

2019

Inflation Report

Second 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 decrease of 1.6 percent in Q2 2019 and remained unchanged as compared to the first quarter of 2019 (Table 1 and Chart 1).

Developments in Q2 2019

During Q2 2019, housing, water, electricity, gas and other fuels registered the highest y/y decrease of 7.5 percent, followed by communication with 0.9 percent; recreation and culture with 0.7 percent; clothing and footwear with 0.4 percent; and furnishings, household equipment and maintenance with 0.1 percent.

In contrast, restaurants and hotels registered the highest y/y inflation rate of 1.6 percent. Education and food and beverages

came second with 1.3 percent each, followed by transport with 0.6 percent; health with 0.5 percent; miscellaneous goods and services with 0.2 percent; and tobacco with 0.1 percent (Table 1 and Charts 2 and 3).

Effect of Sections on the Consumer Price Index

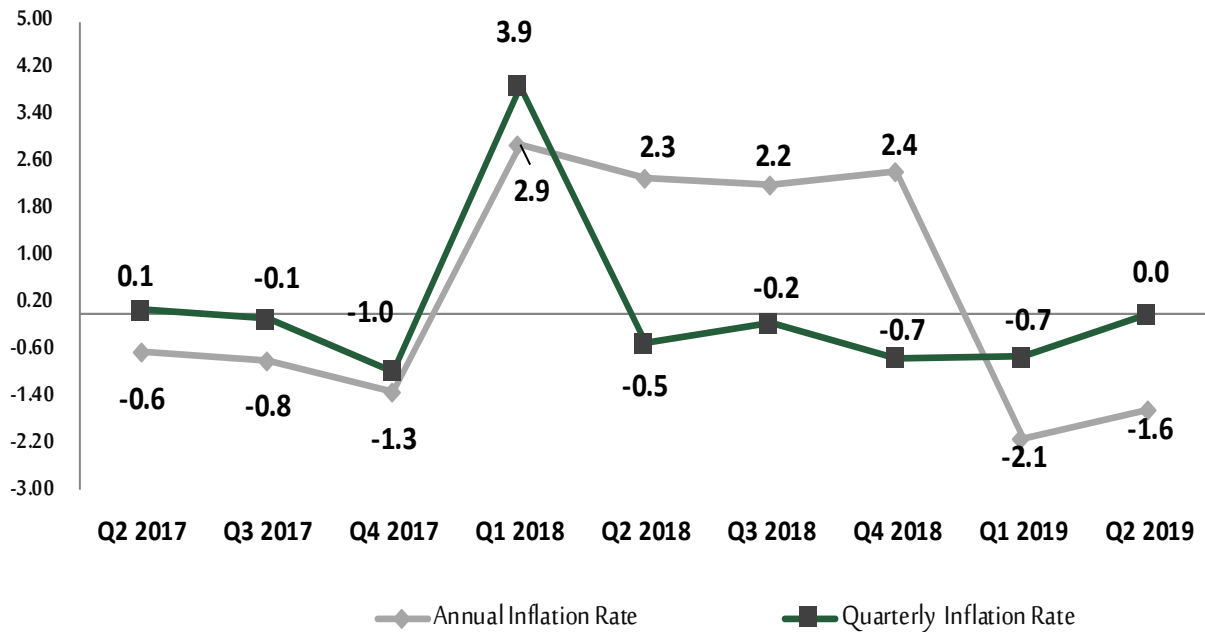
Inflation rates are affected by the changes in CPI's various sections. Classified by their influence on the CPI, housing, water, electricity, gas and other fuels ranked first with 75.4 percent during Q2 2019 against 2.9 percent in Q2 2018. Food and beverages ranked second with 9.8 percent compared to 28.9 percent in Q2 2018, followed by restaurants and hotels with 4.0 percent compared to 12.8 percent in the

TABLE 1: CONSUMER PRICE INDEX
(2013=100)

	Weights	2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	(% change)	
							2019Q2 / 2019Q1	2019Q2 / 2018Q2
General index	100.0	107.5	107.3	106.5	105.7	105.7	0.0	-1.6
Food & beverages	18.7	105.6	107.0	107.3	106.7	107.0	0.3	1.3
Tobacco	0.6	192.0	192.0	192.1	192.6	192.3	-0.2	0.2
Clothing & footwear	6.2	93.1	92.9	92.5	92.3	92.7	0.4	-0.4
Housing, water, electricity, gas & other fuels	25.3	111.6	109.4	106.9	104.5	103.2	-1.3	-7.5
Furnishings, household equipment & maintenance	8.5	102.7	102.6	102.4	102.4	102.6	0.2	-0.1
Health	2.3	110.1	110.4	110.3	110.4	110.7	0.3	0.5
Transport	9.9	119.2	119.4	119.1	118.7	119.9	1.0	0.6
Communication	8.4	100.6	100.3	100.0	99.8	99.7	-0.1	-0.9
Recreation & culture	3.4	96.4	97.1	96.5	96.0	95.7	-0.2	-0.7
Education	4.2	110.0	110.2	110.7	111.0	111.4	0.4	1.3
Restaurants & hotels	6.5	111.0	112.1	111.8	112.0	112.7	0.7	1.6
Miscellaneous goods & services	5.7	102.6	102.9	102.2	102.3	102.8	0.5	0.2

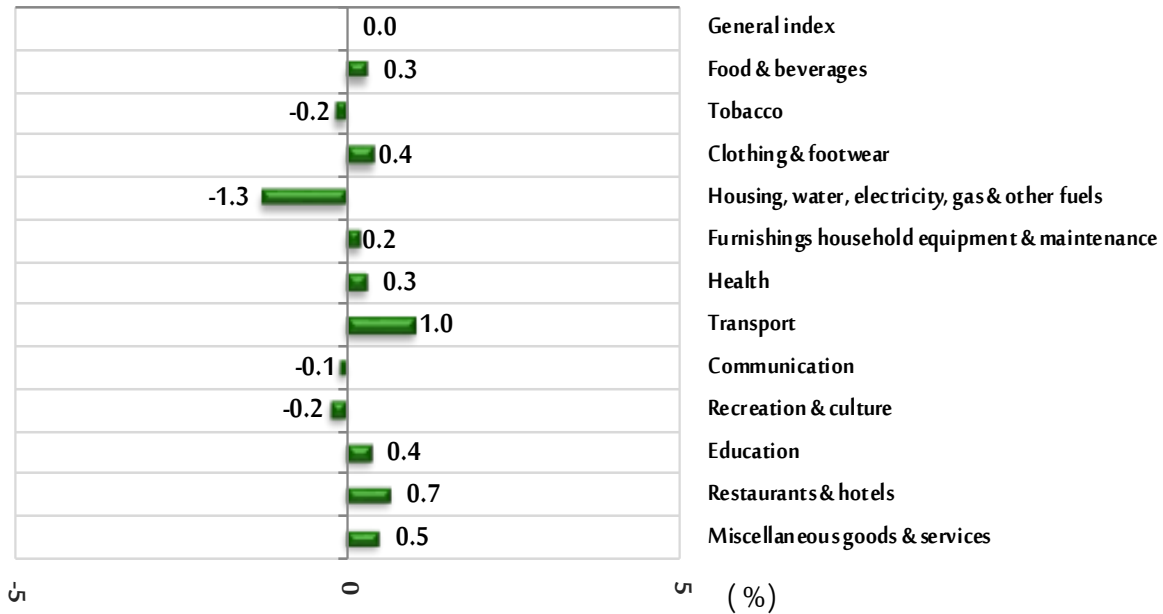
Source: General Authority for Statistics.

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

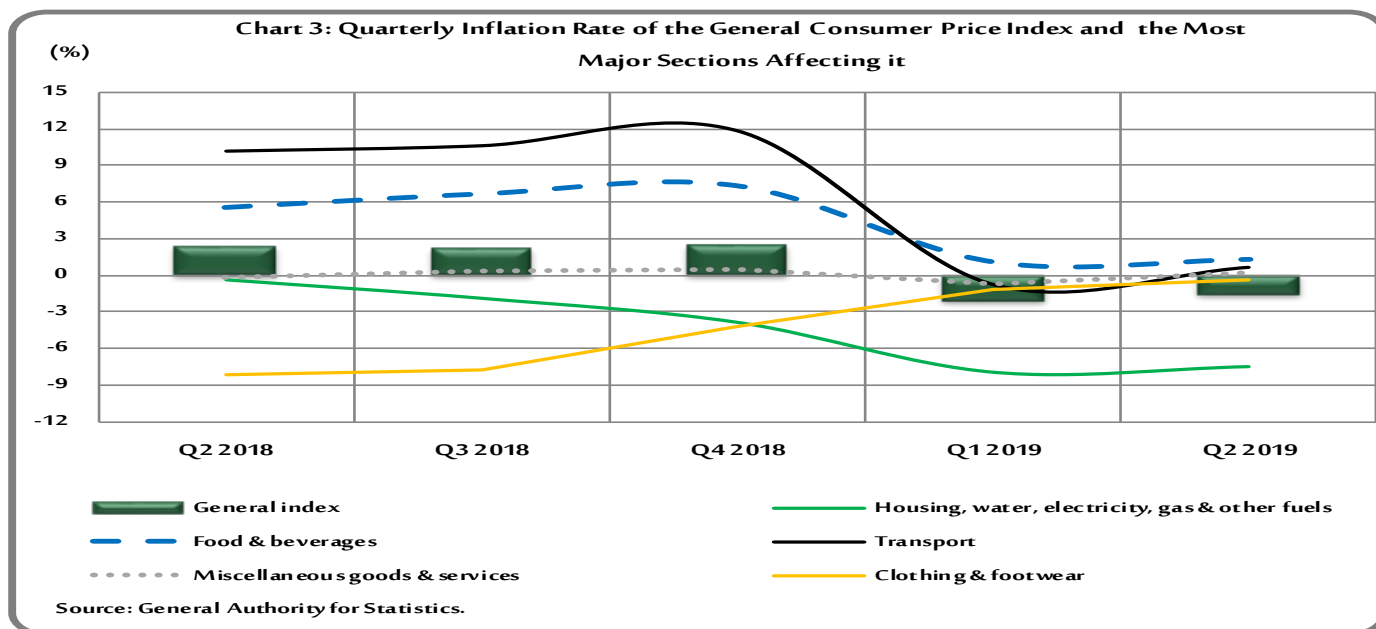


Source: General Authority for Statistics.

Chart 2: Inflation Rate of the Consumer Price Index by Main Sections (Q2 2019/Q1 2019)



Source: General Authority for Statistics.



same quarter of the previous year, communication with 3.0 percent compared to 3.2 percent in the corresponding quarter of the preceding year, and transport with 2.3 percent compared with 28.0 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 transport) stood at 87.5 percent in Q2 2019 against 59.8 percent in Q2 2018 (Charts 4 and 5).

Wholesale Price Index (WPI)

The wholesale price index in Q2 2019 recorded a y/y rise of 1.8 percent and a q/q increase of 1.8 percent (Chart 6).

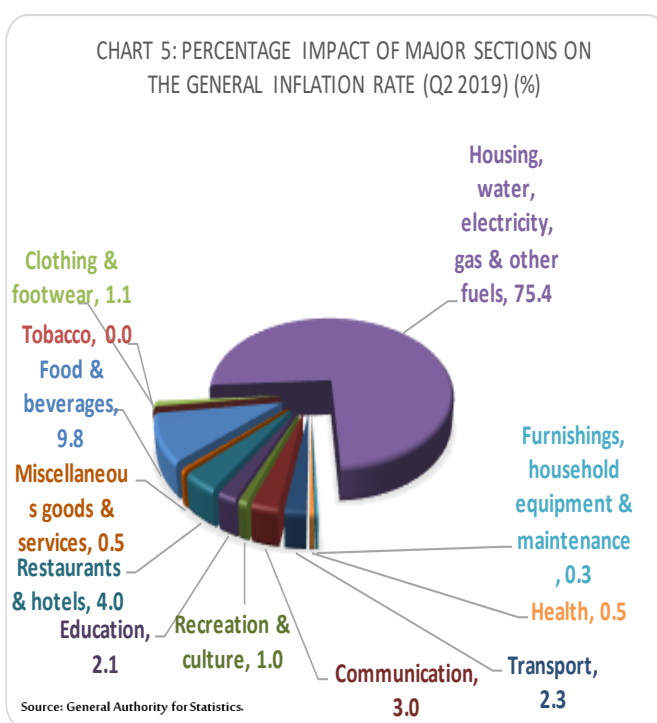
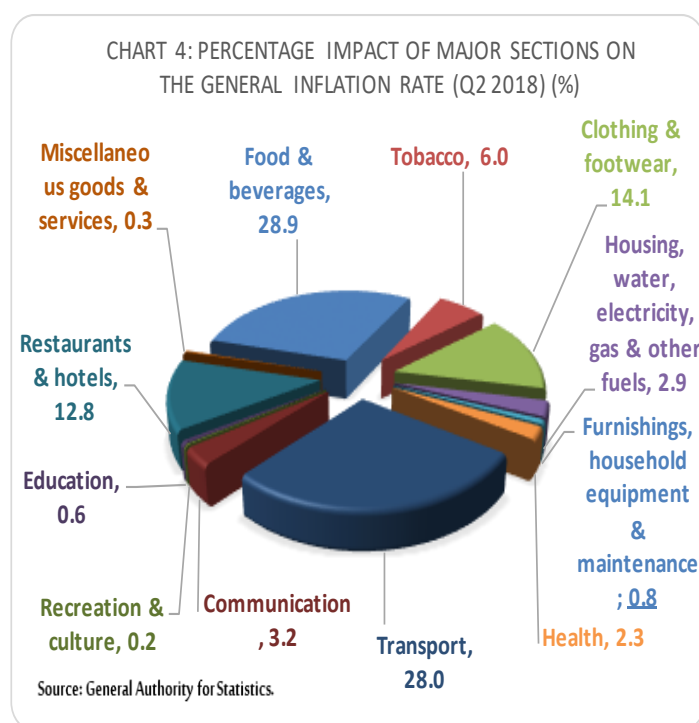
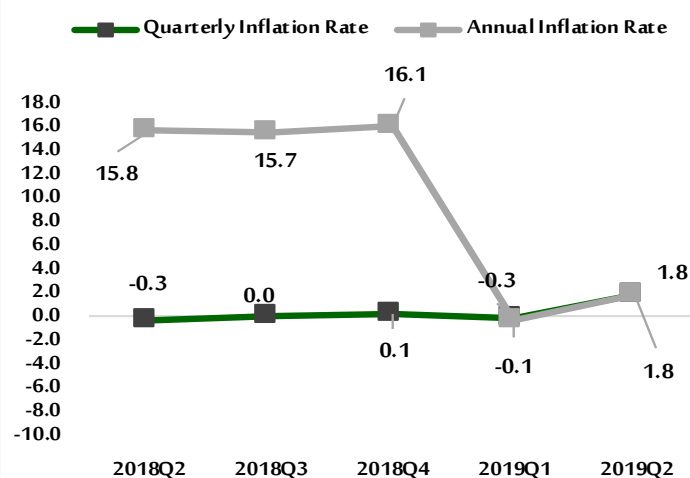


Chart 6: Inflation of the Wholesale Price Index
(2014=100)



Source: General Authority for Statistics

Wholesale Price Index by Section

During Q2 2019, agriculture and fishery products registered the highest y/y decrease of 1.9 percent. Ores and minerals ranked second with a y/y decrease of 1.1 percent. Food products, beverages, and to-

bacco as well as textiles came next with a y/y decrease of 0.5 percent. On the other hand, metal products, machinery and equipment recorded a y/y increase of 4.8 percent. In addition, other goods section recorded a y/y increase of 1.0 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 1.1 percent in Q1 2019 and a q/q decline of 2.5 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

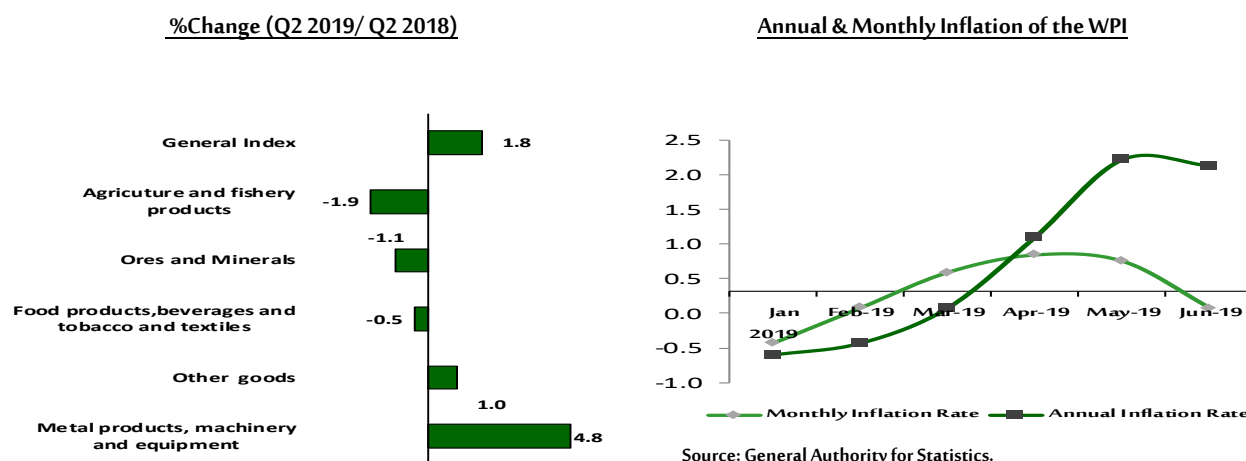
TABLE 2: WHOLESALE PRICE INDEX (WPI)
(2014=100)

	Weights	(% change)						
		2018Q2	2018Q3	2018Q4	2019Q1	2019Q2	2019Q1	2019Q2/2018Q2
General Index	100.0	116.7	116.7	116.9	116.7	118.8	1.8	1.8
Agriculture and fishery products	8.7	101.7	102.9	101.7	99.1	99.7	0.6	-1.9
Ores and Minerals	0.6	98.9	99.6	98.2	98.1	97.8	-0.3	-1.1
Food products, beverages and tobacco and textiles	17.3	108.1	108.2	107.8	107.4	107.6	0.2	-0.5
Other goods	33.7	143.2	143.6	145.0	143.0	144.6	1.1	1.0
Metal products, machinery and equipment	39.7	101.4	100.8	100.5	102.5	106.3	3.6	4.8

Source: General Authority for Statistics.

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

(100=2014)



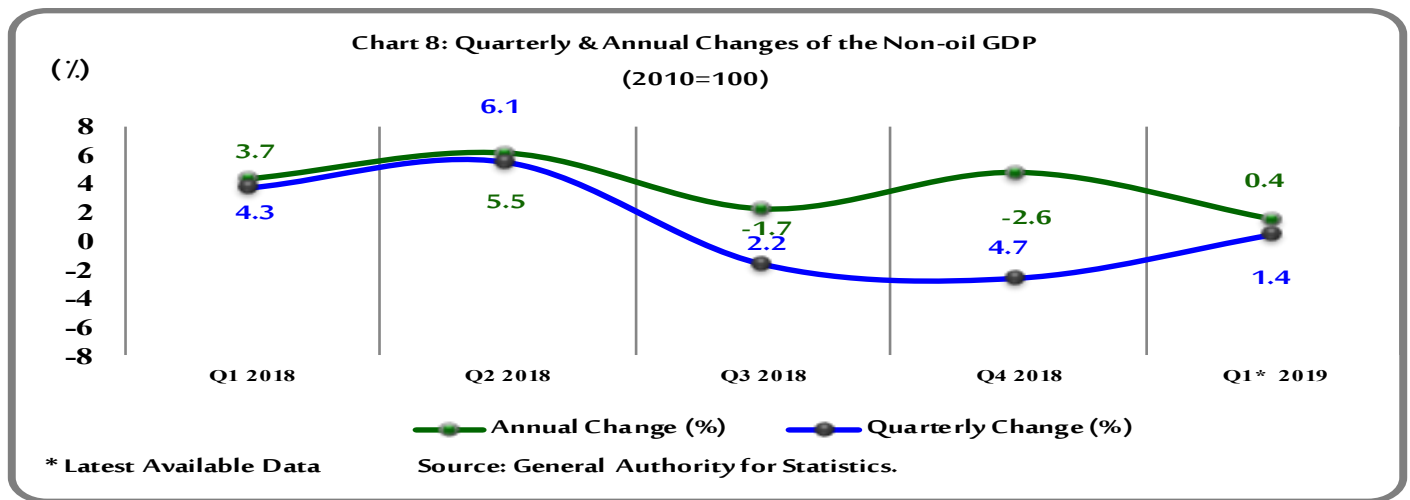
commonly used to exclude the impact of change in oil prices on the domestic economy. It registered a q/q rise of 0.4 percent in Q1 2019 and a y/y increase of 1.4 percent (Table 3 and Chart 8).

An analysis of GDP deflator's data (at constant prices for base year 2010) by economic activity shows that producers of government services registered the highest y/y

TABLE 3: GDP Deflator
(2010=100)

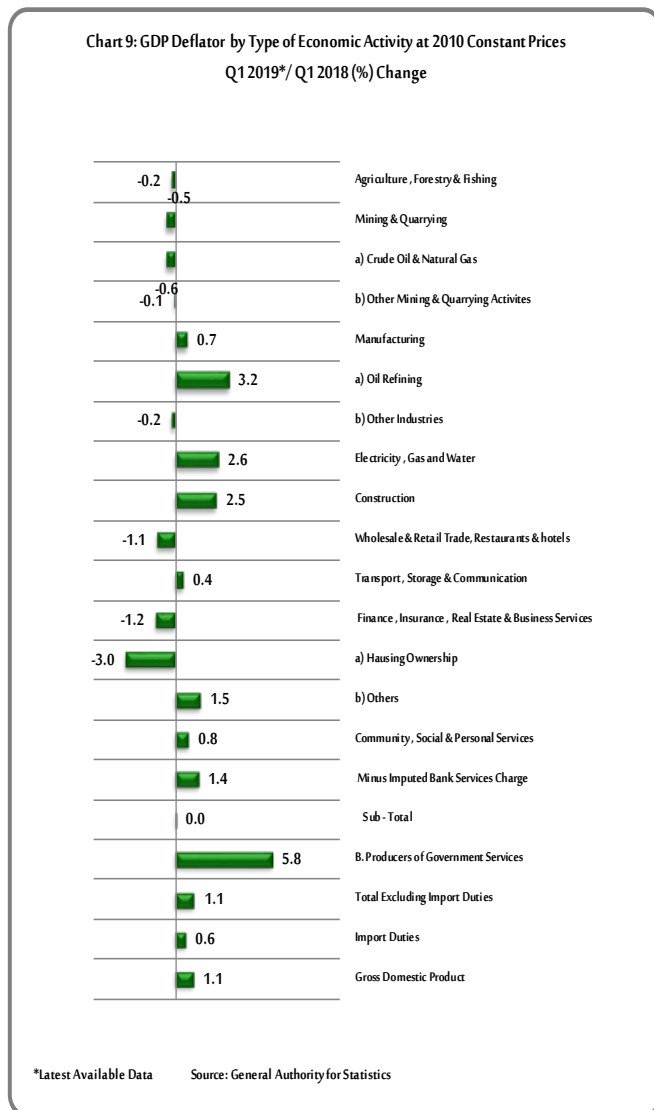
	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1* 2019
GDP (Million Rls):					
At Current Prices	699,191	738,851	745,062	766,354	718,543
At Constant Prices	649,878	639,851	654,372	686,990	660,685
GDP Deflator	107.6	115.5	113.9	111.6	108.8
Quarterly Change (%)	4.5	7.3	-1.4	-2.0	-2.5
Annual Change (%)	8.7	16.4	12.8	8.4	1.1
Non-oil GDP (Million Rls):					
At Current Prices	479,126	484,219	479,723	501,134	496,371
At Constant Prices	373,414	357,845	360,475	386,690	381,371
Non-oil GDP Deflator	128.3	135.3	133.1	129.6	130.2
Quarterly Change (%)	3.7	5.5	-1.7	-2.6	0.4
Annual Change (%)	4.3	6.1	2.2	4.7	1.4
* Latest Available Data					

Source: General Authority for Statistics.



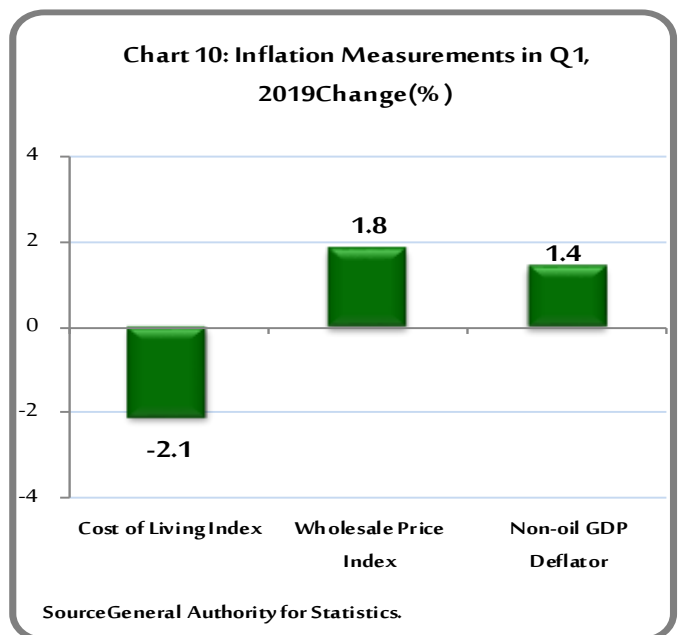
rise of 5.8 percent in Q1 2019. Electricity, gas and water came next with 2.6 percent, followed by construction and building with 2.5 percent (Chart 9).

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 1.4 percent in Q1 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 2.1 percent during the same period (Chart 10).



Foreign Trade with Major Trading Partners

According to data of May 2019, the total value of Saudi Arabia's imports stood



at SAR 43.1 billion, with a y/y decrease of 11.2 percent. On the other hand, Saudi Arabia's imports recorded a monthly increase of 9.6 percent compared to the preceding month.

China came at the top of Saudi Arabia's major trading partners, according to data of May 2019. Saudi Arabia's imports from China amounted to SAR 8.7 billion (20.3 percent of the total value of Saudi Arabia's imports), decreasing by 3.7 percent y/y. The United States came second with SAR 4.6 billion (10.8 percent of the total), dropping by 24.4 percent y/y. The UAE came third with SAR 3.6 billion (8.3 percent of the total), decreasing by 9.9 percent y/y. France came fourth with SAR 2.1 billion (4.9 percent of the total), rising by 15.8 percent y/y, followed in fifth place by India with SAR 2.0

billion (4.6 percent of the total), falling by 1.3 percent y/y (Table 4 A and 4 B).

Inflation Projections for Q3 2019

Actual data in Q2 2019 show that CPI inflation rate recorded a y/y decrease of 1.6 percent while it remained unchanged as compared to the first quarter of 2019. It is projected that the annual decline in the general level of prices will diminish in Q3 2019 as compared to the two preceding quarters, pushed by gradual adjustment of fuel prices, which in turn might impact transport and other related sections, and by the fact that the month of Dhu al-Hijjah, Eid al-Adha and start of the new academic year occur all in Q3.

On the other hand, the International Monetary Fund's latest projections for the

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	May-18	May-19	Change (%)
China	9077	8739	-3.7
U.S.A	6126	4634	-24.4
U.A.E	3956	3564	-9.9
France	1820	2108	15.8
India	1990	1965	-1.3
Total	22968	21010	-8.5
Ratio to Total	47.30	48.70	3.0

Source: General Authority for Statistics.

primary commodity price index (October 2018) show a decrease in inflationary pressures on most of its components for 2019. The projections indicate a decline in the prices of metals by 3.6 percent, energy by 1.8 percent, and raw agricultural materials by 1.5 percent. However, IMF projections show a rise of 1.3 percent in food and beverages prices (Table 5).

Summary

The most significant results of the analysis of inflation rates in Q2 2019 in Saudi Arabia can be summarized as follows:

1. The consumer price index (CPI) registered a y/y decrease of 1.6 percent in Q2 2019 and remained unchanged as compared to the preceding quarter.
2. Housing, water, electricity, gas and other fuels registered the highest y/y decrease rate of 7.5 percent, while restaur-

rants and hotels registered the highest y/y inflation rate of 1.6 percent in Q2 2019.

3. The wholesale price index in Q2 2019 recorded a y/y rise of 1.8 percent and a q/q increase of 1.8 percent, while agriculture and fishery products registered the highest y/y decrease of 1.9 percent in Q2 2019.
4. The GDP deflator recorded a y/y increase of 1.1 percent in Q1 2019 and a q/q decline of 2.5 percent.
5. It is expected that the annual decrease in the general level of prices will diminish in Q3 2019 as compared to the two preceding quarters, pushed by gradual adjustment of fuel prices, which in turn might impact transport and other related sections, in addition to the fact that the month of Dhu al-Hijjah, Eid al-Adha and start of the new academic year occur all in Q3.

TABLE 5: IMF Commodity Price Index
(2005=100)

		(Percentage changes)						
	Weights	Actual			Projections			
		2016	2017	2018	2019	2020	2021	2022
All Primary Commodities	100.0	-9.8	15.3	18.0	-1.4	-2.9	-2.1	-1.5
Food & Beverages	16.7	1.8	1.0	1.5	1.3	0.6	0.5	0.1
Agricultural Raw Materials	7.7	-5.7	2.3	1.5	-1.5	-0.7	-0.5	0.0
Metals	10.7	-5.4	22.2	5.3	-3.6	0.4	0.5	0.3
Energy	63.1	-16.5	23.4	30.6	-1.8	-4.9	-3.8	-2.6

Source: IMF

