

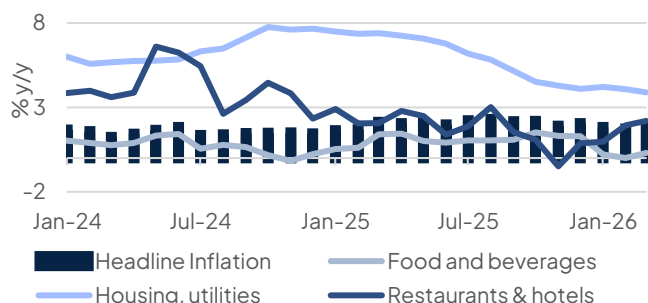
Saudi Arabia: Marginal rise in inflation on seasonal pressures

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- Saudi headline inflation edged up slightly to 1.8% y/y in March, remaining low and stable with no sign of conflict-related price pressures.
- The modest rise was driven by seasonal Ramadan effects on food, restaurants and hotels, while housing inflation continued to ease on the back of the Riyadh rent freeze.
- Higher miscellaneous goods inflation, especially sharp gains in jewellery and watches, offset some of the housing slowdown, but broader price pressures remain contained.

Headline inflation in Saudi Arabia was broadly stable in March, rising only modestly on an annual basis to 1.8%, from 1.7% in February. Prices were 0.3% higher than the previous month. Inflation in Saudi Arabia has been low and stable over the past several years, and had been modestly disinflationary in recent months, with the February print the lowest reading in a year. While there was a modest uptick in the headline measure last month, there was no evidence of a rise in price pressures emanating from the US-Iran conflict that is reintroducing inflation concerns elsewhere.

Ongoing slowdown in housing inflation



Source: Haver Analytics, Emirates NBD Research

The primary driver of the modest acceleration in prices last month was the food & beverages component of the basket, which is the largest at around 22% of the total. From flat in February it rose to 0.3% y/y, driven by a 0.5% m/m gain (from -0.5% in February). This can largely be attributed to the seasonal effects of Ramadan, which usually coincides with monthly rises in food prices. Similarly, restaurants & hotels, which makes up 6% of the basket, is also subject to similar seasonal trends, and there was an acceleration in the annual inflation measure to 2.2%, from 2.0% previously, with a m/m rise of 0.6%, from 0.3% m/m in February. According

to the GASTAT statement, this was driven by a 4.0% y/y rise in accommodation services prices.

The primary driver of headline inflation in Saudi Arabia over the past several years has been housing & utilities, which makes up around a fifth of the CPI basket. The measure spiked to a peak of 7.8% y/y in October 2024, driven by rapid economic and population growth and a strong urbanisation trend. There has been a moderation in recent months, however, especially since a rent freeze was announced for Riyadh, and the 3.9% y/y recorded in March (down from 4.1% in February) was the slowest pace since October 2022. We expect that housing inflation will continue to moderate through the remainder of the year, though at a slower pace.

The slowdown in housing inflation in recent months would have had a greater effect on the headline measure if it had not been in part offset by an acceleration in inflation for miscellaneous goods & services (7% of the basket), which has risen to 8.2% y/y for February and March, up from an average of 5.1% in 2025. This has been driven in large part by a sharp rise in the prices of personal effects, and in particular jewellery & watches, which was up 29.5% y/y in March, reflecting global trends in precious metals and luxury items.

There was little sign in the CPI data that price rises related to the Iran conflict had fed through to the consumer in Saudi Arabia. The transport component has been quick to reflect higher oil prices elsewhere, but the regulated nature of Saudi Arabia's energy market meant that annual transport inflation actually slowed in March, dropping to 0.9% y/y from 1.3% the previous month, with a modest 0.2% m/m gain. The latest PMI survey for March suggested that companies were not seeing significant price rises themselves, and so were not passing on to customers. Overall input prices rose at a slightly



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slower pace than in February, with the purchase costs subcomponent almost unchanged from the previous month. Staff costs slowed in March from the record pace seen in February. Firms continued to pass price rises on to consumers, but at broadly the same pace as seen the previous month.

We forecast an average inflation rate of 1.6% this year, which would mark a slowdown from the 2.0% average in 2025. While the regional conflict offers some upside risk to this projection, the March data suggests that the reasoning stands for the time being. While there are undoubtedly some global price rises stemming from the conflict, the stronger dollar will go some way to mitigating this for Saudi Arabia's imports, while we still expect that housing inflation will continue to soften.

Daniel Richards, Senior Economist
danielricha@emiratesnbd.com



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