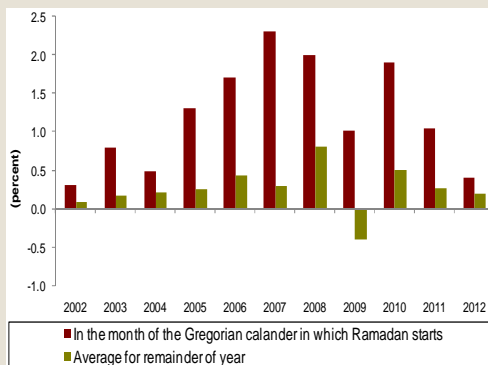




Inflation Report — July 2012

Inflation
Year-on-year change



	Monthly change	Annual change
July 2012	0.3	4.0
June 2012	0.2	4.9

Inflation

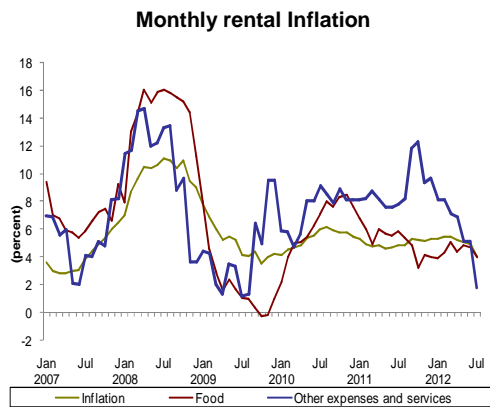
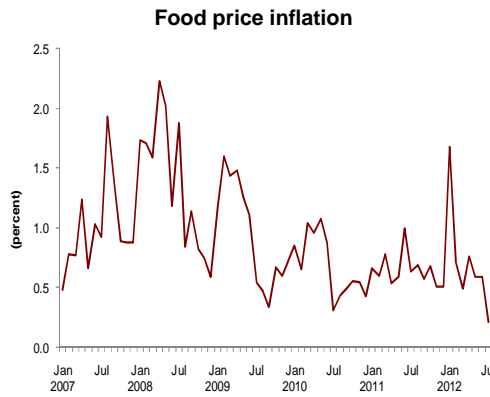
Year-on-year inflation plunged to 4 percent in July, from 4.9 percent in June. Lower food price and rental inflation was the main reason for the fall, which pulled inflation to its lowest rate since November 2009.

Annual change in inflation (percent)

	2012					
	Feb	Mar	Apr	May	Jun	July
Food & beverages	4.3	5.1	4.3	4.8	4.7	4.0
Fabrics, clothing & footwear	2.7	2.7	2.9	2.8	2.9	2.9
Housing & related items	9.3	8.9	9.2	9.2	8.8	8.3
Home furniture	3.2	3.0	3.1	3.1	3.0	2.8
Medical care	0.0	0.0	0.0	0.0	0.0	0.0
Transport & telecoms	2.3	2.2	1.8	1.7	1.7	1.2
Education & entertainment	3.6	3.5	3.5	3.5	3.4	3.4
Other expenses & services	8.1	7.1	6.9	5.1	5.1	1.8
Total	5.4	5.4	5.3	5.1	4.9	4.0

Inflation fell significantly for all of the main components of the cost of living index. Inflation for “other expenses and services” recorded the largest fall, dropping from 5.1 percent to just 1.8 percent, the lowest level since August 2009. This component of the cost of living index is influenced heavily by gold prices and the slow down reflects the moderation of gold prices over the past few months. With gold prices so far in August around 10 percent lower than they were in August 2011, a further easing of inflation from this component is likely.

Food price inflation also dropped. This is notable as July coincided with the start of Ramadan. Food prices tend to rise at the start of Ramadan and although this was the case this year, the increase was much lower than the historical norm in monthly terms, which pulled down the rate in year-on-year terms. It appears that tighter official monitoring of food prices across the supply chain contributed to the decline in food price inflation. Rental inflation also declined, reaching its lowest level since December. Some of this fall can be attributed to the base effect, as rental inflation jumped in July 2011.



Monthly change in inflation (percent)

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

Monthly inflation rose slightly to 0.3 percent in July. The rise was driven by food prices, however it is much lower than the usual increase recorded in the first month of the Gregorian calendar that Ramadan falls in. Between 2002 and 2011, the monthly increase in food prices in the month that coincides with the start of Ramadan was almost five times higher than the average for the other eleven months of the year. The subdued growth is more notable given that according the UN Food and Agriculture Organization food price index, global food prices climbed by 6 percent in July. A particularly bad harvest in the US caused global cereal prices to leap by 17 percent that month. It is inevitable that some of the rise in global food prices will feed into higher food prices in the Kingdom in the coming months. Monthly rental inflation dropped to just 0.2 percent, the lowest level since September 2006. It is possible that the passage of the mortgage law may have impacted on the willingness of landlords to raise rents.

	2007	2008	2009	2010	2011	2012*
Food & beverages	7.0	14.1	2.0	6.2	5.2	4.4
Fabrics, clothing & footwear	-2.4	0.4	0.5	-0.7	0.4	2.8
Housing & related items	8.1	17.5	14.1	9.5	7.7	9.0
Home furniture	1.3	7.7	8.5	2.8	0.5	3.0
Medical care	4.2	5.0	0.7	0.4	0.8	0.0
Transport & telecoms	-0.9	0.2	1.0	1.1	2.1	1.9
Education & entertainment	0.2	2.1	1.3	0.9	1.6	3.5
Other expenses & services	5.3	10.7	4.3	7.4	9.0	6.0
Total	4.1	9.9	5.1	5.3	5.0	5.1

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