



## Inflation Report — May 2011

### Inflation

	Monthly change	Annual change
May 2011	0.4	4.6
April 2011	0.4	4.8

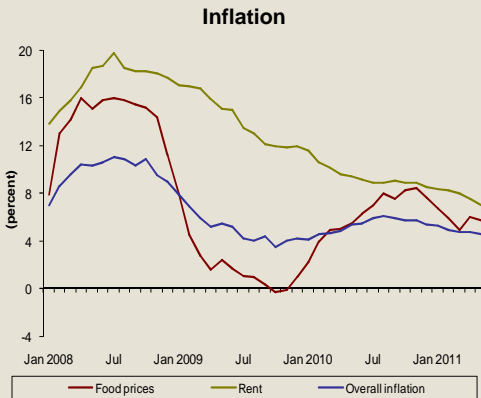
Year-on-year inflation fell to a 16-month low of 4.6 percent in May. The ongoing decline in rents and lower food prices more than offset small rises elsewhere.

### Annual change in inflation (percent)

	2010		2011			
	Dec	Jan	Feb	Mar	Apr	May
Food & beverages	7.6	6.8	6.0	4.9	6.0	5.7
Fabrics, clothing & footwear	-1.2	-0.7	-0.7	-0.6	-0.3	-0.1
Housing & related items	8.5	8.3	8.3	8.0	7.5	7.0
Home furniture	-0.3	-0.2	-0.2	-0.7	-0.8	-0.4
Medical care	1.2	1.3	1.3	1.3	1.5	1.5
Transport & telecoms	1.9	1.8	2.1	2.2	2.3	2.3
Education & entertainment	0.6	0.6	0.7	0.7	0.9	1.0
Other expenses & services	8.1	8.1	8.2	8.7	8.1	7.6
<b>Total</b>	<b>5.4</b>	<b>5.3</b>	<b>4.9</b>	<b>4.7</b>	<b>4.8</b>	<b>4.6</b>

A further fall in rental inflation and lower food prices pulled inflation down in May. Rental inflation fell to 7 percent, the lowest rate for exactly four years. Rental inflation should remain on a downtrend as more property enters the market, though the pace will probably slow in a few months because of base effects (rental inflation was low in the second half of 2010). The decline in food price inflation was largely due to trends in fresh food prices. Global food prices also fell in May (according to the UN Food and Agriculture Organization index), though they were still 37 percent higher than in May 2010. There is a lag between moves in international food prices and those in the Kingdom, but local factors have kept prices below where we would expect given the international trend (see graph on next page). There remains a risk of further run-up in local food prices.

We think that the peak of consumer spending associated with the bonus for public- and many private-sector workers occurred over April and May. The inflationary impact from this spending in year-on-year terms has so far been limited to a very modest increase in inflation for education and entertainment and a lower decline for home furniture inflation. Given reports of retailers taking advantage of the bonuses to raise prices, the subdued inflation is notable. We still expect higher government spending to lift inflation over the remainder of the year.



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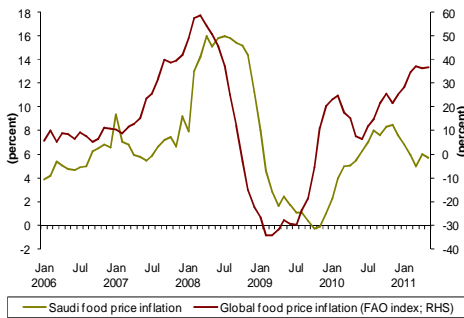
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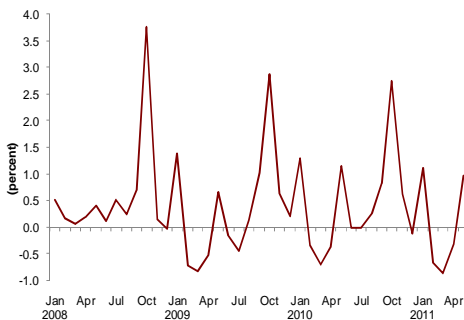
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**Food price inflation**



**Monthly inflation excluding rents and food prices**



**Monthly change in inflation**  
(percent)

	2010		2011			
	Dec	Jan	Feb	Mar	Apr	May
Food & beverages	0.1	-0.5	0.1	-0.1	0.9	-0.3
Fabrics, clothing & footwear	0.0	0.4	0.0	0.0	0.1	0.2
Housing & related items	0.4	0.7	0.6	0.8	0.5	0.6
Home furniture	0.0	0.2	0.0	0.2	0.0	0.2
Medical care	0.0	-0.1	0.0	0.0	0.0	0.0
Transport & telecoms	0.1	0.7	0.3	0.1	0.3	0.1
Education & entertainment	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses & services	0.0	-0.4	0.0	0.5	0.2	1.8
<b>Total</b>	<b>0.1</b>	<b>0.1</b>	<b>0.2</b>	<b>0.3</b>	<b>0.4</b>	<b>0.4</b>

Monthly inflation was unchanged at 0.4 percent in May. Lower food prices were more than offset by rises in other areas. The largest move was for “other expenses and services” and specifically for local jewelry prices, which rose by 5.7 percent. These tend to move in line with international gold prices, through the gold price averaged only 1.9 percent higher in May, so the rise may reflect retailers upping prices owing to the public-sector bonus. There are some other price rises that may be attributable to the bonus (some home appliances and men’s clothing), but they are not widespread; prices of entertainment devices (TVs etc) and home furnishings (curtains, blankets etc) were unchanged. Food prices fell in May, particularly those of fresh fruits, fish and some vegetables. There were some large moves in individual prices. For example, the price of plums fell by 33 percent, while local onion prices were up by 21 percent.

**Annual inflation rates**  
(percent)

	2006	2007	2008	2009	2010	2011*
Food & beverages	5.4	7.0	14.1	2.0	6.2	5.9
Fabrics, clothing & footwear	-0.7	-2.4	0.4	0.5	-0.7	-0.5
Housing & related items	0.8	8.1	17.5	14.1	9.5	7.8
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	8.1
<b>Total</b>	<b>2.2</b>	<b>4.1</b>	<b>9.9</b>	<b>5.1</b>	<b>5.3</b>	<b>4.9</b>

\* Year to date

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