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Inflation & Unemployment

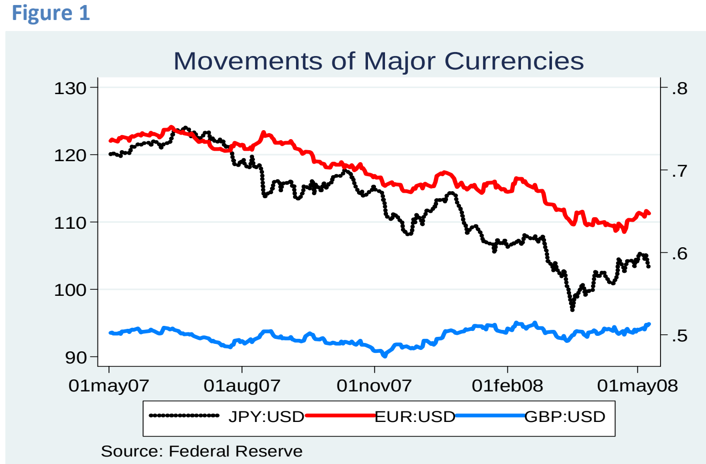
In recent years, the economy of Alberta, a western province of Canada, experienced a path of extremely scarce labor and came close to having to zero unemployment rates (reality is unemployment rates hovered around 2-3% but that is still considered very low). Alberta is rich in oil sands which are costly to recover but for which there is an insatiate oil and natural gas demand in the southern border of the country, i.e. in the United States of America. Billions upon billions of dollars were invested in the oil sands industry after oil prices started to justify extracting oil from the shallow and deep sands and rocks. But then a glitch occurred when Alberta was hit by the rising cost of all sorts of labor: engineers, refinery workers, heavy equipment operators, skilled and semi-skilled workers and so on. Waves upon waves of such workers had to be imported from oversees and in the process, bid-up wages to the extent that wage inflation turned into overall price inflation, most notably in the housing and rental markets. One reason for this is that pressures on wages in one industry soon get transmitted onto other industries. Another reason is that flows of imported labor create demand for goods and services into the host economy, bidding prices up. There is third reason and that is the so-called labor multiplier: imported labor needs additional labor to serve it! Alberta's fascinating path with labor shortages was so much so that the companies such as IBM, Petro- Canada and others would contract with Chinese, Arab or Indian engineers at lucrative wages and remuneration packages, 100K plus on average, and also work hard to finalize all their immigration papers with the government and finally fly happily them over. Soon after their arrival, the workers and their employers found out the generous pay, which was 4-6 times greater than what workers used to get in their own home countries, were not sufficient to enable them to own a piece of property in their "new homeland". Worse yet, many could not even find affordable dwelling as daily newspapers carried stories about people practically living in cars or in make shift homes waiting for the housing markets to cool-off so they could move into a decent dwelling.

Closer home, in our region, the conventional wisdom was that foreign workers were so much in abundant supply that the labor importing countries had to merely advertise one position to get 100 supply offers, the so-called unlimited foreign labor supply. Well not any more, at least not in certain skill categories, some construction companies in the GCC find it increasingly harder to find qualified workers and many face demands for higher pay. The real anomaly is however that most Arab economies have abundant workers that are idle: for instance the jobless youth of GCC attests to long-term structural problems; that is to say with the fabulous growth rates that have been achieved over the past few years, unemployment in Saudi Arabia, Oman and Bahrain, the three GCC countries facing the biggest pressure, hovers around 15% according to unofficial estimates[1]. The unemployment rate of the youth and fresh graduates is several-folds those of overall unemployment rates.

On the other hand, inflation has been rising in several countries. In Jordan it reached 10.8% during the first quarter of 2008(CBJ, April 08). In the historically-low inflation GCC economies, rising prices have caused governments to consider compensating contractors for the unexpected price increases (MEED, April-May 1, 2008). In Kuwait, the inflation rate inched up to 9.5%, despite the dollar-de-pegging and in fact prices of non-tradable commodities, such as housing, increased by 16% (OBG, May 9, 2008).

Global Developments

Figure 1



The Euro recovered from last week's slump after the European Central Bank kept interest rates unchanged, contrary to expectations. The US dollar further declined over the credit losses by American Insurance Group (AIG). The yen, on the other hand, recorded its biggest weekly gain against the euro since

[1] "**Beyond oil:** Reappraising the Gulf States", Kito de Boer and John M. Turner, McKinsey International, January 2007

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January with the low-yield, low-risk Japanese currency benefiting from the shrinking risk appetite of investors[2].

Table 1 Selected Commodity Prices

	Week ending 5/2/2008	Week ending 5/9/2008	Change
Oil WTI ($/bbl)	116.32	**125.97**	8.3%
Gold ($/oz)	853.50	**876**	2.6%
Natural Gas	10.480	**11.29**	7.7%

Source: WSJ

After last week's decline, commodities resurged as the Euro climbed against the dollar. Oil reached $126/bbl, recording an increase of 8.3% over the week while natural gas increased by 7.7%. Gold rose again after weeks of decline, as investors turned back to precious metals as a safe haven from markets' volatilities[3].

Table 2 Selected Market Indices

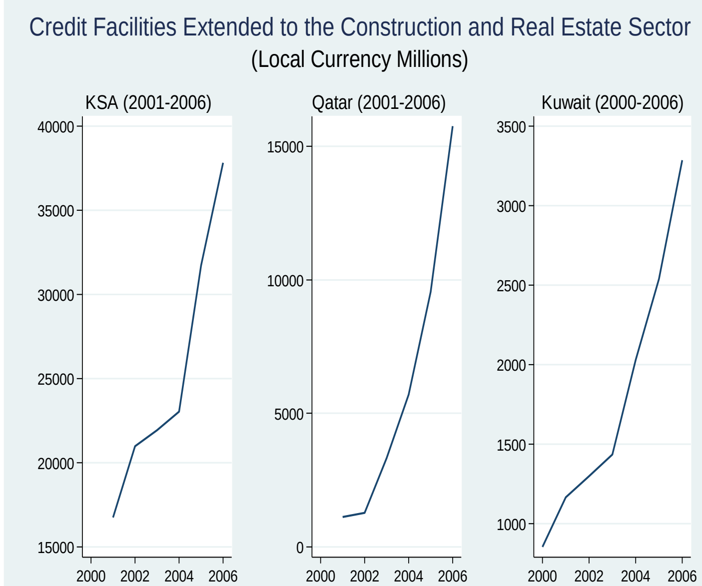
Index	Week ending 5/2/2008	Week ending 5/9/2008	Change
Jordan	8,712.00	**9247**	6.1%
KSA	10,066.16	**9771.85**	(2.9%)
Morocco	14,384.60	**14,470.19**	0.6%
S&P500	1,413.90	**1,388.28**	(1.8%)
NIKKEI	14,049.26	**13,655.34**	(2.8%)
FTSE100	6,215.50	**6,204.70**	(0.2%)

Sources: Bloomberg and Official Markets

World capital markets had a bearish week as subprime worries resurfaced with AIG announcing it needed to raise $12.5 billion to cover write-downs. Japanese stocks fell by 2.8% as Japan's biggest company by value, Toyota, forecasted lower profits for the first time in a decade.

In the MENA region, markets continue to move independently from global markets. The ASE had an impressive increase this week as the general index neared historic record levels. Market performance was varied in the GCC with the Saudi market falling below the 10,000 level as investors shied away from buying. In other news, Yemen is intending to open its first capital market in Sana'a[4].

Figure 2



Source: Resepective Central Banks

Did You Know?

- GCC exports have nearly tripled between 2002 and 2007. GCC imports on the other hand more than tripled from 80 to 272 billion USD during the same period (IFS).
- Recent GCC trade growth rates are probably highest in the world exceeding those of China and India For instance, in recent years Asian trade figures grew in the order of 20%, with higher rates in India than China.(WTO,2007: World Trade Report)
- The rising liquidity that is associated with such fabulous growth rates is feeding into the financial and real sectors and is contributing to inflationary pressures, as gleaned from the increase in credit allocated to the real estate sectors of the GCC, Figure 2 above.
- Jordan's trade volatility has increased after its accession to the WTO (AB Jordan Economic Review, forthcoming).

INFORMATION

AB Weekly Economic Monitor provides weekly review of information and regional development. The weekly is authored by Dr.Sulayman Al-Qudsi, Chief Economist, AB Plc. Jordan

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Research Department at AB, Jordan Headquarters.

[2] WSJ and others
[3] Bloomberg
[4] Bloomberg and Zawya