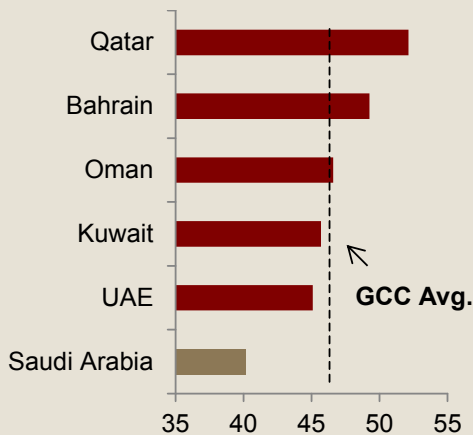




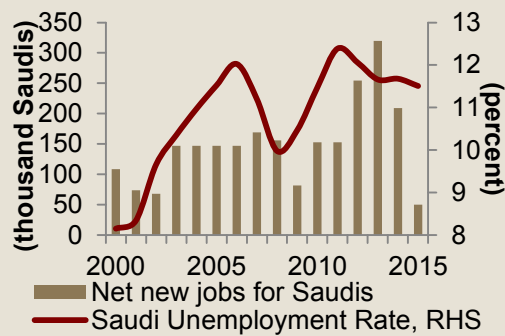
Saudi Unemployment Rate
(percent)

2014	2015
11.7	11.5

GCC National workforce participation rates
(Latest)



Key Saudi labor force indicators



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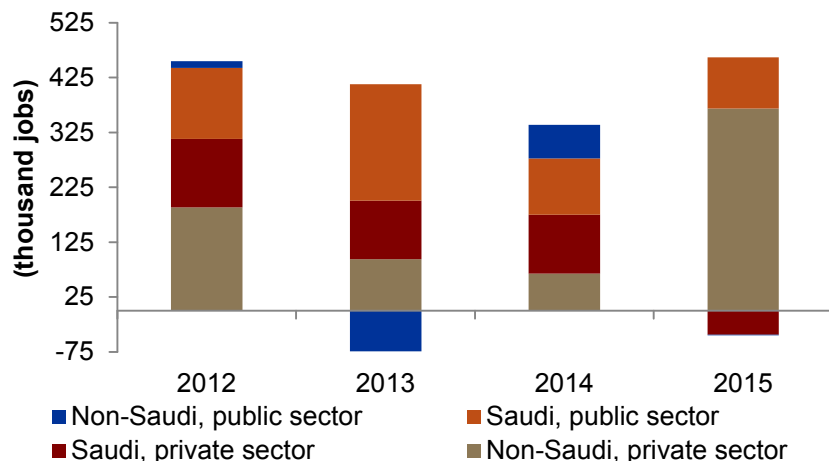
Saudi unemployment and participation fall

According to data recently released by the General Authority for Statistics (GAS), the Saudi unemployment rate fell slightly from 11.7 percent in 2014 to 11.5 percent in 2015. This fall was mainly attributed to a decline in Saudi labor force participation rather than higher employment growth, as job creation for Saudis have actually slowed during the year. Looking ahead, we expect the private sector to be the main source of new jobs for Saudis, supported by continued labor market reform.

The main highlights of the labor market include:

- During 2015, total net employment in the Kingdom saw a rise of 417 thousand, compared with 339 thousand in 2014.
- However, of these positions, 368 thousand (or 88 percent) went to non-Saudis.
- The Saudi unemployment rate fell to 11.5 percent in 2015, mainly due to fewer Saudis joining the labor force rather than higher employment growth.
- Saudi net employment rose by 49 thousand in 2015, its slowest annual increase on record.
- Private sector net employment of Saudis fell for the first time since labor market reforms began in 2011.
- Nearly all sectors within the private economy saw negative changes to their Saudization rates.
- Public sector net employment of Saudis rose by 93 thousand, compared to a 103 thousand rise in 2014.
- The Saudi female unemployment rate rose to 33.8 percent in 2015 despite a fall in their participation rates.

Figure 1: Institutional breakdown of employment
(year-on-year change)





During 2015, the Saudi labor force grew by 46 thousand...

...its slowest pace since records began in 1999.

Total net employment in the economy rose by 417 thousand, its fastest pace in three years...

...but net new jobs created for Saudis increased at its slowest pace on record...

...as the majority of new jobs went to non-Saudis.

Public sector net employment of Saudis rose by 93 thousand, year-on-year...

...continuing to show a slowing trend in newly created government jobs.

During 2015, the Saudi labor force grew by 46 thousand, its slowest pace since records began in 1999. The slowing growth in the labor force was associated with a decline in the participation rate, which fell for the first time since 2009 (from 41.2 percent in 2014 to 40.2 percent in 2015). The decline in the participation rate also means that the rise in the number of working age Saudis outside the labor force had been faster than growth in the Saudi labor force. In fact, the number of Saudis outside the labor force rose by 85 thousand in 2015, compared with a rise of 35 thousand in 2014, with most of the increase coming from younger age groups. This was in part due to a large increase in the number of Saudis between the ages of 15-25 enrolling into schools, and not participating in the labor force (Figure 2).

During 2015, the overall picture of the labor market in Saudi Arabia continued to point to an expanding economy, as total net employment rose by 417 thousand, its fastest pace in three years. However, the majority of new jobs went to non-Saudis, while net new jobs created for Saudis reached 49 thousand, increasing at its slowest pace on record. We see these trends mainly reflecting a delay in implementing the Nitaqaat quota system. In fact, the private sector employed, on a net basis, 369 thousand non-Saudis during the year, while net employment of Saudis in the private sector fell by 43 thousand (Figure 1). We believe that the Ministry of Labor is trying to first fully implement the wage protection system in order to have more effective monitoring prior to commencing with Nitaqaat.

Public sector net employment of Saudis rose by 93 thousand, year-on-year, but continued to show a slowing trend in newly created government jobs. During the same period, public sector labor productivity remained significantly lower than productivity in the private sector (Figure 3). The slowdown in public sector hiring could also be due to the narrowing differentials in work hours between the private and public sectors, which renders public sector jobs less attractive than before. We think the implementation of the newly announced King Salman Program for public sector worker efficiency will contribute in improving worker productivity in the public sector, particularly since the program emphasizes on the need to reward public sector employees on a merit-based system, rather than the traditional automatic promotions and pay rises based on the length of period served. We also believe that implementation of the program will potentially include an increase public sector work hours and a more selective employment process.

Figure 2: Change in Saudis outside labor force
(year-on-year change)

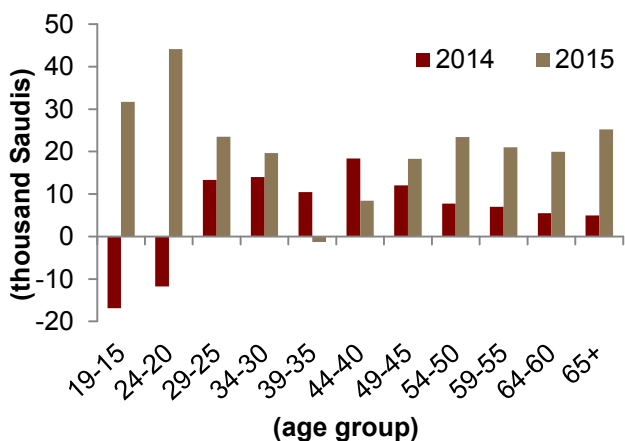
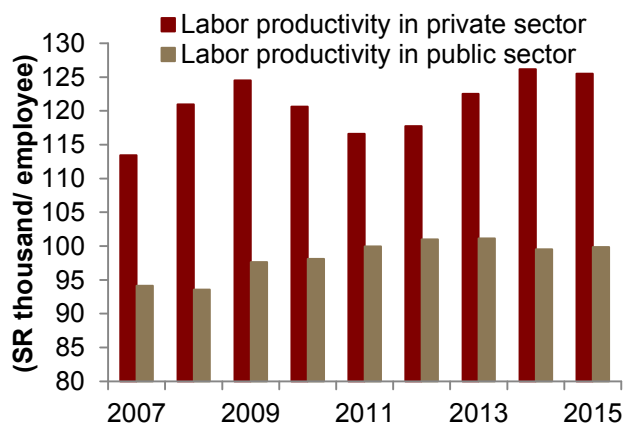


Figure 3: Labor productivity by sector





While proposals to limit weekly private sector work hours to 40 will attract more Saudis...

...we expect this will raise the cost and lower the productivity of private businesses.

In 2015, the Saudization ratio in the private sector fell to 20.7 percent.

The number of net job additions going to non-Saudis rose significantly to 369 thousand...

...while net employment of Saudis in the private sector fell by 43 thousand.

Retail jobs for non-Saudis increased by 29 thousand...

...while net employment of Saudis in the sector fell by 46 thousand.

Construction saw a decline in net employment of both Saudis and non-Saudis.

In 2012, a private sector worker spent, on average, 12.8 more hours at his job than his counterpart in the public sector. However, in 2015, this differential narrowed to 8.8 hours, with 48 being the average weekly hours spent by a worker in the private sector (Figure 4).

Although recent proposals by the government to limit weekly private sector working hours to 40 will create a more attractive working environment for Saudis, we expect this will raise the cost and lower the productivity of private businesses. The likely channel of such costs will be either through additional compensation for extra work hours, or increased employment to deliver the same amount of services. Also, there is a risk that non-Saudis will have a higher tendency to work the extra hours for additional compensation, something that may reduce the incentive for private businesses to increase employment.

Employment trends within the private sector

Between 2014 and 2015, the Saudization ratio in the private sector fell from 22.1 percent to 20.7 percent. Nearly all sectors within the private economy saw negative changes to their Saudization rates, as the number of net job additions offered to non-Saudis rose significantly from 68 thousand in 2014 to 369 thousand in 2015, while net employment of Saudis in the private sector fell by 43 thousand during the same period. The highest number of net job additions offered to Saudis came from admin and support (40 thousand), followed by utilities (14 thousand), science and technology (13 thousand), and agriculture (5 thousand) (Figure 5).

The wholesale and retail sector (14 percent of total employment) posted a year-on-year net decline of 16 thousand in total jobs created, but retail jobs for non-Saudis actually increased by 29 thousand. This means that net employment of Saudis in the sector fell by 46 thousand. This is the largest decline since the Ministry of Labor intensified its efforts to improve the hiring of Saudis in wholesale and retail back in 2011. Construction (14 percent of total employment) saw a decline in net employment of both Saudis and non-Saudis. Employment of Saudis and non-Saudis fell by 5 thousand and 56 thousand respectively. Employment growth in this sector was mainly impacted by lower capital spending by the government. Contractors will likely face more pressure during 2016 while they adjust to the new norm of slower growth in construction activity. Accommodation and food services (3 percent of total employment), another sector targeted by the Ministry of labor for higher Saudization, saw a year-on-year decline of 5 thousand and 39

Figure 4: Additional hours worked in private sector
(difference from public sector work hours)

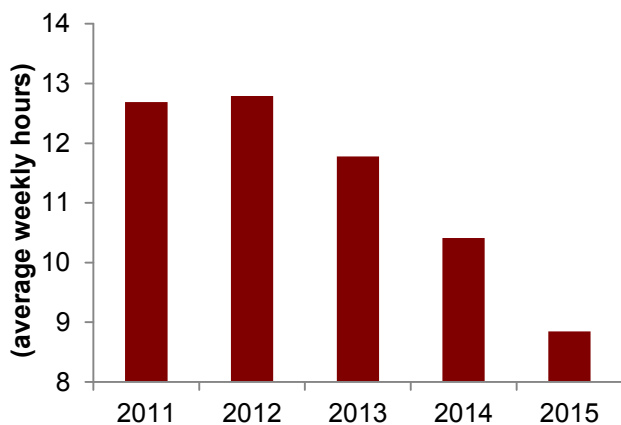
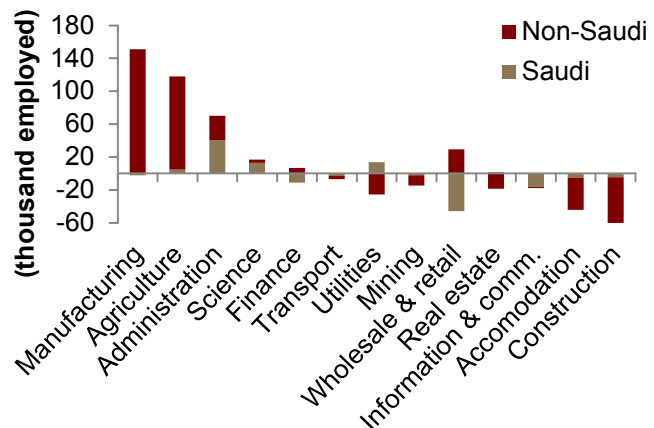


Figure 5: 2015 employment in the private sector
(year-on-year change)





Manufacturing saw a significant increase in net employment of non-Saudis.

Looking ahead, we expect the private sector to be the main source of new jobs for Saudis.

We maintain our earlier view that there is a skill mismatch between private sector needs and the Saudi job-seekers.

In 2015, the Saudi female unemployment rate rose to 33.8 percent...

...up from 32.8 percent in 2014...

...while their participation rate fell to 17.4 percent in 2015.

Both supply and demand factors can explain these dynamics...

...Cultural barriers and the slow adjustment in social norms and behaviors is one reason.

Businesses lack the incentive to provide a tailored work environment for Saudi females.

89 percent of employed females work in the public sector.

thousand in net employment of Saudis and non-Saudis respectively. Other sectors that saw a decline in net employment of Saudis include information and communication (-16 thousand) and finance (-11 thousand).

Manufacturing, one of the most labor intensive sector in the private economy (8 percent of total employment), saw a significant increase in net employment of non-Saudis, while Saudi net employment in the sector fell by 2 thousand, leading to a notable decline in the sector's Saudization ratio (from 24 percent in 2014 to 20 percent in 2015).

Looking ahead, we expect the private sector to be the main source of new jobs for Saudis, supported by continued labor market reform, limits to public sector employment, and changing cultural perceptions. We maintain our earlier view that there is a skill mismatch between private sector needs and Saudi job-seekers, which will continue to be a major obstacle in reforming the labor market. Also, the segmentation between Saudis and non-Saudis in wages, work hours, and skills remain a key factor in the private sector's tendency to hire non-Saudis ([for more details see our Labor Market Outlook Report](#)). That said, another significant part of the segmentation in the labor market lies between Saudi males and females (see box 1).

Box 1: The gender predicament

Within the Saudi labor market, females have consistently been facing significant barriers to enter the labor force, let alone securing enough jobs. In 2015, the Saudi female unemployment rate rose to 33.8 percent, up from 32.8 percent in 2014, while the Saudi male unemployment rate was healthy at 5.3 percent in 2015 (Figure 6.1). The rise in the female unemployment rate during this period occurred despite a slight fall in their participation rate, from 17.6 percent to 17.4 percent (Figure 6.2).

What statistics consistently show about the low participation/high unemployment rates of Saudi females in the labor force can be attributed to both supply and demand factors. As for the supply side, the number of females outside the labor force have increased significantly in 2015, rising by 234 thousand year-on-year, compared with just 65 thousand in 2014 (Figure 6.3). Cultural barriers and the slow adjustment in social norms and behaviors is one reason, this is true when observing that the majority of females outside the labor force are in fact housewives, rather than in school, retired, or disabled (Figure 6.4), and explains the relatively low level of their participation in the labor force, compared with Kuwait (61.3 percent), Bahrain (40 percent), and Qatar (36 percent).

The demand side also faces barriers, additional costs create a lack of incentive for businesses to provide a tailored work environment for Saudi females in the private sector. Putting this into context, out of the total 816 thousand currently employed Saudi females, 724 thousand (89 percent) are employed in the public sector, of which 569 thousand work in education, a very high proportion compared to that of employed Saudi males, where 63 percent work in the public sector (Figure 6.5). The Ministry of Labor has tried to encourage Saudi female employment in the private sector by promoting the virtual workspace concept for females to work from their homes, but the statistics indicate that there is still a long way to go.



Saudi female youth unemployment stood at 62 percent in 2015.

Reducing female unemployment by half can lead to overall Saudi unemployment falling from 11.5 percent to 7.4 percent.

The participation rate of younger Saudi females aged between 20 and 29 stood at 23 percent in 2015, considerably higher than the 17.4 percent figure for total female participation. However, the unemployment rate for this same age group is very high at 62 percent (Figure 6.6), and will likely act as a pressure point against any further improvements in female participation moving forward.

We believe that solving this gender predicament can have large implications on the Saudi unemployment rate. For example, given current participation rates, and assuming all other labor market assumptions are unchanged, if the female unemployment rate were to be reduced nearly by half, the overall Saudi unemployment rate would be reduced significantly from 11.5 percent to 7.4 percent.



Figure 6.1: The rise in unemployed females poses a challenge...

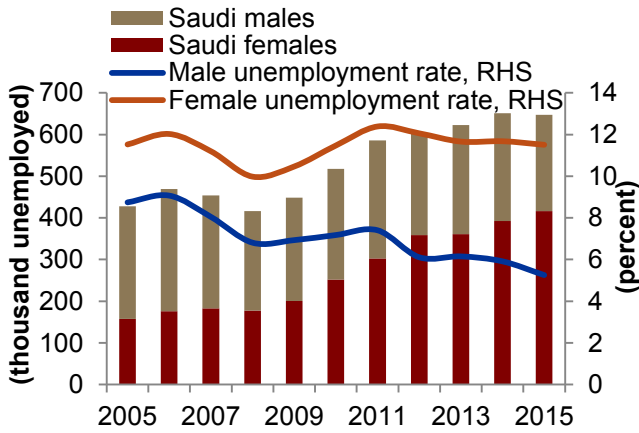


Figure 6.2: ...including very low participation rates... (2015)

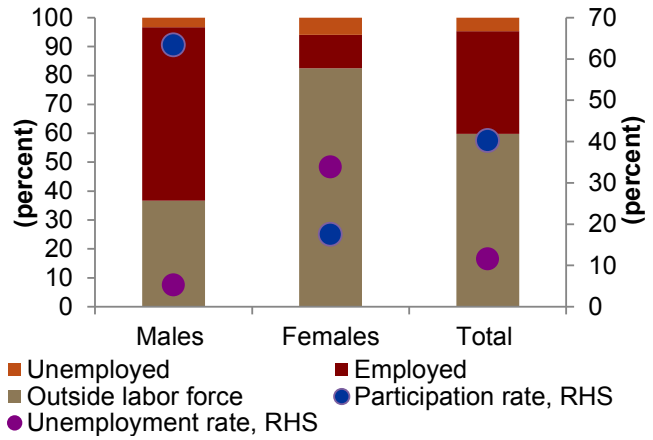


Figure 6.3: ...which is driven by the low incentive to work... (year-on-year change in Saudis outside labor force)

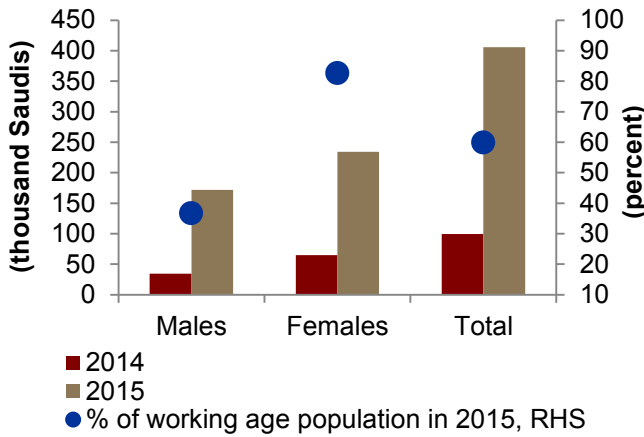


Figure 6.4: ...given the persistence of cultural norms...

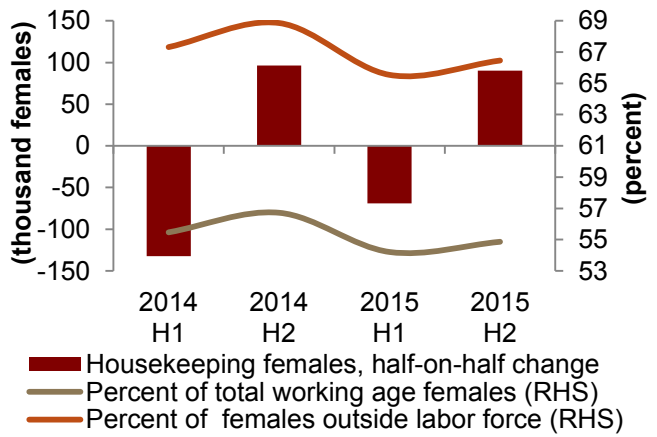


Figure 6.5: ...while demand also lags behind... (2015 employment breakdown by sector)

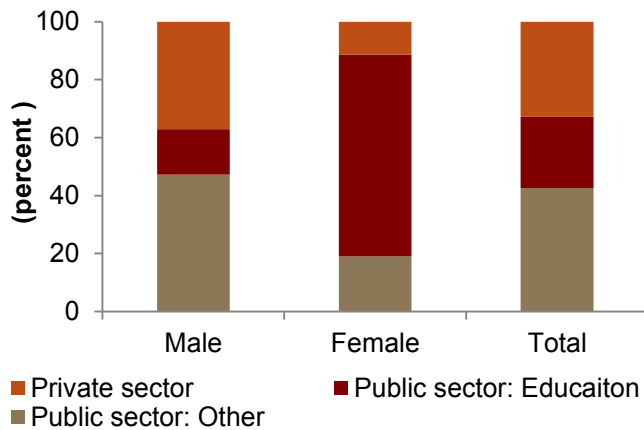
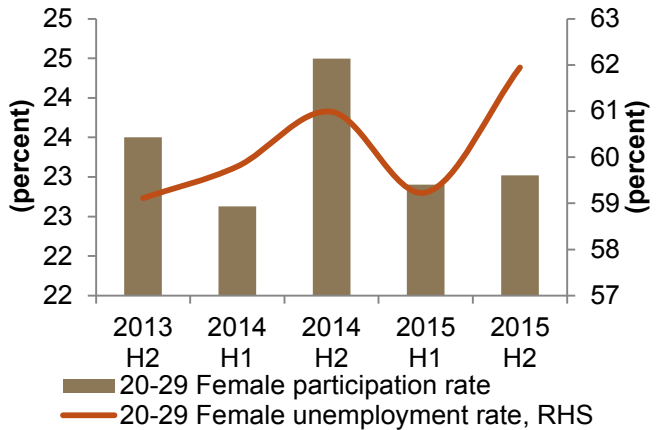


Figure 6.6: ...particularly for younger females (Saudi female participation and unemployment rates)



Source: General Authority for Statistics



Key labor market data

	2009	2010	2011	2012	2013*	2014*	2015
Labor Force (000s)							
Saudis	4,287	4,508	4,729	5,000	5,340	5,577	5,623
Non-Saudis	4,324	5,070	5,815	5,998	6,022	6,162	6,542
Total	8,611	9,578	10,544	10,998	11,362	11,739	12,165
Total Employed (000s)							
Saudis	3,838	3,991	4,143	4,397	4,717	4,927	4,976
Non-Saudis	4,310	5,051	5,792	5,993	6,012	6,141	6,509
Total	8,148	9,042	9,936	10,390	10,729	11,068	11,485
Saudization ratio %	47.1	44.1	41.7	42.3	44.0	44.5	43.3
Private Sector (000s)							
Saudis	1,278	1,309	1,340	1,464	1,571	1,678	1,635
Non-Saudis	4,178	4,870	5,563	5,751	5,845	5,912	6,281
Total	5,456	6,179	6,903	7,215	7,416	7,591	7,916
Saudization ratio %	23.4	21.2	19.4	20.3	21.2	22.1	20.7
Public Sector (000s)							
Saudis	2,560	2,682	2,803	2,933	3,145	3,248	3,341
Non-Saudis	132	181	230	242	168	229	227
Total	2,692	2,863	3,033	3,175	3,313	3,477	3,568
Saudization ratio %	95.1	93.7	92.4	92.4	94.9	93.4	93.6
Unemployed Saudis (000s)	449	517	586	603	623	651	647
Unemployment Rate %							
Saudis	10.5	11.5	12.4	12.1	11.7	11.7	11.5
Non-Saudis	0.3	0.3	0.4	0.2	0.2	0.3	0.5
Total	5.4	5.6	5.8	5.5	5.6	5.7	5.6
Participation Rate %							
Saudis	36.4	37.0	37.7	39.2	40.4	41.2	40.2
Non-Saudis	79.1	79.5	79.9	79.4	76.9	75.4	76.8
Total	49.9	51.5	53.2	54.1	54.0	54.1	54.0

*Note: 2013 and 2014 Institutional breakdown is from the Ministry of Economy and Planning (MEP), earlier years and 2015 are Jadwa Investment estimates.



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