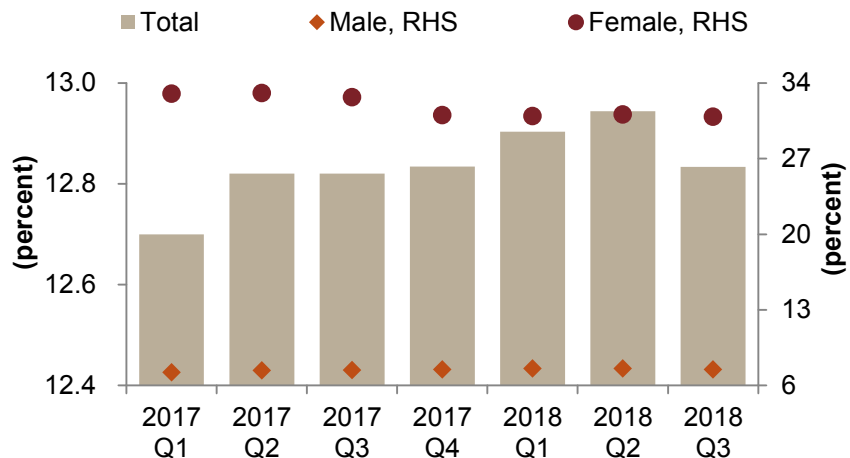




A mild improvement in unemployment rates

- The latest General Authority for Statistics (GaStat) labor market release for Q3 2018 shows that unemployment declined slightly to 12.8 percent, from 12.9 percent in the previous two quarters.
- Female labor force participation continued to rise, reaching 19.7 percent in Q3 2018, up from 17.8 percent during the same time a year ago.
- The data also shows that the total number of foreigners in the Saudi labor market declined by around 1.4 million since the start of 2017, with 265 thousand leaving the market during Q3 2018.
- In addition, a slight upward trend in wages for Saudi workers has been observed since Q1 2017, especially so for males working in the private sector. We expect this upward trend to continue in the medium term (Box 1).
- Looking at sectorial employment, data shows that all sectors saw a drop in the number of foreign workers, with construction losing 162 thousand foreign workers, followed by trade with 58 thousand.
- At the same time, four sectors saw an increase in the number of Saudi workers during Q3 2018, compared to Q2 2018.
- However, Q3 saw an increasing number of foreign workers within the higher wage bracket leaving the market.
- Meanwhile, in September 2018, the Ministry of Labor (MLSD), in collaboration with the Human Resource Development Fund (HRDF), laid out three stages of Saudization relating specifically to the retail (or trade) sector.

Figure 1: Saudi unemployment rates



Saudi Unemployment Rate (percent)

	2018 Q2	2018 Q3
Males	7.6	7.5
Females	31.1	30.9
Youth (20-24)	41.7	38.8
Total	12.9	12.8

Saudi Labor Force Participation Rate (percent)

	2018 Q2	2018 Q3
Males	63.5	63.5
Females	19.6	19.7
Youth (20-24)	28	29.7
Total	42	42

For comments and queries please contact:

Asad Khan
Director
rkhan@jadwa.com

Nouf N. Alsharif
Economist
nalsharif@jadwa.com

Head office:

Phone +966 11 279-1111
Fax +966 11 279-1571
P.O. Box 60677, Riyadh 11555
Kingdom of Saudi Arabia
www.jadwa.com

Jadwa Investment is licensed by the Capital Market Authority to conduct Securities Businesses, license number 6034-37.

View Jadwa Investment's research archive and sign up to receive future publications:
<http://www.jadwa.com>



Recent Developments

In Q3 2018, unemployment slightly declined to 12.8 percent.

Female labor force participation continued to see marginal rises reaching 19.7 percent in Q3 2018.

During Q3 2018, the MLSD implemented a new wave of Saudization in the retail sector...

...which is expected to provide about 170 thousand jobs for Saudis, both males and females, by the end of 2019.

Also in Q3 2018, expat dependent fees doubled to SR200 per dependent per month.

Q3 2018's GaStat labor market release shows that unemployment declined slightly to 12.8 percent, from 12.9 percent seen in the first two quarters of 2018. Both male and female unemployment rates were down during Q3, with total youth unemployment (20-24 years old) declining as well, to 38.8 percent from 41.7 percent in Q2 2018 (Figure 2).

Added to this, whilst male labor force participation rate remained unchanged at 63.5 percent, female labor force participation continued to see marginal rises, reaching 19.7 percent in Q3 2018, up from 17.8 percent a year ago. Meanwhile, the data shows a decline in the number of total unemployed persons (Figure 3).

During Q3 2018, the MLSD, in collaboration with the HRDF, implemented three stages of Saudization in the retail sector. The three stages target nationalizing 70 percent of sales jobs in the wholesale and retail sector, replacing the previous target of 100 percent nationalization. Accordingly, the new decision is expected to provide about 170 thousand jobs for Saudis, both males and females, by the end of 2019 (for more on this, please refer to our [Saudi Labor Market Update - Q1 2018](#), published in July 2018).

To support this structural change, MLSD is offering a number of training programs, and subsidizing up to 30 percent of total salaries during the first three years, and additional supporting measures for hiring females. Moreover, the support will also target SMEs and enterprises in smaller cities and villages.

During Q3 2018 a total of 265 thousand foreign workers left the labor market, pushing total expat departures to 1.4 million since the beginning of 2017. At the same time, the number of new expat work visas issued during Q3 declined on a quarterly basis as well (Figure 4). Comparatively, for Saudi workers, Q3 saw a lower number of Saudis leaving the labor market, at 15 thousand, compared to 25 thousand in Q2.

Another significant development during Q3 2018 was the doubling of expat dependent fees to SR200 per dependent per month. We see this step leading to an increase in the costs borne by expats, and likely leading to a higher number of total final exit visas.

Figure 2: Saudi youth unemployment rate, by gender

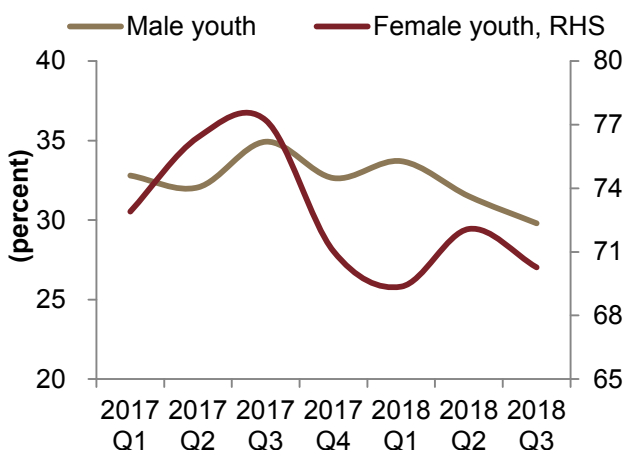
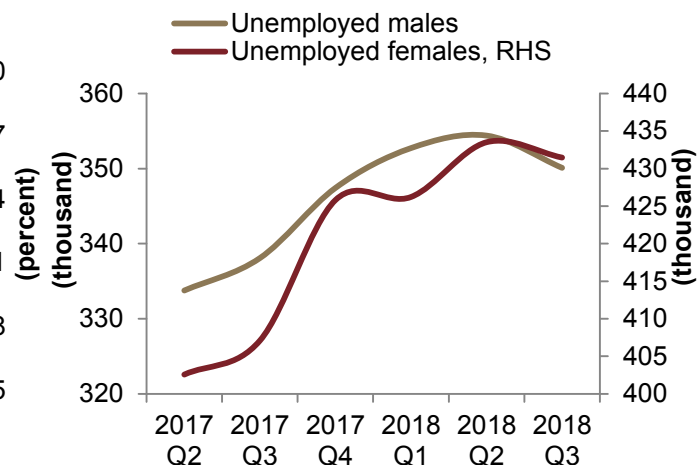


Figure 3: The number of unemployed Saudis





There was a gradual rise in wages for Saudis since Q1 2017, especially for males in the private sector...

...which is likely to be driven by higher demand on employment, as the private sector saw a notable growth.

Wages are expected to continue moving upwards.

Q3 saw a lower number of Saudis leaving the labor market compared to Q2.

Box 1: Wages saw a notable rise

With lower rate of unemployment in Q3 2018, GaStat data shows a gradual rise in wages for Saudi workers since Q1 2017, especially for males in the private sector (Figure 5). Saudi workers received, on average, SR10,472 thousand in Q3 2018, up from SR10,012 a year ago, or 4.6 percent, the highest annual rise since the beginning of 2018. The private sector was the main reason behind the rise in wages, as average pay rose by 7 percent year-on-year in Q3 2018, rebounding from two consecutive declines in Q1 and Q2 2018.

The rise in wages, especially in the private sector, is likely to be driven by higher demand on employment, in-line with the gradual rise seen in GDP during H1 2018, when non-oil private sector grew by 1.5 percent year-on-year, compared to 0.4 percent in H1 2017. Specifically, GaStat data shows that in Q3 2018, sectors with a higher level of employment of nationals, also had the highest wage levels.

Looking ahead, wages are likely to continue moving upwards for two main reasons. Firstly, we see a pick up in the pace of growth in the private sector, driven by higher budgeted government spending and various stimulus plans, as creating more employment opportunities (for more on this, please see our [Saudi Economy in 2019](#) report, published earlier this month). Secondly, higher employment of Saudis in the retail sector following the recent Saudization wave and MLSD initiatives, will also contribute in pushing the average wage up in the medium term.

Employment by kind of economic activity

On a sectorial basis, data shows that all sectors saw a drop in the number of foreign workers in Q3 2018 (Figure 6). The largest declines were seen in the construction sector, with around 162 thousand foreign and 16 thousand Saudi departures. Trade, which includes wholesale and retail activities, lost around 58 thousand foreign workers, as well as 3 thousand Saudis.

At the same time, four sectors saw an increase in the number of Saudi workers during Q3 2018, reversing the trend seen in the previous quarter. Social services hired 18 thousand Saudis, mining

Figure 4: New work visas for foreign workers
(excluding domestic workers)

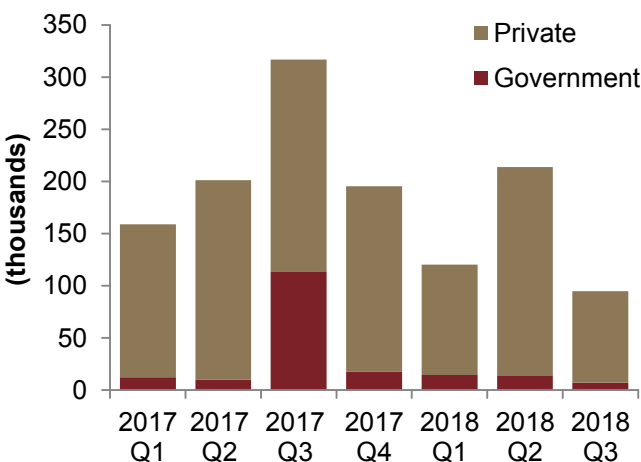
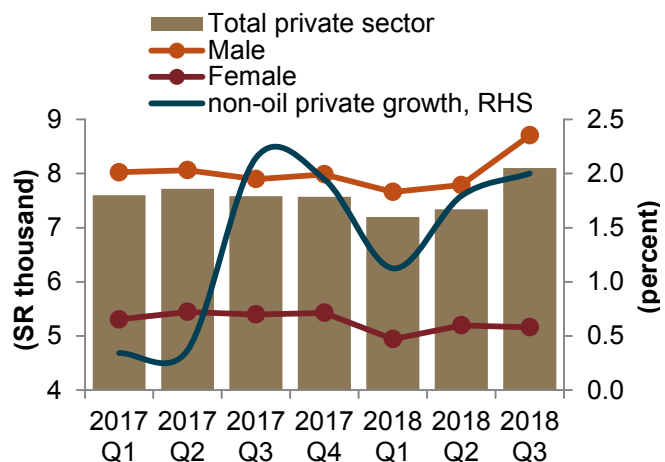


Figure 5: Wage growth in the private sector





Looking ahead, we expect trade to see higher employment of Saudis.

The impact of expat levies is starting to widen.

The new scheme to help private sector companies with expat fees is likely to contribute in offering more jobs for Saudis.

and quarrying hired 1.1 thousand, whilst financial services and post & communication together hired around 300 Saudis. During H1 2018, these sectors saw a rise in GDP growth rate, for example, social services and mining and quarrying grew by 4.8 and 4.4 percent consecutively, year-on-year.

Looking ahead, we do expect the trade sector to see a gradual rise in employment of Saudis, in-line with the new the MLSD measures, which came into effect over three stages between September 2018 and January 2019. In addition, we expect the recently launched National Industrial Development and Logistics Program (NIDL) contributing to the creation of more jobs in the trade sector, through focusing on local logistics and export oriented initiatives, as outlined in the [Saudi Economy in 2019](#) report.

According to data published by the General Organization for Social Insurance (GOSI) the largest number of expat departures in Q3 2018 continues to be those in the lowest earnings bracket of SR1500 a month or less. These departures are mainly concentrated in the construction, trade, education, and agriculture sectors. However, Q3 saw a rising number of foreign departures in the SR1501 to SR2,999 earnings bracket, which we believe is a result of the widening impact of expat levies, as we outlined in our [Saudi Labor Market Update - Q2 2018](#).

Looking ahead, we expect to see more departures of foreign workers in the retail sector, especially as private sector companies comply with the new Saudization measures. In addition, we see the recently approved scheme to help private sector companies with expat fees as an incentive to hire more Saudis. Whilst the scheme prioritizes reimbursements for companies in the green and platinum Nitaqat categories, it also gives the remaining companies the opportunity to correct their status in order to qualify for retrospective reimbursement of expat fees (Figure 7).

Figure 6: Net employment by kind of economic activity
(Q3 2018 - Q2 2018 net change in employment)

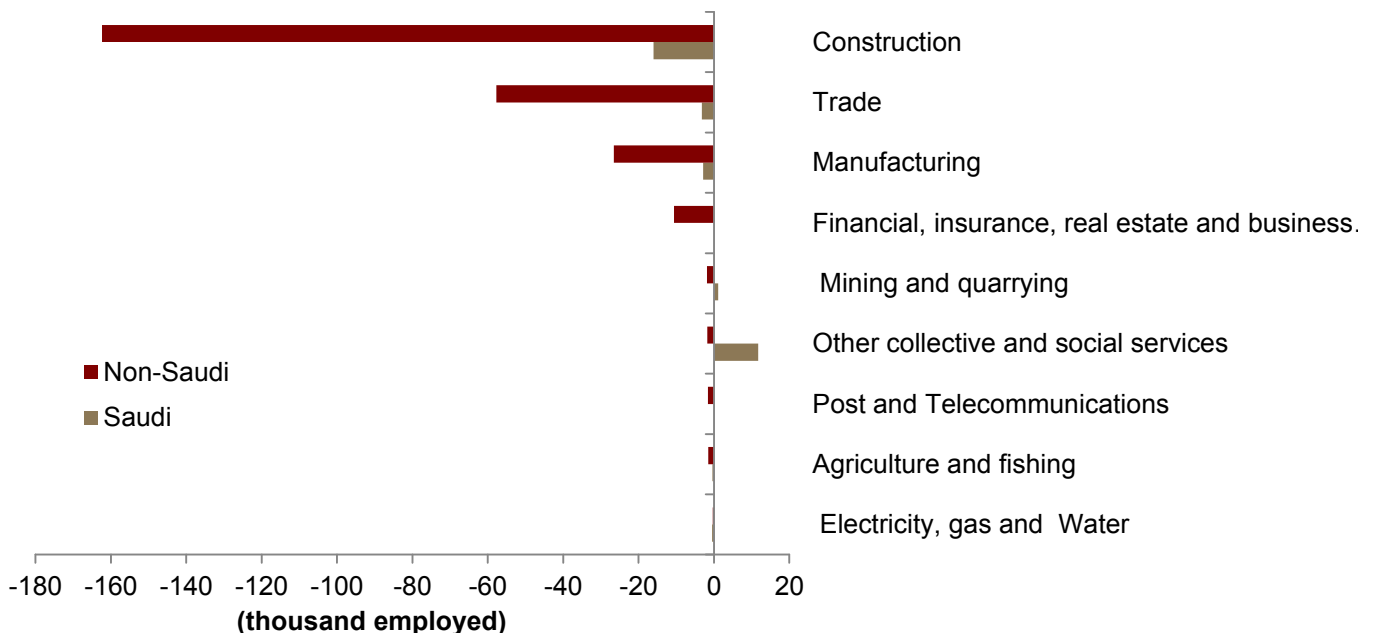
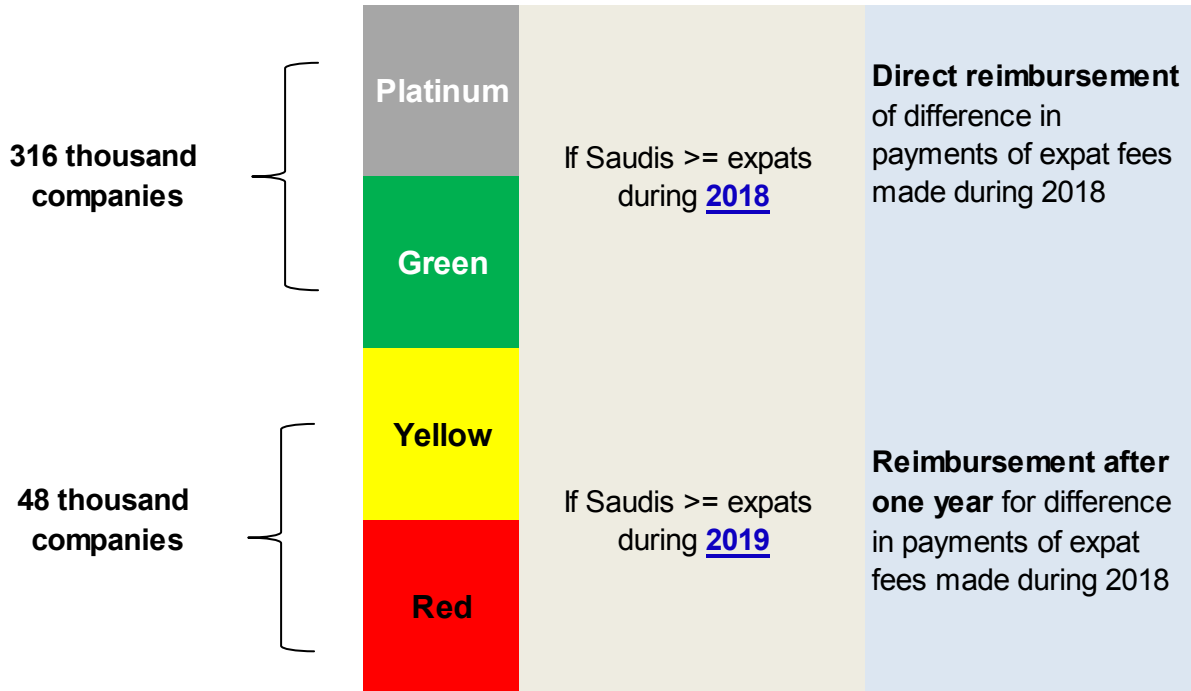




Figure 7: The “Collective Invoice” initiative is set to reimburse private sector companies for the difference in payments of expat fees made during 2018, only if the company was in the platinum or green categories in Nitaqat program.



Disclaimer of Liability

Unless otherwise stated, all information contained in this document (the “Publication”) shall not be reproduced, in whole or in part, without the specific written permission of Jadwa Investment.

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.

Jadwa Investment makes its best effort to ensure that the content in the Publication is accurate and up to date at all times. Jadwa Investment makes no warranty, representation or undertaking whether expressed or implied, nor does it assume any legal liability, whether direct or indirect, or responsibility for the accuracy, completeness, or usefulness of any information that is contained in the Publication. It is not the intention of the Publication to be used or deemed as recommendation, option or advice for any action (s) that may take place in future.