



## July Inflation Update

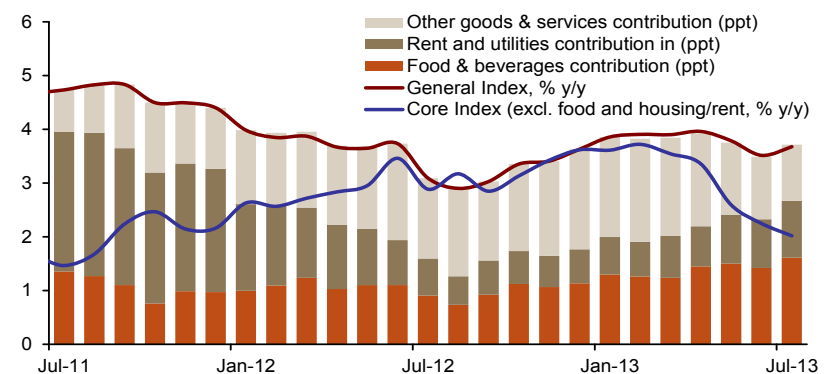
### Annual food inflation at 4-year high

- Saudi CPI inflation increased to 3.7 percent year-on-year in July compared with 3.5 percent in June, pushed up by higher food and rental inflation while the core index maintained downward trend.
- As expected, food inflation increased further in July to a 4-year high owing to a seasonal trend while strong housing demand kept the upside trend of rental inflation.
- International conditions provide a benign backdrop to inflation in the Kingdom particularly food prices though downward pressure is likely to be limited given strong domestic inflationary factors.

The Central Department of Statistics and Information (CDSI) released Consumer Price Index (CPI) inflation data for July, showing prices rising by 3.7 percent year-on-year compared with 3.5 percent in the previous month. On a monthly basis, prices increased by 0.4 percent compared with 0.2 percent in June. Our estimate of Saudi core inflation, which excludes food and rental and housing-related services, maintained its downward trend for the fifth consecutive month. It fell to 2 percent year-on-year in July compared with 2.25 percent in June. Core inflation was pushed down by falling prices of the other good and services group. The prices of the latter contracted by 0.2 percent year-on-year (-0.7 percent month-on-month) in July owing mainly to jewelry prices, which contracted by 12.5 percent year-on-year in July. Jewelry prices are driven by the price of gold. Most other components of the core index were either stable or down slightly in July.

With core inflation falling, the contribution of food and rent and

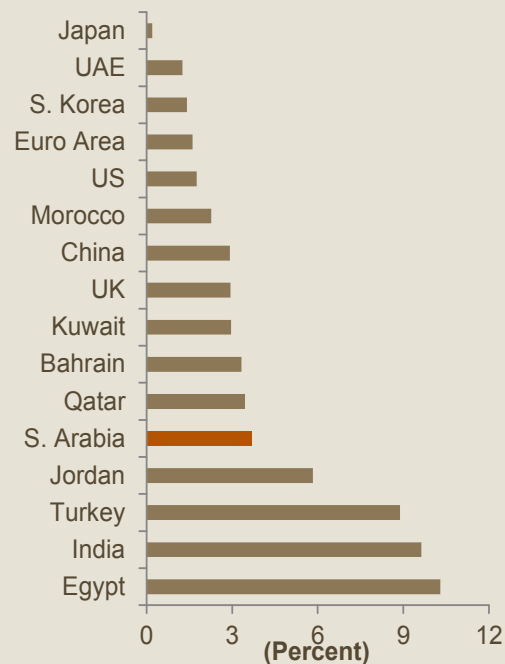
**Figure 1: Food and rental prices turn headline inflation upward**



#### Saudi CPI inflation (percent)

	Monthly change	Annual change
July	0.4	3.7
June	0.2	3.5

#### Trading partner headline inflation rates



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*Headline inflation rose in July...*

*...as food and housing inflation accelerated.*

*Annual food inflation was the highest since December 2008...*

*...while international food prices fell in July.*

*Strong housing demand will keep the upside risk to housing inflation this year.*

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

*...while domestic inflationary pressure remains.*

housing-related services groups to the overall inflation increased to 73 percent compared with 66 percent in the previous month.

As expected, food inflation accelerated to 6.9 percent year-on-year in July compared with 6.1 percent in June putting the food inflation at its highest level since December 2008. It is normal for food prices to rise during Ramadan (Figure 6). On monthly terms, food prices rose by 1 percent in July compares to an average of 0.4 percent for the first six months of the year. This was exacerbated by a rise in prices of vegetables, fish and seafood and bread and cereals which saw prices increasing by 9.3 percent, 1.6 percent and 0.7 percent, respectively.

In contrast, international food prices fell in July with the IMF measure falling by 0.6 percent year-on-year and the FAO index by 3.3 percent in July. According to the World Bank, falling international food prices reflected higher production and stocks and lower demand. Lower international food prices does not necessarily translate into a significant decline in food prices inside the Kingdom, as for issues with domestic supply networks, falls in global food prices tend not get entirely passed on to domestic consumers.

The rent and housing-related services inflation also accelerated to 4.2 percent year-on-year in July compared with 3.6 percent year-on-year the previous month. Most of the increase was due to rising rental inflation, which climbed back over 0.7 percent month-on-month. While this increase in rental inflation partly reflect a seasonal trend during summer months, we maintain our view that higher consumer incomes are putting upward pressure on rents at a time when the bulk of anticipated new supply has still to balance the market.

While the external factors practically international food prices contribution to inflation in the Kingdom will remain subdued owing to low trading partner inflation rates, we expect domestic inflationary pressure to remain relatively strong. High consumer spending (Figure 7), exceptionally low interest rates, rising demand deposits and rising bank lending will keep inflation at the current annualized level. Latest monetary data show consumer lending expanding by 18.5 percent year-on-year in the first quarter this year, the highest level on record (Figure 8).

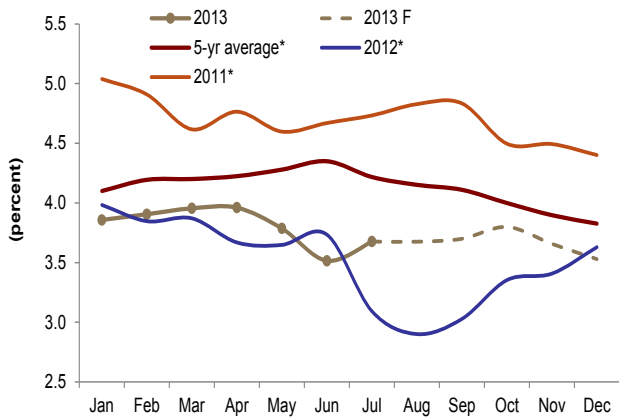
**Figure 2: Main highlights of Saudi CPI inflation**  
(percent)

	Weights	Month-on-month			Year-on-year			YTD
		Jun-13	Jul-13	Contribution, ppt.	Jun-13	Jul-13	Contribution, ppt.	
Food & beverages	21.7	0.1	1.0	0.2	6.1	6.9	1.6	3.3
Housing & related items	20.5	0.3	0.7	0.2	3.6	4.2	1.1	2.9
Tobacco	0.5	0.0	0.0	0.0	12.6	5.1	0.0	0.0
Clothing & footwear	8.4	0.0	0.5	0.0	1.3	0.9	0.1	-0.5
Home furniture	9.1	0.0	0.8	0.1	2.8	5.5	0.5	3.1
Medical care	2.6	-0.1	0.2	0.0	4.4	3.7	0.1	2.1
Transport	10.4	-0.3	-0.8	-0.1	1.7	0.7	0.1	-0.9
Communication	8.1	-0.5	-0.1	0.0	1.8	1.5	0.1	0.4
Recreation & culture	3.5	0.4	1.2	0.0	1.4	1.1	0.0	0.9
Education	2.7	0.0	0.0	0.0	1.7	1.7	0.0	0.0
Restaurants & hotels	5.7	0.8	0.3	0.0	4.4	2.9	0.2	2.0
Other expenses & services	6.8	1.9	-0.8	0.0	0.8	-0.2	0.0	-1.6
<b>Core inflation*</b>	<b>57.8</b>	<b>0.2</b>	<b>0.1</b>	<b>0.0</b>	<b>2.2</b>	<b>2.0</b>	<b>1.0</b>	<b>0.5</b>
<b>General index</b>	<b>100</b>	<b>0.2</b>	<b>0.4</b>	<b>...</b>	<b>3.5</b>	<b>3.7</b>	<b>...</b>	<b>1.7</b>

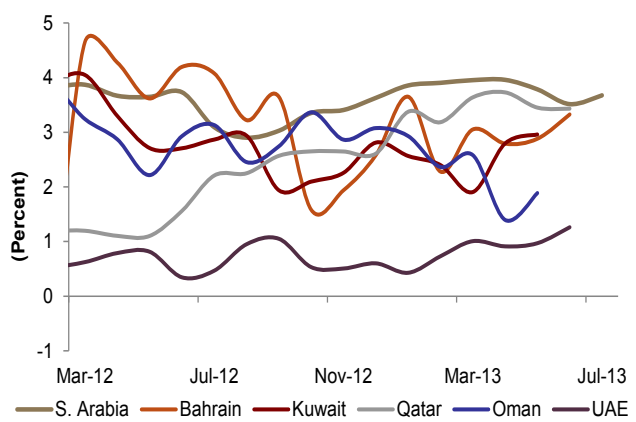
Note: \*Core inflation excludes food and housing inflation and is Jadwa Investment's estimate.



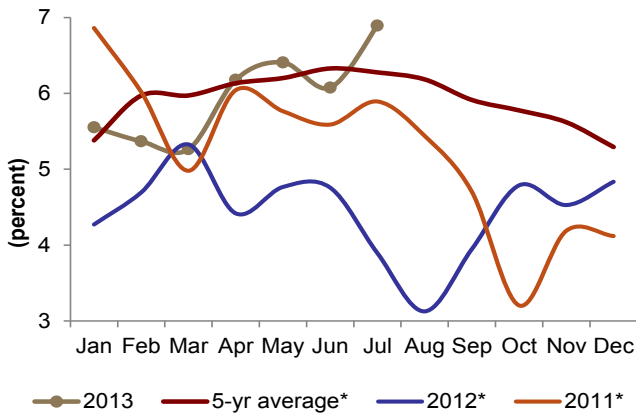
**Figure 3: Inflation forecasts**  
(year-on-year change)



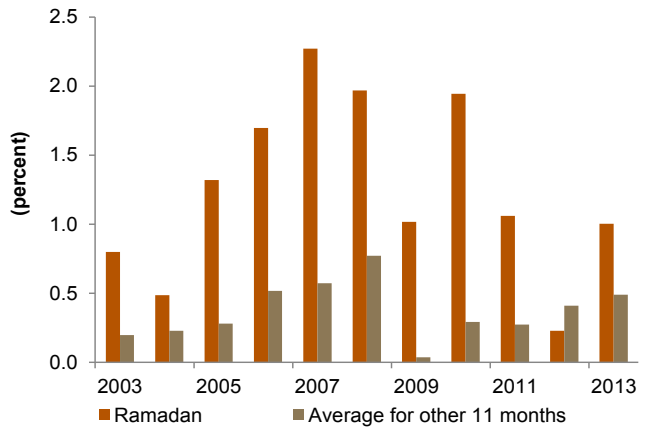
**Figure 4: GCC headline inflation**  
(year-on-year change)



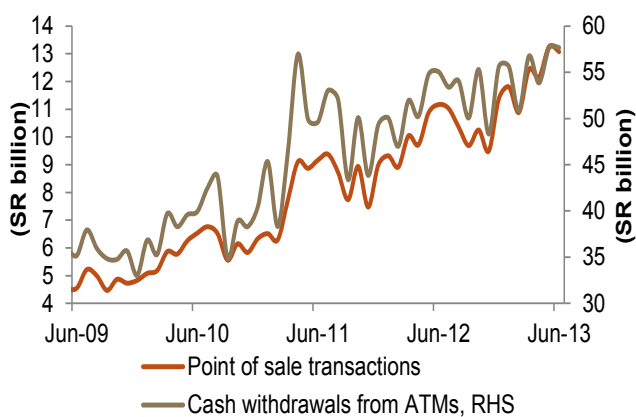
**Figure 5: Annual food inflation**  
(year-on-year change)



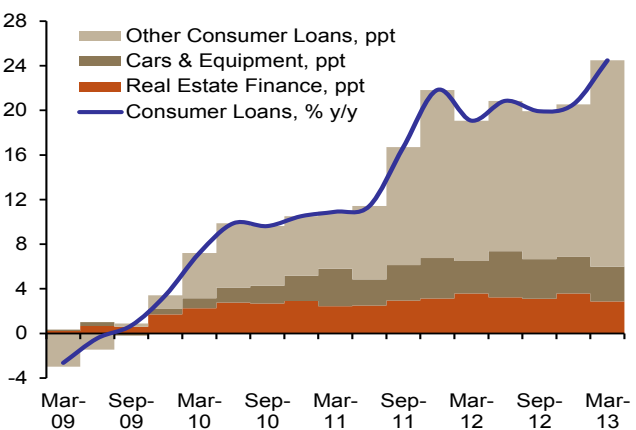
**Figure 6: Food inflation during Ramadan**



**Figure 7: Indicators of domestic demand**



**Figure 8: Consumer loans**



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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