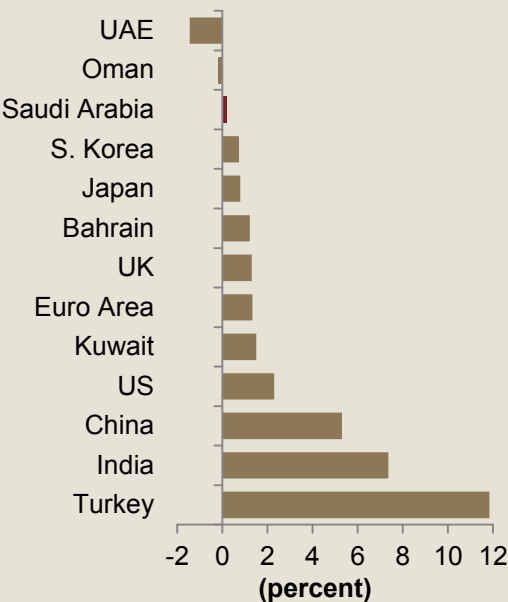




**Saudi CPI inflation**  
(percent)

	Monthly change	Annual change
December 2019	0.1	0.2
Full Year 2019	-	-1.2
Full Year 2018	-	2.5

**Inflation rates in trade partners (latest)**



**Prices to pick-up in 2020**

- The latest General Authority for Statistics (GaStat) inflation release for December shows that prices were up by 0.2 percent year-on-year, and by 0.1 percent month-on-month.
- As such, the annual inflation rate for 2019 averaged at -1.2 percent, year-on-year, which was exactly in-line with our forecast.
- During 2019, the highest price rises was seen in “restaurants and hotels” by 1.7 percent, followed by “education” by 1.6 percent, year-on-year.
- Price rises in “restaurants and hotels” were a result of increasing demand in entertainment and tourism in the Kingdom, following the emerging activities associated with the Saudi Seasons in different regions during 2019.
- Meanwhile, the largest decline in prices came in “housing and utilities”, down by 6.5 percent year-on-year, mainly as a result of “rentals for housing”, which declined by 7.4 percent year-on-year in 2019.
- In 2019, six sectors witnessed higher growth rates than the total average growth in POS sales: restaurants and coffee shops, education, public utilities, electronic devices, food and beverages, and construction materials.
- Looking ahead, we have revised up our 2020 full year inflation forecast to 1.7 percent, which reflects a continued pick-up in non-oil activities, and an elevated level of consumer spending.

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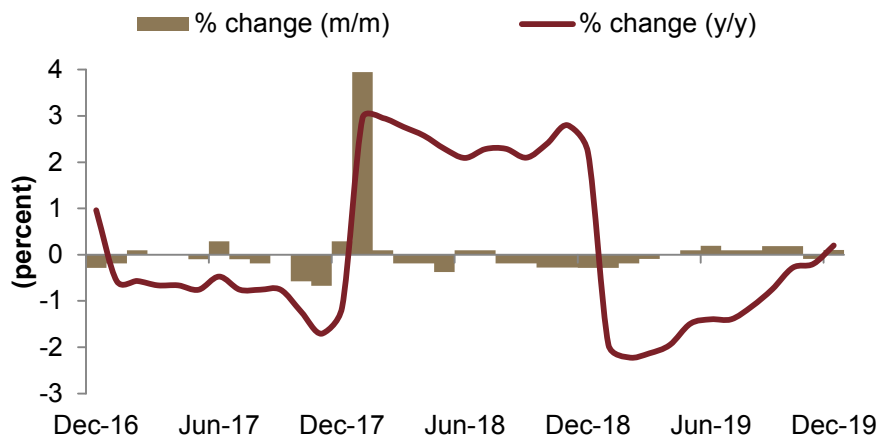
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**Figure 1: Inflation rates**





## Recent Developments

*In December, prices rose by 0.2 percent, the first annual rise in 2019.*

*In 2020, we see prices picking up gradually.*

*'Food & beverages' prices rose by 1.2 percent in 2019, year-on-year.*

*'Rentals for housing' declined by 7.4 percent in 2019, year-on-year.*

The latest General Authority for Statistics (GaStat) December inflation release shows that prices rose by 0.2 percent year-on-year, and 0.1 percent month-on-month, rising for the first time during 2019 on an annual basis. In 2019, prices declined by a yearly average of 1.2 percent, in-line with our full year inflation forecast, partly reflecting the price base effect from 2018, due to VAT implementation and energy and utility price reforms.

In 2020, we see prices picking up gradually, as a result of a continued pick-up in activity in the non-oil private sector, which is expected to boost local demand and retail activities.

### CPI basket groups

**'Food and beverages'** prices rose by 1.2 percent in 2019. Looking forward, we expect food prices to rise gradually in 2020, as the Food and Agriculture Organization for the United Nations (FAO) food price index rose in 2019 by 1.7 percent, compared to a decline in 2018 by 3.5 percent, year-on-year. Since the 'food and beverages' group contain several imported items, prices are likely to inch up in the short term, in-line with the trend in international prices (Figure 2).

**'Housing and utilities'** prices declined by 6.5 percent year-on-year in 2019. This slowdown in prices was mainly due to the impact of 'rentals for housing', a sub-item with a large weight in the segment, which declined by 7.4 percent year-on-year during 2019.

As 'rentals for housing' is exempted from VAT, we see this declining trend as largely correlated with higher housing supply provided by the Ministry of Housing (MOH)'s Sakani program, which aims to make housing prices more affordable for citizens. In December 2019, the MOH announced a plan to offer a further 300 thousand products during 2020, the same quantity offered in 2019 (Figure 3).

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

	Weights	Year-on-year		Year-on-year	
		Nov-19	Dec-19	Full year 2018	Full year 2019
Food & beverages	18.8	1.1	2.2	6.5	1.2
Housing & utilities	25.3	-3.8	-3.7	-1.3	-6.5
Tobacco	0.7	0.0	0.0	24.9	0.1
Clothing & footwear	6.2	-0.5	-0.5	-7.0	-0.7
Furnishing & maintenance	8.5	1.9	1.8	1.4	0.6
Health	2.3	1.9	1.9	3.8	0.9
Transport	9.9	0.8	1.3	10.7	0.5
Communication	8.5	-0.4	0.2	1.3	-0.7
Recreation & culture	3.4	0.3	0.1	1.1	-0.4
Education	4.2	2.3	2.3	0.3	1.6
Restaurants & hotels	6.5	2.4	2.6	7.5	1.7
Misc. goods & services	5.7	2.7	2.6	0.2	1.0
<b>General index</b>	<b>100.0</b>	<b>-0.2</b>	<b>0.2</b>	<b>2.5</b>	<b>-1.2</b>



*'Restaurants & Hotels' prices rose by 1.7 percent in 2019, marking the highest annual rise amongst the CPI basket groups.*

*Riyadh's occupancy rates reached 82 percent in November 2019, during the Riyadh Season.*

*In 2019, six sectors saw higher growth rates than the total average growth in POS sales.*

Additionally, latest data shows that the total number of foreigners in the Saudi labor market declined by around 373 thousand on a net basis, during the year-to-Q3 2019, in addition to around 200 thousand dependents leaving the Kingdom in 2019. This decline indicates a significant rise in final exit visas, and is likely to have contributed to lowering demand for housing rentals.

**'Restaurants and Hotels'** prices increased by 1.7 percent in 2019, marking the highest annual rise amongst the CPI basket groups, as previously anticipated in our [inflation update](#) (published in May 2019).

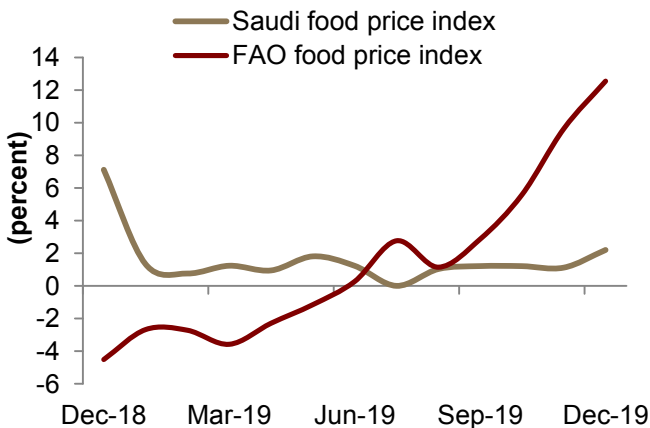
The notable price rise is likely due as a result of increasing demand on entertainment and tourism in the Kingdom, following the emerging activities associated with the Saudi Seasons in different regions within the Kingdom during 2019. For example, Riyadh, in particular, has seen a marked rise in occupancy rates during the Riyadh Season, hitting 82 percent in November 2019, well above the national average, and third behind Makkah and Madinah. This higher level of occupancy in Saudi Arabia's capital has resulted in price rises, with the price index for accommodation services within the capital showing significant rises since mid-2019 (Figure 4).

### Consumer Spending

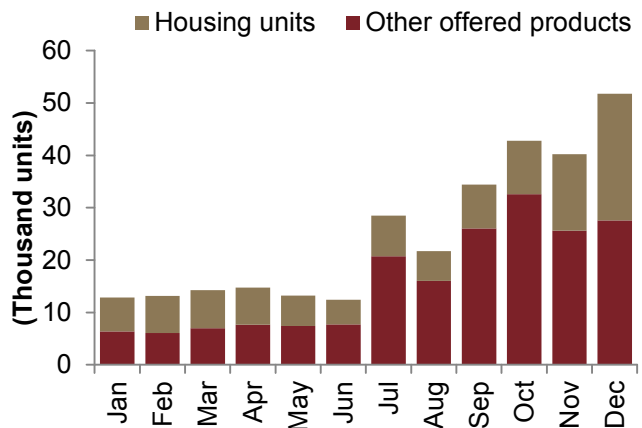
In 2019, the average rise in POS sales was 23 percent, compared with 16 percent in 2018. During 2019, six sectors witnessed higher growth rates than the total average growth in POS sales: restaurants and coffee shops, education, public utilities, electronic devices, food and beverages, and construction materials (Figure 5). The notable rise seen in POS sales of restaurants and coffee shops is associated with the activities related to the Saudi Seasons in the Kingdom.

In addition, the rise in construction materials indicates a positive trend within construction sector activity, which saw notable GDP growth of 4.6 percent year-on-year in Q3 2019, as the sector saw almost zero growth rate for the same period a year ago. Moreover, higher spending on items such as electronic devices and food and beverages, which are usually highly elastic to income, was also indicative of domestic consumption rises (Figure 6).

**Figure 2: Local & international food prices in 2019** (year-on-year change)



**Figure 3: Sakani program offerings in 2019**



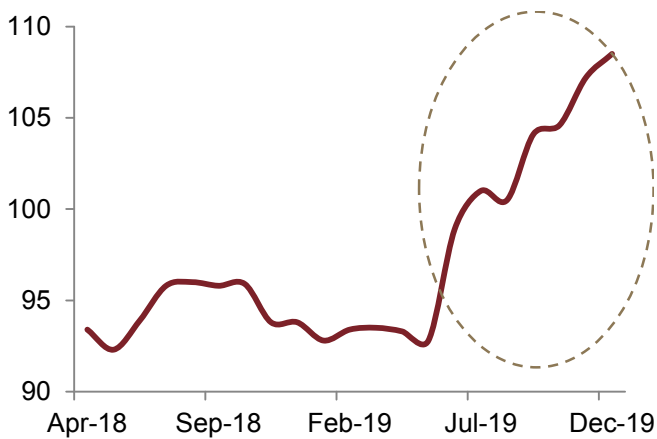


## Outlook

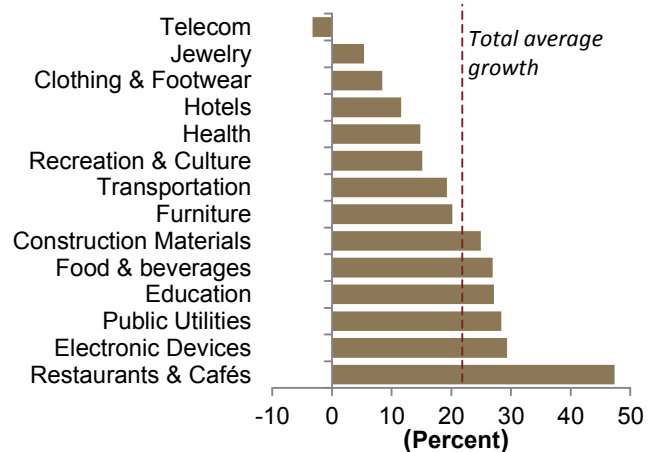
*In 2020, we expect inflation rates to average around 1.7 percent, reflecting the continued pick-up in non-oil activity.*

Looking ahead, considering the pick up in prices seen in Q4 2019, we have revised up our 2020 full year inflation forecast to 1.7 percent, year-on-year, which also reflects the continued pick-up in activity in the non-oil private sector, and in consumer spending (Figure 7). That said, we see continued price rises in a number of sub-groups, such as ‘hotels’ and ‘restaurants and coffee shops’, which are related to the roll-out of a number of activities in the tourism and entertainment sector. Moreover, with Saudi Arabia hosting the G20 summit in November 2020, we expect to see higher demand for hotels and meeting venues in Riyadh and a number of cities around the Kingdom (for more on this, please refer to our report on the [G20 in Saudi Arabia](#), published in January 2020).

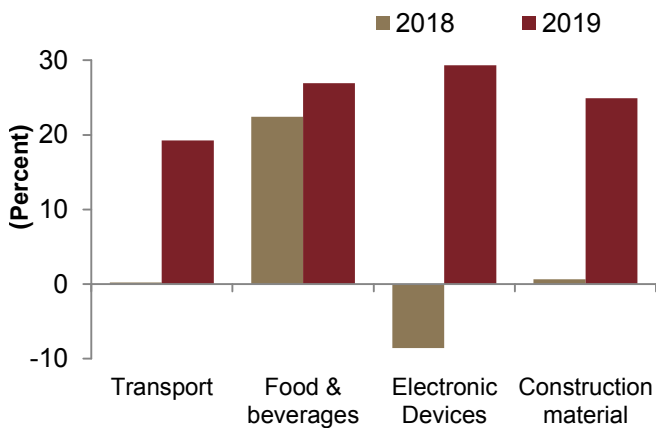
**Figure 4: Accommodation services prices index in Riyadh (includes hotels & service apartments)**



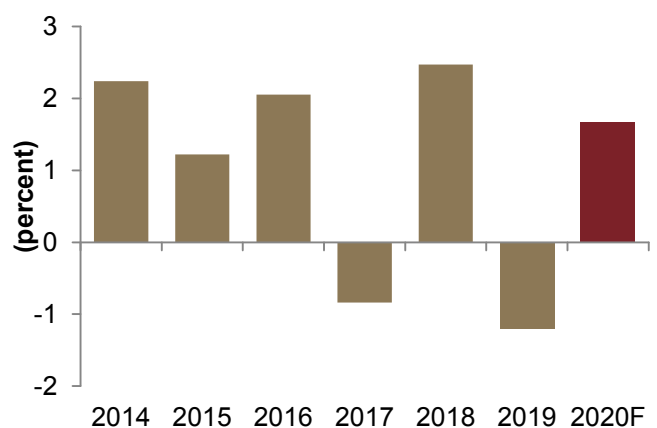
**Figure 5: POS Sales average growth in 2019, by Sector**



**Figure 6: POS average sale growth in certain sectors in 2018 vs. 2019**



**Figure 7: Annual inflation rates (year-on-year)**





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