Inflation Update

JULY 2026

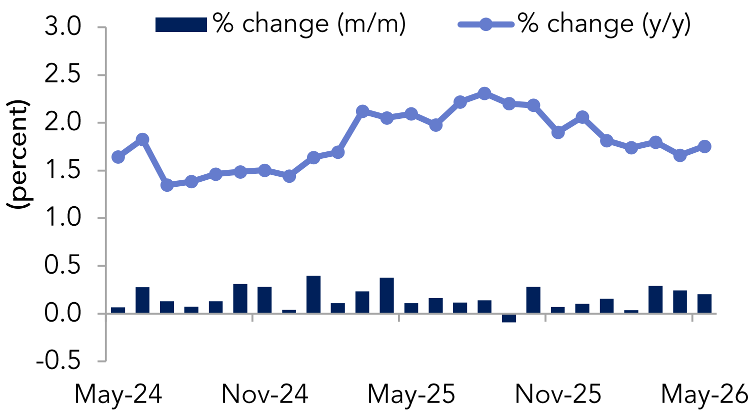
جدوى للاستثمار
Jadwa Investment

Inflation Update

Inflation contained despite conflict-related cost pressures

- Consumer price inflation remained contained in May 2026, inching up to 1.8% from 1.7% in April, with the headline rate remaining among the lowest globally (Figure 1).
- During the closure of the Strait of Hormuz, many firms reported higher transport and insurance costs and delayed deliveries, adding to cost pressures, but not feeding through to prices yet.
- Many economies have recorded higher inflation, largely on soaring energy costs: in the US, the rate accelerated to 4.2% in May from 2.4% in February, while euro area inflation rose to 3.2% from 1.9%.
- Global food prices have risen and could feed through to the domestic market, though only modestly, tempered by rising local food self-sufficiency.
- The slowing pace of 'rentals for housing' inflation, a major sub-group within the 'housing and utilities' CPI group, has helped keep overall inflation low. Rental price inflation may soften further.
- Consumer spending (POS plus e-commerce transactions and ATM withdrawals) rose by almost 10% in the year to April, higher than the same period last year, and more recent data show robust spending continued in May and June despite the conflict.
- Wholesale prices are running well above consumer prices, suggesting firms are absorbing higher costs for now; a portion is likely to pass through to consumers in H2, lifting headline inflation.
- We forecast inflation to rise modestly in H2, averaging 2.1% in 2026 before softening to 1.8% in 2027. With the Strait now starting to re-open, the risks are more balanced: a faster de-escalation would ease cost pressures sooner, while a breakdown in the agreement would push them back up.
- The cap on domestic fuel prices and the disinflationary pull from housing rentals should keep the pass-through partial under either scenario.

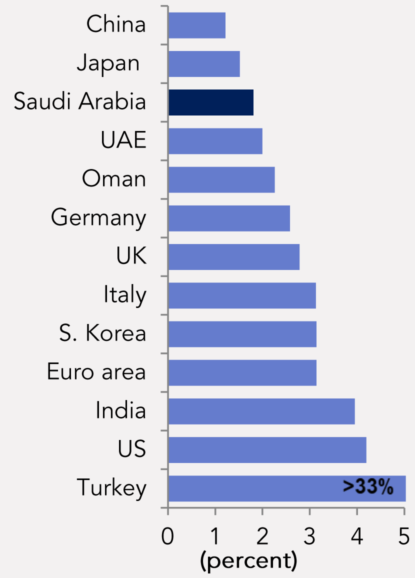
Fig 1: Inflation Rates in Saudi Arabia



Saudi CPI inflation
(%)

	Month-on-month	Year-on-year
May 2026	0.2	1.8
April 2026	0.2	1.7

Figure 2: Inflation Rates in Major Trade Partners
(latest)



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Local inflation remained among the lowest globally.

Many economies have already recorded higher inflation.

Local food prices are expected to rise in line with global prices, albeit moderately.

We revised up our forecast for average inflation to 2.1% in 2026.

Overview

Consumer price inflation inched up to 1.8% year-on-year in May 2026 from 1.7% in April, with the headline rate remaining among the lowest globally (Figure 2). Inflation has remained low so far, despite the conflict, mostly due to regulated fuel prices and a declining trend in rental price inflation. Although slowing, rental price inflation is still the main driver of overall inflation, along with the 'jewelry' subcomponent of 'personal care, social protection and miscellaneous goods and services'. Meanwhile, 'food and beverages' inflation has been rising from low levels, to 0.7% in May from 0.6% in April, following an average of 0.2% in Q1.

During the closure of the Strait of Hormuz, many local firms within the non-oil PMI survey reported higher transport and insurance costs and delayed deliveries, adding to cost pressures. Many economies have already recorded higher inflation: in the US, the rate accelerated to 4.2% in May - its highest in three years - from 2.4% in February (before the US-Iran conflict), while euro area inflation rose to 3.2% from 1.9% over the same period. These increases have been driven largely by soaring energy costs, with US energy prices up around 23% year-on-year and euro area energy up around 11%. Notably, US core inflation was far softer at 2.9%, underscoring that the acceleration primarily reflects the energy shock (Figure 3), although core inflation also remains well above the Fed's target.

The Food and Agriculture Organization (FAO) reported that global food prices rose by 2.9% year-on-year in May, though its index was broadly flat month-on-month as easing vegetable oil prices offset further gains in cereals (Figure 4).

Locally, food prices are likely to face some upward pressure in line with the global trend. This will be tempered, however, by the rising share of food produced domestically - part of an ongoing effort to increase self-sufficiency and reduce exposure to global supply chain disruptions. Local inflation is also being held down by the downtrend in rental price inflation, which carries a significant weight within the 'housing and utilities' group and reflects the real estate stabilization policies announced last year to balance the market and expand supply.

Taking into account the higher transport and trade costs incurred during the closure of the Strait of Hormuz, we revised up our forecast for average inflation, to 2.1% in 2026 -from 1.7% previously—before softening to 1.8% in 2027.

Fig. 3: Global inflation rates (year-on-year change)

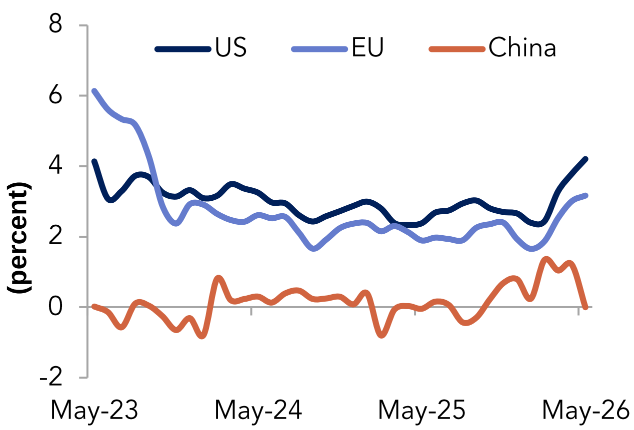
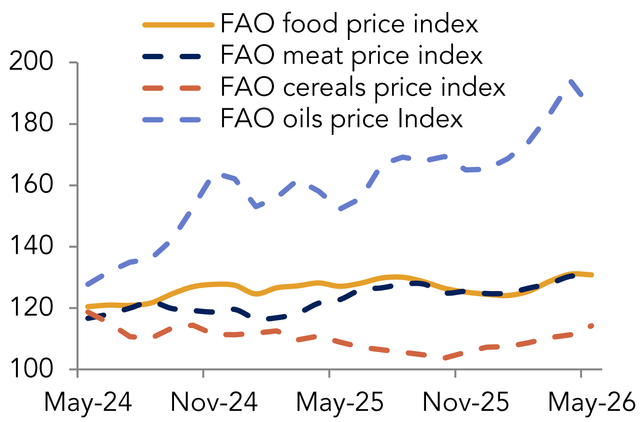


Fig. 4: the FAO food price indices



Following the mid-June agreement between the US and Iran, the balance of risks has become more two-sided: a durable de-escalation could ease cost pressures faster than assumed, while a breakdown in the agreement would revive them.

CPI Basket Groups

'Food and beverages' accounts for 22% of the CPI basket. Food prices have seen only minor upward pressure so far: year-on-year price inflation for 'vegetables' rose to 0.3% and 'meat' to 2.4% in May, compared with Q1 2026 averages of –6% and 1.4%, respectively.

Global food prices rose in recent months, driven by higher fertilizer prices.

Globally, the FAO's Food Price Index rose by 2.9% in May, with cereal prices rose for a third consecutive month. The FAO attributed this rise to expectations of reduced wheat plantings in 2026, as farmers shift toward less fertilizer-intensive crops amid elevated fertilizer prices, which are driven by higher energy costs and disruptions to the trade of fertilizer inputs linked to the closure of the Strait of Hormuz. The FAO also noted the impact of drought in parts of the US and below-average rainfall in Australia. The S&P GSCI agriculture index, which tracks the performance of a basket of agricultural commodity futures such as wheat, corn, soybeans and sugar, has also risen notably since March, largely on higher fertilizer prices (Figure 5).

Local food self-sufficiency should play a major role in containing price pressures.

The impact on domestic prices will be mitigated to some extent by ongoing improvements in food self-sufficiency. Poultry self-sufficiency reached 72% and red meat 62% by end-2024, and both are estimated to have risen further since, supported by substantial investments in production capacity and new product lines announced by several local food companies. Government support to local farmers—through funding programs and facilitation measures- should further help stabilize domestic prices.

Nonetheless, food price inflation is likely to rise moderately in H2, in line with global trends.

Rental prices continue to rise month-on-month but at a slower pace.

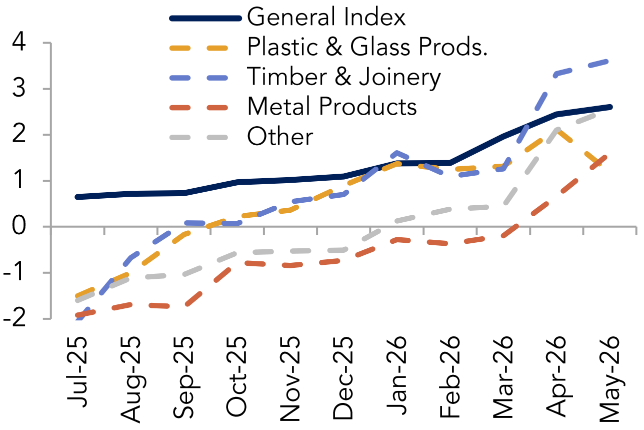
'Housing and utilities' accounts for 20.2% of the CPI basket. Price increases in this category continue to be driven by the 'rentals for housing' sub-group. Despite strong rental demand across the Kingdom's major cities, the pace of increase has slowed markedly this year, primarily due to the five-year rental freeze in Riyadh, which carries the largest weight in the overall rental index and had previously seen high rental inflation. Prices continue to rise month-on-month but at a slower pace; in the year to May, 'rentals for housing' were up 4.9% year-on-year, lower than the 10% rate in the same period last year.

While not included in the CPI basket, the Construction Cost Index (CCI) has picked up since March, likely reflecting the closure of the Strait of Hormuz

Fig. 5: The S&P GSCI agriculture index

Fig. 6: Construction price index

(year-on-year change)



Construction costs picked up, while real estate prices declined in recent months.

(Figure 6). The index rose by 2.6% in May, the largest increase since January 2024 (earliest published data), mainly led by 'timber and joinery' and 'metal products'. Steel prices have also been increasing, as the CCI data show 'high-production steel reinforcements' as a sub-item within 'metal products', where prices were up by 3.9% in May, compared with an average decline of 1% in Q1. These pressures should ease as shipping costs normalize following the reopening of the Strait, though with a lag.

Meanwhile, the residential component of the Real Estate Price Index, another cost index outside the CPI, declined by 3.6% year-on-year in Q1, following two consecutive declines in Q3 and Q4 2025. Prices have declined because of both higher supply and slowing demand as many consumers preferred to wait for the housing market to stabilize following the real estate stabilizing policies announced last year. Higher construction costs could eventually feed through to housing prices, though we expect this effect to be limited given the gradual decline in the housing index and the substantial supply anticipated in the real estate market.

Looking ahead, the 'rentals for housing' sub-group is expected to remain shaped by the reforms, exerting a disinflationary pull on the index that partly offsets rising inflation in other CPI groups.

'Transport' inflation remains low due to lower car prices and regulated fuel prices.

'Transport' accounts for 14.5% of the CPI basket. Inflation in this category remains low due to lower car prices and regulated fuel prices, but saw an uptick to 1.5% year-on-year in May from 1% in April, driven by higher prices in 'passenger transport'.

Box 1: How the Strait of Hormuz Reaches Local Prices

Before the war, the Strait of Hormuz carried around 30% of seaborne crude and much of the region's container and LNG traffic. Its closure since late February transmitted to prices through several channels rather than one (Figure 8). With a US-Iran agreement reached in mid-June, which prioritizes the reopening of the Strait, the impacts through the various channels are beginning to unwind, but this will take time and may be uneven.

The closure of the Strait of Hormuz fed through to prices via several channels.

Energy: A war premium had lifted Brent to a peak more than 50% above pre-conflict levels. It has since given up the bulk of the premium, falling below \$75/bbl, its lowest since late February, as markets priced in the reopening. The direct effect on domestic transport prices was in any case muted by the fuel-price cap, but cheaper crude eases global production and shipping costs more broadly, which can ease import prices.

Freight and insurance: War-risk premiums on the Strait transit spiked for a single large tanker during the closure. With no seaborne bypass out of the Gulf, the adjustment ran through pipeline rerouting and shifts in sourcing. Premiums have since eased and come off their peak but remain well above

Fig. 7: Inflation in 'Transport' group (year-on-year change)

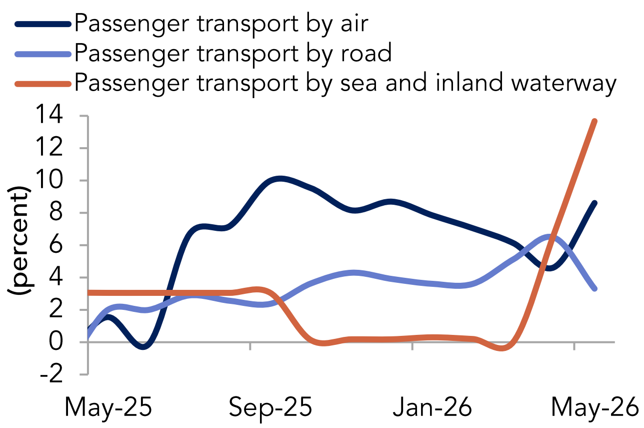
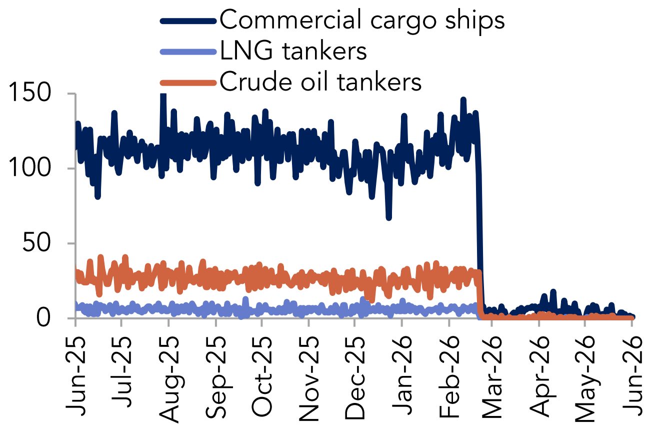


Fig. 8: Global trade in the Strait of Hormuz (oil, gas and cargo)



pre-war levels, and would take several months to normalize. We therefore expect a portion of these costs to stay embedded in import prices into H2.

Food: Higher energy and fertilizer costs, compounded by disrupted fertilizer flows, had lifted global food prices and the cost of imported food. Rising domestic self-sufficiency cushioned part of this locally. Easing energy and freight costs should feed through to import prices over the coming quarters, though with a lag.

Delays and input costs: Firms reported lengthening delivery times of imported goods, from vehicles to construction materials. The PMI pointed to easing pressures by May, and these delivery times should keep shortening as traffic resumes, but the backlog will take time to clear.

The transport group spans a range of items, a major component being 'purchase of vehicles', which has declined over the past three years, likely reflecting lower average car prices amid stronger demand for Chinese-manufactured vehicles. Other components include fuel prices, which are regulated and have been broadly stable over the years.

Some price pressure could come from air transport prices, driven by rising jet fuel costs.

The main rise in May came from passenger transport prices, where 'passenger transport by air' inflation rose to 8.6% year on year, from 4.6% in April (Figure 7), reflecting higher jet fuel costs.

Many firms have reported delays in car imports caused by the closure of the Strait of Hormuz, which could push vehicle sale prices higher across the GCC.

Consumer Spending

Consumer spending remained robust during the conflict.

In the year to April, consumer spending (POS plus e-commerce transactions and ATM withdrawals) rose by 9.7% year-on-year in nominal terms, marginally above the 9.4% recorded over the same period last year. More recent high-frequency data show robust weekly POS spending in May and June, despite the US-Israel-Iran conflict.

Notable increases were seen in spending on 'jewelry', 'apparel and clothing', and 'telecommunications'. The rise in 'jewelry' spending likely reflects higher gold prices in recent years (although these have fallen back recently), while higher 'telecommunications' spending is consistent with higher prices in 'mobile communication services' and 'cloud storage' in recent months.

Companies might start to pass on more costs to consumers in H2-26.

That said, while aggregate spending remains robust, businesses report challenges from higher input, energy, labor, transport and insurance costs. The gap between wholesale prices and consumer prices points to cost pressures building upstream that have yet to reach consumers. The Wholesale Price Index rose by 4.6% year-on-year in May, its highest in more than three years - well above the 1.8% headline CPI rate (Figure 9). We expect firms to absorb some of these additional costs in order to defend

Fig. 9: Whole Price Index (WPI)
(year-on-year change)

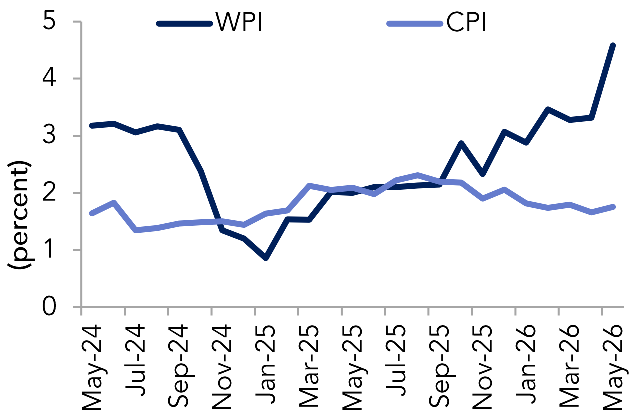
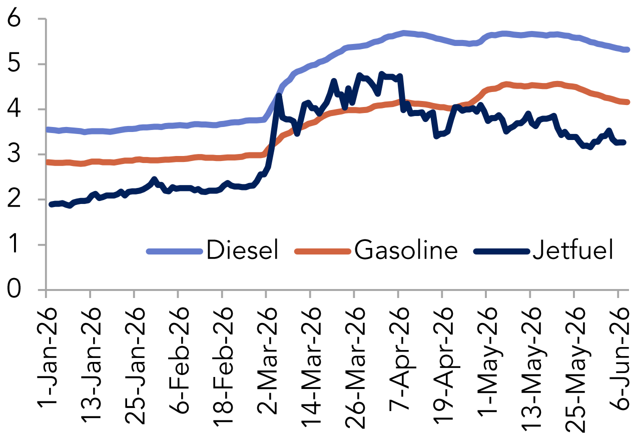


Fig. 10: Global fuel prices
($/gallon)



market share amid strong competition - a dynamic visible in the subdued inflation rates in March-May. However, if cost pressures continue, companies would gradually pass on more of these costs to consumers, adding some upward pressure to inflation in H2-26. Pass-through should be mitigated as activity around the Strait of Hormuz gradually normalizes.

Inflation is likely to rise moderately in H2-26, driven by higher import costs.

Outlook

Over the remainder of the year, we expect higher import costs, including for food and manufactured goods, to push consumer price inflation up, though only modestly and from a low base (Figure 10). The downtrend in rental price inflation, a significant weight in the overall index, has been a key driver of the recent low readings.

Rental price inflation is expected to soften further, supported by a high base effect, the five-year rental freeze in Riyadh, stronger housing sales, and new housing projects coming online to expand supply.

We revised up our inflation forecast for 2026, reflecting cost pressures already built up during the closure of the Strait of Hormuz.

Accordingly, we forecast inflation to average 2.1% in 2026, revised up from 1.7% previously. The upward revision reflects cost pressures already built up during the closure—seen in the gap between wholesale and consumer prices - which we expect to pass through to consumers in the second half of the year, rather than any assumption of continued disruption.

Following the mid-June agreement between the US and Iran, which prioritizes the reopening of the Strait of Hormuz, the risks to inflation are more balanced: a faster de-escalation would ease these costs sooner, although it will still take time for supply chains to normalize, while a breakdown in the agreement would push them back up. The cap on domestic fuel prices and the disinflationary pull from housing rentals should keep the pass-through partial under either scenario.