



Saudi CPI inflation
(percent)

	Monthly change	Annual change
January 2016	1.9	4.3
December 2015	0.1	2.3

New energy prices push inflation to a 5-year high

- Saudi CPI accelerated sharply to 4.3 percent year-on-year in January, its highest in five years, as higher energy prices contributed to a significant rise in the housing and utilities, and transport segments.
- The inflationary impact of the recent hike to energy prices is similar to previous incidences when similar measures were took.
- The housing and utilities segment rose from 4 percent, year-on-year in December to 8.3 percent in January, its highest in five years, mainly owing to higher utility tariffs.
- Transport recorded a sharp acceleration from 1.3 percent in December to 12.6 percent in January, its highest in 21 years, impacted directly by higher fuel prices.
- Most other segments of the core index posted mixed results, with the health segment rising notably due to a rise in hospital service costs.
- Foodstuffs rose by 1.3 year-on-year in January, slowing slightly from the previous month and impacted in part by the continued deflationary trend in international food prices.
- Looking ahead, we anticipate domestic inflationary pressure to intensify during 2016, driven by second-round effects stemming from the recent energy price reforms.
- We do, however, expect the government to increase its monitoring of any unjustified increases in prices of basic foodstuffs and commodities.

Trading partner inflation rate



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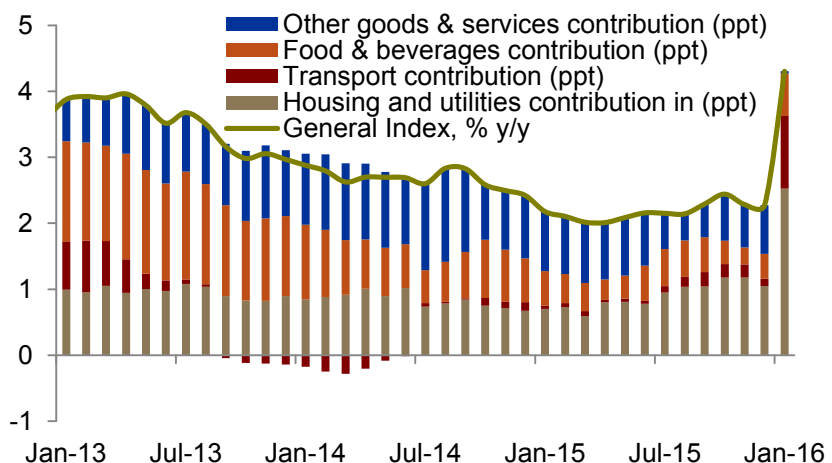
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Figure 1: Inflation rises sharply in January





Inflation rose by 4.3 percent year-on-year, accelerating from 2.3 percent during the previous month.

The recent reform to energy prices meant that housing and utilities, and transport were the main sources of inflation .

The housing and utilities segment rose from 4 percent, year-on-year in December to 8.3 percent in January...

... mainly impacted by higher electricity and water tariffs.

Transport rose to 12.6 percent year-on-year, a 21-year high...

The General Authority for Statistics (GAS) has released Consumer Price Index data for January, showing a sharp rise in prices by 4.3 percent year-on-year, accelerating from 2.3 percent during the previous month. The recent reform to energy prices meant that housing and utilities and transport were the main sources of inflation as they accelerated sharply in January, both in year-on-year and monthly terms. (Figures 1 and 2). Our estimate of core inflation, which excludes food and rent and other housing services, but includes transport, rose to its highest level in three years, reaching 3.7 percent year-on-year in January compared to 1.8 percent in December, mainly impacted by the rise in the transport segment (Figure 3). Other components of the core index posted mixed results.

As a result of the sharp rise, the contribution of housing-related services towards overall inflation rose from 44 percent in December to 49 percent in January. Transport saw the largest acceleration amongst all segments with its contribution rising from just 5 percent in December to 26 percent in January.

The housing and utilities segment rose from 4 percent year-on-year in December to 8.3 percent in January, its highest in six years. This was a clear result of the recent energy price increases, which impacted electricity and water tariffs, both captured in the electricity and water sub-groups of this segment. The electricity sub-group rose sharply from just 0.1 percent year-on-year in December to 12 percent in January, while the water sub-group reversed its fourteen-month deflationary trend to post a 135 percent, year-on-year rise (Figure 4). Month-on-month rises to electricity and water prices were also significant. The year-on-year change in the rental inflation sub-group reached 4.1 percent in January, slowing from 4.8 percent during the previous month. Despite rental inflation being the major sub-group of the housing and utilities segment, its slowdown did not prevent the overall segment from rising to its 4-year high.

The core index rose sharply to 3.7 percent, year-on-year in January, up from 2.3 percent in December. Components of the core index recorded mixed performances in January (Figure 5). Transport, which has the third highest weight in the CPI basket, clearly stood

Figure 2: Main highlights of Saudi CPI inflation

(percent)

	Weights	Month-on-month			Year-on-year			YTD
		Dec-15	Jan-16	Contribution, ppt.	Dec-15	Jan-16	Contribution, ppt.	
Food & beverages	21.7	0.2	-0.6	-0.2	1.4	1.3	0.3	-0.6
Housing & related items	20.5	0.1	4.8	1.2	4.0	8.3	2.1	4.8
Tobacco	0.5	-0.1	0.5	0.0	1.3	1.4	0.0	0.5
Clothing & footwear	8.4	0.4	-0.5	0.0	5.0	4.7	0.3	-0.5
Home furniture	9.1	-0.1	0.1	0.0	1.8	1.8	0.2	0.1
Medical care	2.6	0.3	3.2	0.1	2.7	5.5	0.1	3.2
Transport	10.4	-0.5	10.4	0.9	1.3	12.6	1.1	10.4
Communication	8.1	0.7	0.2	0.0	1.6	1.8	0.1	0.2
Recreation & culture	3.5	0.0	-0.8	0.0	1.7	0.3	0.0	-0.8
Education	2.7	0.0	0.0	0.0	5.4	5.4	0.1	0.0
Restaurants & hotels	5.7	-0.5	-0.3	0.0	-2.5	-2.6	-0.1	-0.3
Other expenses & services	6.8	-0.2	-0.6	0.0	1.6	0.8	0.1	-0.6
Core inflation*	57.8	-0.1	1.8	0.9	1.8	3.7	1.9	1.8
General index	100.0	0.07	1.9	...	2.3	4.3	...	2.0

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



... a direct result of the increase to fuel prices.

Medical care also saw a notable acceleration in prices.

In 1995, a year featuring a similar price hike, annual transport prices rose by 15 percent.

Foodstuffs rose by 1.3 year-on-year.

We expect subdued external inflationary pressures...

...while domestic price pressures will intensify during the year...

...mainly owing to second-round effects stemming from the recent energy price reforms.

We expect the government to increase its monitoring of any unjustified price increases.

out, rising by 12.6 percent year-on-year, compared to 1.3 percent in December, and its highest in 21 years. The rise in the transport component was also a direct result of the increase to fuel prices, which was also significant in month-on-month terms (Figure 6). Medical care also saw a notable acceleration in prices, rising to 5.5 percent in January, up from 2.7 percent in December. Higher costs for hospital services were the driver for the increase in this component. Furnishings, clothing, and miscellaneous goods was at 1.8 percent, 4.7 percent, and 0.8 percent respectively. Restaurants and hotels remained in a deflationary mold at -2.6 percent. In month-on-month terms, the core index rose by 1.7 percent.

The inflationary impact of the recent hike to energy prices is similar to previous incidences when similar measures were taken. In 1995, the last time the government hiked prices in a similar fashion, annual transport inflation rose by 15 percent, following years were annual transport inflation was negative. The absence of monthly data for that period makes it difficult to analyze any second round effects on other components of the CPI basket.

Foodstuffs rose by 1.3 year-on-year in January, slowing slightly from the previous month and impacted in part by the continued deflationary trend in international food prices. On monthly terms, food prices fell by 0.7 percent in January compared to an average monthly rise of 0.1 in 2015. This was driven by a fall in prices of nearly all components under the foodstuffs segment.

We anticipate domestic inflationary pressure to intensify during the year, driven by second-round effects stemming from the recent energy price reforms. Higher energy and transport costs for other business should somehow lead to higher prices for consumer goods, which will put pressure on other components of the CPI basket. That said, we expect the government to increase its monitoring of any unjustified increases in prices of basic foodstuffs and commodities. The Ministry of Commerce and Industry (MCI) already carries out inspection rounds and takes legal procedures against any price violations or manipulative activities, all of which will likely be intensified to ensure that prices remain stable. We also expect that higher energy prices will likely have a negative impact on consumer

Figure 3: Food, housing, and the core index
(year-on-year change)

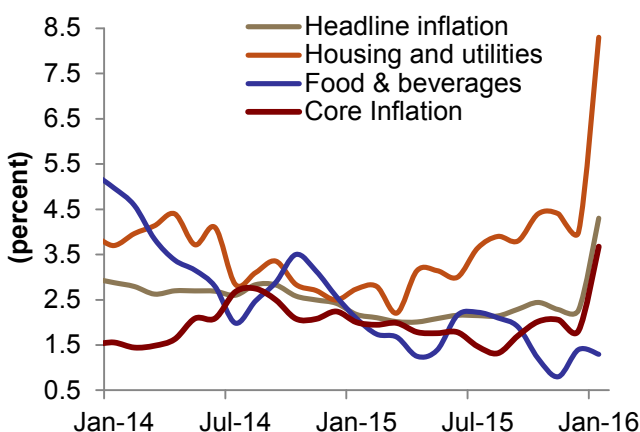
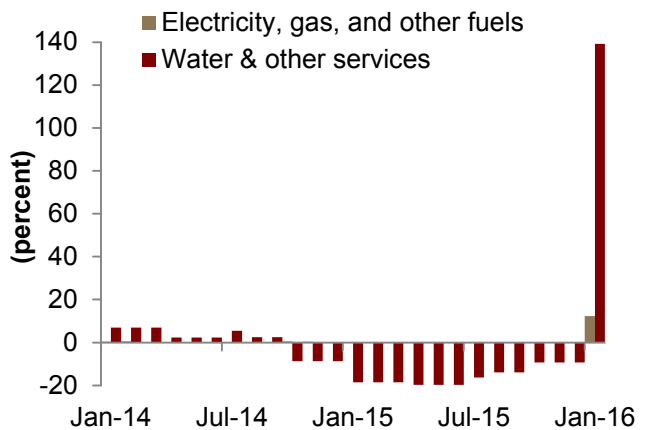


Figure 4: Electricity and water sub-groups
(year-on-year change)



Sources: General Authority for Statistics, Haver Analytics, Jadwa investment estimates and forecasts



We maintain our estimates for average annual inflation to 3.9 percent for 2016.

spending, in the form of lower disposable income, which would reduce any price pressures on other commodities. We maintain our expectation that the steady increase in the housing inflation rate will continue, driven mainly by strong domestic demand for housing units. We expect external factors' contribution to inflation to remain subdued, particularly given a strengthening USD and the weaker prospects of global economic growth, leading to lower cost for imports and foodstuffs. The combination of these factors together with an expected continuation in the slowdown of the core index lead us to maintain our estimates for average annual inflation to 3.9 percent for 2016.

Figure 5: Selected components of the core index
(year-on-year change)

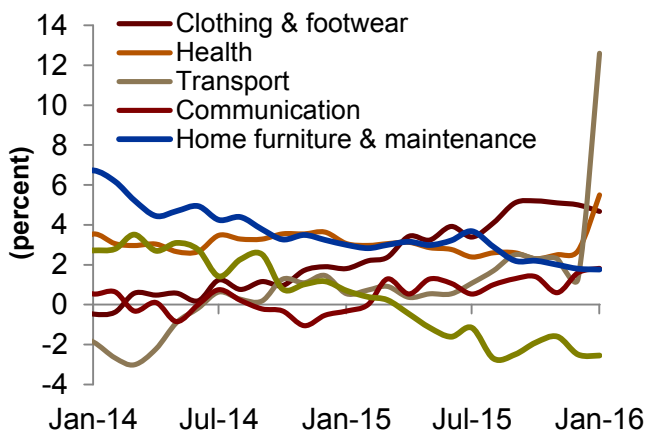
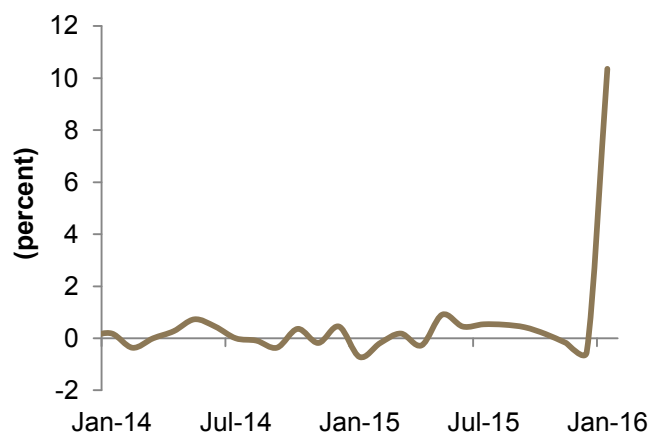


Figure 6: Transport inflation
(month-on-month change)



Sources: General Authority for Statistics, Haver Analytics, Jadwa investment estimates and forecasts



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