



Inflation Update—November 2012

Rental inflation slows but food costs trend up

Inflation (1999=100)

	Monthly change	Annual change
November 2012	0.3	3.9
October 2012	0.7	3.8

According to the Central Department for Statistics and Information (CDSI), Saudi Arabia's inflation rate for November slightly increased to 3.9 percent year-on-year from 3.8 percent in the previous month. While food prices slightly increased (4.8 percent year-on-year), rent and housing-related services maintained their gradual downward trend, to 6.5 percent year-on-year, compared with 6.7 percent in the previous month. Our measure of core inflation* trended up to 2.2 percent in November compared with 1.8 percent in October.

Annual change in inflation

(percent, 1999=100)

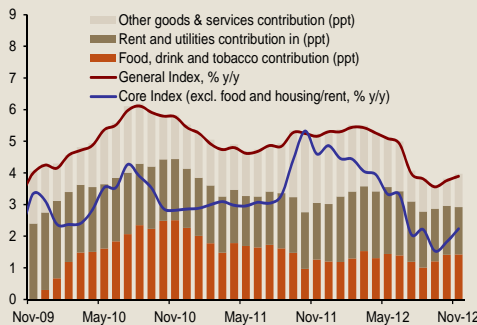
	2012					
	Jun	Jul	Aug	Sep	Oct	Nov
Food & beverages	4.7	4.0	3.3	4.0	4.7	4.8
Housing & related items	8.8	8.3	7.7	7.2	6.7	6.5
Fabrics, clothing & footwear	2.9	2.9	3.1	3.1	3.3	3.6
Home furniture	3.0	2.8	3.0	2.9	4.7	4.6
Medical care	0.0	0.0	0.0	0.0	0.3	0.3
Transport & telecoms	1.7	1.2	1.3	1.8	2.0	1.6
Education & entertainment	3.4	3.4	3.7	3.7	1.8	1.9
Other expenses & services	5.1	1.8	1.9	-0.4	-0.2	1.1
Core inflation*	3.3	2.1	2.2	1.5	1.8	2.2
Total	4.9	4.0	3.8	3.6	3.8	3.9

Rent and housing-related services inflation fell to its lowest level in five years, though it remains the main source of inflation, adding 1.5 percentage point (ppt) to the overall inflation. The main source of price increase in this group is the rental inflation which registered 7.2 percent year-on-year in November. While we maintain our view that rental inflation is likely to remain one of the main sources of inflation in the Kingdom, we expect the growing activity in construction sector and introduction of new rental regulations would maintain the gradual downward path for such prices.

The second source of inflation in November was food inflation which contributed 1.4ppt. Within the food category, prices of cereal and cereal products contracted by 1 percent while international cereal prices accelerated by 11.7 percent year-on-year. At the same time, meat and poultry prices rose by 3.9 percent in the Kingdom despite a 3.5 percent contraction in the international meat prices.

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

Inflation
(1999=100)



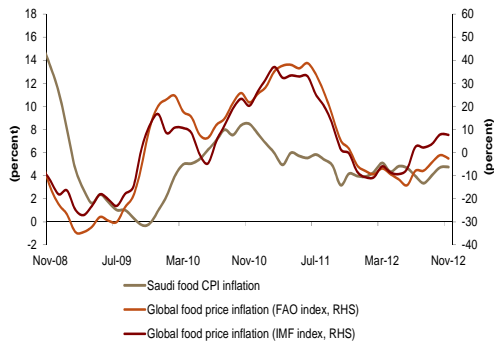
For comments and queries please contact the author:

Fahad Alturki
Senior economist
falturki@jadwa.com

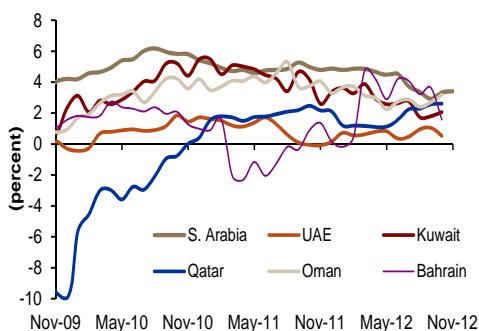
Head office:
Phone +966 1 279-1111
Fax +966 1 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com



Domestic and international food inflation
(year-on-year change)



GCC inflation
(year-on-year change; 2007=100)



Monthly change in inflation

(percent, 1999=100)

	2012					
	Jun	Jul	Aug	Sep	Oct	Nov
Food & beverages	0.3	0.4	0.9	1.0	0.7	0.7
Housing & related items	0.6	0.2	0.1	0.2	0.2	0.3
Fabrics, clothing & footwear	0.1	0.1	0.1	0.1	0.2	0.3
Home furniture	0.2	0.1	0.1	0.1	3.3	0.2
Medical care	0.0	0.0	0.0	0.0	0.3	0.0
Transport & telecoms	0.0	0.1	0.1	0.1	0.2	0.1
Education & entertainment	0.0	0.0	0.1	0.1	1.6	0.0
Other expenses & services	0.0	0.6	0.1	1.6	0.4	0.5
Core inflation	0.0	0.3	0.1	0.6	1.0	0.2
Total	0.2	0.3	0.4	0.6	0.7	0.3

Monthly inflation slowed to 0.3 percent in November compared with 0.7 percent in October. Food posted the highest increase, 0.7 percent for the second consecutive month. Almost all of the food-subgroup registered rising prices in November despite the decline in the main indicators of international food prices. We see two possible explanations for the monthly increase in food prices: 1) strong domestic demand as indicated by rising cash withdrawals from ATMs and point of sales transactions. 2) USD depreciation versus other trading partner currencies. Between October and November, the USD depreciated by 0.75 percent against the euro;

Inflation in Saudi Arabia remains the highest in the GCC. According to the latest data available, the GCC weighted average inflation in October was 2.6 percent year-on-year, due to the ongoing housing market correction in some countries and large base-effects in others.

Annual inflation rates

(percent, 1999=100)

	2007	2008	2009	2010	2011	2012f
Food & beverages	7.0	14.1	1.9	6.3	5.2	4.4
Housing & related items	8.1	17.5	14.2	9.5	7.8	8.0
Fabrics, clothing & footwear	-2.5	0.3	0.5	-0.6	0.3	2.9
Home furniture	1.3	7.6	8.5	2.8	0.5	3.5
Medical care	4.2	5.0	0.7	0.4	0.8	0.1
Transport & telecoms	-1.2	0.6	1.0	1.1	2.1	1.8
Education & entertainment	0.3	2.1	1.4	0.8	1.5	3.1
Other expenses & services	5.3	10.6	4.3	7.4	9.0	3.7
Core inflation	1.3	5.1	3.4	3.1	3.6	2.9
Total	4.1	9.9	5.1	5.4	5.0	4.5

Disclaimer of Liability

Unless otherwise stated, all information contained in this document (the "Publication") shall not be reproduced, in whole or in part, without the specific written permission of Jadwa Investment.

The data contained in this Research is sourced from Reuters, Bloomberg, Tadawul and national statistical sources unless otherwise stated.

Jadwa Investment makes its best effort to ensure that the content in the Publication is accurate and up to date at all times. Jadwa Investment makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that contain in the Publication. It is not the intention of the Publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future.