



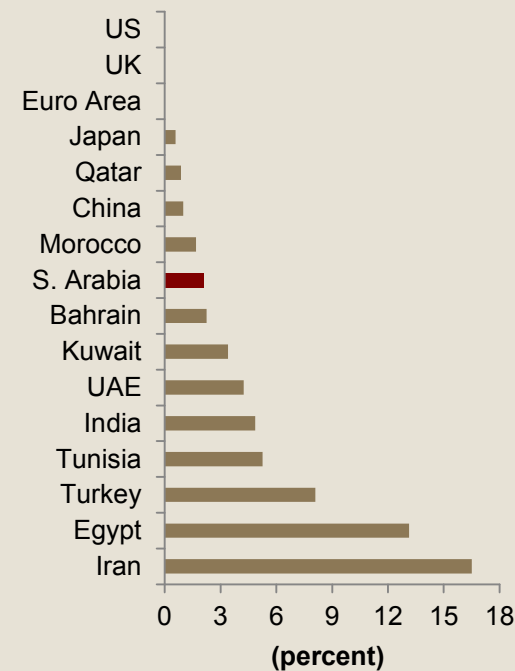
## Inflation update - May 2015

### Inflation remains subdued ahead of Ramadan

#### Saudi CPI inflation (percent)

	Monthly change	Annual change
April 2015	0.3	2.0
May 2015	0.1	2.1

#### Trading partner inflation rate (latest, year-on-year change)



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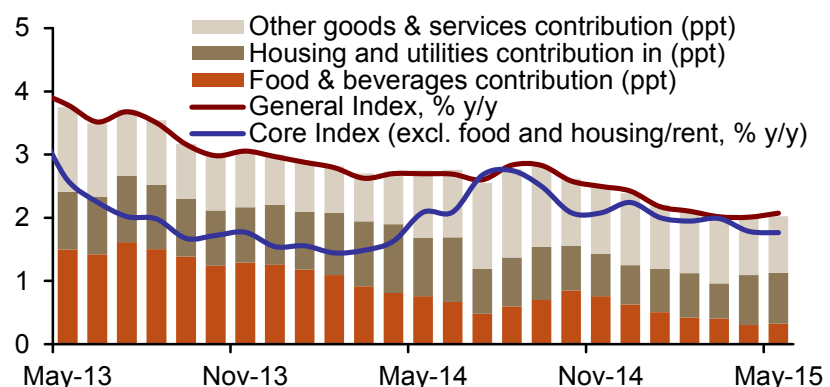
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- Saudi CPI rose to 2.1 percent year-on-year in May, up from 2.0 percent in April, its first rise in nine months, but was mainly due to a lower base effect.
- Food price inflation recorded a small year-on-year rise, but showed a deceleration in monthly terms.

The Central Department of Statistics and Information (CDSI) has released Consumer Price Index data for May, showing a small acceleration in prices to 2.1 percent year-on-year, compared to 2.0 percent in April. In month-on-month terms, prices slowed to 0.1 percent in May compared to 0.3 percent in April. Foodstuffs rose year-on-year but recorded a slowdown in monthly terms as well. Housing inflation accelerated to 3.2 percent, year-on-year, and continued to be the major contributor to overall inflation (Figures 1 and 2). Our estimate of core inflation, which excludes food and rent and other housing services, remained unchanged at 1.8 percent, year-on-year, with its components showing a mixture of price movements. The acceleration to food and housing inflation resulted in the contribution of the core index towards overall inflation to slightly fall in May.

Foodstuffs, which account for 21.7 percent of the CPI basket, saw prices rise by 1.4 percent, year-on-year in May, up from 1.3 percent, year-on-year in April. However, in month-on-month terms, food prices slowed to 0.1 percent in May, down from 0.4 percent in April. The slower growth in food prices compared to April follows a subdued price environment since the start of the year, with food price inflation generally being lower compared to previous years (Figure 3). The generally subdued food price environment already contributed to last year's surprising fall in food prices ahead of Ramadan (Figure 4). We also see that the relatively muted rise to foodstuffs ahead of Ramadan this year is mainly driven by the continued deflationary trend in international food prices. It perhaps

Figure 1: CPI inflation accelerates





*We see that changes to food inflation ahead of Ramadan have been relatively mute...*

*...mainly driven by the continued deflationary trend in international food prices.*

*Year-on-year inflation for housing recorded a second consecutive rise in May.*

*Components of the core index showed mixed results during May.*

*Some subgroups of the core index slowed in May.*

*Looking ahead, we expect inflation to gradually firm up in the second half of the year.*

also reflects attempts by the government to supervise unjustifiable increases in prices ahead of Ramadan. According to a statement by the Ministry of Commerce and Industry issued last week, stability in prices of foodstuffs can be attributed to the increase in the volume of supply, as well as other factors including the regulatory measures issued by the Council of Ministers. We do, however, note that the recent uptick in wholesale food inflation gives an indication of further rises to consumer foodstuffs in the coming months (Figure 5).

Year-on-year inflation for housing recorded a second consecutive rise in May to reach 3.2 percent, up from 2.2 percent, and 3.1 percent in March and April respectively (Figure 6). Since the start of the year, housing inflation remained the largest contributor towards overall inflation for every month, and contributing 0.8 pp in May. The slow progress in government housing initiatives means that the shortage in supply of homes should persist through 2015, which will continue to put upward pressure on home prices and rents.

Components of the core index showed a mixture of results during May (Figure 7). Year-on-year inflation for transport, communication, and miscellaneous goods accelerated to 0.5 percent, 1.3 percent, and 0.8 percent respectively, up from 0.4 percent, 0.5 percent, and 0.3 percent in the previous month. The monthly increase in the transport component –the third largest weight in the CPI basket– was particularly high, reaching 0.9 percent, which likely reflects additional transportation and storage costs ahead of seasonal demand.

In contrast, inflation for other components of the core index, that are generally driven by consumer demand, recorded a seasonal slowdown in May. Year-on-year inflation for home furnishing, clothing, and recreation and culture slowed to 3 percent, 3.2 percent, and 6.9 percent respectively.

Looking ahead, we expect inflation to gradually firm up in the second half of the year compared to the first half. Food inflation is expected to accelerate as the deflationary trend in international food prices softens (Figure 8). Housing inflation should continue to be the major source of domestic inflationary pressure, as the growth in monetary aggregates cools for the remainder of 2015.

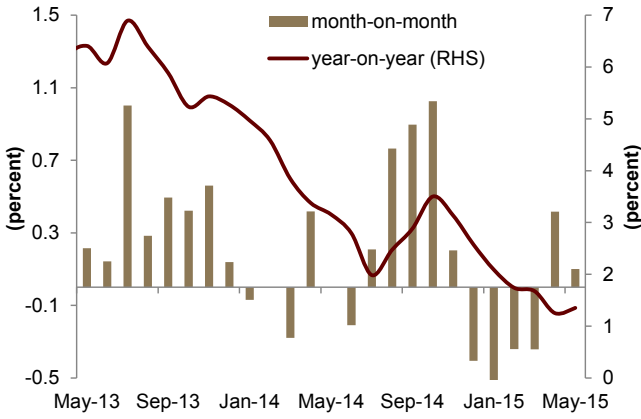
**Figure 2: Main highlights of Saudi CPI inflation**  
(percent)

	Weights	Month-on-month			Year-on-year			YTD
		Apr-15	May-15	Contribution, ppt.	Apr-15	May-15	Contribution, ppt.	
Food & beverages	21.7	0.4	0.1	0.0	1.3	1.4	0.3	-1.1
Housing & related items	20.5	0.4	0.1	0.0	3.1	3.2	0.8	2.5
Tobacco	0.5	0.2	0.1	0.0	2.7	2.8	0.0	1.4
Clothing & footwear	8.4	0.0	-0.3	0.0	3.4	3.2	0.2	1.1
Home furniture	9.1	0.1	0.1	0.0	3.2	3.0	0.3	0.4
Medical care	2.6	-0.1	-0.2	0.0	3.1	2.8	0.1	1.1
Transport	10.4	0.3	0.9	0.1	0.4	0.5	0.0	-0.1
Communication	8.1	0.3	0.3	0.0	0.5	1.3	0.1	1.1
Recreation & culture	3.5	0.2	-0.1	0.0	7.8	6.9	0.2	0.2
Education	2.7	0.0	0.0	0.0	0.5	0.5	0.0	0.0
Restaurants & hotels	5.7	0.4	-0.2	0.0	-0.5	-1.1	-0.1	-1.0
Other expenses & services	6.8	0.3	0.2	0.0	0.3	0.8	0.0	0.0
<b>Core inflation*</b>	<b>57.8</b>	<b>0.0</b>	<b>0.2</b>	<b>0.1</b>	<b>1.8</b>	<b>1.8</b>	<b>0.9</b>	<b>0.3</b>
<b>General index</b>	<b>100.0</b>	<b>0.30</b>	<b>0.14</b>	<b>...</b>	<b>2.0</b>	<b>2.1</b>	<b>...</b>	<b>0.5</b>

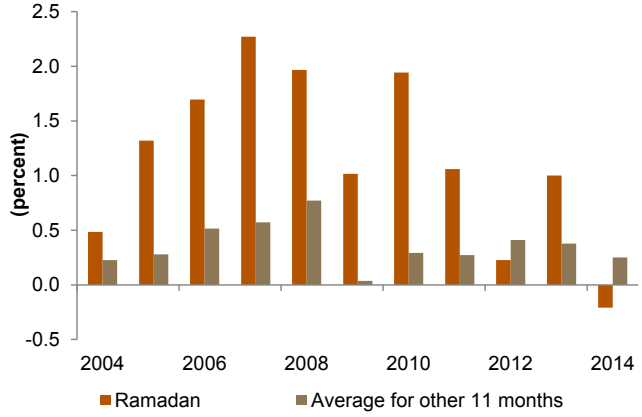
<sup>2</sup> Note: \*Core inflation excludes food and housing inflation and is Jadwa Investment's estimate.



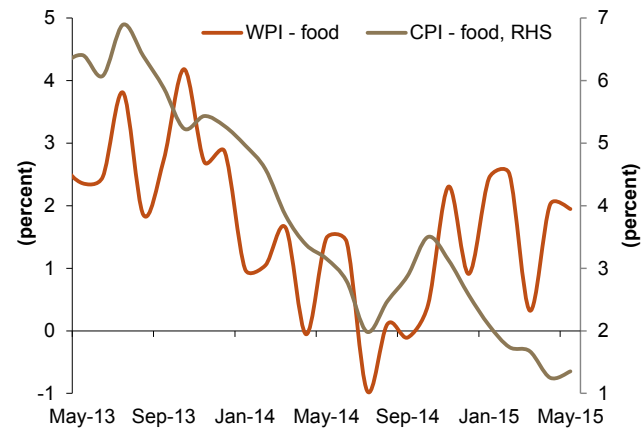
**Figure 3: Food price inflation**



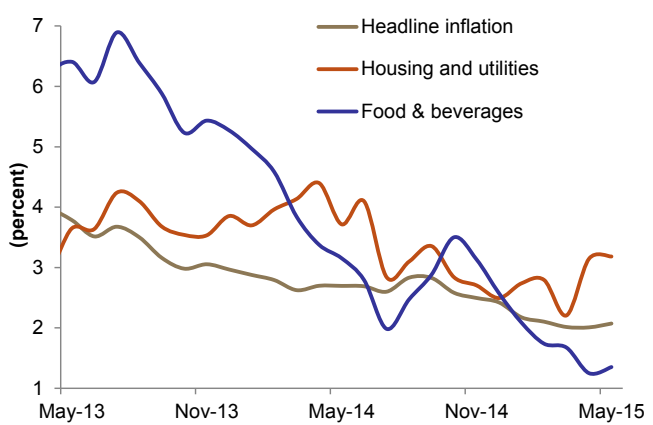
**Figure 4: Monthly food inflation and Ramadan**



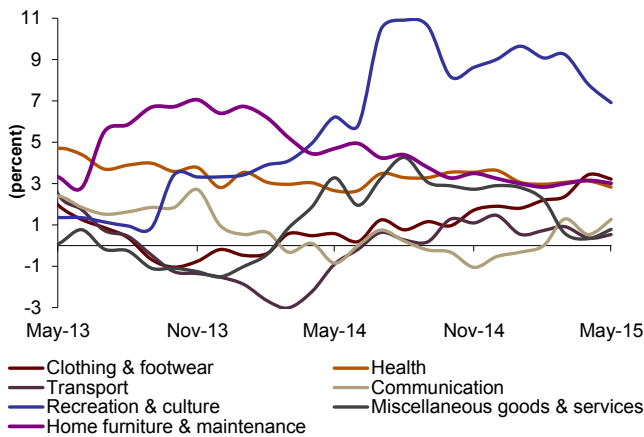
**Figure 5: Wholesale and consumer food inflation (year-on-year change)**



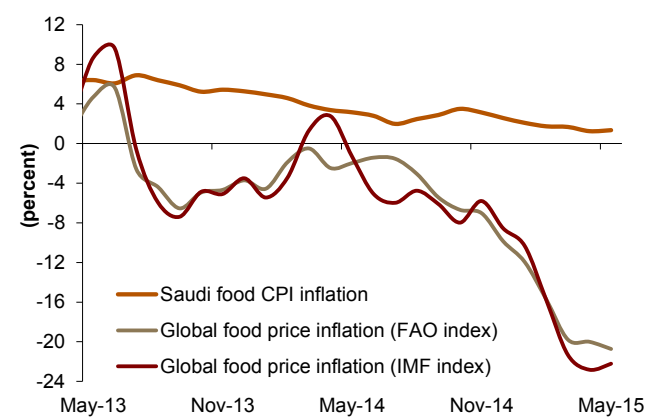
**Figure 6: Housing and Food inflation (year-on-year change)**



**Figure 7: Components of core inflation (year-on-year change)**



**Figure 8: Domestic and international food prices (year-on-year change)**



Sources: Central Department Of Statistics & Information, IMF, FAO, Reuters, Haver Analytics, Jadwa investment.



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