



مؤسسة النقد العربي السعودي  
Saudi Arabian Monetary Authority

# Inflation Report

Third Quarter of 2017



Research and International Affairs Deputyship  
Economic Research Department



## Table of Contents

Cost of Living Index	3
Developments in Q3 2017	3
Influence of Major Sections on the General Cost of Living Index	5
Wholesale Price Index	6
Cost of Living Index by Cities in Q3 2017	9
GDP Deflator	10
Foreign Trade with Major Trading Partners	11
Inflation Projections for Q4 2017	12
Conclusion	12

## Cost of Living index

The general level of cost of living index registered a y/y decrease of 0.2 percent in Q3 2017 and a slight q/q rise of 0.6 percent. In September 2017, the cost of living index registered an annual decline of 0.1 percent (Table 1 and Chart 1).

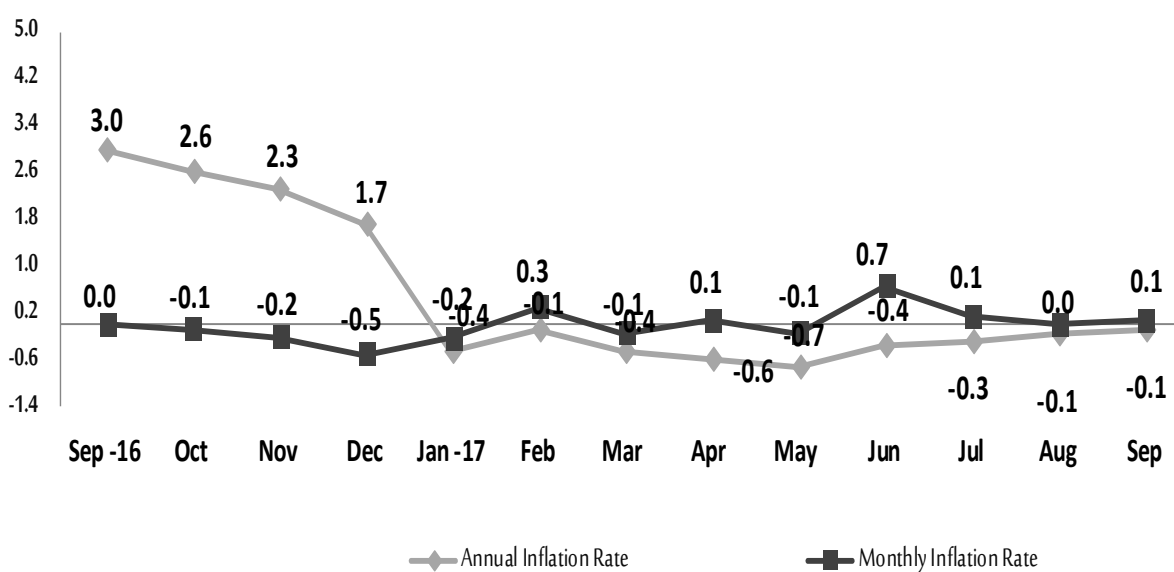
## Developments in Q3 2017

During Q3 2017, tobacco registered the highest y/y inflation rate of 99.8 percent. Education came second with 2.7 percent; communication with 1.4 percent; and

miscellaneous goods and services with 0.5 percent.

In contrast, recreation and culture recorded a y/y decline of 2.8 percent, followed by clothing and footwear with 2.0 percent; food and beverages with 1.7 percent; transport with 1.6 percent; furnishings, household equipment and maintenance; and restaurants and hotels with 1.2 percent each; housing, water, electricity, gas and other fuels with 0.3 percent; and health with 0.1 percent (Table 1 and Charts 2 and 3).

Chart 1: Inflation Rate of the General Cost of Living Index  
(2007=100)



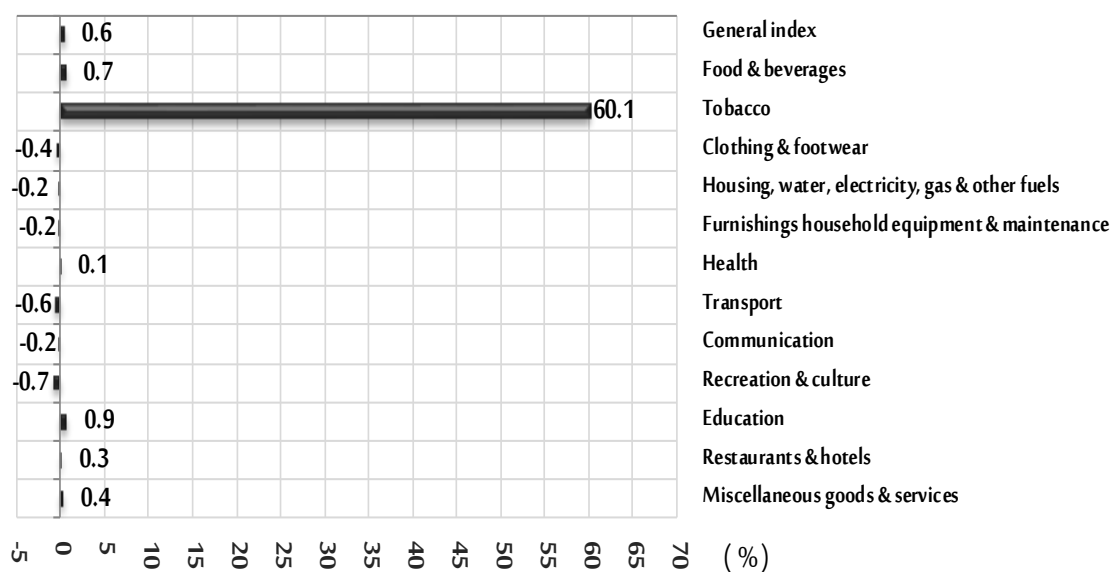
Source: General Authority for Statistics.

**TABLE 1: COST OF LIVING INDEX**  
(2007=100)

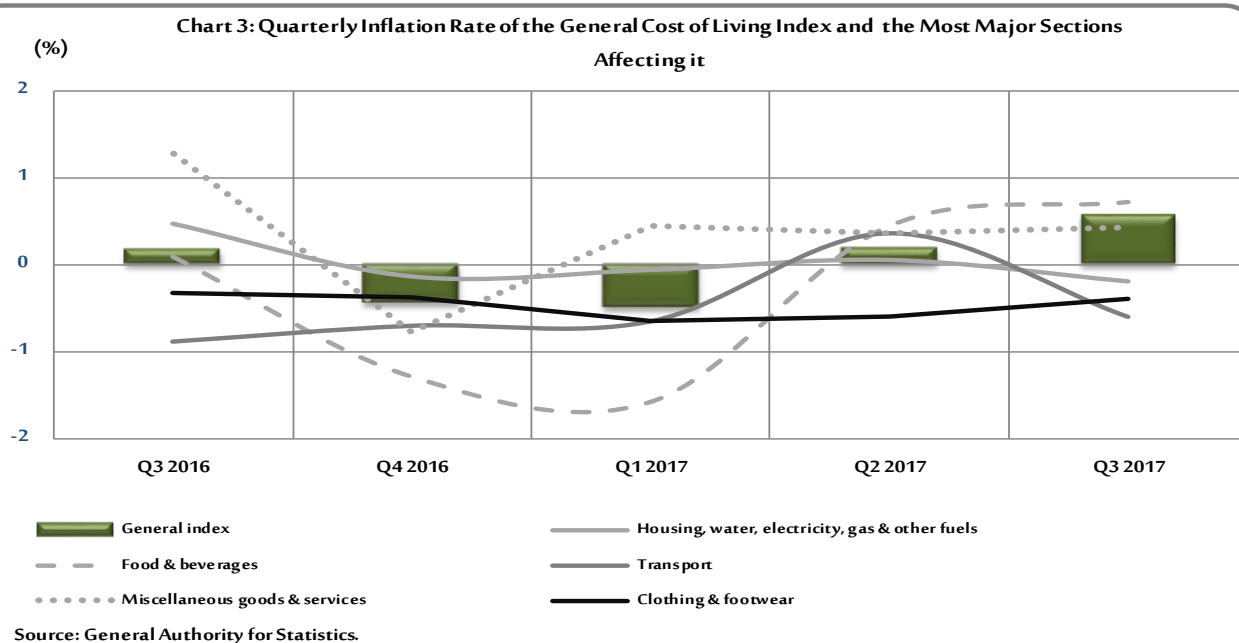
	Weights	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	(% change	
							Q3 2017/ Q2 2017	Q3 2017/ Q3 2016
<b>General index</b>	<b>100.0</b>	<b>138.0</b>	<b>137.4</b>	<b>136.7</b>	<b>137.0</b>	<b>137.7</b>	<b>0.6</b>	<b>-0.2</b>
Food & beverages	21.7	146.9	145.0	142.7	143.3	144.3	0.7	-1.7
Tobacco	0.5	199.8	199.8	199.8	249.4	399.2	60.1	99.8
Clothing & footwear	8.4	114.1	113.6	112.9	112.2	111.8	-0.4	-2.0
Housing, water, electricity, gas & other fuels	20.5	177.4	177.2	177.1	177.2	176.9	-0.2	-0.3
Furnishings, household equipment & maintenance	9.1	135.0	134.4	133.7	133.7	133.4	-0.2	-1.2
Health	2.6	123.7	123.3	123.5	123.4	123.6	0.1	-0.1
Transport	10.4	122.4	121.6	120.8	121.2	120.5	-0.6	-1.6
Communication	8.1	95.8	96.7	97.9	97.4	97.2	-0.2	1.4
Recreation & culture	3.5	119.5	118.5	117.2	117.1	116.2	-0.7	-2.8
Education	2.7	122.6	124.9	124.9	124.8	125.9	0.9	2.7
Restaurants & hotels	5.7	125.5	125.6	124.5	123.7	124.0	0.3	-1.2
Miscellaneous goods & services	6.8	125.8	124.8	125.4	125.9	126.4	0.4	0.5

Source: General Authority for Statistics.

**Chart 2: Inflation Rate of the Cost of Living Index by Main Sections (Q3 2017/Q2 2017)**



Source: General Authority for Statistics.

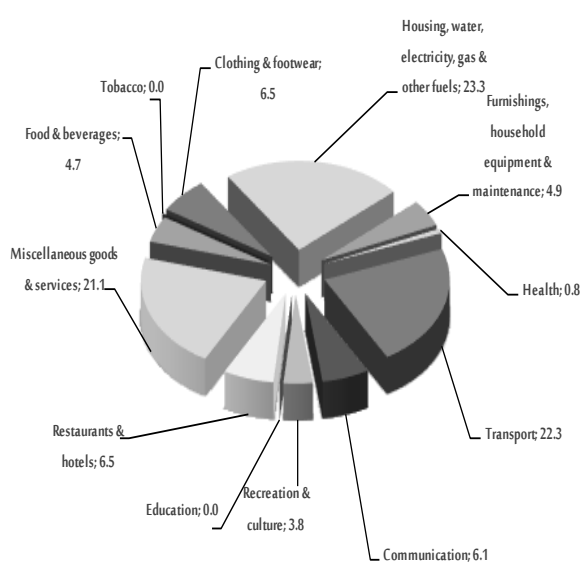


## Influence of Major Sections on the General Cost of Living Index

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, tobacco ranked first with 41.4 percent during Q3 2017 as opposed to the corresponding quarter of the previous year whereas it had no influence. This rise is due to levying

**Chart 4: Percentage Impact Of Major Sections On The General Inflation Rate (Q3 2016) (%)**



**Chart 5: Percentage Impact Of Major Sections On The General Inflation Rate (Q3 2017) (%)**

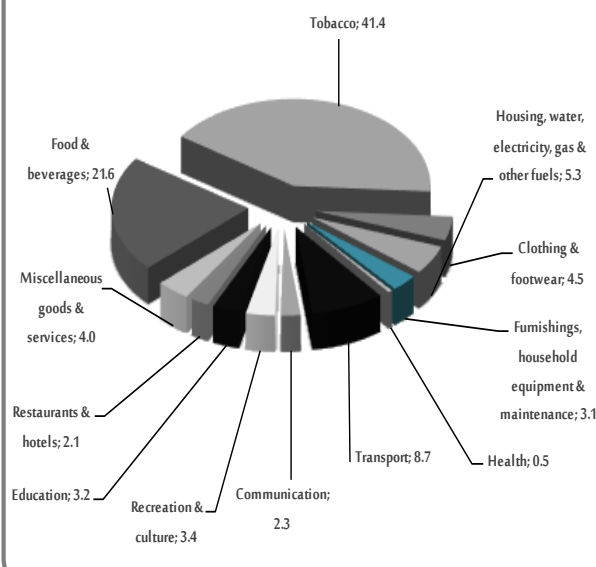
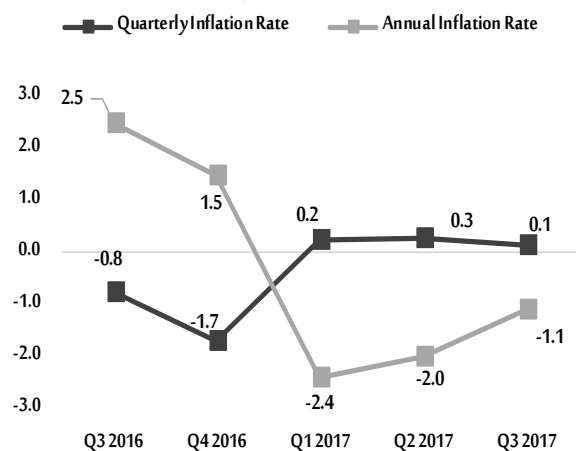


Chart 6: Inflation of the Wholesale Price Index

(2014=100)



Source: General Authority for Statistics

excise tax during this period. Food and beverages came second with 21.6 percent compared to 4.7 percent, followed by transport with 8.7 percent compared to 22.3 percent, and lastly

housing, water, electricity, gas and other fuels with 5.3 percent compared to 23.3 percent.

The total influence rate of the three major sections (housing, water, electricity, gas and other fuels; food and beverages; and transport) stood at 35.6 percent in Q3 2017 against 50.3 percent in Q3 2016 (Charts 4 and 5).

## Wholesale Price Index

The wholesale price index in Q3 2017 recorded a y/y decline of 1.1 percent and a q/q rise of 0.1 percent (Chart 6).

TABLE 2: WHOLESALE PRICE INDEX (WPI)

(2014=100)

							(% change)	
							Q3 2017/	Q3 2017/
	Weights	Q3 2016	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q2 2017	Q3 2016
General Index	100.0	102.0	100.3	100.5	100.8	100.9	0.1	-1.1
Agriculture and fishery products	8.7	104.2	100.4	100.8	104.3	101.6	-2.6	-2.5
Ores and Minerals	0.6	100.2	96.9	95.6	92.7	91.3	-1.5	-8.8
Food products,beverages and tobacco and textiles	17.3	97.9	97.5	98.1	99.1	103.1	4.0	5.3
Other goods	33.7	109.3	107.3	107.9	106.7	105.9	-0.7	-3.1
Metal products, machinery and equipment	39.7	97.5	96.0	95.4	95.7	95.6	-0.1	-1.9

Source: General Authority for Statistics.

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

(2014=100)

% Change (Q3 2017/ Q3 2016)

Annual & Monthly Inflation of the WPI

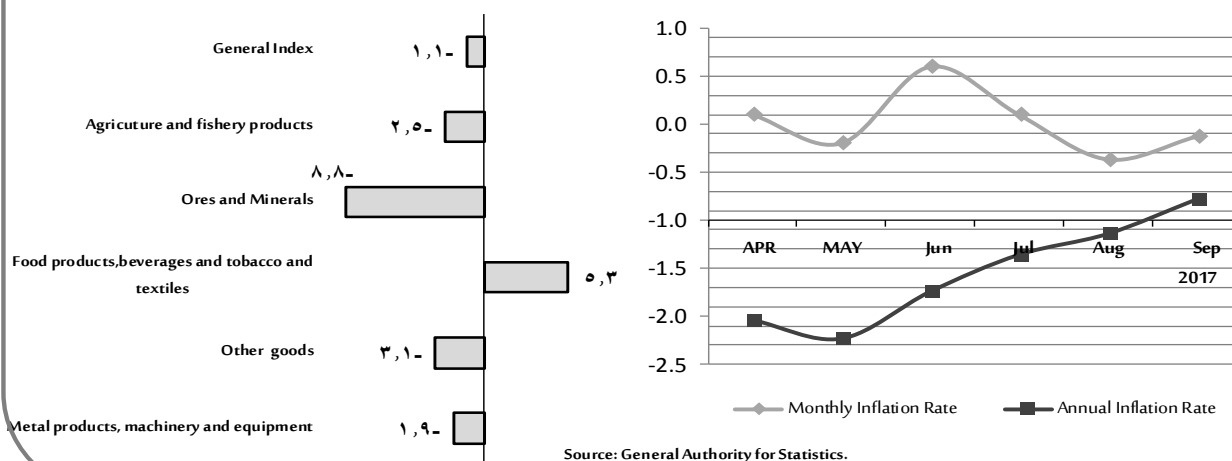


Table 3 : AVERAGE COST OF LIVING INDEX BY CITIES

(100=2015)

General Index	Inflation Rate						Q3 2017/ Q2 2017
	2015	2016	Q1 2017	Q2 2017	Q3 2017	2016/2015	
<b>All Cities Index</b>	132.9	137.6	136.7	137.0	137.7	3.5	0.6
Riyadh	140.1	144.5	143.6	144.6	145.3	3.2	0.5
Makkah	129.7	133.1	131.4	132.4	133.7	2.7	1.0
Jeddah	131.7	139.3	138.3	137.6	138.2	5.8	0.5
Al-Dammam	135.1	138.7	138.9	139.3	140.3	2.7	0.7
Al-Madinah	126.4	129.7	129.2	129.8	130.8	2.6	0.8
Ta'if	127.8	132.1	132.0	132.1	134.0	3.4	1.4
Al-Hufuf	124.9	129.0	126.9	127.0	128.0	3.2	0.8
Abha	125.0	128.9	128.1	128.9	129.0	3.1	0.1
Buraydah	127.7	129.7	125.5	125.6	126.4	1.6	0.7
Tabuk	120.2	123.8	121.8	121.7	122.1	3.0	0.4
Ha'il	128.2	130.8	129.0	129.4	130.2	2.0	0.6
Jazan	149.9	156.7	159.5	159.7	159.2	4.5	-0.3
Najran	132.0	137.2	136.1	136.5	137.2	3.9	0.5
Al-Bahah	134.5	141.7	141.0	140.8	142.9	5.4	1.4
Sakaka	131.7	136.4	134.6	134.9	135.2	3.5	0.2
'Ar'ar	126.5	131.2	131.1	128.7	128.4	3.8	-0.2

Source: General Authority for Statistics.

## Wholesale Price Indices by Sections

During Q3 2017, ores and minerals registered the highest y/y decrease as its inflation rate declined

by 8.8 percent. Other goods came next with a y/y decline of 3.1 percent. Agriculture and fishery followed with a y/y decrease of 2.5 percent. Metal

TABLE 4: GDP Deflator

(2010=100)

	2Q 2016	3Q 2016	4Q* 2016	1Q 2017
<b>GDP (Million Rls):</b>				
At Current Prices	603,856	602,460	634,715	642,145
At Constant Prices	634733.5	640432.7	668023.3	642962.8
<b>GDP Deflator</b>	95.1	94.1	95.0	99.9
<b>Quarterly Change (%)</b>	5.5	-1.1	1.0	5.1
<b>Annual Change (%)</b>	-5.6	-1.9	8.9	10.7

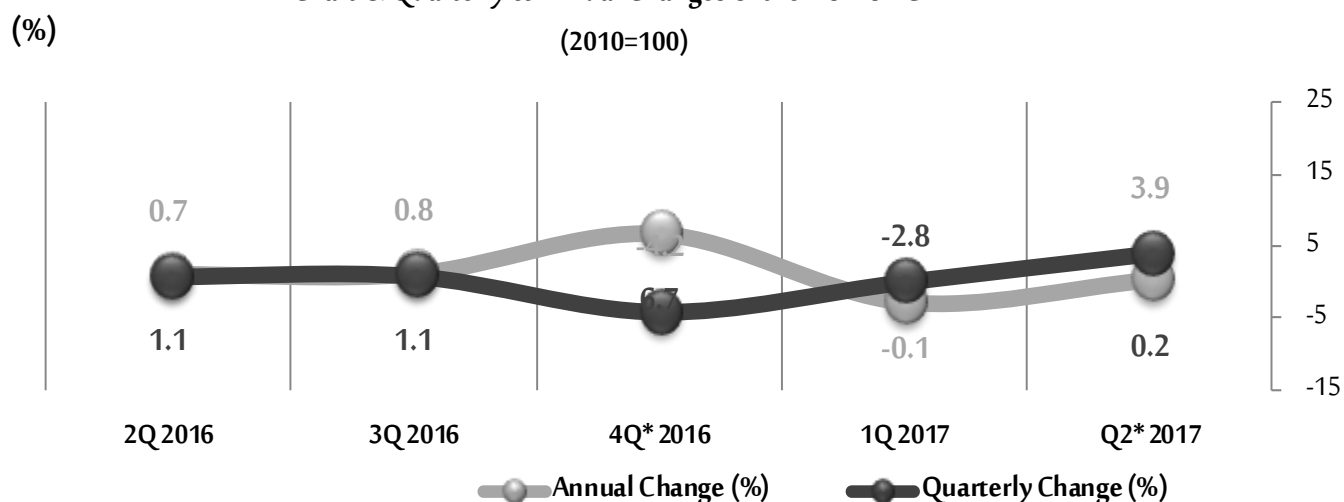
**Non-oil GDP (Million Rls):**

At Current Prices	440568.2	440978.4	454131.6	451223.5
At Constant Prices	347144.4	344747.4	370614.1	368464.9
<b>Non-oil GDP Deflator</b>	<b>126.9</b>	<b>127.9</b>	<b>122.5</b>	<b>122.5</b>
<b>Quarterly Change (%)</b>	0.7	0.8	-4.2	-0.1
<b>Annual Change (%)</b>	<b>1.1</b>	<b>1.1</b>	<b>6.7</b>	<b>-2.8</b>

\* Latest Available Data

Source: General Authority for Statistics

Chart 8: Quarterly &amp; Annual Changes of the Non-oil GDP



\* Latest Available Data

Source: General Authority for Statistics.



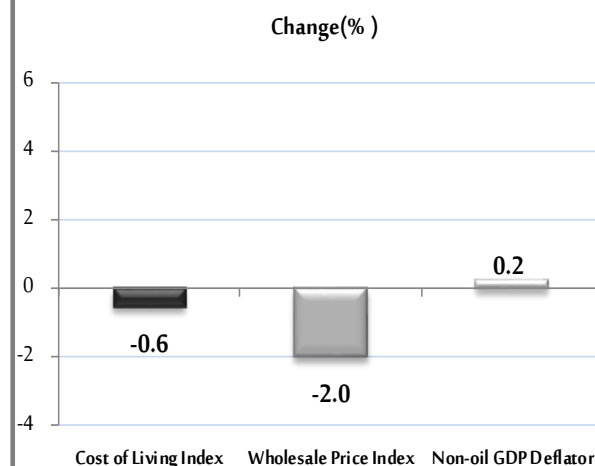
products, machinery and equipment also recorded a decline of 1.9 percent. In contrast, food products, beverages and tobacco and textiles rose by 5.3 percent y/y (Table 2 and Chart 7).

## Cost of Living Index by Cities during Q3 2017

All Cities' General Cost of Living Index went up by 0.6 percent q/q in Q3 2017. Ta'if and Baha posted the highest rise of 1.4 percent. Makkah came second with 1.0 percent, and

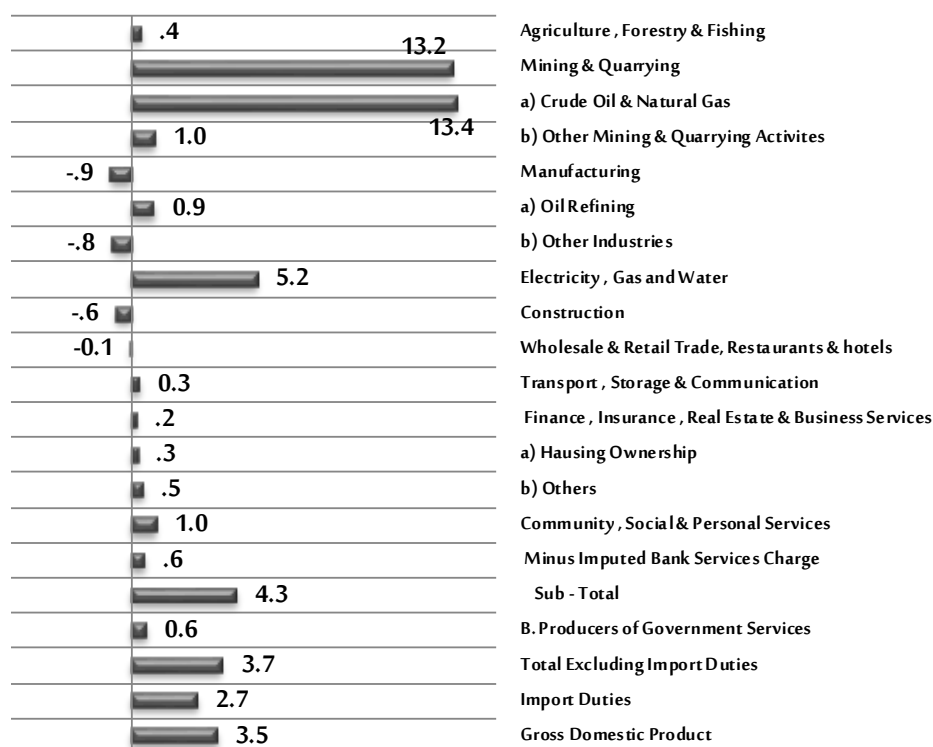
then Madinah and Hofuf with 0.8 percent each. Average general index

Chart 10: Inflation Measurements in Q3, 2017



Source: General Authority for Statistics.

Chart 9: GDP Deflator by Type of Economic Activity at 2010 Constant Prices  
Q3 2017\*/Q3 2016 (%) Change



\*Latest Available Data

Source: General Authority for Statistics

fell in Jazan by 0.3 percent and Ar'ar by 0.2 percent (Table 3).

## GDP Deflator

According to the latest data issued by the General Authority for Statistics, the GDP deflator recorded a y/y increase of 3.5 percent in Q2 2017, and a q/q decline of 1.4 percent. (Table 4 and Chart 8).

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 based on their respective contributions

to the GDP. Therefore, the deflator is considered as 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 Q2 2017 and 0.2 percent y/y (Table 4 and chart 8).

An analysis of GDP deflator (at constant prices for base year 2010) by economic activity shows that mining and quarrying constituted the highest y/y rise of 13.2 percent in Q2 2017. Electricity, gas and water came next with 5.2 percent.

On the other hand, manufacturing

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

Countries	2015	2016	Change (%)
China	89678	75771	-15.5
U.S.A	92398	74389	-19.5
Germany	46116	32866	-28.7
Japan	37286	27844	-25.3
U.A.E	37251	22878	-38.6
Total	302729	233748	-22.8
Ratio to Total	46.22	45.87	-0.7

Source: General Authority for Statistics.

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

Countries	Jul 2016	Jul 2017	Change (%)
China	6946	6042	-13.0
U.S.A	6246	5469	-12.4
U.S.E	2788	2620	-6.0
Germany	1914	1903	-0.6
France	2784	1897	-31.9
Total	20678	17931	-13.3
Ratio to Total	45.90	47.10	2.6

Source: General Authority for Statistics.

industries recorded the highest y/y deflation of 0.9% in the GDP deflator in Q2 2017. Building and Construction came next with 0.6%. (Chart 9).

A comparison of the annual inflation measures in the domestic market indicates that the annual inflation rate of non-oil GDP deflator rose by 0.2 percent in Q2 2017. The annual change rate of the wholesale price index went down by 2.0 percent, and the annual inflation rate of the cost of living index registered a decline of 0.6 percent during the same period (Chart 10).

## Foreign Trade with Major Trading Partners


According to data of August 2017, the total value of Saudi Arabia's imports stood at SAR 38.1 billion, with a y/y decrease of 15.5 percent and a q/q decline of 11.8 percent.

China came at the top of Saudi Arabia's major trading partners according to data of August 2017. Saudi Arabia's imports from China amounted to SAR 6.0 billion (15.9 percent of Saudi Arabia's total value of imports), decreasing by 13.0 percent y/y. The United States came second with SAR 5.5 billion (14.4 percent of the total),

TABLE 6: 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



dropping by 12.4 percent y/y. UAE came third with SAR 2.6 billion (6.9 percent of the total), falling by 6.0 percent y/y. South Korea came fourth with SAR 1.9 billion (5.0 percent of the total), declining by 0.6 percent y/y, followed in fifth place by Germany with SAR 1.9 billion (5.0 percent of the total), down by 31.9 percent y/y (Table 5 A and 5 B).

### **Inflation Projections for Q4 2017**

Actual data in Q3 of the year shows that inflation rate continued its downward trend, but at lower rates. It is expected that this negative trend with lower inflation rates would continue during Q4 if none of the fiscal balance program initiatives are implemented during the upcoming period. In contrast, inflation is projected to witness a relative rise during Q4 if some of those initiatives have been implemented, such as fuel prices reforms, during the upcoming period.

On another front, the average ratio of imports to total private final consumption during the past three years stood at 91.0 percent. In this context, IMF projections for the primary

commodity price index show continued inflationary pressures on most of its main sections for 2017. Its projections show a rise in metal prices by 16.8 percent; energy prices by 14.1 percent; food prices by 6.1 percent; and raw agricultural materials by 2.3 percent. However, IMF projections show a decline of 9.0 percent in beverages. (Table 6).

### **Conclusion**

The most significant results of the analysis of inflation rates for Q3 2017 in Saudi Arabia can be concluded as follows:

1. The general cost of living index registered a y/y decline of 0.2 percent in Q3 and a q/q rise of 0.6 percent.
2. During Q3 2017, tobacco, having the highest influence on the index, registered the highest y/y inflation rate of 99.8 percent because of levying excise tax. In contrast, recreation and culture recorded the highest y/y deflation of 2.8 percent.
3. The wholesale price index registered a y/y decline of 1.1 percent in Q3 of 2017 whereas it registered a q/q rise



of 0.1 percent.

4. Ores and minerals recorded the highest y/y decline of 8.8 percent in the wholesale price index. In contrast, food products and tobacco and textiles posted the highest y/y rise of 5.3 percent.
5. Non-oil GDP deflator recorded a y/y increase of 0.2 percent in Q2 2017, against a y/y decrease of 2.8 percent in Q1 2017.
6. Actual data in Q3 of the current year

shows that inflation rate continued to decline with negative rates, though slowly. If the same conditions persist, negative inflation is expected to continue during the coming period. However, if some of the initiatives of the Fiscal Balance Program are implemented, it is projected for inflation to tangibly increase.

