



Inflation update—September 2014

Food and rental inflation accelerate

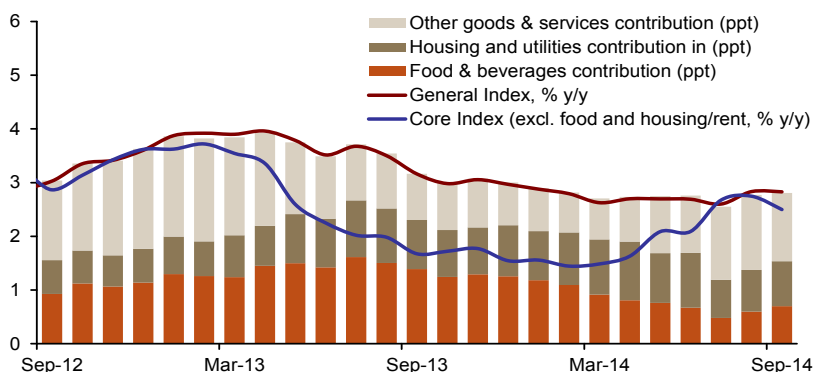
- Saudi CPI remained unchanged at 2.8 percent year-on-year in September .
- Rental inflation accelerated in both August and September, recording 3.1 percent and 3.4 percent year-on-year respectively, picking up pace after a slowdown in July.
- Food price inflation accelerated to 2.9 percent year-on-year in September despite a deflationary trend in international food prices.

The Central Department of Statistics and Information (CDSI) has released Consumer Price Index data for September, showing a rise in prices by 2.8 percent year-on-year, staying unchanged from the previous month. Foodstuffs and housing have continued to be the main sources of inflation as they all accelerated in August and September in year-on-year terms. (Figures 1 and 2). Our estimate of core inflation, which excludes food and rent and other housing services, slowed to 2.5 percent year-on-year in September compared to 2.7 percent in August, with most segments of the core index recording a slowdown.

The contribution of food and rent and housing-related services rose to 54 percent compared to 48 percent in the previous month . This was mainly due to rising inflation in these two components coupled with falling core inflation.

Foodstuffs saw prices rise by 2.9 year-on-year in September, continuing its upward trend for the second consecutive month despite a deflationary trend in international food prices (Figure 5). On monthly terms, food prices rose by 0.9 percent in September compared to an average of 0.1 in the first eight months of 2014. This was driven by a rise in prices of vegetables and fish and

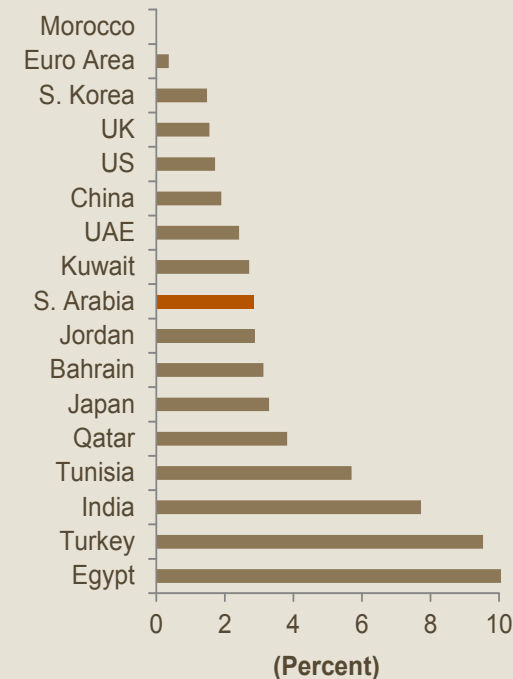
Figure 1: Inflation unchanged while the core index slows



Saudi CPI inflation (percent)

	Monthly change	Annual change
September	0.2	2.8
August	0.4	2.8

Trading partner inflation rate (latest, year-on-year change)



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Headline inflation remains unchanged...

...with core inflation slowing down.

Food inflation continued to accelerate for the second month ...

... so did rental inflation, rising to 3.4 percent year-on-year...

... with the rent component playing a large part in the recent rise...

...while other components of the core index recorded a seasonal slowdown.

We slightly revised down average annual inflation to 2.8 percent.

seafood, which saw prices increasing by 5.8 percent and 3.2 percent respectively.

In year-on-year terms, rental inflation also continued to accelerate during September following a brief slowdown in July (Figure 6). Rental inflation accelerated to 3.4 percent year-on-year in September compared with 3.1 percent and 2.8 percent for August and July respectively, and continues to be the largest contributor to headline inflation with 0.8 percentage points. The rent component - which rose by 3.8 year-on-year in September- plays a major part in the inflationary pressure in this group. The delay in government initiatives to reform the housing market means that earlier anticipation over the prospect to purchase permanent homes has subsided, leading to acceleration in rental activity instead.

Most components of the core index recorded a slowdown in September (Figure 8). Annual inflation for transport, furnishings, and miscellaneous goods was at 0.2 percent, 3.8 percent, and 3.1 percent respectively. In month-on-month terms, the core index declined by -0.3 percent, with the clothing and miscellaneous goods subgroups recording the biggest drops at -0.8 percent each. The transport subgroup -which has the third highest weight in the CPI basket- also recorded a monthly decline of 0.4 percent. The stabilization in the core index reflects a seasonal trend.

We expect external factors' contribution to inflation to remain subdued, particularly given a strengthening USD and the weaker prospects of global economic growth. A potential source for external inflation may arrive from jewelry prices under the "other expenses and services" component, which may mirror the increase in gold prices as people seek a safe haven given the weak global economic situation. We maintain domestic inflationary pressure to remain elevated, driven by continued levels of high consumer spending and bank lending (Figure 7). We maintain our expectation that the steady increase in the housing inflation rate will continue, driven partially by a smaller base effect and partially by strong domestic demand for housing units. The combination of these factors together with an expected continuation in the slowdown of the core index lead us to revise our estimates for average annual inflation to 2.8 percent for 2014, slightly down from 2.9 percent.

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

	Weights	Month-on-month			Year-on-year			YTD
		Aug-14	Sep-14	Contribution, ppt.	Aug-14	Sep-14	Contribution, ppt.	
Food & beverages	21.7	0.8	0.9	0.2	2.5	2.9	0.7	1.7
Housing & related items	20.5	0.3	0.3	0.1	3.1	3.4	0.8	2.5
Tobacco	0.5	0.0	0.0	0.0	7.3	7.3	0.0	1.4
Clothing & footwear	8.4	-0.4	-0.8	-0.1	0.8	1.2	0.1	-0.2
Home furniture	9.1	0.5	0.5	0.0	4.4	3.8	0.3	2.1
Medical care	2.6	0.0	0.1	0.0	3.3	3.3	0.1	2.9
Transport	10.4	-0.1	-0.4	0.0	0.3	0.2	0.0	0.8
Communication	8.1	-0.4	-0.2	0.0	0.2	-0.2	0.0	-0.4
Recreation & culture	3.5	0.5	-0.3	0.0	10.9	10.6	0.3	8.2
Education	2.7	0.0	0.0	0.0	3.7	3.7	0.1	0.0
Restaurants & hotels	5.7	1.2	-0.5	0.0	2.3	2.5	0.1	1.5
Other expenses & services	6.8	1.0	-0.8	-0.1	4.3	3.1	0.2	3.3
Core inflation*	57.8	0.3	-0.3	-0.1	2.7	2.5	1.3	1.6
General index	100.0	0.4	0.2	...	2.8	2.8	...	1.9

² Note: *Core inflation excludes food and housing inflation and is Jadwa Investment's estimate.



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

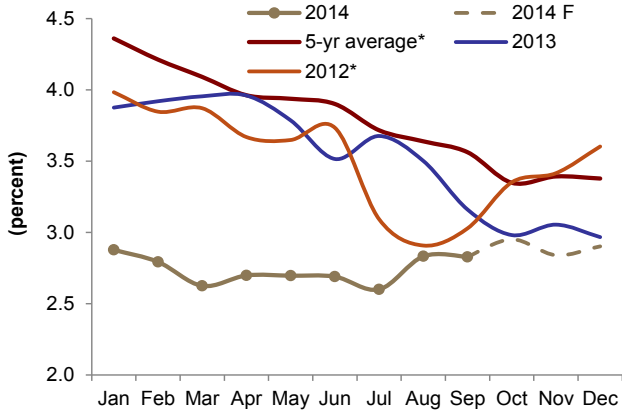


Figure 4: Food, rental, and headline inflation
(year-on-year)

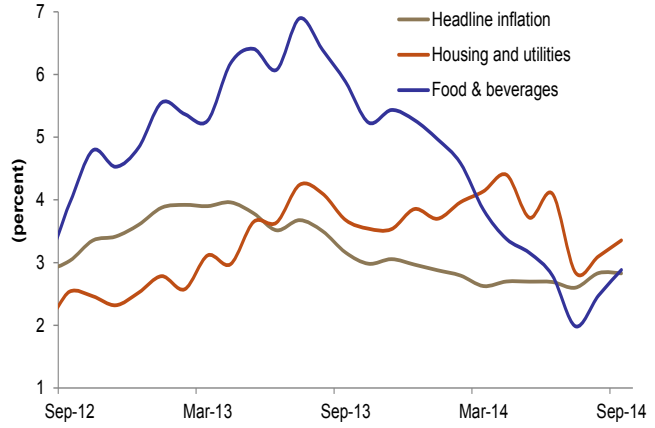


Figure 5: International and Saudi food inflation
(year-on-year)

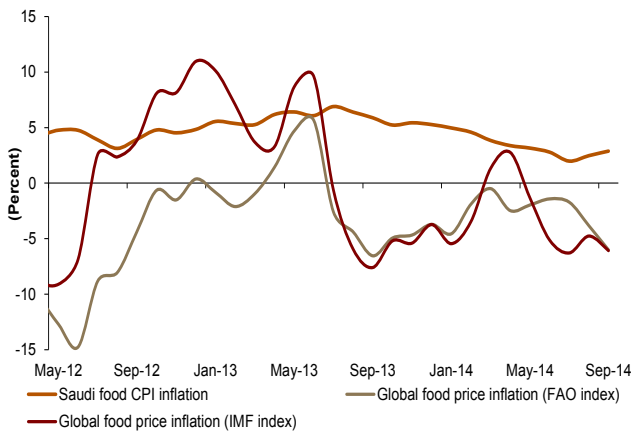


Figure 6: Rental inflation

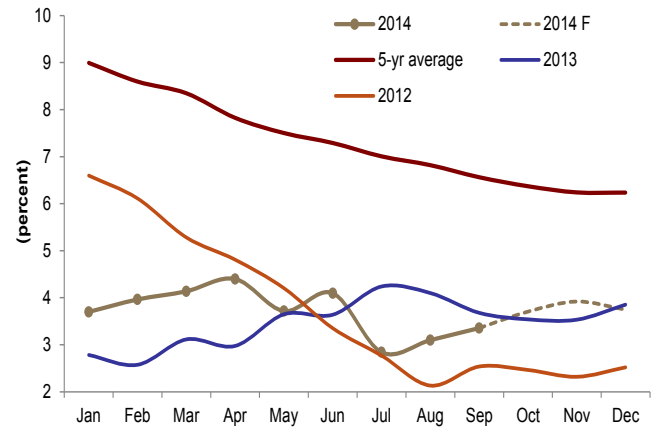


Figure 7: Indicators of domestic demand
(year-on-year)

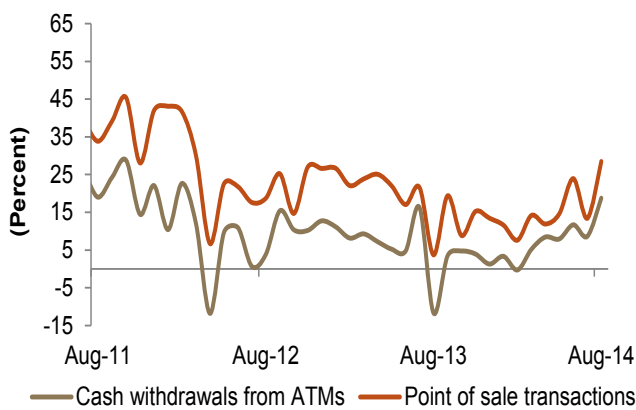
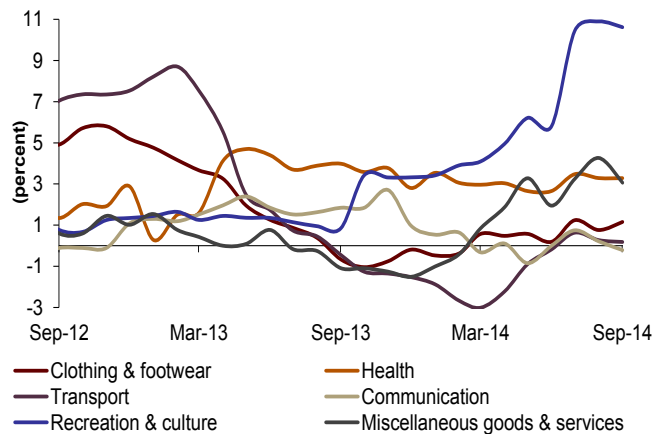


Figure 8: Components of core inflation
(year-on-year)



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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