

Demographic Trends in Saudi Arabia

# New Age Of Opportunities

**Thematic Report by**

Ujjal Deb Roy, Senior Research Analyst, Investment Research

Although the economic performance of Saudi Arabia and other GCC countries is highly correlated with oil fundamentals, we have made an attempt to analyze the socioeconomic demand drivers that are likely to change Saudi Arabia's economic landscape. We have assessed the demographic trends in Saudi Arabia and their underlying impact on long-term fundamental demand drivers. Saudi Arabia is the most populated country in the GCC region; its population was ~29mn in 2013.

An analysis of the UN's population data for Saudi Arabia for 1950–2050 shows that rapid urbanization, increasing proportion of the earning and consuming population, rising working population vis-a-vis simultaneous rise in older population, and growing importance of the migrant population are the key demographic trends.

We expect these trends to positively impact sectors such as healthcare, education, packaged foods, and insurance/wealth management.

# Changing Demographics To Benefit Saudi Arabia's Economic Growth

Ageing population caused by an increase in average births per women and an increase in life expectancy.

Sustainable economic development of any country is highly correlated with its demographic composition. While it is believed that population growth is a key hindrance to economic development, a low population growth rate cannot be necessarily considered as a pro-growth phenomenon. In addition to the population growth rate, population composition plays a crucial role in a country's economic development. Supported by the one-child policy, China exhibited supernormal economic growth for more than three decades. On the other hand, Japan adopted a similar policy (voluntarily) before China, but it continues to struggle in terms of low economic growth. Some developed countries are facing challenges from an aging population, and overcoming these challenges would involve social and economic costs.

Saudi Arabia may face challenges from its growing elderly population but simultaneously benefit from the increasing consumer population. The population aging phenomenon in Saudi Arabia can be attributed to primarily two factors: decline in the average number of births per women since the early 1980s and increase in life expectancy. The average number of births per women in Saudi Arabia declined from nearly seven in 1950 to around three in 2010. According to the UN, this number would reach 1.7 by 2050. In 1950, life expectancy was about 42 years; however, as a result of advancements in fields such as healthcare and technology, life expectancy increased to 74 years by 2010, and it is predicted to reach 82 years by 2050. This has reduced the gap between the birth and death rates.

Fig 1. Substantial reduction in avg births per women

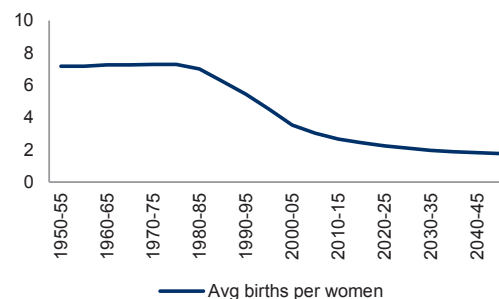
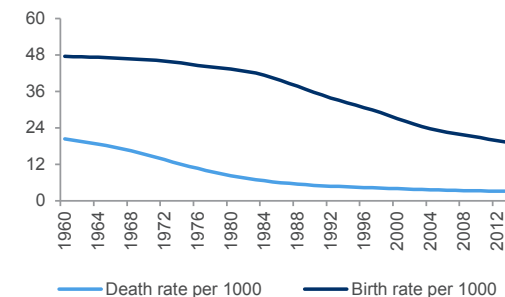


Fig 2. Narrowing gap between death rate and birth rate



Source: United Nations, Aranca research

After analyzing the demographic trends in Saudi Arabia and their effects on the broader economy, we have identified the sectors (like healthcare, education, insurance/wealth management, packaged foods and housing) that would benefit from demographic changes.



### **URBANIZATION**

Rapid urbanization is expected to create immediate growth opportunities in the Kingdom with regard to sustainable housing and utilities infrastructure.



### **RISING CONSUMPTION**

Despite an aging population, consumption growth is expected to remain buoyant due to an increase in the consuming population.



### **RISING WORKING-AGE AND EARNING POPULATIONS**

Saudi Arabia's working-age population (age group 15–59) is expected to increase in the coming years, thereby improving the country's productivity. Simultaneously, a surge in the earning population (25–59) would support savings and investment growth in the economy.



### **MIGRATION**

Demand for international migrants would stimulate growth in lifestyle products, leading to the entry of foreign brands in the Saudi market as well as increased consumption of lifestyle/luxury products.

# Socio-economic Overview

**USD 746.25**

GDP in Billion

Growing at an average of **5.3%** in the last **5 years**



**USD 25,409**

GDP per Capita

**41,863**

GCC average

## Healthcare (2014)



**USD 808**

Health expenditure/capita

**USD 1,280**

GCC average

Per 10,000 Population (2013)

26.8



Physician

21.6



Hospital beds

0.09



Hospitals

## Education



**USD 57.90**

Education Budget (2015)  
in US\$ billion

**25%**

% of total expenses  
(budget)

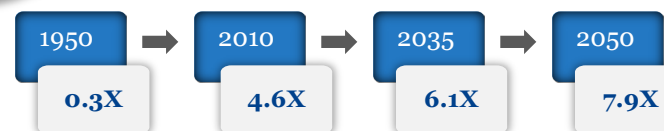
### POPULATION DATA (2013)

Total Population	<b>28.8 mn</b>
Male/Female population (2014 Est.)	<b>1.2</b>
Births/Women	<b>2.6</b>
Death Rate/1,000*	<b>3.2</b>
Birth Rate/1000**	<b>19.4</b>



## Urbanization

Ratio of urban to rural population



## Top Five Trends



Urbanization



Consuming population



Working population



Earning population



Migrant population

\*Crude death rate indicates the number of deaths occurring during the year, per 1,000 population estimated at midyear.  
\*\*Crude birth rate indicates the number of live births occurring during the year, per 1,000 population estimated at midyear.

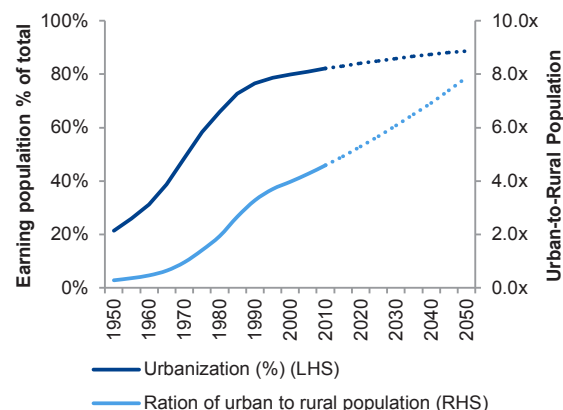
# Urbanization To Create Opportunities

**Urban-rural population ratio to reach 7.9x in 2050 vs 4.6x in 2010.**

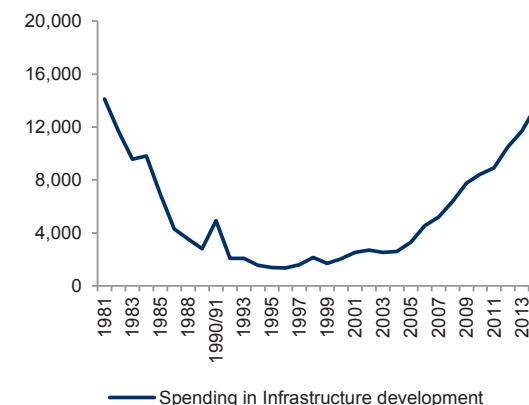
Saudi Arabia witnessed significant urbanization during 1950–2010. In 2010, more than 60% of the country’s population was concentrated in four cities: Riyadh, Makkah, Medina and Al-Qasim. Furthermore, the urban-rural population ratio increased from 0.3x in 1950 to 4.6x in 2010. According to the UN, this ratio would increase to more than 6.1x by 2035 and to about 7.9x by 2050. Rapid urbanization is expected to add c.7mn to the urban population by 2025.

Rapid urbanization is likely to generate significant opportunities in housing and infrastructure. Furthermore, we expect rapid urbanization to result in a greater focus on the development of sustainable housing.

**Fig 3. Rising urbanization**



**Fig 4. Growth in infrastructure spending after 2000**



Source: United Nations, SAMA, Aranca research



### **Housing demand to remain strong.**

In Saudi Arabia, home ownership by the resident population currently stands at 30%, which is substantially below the world average of 70%. Urbanization would boost the demand for housing, particularly affordable housing. In line with this, Saudi Arabia's government has announced various measures, such as big-ticket investments in housing projects (500,000 affordable housing units at an investment of SAR 250bn over the next few years), to help a wider population purchase affordable housing units.

### **Government focus to benefit housing sector.**

The SAR 40bn recapitalization of the Real Estate Development Fund is expected to increase housing mortgage penetration in the Kingdom. In terms of private financing, a mortgage law implemented in 2013 has benefited the mortgage market. While near-term challenges such as high costs of land bank and low penetration of housing mortgages could hamper the housing segment, government incentives (such as affordable housing projects) are likely to help urbanization.

# Surge In Consuming Population

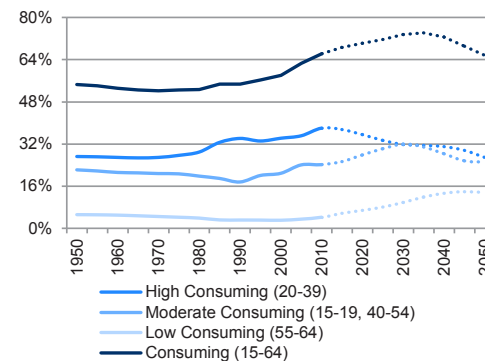
**Consumer population to increase by c.8mn over 2010–30.**

**Low and moderate-consuming population to grow higher than high- consuming population.**

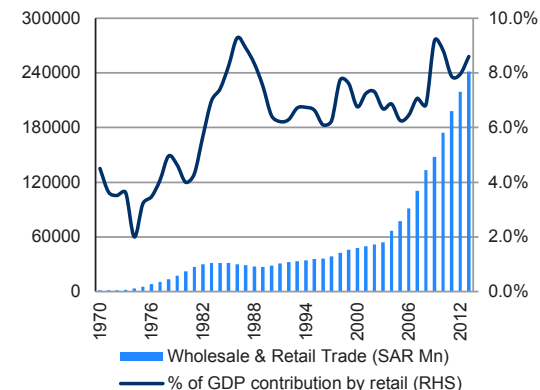
According to the UN, c.72% of the Saudi population is expected to be in the 15–64 age group by 2025, compared with 66% in 2010. We understand that this segment of the population drives consumption, which coincides with the strong consumption trends observed in the economy. A broader analysis of the projected population trends in Saudi Arabia for 1950–2050 indicates that the proportion of consumer population would continue to grow before peaking at c.74% by 2030–35. The addition of c.8mn individuals to the consuming population over 2010–30 would act as a significant tailwind for consumption-driven sectors.

We believe that categorizing the consumer population under different age groups would lead to a better understanding of the various consumption patterns. Thus, we have divided this population segment into high-consuming (20–39), moderate-consuming (15–19 and 40–54), and low-consuming (55–64) groups. Our analysis shows that the increase in the consuming population is being largely driven by the low- and moderate-consuming groups. Meanwhile, the high-consuming group has almost peaked out and would not contribute significantly to the overall growth in the consuming population during 2010–30. Nonetheless, Saudi Arabia's low- and moderate-consuming segments are together expected to increase by ~7mn by 2030, while the high-consuming population is likely to add only ~1mn during this period.

**Fig 5. Increasing consuming population**



**Fig 6. Rising retail and wholesale contribution to GDP**



Source: United Nations, SAMA, Aranca research



**Focus on consumption associated with aging and adolescent population.**

Retail and wholesale contribution to the GDP has been rising rapidly since 2000, increasing from 6.3% in 2005 to 8.6% in 2012. This coincides with the continued rise in the consumer population. We believe the increasing proportion of low and moderate-consuming groups would lay higher focus on consumption associated with an aging and adolescent population, thus providing strong growth potential for sectors such as packaged foods, healthcare, quick service restaurants, and education (especially higher education).

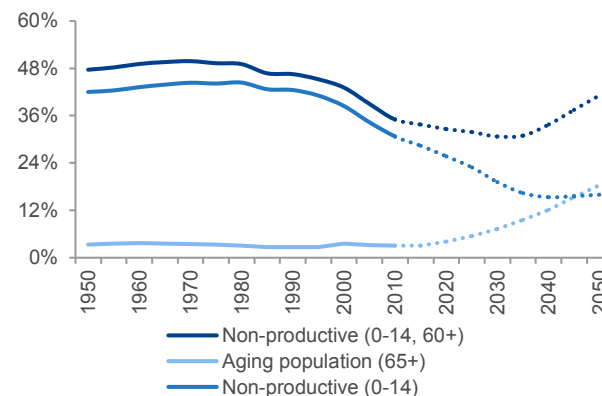


# Rising Older Population And Simultaneous Rise In Working Population

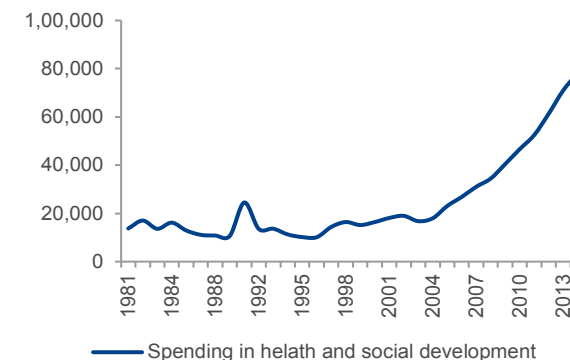
**Geriatric population to grow; however, economic productivity to remain stable due to increase in actual productive population (15-59).**

A low birth rate, coupled with high life expectancy, is likely to drive growth in Saudi Arabia's older population (above the age of 65). According to UN data, this population group is expected to increase from 3% in 2010 to 10% by 2035. Meanwhile, the old-age dependency ratio (ratio of population aged 65+ per 100 population 15–64) is expected to increase from 4.5 to 12.8 during this period. Growth in the elderly population would lead to higher healthcare spending in Saudi Arabia. The government's healthcare spending has been increasing since 2004; this trend is expected to align with the rise in the older population.

**Fig 7. Rising elderly and working-age population**



**Fig 8. Continued rise in public healthcare spending (SAR Mn)**



Source: United Nations, SAMA, Aranca research

**The nonproductive population is expected to decline from 35% in 2010 to 31% in 2035.**

While healthcare prospects in the country appear robust due to the rising elderly population, productivity is not expected to decline significantly due to a simultaneous rise in the working-age population. We have tried to look at the working-age population by analyzing the decline in the nonproductive population (age groups of 0–14 and 60+).

The nonproductive population is expected to decline from 35% in 2010 to 31% in 2035. This decline would be primarily driven by a significant reduction in the 0–14 age group (31% in 2010 vs. 16% in 2035), attributable to lower average births per women. Thus, real productive population (difference of total and non-productive) would increase.

**Fig 9. Stable labor productivity**



Source: The Conference Board, Aranca research

Labor productivity in Saudi Arabia stood at USD 57,000–62,000 during 2002–14. We expect productivity to remain largely stable in the near to medium term, mainly due to a gradual increase in the working-age (productive) population (age group 15–60). Hence, over the next couple of decades, any increase in the older population would not harm the economy's overall productivity. This would be a key tailwind to consumption- and investment-driven economic trends.

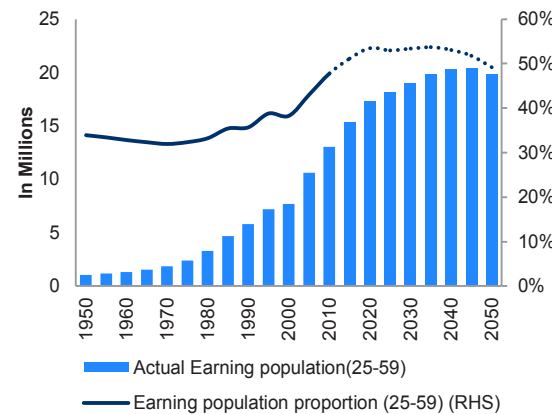
# Growth In Earning Population To Support Savings And Investments

**Growth in earning population driven by growth in the age group of 25 – 59, increasing male/female ratio and addition of working women.**

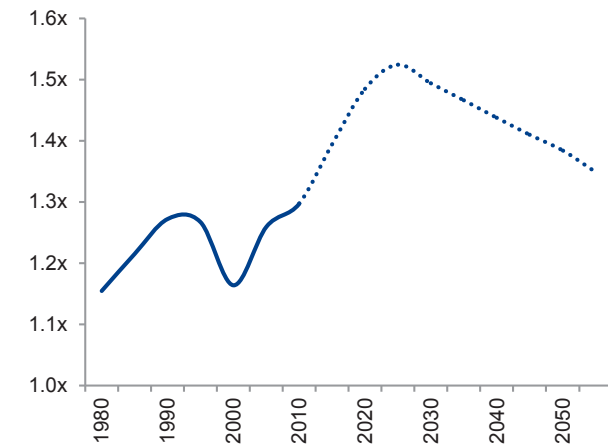
UN data shows the earning population (25–59) is expected to grow to 56% of the overall population in 2035 from 48% in 2010, indicating an incremental addition of 6.8mn people to the earning age group (25–59) in the next two decades.

However, since Saudi Arabia's earning population is largely skewed toward males the gender composition is likely to play a key role in the growth of the earning population. An increase in the male population due to improvements in the male/female ratio (male/female ratio at 1.3x in the last 10 years) and a gradual rise in the number of educated women (part of which would eventually be added to the earning population) would support growth in the earning population. Thus, we believe that an increase in the earning population would lead to higher savings and investments, benefiting the country's overall economic growth. We expect banks catering to private clients' wealth management, and retail deposits to benefit from this trend.

**Fig 10. Incremental addition of c.6.8mn people to the earning age group of 25–59 over 2010–35.**



**Fig 11. Rising male/female ratio**



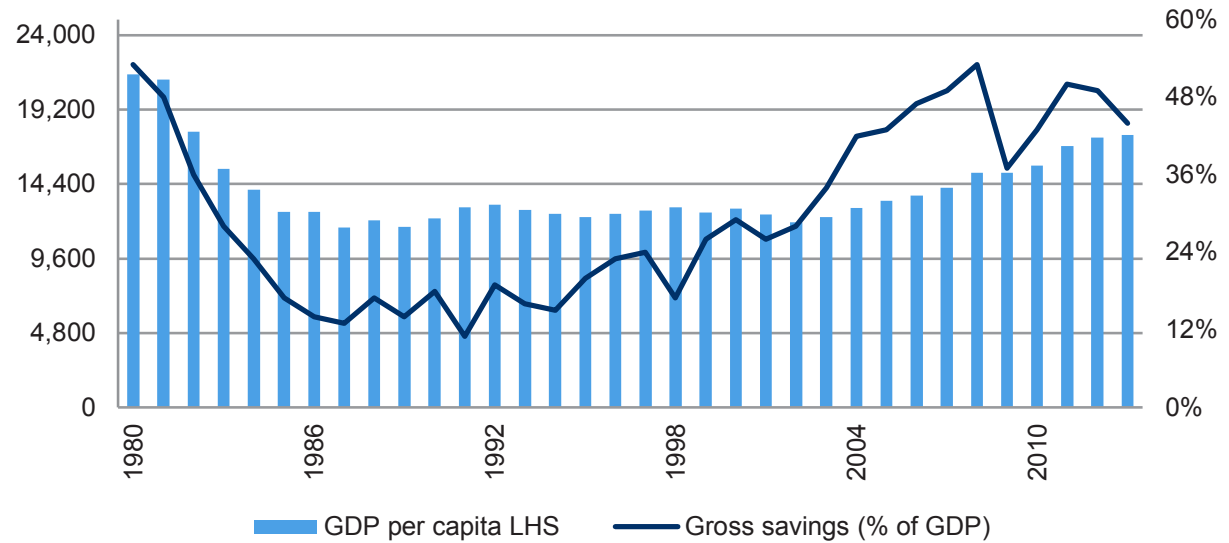
Source: United Nations, SAMA, Aranca research



**Increased savings have cushioned the country against recessionary shocks.**

Saudi Arabia's gross savings as a percentage of the GDP increased from 11% in 1991 to 44% in 2013. Increased savings have cushioned the country against recessionary shocks from low oil prices for a long period of time. We believe that further growth in the earning population would boost savings in the economy

**Fig 12. Gross savings has grown steadily since 1992**



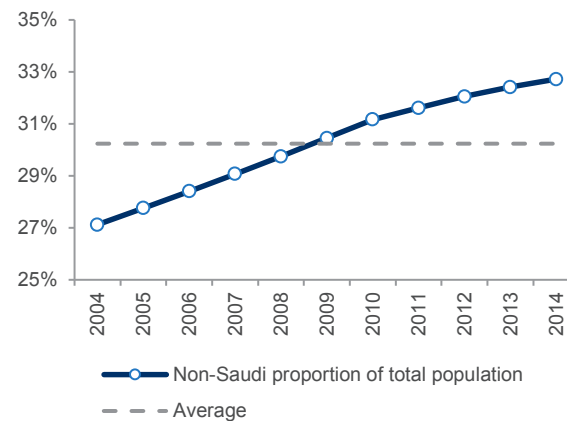
Source: World Bank, Aranca research

# International Migration To Further Support Consumption Growth

A higher disposable income from the migrant population would lead to growth in lifestyle products and entry of foreign brands.

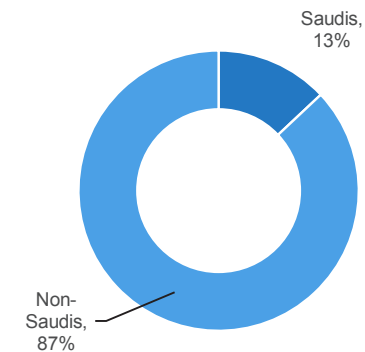
International migration is a structural feature of GCC economies. The proportion of the non-Saudi population has increased consistently, averaging 30% during 2004–14. Saudi Arabia is the fourth-largest country in terms of international migration. The bulk of this migration occurs from Asian countries. The country's rising migrant population is expected to support consumption growth. Additionally, a higher disposable income from the migrant population would lead to growth in lifestyle products and entry of foreign brands (both normal and luxury) in the Saudi market.

Fig 13. International migration on an uptrend



Source: United Nations, SAMA, Aranca research

Fig 14. Non-Saudis serve the private sector



Source: Ministry of Labor, Aranca Research

# Sectors Expected To Benefit From Changing Demographics

## Government policies to support private healthcare.

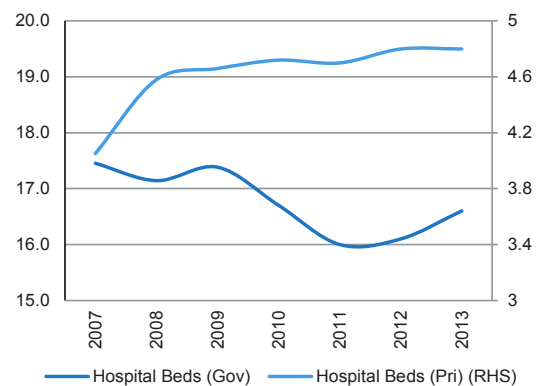
### Healthcare to benefit from rising government expenditure

Growth in the elderly population is likely to fuel demand for healthcare facilities in Saudi Arabia, as evident from the government's emphasis on investments in the sector. According to the UN data, the elderly population is expected to increase from 3% in 2010 to 10% in 2035. Furthermore, government spending on healthcare is expected to increase at a CAGR of 6.2% during 2014–18 to USD 48.3bn.

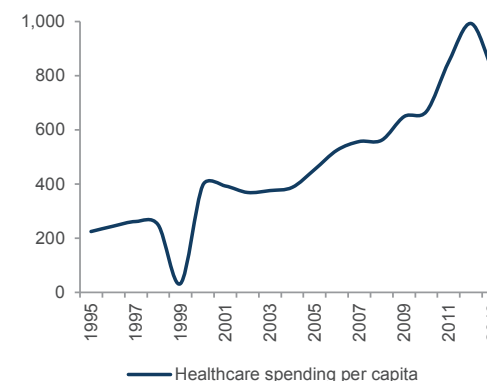
In 2012, the government accounted for 65.8% of the overall healthcare spending. To meet the rising demand for healthcare, the Saudi government allocated USD 28.8bn for health and social welfare in 2014, which includes funding for 11 new hospitals, 11 medical centers, and two medical complexes, in addition to 132 hospitals and healthcare centers under construction. Furthermore, the Ministry of Health plans to increase hospital capacity from 38,000 beds to 68,000 beds over the next five years.

While the government provides the majority of the existing healthcare facilities, there exists a sizable opportunity for private players due to the demand for high-quality healthcare from an increasingly urbanized population. Additionally, the government is promoting private healthcare through higher loan limits for building private hospitals, and support for public-private partnerships.

**Fig 15. Private hospitals driving addition to hospital beds (Per 1,000)**



**Fig 16. Rising per capita healthcare spending (USD)**



Source: United Nations, SAMA, Aranca research

## Sectors Expected To Benefit From Changing Demographics

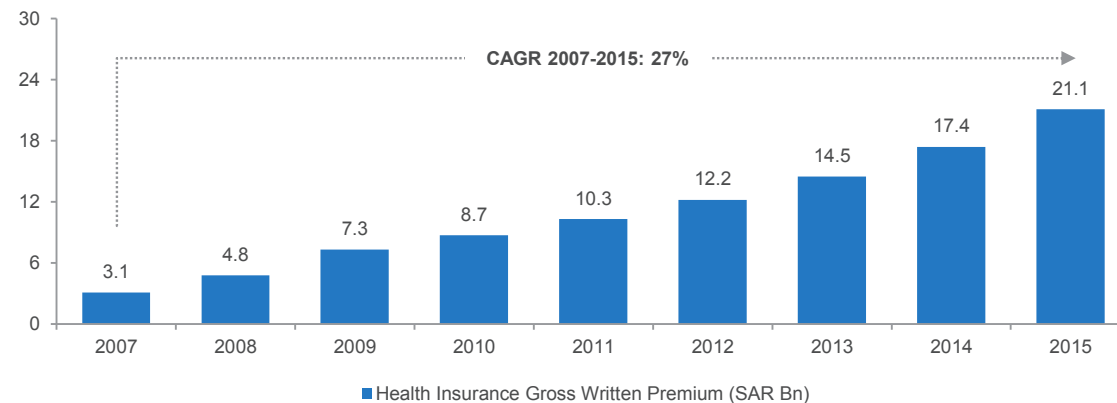
Ageing population and low insurance penetration to help Insurance industry.

### Insurance/Wealth management to get support from changing demographics

In light of the ongoing growth in the older population in Saudi Arabia, we believe that insurance, particularly healthcare insurance, would gain more traction in the coming years. As per Moody's, medical and healthcare dominate the insurance market in the Kingdom. Saudi Arabia's gross insurance premiums are expected to reach USD 21.1bn in 2015, increasing at CAGR of 27% from 2007. We believe there is a scalable opportunity available in the Kingdom, as the level of insurance penetration in the country is currently 1.1%, significantly below the levels in most advanced economies. Consequently, insurance industry in Saudi Arabia is well positioned to benefit from strong demographic trends (aging population) and regulations such as mandatory health coverage for all expatriates and Saudi nationals working for private companies.

A growing working-age population with rising income levels would boost savings, thereby benefiting wealth management

Fig 17. Consistent rise in health insurance premiums



Source: SAMA, Colliers International, Aranca research



## Sectors Expected To Benefit From Changing Demographics

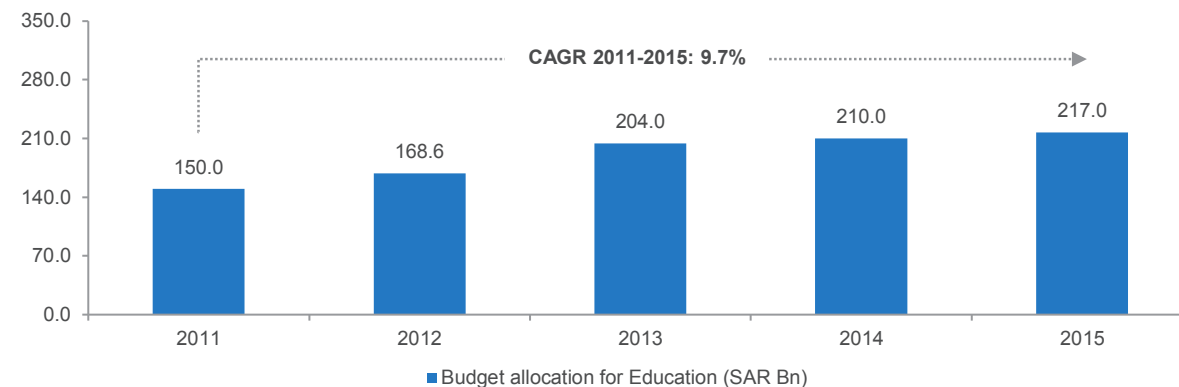
### Opportunity in private education space.

#### Education to benefit from rising government expenditure

Saudi Arabia's education market is estimated at USD 44.1bn (public USD 41.9bn and private USD 2.2bn), which accounts for 73% of the GCC education market (c.USD 60.5bn). The education sector in Saudi Arabia is expected to benefit from increased government spending and rising student population. Saudi Arabia is expected to lead the GCC region with the addition of 306,550 to the student population during 2010–15, compared with 64,923 for the UAE and 33,287 for Kuwait.

In Saudi Arabia, private gross enrollments increased at a CAGR of 4.7% to 0.9mn over 2007–13, while public enrollments increased at a CAGR of 2.6%. We believe the strong growth in private enrollments can be attributed to increasing private investments for constructing new schools and institutions with modern facilities, growing migrant population, rising income levels, and favorable changes in the perception toward private education. These favorable drivers pose a great potential for companies offering private education in Saudi Arabia.

**Fig 18. 9.7% CAGR increase in budget allocation for education during 2011-15**



Source: Ministry of Finance, Aranca research

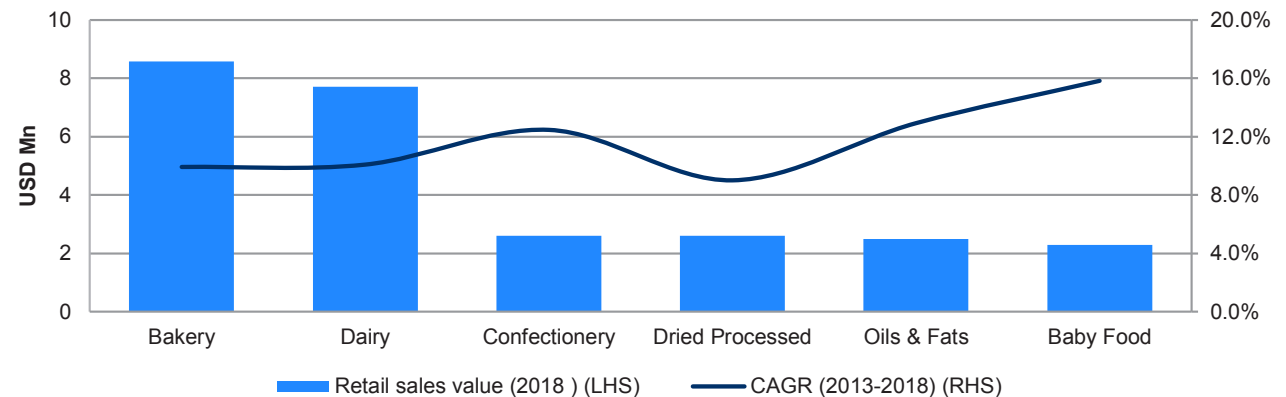
# Sectors Expected To Benefit From Changing Demographics

**Robust tourist inflow, migrant population and dietary consciousness to support packaged foods industry.**

## Packaged foods

In Saudi Arabia, packaged foods accounted for retail sales of USD 18.4bn in 2013, the second largest in the MENA region, followed by Iran. Retail sales are expected to reach USD 30.6bn during 2014–18 (CAGR of 10.5%). A high tourist inflow, significant migration of the expatriate population (non-Saudi), and a gradual increase in dietary awareness among the Saudi population are some key factors supporting the packaged foods industry in the Kingdom. Among the sub-segments in the industry, baby food, confectionary, and dairy are expected to outpace other segments. We believe that the companies offering these products are well positioned to capitalize on the growth opportunities in the packaged foods segment.

Fig 19. Sub segments of packaged foods industry



Source: Euromonitor International, Aranca research

Saudi Arabia is expected to witness demographic changes over the next couple of decades, resulting in multiple challenges. However, these changes could generate opportunities for several sectors/industries. The country's rising elderly population is expected to exert pressure on the government's healthcare spending. At the same time, the rising earning and consuming population groups are likely to drive growth in consumption, savings, and investments. After analyzing the demographic trends for different population subsets, we believe that sectors such as healthcare, education, insurance, wealth management, and packaged foods would be the key beneficiaries of emerging demographic trends in Saudi Arabia.



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