

Labour Market and Employment Landscape in 4Q2020

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Summary

This brief presents an overview, analysis and policy recommendations for the labour market based on the Quarterly Employment Survey (QES) conducted on formal private sector establishments, released in February 2021 by the Department of Statistics Malaysia (DOSM)¹. The QES encompasses major economic sectors such as Services, Mining and Quarrying, Manufacturing, Construction and Agriculture where information on labour market conditions by sector and category of skill are produced.

Key Highlights

- Total **jobs in the private sector declined year on year (YoY) by 2.4% representing 204,000 fewer jobs**, from 8.67 million in 4Q2019 to 8.46 million in 4Q2020. Meanwhile, there were 176,000 job vacancies in the labour market, representing a 2.1% vacancy rate.
- From the published statistics, all jobs across skill category were adversely affected. By job skill category, **unskilled jobs were the hardest hit, declining YoY by 3.5% or 40,000 jobs** from 1.15 million in 4Q2019 to 1.11 million in 4Q2020. This is followed by **semi-skilled jobs, declining 2.4% or 129,000 jobs** from 5.41 million jobs in 4Q2019 to 5.28 million in 4Q2020. Meanwhile, those in the **skilled category dropped 1.7% or 36,000 jobs** from 2.1 million to 2.06 million during the quarter.
- During the 4Q2020, **16,700 jobs were created**, dominantly by the manufacturing sector, with a share of 40.5%, the Services sector at 38.4%, Construction at 16.3%, Agriculture at 4.4% and Mining and Quarrying at 0.5%.
- The official **unemployment rate in 4Q2020 registered a YoY 1.5% increase from the prior year**, increasing from 3.3% to 4.8%, representing a YoY increase of 248,500 unemployed people, from 512,200 to 760,700.
- By age group, youths aged between 15-24 experienced a horrific increase in unemployment, increasing by 12.6% or 36,600 more unemployed young people between the first and last quarters of 2020. Meanwhile, the age group between 25-34 experienced the worst increase in unemployment, shooting up by 57.4% or 94,800 more unemployed individuals in that age group during the year.

Important Findings from Fourth Quarter Labour Market Statistics

As the COVID-19 crisis rages on, its impact on the labour market has become apparent. Malaysia currently faces one of the largest unemployment crises since the 1985 commodity crisis, where the unemployment rate reached highs of 8.1%.

Statistics from the 4Q2020 indicate a far higher level of unemployment than expected, as market observers expected a better employment scenario under a relaxing of the movement control order (MCO) in the 2H2020. However, DOSM data suggests that though the lifting of movement restrictions did manage to reduce unemployment, the official rate improved marginally, from 5.1% in 2Q2020 to 4.8% in 4Q2020, indicating that the job losses during the first half of the year have yet to recover to pre-pandemic levels.

The total labour force on the other hand had increased by 150,000 persons from 4Q2019 to 15.92 million people in 4Q2020, while the number of employed people had declined from 15.25 million to 15.16 million respectively,

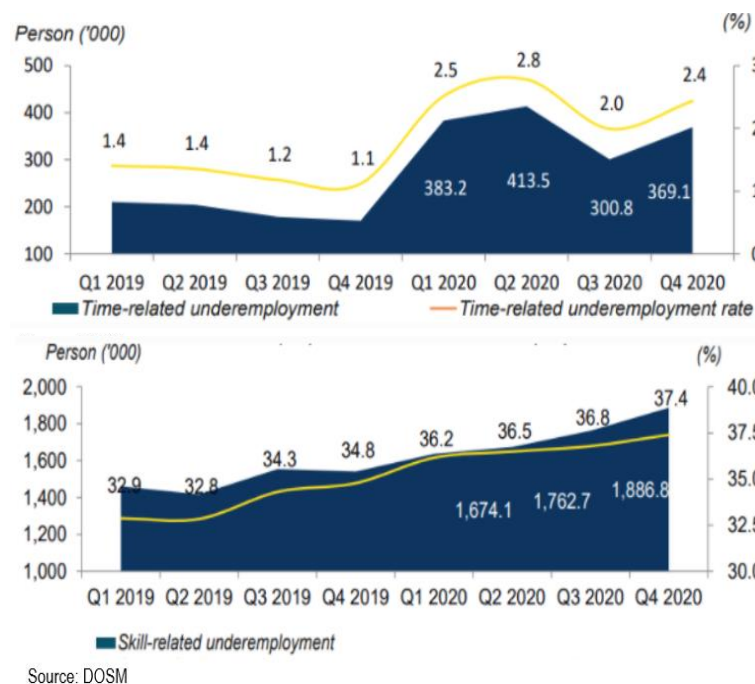
¹ Principal Statistics of Labour Force, Malaysia, Fourth Quarter (Q4) 2020, February 2021, DOSM

resulting in a disproportionately high level of unemployed persons relative to the total labour force of the two periods. This is evident from the overall increase in unemployment from 3.3% in 4Q2019 to 4.8% in 4Q2020.

Perhaps most interestingly, 4Q2020 showed a relatively large increase of individuals outside the labour force, increasing YoY from 7.07 million to 7.32 million, representing an increase of an estimated 250,000 people or a 3.5% increase from the 4Q2019. This indicates an increase in the number of people who have been left out of the labour force relative to the growth in population; among the reasons given by respondents, 42.5% cited schooling as the main reason, while 42.4% cited family responsibilities and housework, indicating a higher level of discouragement from actively seeking employment. This trend is further reflected in the overall labour force participation rate (LFPR), which fell significantly from 69.1% in the 4Q2019 to 68.5% in the 4Q2020.

The growing number of people outside the labour force should come as a worrying trend for government administrators and policymakers as it indicates a slowdown in GDP, income and spending growth. In addition, the lack of income and consequently, consumption-led growth can be seen in the sharp decrease in own account workers, such as petty traders and self-employed business people which declined from 16.8% of the total workforce in the 3Q2020 to 16.1% in the 4Q2020, indicating a gradual shift away from self-employment.

In addition, the incidence and severity of underemployment, a phenomenon often under-considered by Malaysian policymakers have worsened during the crisis, both in terms of time-related and skills-related underemployment. Under time-related underemployment, it considers employees who work less than 30 hours a week because of insufficient hours of work demanded and who were willing to accept additional hours of work.



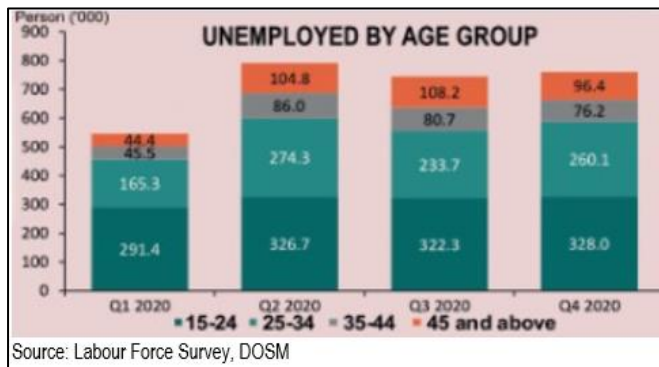
During the 4Q2020, the number of time-related employed persons who worked less than 30 hours a week increased by 68,300 to 369,100 persons from 3Q2020, making up 2.4% of the entire employed workforce. However, this was a relative improvement from the highs of 413,500 underemployed people during the 2Q2020 as seen in the chart shown.

Meanwhile, its skill-related counterpart was measured based on those with tertiary education working in the semi-skilled and unskilled category of work.

In the 4Q2020, skill-related underemployment increased further to 1.89 million people from 1.76 million, comprising 37.4% of the total labour force and reaching record new highs.

This statistic moreover demonstrates the seriousness of depth in underemployment, which indicates lost economic potential as qualified individuals are passed off from professions that best suit the skills they have acquired through tertiary education, causing a slowdown in overall national productivity.

Importantly, youth unemployment will become an increasing concern for policymakers, as youth unemployment statistics soar. The number of young people aged 15-24 experienced a high rate of increase between the first and fourth quarters of 2020, increasing by 12.5% or 36,000 during the period, while the number of unemployed people aged 25-34 increased 57.3% or 94,800.



Individuals aged over 35 on the other hand collectively likewise experienced a high level of unemployment growth, growing by 82,700 people, with the number of unemployed people aged over 45 more than doubling to 96,400 people.

In terms of percentage share, the latest 4Q2020 data shows that 43.1% of all unemployed people belonged to the lowest age group of 15-24, this is followed by the 25-34 age group with a 34.2%

share. Meanwhile the 35-44 age group made up slightly over 10% of total unemployed persons and unemployed people over 45 made up 12.7% of all unemployed people.

This is corollary to the national MCO imposed in the 2Q2020, where the worst-hit sectors of the economy include the food and beverage (F&B) and retail subsectors of the economy, which experienced an estimated 13.3% and 6.1% contraction respectively in 2020. These sectors employ a disproportionately large proportion of young and entry-level workers. In addition, as companies start to cut staffing costs to maintain fiscal operations, entry-level workers are likely to be the first to be retrenched.

Policy Actions to Safeguard Malaysian Workers

The statistics released by the DOSM revealed dire levels of unemployment and requires decisive action by the government to alleviate the pressure in the near and medium term as well as working towards increasing economic productivity for the long-term as many young people find themselves idle and out of work.

1. Expand and Deepen Existing Unemployment Benefits

Data from the DOSM suggests that pandemic-induced unemployment may persist into the long-term, especially as the number of jobs being created continue to supersede the loss in the number of available jobs, creating a lasting issue of sluggish employment growth, especially for youth workers as entry-level vacancies become scarcer.

Therefore, policymakers should consider a **temporary increase in current provisions under the Employment Insurance Scheme (EIS) and Job Search Allowance (JSA)**, this may help mitigate the worst impact of job losses on individual workers. These benefits should be **increased from the current 6-month limit for the receipt of unemployment benefits to a year**, benefiting over half a million unemployed Malaysians. The reasoning here is that since the pandemic has severely depressed the labour market, job growth is suffering its worst performance in years, therefore the natural consequence is that Malaysians are remaining unemployed for longer periods of time.

Already, the number of Malaysians who are unable to find new work after six months of unemployment has increased, as the share of workers in that category grew to 24.7% or roughly one in four unemployed people in December 2020. Therefore, policymakers need to take this increase into account and temporarily allow actively unemployed people more time and financial buffer to ride out the storm before their timed benefits run out.

These temporary **benefits should also be expanded to cover self-employed and own account worker individuals** (as we have previously suggested in prior issues) to close the large vulnerability gap for independent workers who have been hit particularly hard by the pandemic. This is particularly reflected in the relative decrease in the share of self-employed workers among the total labour force.

2. *Stimulating Bottom-Up Economic Growth through Supporting SMEs and Microenterprises*

The government should aim to boost aggregate demand among private consumers hence tightening labour market supply in order to maintain a reasonable level of full-time employment. Statistics show that the **largest group by skill category to lose their jobs during the pandemic were primarily from the unskilled worker group**, losing up to 40,000 jobs while a total of one thousand unskilled jobs were created. It is worthwhile to understand here that unskilled work is highly sensitive on the cyclical nature of the labour market, or in other words, the expansion of unskilled jobs follows the overall trend cycle of the economy.

In this effort, the government must aim to **expand current fiscal stimulus aimed at the bottom and most final consumer**, particularly if macroeconomic conditions and labour market indicators continue to worsen in the following months. Therefore, there are several avenues of spending that the government can consider to continue growing the bottom-up economy. Firstly, a continued **focus on rural infrastructure spending** is necessary in order to raise rural incomes and long-term connectivity and productivity in the face of non-short-term unemployment. This should act as a continuation of and adding onto the RM4bil small-scale projects presented in the PRIHATIN stimulus packages and the RM2.7bil allocation for rural infrastructure in the 2021 budget².

Secondly, the government should focus on **plugging the gaps in the special PRIHATIN micro-enterprise grant program, or Geran Khas PRIHATIN (GKP)**. This is due to the fact that SMEs -microenterprises in particular- have experienced a high rate of closure since the beginning of the crisis in the 2Q2020, with the SME association noting that 20% of surveyed businesses are considering permanent closure of operations within the year and a majority citing issues with going concern if the situation fails to improve³.

In addition, recent surveys have noted that **a majority of micro-enterprises have not received any government assistance despite applying for the GKP**⁴. Therefore, extending the registration timeline as well as increasing the size of grants to micro-enterprises will help the coverage of small businesses survive the crisis and reduce the numerous economic and social costs of small business closures.

3. *Continuing Existing Cash Transfer Programs to Households*

The current 2020-2021 Bantuan Prihatin Nasional (BPN) supplementary cash aid program has shown to greatly benefit millions of Malaysian households throughout the country while the latest 2021 Bantuan Prihatin Rakyat (BPR) program, the successor to the Bantuan Sara Hidup (BSH) government cash transfer programs represent a slight improvement in terms of the overall size of the benefits given.

However, since the new program builds upon the prior social infrastructure and mechanisms inherited from BSH, policymakers need to focus on mending pre-existing weaknesses⁵ in current cash transfer programs to maximize both short and long-term benefits from these programs. These reforms include **increasing the size of cash transfers** as well as **targeting eligibility through assessing household income** relative to the number of children that households possess. Similarly, increasing efforts to **reduce program bureaucracy** and **making it easier for people to apply and receive cash aid** would reduce the number of people that fall through the cracks of program coverage.

² Budget 2021: RM15 billion allocated for key transport infrastructure projects, November 2020, The Edge Markets

³ 25% of SMEs face closure risk amid new wave of Covid-19, October 2020, The Edge Markets

⁴ Covid-19 forces closure of 32,000 SMEs, November 2020, SME Asia

⁵ Bantuan Sara Hidup: Design Considerations for Cash Transfer Programming, Calvin Cheng, August 2019, ISIS