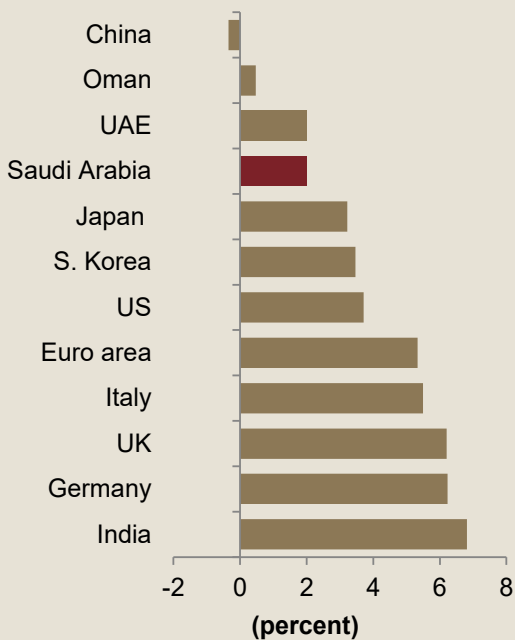




Saudi CPI inflation
(percent)

	Month-on-month	Year-on-year
August 2023	0.0	2.0
July 2023	0.1	2.3

Inflation Rates in Trade Partners (latest)



For comments and queries please contact:

James Reeve
Chief Economist
jreeve@jadwa.com

Nouf N. Alsharif
Managing Director, Research
nalsharif@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

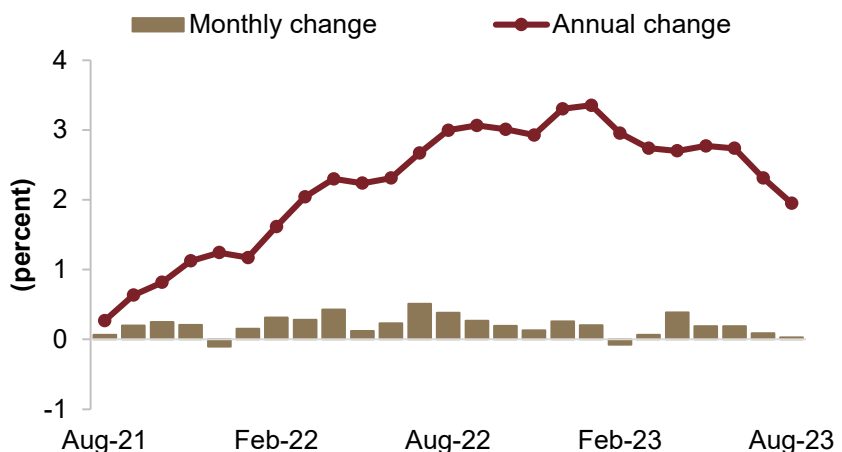
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Easing price pressures

- The General Authority for Statistics' (GaStat) inflation release for August shows that consumer prices rose by just 2 percent year-on-year, representing the weakest price rise in 18 months.
- The Kingdom continues to witness modest consumer price growth, bucking the trend of elevated global inflation. Helpful factors include declining international food prices, renewed strength in the USD, and subsidies on key items.
- Domestically, the main price pressures are coming from 'housing and utilities', with sub-group 'rentals for housing' rising significantly amid high demand.
- In the year to July, consumer spending grew by 8 percent. Notable rises were seen in spending on services such as 'hotels' and 'restaurants & coffee shops', reflecting expanding entertainment options and enhanced tourist inflows.
- Looking ahead, we expect further rises in the 'housing and utilities' segment, which accounts for 25 percent of the CPI basket, driven by the 'rentals for housing' sub-group, as we still see firm demand for rentals in the Kingdom's largest cities.
- If, as we expect, interest rates begin to ease in H2 2024 then this should trigger some softening in rental demand from Saudi nationals as they shift their attention back towards the mortgage market. Yet aggregate demand in the Kingdom is likely to remain firm given robust levels of non-oil growth this year and next, which will continue to draw in expatriates.
- Overall, we maintain our 2023 inflation forecast at a maximum average of 2.6 percent, with price growth expected to soften to 2.2 percent in 2024.

Figure 1: Inflation Rates in Saudi Arabia





Recent Developments

The latest inflation release shows that consumer prices rose by just 2 percent year-on-year in August.

Domestically, the main price pressures are coming from 'housing and utilities', with sub-group 'rentals for housing' rising significantly amid high demand.

Food prices rose by just 0.4 percent year-on-year in August, as international prices continued to soften.

Housing prices rose by 9 percent year-on-year in August, with 'rentals for housing' rising significantly amid high demand, largely reflecting high interest rates...

The August General Authority for Statistics (GaStat) inflation release shows that consumer prices rose by just 2 percent year-on-year, and remained unchanged month-on-month (Figure 1). The annual change represented the weakest for 18 months. Year-to-date prices rose by an average of 2.7 percent, compared to 2.2 percent in the same period last year.

The Kingdom continues to witness modest consumer price growth. Declining international food prices have fed through into local prices, and mark a sharp contrast with last year when global food prices indices were elevated. A strong USD (and weakening Chinese RMB) have also helped to soften import prices.

Domestically, the main price pressures are coming from 'housing and utilities', with sub-group 'rentals for housing' rising significantly amid high demand. In large part, this reflects the impact of high interest rates on mortgages, with many Saudis opting to rent rather than buy. As such, lower prices in 'home furniture' and 'household appliances' are also likely associated with weaker demand for house purchases, as well as the ongoing improvements to global supply chains.

Despite this rental strength, we still expect lower inflation rates in the remainder of 2023. As a result, we maintain our inflation forecast for full-year 2023 at a maximum average of 2.6 percent.

CPI Basket Groups

'Food and beverages' prices rose by just 0.4 percent year-on-year in August (Table 1), a sharp decline from 4 percent in August last year, and an average of 1.8 percent in the year-to-date. Most food product inflation trended lower, especially 'fruit and nuts' and 'vegetables', which continued to decline in price, while the prices of 'meat products' are also now falling (Figure 2). Looking ahead, we expect further falls to food and beverages in line with global trends, with the Food and Agriculture Organization's (FAO) index down by an average of 14 percent in the year-to-date.

'Housing and utilities' prices climbed by 9 percent year-on-year in August, compared with 2.5 percent in August last year, with sub-group 'rentals for housing' rising significantly amid high demand (Figure 3). In large part this reflects the high interest rates noted above, with many Saudis opting to rent rather than buy. In the near term, the rental market is likely to remain tight given the high interest

Figure 2: Food and Beverage Sub-Groups (year-on-year change)

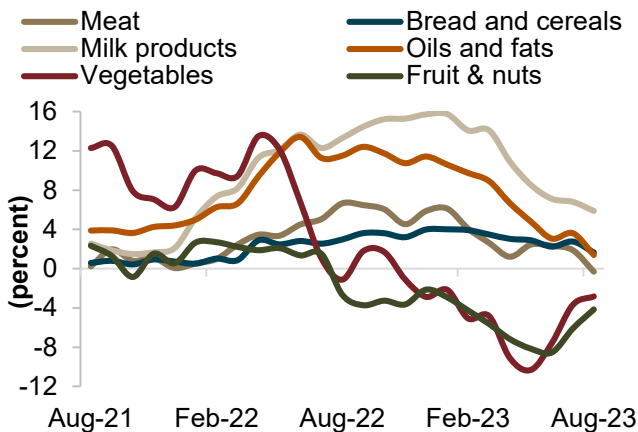
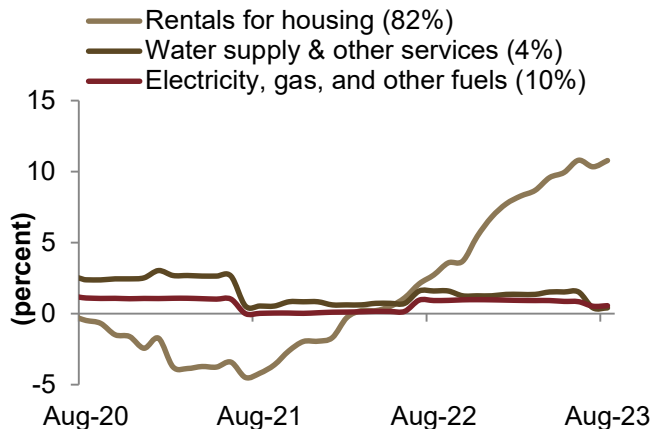


Figure 3: Prices in 'Housing and Utilities' Sub-Groups (year-on-year change)





...and the ongoing influx of expatriates.

rate environment and the ongoing influx of expatriates. Thus, prices will continue rising within the 'housing and utilities' segment, which accounts for 25 percent of the CPI basket.

Table 1: Inflation rates in the CPI basket groups
(percent)

	Weights	Month-on-month		Year-on-year	
		Jul-23	Aug-23	Jul-23	Aug-23
Food & beverages	18.8	0.5	-0.2	1.4	0.4
Housing & utilities	25.5	0.3	0.7	8.6	9.0
Tobacco	0.6	0.0	0.0	0.1	0.1
Clothing & footwear	4.2	-0.8	-0.3	-3.9	-4.2
Furnishing & maintenance	6.7	-0.3	-0.3	-2.5	-3.2
Health	1.4	0.2	-0.2	0.3	0.1
Transport	13.1	0.4	-0.4	0.9	0.5
Communication	5.6	-0.3	-0.3	-1.0	-1.3
Recreation & culture	3.1	0.5	-0.1	1.4	0.7
Education	2.9	-0.3	0.0	1.8	1.8
Restaurants & hotels	5.6	0.3	0.6	2.9	2.7
Misc. goods & services	12.6	-0.6	-0.3	-0.7	-1.2
General index	100.0	0.1	0.0	2.3	2.0

Lower prices in 'furnishing' are likely associated with weaker demand for housing, seen in declining mortgages.

'Furnishing and household equipment' prices in August recorded their largest yearly decline since 2017, down by 3.2 percent, with all sub-group items in a deflationary trend since the start of the year. Lower prices in this group are likely associated with weaker demand for house purchases, seen in declining mortgages as noted above, and ongoing improvements to global supply chains (Figure 4).

Consumer Spending

Notable rises were seen in consumer spending on services such as 'hotels' and 'restaurants & coffee shops', reflecting the roll-out of a number of entertainment options around the Kingdom.

In the year-to-July, consumer spending (POS plus e-commerce transactions and ATM withdrawals) grew by an average of 8 percent. Notable rises were seen in spending on services such as 'hotels' and 'restaurants & coffee shops', in line with the roll-out of a number of entertainment options, such as the 'Riyadh Season', 'Diriyah Season' and 'Jeddah Season'. In addition, summer destinations in Abha and Albaha have attracted a rising number of tourists from both inside and outside the Kingdom, evident in the increased spending within the two regions known for their cool climate during the summer (Figure 5).

Figure 4: Prices in 'Home Furnishing' vs New Mortgages (year-on-year change)

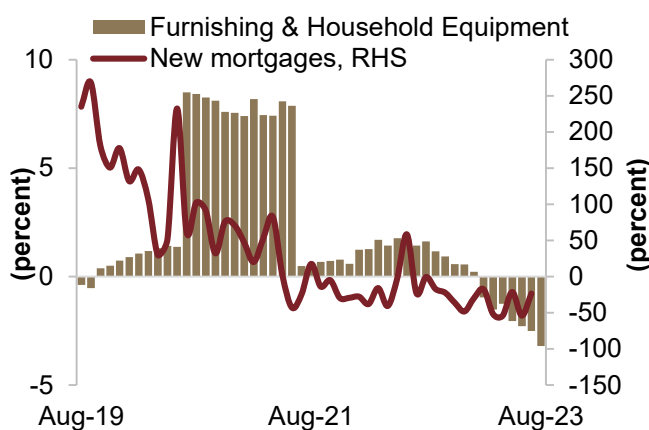
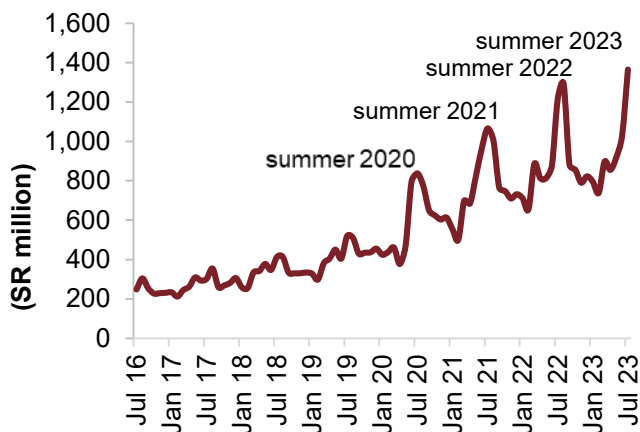


Figure 5: Summer consumer spending in Abha and Albaha continues to rise (POS transactions)





Consumer sentiment has continued to improve during 2023, which has helped bolster consumer spending.

If, as we expect, interest rates begin to ease in 2024 then this should see some softening in rental demand and spur a shift back towards the mortgage market.

We expect lower inflation rates in the remainder of the year, with deflationary effects mainly coming from 'food and beverages'.

Looking ahead, with consumer sentiment climbing to higher averages during 2023 (Figure 6), and with numerous tourism and cultural initiatives being announced around the Kingdom, we expect consumer spending to continue growing robustly, especially with respect to services such as 'hotels', 'restaurants & coffee shops', and 'transport'. With the focus on services, spending on goods such as 'furniture', 'clothing' and 'jewelry' has tended to be subdued, but these segments should be given a boost as more 'buy now, pay later' options become available (Figure 7).

Outlook

The outlook for 'housing and utilities' remains robust as we still see brisk demand for rentals in the Kingdom's biggest cities, Riyadh and Jeddah. Rental demand is likely to soften somewhat as interest rates move lower and Saudi nationals shift their attention back towards the mortgage market. Yet overall rental demand is likely to remain firm by historical standards given the ongoing influx of expatriates responding to the compelling domestic growth story (see our latest [Q2 2023 GDP update](#)).

In addition to 'housing and utilities', we expect sectors such as 'transport', 'hotels and restaurants', and tourism in general to see further increases in demand, as tourism sites continue to be developed and entertainment options multiply. We expect further strong growth in tourism inflows this year and next, while ever-larger numbers of Saudi nationals are expected to spend their money at home rather than abroad.

For all that, we still expect lower inflation rates in the remainder of the year, with deflationary effects coming from 'food and beverages', which accounts for about 19 percent of the CPI basket weight, driven by falling global food prices. 'Clothing' and 'furniture' prices are also set to remain soft, albeit with some uptick in the latter during the second half of next year as the mortgage market is revived.

Overall, we are sticking to our 2023 average inflation forecast of a maximum of 2.6 percent, and expect price growth to soften to 2.2 percent in 2024 thanks mainly to lower international food prices.

Figure 6: Consumer sentiment in the Kingdom is strong and increasing

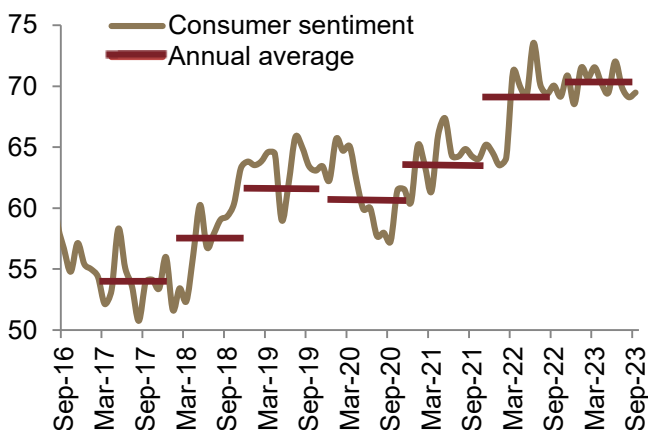
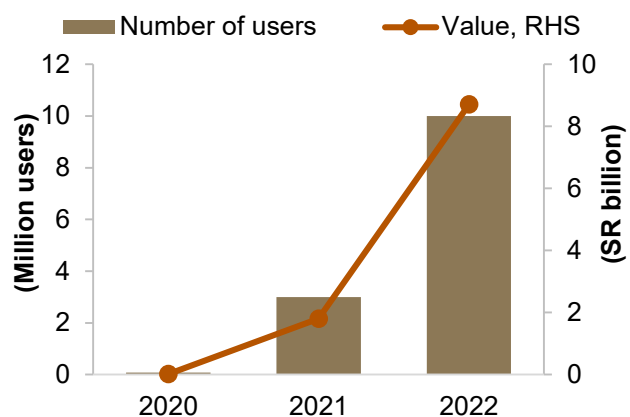


Figure 7: Additional payment options should support consumption (Buy Now Pay Later)





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