



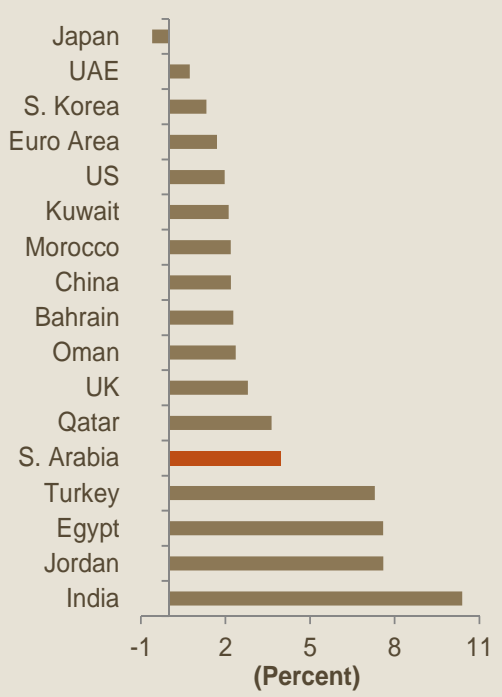
## March Inflation Update

### Core inflation slows but not housing

#### Saudi CPI inflation (percent)

	Monthly change	Annual change
March	0.3	3.9
February	0.2	3.9

#### Trading partner headline inflation rates (latest, year-on-year change)

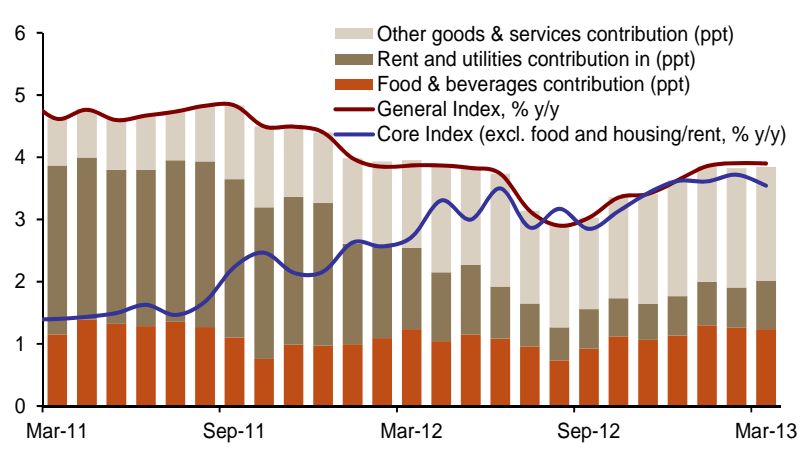


- Saudi CPI inflation maintained the 3.9 percent year-on-year increase for the third consecutive month in March. It slightly increased to 0.3 percent on a monthly basis.
- The food and rent/housing components remained the main contributors to headline inflation, adding 2 percentage point (pp) while all other components added 2pp.
- We expect the higher demand for housing and government spending to maintain an elevated inflation in the Kingdom compared with its trading partners.

In this inflation report, we switch our inflation coverage to the new goods and services basket for the Saudi Consumer Price Index (CPI). The new CPI classifications were presented a few months ago by the Central Department for Statistics (CDSI). According to CDSI, the new basket includes 476 goods and services compared with 406 in the previous one. Groupings and weights of these goods and services have also been modified with twelve subgroups under the new classification (see table on the next page) compared with only eight subgroups previously. The new classification should in principle give a better indicator of the domestic price trend as its also increases the frequency of market-price checks.

This week, the CDSI also released CPI inflation data for March showing a flat inflation trend at 3.9 percent year-on-year for the third consecutive month. On a monthly basis, prices turned upward by 0.3 percent in March compared with 0.2 percent in February. Our estimate of core inflation, which excludes food and housing-related services, slowed in March after a 5-month period of a positive trend.

**Figure 1: Saudi Inflation rate maintains a flat trend**



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*Headline inflation maintains a flat trend...*

*...but core inflation is slowing.*

*While food prices remain the main force driving year-on-year inflation...*

*...housing prices break the gradual downward trend in March...*

*...as rental prices accelerates.*

*Saudi CPI inflation remains high compared with GCC peers .*

It fell to 3.5 percent year-on-year compared with 3.7 percent in February. Core inflation was mainly driven by the transport segment (7.5 percent year-on-year), which carries a 10.4 percent weight in the new CPI basket.

Food inflation, which accounts for 21.7 percent of the new CPI basket, slightly eased to 5.3 percent year-on-year March, adding 1.2pp to the headline figure. Despite the slight decline, the CDSI's statement showed that all but two subcomponent of food inflation increased last month compared with a year earlier, namely sugar and other food products. Slower food prices, nonetheless, is in line with the year-on-year trend in international food prices. The IMF Food Price Index slowed to 3.4 percent year on year in March compared with 6.9 percent in February while the year-on-year change in the FAO food price index remained in the negative territory in March.

The rent and housing-related services price index, which account for 20.5 percent of the new CPI basket, increased by 3.1 percent March versus 2.6 percent in February, contributing 0.8pp to headline inflation. This represents the highest increase in housing inflation since June 2012, as the rent component accelerates to 3.7 percent year-on-year compared with 2.9 percent in the previous month. The month-on-month rental inflation also reversed the previous month decline to register a 0.8 percent rise in March. Housing inflation is expected to remain elevated as the most recent government housing initiatives are likely to only ease housing market pressure in the long term.

March CPI data are not available for other GCC countries yet; Saudi Arabia is usually the first GCC country to publish its inflation figures. Saudi Arabia's February CPI inflation, at 3.9 percent year-on-year, remained the highest in the group. While GCC weighted headline CPI inflation registered 2.9 percent year-on-year in February, food inflation continues to slow, falling to 3.8 percent year-on-year from 4.1 percent in January. Qatar CPI inflation registered the second highest print in February, at 3.2 percent year-on-year, while the UAE and Kuwait remain the lowest at 0.7 percent and 1.3 percent year-on-year, respectively.

**Table 1: Main highlights of Saudi CPI inflation**  
(percent)

	Weights	Month-on-month			Year-on-year			YTD
		Feb-13	Mar-13	Contribution, ppt	Feb-13	Mar-13	Contribution, ppt	
Food & beverages	21.7	0.4	0.4	0.1	5.4	5.3	1.2	0.6
Housing & related items	20.5	0.0	0.6	0.1	2.6	3.1	0.8	0.6
Tobacco	0.5	0.0	0.0	0.0	12.8	12.8	0.1	0.0
Clothing & footwear	8.4	-0.5	-0.4	0.0	4.2	3.7	0.3	-0.3
Home furniture	9.1	0.8	0.6	0.1	1.4	2.1	0.2	0.8
Medical care	2.6	0.6	0.1	0.0	1.5	1.6	0.0	0.8
Transport	10.4	0.4	0.4	0.0	8.7	7.5	0.7	1.0
Communication	8.1	0.1	0.0	0.0	1.2	1.5	0.1	0.3
Recreation & culture	3.5	-0.3	0.0	0.0	1.6	1.3	0.0	-0.3
Education	2.7	0.0	0.0	0.0	1.7	1.7	0.0	0.0
Restaurants & hotels	5.7	0.2	-0.1	0.0	7.2	7.1	0.4	0.4
Other expenses & services	6.8	-0.4	0.0	0.0	0.8	0.4	0.0	-0.7
<b>Core inflation*</b>	<b>57.8</b>	<b>0.1</b>	<b>0.1</b>	<b>0.1</b>	<b>3.7</b>	<b>3.5</b>	<b>1.8</b>	<b>0.3</b>
<b>General index</b>	<b>100.0</b>	<b>0.2</b>	<b>0.3</b>	<b>...</b>	<b>3.9</b>	<b>3.9</b>	<b>...</b>	<b>0.4</b>

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



Figure 2: Inflation forecasts

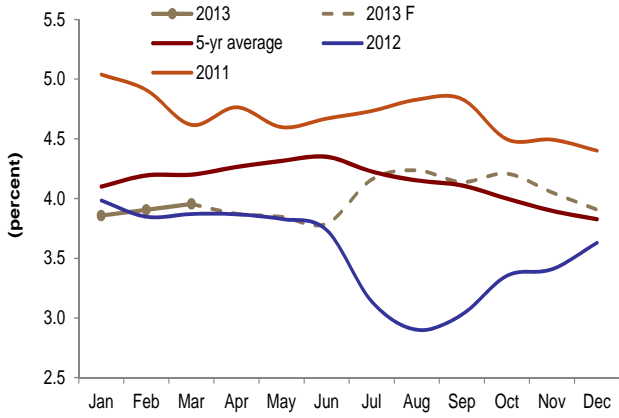


Figure 3: GCC headline inflation

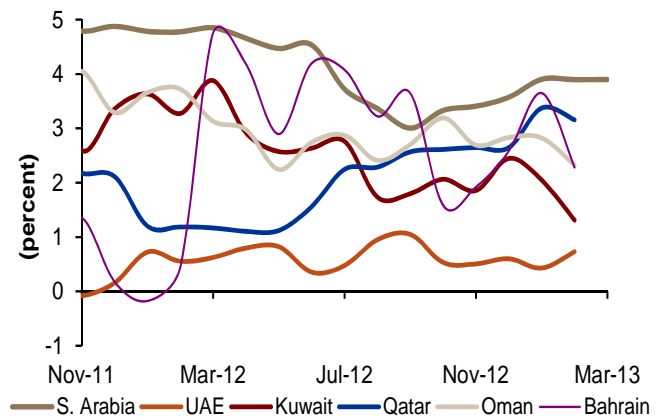


Figure 4: Annual food inflation

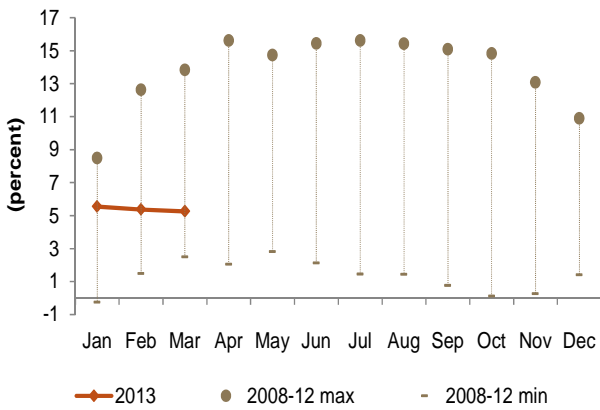


Figure 5: GCC food inflation

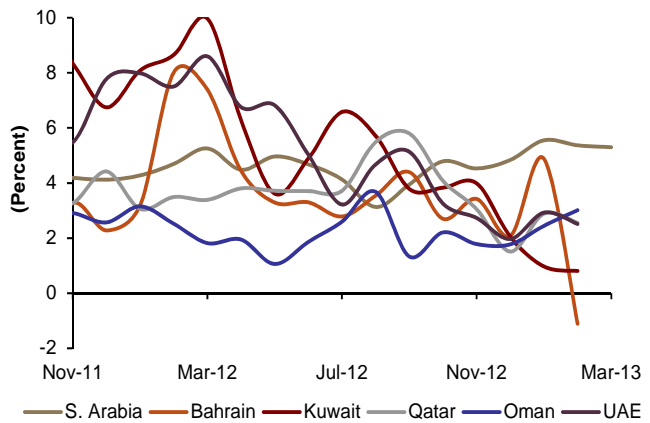


Figure 6: Annual housing and related services inflation

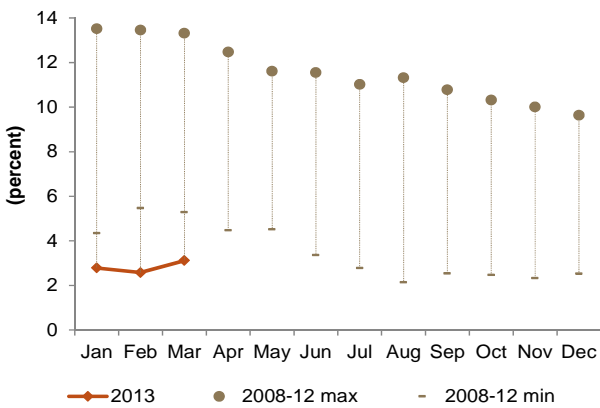
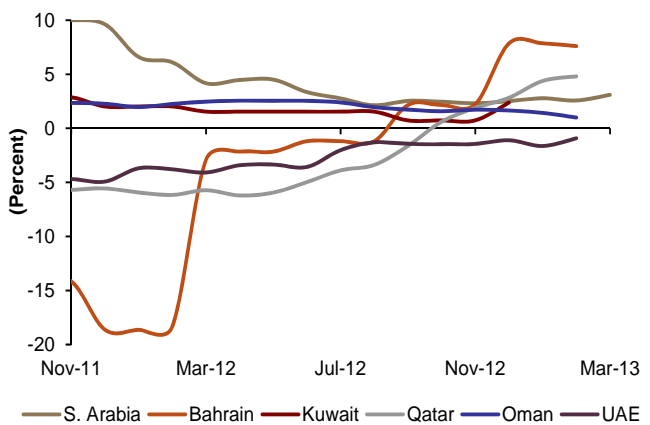


Figure 7: GCC housing inflation





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