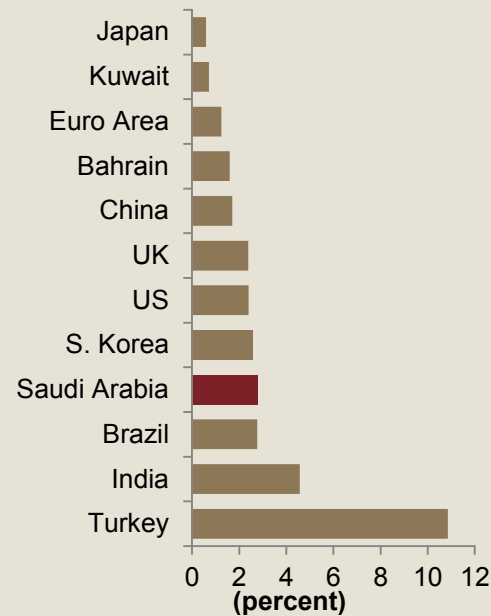




**Saudi CPI inflation**  
(percent)

	Monthly change	Annual change
April 2018	-0.2	2.6
March 2018	-0.2	2.8
Year-to-April average	0.9	2.8

**Inflation rates in trade partners (latest)**



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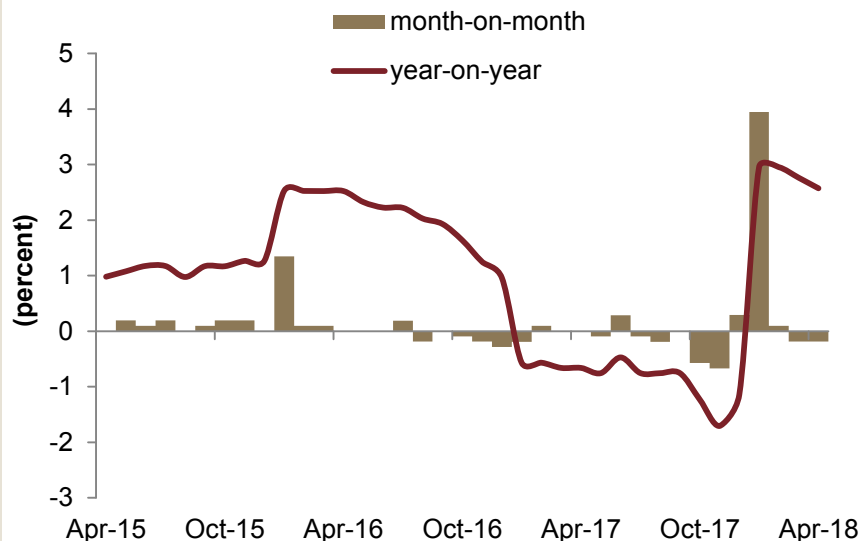
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**Lower inflation as prices adjust to new reforms**

- The latest General Authority for Statistics (GaStat) inflation release for April shows that prices rose by 2.6 percent year-on-year, and declined by 0.2 percent month-on-month.
- Since the start of the year, prices rose by an average of 2.8 percent year-to-April due to the introduction of the value-added tax (VAT) and utility and fuel price reform since the 1<sup>st</sup> of January 2018.
- 'Food and beverages' prices rose by 5.7 percent year-on-year in April, but declined by 0.9 percent month-on-month for the second time in a row.
- 'Housing and utilities' prices rose slightly by 0.5 percent in April year-on-year, despite a spike in fuel prices in January. 'Rentals for housing' has been showing negative growth rates since July 2017, weighing on this segment.
- After the decline in January, annual growth in POS sales rebounded since then, as the average year-to-date rise was 13 percent, compared to 7 percent in the same period last year.
- Despite the fact that this year saw the implementation of VAT, we still expect to see higher inflation rates in Ramadan.
- We maintain our inflation rate forecast for the full year of 2018 to average around 3.1 percent, due to expected higher imported inflation, and higher costs borne by local food and agriculture companies.

**Figure 1: Inflation rates**





## Recent developments

*The latest inflation release for April shows that prices rose by 2.6 percent year-on-year.*

*'Food & beverages' prices rose by 5.7 percent year-on-year in April.*

*'Housing & utilities' prices rose slightly by 0.5 percent in April year-on-year, despite the spike in fuel prices...*

*... due to the impact of 'rentals for housing', which has been showing negative growth rates since July 2017.*

The latest General Authority for Statistics (GaStat) inflation release for April shows that prices rose by 2.6 percent year-on-year, and declined by 0.2 percent month-on-month. Since the beginning of the year, prices rose by an average of 2.8 percent year-to-April due to the introduction of the value-added tax (VAT) and utility and fuel price reform since the 1<sup>st</sup> of January 2018.

### CPI basket groups

**'Food and beverages'** prices rose by 5.7 percent year-on-year in April, but declined by 0.9 percent month-on-month for the second time in a row. Looking at sub-group data, we find that the main rises in food prices, year-to-date, came from fish, meat and poultry, followed by bread and cereals. Looking ahead, we expect prices to rise following international trends, as both sub-groups contain many imported items. In Q1 2018, the FAO (Food and Agriculture Organization of the United Nations) meat price index increased 5.3 percent, and FAO cereals price index rose 9.6 percent, year-on-year.

**'Housing and utilities'** prices rose slightly by 0.5 percent in April year-on-year, despite the spike in the sub-item 'electricity and fuels' by 24.3 percent year-on-year, due to the fuel and utility price reform at the start of the year. This seems to be due to the impact of 'rentals for housing', a sub-item with a large weight in the segment, which has been showing negative growth rates since July 2017 (Figure 2).

As 'rentals for housing' is exempted from VAT, we see this lowering trend as largely correlated with the recent reforms in the real estate sector, which aims to make housing prices more affordable to citizens. For example, the Ministry of Housing's Sakani program has offered more than 387 thousand units to citizens since launching in February 2017, with housing units accounting for 40 percent of total units, which also include land and mortgages (Figure 3). Moreover, according to GaStat, more than 570 thousand foreigners have left their jobs in the private sector during 2017. Added to this, according to GOSI, around 200 thousand foreigners left the private sector during Q1 2018, which possibly indicates a significant rise in final exits, and likely have reduced demand for housing.

**Table 1: Main highlights of Saudi CPI inflation**

(percent)

	Weights	Month-on-month			Year-on-year		
		Mar-18	Apr-18	Contribution, ppt	Mar-18	Apr-18	Contribution, ppt
Food & beverages	18.8	-1.1	-0.9	0.1	6.0	5.7	1.0
Housing & utilities	25.3	-0.1	-0.3	-0.2	1.0	0.5	0.1
Tobacco	0.7	0.0	-0.8	0.0	54.1	54.1	0.4
Clothing & footwear	6.2	-1.0	-1.0	0.0	-7.6	-8.4	-0.5
Furnishing & maintenance	8.5	-1.1	-1.0	0.0	0.3	0.1	0.0
Health	2.3	-1.0	-0.6	0.0	3.8	3.7	0.1
Transport	9.9	-1.1	-1.2	0.0	10.4	10.1	1.0
Communication	8.5	-0.9	-0.5	0.0	0.9	1.1	0.1
Recreation & culture	3.4	-1.1	-1.3	0.0	-0.3	-0.5	0.0
Education	4.2	-1.0	0.0	0.0	0.2	0.5	0.0
Restaurants & hotels	6.5	-1.1	-0.9	0.0	6.8	7.2	0.5
Misc. goods & services	5.7	-0.9	-1.0	0.0	0.1	-0.4	0.0
<b>Core inflation*</b>	<b>55.9</b>	<b>0.0</b>	<b>-0.2</b>	<b>-0.1</b>	<b>2.5</b>	<b>2.3</b>	<b>1.2</b>
<b>General index</b>	<b>100.0</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.2</b>	<b>2.76</b>	<b>2.57</b>	<b>2.6</b>

Note: \* Core inflation excludes food and housing inflation and is Jadwa Investment's estimate.



## VAT and consumer spending

*Year-to-date, consumer spending rebounded after a decline in January, as the average year-to-April rise was 13 percent .*

*We see this rebound as a positive outcome of the Citizen's Account...*

*...despite SAMA raising its repo rate for the first time in nine years.*

Since the beginning of the year, annual growth in POS sales rebounded after a decline in January (Figure 4), with average year-to-April rise at 13 percent, compared to 7 percent in the same period last year. We find a notable rebound in spending on 'clothing' and 'food and beverages' segments, as demand on these segments can be highly elastic, despite the high proportion of non-durable goods within 'food and beverages'.

Looking at the average sales per transaction, the year-to-date average have not seen a significant change compared to the same period last year. Year-to-date average showed a decline by 22 percent in 2018 compared with -20 percent in 2017 (Figure 5).

We see this rebound as a positive outcome of the Citizen's Account, and the royal decree ordering a monthly payment of SR1000 to public sector employees during 2018, which was implemented to help citizens cope with inflationary pressures. Added to that, this increase in POS sales could also be attributed to SAMA's recent initiative to encourage using point of sales instead of cash transactions. Compared to April 2016, the number of POS terminals increased by 23 percent, and the number of POS transactions increased by 102 percent, within the past two years (Figure 6).

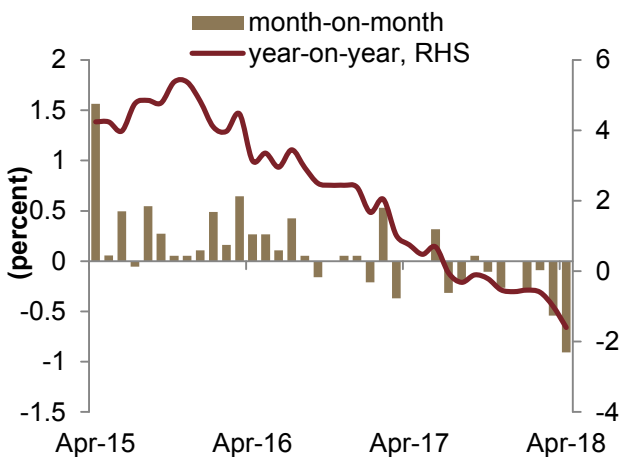
That said, consumer spending could have been mitigated by the recent SAMA repo rate increase in March, raising it by 25 basis points for the first time in nine years. The rise might have affected liquidity in the local economy, as latest data show that private time and saving deposits rose by 2 percent year-on-year in April, marking its first annual increase in nine months, which could have indirectly affected consumer spending (Figure 7).

## Outlook

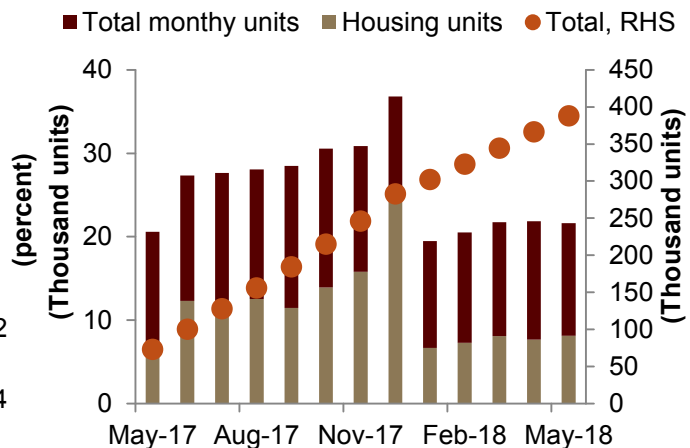
### Ramadan and Inflation

Historical data shows that prices, especially for food items, usually increase prior and during the month of Ramadan, due to higher

**Figure 2: Rentals for housing**



**Figure 3: Ministry of Housing "Sakani" units**





*We still expect to see higher prices and consumer spending during May and June 2018, due to higher demand, especially on food items, despite VAT.*

*We expect to see a divergence between residential real estate sale prices and housing rental prices in the short term.*

*We maintain our inflation rate forecast for the full year of 2018 to average around 3.1 percent.*

demand (Figure 8). Despite the fact that this year saw the implementation of VAT, we still expect to see higher inflation rates and consumer spending during May and June 2018, especially on food items.

**Real estate market developments**

As we highlighted in our last [Inflation update –published in February 2018](#), rental prices have continued their downward trend, and we still expect this trend to continue in the short term. Demand on rentals is likely to be affected by the planned rise in expat dependent fees in July, up from SR100 to SR200 per dependent, which is likely to result in expats choosing to repatriate their dependents, and consequently result in lower demand for rentals. At the same time, latest data from GaStat shows that whilst commercial real estate sale prices are still in the negative territory, residential sale prices are recently picking up (Figure 9), and are expected to increase in a slower pace in the medium term. Therefore, we expect to see a divergence between residential real estate sale prices and housing rental prices in the short term, due to the structural changes in the local economy, including reforms in the labor market.

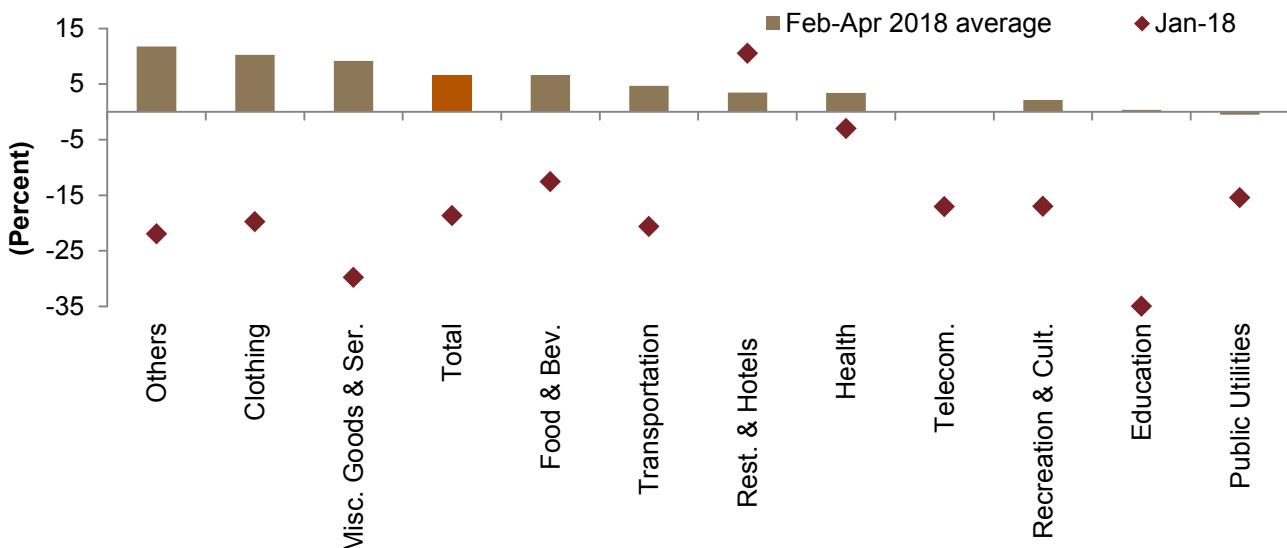
**Stable inflation rates**

We maintain our inflation rate forecast for the full year of 2018 to average around 3.1 percent, accounting for a number of factors:

- Higher oil prices are expected to weigh on inflation rates in advanced economies, of which many are main trading partners with the Kingdom, raising the probability of imported inflation.
- Higher local food prices, driven by higher costs borne by agricultural institutions, including increasing utility prices and expat levies, with Saudization rates in ‘agriculture and fishing’ sector at only 17 percent in Q4 2017.

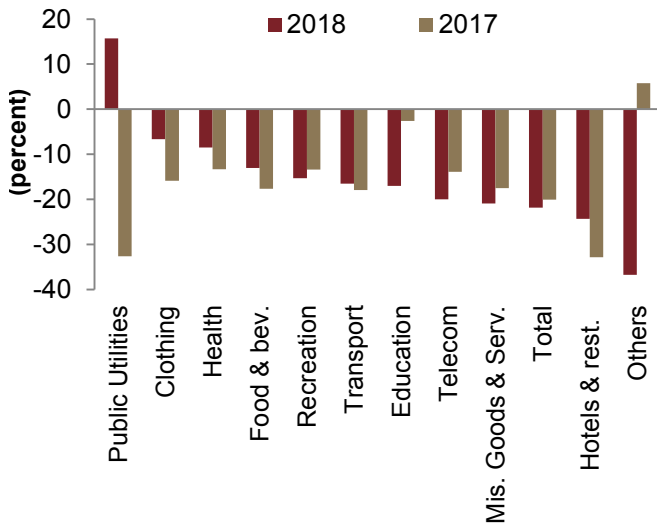
Despite the challenges surrounding the inflation rates, we believe that the Citizen’s Account (Figure 10), and the inflation allowance to public sector employees during 2018, should continue helping citizens cope with inflationary pressures over the course of year.

**Figure 4: POS sales growth, by sector**  
(month-on-month change)

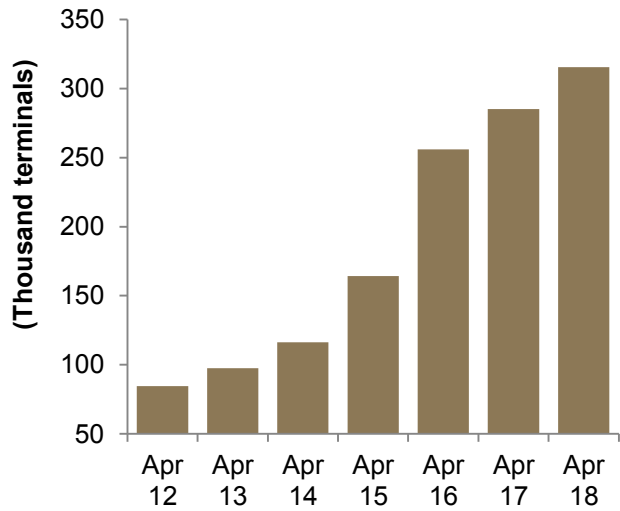




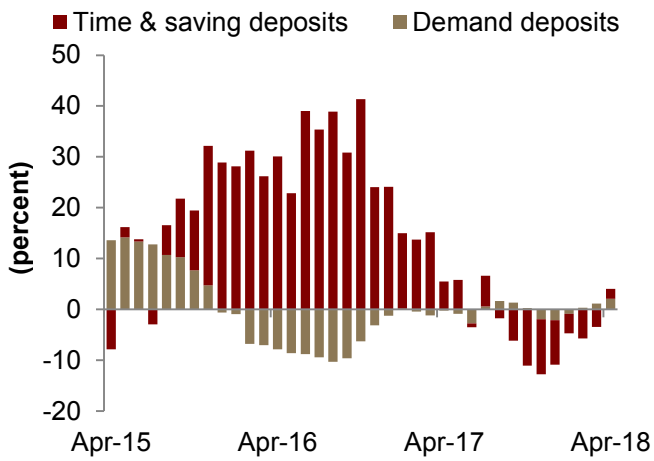
**Figure 5: POS sales per transaction, by sector**  
(year-to-April annual averages)



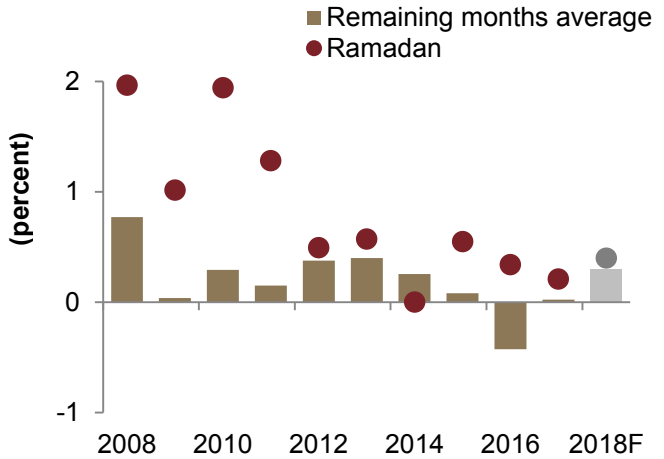
**Figure 6: Number of point of sales terminals**



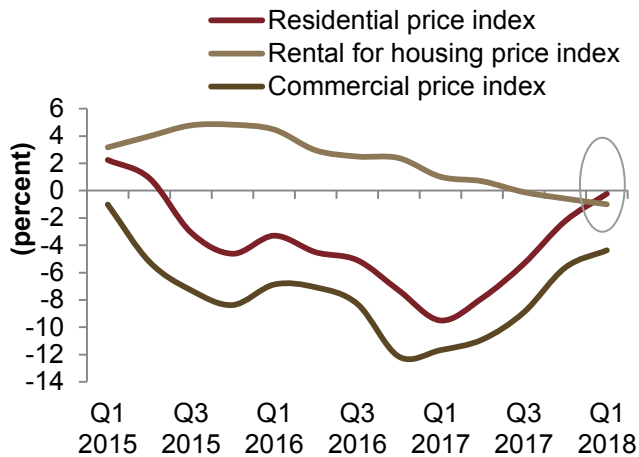
**Figure 7: Breakdown of private deposits**  
(year-on-year change)



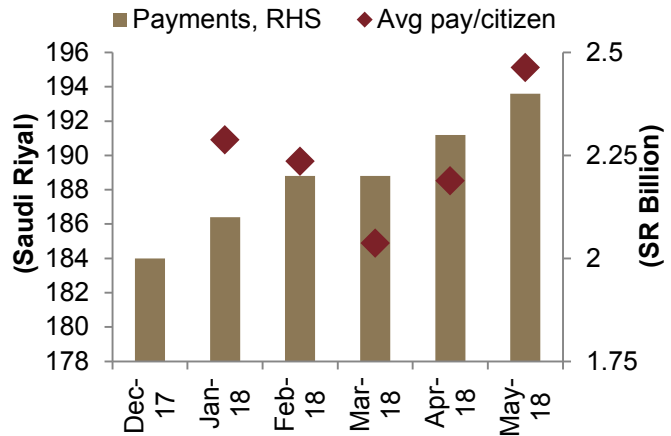
**Figure 8: Food prices in Ramadan**  
(month-on-month change)



**Figure 9: Real estate prices indices**  
(year-on-year change)



**Figure 10: Payments of the Citizen's Account**





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