



Inflation Report — August 2012

Inflation

	Monthly change	Annual change
August 2012	0.4	3.8
July 2012	0.3	4.0

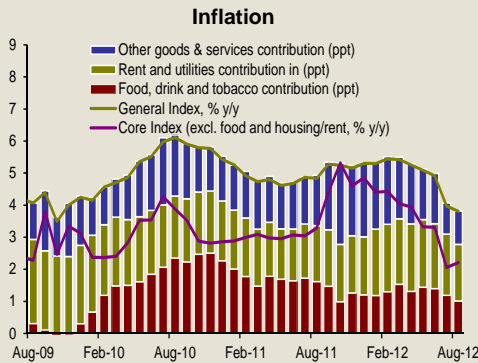
Year-on-year inflation eased again in August, slipping to 3.8 percent from 4 percent in July, the first time since October 2009. Lower food and rental inflation caused most of the fall, yet both remained the most contributor adding 2.8 percentage point to the rise in the overall inflation index. Our measure of core inflation slightly increased to 2.2 percent in August compared to 2.1 percent in July.

Annual change in inflation (percent)

	2012					
	Mar	Apr	May	Jun	Jul	Aug
Food & beverages	5.1	4.3	4.8	4.7	4.0	3.3
Housing & related items	8.9	9.2	9.2	8.8	8.3	7.7
Fabrics, clothing & footwear	2.7	2.9	2.8	2.9	2.9	3.1
Home furniture	3.0	3.1	3.1	3.0	2.8	3.0
Medical care	0.0	0.0	0.0	0.0	0.0	0.0
Transport & telecoms	2.2	1.8	1.7	1.7	1.2	1.3
Education & entertainment	3.5	3.5	3.5	3.4	3.4	3.7
Other expenses & services	7.1	6.9	5.1	5.1	1.8	1.9
Core inflation	4.0	3.9	3.3	3.3	2.1	2.2
Total	5.4	5.3	5.1	4.9	4.0	3.8

Both rental and food inflation fell to their lowest level this year in August. Rents for flats continue to outpace those for villas, growing at 11 percent and 5.7 percent in year-on-year terms, respectively. While we do not think that the recently-approved mortgage law will have a short-term impact on rental inflation, the decline suggest that more new housing stock is entering the market particularly given the strong construction sector performance over the last year. Within the food category, prices of cereal and cereal products slipped by 1.1 percent while meat and poultry prices rose by 1.1 percent. For the overall food group, we think the slower inflation is mostly due to a large base effect in August 2011.

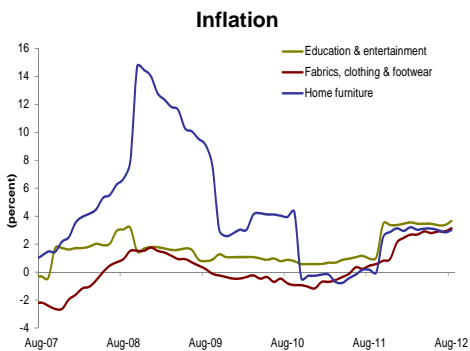
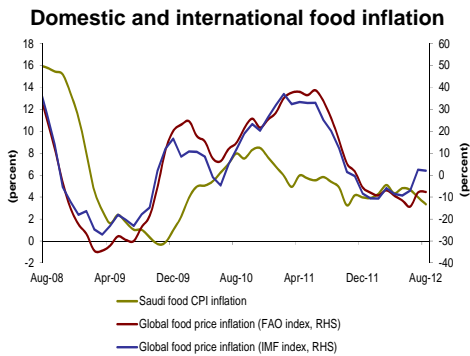
Year-on-year inflation has now fallen for six consecutive months despite seasonal factors during the last two months. We think that a temporary pick-up in food inflation may happen over the next few months owing to summertime droughts in the US and Eastern Europe. While overall international food prices eased in August this is mainly due to sharp fall in sugar prices which offset rising meat and dairy prices.



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Monthly change in inflation
(percent)

	2012					
	Mar	Apr	May	Jun	Jul	Aug
Food & beverages	0.7	0.1	0.1	0.3	0.4	0.9
Housing & related items	0.5	0.8	0.6	0.6	0.2	0.1
Fabrics, clothing & footwear	0.0	0.3	0.1	0.1	0.1	0.1
Home furniture	0.0	0.1	0.2	0.2	0.1	0.1
Medical care	0.0	0.0	0.0	0.0	0.0	0.0
Transport & telecoms	0.0	0.0	0.0	0.0	0.1	0.1
Education & entertainment	-0.1	0.0	0.0	0.0	0.0	0.1
Other expenses & services	-0.5	0.0	0.1	0.0	0.6	0.1
Core inflation	-0.2	0.1	0.1	0.0	0.3	0.1
Total	0.3	0.2	0.2	0.2	0.3	0.4

Monthly inflation slightly increased to 0.4 percent in August compared to 0.3 percent in July. As expected, food posted the highest increase, 0.9 percent on the back of seasonal factors. The jump in monthly food price inflation was almost entirely due to higher prices for fresh vegetables. This may reflect the disruption to transport links to the north of Saudi Arabia caused by the ongoing conflict in Syria. Rental inflation slowed to 0.1 percent compared to 0.2 percent in the previous month. Such slower rental inflation is consistent with such prices being lower in the second half of the year than the first half. Prices of education and entertainment recorded a slight increase following four months of stagnation while other expenses and services slowed from 0.6 percent in July to 0.1 percent in August.

Annual inflation rates
(percent)

	2007	2008	2009	2010	2011	2012f
Food & beverages	7.0	14.1	1.8	4.1	5.2	4.5
Housing & related items	8.0	17.5	14.2	7.3	7.8	8.3
Fabrics, clothing & footwear	-2.5	0.3	0.5	-0.4	0.3	2.7
Home furniture	1.3	7.6	8.5	3.0	0.5	3.1
Medical care	4.2	5.0	0.7	-0.1	0.8	-0.1
Transport & telecoms	-0.8	0.2	1.0	0.6	2.1	1.6
Education & entertainment	0.3	2.1	1.3	0.7	1.5	2.9
Other expenses & services	5.3	10.6	4.3	4.2	9.0	3.0
Core inflation	1.3	5.0	3.4	2.0	3.6	2.6
Total	4.1	9.9	5.1	5.4	5.0	4.6

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