



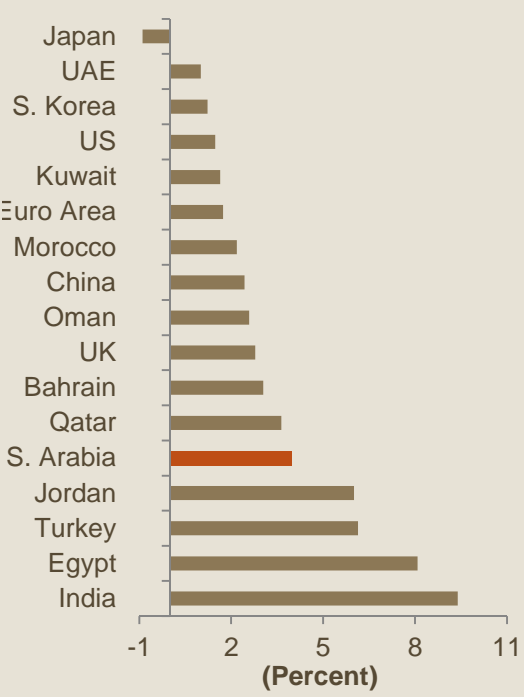
## April Inflation Update

### Food inflation continues to accelerate

#### Saudi CPI inflation (percent)

	Monthly change	Annual change
April	0.2	4.0
March	0.3	3.9

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

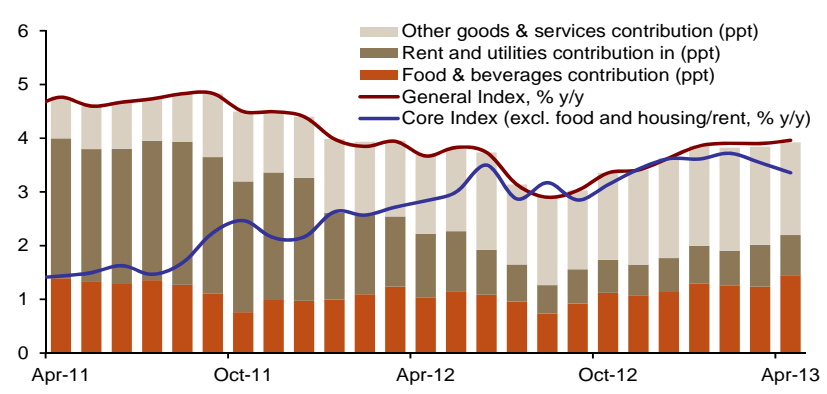


- Saudi annual CPI inflation slightly increased to 4 percent in April compared with 3.9 percent in the previous three months. It slightly eased to 0.2 percent on a monthly basis.
- The food and rent/housing components remained the main contributors to headline inflation, adding 2.2 percentage point (pp) while all other components added 1.8pp.
- We expect strong consumption demand, housing market and government spending to maintain an elevated inflation in the Kingdom compared with its trading partners.

The Central Department for Statistic and Information (CDSI) released Consumer Price Index (CPI) inflation data for April, showing prices slightly rising to 4 percent year-on-year compared with 3.9 percent in the previous three months. This level of inflation remains among the highest inflation rates relative to the Kingdom's main trading partners. On a monthly basis, prices slightly eased to 0.2 percent in April compared with 0.3 percent in March. Our estimate of Saudi core inflation, which excludes food and housing-related services, also eased to 3.4 percent year-on-year in April compared with 3.5 percent in March. Core inflation was mainly driven by the transport group (5.6 percent year-on-year) followed by restaurant and hotel (5.5 percent year-on-year).

A major highlight of April inflation print is the food prices acceleration to 6.2 percent year-on-year compared with 5.3 percent in March (Figure 5). This puts April's food inflation at a record high for the new CPI classification of which data is only available for 2012-13. Such significant increase in annual food prices also put the food segment

Figure 1: April inflation print rise slightly



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*Headline inflation slightly increases...*

*...but core inflation maintained a downward trend in April.*

*Food inflation accelerated to above 6 percent year-on-year*

*Lower rental inflation pull housing inflation down.*

*International conditions provide a benign backdrop to inflation...*

*...while domestic inflationary pressure remains...*

*... but we do not expect any change in policy rates.*

as the largest single contributor to overall inflation, adding 1.5pp. According to the CDSI's statement, all but one subcomponent of food inflation increased last month compared with a year earlier. While the unavailability of weights for food subcomponents prevents us for pinning down the main cause of such spike in food prices, we note that bread and cereals products, vegetables and fruit and nuts registered the largest increase in prices compared to the previous month. The food price increases are inline with the trend of the IMF's food price index, which increased by a monthly average of 6 percent year-on-year so far this year. The FAO food price index also reversed its negative trend to rise by 1.1 percent in April year-on-year (Figure 6).

The rent and housing-related services price index eased to 3 percent year-on-year in April versus 3.1 percent in March, contributing 0.7pp to headline inflation. Such slight ease in the rate of inflation for the housing segment is most likely due to slower rental inflation which registered 3.4 percent year-on-year in April compared with 3.7 percent the previous month. In fact, rental prices have contracted by 0.1 percent in April compared to their March level. Despite the monthly contraction, we maintain over view that housing inflation is expected to remain elevated this year before gradually easing next year as the impact of the recent government housing initiatives kicks in.

While the external factors contribution to inflation in the Kingdom will remain subdued owing to a stronger USD and low trading partner inflation rates, we expect domestic inflationary pressure to remain relatively strong. High consumer spending (Figure 7), double-digit money supply growth (Figure 8), rising bank lending and exceptionally low interest rates will maintain positive inflation in areas such as home furniture, education, recreation and culture, transport, communication and medical care. These components, however, have low weights in the CPI basket leading to a lower contribution to overall inflation print. Looking forward, the rate of inflation is likely to slow during the early summer months before rising ahead of the month of Ramadan and into the Eid holidays. We do not expect the monetary authority to take any policy rate actions, especially given the evident stabilization in core inflation.

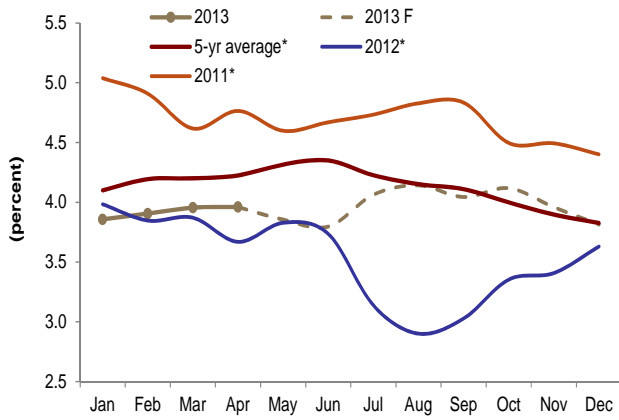
**Figure 2: Main highlights of Saudi CPI inflation**  
(percent)

	Weights	Month-on-month			Year-on-year			YTD
		Mar-13	Apr-13	Contribution, ppt.	Mar-13	Apr-13	Contribution, ppt.	
Food & beverages	21.7	0.4	0.9	0.2	5.3	6.2	1.5	1.9
Housing & related items	20.5	0.6	0.0	0.0	3.1	3.0	0.7	1.2
Tobacco	0.5	0.0	0.0	0.0	12.8	12.8	0.1	0.0
Clothing & footwear	8.4	-0.4	-0.1	0.0	3.7	3.3	0.2	-0.8
Home furniture	9.1	0.6	0.8	0.1	2.1	3.6	0.3	2.3
Medical care	2.6	0.1	0.6	0.0	1.6	4.1	0.1	1.6
Transport	10.4	0.4	-0.5	0.0	7.5	5.6	0.5	0.8
Communication	8.1	0.0	0.2	0.0	1.5	2.0	0.1	0.5
Recreation & culture	3.5	0.0	0.1	0.0	1.3	1.4	0.0	-0.2
Education	2.7	0.0	0.0	0.0	1.7	1.7	0.0	0.0
Restaurants & hotels	5.7	-0.1	0.5	0.0	7.1	5.5	0.3	0.8
Other expenses & services	6.8	0.0	-0.4	0.0	0.4	0.0	0.0	-1.1
<b>Core inflation*</b>	<b>57.8</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>3.5</b>	<b>3.4</b>	<b>1.7</b>	<b>0.5</b>
<b>General index</b>	<b>100.0</b>	<b>0.3</b>	<b>0.2</b>	<b>...</b>	<b>3.9</b>	<b>4.0</b>	<b>...</b>	<b>1.0</b>

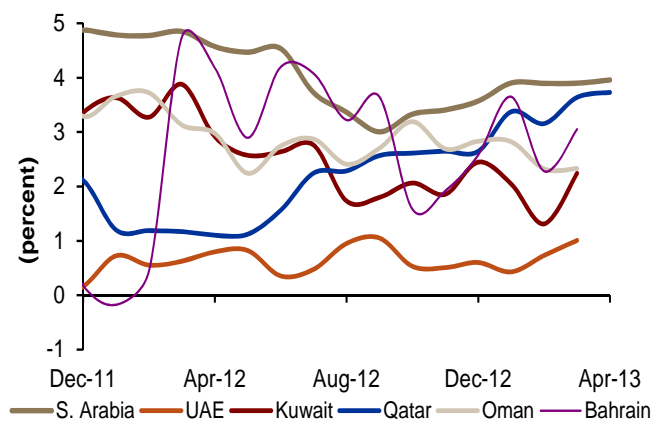
Note: \*Core inflation excludes food and housing inflation and is Jadwa Investment's estimate.



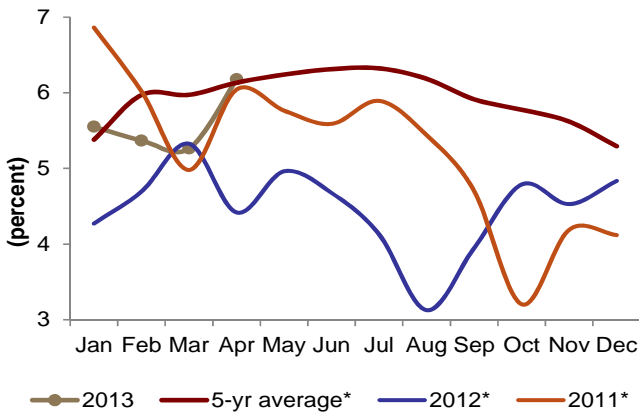
**Figure 3: Inflation forecasts**  
(year-on-year change)



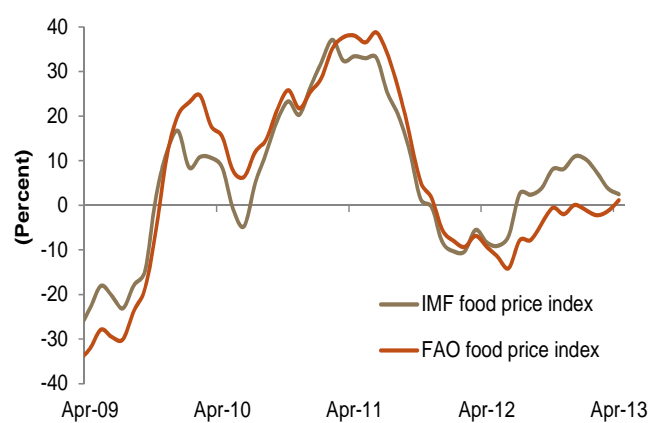
**Figure 4: GCC headline inflation**  
(year-on-year change)



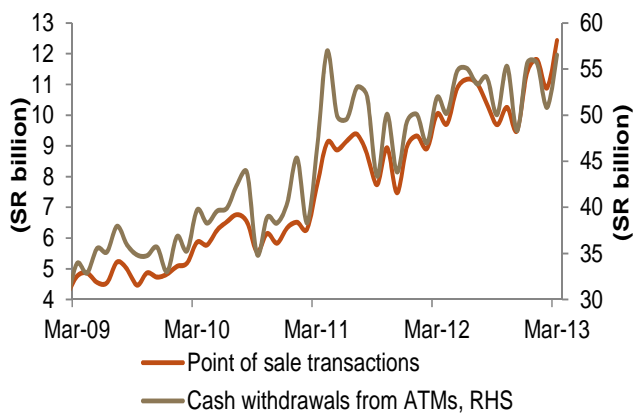
**Figure 5: Annual food inflation**  
(year-on-year change)



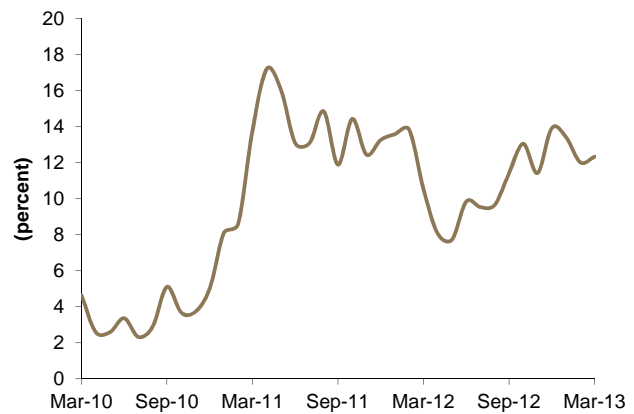
**Figure 6: International food prices**  
(year-on-year change)



**Figure 7: Indicators of domestic demand**



**Figure 8: Money supply**  
(year-on-year change)



Note: \*includes Jadwa Investment estimate for the earlier years.

Sources: Central Department Of Statistics & Information, IMF, FAO, Reuters, Haver Analytics, Jadwa investment



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