



**Saudi CPI inflation**  
(percent)

	Monthly change	Annual change
January 2017	-0.2	-0.4
December 2016	-0.5	1.7

**Trading partner inflation rate**

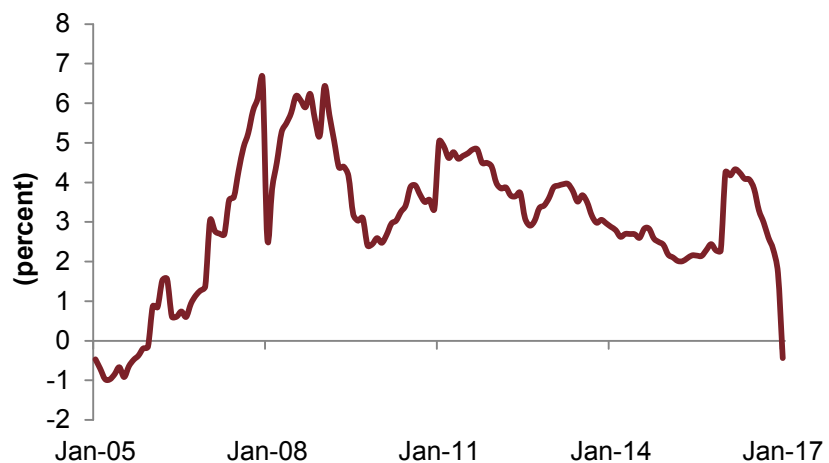


**Deflation in January 2017**

- Saudi CPI continued to edge downward in January, recording the first negative year-on-year growth since 2005, at -0.4 percent.
- Prices of foodstuffs continued to fall, declining by 3.6 percent year-on-year in January.
- Meanwhile, housing continued to be the main contributor to overall inflation.
- Our core index estimate also continued to decelerate year-on-year, reaching 0.6 percent in January.
- Looking ahead, government initiatives aimed at stimulating private sector activity should have a positive impact on aggregate demand, and therefore inflation.
- Also, the planned increase in household electricity prices by mid-2017 should accelerate inflation to similar levels witnessed in early 2016, when energy prices were increased last.

The General Authority for Statistics (Gastat) has released the Consumer Price Index data for January, showing negative growth in prices by 0.4 percent year-on-year (Figure 1), the first monthly deflation in twelve years, a trend we anticipated in our [monthly chartbook](#). On a month-on-month basis, the index decreased by 1.7 percent. That said, the deflationary trend is mainly due to a higher base effect as a result of energy price rises which took place on January 2016. Looking ahead, we expect inflation to remain subdued in the first six months of 2017, before another hike in household electricity prices pushes up inflation during the second half of 2017.

**Figure 1: Deflation returns after a twelve-year absence**  
(year-on-year change)



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*Deflation was mainly due to the diminishing effects of the reform in energy prices seen back in January 2016.*

*Prices of food and beverages shrunk by 4.2 year-on-year in January.*

*Housing and utilities segment decelerated to 1.2 percent in January 2017.*

The sharp slowdown in headline inflation was mainly due to the diminishing effects of the reform in energy prices seen back in January 2016 (Figure 2). However, even in month-on-month terms, CPI recorded a negative change of -0.2 percent. Prices of foodstuffs, the largest weight in the CPI basket, remained in the negative territory for the sixth consecutive month, both year-on-year and month-on-month terms. Conversely, housing and utilities recorded a positive year-on-year change of 1.2 percent, but on a month-on-month basis growth was negative. Our estimate of core inflation, which excludes food, rent and other housing services, slowed to the lowest level in ten years, from 2.3 percent in December, to 0.4 percent in January. This was a result of a negative year-on-year change in the transport segment (Figure 3).

Prices of food and beverages shrunk by 4.2 year-on-year in January, recording a sixth consecutive monthly year-on-year decline, and bucking the trend in global food prices (Figure 4). Domestic food prices have been declining since mid-2016, partially due to a strengthening riyal, in line with the US dollar, which has contributed to lowering the import bill in recent months. As a result, the value of imports fell by 20 to 30 percent year-on-year in recent months (Figure 5). Also, a number of bans on meat and poultry have been lifted by the authorities from certain countries in the last few months, the imposition of which had previously driven up domestic prices. Going forward, we expect Saudi food prices to start moving upwards in line with global trends, although this could be mitigated by further rises in the US dollar. Further, the negative trend should also start reversing in the next few months due to a rise in customs duties for 193 products, the majority of which are on food products, from 5 to 25 percent, which took effect from January 1st. Lastly, some upward effect on beverages is also likely to be felt as a result of an 'excise tax' on sugary drinks in Q2 2017.

Housing and utilities segment decelerated from 6.4 percent, year-on-year in December 2016 to just 1.2 percent in January 2017. Negative growth was seen in all but one of the sub-groups, rentals for housing. That being said, inflation in the rentals sub-group is easing, with January 2017 showing a sixth consecutive month of slowing year-on-year growth (Figure 6). The water sub-group ended a twelve month span of substantial year-on-year growth due to the effect of

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

	Weights	Month-on-month			Year-on-year			YTD
		Dec-16	Jan-17	Contribution, ppt	Dec-16	Jan-17	Contribution, ppt	
Food & beverages	21.7	-1.5	-0.6	-0.1	-4.3	-4.2	-1.0	-0.6
Housing & related items	20.5	0.0	-0.2	-0.1	6.4	1.2	0.3	-0.2
Tobacco	0.5	0.0	0.0	0.0	20.5	19.9	0.1	0.0
Clothing & footwear	8.4	-0.3	0.3	0.0	0.5	1.3	0.1	0.3
Home furniture	9.1	-0.4	-0.1	0.0	0.8	0.5	0.0	-0.1
Medical care	2.6	0.0	0.2	0.0	5.2	2.2	0.1	0.2
Transport	10.4	-0.7	-0.6	-0.1	7.5	-3.1	-0.3	-0.6
Communication	8.1	0.8	0.7	0.0	2.3	2.8	0.2	0.7
Recreation & culture	3.5	-0.6	-0.7	0.0	-2.2	-2.2	-0.1	-0.7
Education	2.7	0.0	0.0	0.0	1.9	1.9	0.0	0.0
Restaurants & hotels	5.7	0.1	-0.8	0.0	-0.6	-1.1	-0.1	-0.8
Other expenses & services	6.8	-0.6	0.2	0.0	1.5	2.3	0.1	0.2
<b>Core inflation*</b>	<b>57.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.3</b>	<b>0.4</b>	<b>0.2</b>	<b>-0.1</b>
<b>General index</b>	<b>100.0</b>	<b>-0.5</b>	<b>-0.2</b>	<b>...</b>	<b>1.7</b>	<b>-0.4</b>	<b>...</b>	<b>-0.2</b>

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



*The core index slowed sharply to 0.4 percent, year-on-year in January...*

*...down from 2.3 percent in December.*

*Likely pressure points on inflation will come from a new round of energy price hikes by mid-2017...*

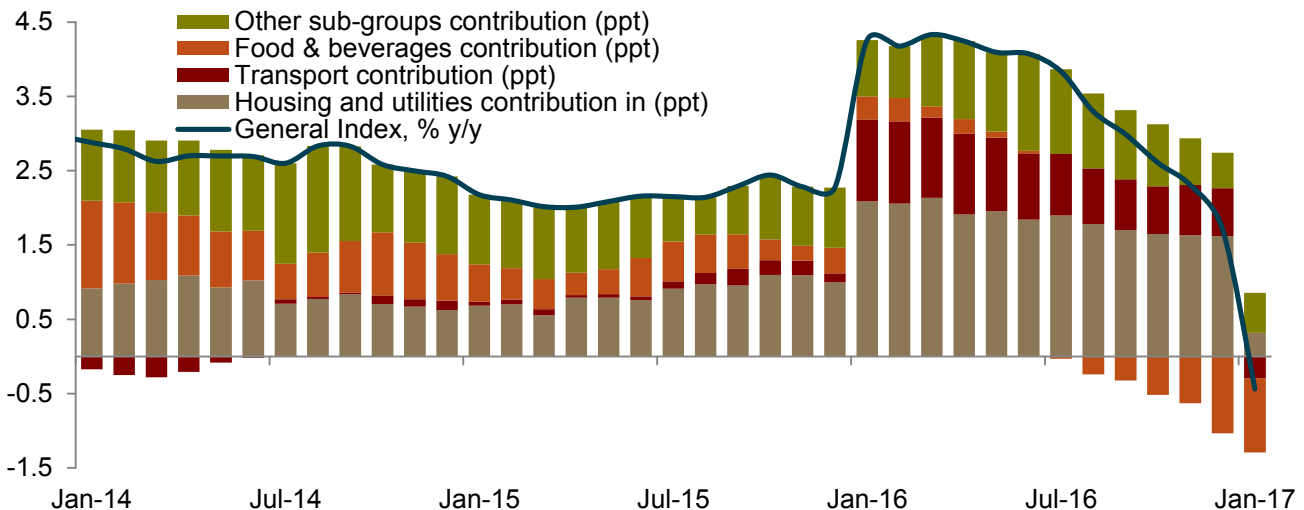
*...and rising demand for consumer products ahead of the scheduled implementation of value-added tax in early 2018.*

increasing energy and water prices at the beginning of 2016. The year-on-year growth recorded by the water sub-group was 0.7 percent compared to 134.9 percent in December 2016.

The core index slowed sharply to 0.4 percent, year-on-year in January, down from 2.3 percent in December. Transport, which has the third highest weight in the CPI basket, recorded a negative growth of -3.1 percent in January, down from 7.5 percent in December. Like housing & utilities, transportation was also affected by the energy price hike at the beginning of 2016 (Figure 7). Other components of the core index recorded mixed performances in January (Figure 8). Meanwhile communication, clothing, and miscellaneous goods saw an acceleration in year-on-year inflation at 1.3 percent, 2.8 percent, 2.3 percent respectively. Education kept the same level of inflation at 1.9 percent, while health and furnishings decelerated to 2.2 percent and 0.5 percent respectively. Meanwhile, recreation and restaurants & hotels continued in a deflationary trend at -2.2 percent and -1.1 percent respectively.

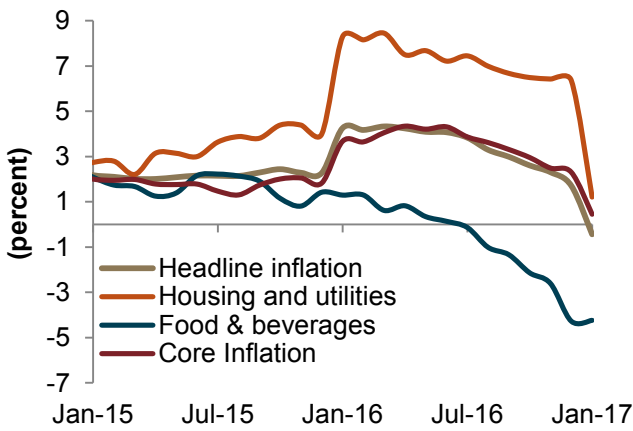
A strong US dollar and weak global economic growth should lessen the impact of external conditions on domestic inflation. That said, the January rise in custom duties on food imports should put pressure on prices in coming months. Looking further ahead, the imposition of excise taxes on harmful food products in Q2 2016 should also result in a pick-up in domestic inflationary pressure. Meanwhile, the inflationary impact of the new round of energy price reform to be implemented in Q3 2017 will be most apparent in the housing & utilities segment. Another likely pressure point on inflation towards the end of 2017 will come from rising demand for consumer products ahead of the scheduled implementation of value-added tax in early 2018. The abovementioned factors should together contribute to a rise in inflation particularly during the second half of 2017, leading to an annual average inflation rate of 2.0 percent.

**Figure 2: Foodstuffs and transport drag annual inflation into the negative territory**

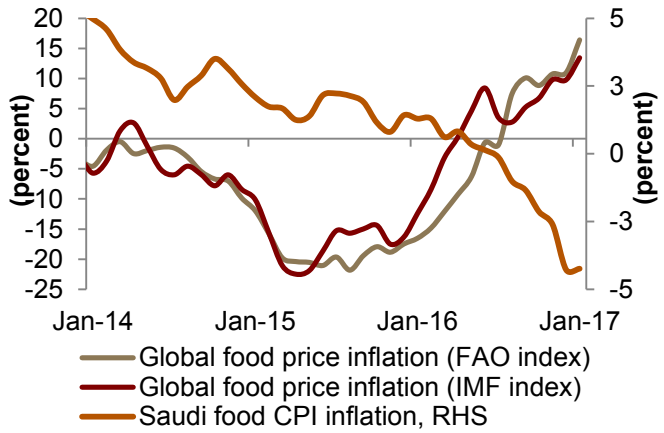




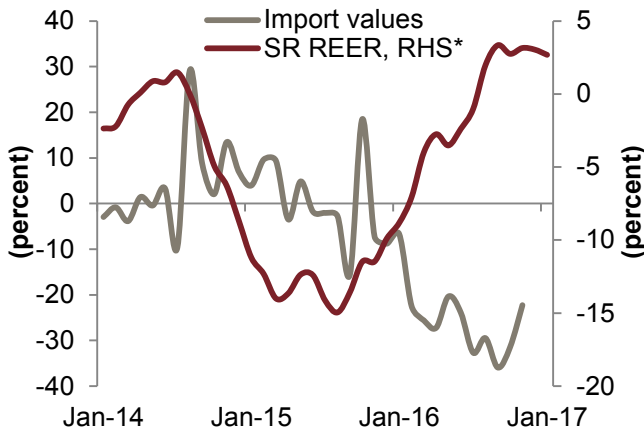
**Figure 3: Food, housing, core, and headline inflation (year-on-year change)**



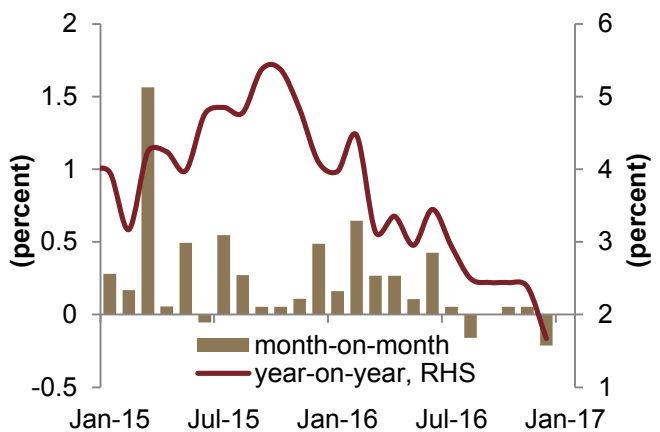
**Figure 4: Global and domestic food inflation (year-on-year change)**



**Figure 5: Imports values and SR Real Effective Exchange Rate (year-on-year change)**

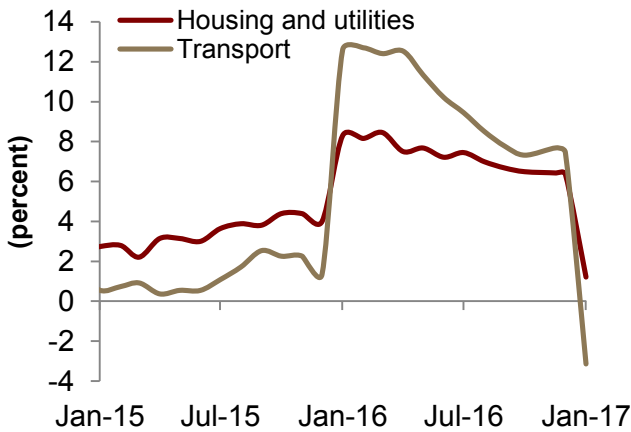


**Figure 6: Rentals for housing**

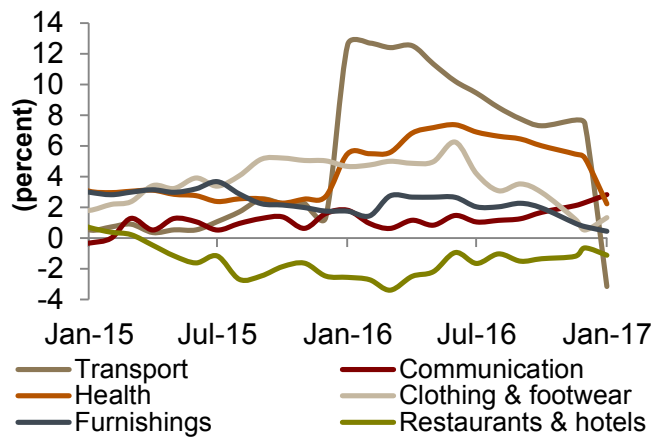


\*Note: positive sign denotes an appreciation in the SR REER

**Figure 7: Housing & Utilities and transportation. (year-on-year change)**



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



Sources: General Authority for Statistics, Saudi Arabian Monetary Agency, Jadwa Investment.



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