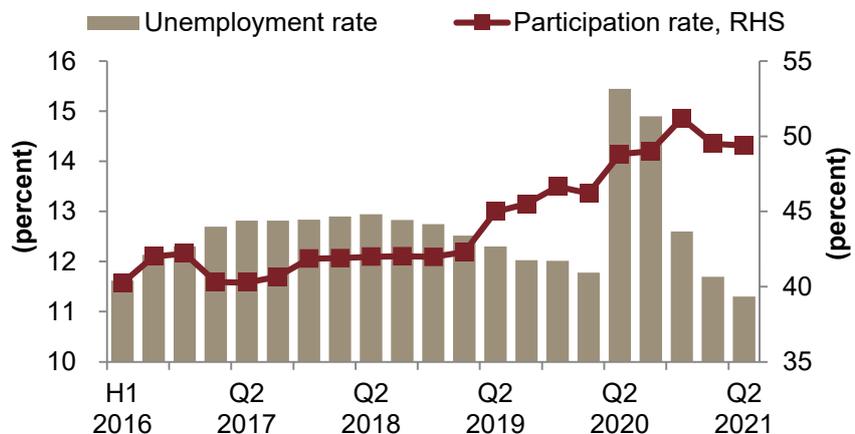




### Unemployment continues to drop

- The General Authority for Statistics' (GaStat) latest labor market release shows that unemployment declined to 11.3 percent in Q2 2021, down from 11.7 percent in Q1 (Figure 1).
- The decline was largely a result of a drop in male unemployment, which was down to 6.1 percent in Q2 versus 7.2 percent in the previous quarter.
- Whilst total labor force participation declined slightly to 49.4 in Q2 2021, we note higher participation amongst the youth (20-24 years old). This is likely a result of graduates entering the labor market at the end of the university academic year during Q2.
- On a sectorial basis, GaStat data showed that 'public administration', 'human health & social work', and 'manufacturing' saw the largest change in the number of Saudis in Q2, quarter-on-quarter, on a net basis.
- Meanwhile, the number of expatriates in the labor market declined by 177 thousand quarter-on-quarter in Q2, with 'construction' seeing the largest number of expat (and Saudis) departures.
- Overall, the decline in unemployment so far this year reflects the broader recovery seen in the Saudi economy as a whole. As such, with the economic recovery still proceeding, and further growth expected, we see unemployment rates dropping in H2 2021 and in 2022 as well.

Figure 1: Q2 2021 Saudi unemployment rate



#### Saudi Unemployment Rate (percent)

	Q2 2021	Q1 2021
Male	6.1	7.2
Female	22.3	21.2
Youth (20-24)	22.2	23.6
<b>Total</b>	<b>11.3</b>	<b>11.7</b>

#### Saudi Labor Force Participation Rate (percent)

	Q2 2021	Q1 2021
Male	65.7	66.2
Female	32.4	32.3
Youth (20-24)	42.6	36.7
<b>Total</b>	<b>49.4</b>	<b>49.5</b>

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## Main Developments in Q2 2021

GaStat's latest labor market release shows that unemployment declined to 11.3 percent in Q2 2021.

GaStat's latest labor market release shows that unemployment declined to 11.3 percent in Q2 2021 (down from 11.7 percent in Q1), (Figure 1). The decline was largely a result of male unemployment dropping to 6.1 percent in Q2 compared to 7.2 percent in the previous quarter. At the same time, female unemployment inched up to 22.3 percent in Q2 versus 21.2 percent in Q1. Moreover, youth unemployment (20-24 years) declined to an average of 22.6 percent in Q2, from 23.6 percent in Q1.

The overall improvement of the labor market in Q2 is in-line with our expectations (which we outlined in our previous [labor market report](#)). More specifically, unemployment has dropped by 4.1 percentage points since Q2 of last year and we believe this improving trend will continue during the remainder of this year. In light of this, we have maintained our unemployment forecast at 10.5 percent for end of 2021.

Labor force participation amongst the youth (20-24 years old) rose during Q2 to 42.6 percent.

### Labor force participation

Labor force participation declined slightly to 49.4 percent in Q2, down from 49.5 percent in Q1, with lower participation amongst males (down from 66.2 to 65.7 percent quarter-on-quarter). This change came despite higher labor force participation amongst the youth (20-24 years old), rising from 36.7 to 42.6 percent quarter-on-quarter (Figure 2), which is likely a result of graduates entering the labor market upon the completion of university education during Q2.

The number of expats in the labor market declined by 177 thousand on a net basis, quarter-on-quarter in Q2 2021.

### Expatriates leaving the labor market

GaStat data shows that the number of expats in the labor market continued to decline in Q2, down by almost 177 thousand quarter-on-quarter on a net basis (Figure 3). The largest number of departures were seen in the lowest salary band, and from the 'construction' sector. Since the onset of the Covid-19 pandemic in March of last year, around 600 thousand expats have left the Kingdom.

'Public administration', 'human health & social work', and 'manufacturing' saw the largest change in the number of Saudis in Q2, quarter-on-quarter.

## Sectorial Employment

GaStat data showed the largest quarterly change in the hiring of Saudis took place in 'public administration', 'human health and social work', and 'manufacturing' in Q2 (Figure 4). Meanwhile, 'construction' continued to see the largest departures of both Saudi and expat workers, on a net basis, quarter-on-quarter.

Figure 2: Youth (20-24 years old) labor force participation, by gender

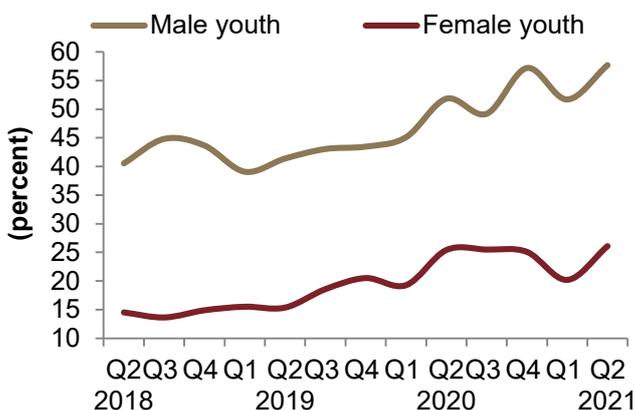
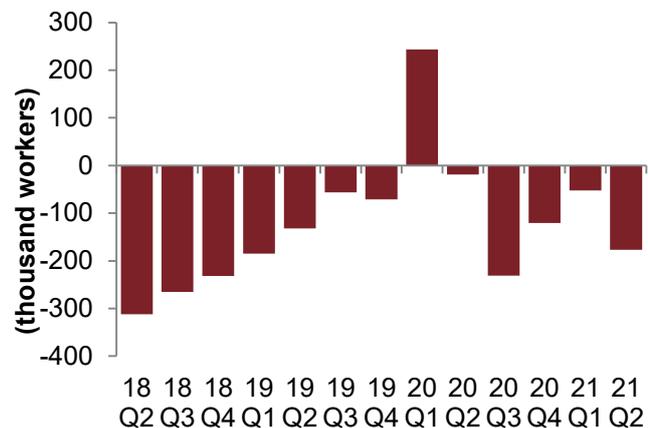


Figure 3: Net change in the number of expatriate workers\* (quarter-on-quarter)



\* Excluding household workers



GaStat data shows that 'education' lost 10.4 thousand workers quarter-on-quarter in Q2.

We expect the number of new Saudi hires in 'wholesale & retail' to be larger in H2 2021.

We expect a rise in seasonal and permanent employment in H2 2021.

The labor market is expected to see a number of initiatives through the Human Capital Development Program.

Moreover, 'education' lost 10.4 thousand workers quarter-on-quarter (around 8 percent of total education workers), of which 6.4 thousand were Saudis (with 88 percent being Saudi females). As we highlighted in our [labor report](#) for Q2 2020, we think this is a seasonal trend, coinciding with the end of the academic year during Q2, with the number expected to rebound in Q3 as schools re-open with a progressively rising level of in-person attendance. Additionally, we expect to see a higher number of Saudis employed in this sector as a result of the recent localization initiative by the Ministry of Human Resources and Social Development (MHRSD) to raise the localization percentage in private schools, which came into effect at the end of August 2021.

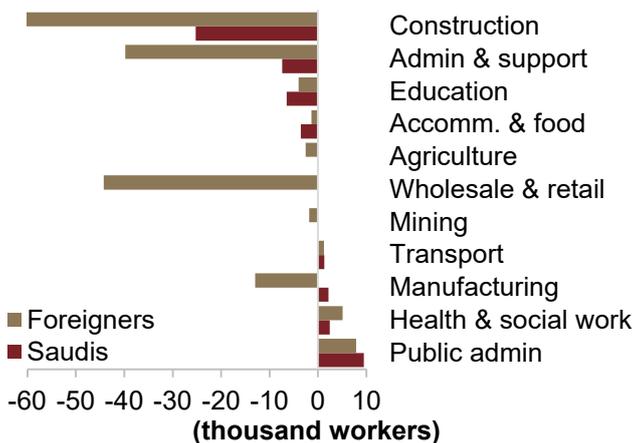
At the same time, 'wholesale and retail' saw the second largest number of departures amongst expats, after 'construction', whilst the number of Saudis in this sector was virtually unchanged versus Q1. Looking ahead, as the economy continues to recover and restrictions around Covid-19 are eased, we expect the number of new Saudi hires in 'wholesale and retail' to rise in H2 2021. Again, the rebound in hires will also be helped by recent localization initiatives by the MHRSD in shopping malls and cinemas, which came into effect in October 2021.

### Outlook

The recovery in the labor market during the last few quarters is associated with an overall recovery in the Saudi economy, with non-oil private sector GDP in H1 2021 rising by 7.5 percent year-on-year. As such, we believe this improving trend is likely to continue during the remainder of this year and the next year. Looking ahead, we see a number of developments in H2 2021 that will help lift employment levels. Besides, the ongoing roll-out of vaccine that helps lift overall recovery, we expect more employment opportunities for nationals as a result of a pick-up in summer tourism activity in Q3, and due to the roll-out of entertainment festivals (or 'Saudi Seasons') in Q4 and Q1 2022. Moreover, the continued localization efforts will also help in increasing the number of nationals in various sectors.

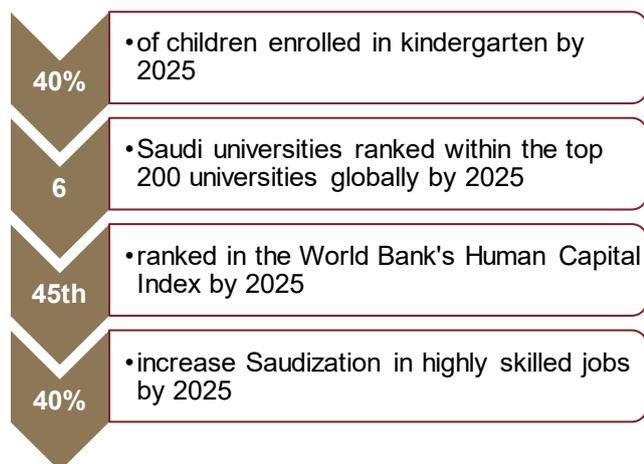
Lastly, over the medium term, we see the newly announced Human Capital Development Program Vision Realization Program (VRP) accelerating the pace of local employment in the labor market over the next five years (Figure 5 - Box 1).

**Figure 4: Net change in the number of workers, by sector\* (Q2 2021– Q1 2021)**



\* Remaining sectors were excluded for non-significant changes in labor during Q2, including: IT, agriculture, real estate, entertainment, finance, and others.

**Figure 5: The Human Capital Development Program's main commitments by 2025**





## Box 1: The Human Capital Development Program

*The HCDP's main focus areas are: education, labor market, and continuous training.*

In September 2021, the Kingdom introduced a new VRP - the Human Capital Development Program (HCDP) - which focuses on education, labor market, and continuous training. The HCDP strategy has been developed in alignment with Vision 2030, and includes three main strategic pillars:

1. Develop a resilient and strong educational base
2. Prepare for future local and global labor markets
3. Provide lifelong learning opportunities

The HCDP, similar to the other VRPs, provides metrics and goals to achieve by 2025. A number of the program's commitments were directly related to the labor market, including:

1. Raising the percentage of higher education graduates in employment within six months of graduation from 4.5 percent in 2019 to 20 percent in 2025.
2. Increasing the percentage of vocational and technical education graduates in total employed persons from 13.9 percent in 2019 to 50 percent in 2025.
3. Raising the enrollment rate in technical and vocational education and training from 22.8 percent in 2019 to 33 percent in 2025.
4. Raising the localization share in high-skilled jobs from 32 percent in 2020 to 40 percent in 2025.

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