



Inflation Report — June 2011

Inflation

	Monthly change	Annual change
June 2011	0.4	4.7
May 2011	0.4	4.6

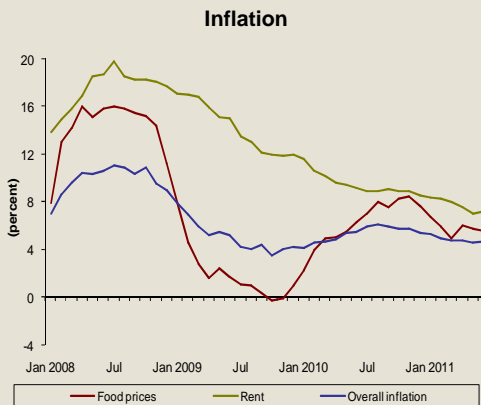
Year-on-year inflation ticked up to 4.7 percent in June, from 4.6 percent in May, owing to a small increase in rents and price rises elsewhere that appear related to higher consumer spending.

Annual change in inflation (percent)

	2011					
	Jan	Feb	Mar	Apr	May	Jun
Food & beverages	6.8	6.0	4.9	6.0	5.7	5.5
Fabrics, clothing & footwear	-0.7	-0.7	-0.6	-0.3	-0.1	0.4
Housing & related items	8.3	8.3	8.0	7.5	7.0	7.1
Home furniture	-0.2	-0.2	-0.7	-0.8	-0.4	-0.2
Medical care	1.3	1.3	1.3	1.5	1.5	1.5
Transport & telecoms	1.8	2.1	2.2	2.3	2.3	2.3
Education & entertainment	0.6	0.7	0.7	0.9	1.0	1.1
Other expenses & services	8.1	8.2	8.7	8.1	7.6	7.6
Total	5.3	4.9	4.7	4.8	4.6	4.7

Although the rise in inflation in June was very modest, it is notable that it was the result of increases in prices that are largely driven by domestic consumer demand, rather than international factors such as commodity prices. Year-on-year inflation for home furniture was at its highest since September 2010, education and entertainment was at a 16-month high and clothing and footwear inflation was positive for the first time since August 2009. We think these price rises reflect the additional spending stimulated by the bonus awarded to all public-sector and many private-sector workers. Rental inflation also rose, for the first time since last September, though the increase was only slight.

For the first half of the year, inflation averaged 4.8 percent, hovering around 4.7 percent for each of the last four months. We think inflation will rise in the next few months. The impact of stronger consumer demand and higher government spending will continue to grow. In addition, in July there is likely to be some upward pressure on food prices, in line with the normal trend in the run-up to Ramadan (which should start on August 1). Food prices will go up further in Ramadan; between 2002 and 2010, food prices rose by more than five times the average monthly rate for the rest of the year in the first month of the Gregorian calendar in which Ramadan fell.



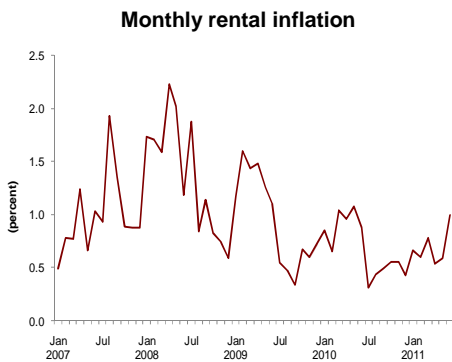
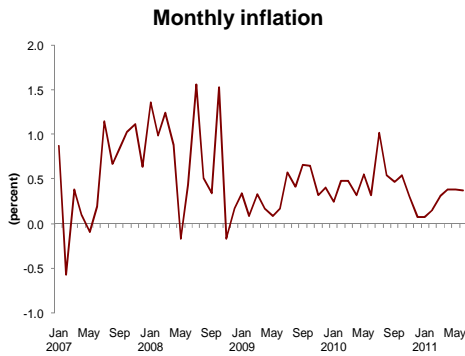
For comments and queries please contact the authors:

Paul Gamble
Head of Research
pgamble@jadwa.com

or:

Brad Bourland, CFA
Chief Economist
jadwaresearch@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



Monthly change in inflation (percent)

	2011					
	Jan	Feb	Mar	Apr	May	Jun
Food & beverages	-0.5	0.1	-0.1	0.9	-0.3	0.5
Fabrics, clothing & footwear	0.4	0.0	0.0	0.1	0.2	0.0
Housing & related items	0.7	0.6	0.8	0.5	0.6	1.0
Home furniture	0.2	0.0	0.2	0.0	0.2	0.3
Medical care	-0.1	0.0	0.0	0.0	0.0	0.0
Transport & telecoms	0.7	0.3	0.1	0.3	0.1	0.0
Education & entertainment	0.0	0.0	0.0	0.0	0.0	0.1
Other expenses & services	-0.4	0.0	0.5	0.2	1.8	0.0
Total	0.1	0.2	0.3	0.4	0.4	0.4

Monthly inflation stayed at 0.4 percent for the third month in a row. Rental inflation was 1 percent, its highest level since May 2010. This may have been influenced by local dynamics, as the breakdown by city shows that rents in Dammam jumped by 3.1 percent during June; Jeddah, Jizan and Medina were the only other cities of the 16 surveyed where rental inflation rose by 1 percent or more. However, it is possible that landlords have raised rents in response to the bonus for public-sector workers. As rents are generally paid on an annual or semi-annual basis, this would take some time to be fully reflected in the data. The rise in monthly inflation for home furniture (primarily living-room furniture, fitted kitchens, tables and chairs) and education and entertainment (particularly electronic games and video equipment) looks related to higher consumer spending.

Annual inflation rates (percent)

	2006	2007	2008	2009	2010	2011*
Food & beverages	5.4	7.0	14.1	2.0	6.2	5.8
Fabrics, clothing & footwear	-0.7	-2.4	0.4	0.5	-0.7	-0.3
Housing & related items	0.8	8.1	17.5	14.1	9.5	7.7
Home furniture	0.3	1.3	7.7	8.5	2.8	-0.4
Medical care	1.3	4.2	5.0	0.7	0.4	1.4
Transport & telecoms	-3.2	-0.9	0.2	1.0	1.1	2.2
Education & entertainment	0.3	0.2	2.1	1.3	0.9	0.8
Other expenses & services	7.7	5.3	10.7	4.3	7.4	8.0
Total	2.2	4.1	9.9	5.1	5.3	4.8

* Year to date

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