



November 2017

Saudi Labor Market Update - Q2 2017

Saudi unemployment rises slightly

- The overall unemployment rate rose slightly from 12.7 percent in Q1 2017 to 12.8 percent in Q2 2017.
- Total net new jobs for Saudis rose by 28.9 thousand during Q2; around 40 percent of these new jobs went to females.
- As for non-Saudis, total new jobs declined by 161.5 thousand during Q2; coming mostly from a decline in non-Saudi female jobs.
- Male youth unemployment declined to 15.9 percent in Q2 from 16.4 percent in Q1, despite having 92.3 thousand new male youth entrants to the labor force in Q2.
- We expect the lifting of a ban on women driving, from June 2018 onwards, will not only help raise female participation and employment rates, but also create a number of new jobs.
- Between Q1 and Q2 2017, the Saudization ratio in the local economy increased from 42.5 percent to 43.1 percent, falling back more in line with the 2016 average, although this was mainly due to more non-Saudis leaving the local labor market rather than higher employment of Saudis.
- Construction and trade were together the most negatively affected sectors in Q2 2017, with around 85 thousand non-Saudis leaving the two sectors during Q2.
- Looking ahead, we expect to see more declines in net employment of non-Saudis during H2 of 2017 and 2018, due to a combination of both a gradual increase in the expat dependent fees and the implementation of the expat levy.

Saudi Unemployment Rate (percent)

	2017 Q1	2017 Q2
Males	7.2	7.4
Females	33	33.1
Youth (20-29)	23.3	22.7
Total	12.7	12.8

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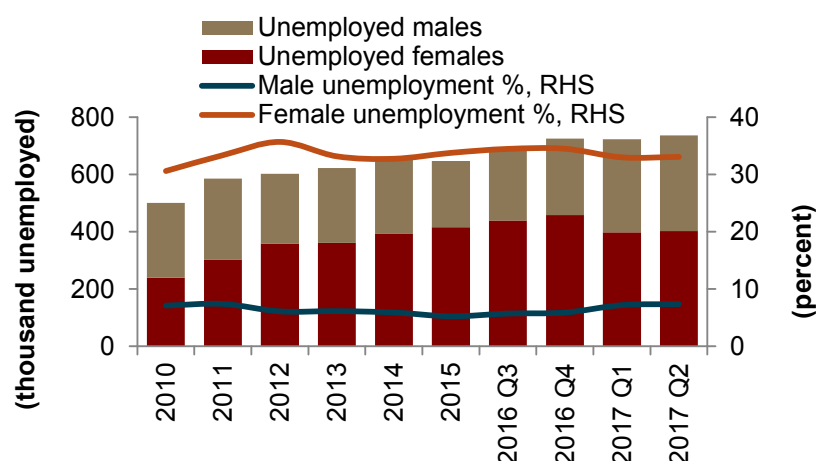
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Figure 1: Saudi Unemployment Rates





The unemployment rate rose slightly from 12.7 percent in Q1 2017 to 12.8 percent in Q2 2017.

During Q2 2017, the labor market continued to reflect the slowdown in the local economy seen since 2016. The overall unemployment rate rose slightly from 12.7 percent in Q1 2017 to 12.8 percent in Q2 2017. Total net new jobs for Saudis rose by 28.9 thousand during Q2; with around 40 percent of these new jobs going to females. As for non-Saudis, total new jobs declined by 161.5 thousand jobs during Q2; with most of these declines seen amongst new jobs for non-Saudi females. Non-Saudi female net employment has been following a downward trend since the start of 2017. We see this trend largely as a result of a number of expats choosing to repatriate their dependents prior to payment of the expat dependent fees which came into effect in July 2017. Looking ahead, we expect to see continued structural changes in the employment patterns of non-Saudi in the next few years, especially since, firstly, the expat dependent fees are expected to rise gradually until 2020, and, secondly, an expat levy is expected to commence in 2018, which will also rise incrementally to 2020.

Youth unemployment showing a positive trend, but not within female youth:

Male youth unemployment declined to 15.9 percent in Q2.

The labor market in general usually sees a new batch of fresh graduates entering the labor force for the first time during Q2, adding more pressure on the unemployment rate and specifically on the youth (20-29 years old) status. However, labor data for Q2 2017 saw a different trend. Male youth unemployment declined to 15.9 percent despite having 92.3 thousand new male youth entrants to the labor force in Q2, compared to an average of 52 thousand new male youth entrants in the previous two quarters. Meanwhile, the number of female youth new entrants declined over the same period with the total number of new female youth entrants decreasing by 5 percent, or by 33.7 thousand in Q2, quarter-on-quarter. This was the second consecutive quarterly decline (Box 1 and Figures 6.1-6.6).

Meanwhile, female youth saw a decline in new entrants for the same quarter.

In our view, the lower trend in private sector Saudi employment is due to the general slowdown observed in the local economy. Despite the continuous efforts by the Ministry of Labor and Social Development to incentivize more hiring in the private sector, the economic slowdown has resulted in throwing up a number of challenges for the Saudi labor market.

Figure 2: Saudi Youth (20-29) Unemployment Rates

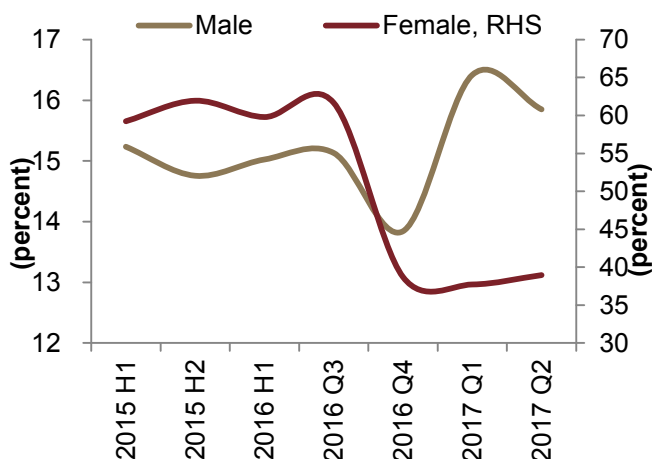
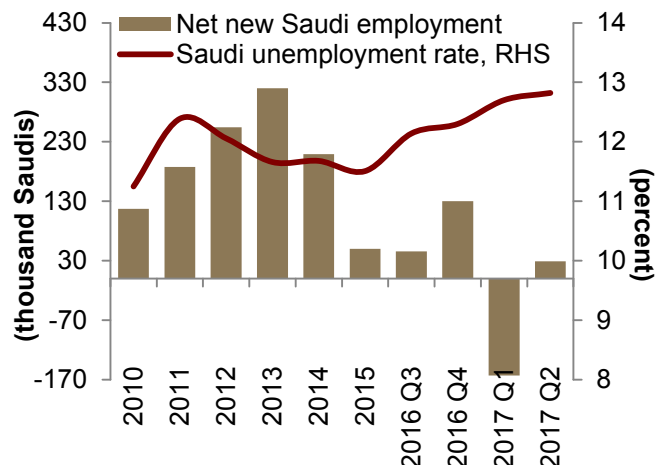


Figure 3: Net New Saudi Employment





Lifting the ban on women driving is expected to gradually boost female employment starting H2 2018.

More structural reforms by the Ministry of Labor are implemented to raise female participation rates.

The Saudization ratio in the local economy increased from 42.5 percent to 43.1 percent.

Box 1: Female employment

A number of recent reforms and developments are expected to have a major impact on female employment and participation rates in the near future:

- i) A recent survey by Jeddah Chamber of Commerce showed that transportation is considered one of the top barriers facing Saudi females in the labor market. The report specifically cited the lack of sufficient public transportation and high-cost private transportation as hindering higher participation and employment. We expect the lifting of the ban on women driving, from June 2018 onwards, will not only help raise female participation and employment rates, but also create a number of new jobs. One sector which is likely to see more opportunities for women will likely be transport services, particularly a rise in the number of female chauffeurs.
- ii) The Ministry of Labor and Social Development announced the implementation of mandatory employment of Saudi females in shops selling women’s accessories, from October 2017 onwards. This is the third phase and is expected to cover more shops than the previous phases, which related to shops selling perfumes, shoes, and department stores.
- iii) The Ministry of Labor and Social Development also launched two new programs to support female employment in the private sector: (Wosool) which aims to support transportation, and (Qurrah) which aims to provide sufficient childcare programs for female employees in the private sector.

Employment trends by kind of economic activity

Between Q1 and Q2 2017, the Saudization ratio in the local economy increased from 42.5 percent to 43.1 percent (Figure 4), falling back more in line with the 2016 average, although this was mainly due to more non-Saudis leaving the local labor market rather than higher employment of Saudis.

Construction (40.7 percent of total employment) was the most negatively affected sector in Q2 2017, with around 66 thousand non-Saudis leaving the sector and 4.4 thousand Saudis employed during Q2 (60 percent females: 2.5 thousand). This trend is highly

Figure 4: Saudization Ratio

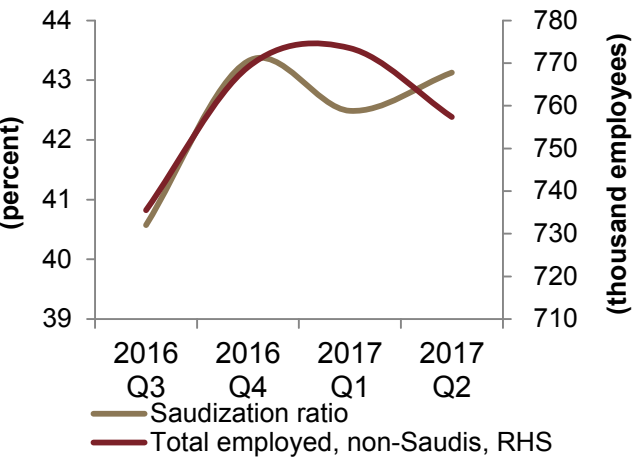


Figure 5: Participation rate in Q2 stood at 40.3 percent, lower than 2016 average of 41.5 percent

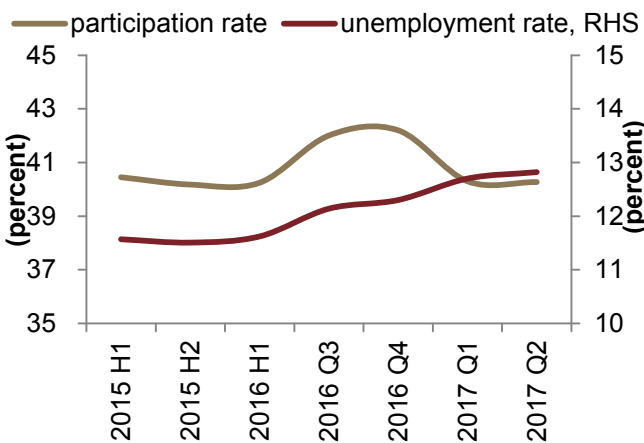




Figure 6.1: More Saudi females are joining the workforce

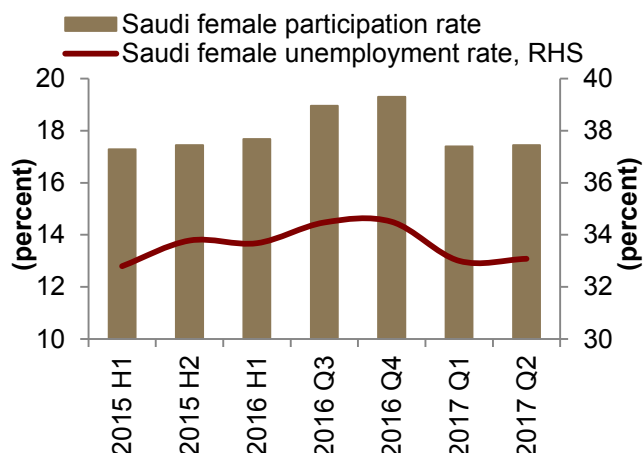


Figure 6.2: Most Saudi unemployed females have higher education degrees...

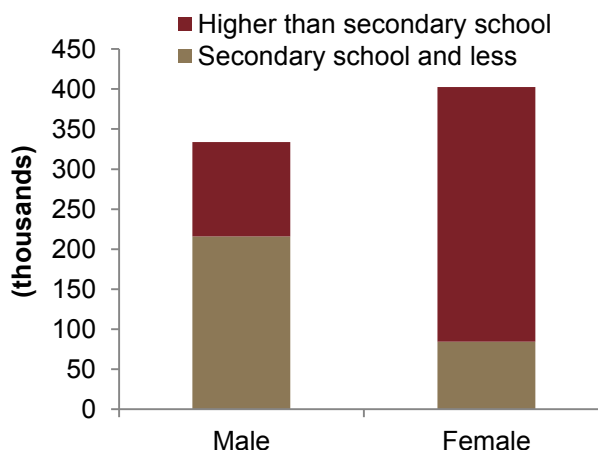


Figure 6.3: ...with degrees in education and humanitarian arts...

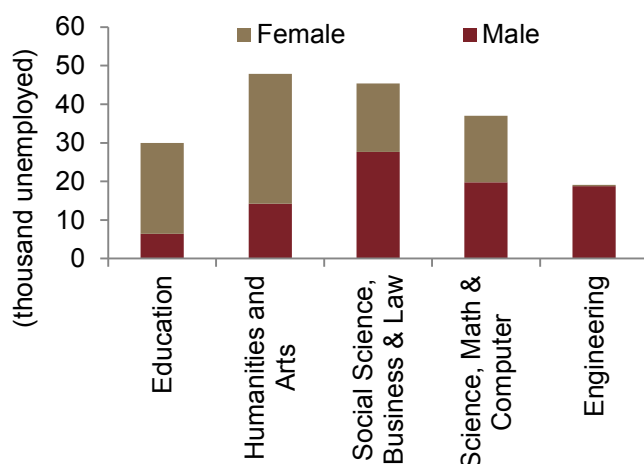


Figure 6.4: ...with almost half looking for jobs in the public sector (through applying to the Ministry of Civil Services)

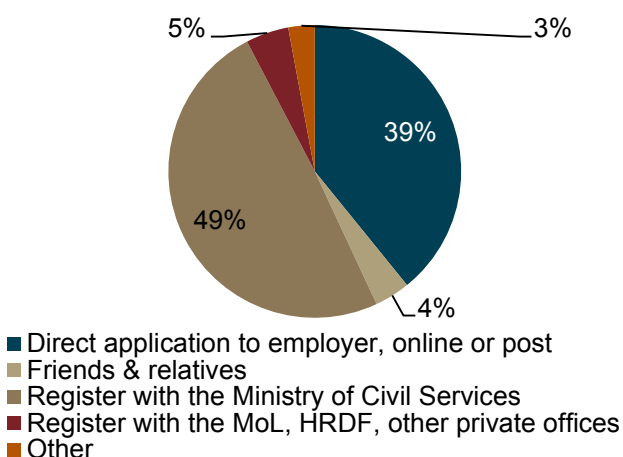


Figure 6.5: The gender wage gap is wider in the private sector...

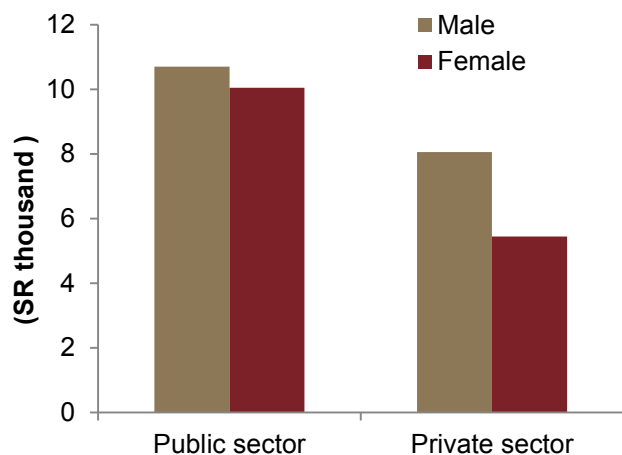


Figure 6.6: ...giving less incentives for younger females to secure a job in the private sector





Construction was the most negatively affected sector in Q2 2017...

...while trade had the highest number of Saudi hires in the same quarter.

We expect to see more declines in net employment of non-Saudis in 2017 and 2018.

consistent with the weaker performance of the sector as it continues to be affected by lower government capital spending. Q2 2017 GDP data showed the sector contracted by 1.6 percent year-on-year, following a larger contraction of 3.2 percent in Q1 2017.

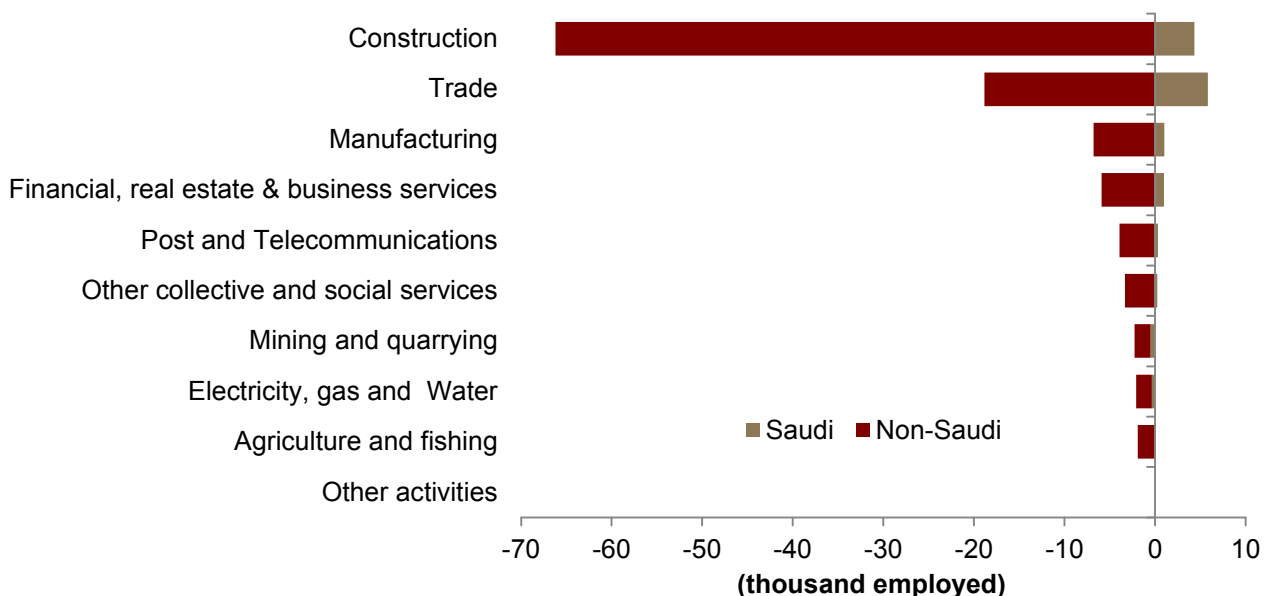
Trade (24.3 percent of total employment) had the highest number of Saudi hires, with 5.8 thousand Saudis newly hired in Q2 2017. That said, trade also suffered from a large number of non-Saudis leaving the sector (-18.8 thousand), making it second highest number of non-Saudi leavers, after construction, in Q2. Despite seeing the highest number of Saudi hires during Q2, the rise (at 5.8 thousand Saudis) was much lower than the number of Saudi hires seen in previous quarters, with an average of 19.7 thousand hires per quarter seen over the last year.

Manufacturing (9.8 percent of total employment) added around 1000 jobs for Saudis, while non-Saudi jobs declined by 6.7 thousand jobs in Q2. The generally slower rise in Saudi employment has been affected by non-oil manufacturing GDP growth which declined by 0.2 percent year-on-year in Q2 and by 9.5 percent quarter-on-quarter. However, we see manufacturing as one of the sectors that could improve overall Saudization rates and employment. Specifically, a rise in Saudi employment in manufacturing is likely to rise as two major petrochemical projects, Petro Rabigh II and Sadara, become fully operational during H2 2017.

According to the labor market survey of Q2, other sectors that saw a notable decline in net employment of non-Saudis include post and telecommunication (-3.9 thousand), financial services and insurance (-5.9 thousand), and other collective and social services (-3.3 thousand). These sectors also saw a very small increase in net employment of Saudis, with financial services and insurance being the top sector among them with only 996 new jobs for Saudis in Q2.

Looking ahead, we expect to see more declines in net employment of non-Saudis during H2 of 2017 and 2018, after gradual increases in the expats dependent fees that took effect in July 2017, and with the implementation of the expat levy in 2018. We also expect to see higher female employment and participation rates starting in H2 2018, when the driving ban on women is officially lifted. Any

Figure 7: Employment by kind of economic activity
(2017 Q2 - 2017 Q1 net change in employment)





Higher female employment could improve the total unemployment rate within the next few years.

improvement in the female employment sector will eventually improve the overall unemployment figure since it is heavily affected by female unemployment, which stood at 33.1 percent in Q2, down from an average of 33.8 percent in 2015-2016.

In accordance with the National Transformation Plan (NTP), the target unemployment rate should decline to 9 percent by 2020, and then to 7 percent by 2030, as outlined by the Vision 2030. The lowering trend in Saudi female unemployment is seen as having a positive impact in reaching these goals as higher female participation and employment opportunities are created within the private sector, going forward.

A new classification for economic activity announced recently by GaStat.

Box 2: Economic activity change in classification

Since Q1 2017, the General Authority of Statistics (GaStat) has updated its labor market economic activity classification surveys to start following the International Standard Industrial Classification of all economic activities, Revision 4 (ISIC4). The ISIC4 classification was introduced by the United Nations in 2008, and covers 21 main economic activities, of which GaStat have published 10 main clustered industries in both Q1 and Q2 2017 (Figure 7 and Table 1).

This initiative is seen as direct result of the Vision 2030's goal to improve open-access data.

The ISIC4 classification aims to provide more detail on 2922 economic activities within the local economy, and is in line with international standards, therefore making cross-country comparisons more easier. This initiative is seen as direct result of the Vision 2030's goal to improve open-access data, with GaStat confirming that ISIC4 will be officially and fully implemented by all related entities by January 2018.

A recent release shows a different number of total non-Saudis for Q1 and Q2 2017.

In a recent release, a new published dataset by GaStat titled "Economic Indicators" showed the total of employed persons in Q1 and Q2 2017 in 18 sectors. However, we note that the total number of employed persons is revised downwards in the new dataset. For the same quarter (Q2), the total is less by 40 percent standing at 6.3 million (vs. 10.2 million in the Q2 labor survey)⁽¹⁾, mainly affected by a significant cut in the number of non-Saudi employees, down by 44 percent (4.6 million, vs. 8.3 million in the Q2 labor survey). Looking at the historical data, the total number of employed non-Saudis in the labor market reached 6.5 million and 7.7 million in 2015 and 2016 consecutively. The last time the number reached 4 million was in 2009. We believe that this new dataset is preliminary and is due to further details by January 2018.

⁽¹⁾ The newly published dataset "Economic Indicators" does not clearly indicate if the total number of workers follows the labor survey published quarterly by GaStat.

**Table 1: GaStat to publish the new economic activity classification by Q1 2018 as per the following:**

2017-current classification	2018-target ISIC4 classification	
Post & Telecommunications	Information and communication	Accommodation & food service activities
Trade	Wholesale & retail trade; repair of motor vehicles & motorcycles	Real estate activities
Construction	Construction	Professional, scientific & technical activities
Mining & quarrying	Mining & quarrying	Administrative & support service activities
Agriculture & fishing	Agriculture, forestry & fishing	Public administration & defense; compulsory social security
Manufacturing	Manufacturing	Education
Electricity, gas & water	Electricity, gas, steam & air conditioning supply	Human health & social work activities
	Water supply; sewerage, waste management & remediation activities	Arts, entertainment & recreation
		Transportation & storage
Financial, insurance, real estate & business services	Financial & insurance activities	Activities of households as employers; undifferentiated goods- & services-producing activities of households for own use
Other activities	Other service activities	Activities of extraterritorial organizations
Other collective & social services		

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