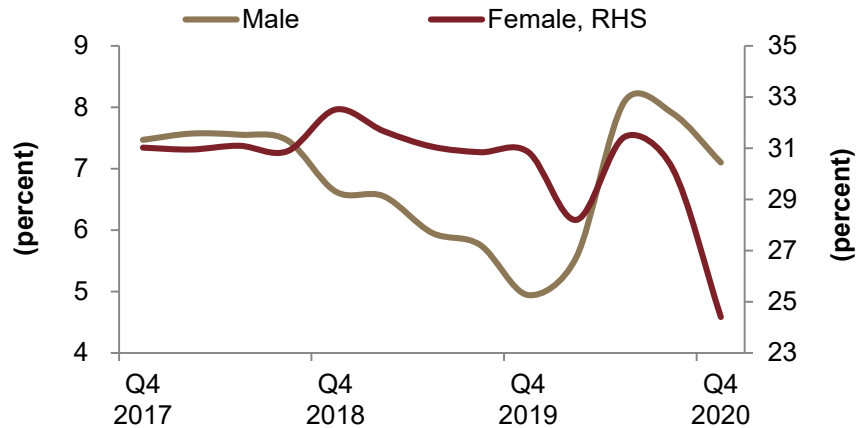




Unemployment declines further in Q4 2020

- The General Authority for Statistics' (GaStat) latest labor market release shows that unemployment declined to 12.6 percent in Q4 2020, down from 14.9 percent in Q3 2020. The improvement was mostly affected by a drop in female unemployment, which declined to 24.4 percent from 30.2 percent in Q3 (Figure 1).
- Labor force participation rose in Q4 2020, to 51.2 percent up from 49 percent in Q3 2020, with higher participation by both genders.
- The number of expatriates in the labor market declined by 121 thousand quarter-on-quarter in Q4. Meanwhile, the number of Saudis also declined by around one thousand workers over the same period.
- On a sectorial basis, 'public administration' and 'accommodation and food services' saw the largest rises in employment for both Saudi and expatriate workers in Q4 2020. For expatriate workers, 'construction' continued to see the largest number of departures, followed by 'administrative and support services'.
- The recovery in the labor market has proceeded quicker than we anticipated (with Saudi unemployment at 12.6 percent at the end of 2020, versus our forecast of 14 percent). At the same time, however, the swift recovery reinforces our view that Saudi unemployment will decline to 12.1 percent by the end of 2021.
- More specifically, with the ongoing roll-out of vaccines in the Kingdom, business sentiment is expected to improve significantly during H2 2020, which, along with ongoing localization efforts, will help create more employment opportunities for citizens.

Figure 1: Saudi unemployment rate, by gender



Saudi Unemployment Rate (percent)

	Q4 2020	Q3 2020
Male	7.1	7.9
Female	24.4	30.2
Youth (20-24)	28	34.2
Total	12.6	14.9

Saudi Labor Force Participation Rate (percent)

	Q4 2020	Q3 2020
Male	68.5	66
Female	33.2	31.3
Youth (20-24)	41.8	37.9
Total	51.2	49

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Main Developments in Q4 2020

GaStat's latest labor market release shows that unemployment declined to 12.6 percent in Q4 2020.

Labor force participation rose to a record high of 51.2 percent in Q4 2020, with higher participation by both genders.

The number of expats in the labor market declined by 121 thousand on a net basis, quarter-on-quarter in Q4 2020.

GaStat's latest labor market release shows that unemployment declined to 12.6 percent in Q4 2020, down from 14.9 percent in Q3 2020. The decline was largely a result of an improvement in female unemployment, which hit 24.4 percent in Q4 versus 30.2 percent in Q3 (Figure 1). At the same time, male unemployment also declined in Q4, although at a slower pace. Separately, youth unemployment (20-24 years old) fell from 34.2 percent in Q3 2020 to 28 percent in Q4 2020 (Figure 2). During Q4 2020, the non-oil purchasing manager index (PMI) rose significantly to reach pre-pandemic levels, driven by higher output and rising local demand on goods and services, all of which likely supported the recovery in the labor market.

Labor force participation

Labor force participation rose to a record high of 51.2 percent in Q4 2020, bettering the previous high (of 49 percent) in Q4. Higher participation was seen amongst females (up from 31.3 to 33.2 percent quarter-on-quarter) and males (up from 66 to 68.5 percent quarter-on-quarter). An improvement in economic activity in Q4 together with a consistent fall in the number of daily COVID-19 cases likely encouraged more citizens to join the labor market and seek employment.

Expatriates leaving the labor market

In total, GaStat data showed that the number of expatriates in the labor market declined by 121 thousand quarter-on-quarter in Q4, on a net basis (Figure 3). At the same time, GaStat data shows that the number of new private sector expatriate work visas issued in Q4 totaled 200 thousand (versus 46 thousand in Q3). The sharp rise was primarily due to a massive jump in visas for female expats, which numbered 181 thousand in Q4 (versus only 4 thousand in Q3). However, the data also showed that 92 percent of issued visas were either unused or cancelled, resulting in only 19 thousand visas being used during Q4 (significantly larger than the total of 25 visas used in Q3).

Employment by Kind of Economic Activity

GaStat data shows that many sectors witnessed a rise in the number of workers. More specifically, the 'public administration' and 'accommodation and food services' sector saw the largest rises in

Figure 2: Youth unemployment rates

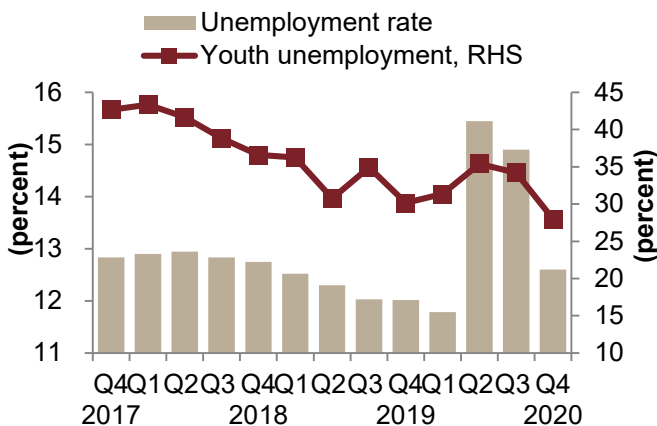
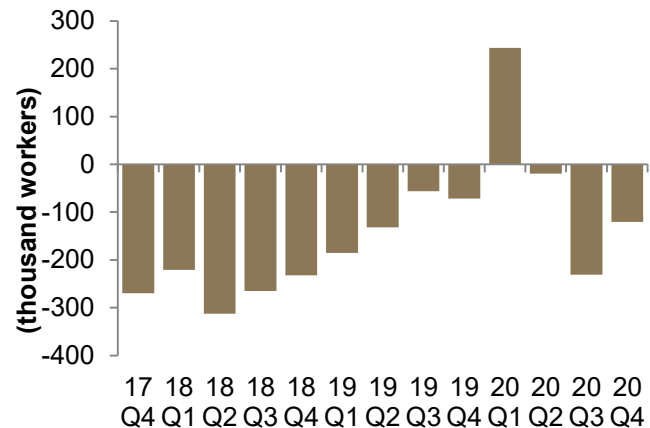


Figure 3: Net change in the number of expatriate workers* (Q4 2020– Q3 2020)



* Excluding household workers



The substitution of expatriates with Saudis slowed during Q4.

For expat workers, 'construction' continued to see the largest number of departures.

The improvement in the labor market has proceeded quicker than we anticipated.

We expect a broad-based recovery towards the end of 2021.

employment, not only for Saudis, but of expatriates too. As such, the substitution of expatriates with Saudis slowed during Q4, especially in sectors which had shown sizable substitution in Q3, such as 'wholesale and retail' and 'manufacturing' (Figure 4) (as per our previous [labor market update](#)). This trend may partly reflect the higher cost of hiring local labor following the Ministry of Human Resources (MHRSD) announcement (back in November last year) that the minimum salary for Saudis would rise to SR4000 under the Nitaqat program (up from SR3000 previously).

For expatriate workers, 'construction' continued to see the largest number of departures, followed by 'administrative and support services' with the majority of expatriate departures falling into the lowest salary band of SR1500 and less (Figure 5). At the same time, a decline in Saudi workers was seen within the SR3000 salary band, with a simultaneous equivalent rise in the SR3001+ and SR5000 bands. This change is in line with the above-mentioned MHRSD minimum salary announcement, with a majority of businesses seemingly raising the salaries of Saudi workers rather than making redundancies.

Outlook

The improvement in the labor market has proceeded quicker than we anticipated (with Saudi unemployment at 12.6 percent at the end of 2020, versus our forecast of 14 percent). At the same time, however, the swift recovery reinforces our view that Saudi unemployment will decline to 12.1 percent by the end of 2021. That said, we cannot rule out some fluctuations in the rate of unemployment during H1, especially so when the suspension of recreational events and services during part of Q1 are considered, and the risk of a return to some form of restrictions in the immediate future are ever present with a sharp rise in the number of COVID-19 cases being observed recently. That said, with the ongoing roll-out of vaccines in the Kingdom, we are expecting a more vigorous economic recovery in the second half of 2021, which, along with ongoing localization efforts (such as the recent MHRSD decisions to raise the level of Saudization in shopping malls, supermarkets, restaurants and coffee shops), will help create more employment opportunities for citizens.

Meanwhile, major structural changes are being implemented as a result of the new labor reforms in the Kafala system (Box 1). Overall, we expect these changes to improve job mobility and flexibility for expats in the private sector, which, in turn, will help reduce the wage gap between Saudis and expats.

Figure 4: Net change in the number of workers in wholesale and retail * (quarter-on-quarter)

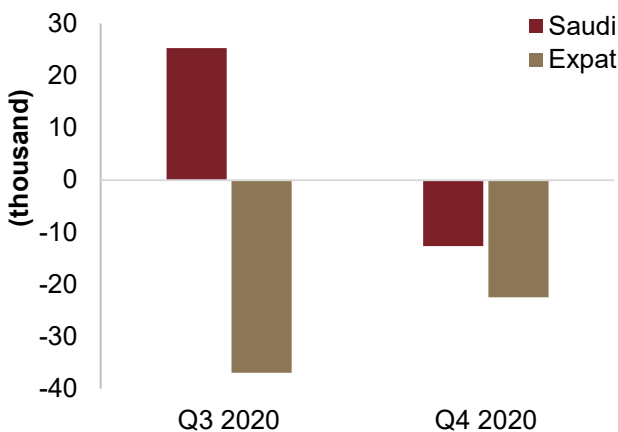
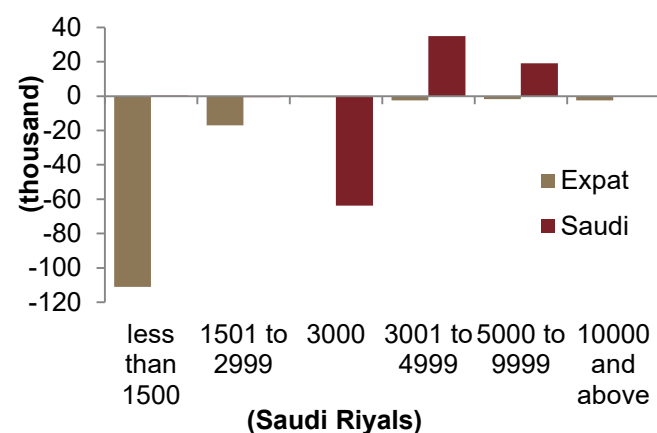


Figure 5: Net change in the number of workers in Q4 2020, by salary band * (Q4 2020 - Q3 2020)



*Employees registered with GOSI



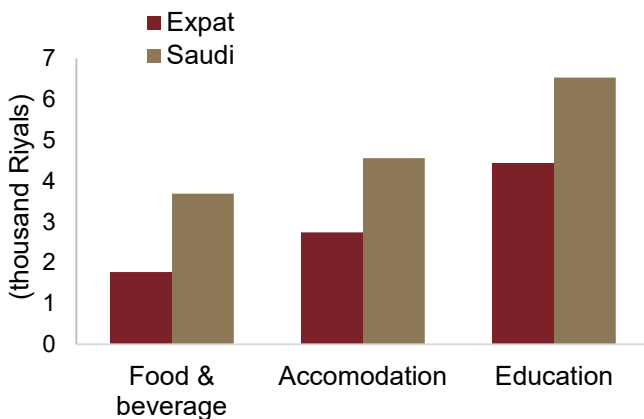
Box 1: Improving the Kafala System

The MHRSD announced new labor market reforms to enhance the Kafala system by providing expatriate workers the right to job mobility within the private sector and to leave the country without going back to their employers, under a number of conditions.

To benefit from the new reforms, the expatriate worker must complete one year under their current contract, and the new employer must comply with the wage protection program, and meet the requirements of the MHRSD for the place of work.

As a result of the new reforms, we expect salaries amongst some of expatriate workers in the private sector to improve, spurred by higher competition between employers to attract talented skills. Specifically, we think that expatriate workers in services such as 'restaurants and cafes', 'accommodation', and 'education', are likely to see the highest competition and salary benefits (Figure 6).

Figure 6: Wage gaps between Saudis and expats are expected to shrink in a number of sectors





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