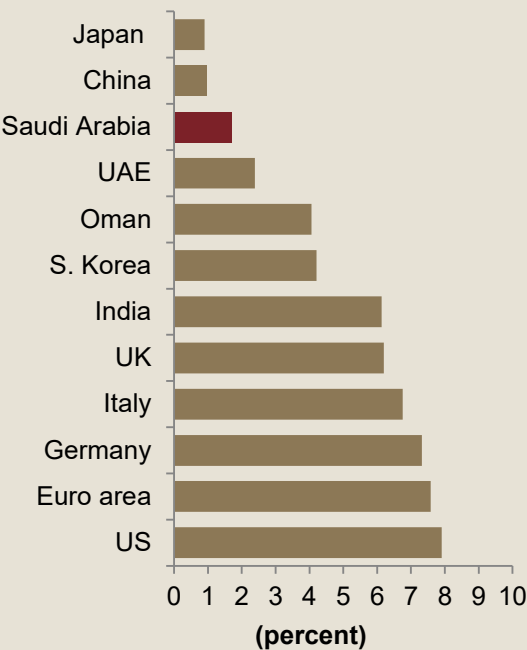




Saudi CPI inflation
(percent)

	Month-on-month	Year-on-year
February 2022	0.3	1.6
January 2022	0.2	1.2

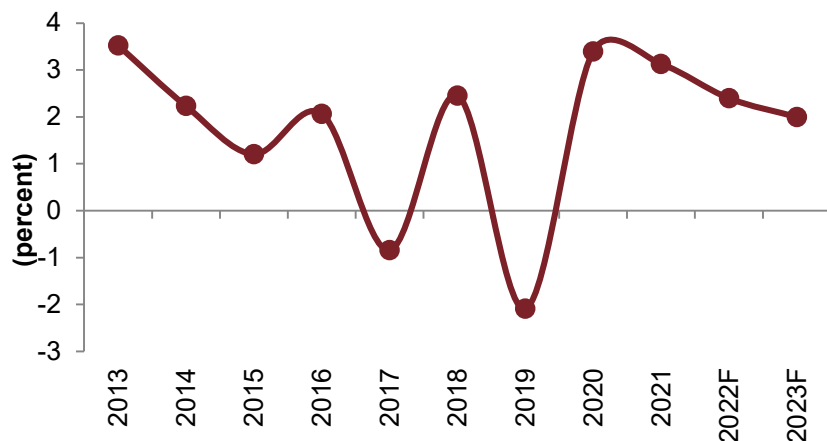
Inflation Rates in Trade Partners (latest)



Food prices on the rise

- Recent developments related to the Russian-Ukrainian conflict have pushed inflation expectations in many parts of the world upwards, following a year of steadily rising prices in 2021.
- More specifically, since the outbreak of the conflict last month, there has been a sizable price impact on a range of commodities including wheat, oil and natural gas.
- The Kingdom sourced around 45 percent of all its wheat from Russia and Ukraine last year. Initial data suggests the cost of purchasing wheat in Saudi Arabia has risen 40 percent so far this year.
- At the same time, another wave of Covid-19 lockdowns in a number of areas in China risks adding to already strained global supply chains and translating into higher imports costs from key trading partners such as Saudi Arabia.
- Additionally, higher consumption of food and beverages traditionally observed during the holy month of Ramadan is likely to add to food related price pressure locally, albeit temporarily.
- That said, with the US Federal Reserve (Fed) raising interest rates by 25 basis points (bps) recently, and indicating an aggressive path to further hikes during the remainder of the year, we expect the value of the dollar (and therefore the Saudi riyal) to rise, which should help insulate the Kingdom's import costs somewhat during the year.
- Overall, taking all of the above developments into consideration, we have revised our 2022 inflation forecast upwards from 1.7 percent to 2.4 percent (Figure 1).

Figure 1: Actual and expected inflation rates within the Kingdom



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The Russian-Ukrainian conflict have exacerbated many of the factors responsible for global inflation...

...including energy, food and feed prices.

Also, lockdowns in parts of China risks adding to already strained global supply chains.

We expect further rises in global food prices to put upward pressure on food prices locally...

... as 45 percent of the Kingdom's imports of wheat come from either Ukraine or Russia.

The recent upward trend in 'rentals for housing' is likely indicative of higher demand on rentals.

Global Developments

Recent developments related to the Russian-Ukrainian conflict have exacerbated many of the factors responsible for global inflationary pressure last year. Higher energy prices and disrupted global supply chains led to a year of steadily rising prices in 2021. Now, with an outbreak of conflict in Eastern Europe, energy prices have trended to multi-year highs, whilst global supply chains have been strained further and, most notably, food prices have jumped. According to the United Nations Food and Agriculture Organization (FAO), wheat output from both Russia and Ukraine accounted for over 10 percent of global output. Moreover, the FAO noted that global food and feed prices could surge by an additional 22 percent in response to the recent conflict (Figure 2).

At the same time, another wave of Covid-19 lockdowns in a number of areas in China risks adding to already strained global supply chains and translating into higher imports costs from key trading partners such as Saudi Arabia. Recent reports suggest around 50 percent of China's exports are produced in areas that currently have Covid-19 lockdowns.

Local Developments

CPI Basket Groups

'Food and beverages' prices rose by an average of 2.4 percent year-on-year in February in Saudi Arabia (Table1), versus 2 percent in January, and an average of 1.4 percent in Q4 2021. Despite this relatively low rise, 'bread and cereals' prices rose by 1 percent year-on-year in February, the highest rise since June 2021. Within this segment, wheat and flour prices have seen a significant rise in 2022, at 3.8 and 3.6 percent, respectively, so far this year, with most of the remaining food products not seeing significant rises. Looking ahead, we expect further rises in global food prices to put upward pressure on food prices locally. For instance, 45 percent of the Kingdom's imports of wheat come from either Ukraine or Russia (Figure 3), with the current cost of wheat purchases already up 40 percent year-to-date, versus full year 2021 prices.

'Housing and utilities' prices declined by 0.2 percent year-on-year in February (compared to an average of -1.8 percent in Q4 2021). We note that 'rentals for housing' is showing some signs of a rebound, with two consecutive monthly rises seen since the start of the year, and the year-on-year change, whilst still mildly negative,

Figure 2: FAO food price indices
(Rebased, February 2018 = 0)

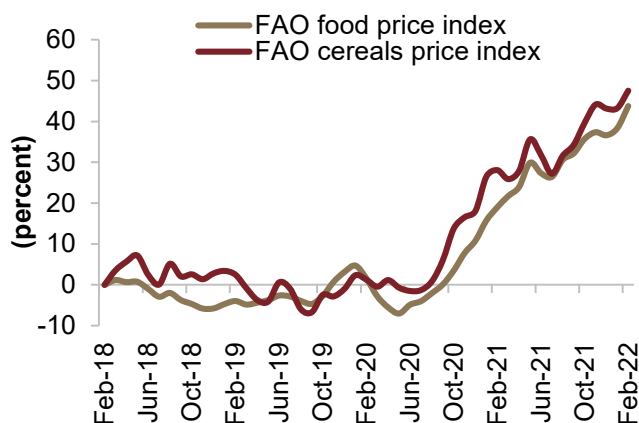
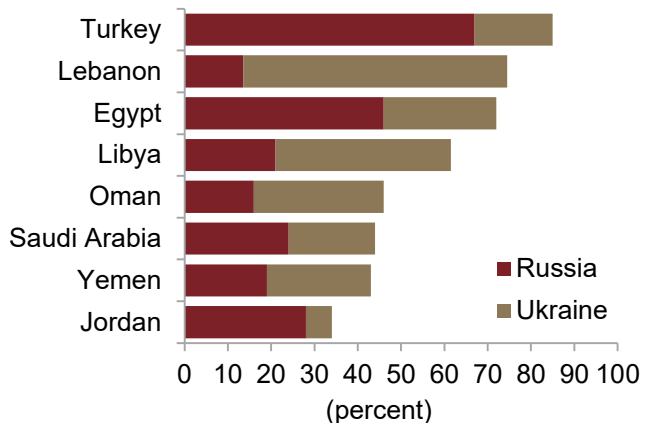


Figure 3: Dependency on wheat imports from Russia and Ukraine in selected MENA countries





We view this uptick being aided by a rebound in number of expat workers.

We could see the 'rentals for housing' segment recording its first yearly rise since 2016.

improving consistently since mid-2021. We view the uptick in this segment being aided by a rebound in the number of expat workers, with Q4 2021 labor market data showing a quarterly net rise of 267 thousand expat workers (the first rise since Q1 2020) (Figure 4). The rebound in expats likely reflects i) higher global vaccination rates against Covid-19 ii) a loosening of Covid-19 related restrictions for entry into the Kingdom iii) and a significant rebound in the Kingdom's non-oil economy (with non-oil activities GDP rising by 6.1 percent year-on-year in FY 2021). Looking ahead, with robust levels of non-oil activities growth anticipated in 2022 (at 3.4 percent according to our forecasts), we expect further rises in the number of expat workers, which, in turn, could see the 'rentals for housing' segment recording its first yearly rise since 2016.

Table 1: Main highlights of Saudi CPI inflation (percent)

	Weights	Month-on-month		Year-on-year	
		Feb-22	Jan-22	Feb-22	Jan-22
Food & beverages	18.8	0.5	0.4	2.4	2
Housing & utilities	25.5	0.2	0.1	-0.2	-1.3
Tobacco	0.6	-0.1	0	-0.2	-0.01
Clothing & footwear	4.2	0.3	-0.6	-1.4	-1.8
Furnishing & maintenance	6.7	0.7	0.5	1.3	1.2
Health	1.4	-0.01	-0.1	-0.1	-0.1
Transport	12.6	0.5	-0.1	4.3	4.9
Communication	5.6	-0.1	0.5	0.2	0.3
Recreation & culture	3.1	0.1	-0.5	1.8	1.5
Education	2.9	0	0.5	6.3	6.3
Restaurants & hotels	5.6	-0.04	0.6	2.4	2.1
Misc. goods & services	12.6	0.4	0.03	2.2	1.2
General index	100.0	0.3	0.2	1.6	1.2

The monthly rise in 'transport' came mostly from a rise in the sub-group 'purchase of vehicles'.

'Transport' prices in February recorded their lowest yearly rise since June 2020, at 4.3 percent, despite inching up on a monthly basis at 0.5 percent (Figure 5). The monthly rise came mostly from a rise in the sub-group 'purchase of vehicles' (63 percent of total 'Transport' group weight), by 0.8 percent month-on-month. Meanwhile, the 'fuels for personal transport equipment' subcategory' (4 percent of total 'Transport' group weight) was unchanged month-on-month, with local gasoline prices continuing to benefit from a Royal directive placing a cap on gasoline prices back in June 2021. As it stands, whilst local gasoline prices continue to be linked to international prices, the government bears the cost of any rises above July 2021 levels, (equivalent to SR2.18 riyals per liter for the 91 octane grade, and at SR2.33 per liter for the 95 octane grade).

Figure 4: Net change in number of expat workers (quarter-on-quarter change)

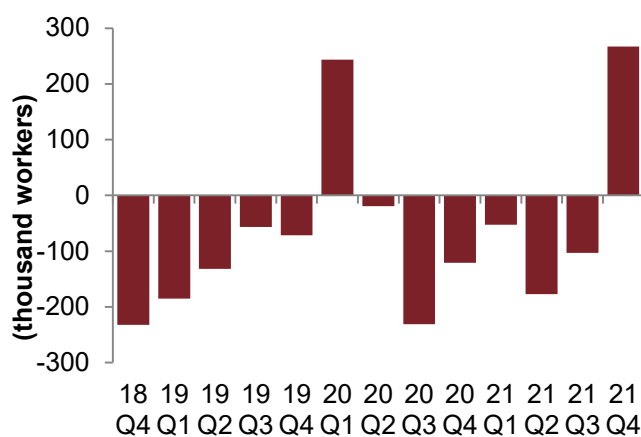
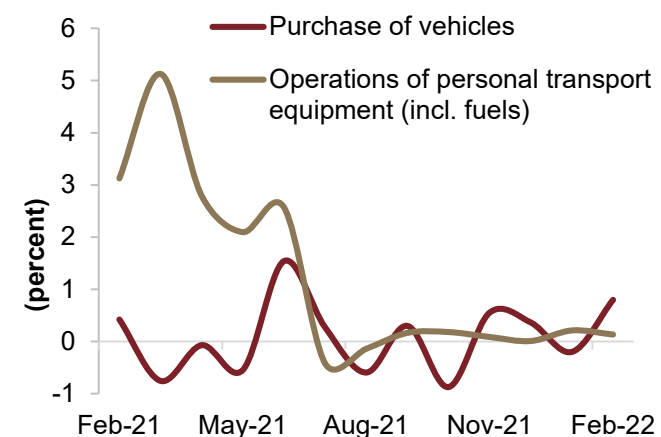


Figure 5: Prices in sub-groups within 'Transport' (month-on-month change)





Consumer Spending

Recently, notable rises were seen in sub-group items within services, such as 'hotels' and 'restaurants and coffee shops'...

...which we expect to continue in the near future.

Looking ahead, we expect further rises in global food prices, as a result of the Russian-Ukrainian conflict, to put upward pressure on food prices locally.

Also, we see inflationary pressure coming from lockdowns in China...

...added to the rising number of expats in the Kingdom, raising demand on rentals.

As such, we have revised up our 2022 inflation forecast from 1.7 to 2.4 percent.

In February, consumer spending (POS plus e-commerce transactions and ATM withdrawals) grew by 10.4 percent year-on-year, compared with an average of 4.9 percent, year-on-year, in Q4 2021. Notable rises were seen in sub-group items such as 'hotels' and 'restaurants & coffee shops', in-line with roll-out of a number of recreational activities seen around the Kingdom such as the 'Riyadh Seasons'. Looking ahead, higher consumption of food and beverages traditionally observed during the holy month of Ramadan is likely to add to food related price pressure locally, albeit temporarily. More broadly speaking, with consumer sentiment climbing to its highest level on record in March (Figure 6), and with a vast majority of Covid -19 restrictions being lifted during the same month, we expect consumer spending to show strong levels of growth, especially so with respect to services such as 'hotels', 'restaurants & coffee shops', and 'transport'.

Outlook

Looking ahead, we expect further rises in global food prices, as a result of the Russian-Ukrainian conflict, to put upward pressure on food prices locally. The Kingdom sourced around 45 percent of all its wheat from Russia and Ukraine last year, with the cost of purchasing wheat in Saudi Arabia having risen 40 percent so far this year (Figure 7). Additionally, we noted in our previous update ([in the Saudi Economy in 2022 report](#)) that imported inflation in the Kingdom was likely to be contained due to low expected inflation in China (with 20 percent of all of the Kingdom's imports shipped from there). However, due to current round of lockdowns and a continued implementation of a zero tolerance of Covid-19 cases in China, we now see this as an upside risk to local prices. Additionally, we see some uptick in prices coming from 'rentals for housing', a sub-segment of 'housing and utilities' which accounts for a sizable 25.5 percent of the CPI basket.

That said, with the US Federal Reserve (Fed) raising interest rates by 25 basis points (bps) recently, and indicating an aggressive path to further hikes during the remainder of the year, we expect the value of the dollar (and therefore the Saudi riyal) to rise, which should help insulate the Kingdom's import costs somewhat during the year.

Overall, taking all of the above developments into consideration, we have revised our 2022 inflation forecast upwards from 1.7 percent to 2.4 percent.

Figure 6: Consumer sentiment in the Kingdom (monthly survey)

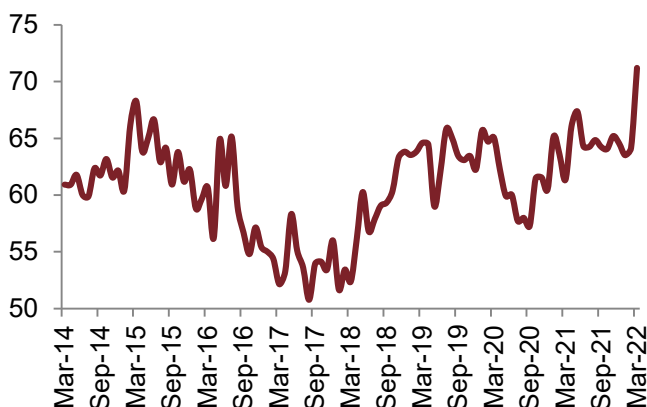
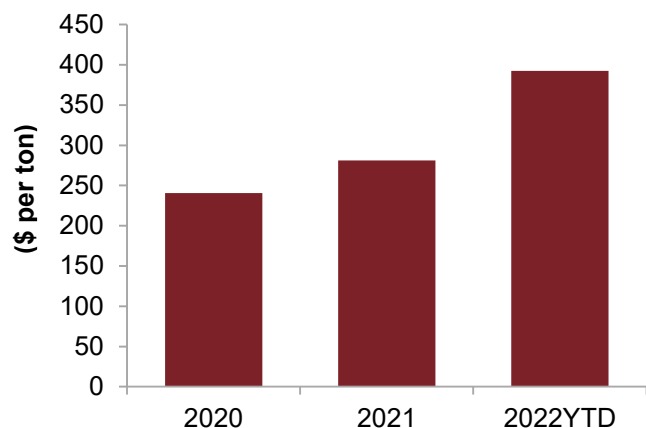


Figure 7: Average purchase price of wheat in Saudi Arabia (USD per ton)





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