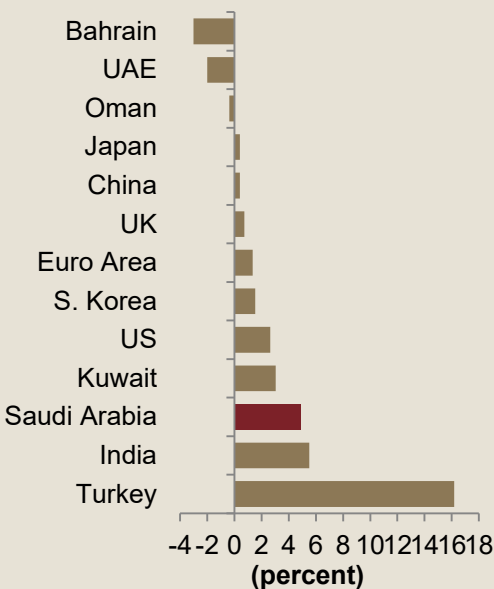




**Saudi CPI inflation**  
(percent)

	Average Inflation
Q1 2021	5.3
Q4 2020	5.6

**Inflation Rates in Trade Partners (latest)**



**Gradual rise in consumption**

- The latest General Authority for Statistics (GaStat) March inflation release shows that prices rose by 4.9 percent year-on-year, and declined by 0.1 percent month-on-month.
- Overall in Q1 2021, prices rose by an average of 5.3 percent (compared to 5.6 percent in Q4 2020) with a number of segments contributing to the mild deceleration in prices during the quarter.
- Whilst a structural change in the housing market continued to push prices lower in the 'housing and utilities' segment, the 'food and beverages' segment saw a slightly slower rise in prices during Q1.
- Meanwhile, 'education' prices continued to decline sharply, by an average of 9.6 percent year-on-year in Q1 (versus -8.6 percent in the previous quarter), reflecting lower fees in light of the full academic year being conducted virtually.
- Also during Q1, the closure of some recreational events throughout the Kingdom led to a lower level of POS transactions versus the same period last year. Unsurprisingly, the drop was more visible in sectors such as 'recreation and culture', 'restaurants and cafes', and 'hotels'.
- Looking forward, we expect consumer spending to rise in Q2 and in the rest of year, especially as restrictions around social distancing are gradually relaxed, in-line with a wider roll-out of vaccines. More specifically, we expect a rebound in activity and higher demand in many sectors such as 'restaurants and hotels' and 'tourism and entertainment'.
- Overall, we still expect inflation to average 3.7 percent in full year 2021, but any unforeseen negative developments related to Covid-19 present an on-going downside risk to consumption and prices.

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**Figure 1: Quarterly Inflation Rates**





## Recent Developments

Prices rose by an average of 5.3 percent during Q1 (compared to 5.6 percent in Q4 2020).

We have maintained our inflation forecast for full year 2021 at 3.7 percent and 1.5 percent for full year 2022. That said, downside risks remain ever-present, with any unforeseen negative developments related to Covid-19 likely to impact consumption and prices.

'Food & beverages' prices rose by an average of 11.2 percent year-on-year in Q1.

'Housing & utilities' prices declined by an average of 2.1 percent year-on-year in Q1.

Education prices declined by an average of 9.6 percent year-on-year in Q1.

The latest General Authority for Statistics (GaStat) March inflation release shows that prices rose by 4.9 percent year-on-year, and declined by 0.1 percent month-on-month. On a quarterly basis, prices rose by an average of 5.3 percent during Q1 (compared to 5.6 percent in Q4 2020), with a number of segments contributing to the mild deceleration in prices (see CPI Basket Groups section below).

Taking into account the recent trends, we have maintained our inflation forecast for full year 2021 at 3.7 percent and 1.5 percent for full year 2022. That said, downside risks remain ever-present, with any unforeseen negative developments related to Covid-19 likely to impact consumption and prices.

### CPI Basket Groups

'Food and beverages' prices rose by an average of 11.2 percent year-on-year in Q1, compared to 12.9 percent in the previous quarter, resulting from lower rises in some food products such as fruits and vegetables (Figure 2). Looking ahead, food prices are likely to go through mild rises during Q2, affected by the higher demand during the holy month of Ramadan, which started on the 13th of April this year.

'Housing and utilities' prices declined by an average of 2.1 percent year-on-year in Q1 (compared to -1 percent in Q4), as the 'rentals for housing' segment continued to decline, with an average of -3.1 percent in Q1 (compared to -1.8 percent in Q4) (Figure 3). During Q1, a total of 50 thousand households received housing units through the Sakani program, with more than 70 thousand households benefiting from other housing products through the program. More broadly speaking, structural change in the housing market, which is being accelerated by various reforms, including the recent royal decree exempting real estate transactions from VAT, (see our previous [Inflation report for more details](#)), are all contributing to pushing rental rates down.

'Education' prices declined by an average of 9.6 percent year-on-year in Q1, (and -8.6 percent versus Q4 2020). Within this, the 'primary' and 'secondary' education segments (which together make up 61 percent of the 'education' group weight) were the main contributors to the deflationary trend, declining by 13.1 percent year-on-year and 12 percent quarter-on-quarter. Both yearly and quarterly declines likely reflect lower fees in light of the full academic year being conducted virtually (Figure 4, Box 1).

Figure 2: Inflation rates in 'food & beverages' and selected sub-group items (year-on-year change)

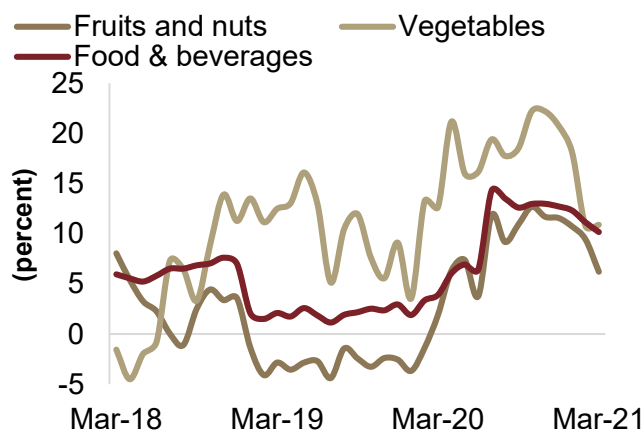
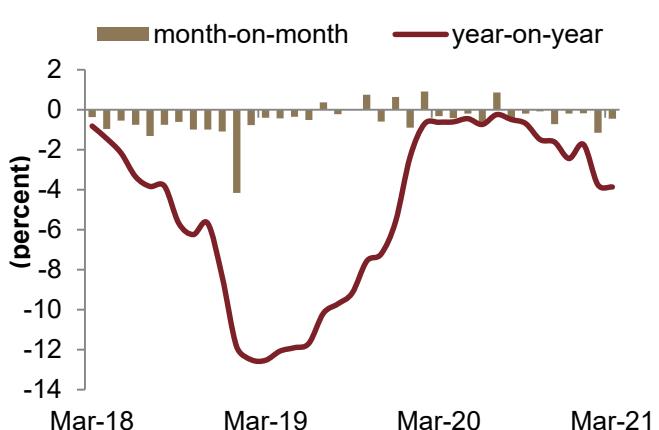


Figure 3: Inflation rates in 'Housing & Utilities' and selected sub-group items (year-on-year change)





The education sector lost a total of 19 thousand workers during 2020.

In Q1, consumer spending declined by 1 percent quarter-on-quarter.

Looking forward, we expect consumer spending to rise in the remainder of year.

### Box 1: Education Workers and Covid-19

Lower prices in 'education' are also likely to be the result of a lower number of workers in the sector. According to GaStat, the education sector lost a total of 19 thousand workers during 2020 (both Saudis and expatriates), representing a decline of 12.5 percent over 2019's total (for more on this, please refer to our [Labor market update for Q2 2020](#)).

Looking ahead, we see education prices rebounding to pre-Covid-19 levels by Q3 2021, with most schools aiming to reopen in the next academic year, which, in turn, is also expected to support hiring of workers in the sector as well.

### Consumer Spending

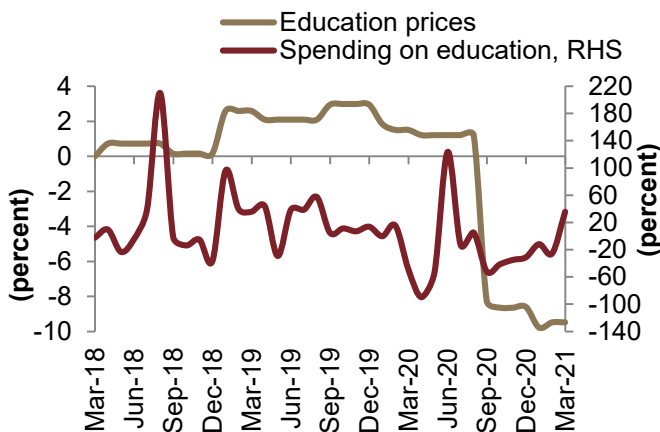
In Q1, consumer spending (POS plus e-commerce transactions and ATM withdrawals) declined by 1 percent quarter-on-quarter, despite rising by 5 percent year-on-year. The quarterly decline likely reflects the suspension of recreational events in the Kingdom for most of February 2021. Unsurprisingly, therefore, sectorial data (based on POS transactions only) shows declines in the 'recreation and culture', 'restaurants and cafes', 'hotels', and 'food and beverages' segments during February. That said, all of these sectors rebounded in March, but more notably in 'food and beverages' as households began preparing for the holy month of Ramadan (Figure 5).

### Outlook

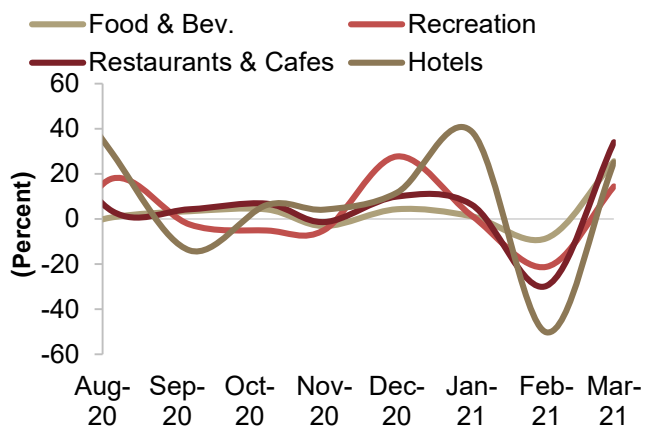
Looking forward, we expect consumer spending to rise during the remainder of year, especially as restrictions around social distancing are gradually relaxed, in-line with a wider vaccine roll-out. Accordingly, we expect sectors such as 'travel', 'hotels and restaurants', 'tourism and entertainment' to see the largest rises, all of which will add pressure on consumer prices, especially in H2.

Additionally, there is uncertainty over the readiness of the global supply chain to meet the recovery in demand, not only in Saudi Arabia but across the world. We note that global shipping rates have risen sharply recently (Figure 6), in-line with the gradual global economic recovery. If the trend persists, this raises the possibility of supply of goods and services not being able to keep up with the surge in demand as the economy continues to recover, further adding to local inflationary pressures.

**Figure 4: Education prices and spending** (year-on-year change)



**Figure 5: POS transactions declined during February** (month-on-month change)





*Downside risks remain ever-present, with any unforeseen developments related to Covid-19, likely to impact consumption and prices negatively.*

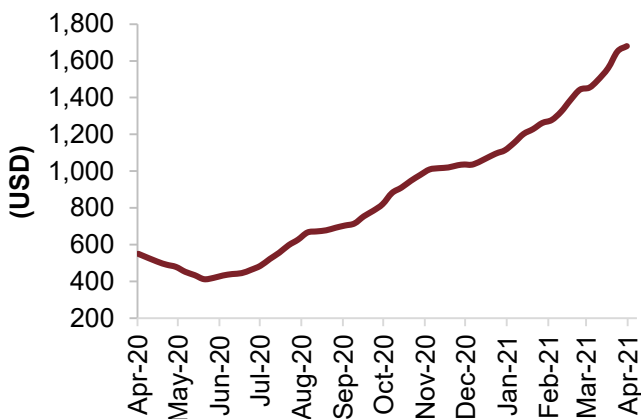
That said, downside risks remain ever-present, with any unforeseen developments related to Covid-19 likely to impact consumption and prices negatively. Meanwhile, baseline effects related to higher VAT from July 2020 onwards will also impact H2 2021 inflation numbers. At the same time, we expect deflationary pressures to continue in the 'housing and utilities' segment as a result of 'rentals for housing' being affected by higher rates of home ownership.

Taking this into account we have maintained our inflation forecast for full year 2021 at 3.7 percent and 1.5 percent for full year 2022.

**Table 1: Inflation rates, by sector**

	Weights	Year-on-year		Quarter-on-quarter	
		Q1-21	Q4-20	Q1-21	Q4-20
Food & beverages	18.8	11.2	12.9	-0.2	0.1
Housing & utilities	25.5	-2.1	-1.0	-0.5	-0.3
Tobacco	0.6	12.7	13.4	0.1	0.2
Clothing & footwear	4.2	5.9	6.2	-0.2	-0.1
Furnishing	6.7	7.7	7.7	0.1	-0.1
Health	1.4	2.9	2.7	0.0	0.1
Transport	12.6	9.9	7.3	1.3	-0.4
Communication	5.6	13.4	11.3	0.5	0.5
Recreation & culture	3.1	4.4	3.8	0.3	-0.2
Education	2.9	-9.6	-8.6	-0.3	0.1
Restaurants & hotels	5.6	7.5	7.4	-0.1	0.1
Misc. goods & services	12.6	5.4	6.8	-0.3	-0.1
<b>General index</b>	<b>100.0</b>	<b>5.3</b>	<b>5.6</b>	<b>-0.02</b>	<b>-0.1</b>

**Figure 6: HARPEX global price index on the charter market for container ships (weekly rate assessments)**





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