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# ECONOMICS

**In this report:**

**Malaysia – Pressure on job creation remains high**

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## Malaysia

### Pressure on job creation remains high

The labour market is benefiting from the relaxation of restrictive measures that has lifted business activities in 3Q2020. Incoming economic data is supporting the trend. The most recent being the industrial production (IP) data. In September, the IP rose by 1% y/y which is the fastest expansion since July, underpinned by manufacturing.

On that note, the unemployment rate in September eased slightly to 4.6% from 4.7% in August – the lowest in five months. But there were fewer jobs created during the month, coming in at 39.6K (August: 80.1K). The slack could have been absorbed by those under the own-account workers category. This could mean that given the growing challenges in getting jobs, more are focusing on self-employment as a means to make ends meet.

While 3Q2020 should witness an improving economy with the GDP during this quarter expected show a slower contraction of between -2% and -3%, pressure would emerge in 4Q2020 as a result of restrictive measures following the rise in the numbers of new Covid-19 cases. And this is likely to add pressure on job creation. Using the official unemployment rate statistics, the unemployment rate should hover around 4.7%–4.9% in 2020.

- In tandem with the improving business activities and consumer confidence following the relaxation of the restrictive movements, the labour market is seeing the spillover effect.
- This is reflected by the continued improvement of the industrial production (IP) data. In September, the IP rose by 1% y/y which is the fastest expansion since July this year from 0.2% y/y in August. It was largely supported by manufacturing (4.3% y/y,) offsetting the weak mining (-9.6% y/y) and electricity (-2.1% y/y) data.
- Manufacturing continued to be underpinned by exports and domestic activities. The E&E segment (9.8%) is seen benefitting from the pick-up in global semiconductor sales. At the same time, manufacturing is supported by domestic activities such as transport equipment and other manufacturers (4.5%), food, beverages and tobacco (4.9%), petroleum and chemical product (3.2%) as well as furniture and wood products (2.3%).
- On that note, the unemployment rate in September eased slightly to 4.6% from 4.7% in August – the lowest in five months.

- Despite evidence of improving business activities and lower unemployment, there were fewer jobs created during the month, coming in at 39.6K (August: 80.1K). The slack in labour market could have been absorbed by those who fall under the own-account workers category. This segment showed a continued rise in employment to 2.43mil from 2.42mil in September.
- This could mean that given the growing challenges in getting jobs, more are focusing on self-employment as a means to make ends meet. And this probably explains the drop in the number of those temporarily not working to 100.7K in September from 102K in August and youth unemployment (aged 15 to 30 years) to 13% from 13.7% in August.
- While 3Q2020 should witness an improving economy, with the GDP during this quarter expected to show a slower contraction of between -2% and -3%, pressure would emerge in 4Q2020 as a result of restrictive measures following the rise in the numbers of new Covid-19 cases. And this is likely to add pressure on job creation. Using the official unemployment rate statistics, the unemployment rate should hover around 4.7%–4.9% in 2020.

**Table 1: Key Labour data**

	Sep'19	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Net Employed (K)	44.1	35.7	49.4	-29.0	31.6	26.9	-112.1	299.0	-45.5	102.3	83.2	80.1	39.6
Net Unemployed (K)	1.2	-9.3	1.8	3.1	-5.3	13.5	85.3	168.3	47.3	-52.9	-28.1	-3.5	-4.1
Unemployment Rate (%)	3.3	3.3	3.3	3.3	3.2	3.3	3.9	5.0	5.3	4.9	4.7	4.7	4.6
LFPR (%)	68.8	68.7	68.8	68.9	68.9	68.7	68.6	68.1	68.0	68.1	68.1	68.4	68.4
Temporarily Not Working (K)	na	na	na	na	na	na	na	na	na	768.0	104.3	102.0	100.7

Source: CEIC/AmBank Research

**Table 2: Key Industrial Production Data (%)**

	Sep'19	Oct	Nov	Dec	Jan'20	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
IP m/m	-0.3	3.3	-1.0	0.7	0.6	-6.7	-0.2	-30.5	18.9	26.3	1.3	-1.3	0.5
IP y/y	1.5	0.1	2.1	1.3	0.6	6.2	-4.9	-32.0	-21.6	-0.4	1.2	0.2	1.0
Mfg m/m	0.1	2.0	-2.6	1.2	0.4	-6.6	-1.0	-35.8	26.9	37.0	0.2	-2.1	2.1
Mfg y/y	2.5	2.3	2.7	3.4	2.2	6.2	-4.1	-37.2	-22.6	4.7	2.9	2.2	4.3
Mining m/m	-1.0	8.8	4.9	-0.9	0.8	-7.5	2.6	-19.1	0.4	2.4	4.4	0.3	-4.1
Mining y/y	-2.6	-6.9	0.5	-4.9	-3.9	6.1	-6.5	-19.6	-22.2	-17.1	-3.0	-6.7	-9.6
Electricity m/m	-2.7	0.9	-2.8	0.5	2.4	-4.5	-0.8	-13.3	13.8	0.2	4.2	3.0	-3.7
Electricity y/y	4.1	0.5	1.6	0.9	0.0	6.8	-7.0	-19.3	-10.3	-2.4	-5.0	-1.1	-2.1
Mfg Salesm/m	0.2	2.1	-1.7	1.5	-1.0	-5.7	-1.0	-31.2	18.1	30.5	2.0	-0.6	2.3
Mfg Sales y/y	2.9	2.4	2.5	3.9	2.4	7.6	-3.0	-33.0	-20.4	4.2	1.9	1.6	3.7

Source: CEIC/AmBank Research

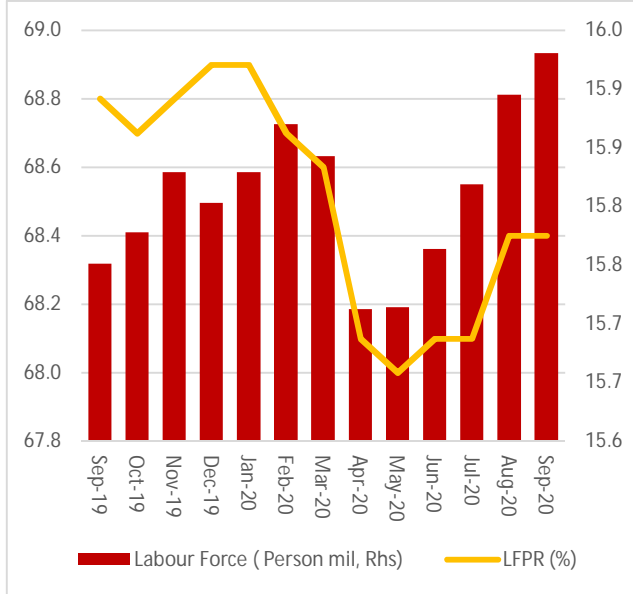


Table 3: Budget 2021 Incentives – Labour Market

Incentives to encourage job creation activity	Allocation (RM' mil)
<ul style="list-style-type: none"> <li>Job Search Allowance will be extended by 3 months and the rate will be 80% in the first month, 50% for the 2nd to 6th month and 30% for the last three months. Beneficiaries = 130K people</li> </ul>	150
<ul style="list-style-type: none"> <li>Income tax exemption limit for compensation for loss of employment be increased from RM10K to RM20K</li> </ul>	
<ul style="list-style-type: none"> <li>Skim Jaminan Penjanaan Pekerjaan (JanaKerja), which will provide 500 thousand new job opportunities including skills development and retraining programmes</li> </ul>	3,700
<ul style="list-style-type: none"> <li>PenjanaKerjaya incentives to benefit 200K jobseekers           <ul style="list-style-type: none"> <li>Incentive for employees earning <math>\geq</math> RM1,500 will be enhanced from a RM800/month to 40% of monthly income - max RM4,000</li> <li>Incentives for the disabled, long –term unemployed, and retrenched workers, employers will be given an additional incentive equivalent to 20% of the employee's monthly income making the total incentive to employers' amount to 60%</li> <li>Sectors with a high reliance on foreign workers i.e. construction &amp; plantations, a special incentive of 60% of monthly wages will be provided whereby 40% will be channelled to the employer while 20% will be channelled as a wage top up to the local worker replacing the foreign worker</li> <li>For those under the PenjanaKerjaya, the max training rate which can be claimed by employers will be increased from RM4,000 to RM7,000 to enable workers to take up high skilled training and professional certifications</li> </ul> </li> </ul>	2,000
<ul style="list-style-type: none"> <li>Formation of a National Employment Council - will be chaired by YAB Prime Minister</li> </ul>	
<ul style="list-style-type: none"> <li>Reskilling and upskilling programme. Beneficiaries = 200K trainees           <ul style="list-style-type: none"> <li>RM150 mil will be allocated for the Ministry of Higher Education professional certification (KPT-PACE) whereby fresh graduates will each be eligible for a voucher worth RM3,000 to pursue a professional certification course at public or private universities. Beneficiaries = 50K graduates</li> <li>RM100 mil to the Human Resources Development Fund (HRDF) to implement trainings in collaboration with private-sector employers</li> <li>RM100 mil ringgit to MDEC to transition existing workforce to fill the growing needs in the ICT industry</li> <li>RM100 mil to regional corridor authorities, mainly IRDA and SEDIA to provide new skills training to workers badly affected by the closure of borders to foreign tourists, in order to assist them in securing new employment or source of income</li> <li>RM30 mil to PERHEBAT for entrepreneurship training programmes that will benefit 12 thousand veterans of the Malaysian Armed Forces</li> </ul> </li> </ul>	1,000
<ul style="list-style-type: none"> <li>MySTEP/Short-term Employment Programme. Beneficiaries = 50K on a contract basis in the public sector and Government Linked Companies (GLC) starting January 2021           <ul style="list-style-type: none"> <li>35K job opportunities will be offered in the public sector, with priority to fill up positions such as nurses, medical attendants, social welfare officers and temporary teachers</li> </ul> </li> </ul>	$\geq$ RM700
<ul style="list-style-type: none"> <li>Targeted Wage Subsidy for 3 months, specifically for tourism and retail sector. RM600/month for workers earning <math>\leq</math> RM4,000. Application limit will be increased to 500 employees/company from 200. Beneficiaries = 70K employers &amp; 900K employees.</li> </ul>	15,000
<ul style="list-style-type: none"> <li>Incentive of RM1,000/month for up to 3 months to private employers for each new graduate who participates in the apprenticeship programme. Employers can also claim a grant of up to RM4,000 for training programmes. Beneficiaries = 50K new graduates</li> </ul>	250
<ul style="list-style-type: none"> <li>Training and placements for 8,000 employees of airline companies</li> </ul>	50
<ul style="list-style-type: none"> <li>Employment opportunities for 500 people in the local and Orang Asli communities as tour guides at all national parks to boost the ecotourism segment</li> </ul>	
<ul style="list-style-type: none"> <li>Exemption from the HRDF levies will be given for 6 months effective 1 January 2021. The exemption will cover the tourism sector and companies affected by the COVID-19 crisis.</li> </ul>	

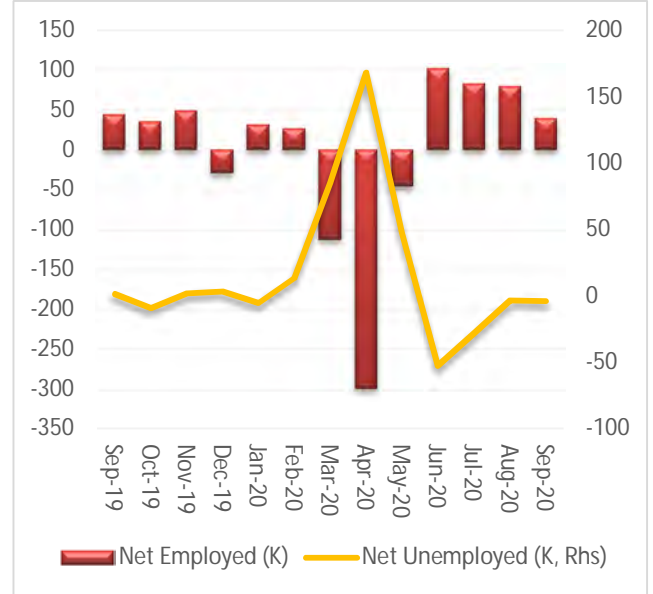
Source: MOF/AmBank Research

**Chart 1: LFPR (%) and Labour Force (person, K)**



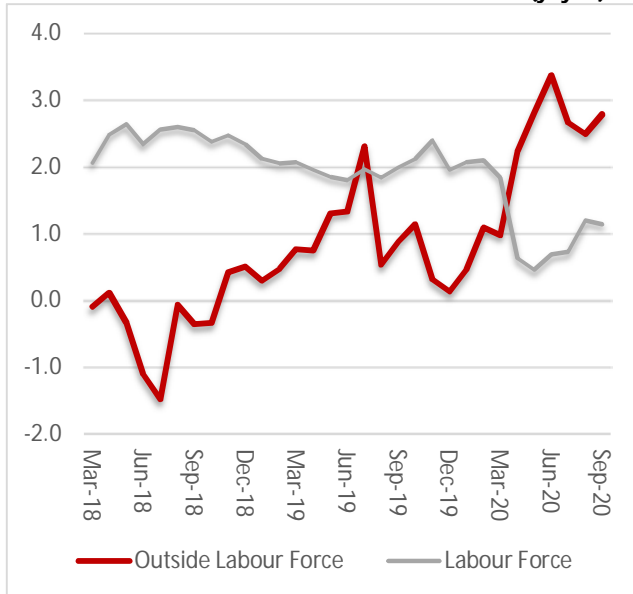
Source: CEIC/AmBank Research

**Chart 2: Net Employed & Net Unemployed Chg (person, K)**



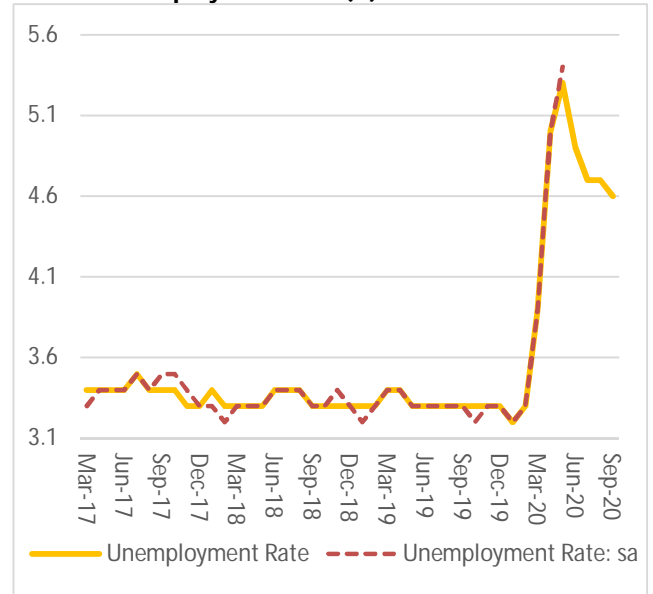
Source: CEIC/AmBank Research

**Chart 3: Labour Force vs. Outside Labour Force (y/y %)**



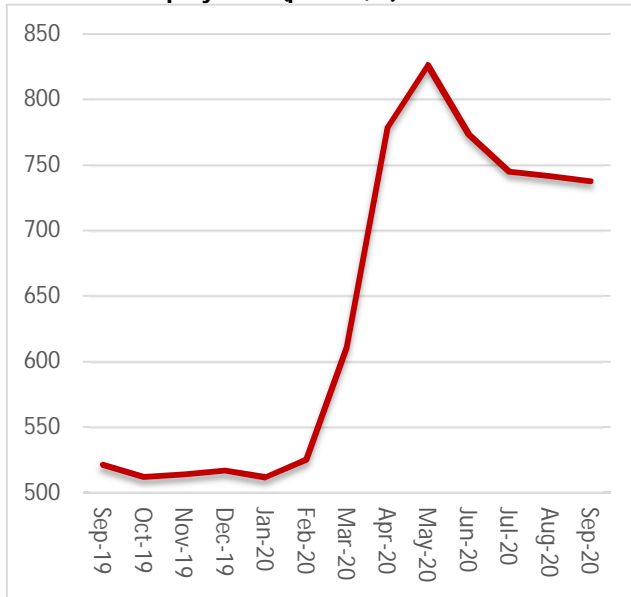
Source: CEIC/AmBank Research

**Chart 4: Unemployment Rate (%)**



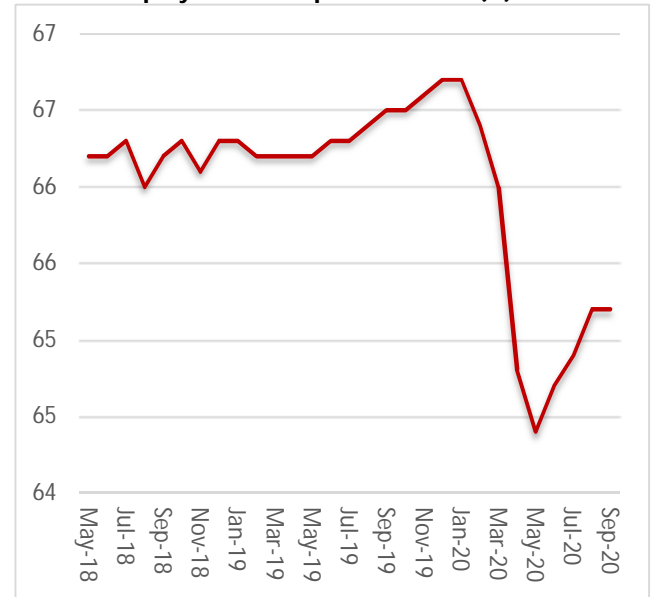
Source: CEIC/AmBank Research

**Chart 5: Unemployment (person, K)**



Source: CEIC/AmBank Research

**Chart 6: Employment to Population Ratio (%)**



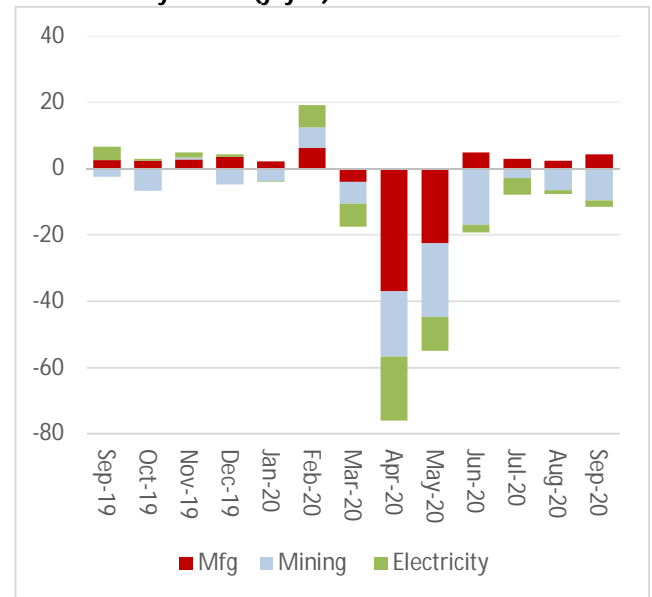
Source: DOSM/AmBank Research

**Chart 7: Industrial Production Index (y/y %)**



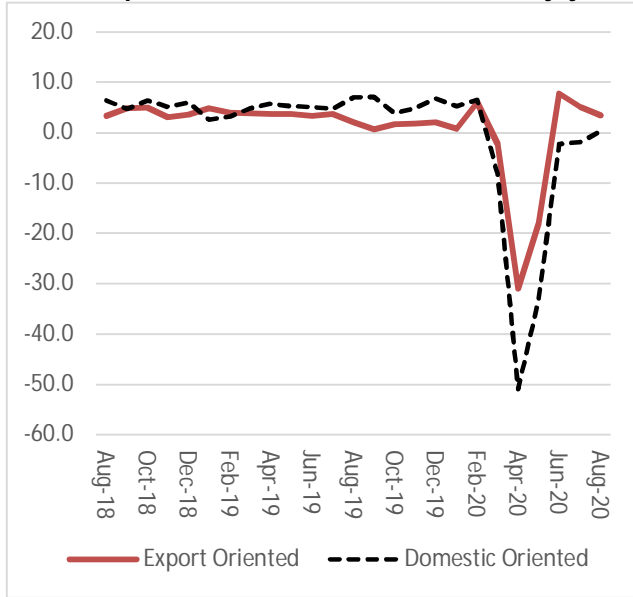
Source: CEIC/AmBank Research

**Chart 8: IPI by Sector (y/y %)**



Source: CEIC/AmBank Research

**Chart 9: Export & Domestic-Oriented Industries (y/y %)**



Source: CEIC/AmBank Research

**Chart 10: Manufacturing Sales (y/y %)**



Source: CEIC/AmBank Research

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