



#### Key themes

Inflation in Saudi Arabia has been in the negative territory for four months straight, which in our view is partially due to the high base of early 2016, stronger US dollar (and in turn Saudi Riyal) and slowing demand. The recent reinstatement of allowances and incentives for government employees could lead to improved spending, that could possibly see inflation pick up for the locally driven sectors in the near to medium term.

## Saudi inflation trend - April 2017

### Sequential improvement

*The Saudi Arabian inflation (cost of living index) declined 0.6% y-o-y in April 2017, higher than 0.4% y-o-y decline in March 2017. This was the fourth consecutive monthly decline in prices on y-o-y basis. However, on a sequential basis, inflation improved to 0.1% m-o-m in April 2017, compared to 0.1% m-o-m decline in March. Food & Beverage (-2.6%) and Transport (-2.2%) groups saw the sharpest decline in prices y-o-y, while Communication (+2.5%) and Education (+1.8%) saw the highest increase in prices during the same period. The fall in cost of living index, along with reinstatement of public sector allowances and other incentives is expected to boost consumption, which augurs well for the overall economy. Demand is expected to pick up, especially as the allowances reinstatement comes before the holy month of Ramadan. We expect inflation to recover in the second half of the year as the impact of higher base wears off, demand picks up and the government may implement taxes on selected products.*

**Inflation:** Inflation improved slightly on a sequential basis in April 2017, rising 0.1% m-o-m, but on a y-o-y basis, deflation accelerated to 0.6% y-o-y, compared to -0.4% in the previous month. The improvement in m-o-m inflation was supported by increase in food & beverage prices, which could be attributed to improvement in global food prices (mainly led by bread & cereal and fruit & nuts prices). Housing and other utilities prices also rose slightly. Both these divisions together account for over 40% of the inflation index. On a y-o-y basis, deflation was led by the 2.6% y-o-y fall in Food & Beverage prices, primarily due to a stronger US Dollar, followed by 2.2% y-o-y fall in Transport group.

**Figure 1 Inflation**

Index	Apr 16	Mar 17	Apr 17	y-o-y	m-o-m
General	137.6	136.7	136.8	-0.6%	0.1%
Food & Beverage	146.9	142.7	143.1	-2.6%	0.3%
Tobacco	199.8	199.8	199.8	0.0%	0.0%
Clothing and footwear	114	112.5	113.1	-0.8%	0.5%
Housing, water, electricity, gas and other fuels	176.3	177	177.1	0.5%	0.1%
Furnishing, household equip. and maintenance	134.4	133.7	133.7	-0.5%	0.0%
Health	123.4	123.4	123.4	0.0%	0.0%
Transport	123.9	121	121.2	-2.2%	0.2%
Communication	95.3	97.9	97.7	2.5%	-0.2%
Recreation and Culture	119	117.3	117.3	-1.4%	0.0%
Education	122.6	124.9	124.8	1.8%	-0.1%
Restaurants and Hotels	125.5	124.3	123.8	-1.4%	-0.4%
Miscellaneous Goods and Services	124	125.6	125.8	1.5%	0.2%

Source: Gastat, Al Rajhi Capital

**Mazen Al-Sudairi**  
 Head of Research  
 Tel +966 11 2119449,  
[alsudairim@alrajhi-capital.com](mailto:alsudairim@alrajhi-capital.com)



**Figure 2 Weights of different expenditure divisions on the cost of living index**

Main expenditure division	Weights	Comment
Food and beverage	21.7%	Has generally trended inline with global food prices. Still remains much lower on a y-o-y basis. However, it could rise slightly on taxes on sugary drinks
Tobacco	0.5%	Prices could rise on implementation of tobacco tax
Clothing and Footwear	8.4%	April saw a slight pick up on a sequential basis. May further increase post reinstatement of allowances
Housing, water, Electricity ,Gas and other fuels	20.5%	Has remained sequentially flat after step change upwards in 2016. Further increase in water and electricity prices could drive this higher. However, rents are likely to be down on y-o-y basis
Furnishings, household equipment & Routine household	9.1%	Could improve once employment and disposable income improves
Health	2.6%	Remains flattish despite coming under inelastic demand category
Transport	10.4%	Continues to decline partly attributed to lower auto sales
Communication	8.1%	After picking up on a sustained basis till the end of 2016, 2017 levels have been sequentially flat
Recreation and Culture	3.5%	Demand and thereby inflation could pick up in line with disposable incomes
Education	2.7%	Likely to be stable in atleast the rest of the year
Restaurants and hotels	5.7%	Being in inelastic category prices have continuously declined in the past
Miscellaneous goods and services	6.8%	Should increase in line with general overall economic activity
<b>General index</b>	<b>100%</b>	<b>Declined for the fourth consecutive month</b>

Source: Gastat data, Al Rajhi Capital



## IMPORTANT DISCLOSURES FOR U.S. PERSONS

This research report was prepared by Al Rajhi Capital (Al Rajhi), a company authorized to engage in securities activities in Saudi Arabia. Al Rajhi is not a registered broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through Rosenblatt Securities Inc, 40 Wall Street 59th Floor, New York NY 10005, a registered broker dealer in the United States. Under no circumstances should any recipient of this research report effect any transaction to buy or sell securities or related financial instruments through Al Rajhi. Rosenblatt Securities Inc. accepts responsibility for the contents of this research report, subject to the terms set out below, to the extent that it is delivered to a U.S. person other than a major U.S. institutional investor.

The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and may not be an associated person of Rosenblatt Securities Inc. and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

### Ownership and Material Conflicts of Interest

Rosenblatt Securities Inc. or its affiliates does not 'beneficially own,' as determined in accordance with Section 13(d) of the Exchange Act, 1% or more of any of the equity securities mentioned in the report. Rosenblatt Securities Inc, its affiliates and/or their respective officers, directors or employees may have interests, or long or short positions, and may at any time make purchases or sales as a principal or agent of the securities referred to herein. Rosenblatt Securities Inc. is not aware of any material conflict of interest as of the date of this publication.

### Compensation and Investment Banking Activities

Rosenblatt Securities Inc. or any affiliate has not managed or co-managed a public offering of securities for the subject company in the past 12 months, nor received compensation for investment banking services from the subject company in the past 12 months, neither does it or any affiliate expect to receive, or intends to seek compensation for investment banking services from the subject company in the next 3 months.

### Additional Disclosures

This research report is for distribution only under such circumstances as may be permitted by applicable law. This research report has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient, even if sent only to a single recipient. This research report is not guaranteed to be a complete statement or summary of any securities, markets, reports or developments referred to in this research report. Neither Al Rajhi nor any of its directors, officers, employees or agents shall have any liability, however arising, for any error, inaccuracy or incompleteness of fact or opinion in this research report or lack of care in this research report's preparation or publication, or any losses or damages which may arise from the use of this research report.

Al Rajhi may rely on information barriers, such as "Chinese Walls" to control the flow of information within the areas, units, divisions, groups, or affiliates of Al Rajhi.

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this research report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States.

The value of any investment or income from any securities or related financial instruments discussed in this research report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Past performance is not necessarily a guide to future performance and no representation or warranty, express or implied, is made by Al Rajhi with respect to future performance. Income from investments may fluctuate. The price or value of the investments to which this research report relates, either directly or indirectly, may fall or rise against the interest of investors. Any recommendation or opinion contained in this research report may become outdated as a consequence of changes in the environment in which the issuer of the securities under analysis operates, in addition to changes in the estimates and forecasts, assumptions and valuation methodology used herein.

No part of the content of this research report may be copied, forwarded or duplicated in any form or by any means without the prior consent of Al Rajhi and Al Rajhi accepts no liability whatsoever for the actions of third parties in this respect. This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

## Disclaimer and additional disclosures for Economic Research

### Disclaimer

This research document has been prepared by Al Rajhi Capital Company ("Al Rajhi Capital") of Riyadh, Saudi Arabia. It has been prepared for the general use of Al Rajhi Capital's clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Al Rajhi Capital. Receipt and review of this research document constitute your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this document prior to public disclosure of such information by Al Rajhi Capital. The information contained was obtained from various public sources believed to be reliable but we do not guarantee its accuracy. Al Rajhi Capital makes no representations or warranties (express or implied) regarding the data and information provided and Al Rajhi Capital does not represent that the information content of this document is complete, or free from any error, not misleading, or fit for any particular purpose. This research document provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other investment products related to such securities or investments. It is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive this document.

Investors should seek financial, legal or tax advice regarding the appropriateness of investing in any securities, other investment or investment strategies discussed or recommended in this document and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities or other investments, if any, may fluctuate and that the price or value of such securities and investments may rise or fall. Fluctuations in exchange rates could have adverse effects on the value of or price of, or income derived from, certain investments. Accordingly, investors may receive back less than originally invested. Al Rajhi Capital or its officers or one or more of its affiliates (including research analysts) may have a financial interest in securities of the issuer(s) or related investments, including long or short positions in securities, warrants, futures, options, derivatives, or other financial instruments. Al Rajhi Capital or its affiliates may from time to time perform investment banking or other services for, solicit investment banking or other business from, any company mentioned in this research document. Al Rajhi Capital, together with its affiliates and employees, shall not be liable for any direct, indirect or consequential loss or damages that may arise, directly or indirectly, from any use of the information contained in this research document.

This research document and any recommendations contained are subject to change without prior notice. Al Rajhi Capital assumes no responsibility to update the information in this research document. Neither the whole nor any part of this research document may be altered, duplicated, transmitted or distributed in any form or by any means. This research document is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or which would subject Al Rajhi Capital or any of its affiliates to any registration or licensing requirement within such jurisdiction.

### Contact us

**Mazen AISudairi**  
Head of Research  
Tel : +966 1 211 9449  
Email: [alsudairim@alrajhi-capital.com](mailto:alsudairim@alrajhi-capital.com)

**Al Rajhi Capital**  
Research Department  
Head Office, King Fahad Road  
P.O. Box 5561, Riyadh 11432  
Kingdom of Saudi Arabia  
Email: [research@alrajhi-capital.com](mailto:research@alrajhi-capital.com)

**Al Rajhi Capital is licensed by the Saudi Arabian Capital Market Authority, License No. 07068/37.**