



Inflation Report — August 2011

Inflation

	Monthly change	Annual change
August 2011	0.5	4.8
July 2011	1.2	4.9

Year-on-year inflation eased to 4.8 percent in August from 4.9 percent in July, primarily due to a fall in food price inflation, though in monthly terms food prices posted their normal Ramadan jump.

Annual change in inflation (percent)

	2011					
	Mar	Apr	May	Jun	Jul	Aug
Food & beverages	4.9	6.0	5.7	5.5	5.8	5.4
Fabrics, clothing & footwear	-0.6	-0.3	-0.1	0.4	0.2	0.5
Housing & related items	8.0	7.5	7.0	7.1	7.5	7.8
Home furniture	-0.7	-0.8	-0.4	-0.2	0.2	0.2
Medical care	1.3	1.5	1.5	1.5	0.4	0.4
Transport & telecoms	2.2	2.3	2.3	2.3	1.5	2.1
Education & entertainment	0.7	0.9	1.0	1.1	1.2	1.0
Other expenses & services	8.7	8.1	7.6	7.6	7.8	8.2
Total	4.7	4.8	4.6	4.7	4.9	4.8

Lower year-on-year food price inflation caused the decline in overall inflation in August; inflation for most other components of the cost of living index rose. The fall in food price inflation was the result of the change to the base for the year-on-year comparison (food prices were much higher in August 2010 than July 2010); in monthly terms food prices jumped in line with the norm during Ramadan.

The pick up in inflation elsewhere was fairly subdued. Inflation for clothing and footwear was at its highest level since July 2009, but after several years of falling prices, prices of clothing and footwear are only back to where they were in July 2008. The continued upturn in rental inflation may reflect increased public-sector pay and bonuses encouraging more people to enter the rental market.

Inflation has been between 4.6 percent and 4.9 percent since February despite an increase in government spending and a surge in consumer spending. Survey results and money supply data point to inflationary pressures in the economy, which are likely to push inflation above 5 percent in the coming months, but these pressures are less than we had expected. As a result, we have cut our forecast for average inflation this year to 4.9 percent from 5.4 percent.



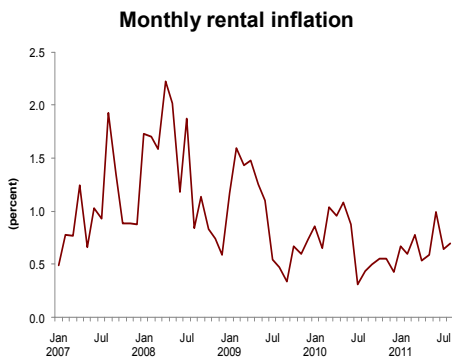
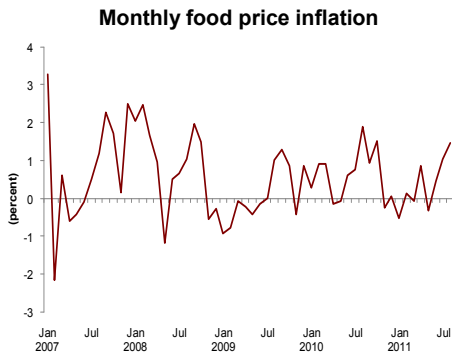
For comments and queries please contact the authors:

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					
	Mar	Apr	May	Jun	Jul	Aug
Food & beverages	-0.1	0.9	-0.3	0.5	1.0	1.5
Fabrics, clothing & footwear	0.0	0.1	0.2	0.0	0.1	-0.1
Housing & related items	0.8	0.5	0.6	1.0	0.6	0.7
Home furniture	0.2	0.0	0.2	0.3	0.3	-0.1
Medical care	0.0	0.0	0.0	0.0	0.0	0.0
Transport & telecoms	0.1	0.3	0.1	0.0	0.7	0.0
Education & entertainment	0.0	0.0	0.0	0.1	0.0	-0.2
Other expenses & services	0.5	0.2	1.8	0.0	3.9	-0.1
Total	0.3	0.4	0.4	0.4	1.2	0.5

Monthly inflation was down sharply from July, though at 0.5 percent it was the second highest since October. The rise was entirely due to food and rents. Food prices posted their usual jump in Ramadan. A rise in food prices of around 2.5 percent in the two Gregorian months that Ramadan covers is on par with recent years; monthly food price inflation slows significantly (though does not always fall) immediately after Ramadan. The growth in rents is slightly more concerning, as rental inflation usually slows in the second half of the year. All the other components of the cost of living index either fell or were unchanged in August. Prices for clothing and footwear, home furniture and education and entertainment all dropped for the first time this year. These sectors are an important guide to the inflation in the Kingdom that is being triggered by 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	-0.2
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	-0.3
Medical care	1.3	4.2	5.0	0.7	0.4	1.2
Transport & telecoms	-3.2	-0.9	0.2	1.0	1.1	2.1
Education & entertainment	0.3	0.2	2.1	1.3	0.9	0.9
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

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.