



## Inflation Update—December 2012

### CPI ends the year inline with our expectation

#### Inflation (CPI base year =1999)

	Monthly change	Annual change
December 2012	0.2	3.9
November 2012	0.3	3.9

The Central Department for Statistics and Information (CDSI) has released CPI data for December showing inflation remained at the 3.9 percent year-on-year level observed in the previous month. This puts the annual inflation for last year at 4.5 percent-year-on-year in line with our forecasts. For 2013, we expected inflation to be mainly driven by rent and housing related services as well as food prices. While the latter is expected to likely be less of a concern as international food prices are slowing down (see figure on next page), we expect rent and housing related services to continue the current gradual downward trend. Government housing initiative is likely to reduce pressure on such component, but we do not expect such effect to materialize before next year. As such, we expect inflation in 2013 to reach 4.3 percent year-on-year down from 4.5 percent last year.

#### Annual change in inflation (percent, CPI base year =1999)

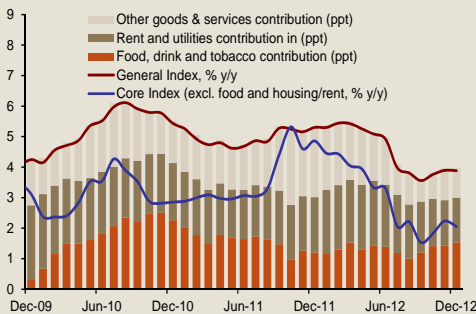
	2012					
	Jul	Aug	Sep	Oct	Nov	Dec
Food & beverages	4.0	3.3	4.0	4.7	4.8	5.1
Housing & related items	8.3	7.7	7.2	6.7	6.5	6.3
Fabrics, clothing & footwear	2.9	3.1	3.1	3.3	3.6	3.1
Home furniture	2.8	3.0	2.9	4.7	4.6	4.5
Medical care	0.0	0.0	0.0	0.3	0.3	0.3
Transport & telecoms	1.2	1.3	1.8	2.0	1.6	1.5
Education & entertainment	3.4	3.7	3.7	1.8	1.9	2.0
Other expenses & services	1.8	1.9	-0.4	-0.2	1.1	0.9
Core inflation*	2.1	2.2	1.5	1.8	2.2	2.1
<b>Total</b>	<b>4.0</b>	<b>3.8</b>	<b>3.6</b>	<b>3.8</b>	<b>3.9</b>	<b>3.9</b>

In December, rent and housing-related services maintained their gradual downward trend, to 6.3 percent year-on-year, compared with 6.5 percent in the previous month. Despite its gradual decline, rent and housing-related services remained the highest contributor to overall inflation adding 1.5 percentage point to the December inflation print. For 2012, the rental inflation registered 8.1 percent year-on-year compared with 7.8 percent in 2011. The increase is mostly due to higher inflation in the first half of the year.

Food prices accelerated to 5.1 percent year-on-year in December

Note: \*Core inflation excludes food and housing inflation and is Jadwa Investment's estimate.

**Inflation**  
(CPI base year =1999)



For comments and queries please contact the author:

Fahad Alturki  
Senior economist  
falturki@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



compared with 4.8 percent in November. Within the food category, prices of cereal and cereal products maintained their deflationary trend contracting by 1 percent despite a 14.7 percent year-on-year increase in international cereal prices. The divergence in trend between international and domestic prices is mostly due to domestic subsidy policy which maintains stable prices for essential food items.

**Monthly change in inflation**  
(percent, CPI base year =1999)

	2012					
	Jul	Aug	Sep	Oct	Nov	Dec
Food & beverages	0.4	0.9	1.0	0.7	0.7	0.2
Housing & related items	0.2	0.1	0.2	0.2	0.3	0.4
Fabrics, clothing & footwear	0.1	0.1	0.1	0.2	0.3	0.7
Home furniture	0.1	0.1	0.1	3.3	0.2	0.1
Medical care	0.0	0.0	0.0	0.3	0.0	0.0
Transport & telecoms	0.1	0.1	0.1	0.2	0.1	0.0
Education & entertainment	0.0	0.1	0.1	1.6	0.0	0.1
Other expenses & services	0.6	0.1	1.6	0.4	0.5	0.0
Core inflation	0.3	0.1	0.6	1.0	0.2	0.1
<b>Total</b>	<b>0.3</b>	<b>0.4</b>	<b>0.6</b>	<b>0.7</b>	<b>0.3</b>	<b>0.2</b>

Monthly inflation slightly slowed to 0.2 percent in December compared with 0.3 percent in November. Fabrics and clothing posted the highest increase, 0.7 percent, but this has a relatively small weight in the CPI basket. Monthly rental inflation slightly increased to 0.4 percent compared with 0.3 percent in November. Food monthly inflation, however, decelerated to 0.2 percent in December from 0.7 percent the previous month; in line with trend of the international food prices.

**Annual inflation rates**  
(percent, CPI base year =1999)

	2008	2009	2010	2011	2012	2013 F
Food & beverages	14.1	1.9	6.3	5.2	4.4	4.2
Housing & related items	17.5	14.2	9.5	7.8	8.1	7.1
Fabrics, clothing & footwear	0.3	0.5	-0.6	0.3	3.0	2.7
Home furniture	7.6	8.5	2.8	0.5	3.5	3.2
Medical care	5.0	0.7	0.4	0.8	0.1	0.2
Transport & telecoms	0.6	1.0	1.1	2.1	1.8	2.0
Education & entertainment	2.1	1.4	0.8	1.5	3.1	2.9
Other expenses & services	10.6	4.3	7.4	9.0	3.7	2.2
Core inflation	5.1	3.4	3.1	3.6	2.9	2.4
<b>Total</b>	<b>9.9</b>	<b>5.1</b>	<b>5.4</b>	<b>5.0</b>	<b>4.5</b>	<b>4.3</b>

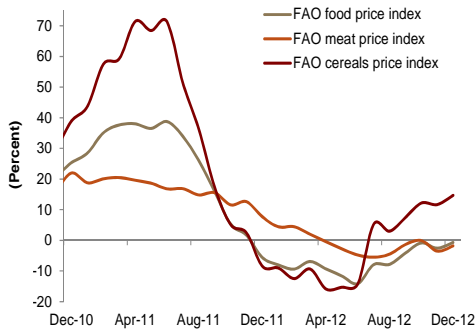
**Disclaimer of Liability**

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.

**International food inflation**  
(year-on-year change)



**Annual inflation**

(year-on-year change, CPI base year =1999)

