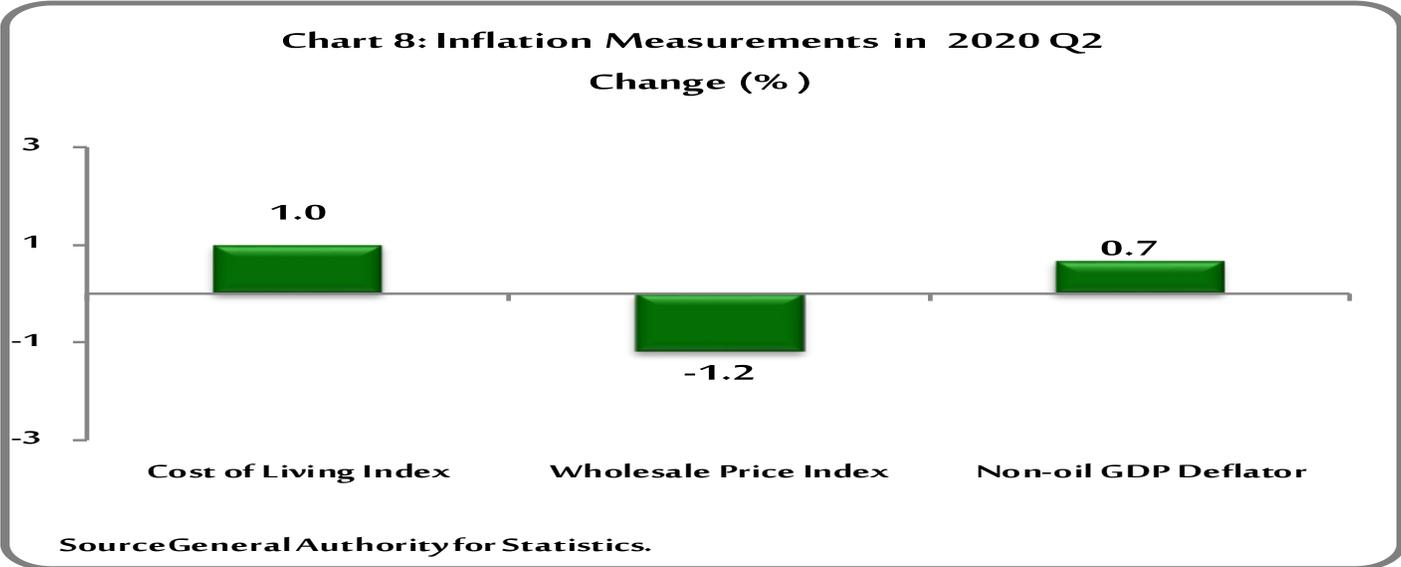
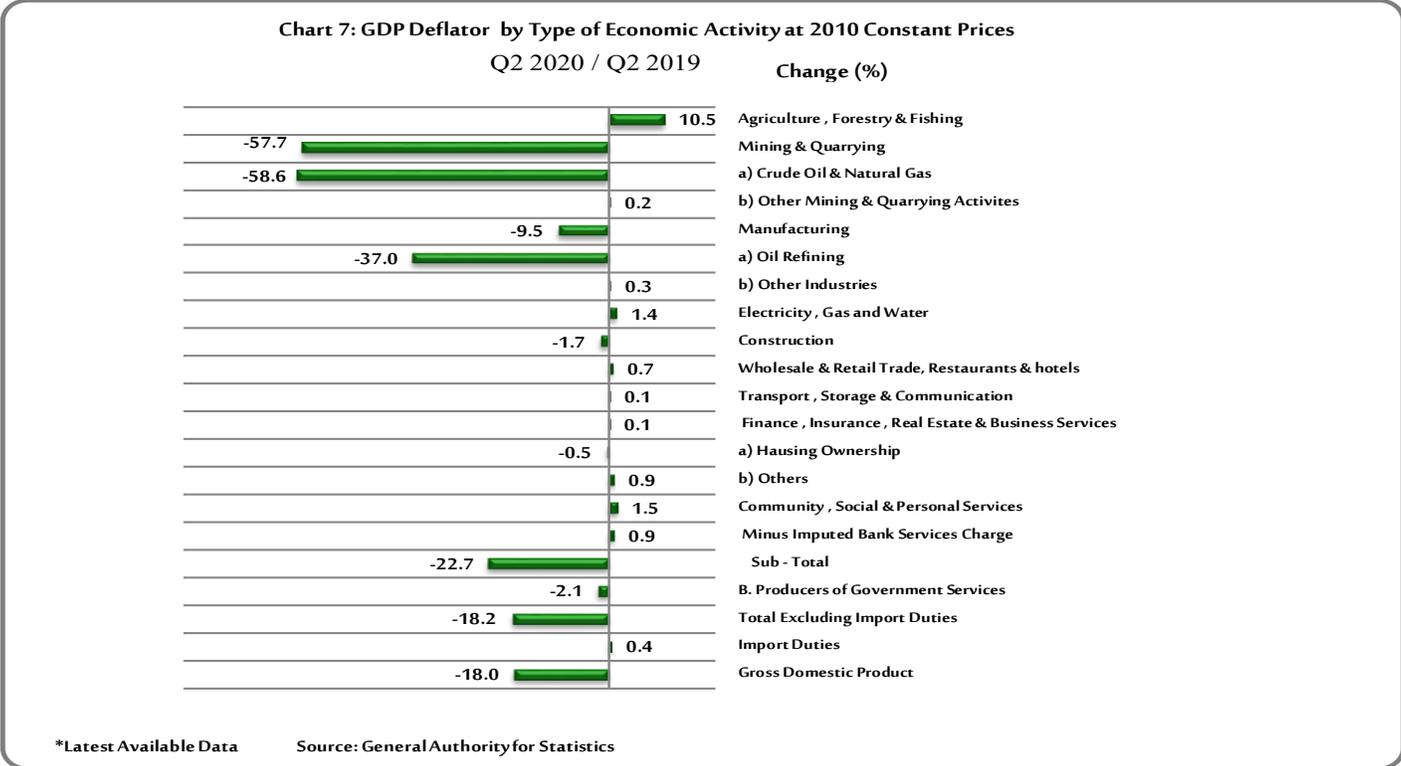
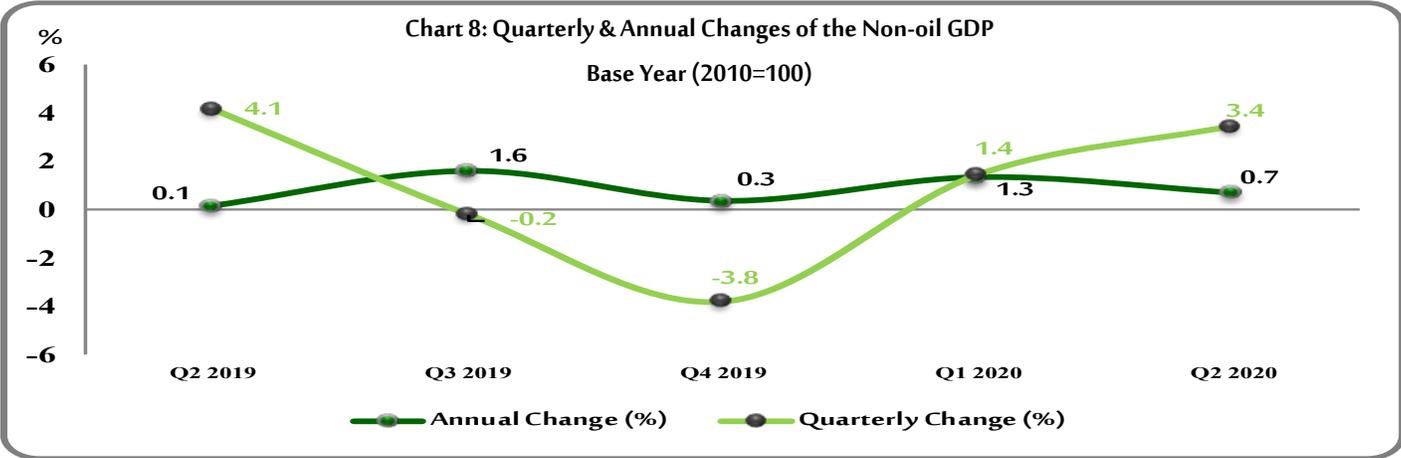
A comparison of the annual inflation measures in the domestic market indicates that the non-oil GDP deflator registered a 0.7 percent YoY rise in Q2 2020. The annual change rate of the wholesale price index went down by 1.2 percent. However, the annual inflation rate of the consumer price index increased by 1.0 percent during the same period (Chart 8).

Table 3: GDP Deflator
Base Year (2010=100)

	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
GDP (Million SAR):						
At Current Prices	718,543	740,032	745,369	769,681	695,570	564,211
At Constant Prices	660,680	642,780	651,392	684,959	654,030	597,838
GDP Deflator	108.8	115.1	114.4	112.4	106.4	94.4
Quarterly Change (%)	-2.5	5.9	-0.6	-1.8	-5.4	-11.3
Annual Change (%)	1.1	-0.3	0.5	0.7	-2.2	-18.0
Non-oil GDP (Million SAR):						
At Current Prices	496,371	499,150	508,443	522,101	510,791	461,361
At Constant Prices	381,368	368,351	376,071	401,514	387,296	338,172
Non-oil GDP Deflator	130.2	135.5	135.2	130.0	131.9	136.4
Quarterly Change (%)	0.4	4.1	-0.2	-3.8	1.4	3.4
Annual Change (%)	1.4	0.1	1.6	0.3	1.3	0.7

* Latest Available Data

Source: General Authority for Statistics.



Inflation Rates in Top Countries Exporting to Saudi Arabia

According to the general levels of CPI for the top countries exporting to Saudi Arabia and according to Q3 2020 data, inflation rate in China, the top trading partner in terms of imports, dropped by 0.6 percent YoY and by 0.5 percent QoQ. Conversely, the inflation in the United States went up by 1.2 percent YoY and by 1.1 percent QoQ. In Germany, the inflation went down by 0.1 percent YoY and by 0.3 percent QoQ. In Japan, the inflation rate rose by 0.2 percent YoY and by 0.2 percent QoQ. However, the rate in the UAE recorded a 1.8 percent YoY fall but a 0.1 percent QoQ increase (Table 4).

Inflation Projections for Q4 2020

Inflation rate is projected to register a YoY increase in Q4 2020 mainly due to the increase of VAT rate from 5 to 15 per-

cent. With the continuation of COVID-19 impact on the Saudi economy, the inflation is projected to decrease on a monthly basis during the next months. Consequently, Q4 2020 is forecast to register a decreasing inflation rate compared to Q3 2020.

On the other hand, the World Bank Commodities price forecast (October 2020) shows deflationary pressures on some categories in 2020. The forecast shows a price decline of 32.5 percent for energy, 9.8 percent for fertilizers, 0.6 percent for metals, and 0.5 percent for raw materials. However, the World Bank's projections show an increase of 7.2 percent in the prices of beverages, 4.0 percent in the prices of food, and 3.3 percent in the prices of agricultural commodities (Table 5).

Table 4: The Consumer Price Index (CPI) For The Most Important Counties Exporting To The Kingdom of Saudi Arabia

Countries	Change (%)						
	2019		2020			Q3 2020 /	Q3 2020 /
	Q1	Q2	Q1	Q2	Q3	Q2 2020	Q3 2019
China	102.9	104.3	105.0	102.7	102.3	-0.5	-0.6
USA	256.6	257.2	258.3	256.9	259.8	1.1	1.2
UAE	108.9	108.4	107.6	106.9	106.9	0.1	-1.8
Japan	101.8	102.3	102.0	101.8	102.0	0.2	0.2
Germany	106.1	105.7	105.5	106.2	106.0	-0.3	-0.1

Source: General Authority for Statistics.

Table 5: World Bank Commodity Price Index
Base Year (2010 =100)

	change (%)						
	Actual			Projections			
	2017	2018	2019	2020	2021	2022	2023
Energy	19.7	22.1	-10.6	-32.5	7.8	10.1	2.5
Agriculture	-3.9	-4.7	-1.8	3.3	-0.1	-0.2	-0.2
Food	-2.7	-4.1	-1.7	4.0	-0.2	-0.1	-0.3
Raw materials	-2.3	-4.0	-1.9	-0.5	0.0	0.0	-0.1
Base Metals	20.0	0.9	-2.8	-0.6	0.4	-0.3	-0.4
Fertilizers	-7.6	6.3	0.9	-9.8	1.5	1.5	1.4
Beverages	-12.0	-9.0	-1.5	7.2	-0.5	-0.6	-0.6

Source: World Bank.

Summary

The key results of the analysis of inflation rates in Q3 2020 in Saudi Arabia can be summarized as follows:

- The consumer price index (CPI) registered a YoY increase of 6.0 percent and a QoQ rise of 5.7 percent in Q3 2020.
- Food and beverages registered the highest YoY inflation rate of 13.5 percent. Tobacco came second with a YoY increase of 12.9 percent, followed by communication with 9.6 percent. In contrast, education decreased by 1.9 percent YoY during Q3 2020.
- The wholesale price index (WPI) in Q3 2020 recorded a YoY rise of 5.5 percent.
- Inflation rate is projected to register a YoY increase in Q4 2020 mainly due to the increase of VAT rate from 5 to 15 percent. With the continuation of COVID-19 impact on the Saudi economy, the inflation is projected to decrease on a monthly basis during the next months. Consequently, Q4 2020 is forecast to register a decreasing inflation rate compared to Q3 2020.

