جدوى للإستثمار
Jadwa Investment

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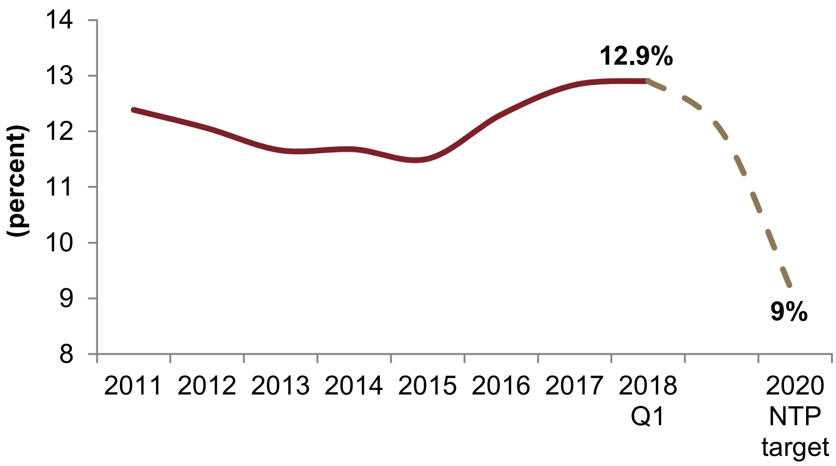
Saudi Labor Market Update - Q1 2018

Structural changes with new challenges

- The latest General Authority for Statistics (GaStat) labor market release for Q1 2018 shows that unemployment rate has inched slightly upwards to 12.9 percent, up from 12.8 for the last two quarters of 2017.
- During Q1 2018, the labor market saw the implementation of expat levies, which raised expat labor costs, six months after the implementation of expat dependent fees.
- The total number of foreigners in the Saudi labor market has declined by around 796 thousand since the start of 2017, with about 221 thousand leaving the market during Q1 2018.
- At the same time, a new wave of Saudization was announced, by enforcing Saudi employment in twelve retail sectors by September 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.
- The number of foreigners leaving the market in Q1 2018 was not equally met by the number of Saudis hired. We believe that this divergence is due to the wage gap between Saudis and expats.
- We can say that the first wave of foreigners leaving the country are the unskilled, low-wage labor, who have been made redundant by their employer due to rising labor costs.
- Looking ahead, with around 230 thousand fresh university graduates every year, the Saudi labor market is mostly challenged with creating new jobs for the educated youth.

Figure 1: Saudi Unemployment Rates and NTP target



Saudi Unemployment Rate
(percent)

	2017 Q4	2018 Q1
Males	7.5	7.6
Females	31.0	30.9
Youth (20-24)	42.7	43.3
Total	**12.8**	**12.9**

Saudi Labor Force Participation Rate
(percent)

	2017 Q4	2018 Q1
Males	63.4	63.5
Females	19.4	19.5
Youth (20-24)	25.7	26.6
Total	**41.9**	**41.9**

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Recent developments

Unemployment rate inched slightly upwards to 12.9 percent in Q1 2018, up from 12.8 for the last two quarters of 2017.

Q1 2018's General Authority for Statistics (GaStat) labor market release shows that unemployment inched slightly upwards, to 12.9 percent, up from 12.8 for the last two quarters of 2017. The unemployment rate for males increased to 7.6 percent, and declined slightly for females to 30.9 percent (Figure 2), but increased for total youth (20-24 years old) to 43.3 percent.

Labor force participation rate increased among females, rising from 17.4 percent in Q1 2017 up to 19.5 percent in Q1 2018.

At the same time, labor force participation rate increased among females, rising from 17.4 percent in Q1 2017 up to 19.5 percent in Q1 2018 (Figure 3), indicating more enthusiasm among females to join the labor market, following continuous attempts by the Ministry of Labor and Social Development (MLSD) to enforce hiring females in the private sector. This number adds to the percentage of females in the labor force, raising it from 21 percent in Q1 2017, up to 22.8 percent in Q1 2018. However, the number is still below the MLSD's national transformation program (NTP) target, where the ministry aims to raise participation up to 28 percent by 2020.

In Q1 2018, the labor market saw the implementation of expat levies, six months after the expat dependent fees.

During Q1 2018, the labor market saw the implementation of expat levies, which raised expat labor costs, six months after the implementation of expat dependent fees. That said, expat dependent fees are doubling this month, rising 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.

The total number of foreigners in the Saudi labor market has declined by around 796 thousand since the start of 2017.

The total number of foreigners in the Saudi labor market has declined by around 796 thousand since the start of 2017, with about 221 thousand leaving the market during Q1 2018 (Figure 4). Added to this, the number of new expat visas issued for the private sector has significantly declined in recent years, falling from 2 million new visas issued during 2015, down to 718 thousand in 2017 (Figure 5).

During Q1 2018, the MLSD announced a new wave of Saudization.

During Q1 2018, the MLSD announced a new wave of Saudization, by enforcing 100 percent Saudi employment in twelve retail sectors by September 2018. However, the MLSD recently published a guide titled "Nationalizing retail jobs in 12 sectors", proposing the reduction of Saudization from 100 percent to 70 percent, indicating that the original enforcement decision is under review (Box 1).

Figure 2: Saudi unemployment rate, by gender

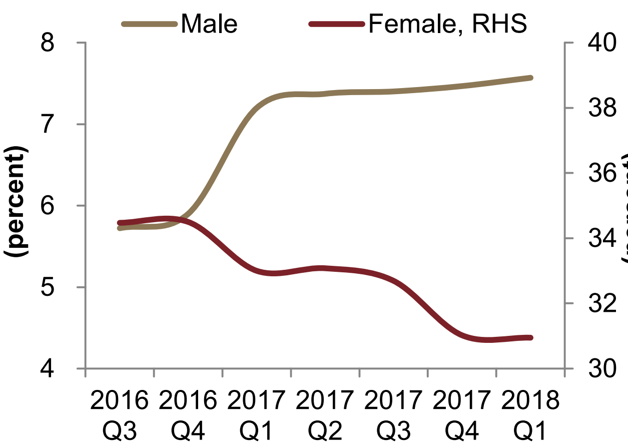
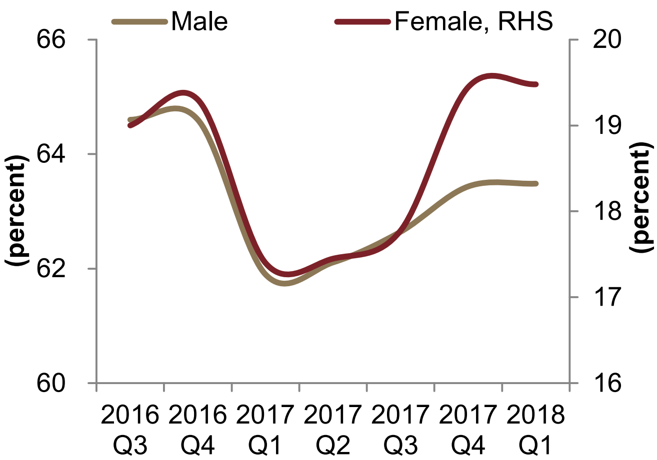


Figure 3: Labor force participation rate, by gender



Box 1: MLSD adds more jobs to full Saudization

The MLSD decided to limit twelve retail jobs to Saudi nationals by September 2018.

In January 2018, the MLSD decided to limit twelve retail jobs to Saudi nationals by September 2018. Jobs included in this decision are found in shops selling: watches, optical equipment, medical equipment, electronics, car spare parts, building material, carpets, automobile and bikes, home and office furniture, garments, children clothes and menswear, household utensils and pastry shops.

According to Nitaqat quotas, companies working in these sectors need to have a relatively low Saudization ratio…

According to Nitaqat quotas, companies working in the above sectors need to have a relatively low Saudization ratio, between 16-36, to be in the green segment, second best after the platinum, in terms of hiring percentages and company benefits. Therefore, these companies will face challenging few months ahead, to work quickly towards meeting these goals, by replacing all their foreigners' employees with nationals within nine months.

… which means they will face challenging few months ahead, to work quickly towards meeting these new goals.

GaStat's latest data shows that foreigners represent 74 percent of total workers in wholesale and retail services, coming second after construction, in terms of highest foreigners ratio in total workforce. During Q1 2018, MLSD started enforcing its previous decision to limit jobs at car rentals to Saudis only, otherwise companies are fined SR20,000 for each expatriate worker. Accordingly, the new decision is expected to provide about 170 thousand jobs for Saudis, both males and females, by the end of 2019.

To support this structural change, MLSD is providing training programs, and subsidizing salaries for Saudis…

… but companies will still face rising labor costs, which might lead to restructuring in the short run.

To support this structural change, MLSD is offering a number of training programs, and subsidizing 15 percent of total salaries for males, and 20 percent for females, up to two years. On average, Saudis working in the trade sector earn SR4707, whilst foreigners earn an average of SR1743, according to the latest data by the General Organization for Social Insurance (GOSI). However, by adding the expat levies into consideration, which accounts for SR800 per month for companies with lower percentages of Saudis than expats, the average expat worker cost would be SR2543, minimizing the cost gap between nationals and foreigners. That said, even after MLSD's salary subsidy, companies will still need to bear an extra cost of SR802 per Saudi worker on average. Accordingly, we expect these companies to start restructuring, through minimizing their number of workers, in order to limit their increasing labor costs.

The ministry published a guide titled "Nationalizing retail jobs in 12 sectors", proposing the reduction of Saudization from 100 percent to 70 percent.

However, more recently, the ministry published a guide titled "Nationalizing retail jobs in 12 sectors", proposing the reduction of Saudization from 100 percent to 70 percent, indicating that the original enforcement decision is under review.

Figure 4: Number of foreign workers in the Saudi labor market

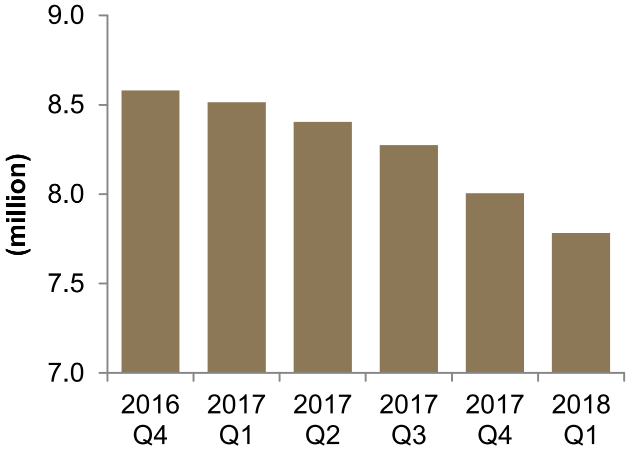
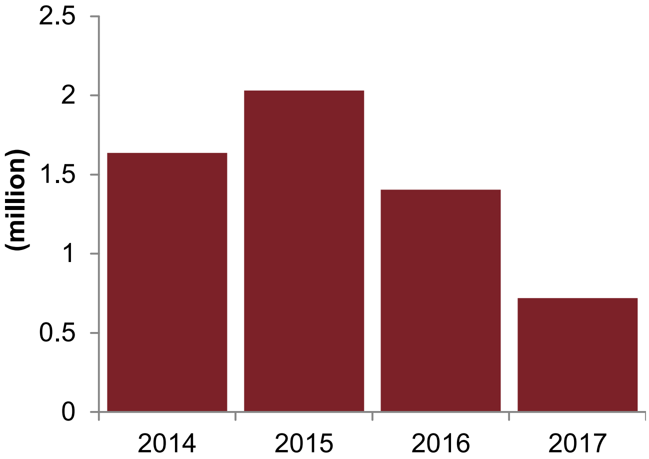


Figure 5: New expatriate visas issued for the Saudi labor market



Employment by kind of economic activity

Looking at the sectorial employment, data shows that all sectors saw a drop in the number of foreign workers…

...with construction loosing the biggest number.

In Q4 2017, the economy contracted by 1.4 percent, which is likely to have knock-on effects on employment in Q1 2018.

The number of foreigners leaving the market in Q1 2018 was not equally met by the number of Saudis hired…

…as most leavers used to receive less than SR1500 a month on average.

The first wave of foreigners leaving the market are the unskilled, low-wage labor.

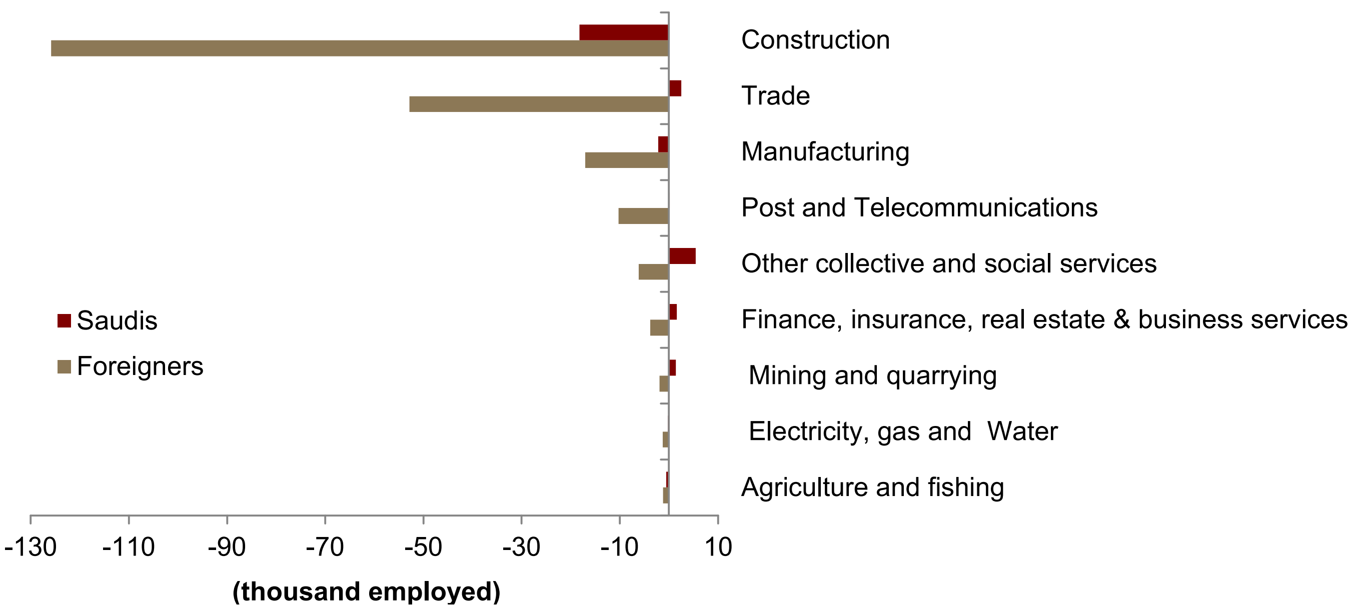
Between Q4 2017 and Q1 2018, about 221 thousand foreign workers left the labor market. Looking at the sectorial employment (Figure 6), data shows that all sectors saw a drop in the number of foreign workers, with construction losing the biggest number, at about 126 thousand foreigners, with 18 thousand Saudis leaving the sector in Q1 2018.

Trade, which includes wholesale and retail activities, came second, losing around 53 thousand foreign workers, while employing only 2.5 thousand Saudis during the quarter.

In general, unemployment is considered a “lagging economic indicator”, which means that it mostly reflects the economic performance in the previous time period. In Q4 2017, the economy contracted by 1.4 percent, which is likely to have knock-on effects on employment in Q1 2018. More specifically, the construction sector contracted by 2.9 percent year-on-year in Q4 2017, whilst trade (which includes wholesale and retail) rose by only 1.6 percent year-on-year, exhibiting the second lowest growth after construction. At the same time, the labor market was also affected by the expat levies and dependent fees, that likely led to increasing the private sector’s labor costs.

As seen in Figure 6, the number of foreigners leaving the market in Q1 2018 was not equally met by the number of Saudis hired. By looking at wages data from GOSI, we found that the biggest share of foreign workers who have left the market in Q1 2018 were receiving less than SR1500 a month on average (Figure 7). These workers range between construction, trade, education, and agriculture sectors. Additionally, looking at the education level data, the SR1500 is mostly received by foreign workers with the least educational background, ranging between illiterate and primary school (Figure 8). Therefore, we can say that the first wave of foreigners leaving the market have been unskilled, low-wage labor, who have been made redundant by their employer due to rising labor costs through the first round of expat levies. At the same time, this move would not be met by Saudi hires in the short run, as data shows that the minimum wage received by unskilled Saudi workers is SR4000 a month, on average.

Figure 6: Net employment by kind of economic activity
(2018 Q1 - 2017 Q4 net change in employment)



Future opportunities

Looking ahead, the Saudi labor market is mostly challenged with creating new jobs for the highly educated youth…

With around 230 thousand fresh graduates with higher education every year, the Saudi labor market is mostly challenged with creating new jobs for the highly educated youth. The latest unemployment figures show that the highest rates are among the youth (15-24), standing at an average of 54.1 percent in Q1 2018, with female youth unemployment at 75 percent.

...with new opportunities coming from emerging sectors, in both services and manufacturing.

As the economy goes through structural changes, creating new jobs for the youth will not be an easy task. However, a new group of jobs are anticipated to be created as the local economy is seeking new opportunities, through attracting foreign investments in various sectors, and supporting a number of local sectors, such as tourism and entertainment, and non-oil manufacturing.

Figure 7: Foreign workers by average wage (2018 Q1 - 2017 Q4 net change in employment)

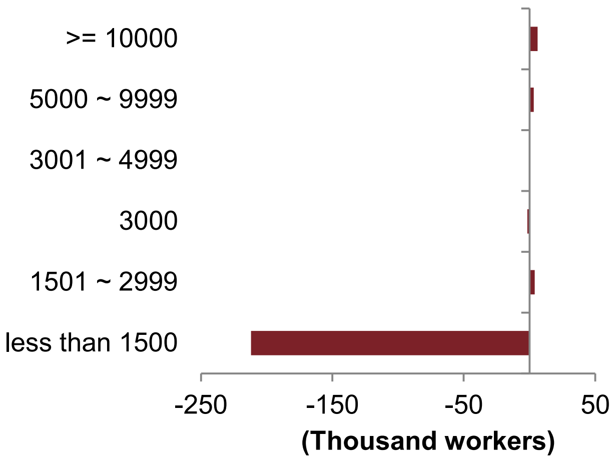
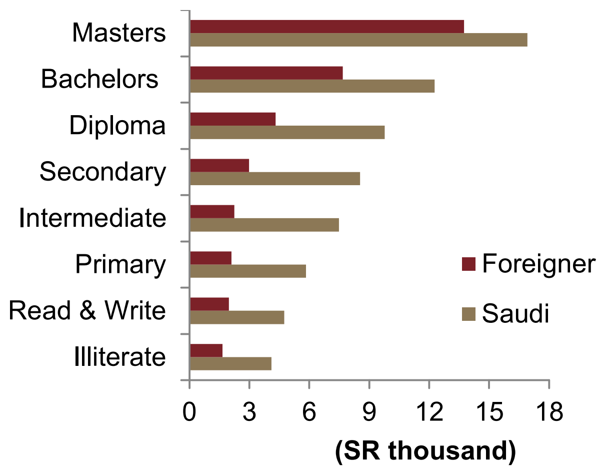


Figure 8: Workers by average wage and educational background (Q1 2018)



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The data contained in this research is sourced from the General Authority for Statistics (GaStat), General Organization for Social Insurance (GOSI), Ministry of Education (MoE) and other national statistical sources unless otherwise stated.

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