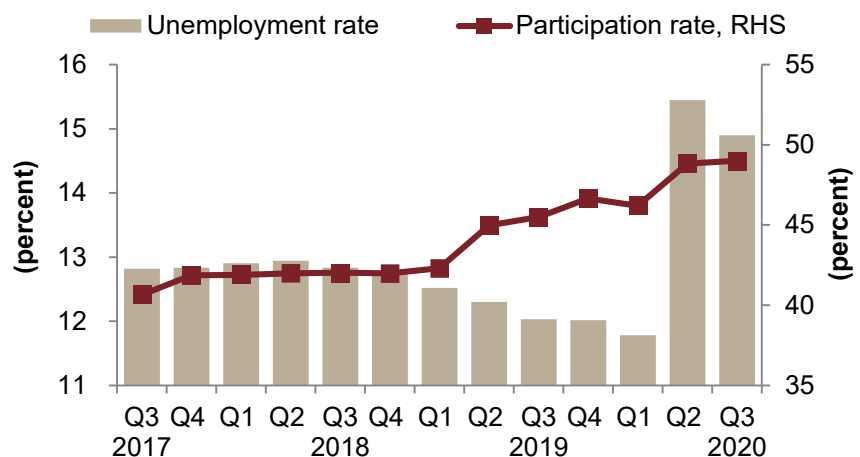




Unemployment declines in Q3 2020

- The General Authority for Statistics' (GaStat) latest labor market release shows that unemployment declined to 14.9 percent in Q3 2020, down from 15.4 percent in Q2 2020 (Figure 1). The improvement was in-line with the pick-up in overall economic activity in Q3, following the lifting of severe pandemic related restrictions in mobility from June 2020 onwards.
- Labor force participation inched up in Q3 2020 to 49 percent, versus 48.8 percent in Q2 2020, with a modest rise in male participation being observed.
- The number of expats in the labor market declined by 231 thousand, on a net basis, in Q3, quarter-on-quarter.
- On a sectorial basis, whilst the number of Saudi workers witnessed a rise in most sectors, quarter-on-quarter, a handful of sectors also saw a decline in the number of expats, most notably in construction, wholesale and retail, and administrative services.
- In line with our expectations, we note a higher degree of substitution of expats with Saudis was seen in wholesale and retail, administrative services, manufacturing, and accommodation and food services.
- Looking ahead, we expect to see an improvement in Saudi unemployment rate during Q4, in-line with a pick-up in a number of economic indicators during the quarter. Looking further ahead into 2021, with the Kingdom progressing with the COVID-19 vaccine program, we expect the economic recovery to accelerate as more of the population is inoculated, all of which will aid employment growth during 2021.

Figure 1: Saudi unemployment rates and participation rate



Saudi Unemployment Rate (percent)

	Q3 2020	Q2 2020
Male	7.9	8.1
Female	30.2	31.4
Youth (20-24)	34.2	35.4
Total	14.9	15.4

Saudi Labor Force Participation Rate (percent)

	Q3 2020	Q2 2020
Male	66	65.6
Female	31.3	31.4
Youth (20-24)	37.9	39.2
Total	49	48.8

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Main Developments in Q3 2020

GaStat's latest labor market release shows that unemployment declined to 14.9 percent in Q3 2020.

Labor force participation inched up in Q3 2020, to 49 percent.

The number of expats in the labor market declined by 231 thousand on a net basis, quarter-on-quarter in Q3 2020.

Most sectors saw a decline in the number of expat workers in Q3 2020, quarter-on-quarter.

GaStat's latest labor market release shows that unemployment declined to 14.9 percent in Q3 2020, down from 15.4 percent in Q2 2020 (Figure 1). The improvement was in-line with the pick-up in overall economic activity in Q3, following the lifting of severe pandemic related restrictions in mobility from June 2020 onwards. Both male and female unemployment declined in Q3 (Figure 2), with total youth unemployment (20-24 years old) falling from 35.4 percent in Q2 2020 to 34.2 percent in Q3 2020.

Labor force participation

Labor force participation inched up in Q3 2020, to 49 percent versus 48.8 percent in Q2 2020, affected by higher participation by males (which rose from 65.6 to 66 percent quarter-on-quarter). Meanwhile, female labor force participation remained almost flat.

Expats leaving the labor market

In total, GaStat data also showed that whilst the number of Saudi workers rose by 87 thousand in Q3 2020, the number of expats in the labor market declined by 231 thousand on a net basis, quarter-on-quarter. At the same time, GaStat data shows that the number of new private sector expat work visas issued in Q3 2020 totaled 46 thousand, 14 thousand higher than the total issued during Q2. That said, the data also shows that 99 percent of issued visas were unused, whilst the remaining 1 percent were cancelled, despite some easing in flight restrictions for expats during the quarter. In our view, the non-utilization of expat work visas is likely due to the rising number of Saudi being employed in some jobs that were previously filled by expats.

Employment by Kind of Economic Activity

On a sectorial basis, most sectors saw a decline in the number of expats but, at the same time, most of these sectors also saw a rise in the of number of Saudis workers (Figure 3). In fact, 'education', 'mining' and 'electricity services' were the only sectors in the private sector to see a decline in the number of Saudis. Meanwhile, the largest number of new jobs for Saudis was seen in 'wholesale & retail', 'construction', and 'manufacturing', with two of these sectors ('construction' and 'wholesale and retail') along with 'administrative services', seeing the largest decline in expats.

Figure 2: Unemployment rates, by gender

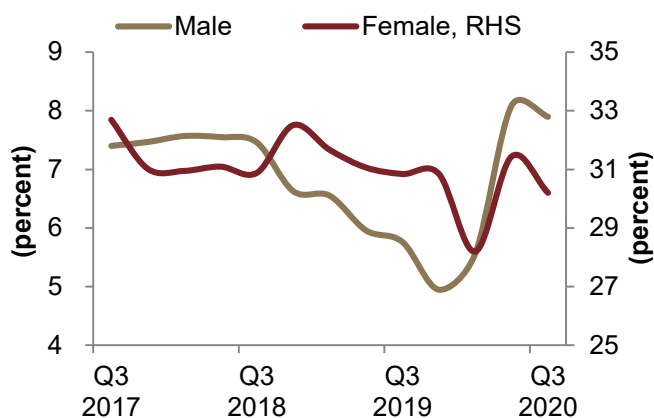
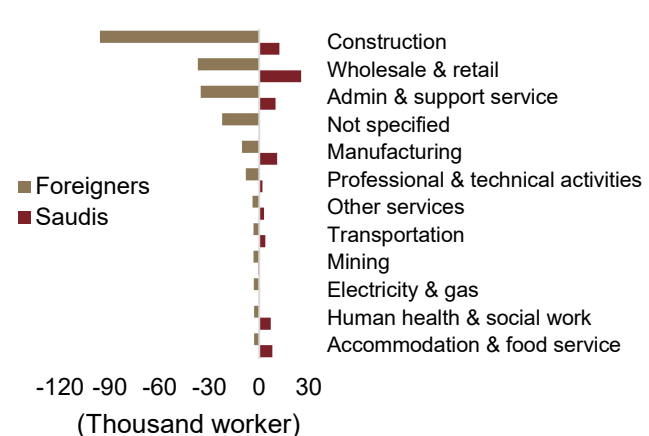


Figure 3: Net change in employment* by sector (Q3 2020– Q2 2020)**



*Employees registered with GOSI

**Excluded sectors: 'public admin', 'arts & entertainment', 'finance', 'water supply', 'agriculture', 'real estate', 'ICT' and 'education' due to smaller changes.



We note a higher degree of substitution of expats with Saudis was seen in wholesale and retail

With Saudi workers being supported by the government initiatives, the larger impact on employment will have fallen on expat employment

The labor market was positively affected by lifting most lockdown restrictions during Q3 2020.

During Q4 2020, a number of indicators show that business sentiment has improved.

In line with our expectations, we note a higher degree of substitution of expats with Saudis was seen in wholesale and retail, administrative services, manufacturing, and accommodation and food services (Figure 4), a trend we anticipated in our [labor market update](#) last year.

Meanwhile, jobs in the 'education' sector for Saudis continued to see losses during the quarter, a trend we expect will likely continue in the short term, in-line with the decision to continue virtual schooling. With some sectors being more deeply affected by continued pandemic induced restrictions, it is inevitable that businesses operating in such sectors have chosen to lower overheads by reducing the number of staff. However, with Saudi workers being supported by the Saned scheme (till end of January 2021) and by the Human Resource Development Fund (HRDF), the larger impact on employment will have fallen on expat employment. This is likely to be amplified as companies employing more foreign nationals than Saudi nationals saw their monthly fee rise to SR800 per foreign national employee (SR700 in 2019) or SR700 if they employed more Saudi nationals in 2020 (compared to SR600 in 2019). Although the Ministry of Finance (MoF) postponed the payment of some of those fees during most of Q2 2020, payments recommenced from Q3 onwards. All of this will have therefore contributed to raising the overall cost of employing expats for businesses.

Outlook

In general, we see the employment trend for Saudis during Q3 being a direct result of measures implemented by the HRDF's employment support scheme and the Saned scheme. As we have highlighted previously, both these schemes have helped mitigate the level of job losses in the labor market overall. In addition, the labor market in Q3 was also positively affected by the lifting of most lockdown restrictions during the quarter, which, in turn, helped create jobs for locals in sectors that have suffered during Q2, such as in the 'wholesale and retail' and 'restaurants & hotels' sectors. In fact, both these sectors will have been boosted by the tourism initiatives around the Kingdom during the summer season, which we believe have helped in creating many seasonal jobs, again something we highlighted in our previous [labor market update](#).

Looking ahead, business sentiment improved during Q4, with the most recent PMI reading (for December) pointing to an expansion in the economy as the private sector showed improving optimism following the news of COVID-19 vaccine rollout in the Kingdom

Figure 4: Some sectors saw certain levels of substitution between Saudi and expat workers*

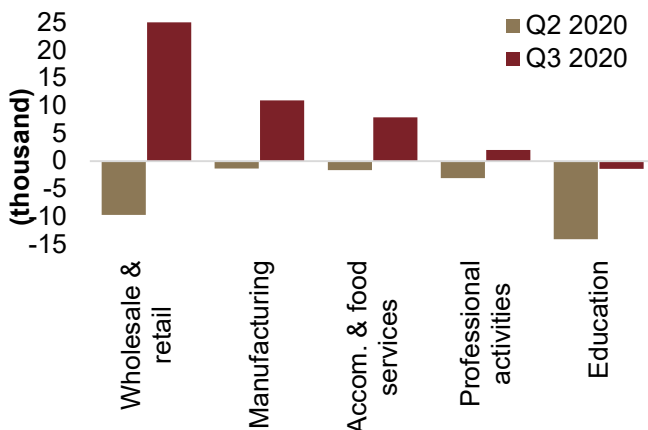
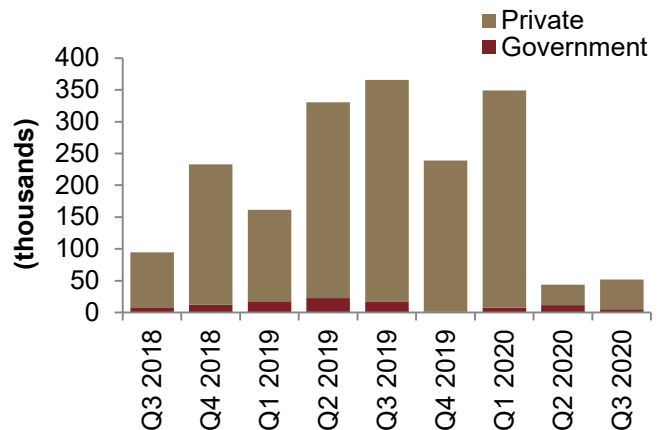


Figure 5: New visas for expats (excluding households)



*Employees registered with GOSI

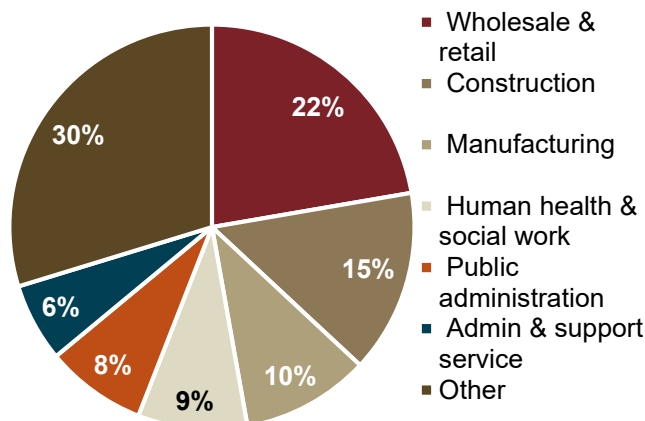


(please refer to our latest [Chartbook](#) for more details). As such, we expect to see an improvement in the Saudi unemployment rate during Q4, in-line with a pick-up in a number of economic indicators during the quarter. Despite this, in light of the most recent data, we have revised our unemployment forecast to 14 percent at the end of 2020, from 12 percent previously.

In 2021, we expect a broad-based recovery in the labor market, and the economy in general.

Looking further ahead into 2021, we note that the Saned scheme is expected to be phased out in January 2021, and this poses some challenges in seeing consistent declines in unemployment levels. That said, there are a number of positives that should lend support to the labor market going forward. Firstly, as noted above, latest economic data shows the local economy is picking up and we expect a broad-based recovery in 2021. More specifically, as the Kingdom progresses with the COVID-19 vaccine program, we expect the economic recovery to accelerate as more of the population is inoculated, all of which will aid employment growth during 2021. In addition, we expect the pace of job substitution in favour of Saudis to continue, with employment in 'wholesale and retail' and 'accommodation and food services' continuing to see rises in Saudi numbers. Added to this, with many countries still limiting travel and work visas, we expect to see lower number of expat workers flying into the Kingdom, at least in the near term (Figure 5). Lastly, seasonal employment opportunities are expected to continue growing during the year, in-line with tourism and entertainment activities being rolled-out, which should also support overall Saudi employment (Figure 6).

Figure 6: Sectors with the largest number of Saudi workers - latest*



*Employees registered with GOSI



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