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Takamol Advisory Unit

Analysis of GASTAT Labor Force Survey Q2 of 2020

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INSIGHT PAPER

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INSIGHT PAPER



Fiscal and Economic Factors

- In Q2 of 2020, Jadwa Investment expects overall GDP growth to decline by 3.7%, compared to a previously forecasted decline of 3%.
- Jadwa Investment revised its forecast regarding the oil sector of Saudi Arabia, reflecting the ongoing efforts by OPEC and partners (OPEC +) to stabilize oil markets.
- As a result, Jadwa Investment have further adjusted Saudi Arabia's oil output downwards, predicting oil GDP for this year to -4.8%.
- As a result of the current OPEC + agreement, Saudi crude oil production is expected to be around 9.2 million barrels per day (mbpd) in 2020, 6% less than the 2019 average of 9.8 mbpd.
- Government revenue totalled SR134 billion in Q2 of 2020, down 49% year-on-year, with declines seen in both oil and non-oil revenue.
- Government oil revenue totalled SR96 billion, down 45% year-on-year, with oil prices declining by 60% over the same period.
- Looking ahead, oil prices are expected to trade around \$40 - 45 per barrel (pb) in Q4 of 2020, and this combined with continued

dividend payments from Aramco means there is the potential for government oil revenue to be higher than the current forecast by Jadwa Investment of SR350 billion for the full year.

- Non-oil revenue declined by 55% compared with the same period last year. As anticipated, the decline was attributable to a combination of a deferral in various tax payments and the COVID-19 pandemic induced downturn in economic activity. Looking ahead, non-oil revenue is expected to continue showing yearly declines, but a higher rate of VAT in Q3 will help mitigate losses.
- Government expenses declined by 17% year-on-year, to SR243 billion. We expect full year expenditure to be in-line with budgeted levels of SR1.02 trillion.
- The Q2 2020 fiscal deficit amounted to SR109 billion taking Q1 and Q2 2020's deficit to SR143 billion. Jadwa Investment still expects the fiscal deficit to total around SR362 billion (13.5% of GDP) by the end of the year.

COVID-19 has directly influenced government revenue, leading to a decrease of 45% in oil and 55% in non-oil revenue. In the following section, we will examine the impact of COVID-19 on the Saudi labor market within Q2 of 2020.



The Impact of COVID-19

- During Q2 of 2020, the economy faced multiple challenges as a result of measures related to limiting the spread of COVID-19. More specifically, business uncertainty, disrupted supply chains and lockdowns/curfews had a significant negative impact on economic activity in the private sector, which has had a knock-on effect on employment.
- Youth and women are particularly vulnerable to the economic effects of the COVID-19 pandemic, and policy-makers are paying particular attention to these groups on its road to economic recovery, as described, for example, within the G20 Labor and Employment Ministers Declaration of September 2020.
- In the private sector, 55% of employees are in jobs where the ability to work has been impacted severely by the pandemic.
- Analysis of the impact of COVID-19 on the labor market suggests that the loss of Saudi jobs will remain protected by the various government programs aimed at supporting businesses in retaining their employees.

- The Saned program supported 450,000 beneficiaries in more than 90,000 companies with an investment of SR2.4 billion, helping reduce the impact of COVID-19 on the labor market, specifically to safeguard employment. The program was extended for a further 3 months until the end of September 2020.
- In terms of educational level, there is a correlation between educational qualifications and the severity of the impact of COVID-19. For example, employees with a high school diploma or less made up 75% of the severely impacted occupations, of which 20% are in essential occupations.
- Conversely, employees with university level qualifications were least impacted by the pandemic with over half of them in occupations where the ability to work was minimally impacted.
- In the first quarter of 2020, there were 10.4 million expatriate workers in Saudi Arabia, many of whom have been acutely affected by the impact of COVID-19.
- It is estimated that around 1.2 million expatriate workers will leave the Saudi Arabian labor market by the end of 2020, with sectors such as accommodation and food services and administrative and support services among those experiencing the highest losses.
- The Awdah program, which helps workers repatriate to their home countries during the pandemic, received 178,000 applications from expatriate workers between April and June 2020.
- Across the world, Small and Medium Sized Enterprises (SMEs) are expected to be severely affected by the economic impact of the COVID-19 pandemic due to country-wide lockdowns, including in Saudi Arabia.
- Limited cash reserve is a reality for many SMEs which means that they are more likely to

reduce their employee numbers due to the high costs incurred through salary payments, and other associated costs.

- GASTAT data shows that Saudi employees between the ages of 26-35 years make up around 41% of employees in SMEs, suggesting that this age group may experience disproportionately high job losses in comparison to other age groups.
- The outlook of the Kingdom's 'Other (non-oil) Manufacturing' sector is likely to be impacted by the negative impact of COVID-19 on global trade, including non-oil exports.
- The most recent Index of Industrial Production (IIP) shows that non-oil manufacturing activity has been in the negative territory since early 2020, with the most recent reading in June showing declines of 22% year-on-year.
- Data shows that the value of goods imported fell by 15% on a yearly basis while import volumes declined by 8% within the same period (Jadwa).
- Unsurprisingly, the steepest declines were seen during Q2 of 2020, when the Saudi Arabian economy was adversely impacted by the COVID-19 pandemic, as were economies across the world.
- It is unlikely that there will be a rapid recovery in imports for a number of reasons, including the likelihood of a gradual economic recovery over the remainder of the year, with a sizable improvement seen in the last quarter, assuming there is no significant 'second wave' of COVID-19 cases, which would keep import demand subdued.
- Additionally, the rise in VAT and selected import duties from Q3 2020 onwards will have an impact on overall demand of imported goods and services.

- Saudi female unemployment was the most significant factor in terms of this increase with female unemployment rate rose by 4.6%, while the male unemployment rate increased by 2.2%.
- Prior to the onset of the COVID-19 pandemic, Saudi Arabia saw a significant decrease in Saudi unemployment rates, which stood at 11.8% in Q1 of 2020.
- Two thirds of Saudi Arabia's population are under the age of 35, with over half of jobseekers being between the ages of 15-29 years old. Key challenges within the labor market include youth unemployment, youth not in employment, education, or training (NEET) and high rates of female unemployment, which is particularly prevalent among bachelor's degree holders.



Saudi Arabian Employment Trends

Q2 of 2020 saw an increase in the unemployment level of Saudis to 15.4%, an increase of 3.6% in comparison to Q1 of 2020 (11.8%).

The unemployment rate for Saudi males has increased by 2.53 percentage points from 5.56% to 8.09% between Q1 and Q2 of 2020,

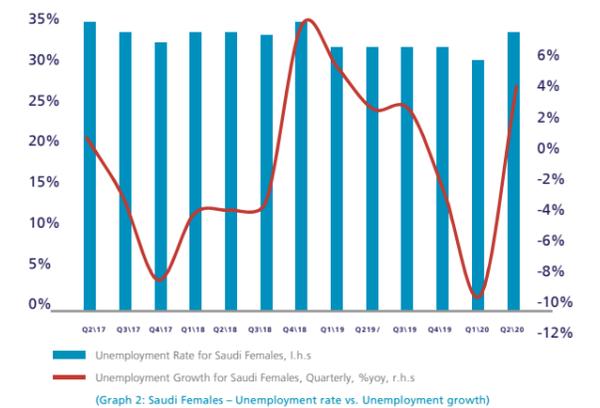
while the female unemployment rate increased by 3.24% to reach 31.44% within Q2 of 2020.

- There was an increase in the Saudi female participation rate by 2.6 percentage points, from 46.2% to 48.8%, within the same period.
- The participation rate for Saudi males has slightly decreased, by 0.4%, compared to a sizable 8.2% increase for Saudi females.
- Unemployment amongst the young population, aged 15-29 years old, remains a challenge. This is the case for both males and females, with over 66.5% of unemployed Saudi nationals belonging to this age group.
- Relevant experience and training play a key role in the labor market with only 14.2% of unemployed Saudi nationals having work experience, compared to 85.8% who have no previous work experience.

While both private and public sectors showed a net decline in employment for Saudi nationals between Q1 and Q2 of 2020, employment in the public sector grew at 0.47%, while the private sector experienced a decrease of 1.76% within the same period.

The majority of Saudi nationals still work in the private sector, representing 52.9% of Saudi workers, compared to 47.1% in the public sector.

- Comparing Q2 of 2019 with Q2 of 2020, Saudi female employment grew by 3.32%, with 17,610 additional Saudi females employed in the private sector, and grew by 6.71% in the public sector, with an increase of 35,761 females in employment.
- In the same period, Saudi male employment decreased by 0.91%, with 10,417 fewer Saudi males working in the private sector, and by 4.13% in the public sector, with a reduction of 38,220 employed Saudi nationals.

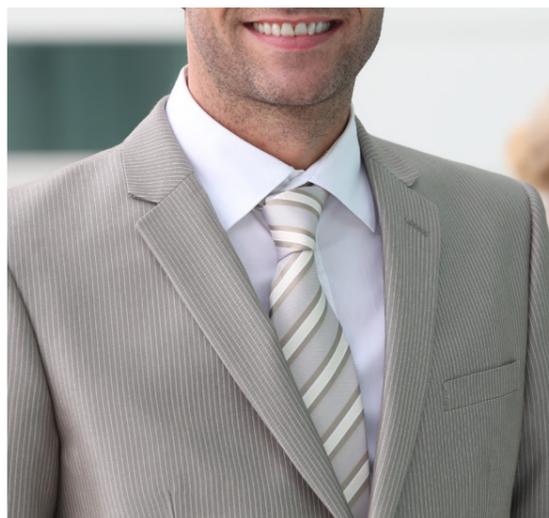


Non-Saudi Employment Trends

The unemployment rate for the non-Saudi workforce was 3.1%, with a notable increase due to the impact of COVID-19 when compared to the previous quarter, in which the unemployment rate was 0.5%. The participation rate for non-Saudis in Q2 of 2020 is 73.9%, a 0.9% decrease from the previous quarter.

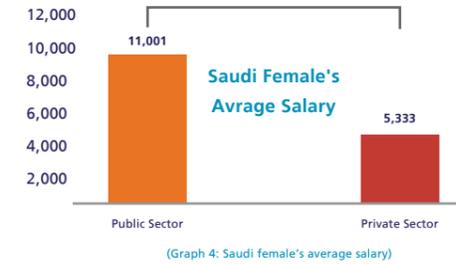
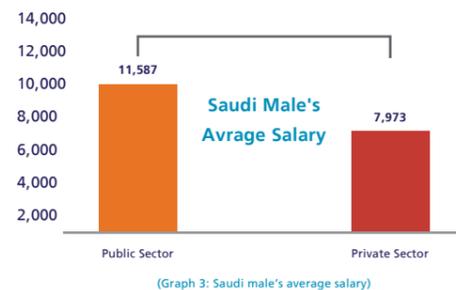
- The total employment rate for non-Saudis in Q2 of 2020 has decreased by 0.3%, losing 19,086 jobs.
- The employment rate for non-Saudi females in Q2 of 2020 grew by 0.6% from the previous quarter, where 54 have been employed by the private sector, and 1,752 in the public sector.

- The private sector employment rate for non-Saudi males has decreased in Q2 of 2020, with 25,362 less people in employment. Within the same period an additional 4,448 have been employed in the public sector.
- Employment of domestic workers grew slightly by 1.3% with an additional 45,911 being employed.
- There has been a massive decline in the total number of visas issued in Q2 of 2020, showing a 91.5% decrease compared to Q1 of 2020.
- The number of visas issued dropped from 583,750 in Q1 of 2020 to 49,566 in Q2 due to the travel ban that was introduced to help stop the spread of COVID-19.
- The decline in visas issued occurred in both the private sector and for personal visas, which dropped from 341,652 in Q1 to 32,038 in Q2 in the private sector, and from 234,644 in Q1 to 5,701 in Q2 for the personal visas issued.
- The same decline did not occur in the visas issued in the public sector, where there was an increase of 58.7% in Q2 of 2020, increasing from 7,454 in Q1 to 11,827 in Q2.

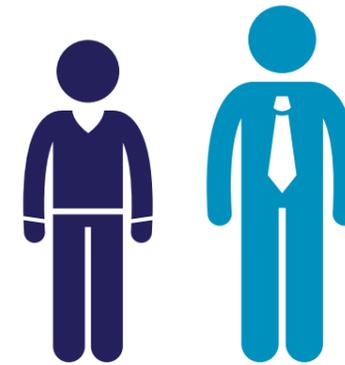


Gender Trends

- The participation rate in the labor⁽¹⁾ force slightly increased by 1.2 percentage point from 58.2% to 59.4% between Q1 and Q2 of 2020, during which females fared better than males.
- The participation rate of females witnessed an increase of 5.2 percentage points, from 25.4% to 30.6%, in contrast with the participation rate of males which witnessed a 1.5 percentage point decrease from 80.4% to 78.9% during the same period.
- Total employment decreased by 3.2% between Q1 and Q2 of 2020, recording a net decline of 51,069 people in employment, where employed males decreased by 31,660, mainly caused by non-Saudi worker reductions in the private sector, compared to a decrease of 19,409 for employed females, mainly driven by Saudi females leaving private sector employment. This equates to a 0.37% decrease for employed males compared to 1.37% decrease for employed females.
- In terms of monthly wages, males earn slightly more than females. Saudi males earn an average of SAR 11,587 and SAR 7,973 in the public and private sectors respectively.
- Saudi females earn an average of SAR 11,001 and SAR 5,333 in the public and private sectors respectively.



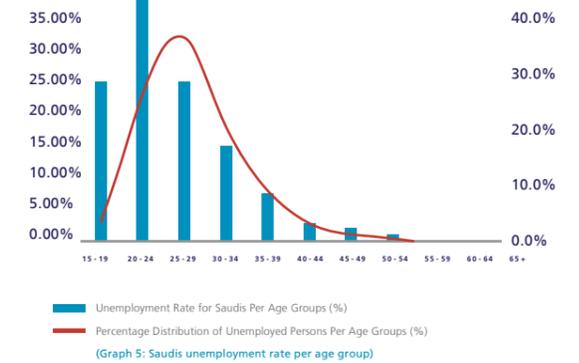
Age Group Trends



Looking across age groups we can see that there were different employment patterns occurring among workers aged 15-29 years old, and workers aged over 30 years old.

- More than 64% of unemployed Saudis are between the age of 20 and 29.
- While the unemployment rate for Saudis in the 15-19 age bracket is more than 22%, they represent only 1.8% of Saudi unemployed persons.
- The majority of the unemployed within the 30-39 age bracket are Saudi females.
- The number of young workers aged 15-29 years old has decreased by 39,441 between Q1 and Q2 of 2020, from 2,149,865 to 2,110,424.

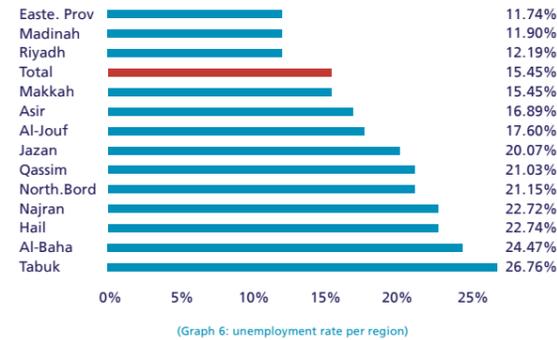
- The employment number for workers older than 30 years old decreased by 11,559 for the same period, from 7,826,948 to 7,815,389.
- Female employment has shown a consistent decrease across all age groups, except for those aged between 40-59 years old, showing an overall decrease of 1.87% for the period.
- With the exception for workers aged 40-49, and 55-59 years old, all other age groups for males have shown a decrease in the number of workers, showing an overall contraction by 0.36%. This decline is driven predominantly by non-Saudi workers in the 50-54 age bracket.



Educational Attainment Trends

- Unemployment for graduates remains a challenge, particularly for females. Analysis of employment by educational attainment for Saudi females, shows that 70.1% of unemployed females hold a bachelor's degree.

- However, there is a notable decrease when compared with Q1 of 2020 when the share of bachelor's degree holders was 71.5%.
- On the other hand, Saudi males holding a secondary degree or equivalent represent the largest share of unemployed Saudi males, representing 45.2% of the total Saudi male unemployment in Q2 of 2020.
- This is a decrease of 3.2 percentage points compared to Q1 of 2020.



Regional Trends

We witness Regional variations within the Saudi Arabian labor market. Below are some notable highlights:

- Riyadh, Makkah and Eastern Province regions share of employment was 40.17%, 21.40%, and 18.83% respectively, accounting for 80.40% of the total employment⁽²⁾ in Q2 of 2020.
- On a regional basis, the Eastern Province region enjoys the lowest unemployment rate of 11.74% for Saudi nationals.
- In contrast, the Tabuk region suffers from the highest unemployment rate at 26.76%, which is mainly driven by Saudi females with an unemployment rate of 50.2%.
- However, it is important to note that due to the absence of absolute values of unemployed persons since 2016, the percentage rates don't reflect the actual size of the unemployment in each region.

Wage Trends

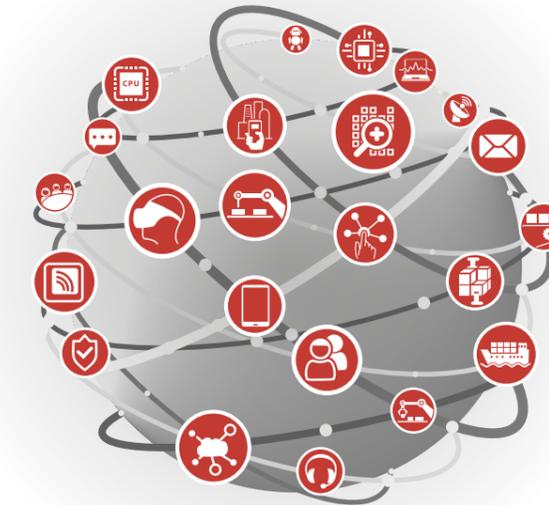


While the labor market has experienced some significant changes between Q1 and Q2 of 2020, no major differences in total wage trends emerged within this period:

- Saudi male's average wages decreased by SAR 251, from SAR 10,641 in Q1 to SAR 10,390 in Q2, registering a contraction of 2.4%.
- Saudi female's average wages have decreased by SAR 396 from SAR 9,088 in Q1 to SAR 8,692 in Q2, registering a contraction of 4.5%.
- Non-Saudi males' average wages increased by SAR 149 from SAR 4,125 in Q1 to SAR 4,274 in Q2, registering a growth of 3.5%.

- Non-Saudi female average wages decreased by SR167 from SR3,084 in Q1 to SR2,917 in Q2, registering a contraction of 5.7%.

Sectoral Trends



The Labor Force Survey for Q2 of 2020 shows that Public Administration and Defense, Agriculture; Forestry and Fishing, Transportation and Storage, and Real Estate are the four biggest employers.

- **PUBLIC ADMINISTRATION AND DEFENSE SECTOR**
Employment in the Public Administration and Defense sector increased by 5,265 workers, a 2.4% growth between Q1 and Q2 of 2020.
- **AGRICULTURE, FORESTRY AND FISHING**
Agriculture, Forestry and Fishing sector increased by 3,507 workers, with a 3.47% increase in employment, with increases in non-Saudi workers accounting for more than 60% of the increase.

- **TRANSPORTATION AND STORAGE SECTOR**
Transportation and Storage sector registered an increase by 1,305 workers, with increases in non-Saudi workers accounting for more than 60% of the increase.

- **REAL ESTATE**
Real Estate sector increased by 432 workers, with a 1.17% increase in employment.

- **ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES SECTOR**
Administrative and Support Service Activities sector decreased by 6,026 workers, a 0.55% contraction for the same period, with the majority of the employment going to non-Saudi males.

- **MANUFACTURING SECTOR**
Manufacturing sector registered a loss of 5,851 jobs, a 0.7% net decline in employment.

- **THE ACCOMMODATION AND FOOD SERVICES SECTOR**
The Accommodation and Food Services sector grew by 2.71% between Q2 of 2019 and Q2 of 2020. The majority of these jobs are held by non-Saudis, with an increase of 8,647 jobs, compared to 2,328 jobs for Saudi workers.

On the other hand, Construction, Education, Wholesale and Retail Trade, Administrative and Support Service Activities, Electricity; Gas; Steam and Air Conditioning, and Professional; Scientific and Technical Activities sectors have experienced the highest levels of employment reduction.

- **CONSTRUCTION SECTOR**
The construction industry is largely populated by non-Saudi workers, totalling 1,994,218 compared to 284,747 Saudi workers. The Construction sector registered job losses, losing 25,111 jobs, a 1.1% net decline in employment between Q1 and Q2 of 2020.

• **EDUCATION SECTOR**

Employment in the Education sector decreased by 11.13% between Q1 and Q2 of 2020, with 17,259 losing jobs, with more than 60% of those jobs lost are being Saudi Females.

• **WHOLESALE AND RETAIL TRADE SECTOR**

The Wholesale and Retail Trade sector registered a loss of 12,141 jobs between Q1 and Q2 of 2020, a 0.62% net decline in employment.

• **ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SECTOR**

Electricity; Gas; Steam and Air Conditioning registered a loss of 3,809 jobs, a 4.22% decline in employment between Q1 and Q2 of 2020.

• **PROFESSIONAL, SCIENTIFIC AND TECHNICAL ACTIVITIES SECTOR**

Employment numbers within Professional; Scientific and Technical Activities decreased by 2.27%, with a reduction of 3,266 jobs.

• **HUMAN HEALTH AND SOCIAL WORK ACTIVITIES SECTOR**

The Human Health and Social Work activities sector decreased slightly by 0.2%, with a reduction of 875 jobs.

• **MINING AND QUARRYING SECTOR**

The Mining and Quarrying sector decreased by 0.8%, with a reduction of 1,484 jobs.

• **INFORMATION AND COMMUNICATION SECTOR**

The Information and Communication sector registered a loss of 287 jobs, a 0.39% net decline in employment.

• **FINANCIAL AND INSURANCE SECTOR**

The Financial and Insurance sector decreased by 310 jobs, a 0.41% net decline in employment.

The job losses that have occurred in the above sectors have been predominantly focused on non-Saudi workers, mainly non-Saudi males.

It is significant to note that in Q2 of 2020, the impact of COVID-19 has affected a lot of the economic activities negatively, with number of job losses and decrease in employment. However, during the period of the pandemic, specifically in Q2 of 2020, a number of sectors have experienced growth in employment and the creation of additional jobs.

The graphs below show the employment growth patterns for Saudi males and females, for both the private and public sector, since Q4 of 2017 to Q1 of 2020, demonstrating the longer-term pattern for Saudi employment growth.

