



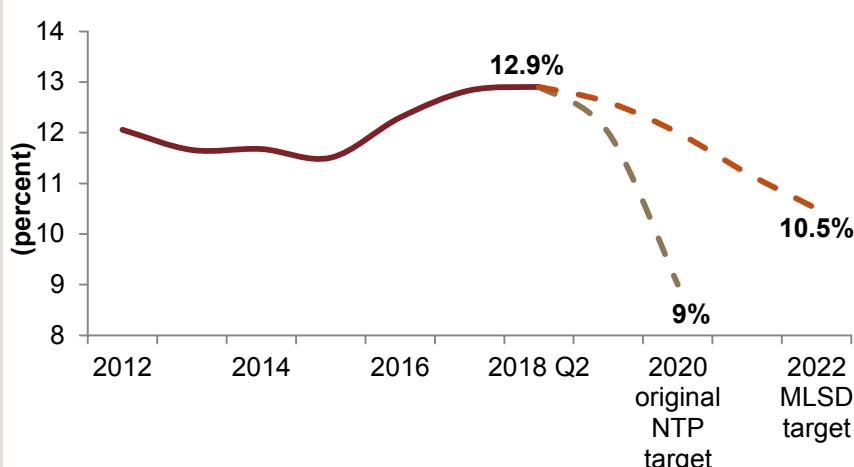
October 2018

Saudi Labor Market Update - Q2 2018

Gradual increase in labor force participation

- The latest General Authority for Statistics (GaStat) labor market release for Q2 2018 shows that unemployment rate remained unchanged, at 12.9 percent, for the second consecutive quarter.
- Labor force participation rate rose among females, rising from 17.4 percent in Q2 2017 to 19.6 percent in Q2 2018, indicating more enthusiasm among females to join the labor market.
- With increasing number of females joining the labor market, the female labor force participation rate rose, but the number of unemployed females is still higher than unemployed males.
- At the beginning of this month, the Ministry of Labor and Social Development (MLSD) announced 68 new initiatives to stimulate Saudization in the private sector, distributed between job seekers and employers.
- In addition, the minister of labor has recently stated that the unemployment target is 10.5 percent by 2022. Worth mentioning that the original national transformation program (NTP) target was 9 percent by 2020 (Figure 1).
- The total number of foreigners in the Saudi labor market has declined by around 1.1 million since the start of 2017, with 312 thousand leaving the market during Q2 2018.
- Looking at the sectorial employment, data shows that all sectors saw a drop in the number of foreign workers, with construction losing the biggest number by 187 thousand foreign workers, followed by trade with 65 thousand foreign workers.
- At the same time, two sectors showed a marginal increase in the number of Saudi workers during Q2 2018, mining and quarrying and financial services by 1.8 thousand Saudi workers in both sectors.

Figure 1: Saudi Unemployment Rates, NTP and MLSD targets



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Recent developments

Unemployment in Q2 2018 remained unchanged, at 12.9 percent, for the second consecutive quarter.

Labor force participation rate increased among females...

...but the number of unemployed females is still higher than unemployed males.

The total number of foreigners in the Saudi labor market declined by around 1.1 million since the start of 2017, with about 312 thousand leaving the market during Q2 2018.

Q2 2018's GaStat labor market release shows that unemployment remained unchanged, at 12.9 percent, for the second consecutive quarter, up from 12.8 for the last two quarters of 2017. Whilst unemployment rate for males was unchanged at 7.6 percent, it rose slightly for females to 31.1 percent (Figure 2), but declined for total youth (20-24 years old) to 41.7 percent, compared to Q1 2018.

Higher unemployment rate among females is likely driven by the rising labor force participation rate, from 17.4 percent in Q2 2017 up to 19.6 percent in Q2 2018, indicating more enthusiasm among females to join the labor market, as the MLSD introduced several measures to support hiring females in the private sector. For example, the MLSD has enforced quotas for hiring females in certain jobs within the retail sector, and provided a number of initiatives to facilitate joining the labor force, such as Qurrah, a child care program, and Wusool, to facilitate transportation to work. However, the female labor force participation rate is still below the MLSD's updated national transformation program (NTP) target, where the aim is to raise the rate up to 25 percent by 2020 (Box 1).

Looking at the labor market breakdown, the number of unemployed females reached 433 thousand, compared to 402 thousand in Q2 2017, rising by 7.7 percent year-on-year. Meanwhile, the number of unemployed males was 354 thousand in Q2 2018, compared to 333 thousand a year ago, rising by 6.2 percent year-on-year (Figure 3). As the rising number of females joining the labor market was not met by equivalent number of jobs, the female unemployment rate rose.

At the beginning of this month, the MLSD announced 68 new initiatives to stimulate Saudization in the private sector, distributed between job seekers and employers, with a significant number of these initiatives set towards increasing female labor force participation. This came after the MLSD's reduction of Saudization in twelve retail sectors from the previously announced 100 percent to 70 percent, as we previously anticipated in our latest [Saudi Labor Market Update - Q1 2018](#), published in July 2018.

In July 2018, expat dependent fees doubled from SR100 to SR200 per dependent per month, increasing the costs borne by foreigners in the local labor market, and likely leading to a higher number of final exits. In Q2 2018, the Kingdom saw its highest number of expat departures on a quarterly basis, with 312 thousand leaving the market during the quarter (Figure 4). In total, the number of expats who have left the market since Q1 2017 rose to 1.1 million workers.

Figure 2: Saudi unemployment rate, by gender

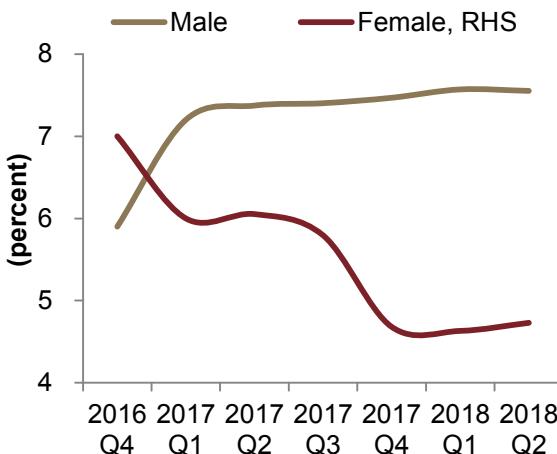
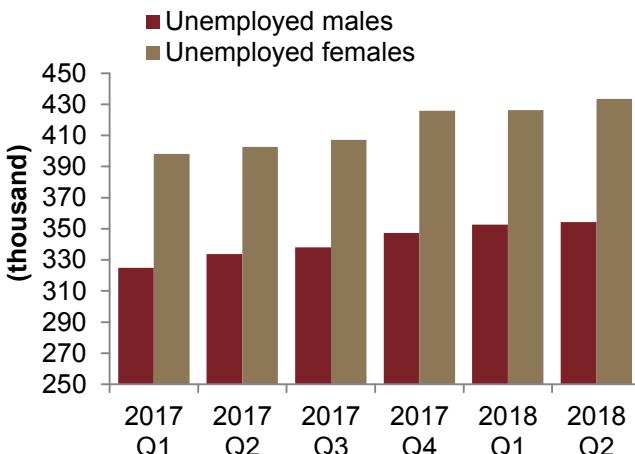


Figure 3: The number of unemployed Saudis





The NTP update reforms a number of targets and KPIs, and comes in a different format.

Amongst the major labor market updated goals is lowering the target proportion of Saudi females in the labor force...

...without having a target for unemployment rate by 2020.

The NTP update includes a group of entities to work together towards achieving the labor market targets, rather than linking all the targets with MLSD solely

We find the NTP update more realistically designed in order to reach the main NTP goals.

Box 1: Labor market NTP updated targets

In a recent release, the National Transformation Program (NTP) program - one of the Vision 2030 affiliated realization programs - has introduced an execution plan for the years 2018-2020, as an update of its originally published document in 2016. The NTP update reforms a number of targets and KPIs, and comes in a different format, as initiatives are now grouped by main targets, rather than being listed under each government entity, as previously introduced.

Amongst the major labor market updated goals is lowering the target proportion of Saudi females in the labor force by 2020 from 28 percent in the original NTP, down to 24 percent in the updated document. As we have discussed in our latest [Saudi Labor Market Update - Q1 2018](#), we acknowledged the continuous rise in proportion of Saudi females in the labor force in recent years, from 21 percent in Q2 2017, to 23 percent in Q2 2018, however, we found it still distant from the original target of 28 percent by 2020.

In addition, the NTP update did not include any targets for unemployment rate (Table 1), whereas the original NTP document has set the target of unemployment to reach 9 percent by 2020. Nevertheless, the minister of labor has recently stated that the unemployment target is 10.5 percent by 2022.

More importantly, the NTP update includes a group of entities to work together towards achieving the labor market targets, rather than linking all the targets with MLSD solely, as the case was with the original NTP document. In the update, three government entities are listed to work on the labor market development target: the MLSD, the Ministry of Civil Services and the Human Resource Development Fund (HRDF).

With goal oriented initiatives and revised targets, we find the NTP update more realistically designed in order to reach the goals in such a limited time, between 2018 and 2020. In addition, grouping a number of government entities in each initiative, would likely help in achieving many shared targets more efficiently through cooperation and group work.

Figure 4: Number of foreign workers in the Saudi labor market, and the leavers (thousand)

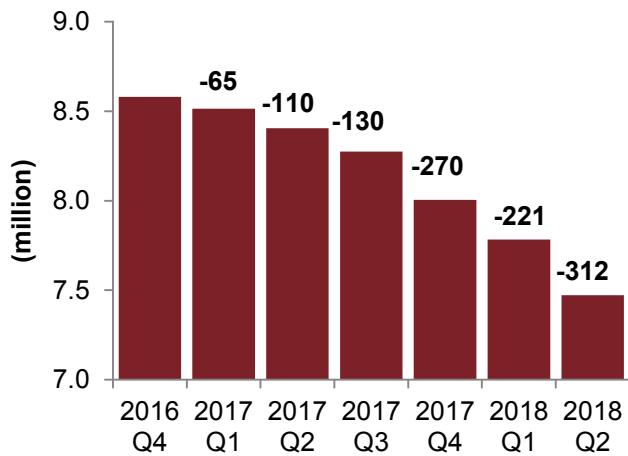


Table 1: Updated NTP labor market targets

Performance measurement index	Baseline (2017)	Target (2020)
Share of females in the Saudi labor force (percent)	21.2	24
Saudi female participation rate (over the age of 15 years)	17	25
Percentage of persons with disabilities employed in the labor market	7.7	12.4
Number of suitable international ILO agreements	16/177	20/177
Compliance with the Wage Protection System for foreign workers (percent)	50	80
KSA ranking in the Global Talent Competitiveness Index	39/119	37/119
KSA ranking in the Working Abroad Index	50/60	35/60



Employment by kind of economic activity

All sectors saw a drop in the number of foreign workers...

...with only two sectors showing a rise in the number of Saudi workers: mining and financial services...

...as the two sectors saw a rise in growth rates during Q1 2018.

The biggest share of foreign labor who have left the market in Q2 2018 continue to be the workers earning less than SR1500 a month on average.

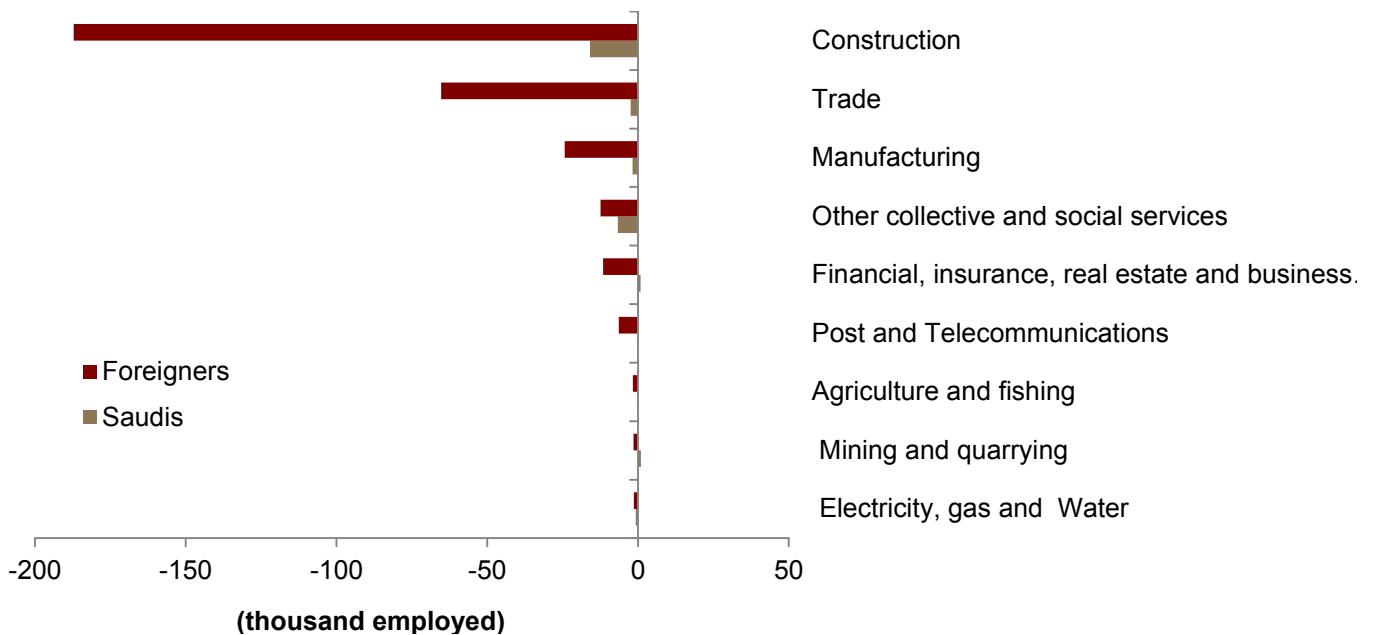
Between Q1 2018 and Q2 2018, about 354 thousand foreign workers left the labor market. As we discussed in our latest [Saudi Labor Market Update - Q1 2018](#), we find a correlation between GDP growth rates and employment on a lag basis, since unemployment is considered a “lagging economic indicator”, which means that it mostly reflects the economic performance in the previous time period.

Looking at the sectorial employment (Figure 5), data shows that all sectors saw a drop in the number of foreign workers, with construction losing the biggest number, with about 187 thousand foreigners and 16 thousand Saudis leaving the sector during Q2 2018. Trade, which includes wholesale and retail activities, came second, losing around 65 thousand foreign workers, added to 2.4 thousand Saudis leaving the sector during the quarter. Looking at the sectors' performance during the previous quarter – Q1 2018, we find that the construction sector contracted by 2.4 percent year-on-year, and trade was down by 0.5 percent year-on-year, declining for the first time since Q1 2017.

At the same time, two sectors showed a marginal increase in the number of Saudi workers during Q2 2018, compared to Q1 2018 when all sectors saw a decline in the number of Saudi workers. Mining and quarrying hired 910 Saudis, whilst financial services hired around 900 Saudis during the quarter. During the previous quarter, both sectors saw a rise in GDP growth rate, by 0.8 and 2.1 percent consecutively, year-on-year.

As we saw in Q1 2018, and by looking at wages data from GOSI, we found that the biggest share of foreign labor who have left the market in Q2 2018 continue to be the workers earning less than SR1500 a month on average (Figure 6). These workers range between construction, trade, education, and agriculture sectors. For H2 2018, we expect this range to widen, especially within the trade and retail sector, as private sector enterprises in this sector are supposed to comply with the new Saudization measures that commenced in September 2018 in three gradual stages through 2018-2019.

Figure 5: Net employment by kind of economic activity
(Q2 2018 - Q1 2018 net change in employment)





Box 2: Unemployed? Or looking for a job?

Some media reports mix between the number of unemployed citizens, and the number of citizens looking for a job.

We find that the number of citizens looking for a job is higher than the number of unemployed citizens...

...likely inflated by citizens who are looking for a government job.

GaStat's quarterly labor market survey provides two measures for job seekers: "unemployed persons" and "persons looking for a job". For labor market analysis, we use the "unemployed persons".

Meanwhile, when talking about unemployment, some media reports mix between the two, which could result in some confusion among readers. To explain the difference, we identify the terms below:

"Unemployed": the number of unemployed individuals is estimated by GaStat, through the labor market quarterly survey. The survey asks a sample of people if he/she was unemployed, and have been seriously looking for a job for the past four weeks. If yes, the person counts as "unemployed" (Figure 7).

"Looking for a job": the number is listed in GaStat's labor market quarterly survey, although it is taken from Hafiz⁽¹⁾, the National Information Center, and Ministry of Civil Services (MCS) for Jadara and Saed programs⁽²⁾. The MCS programs (Jadara and Saed) do not impose a criteria on being unemployed, and do not ask about the employment status at registration. Whilst Hafiz requires being unemployed on the time of registration to get the benefit. Added to that, the updated HRDF regulations are imposing a stronger framework and adherence, to ensure that benefits go to the unemployed persons restrictively.

As a result, we can see in Figure 7 that the number of persons looking for a job is higher than the number of unemployed persons, likely inflated by citizens who are looking for a government job through Jadara and Saed, even if they were employed at the time of application. Another note from the figure is the large number of females looking for a job, with around 899 thousand female applicants. As females still constitute the biggest share among unemployed persons, it is still likely that females find it more difficult to find a job in the local labor market, and even if they do, they still look for another job which might provide better conditions. As Gastat data shows, females are most likely to quit a job and look for another because of low wages (30 percent of unemployed females), whilst only 18 percent of males would define low wage as an issue. We believe that the difference between the responses of two genders is the cost of transportation, which could constitute a big share of the females wages. To tackle this issue, the MLS has recently expanded "Wusool" program, which provides a transportation subsidy for females working in the private sector.

⁽¹⁾ Hafiz: the HRDF's program for unemployment benefits.

⁽²⁾ Jadara & Saed: online databases for citizens looking for government jobs.

Figure 6: Foreign workers by average wage (Q2 2018 - Q1 2018 net change in employment)

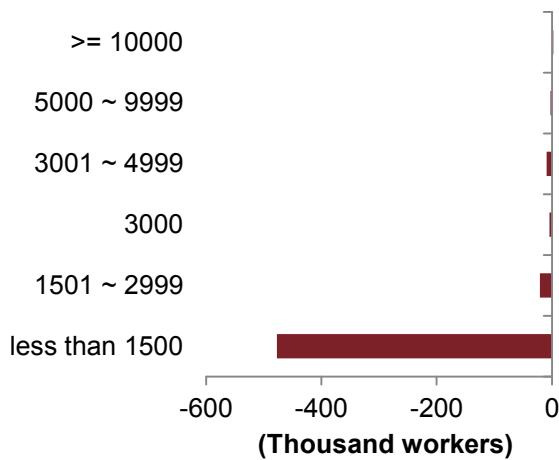
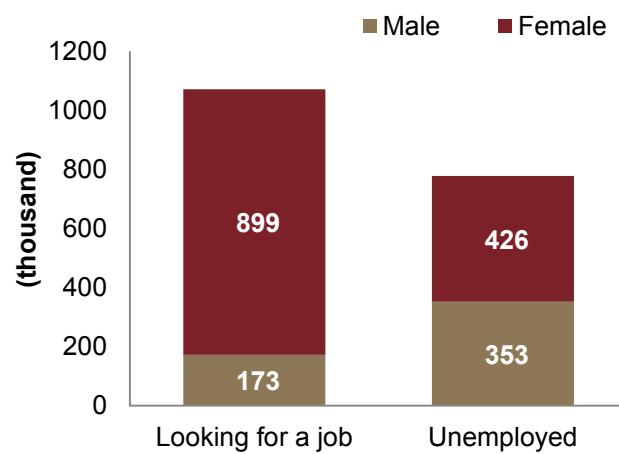


Figure 7: "Looking for a job" includes employed persons searching for another job





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