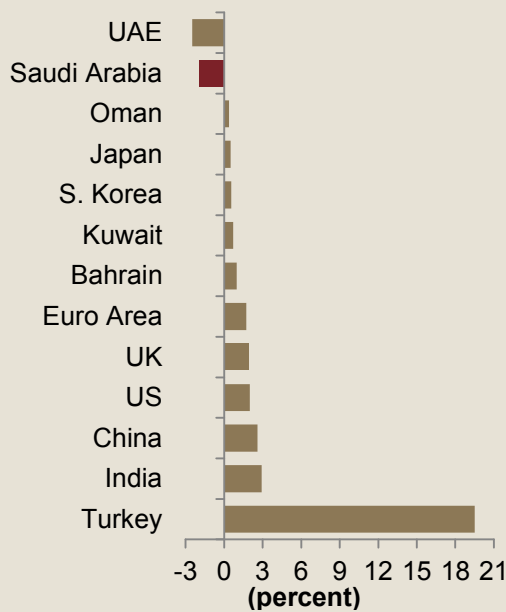




Saudi CPI inflation
(percent)

	Monthly change	Annual change
April 2019	0	-1.9
March 2019	-0.1	-2.1
Year-to-April average	-0.1	-2.1

Inflation rates in trade partners (latest)



Prices cool down after a year of reforms

- The latest General Authority for Statistics (GaStat) inflation release for April shows that prices declined by 1.9 percent year-on-year, and remained unchanged month-on-month.
- Since the start of the year, prices have declined by a yearly average of 2.1 percent, as such, we have revised our full year inflation forecast to -1.7 percent, year-on-year, which partly reflects the price base effect from 2018, due to VAT implementation and energy and utility price reforms.
- 'Food and beverages' prices rose by 1.1 percent year-to-April, with main price rises coming from vegetables.
- 'Housing and utilities' prices declined by 8 percent year-to-April, mainly due to the impact of 'rentals for housing', declining by an average of 9.1 percent year-to-April.
- 'Transportation' prices were down by 0.5 percent in the year-to-April, despite a rise in April by 0.3 percent year-on-year.
- In the year-to-March, annual growth in POS sales has been lower for only four out of a total of 11 sectors: health, clothing & footwear, recreation & culture, and public utilities.

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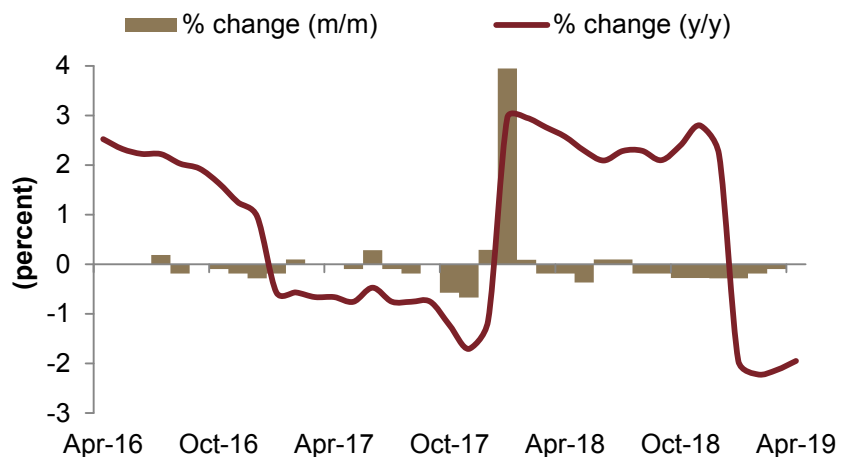
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Figure 1: Inflation rates





Recent Developments

In the year-to-April, prices declined by a yearly average of 2.1 percent.

The latest General Authority for Statistics (GaStat) April inflation release shows that prices declined by 1.9 percent year-on-year, and remained unchanged month-on-month. In the year-to-April, prices have declined by a yearly average of 2.1 percent, as such, we have revised our full year inflation forecast to -1.7 percent, year-on-year, which partly reflects the price base effect from 2018, due to VAT implementation and energy and utility price reforms.

In addition, on a month-on-month basis, prices continued to slow, following a trend seen since August 2018, indicating a gradual slowdown in prices as the local economy adjusts to VAT, utility price reform, and other structural changes in the labor market.

CPI basket groups

'Food & beverages' prices rose by 1.1 percent year-to-April.

'Food and beverages' prices rose by 1.1 percent year-to-April. Looking at sub-group data, we find that the main rises in food prices, year-to-April, came from vegetables, which were affected by the rise in international agricultural prices, measured by the World Bank. In Q1 2019, the World Bank agricultural prices index rose moderately on prospects of lower planting. In addition, rises in local food prices also came from fish and seafood. In general, the Food and Agriculture Organization for the United Nations (FAO) saw its food price index rising in April to mark the highest value since June 2018. Looking ahead, we expect local food prices to follow an upward trend, as the 'food and beverages' group contain several imported items, and prices are likely to inch up in the short term due to Ramadan and Eid festivities, as has been the case in most recent years (Figure 2).

'Rentals for housing' declined by an average of 9.1 percent year-to-April.

'Housing and utilities' prices were down by 8 percent year-to-April. This slowdown in prices is mainly due to the impact of 'rentals for housing', a sub-item with a large weight in the segment, which declined by an average of 9.1 percent year-to-April (Figure 3).

As 'rentals for housing' is exempted from VAT, we see this declining trend as largely correlated with latest data showing that the total number of foreigners in the Saudi labor market has declined by around 1.6 million during 2017 and 2018. This decline indicates a

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

	Weights	Month-on-month		Year-on-year	
		Mar-19	Apr-19	Mar-19	Apr-19
Food & beverages	18.8	0.2	0.1	1.2	0.9
Housing & utilities	25.3	-0.3	-0.5	-8.0	-7.8
Tobacco	0.7	-0.1	0.0	0.3	0.3
Clothing & footwear	6.2	0.1	-0.2	-1.4	-1.0
Furnishing & maintenance	8.5	0.2	0.1	-0.4	-0.2
Health	2.3	-0.1	0.4	0.1	0.5
Transport	9.9	-0.2	0.9	-0.9	0.3
Communication	8.5	-0.1	-0.1	-1.1	-1.1
Recreation & culture	3.4	-0.3	-0.5	-0.8	-1.2
Education	4.2	0.0	0.4	1.2	1.3
Restaurants & hotels	6.5	0.0	0.3	1.5	1.3
Misc. goods & services	5.7	-0.1	-0.2	-0.6	-0.3
Core inflation*	55.9	0.0	0.2	-0.5	-0.1
General index	100.0	-0.1	0.0	-2.1	-1.9

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



Sakani program is expected to introduce around 200 thousand housing units during 2019.

'Transportation' prices declined by 0.5 percent in the year-to-April, despite the spike in April.

Since the beginning of the year, annual growth in POS sales was up for most sectors.

In 2019, we expect inflation rates to average around -1.7 percent, with rises to continue in some sub-groups.

significant rise in final exit visas, which might be further exacerbated by a repatriation of an unknown number of expat dependents, and also contributing in demand for housing rentals.

Additionally, the slowdown is likely to be affected by the Ministry of Housing (MOH) reforms in the real estate sector, which aims to make housing prices more affordable for citizens. For example, Sakani program has offered more than 630 thousand units to citizens since launching in February 2017, with housing units accounting for 48 percent of total offered products. In January 2019, the MOH announced offering 200 thousand products during the year, with 50 thousand units in housing units, and 50 thousand units in housing land, and the remaining 100 thousand units in mortgages. Year-to-April, the number of offered products reached around 55 thousand units, which leaves a total of 145 thousand products for the remaining eight months of the year in order to reach the announced target on time.

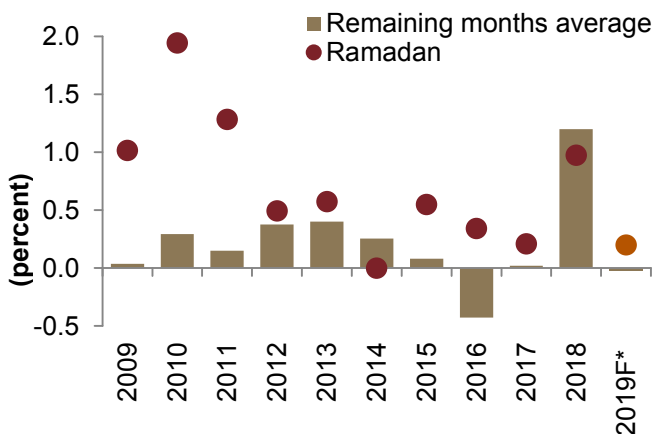
'Transportation' prices declined by 0.5 percent in the year-to-April. This likely reflects Saudi Aramco's move towards adjusting local gasoline prices in accordance to movements in international markets. Hence, whilst local gasoline prices were lowered marginally in Q1, they were raised slightly in April 2019. As a result higher prices were registered in 'transportation' during the month of April by 0.3 percent year-on-year. The rise is reflected in the sub-group item "fuels and lubricants for transport equipment", which rose by 4 percent year-on-year in April.

Consumer Spending

Year-to-March, annual growth in POS sales has been lower for only four out of eleven sectors: health, clothing and footwear, recreation and culture, and public utilities, whilst the remaining seven sectors witnessed rises (Figure 4). The average year-to-March rise in 2019 was 25 percent, compared to 11 percent in the same period last year. Compared with last year, we find significant rises in spending on 'transport', 'restaurants and hotels' and 'food and beverages' groups.

Looking ahead, considering the declining prices seen in the year-to-April, we have revised down our full year inflation forecast to -1.7 percent, year-on-year, which partly reflects the price base effect from 2018, due to VAT implementation and energy and utility price reforms. That said, we see continued price rises in a number of sub-groups, such as 'food and beverages' and 'restaurants and hotels'.

Figure 2: Food Prices in Ramadan



*2019=Monthly change average (Jan-April), F=Ramadan

Figure 3: Rentals for Housing

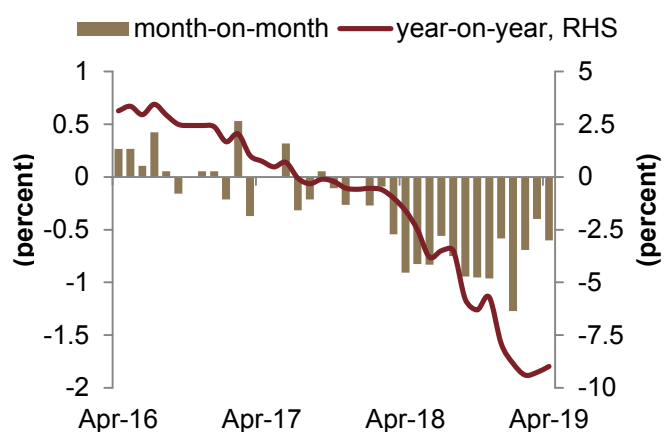
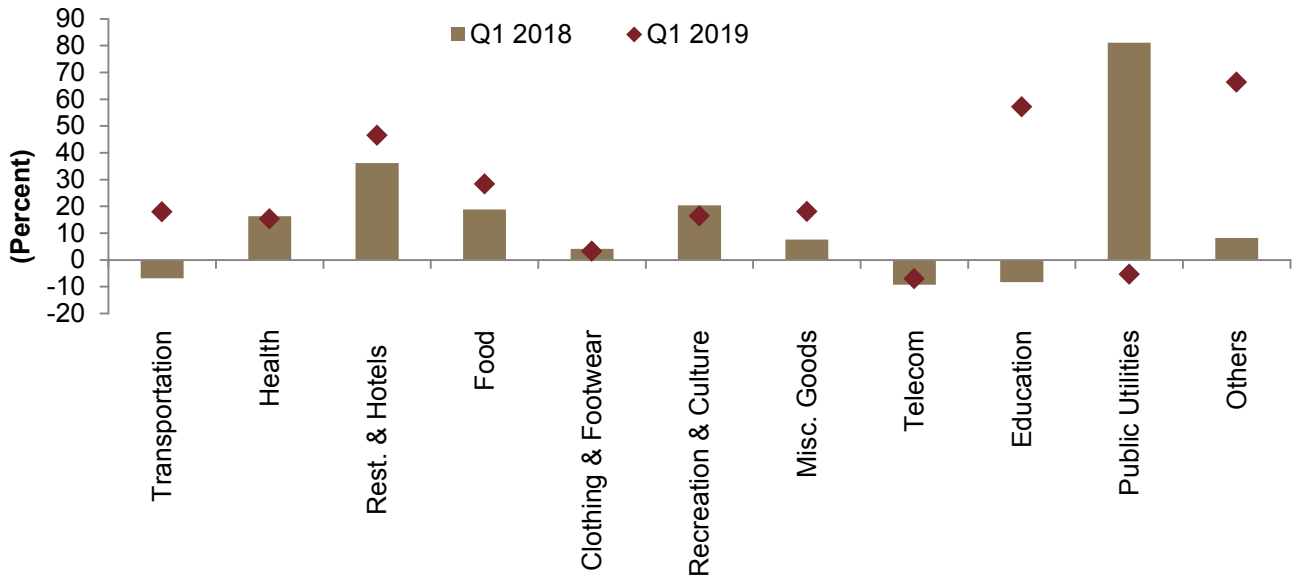




Figure 4: POS Sales Growth, by Sector
(year-to-March)



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