

## ECONOMIC REVIEW | 2016 Salaries & Wages

### Stable Labor Market Promotes Wage Growth

- Wage growth registered at 6.4% in 2016. Malaysia's median wage grew by 6.4% to RM1,703 last year. The wage growth continues to record above 5% for two consecutive years. Despite of slowdown in economic growth last year, the wage growth remains solid.
- New minimum wage is a booster for wage growth. In 2016, a new set of minimum wage was introduced for Peninsular Malaysia as well as Sabah and Sarawak. RM1,000 per month for Peninsular Malaysia and RM920 per month for Sabah and Sarawak. Thanks to the new rule, wage growth for all states in Malaysia increased last year at a range of 2.6% to 14.5%.
- Wage growth to reach 6.5% in 2017 amid expected-strong inflationary pressure. We expect inflation to average at 4.5% in 2017 which is mainly driven by cost-push factors. In spite of this, we opine wage growth to reach 6.5% with improve and stable labour market in 2017.

**Wage growth registered at 6.4% in 2016.** Malaysia's median wage grew by 6.4% to RM1,703 last year. The wage growth continues to record above 5% for two consecutive years. Despite of slowdown in economic growth last year, the wage growth remains solid. This was due to the introduction of new minimum wage, gradual pick up in the overall economy since second half of 2016 and strengthening domestic demand. Moving forward, we foresee wage growth to stay on course registering above 5% given upbeat outlook for 2017.

**Low income leads to high-perceived cost of living.** Many perceived inflation is the main reason for the high cost of living in Malaysia. In reality, low income level is the main challenge for the Malaysian consumers in coping with current high cost of living. For the past 6 years, inflation rate was hovering in the range of 1.7% to 3.2%. In 2011 and 2014, real wage recorded negative growth of -1.6%yoy and -3.1%yoy respectively. This was mainly due to modest growth in nominal wage for the respective years.

**Table 1: Malaysia – Summary of Salaries & Wages Growth (%)**

	2011	2012	2013	2014	2015	2016
Median (RM)	1,320	1,450	1,500	1,500	1,600	1,703
Nominal Growth	1.5	9.8	3.4	0.0	6.7	6.4
Inflation Rate	3.2	1.7	2.1	3.1	2.1	2.1
Real Growth	-1.6	8.2	1.3	-3.1	4.6	4.3

Source: DOSM; MIDFR

**Mining & Quarrying got burnt.** In 2016, mining & quarrying sector registered lower wage growth of 1.4%yoy as compared to previous years. The impact of low global commodities prices takes a hit on wage growth. Production scaled-down in the industry impacted labour requirement hence put a pressure on wage growth. Nevertheless, wage for mining & quarrying sector remain the highest at RM3,650 in 2016. We are expecting a recovery for the sector in 2017 amid stable crude prices which will translate to better wage growth.

**Positive economic outlook could translate into higher wage growth.** Wage growth in manufacturing sector expanded by 6.7%yoy in 2016. As for services sector, wage growth went up by 8.4%yoy. Firmer wage growth in certain sub-sectors such as utilities, wholesale & retail trade activities and transportation & storage activities contributed towards the steady wage growth in overall services sector. Moving forward, we expect wage growth for manufacturing and services sectors to perform better than 2016 given that economic indicators of domestic and global economic activities are showing signs of sustained recovery.

**Table 2: Wage Growth by Sectors (%)**

	2011	2012	2013	2014	2015	2016
Agriculture, Forestry & Fishing	10.3	5.7	10.3	8.9	7.1	14.3
Mining & Quarrying	-12.0	4.5	1.7	41.0	9.1	1.4
Manufacturing	9.1	0.8	7.4	15.4	0.0	6.7
Construction	0.0	0.0	8.3	1.5	9.1	8.3
Services	1.6	1.4	11.4	7.4	4.2	8.4

Source: DOSM; MIDFR

**Table 3: Wage Level by Sectors (RM)**

	2010	2011	2012	2013	2014	2015	2016
Agriculture, Forestry & Fishing	700	772	816	900	980	1,050	1,200
Mining & Quarrying	2,500	2,200	2,300	2,340	3,300	3,600	3,650
Manufacturing	1,100	1,200	1,210	1,300	1,500	1,500	1,600
Construction	1,200	1,200	1,200	1,300	1,320	1,440	1,560
Services	1,736	1,763	1,788	1,991	2,139	2,228	2,415

Source: DOSM; MIDFR

**New minimum wage is a booster for wage growth.** In 2016, a new set of minimum wage was introduced for Peninsular Malaysia as well as Sabah and Sarawak. RM1,000 per month for Peninsular Malaysia and RM920 per month for Sabah and Sarawak. Thanks to the new rule, wage growth for all states in Malaysia increased last year at a range of 2.6% to 14.5%. In addition, there are three states that recorded double digit growth last year namely Kedah, Kuala Lumpur and Sabah. Wage growth in Kedah rose to 14.5% while Kuala Lumpur jumped from zero growth to 13.6%. Sabah's wage growth continues expanding at double digits for four consecutive years.

**Table 4: Wage Growth by States (%)**

	2011	2012	2013	2014	2015	2016
Johor	7.7	7.1	0.8	19.0	5.6	2.6
Kedah	0.0	6.8	12.4	7.5	1.6	14.5
Kelantan	0.0	0.0	0.0	4.0	15.4	4.2
Kuala Lumpur	5.6	2.6	5.1	7.3	0.0	13.6
Melaka	5.0	7.1	11.1	0.0	6.7	5.0
Negeri Sembilan	2.1	-0.3	10.5	4.4	9.1	3.9
Pahang	5.0	-2.8	7.8	13.6	0.0	6.7
Penang	-1.8	8.7	0.0	13.3	0.0	5.9
Perak	-4.2	4.3	0.0	8.3	15.4	8.7
Perlis	2.1	-12.5	-4.8	35.0	10.7	9.0
Sabah	0.0	6.7	12.5	11.1	10.0	12.7
Sarawak	5.3	10.0	9.1	0.0	5.0	7.1
Selangor	-5.9	12.5	5.0	5.8	8.7	8.6
Terengganu	-8.3	4.5	-4.3	9.1	16.7	7.1

Source: DOSM; MIDFR

**Table 5: Wage Level by States (RM)**

	2010	2011	2012	2013	2014	2015	2016
Johor	1,300	1,400	1,500	1,512	1,800	1,900	1,950
Kedah	1,000	1,000	1,068	1,200	1,290	1,310	1,500
Kelantan	1,000	1,000	1,000	1,000	1,040	1,200	1,250
Kuala Lumpur	1,800	1,900	1,950	2,050	2,200	2,200	2,500
Melaka	1,200	1,260	1,350	1,500	1,500	1,600	1,680
Negeri Sembilan	1,404	1,434	1,430	1,580	1,650	1,800	1,870
Pahang	1,200	1,260	1,225	1,320	1,500	1,500	1,600
Penang	1,405	1,380	1,500	1,500	1,700	1,700	1,800
Perak	1,200	1,150	1,200	1,200	1,300	1,500	1,630
Perlis	1,175	1,200	1,050	1,000	1,350	1,495	1,630
Sabah	750	750	800	900	1,000	1,100	1,240
Sarawak	950	1,000	1,100	1,200	1,200	1,260	1,350
Selangor	1,700	1,600	1,800	1,890	2,000	2,175	2,362
Terengganu	1,200	1,100	1,150	1,100	1,200	1,400	1,500


Source: DOSM; MIDFR

**Indonesia registered the highest wage growth.** Wage growth in Indonesia skyrocketed to 22.9% in 2016. Among Asean economies, Thailand's wage growth saw a downward trend whereas Malaysia and Singapore's wages remains growing at healthy pace. Among developed economies, wage growth in the US was among the highest at 2.5% in 2016. This is in line with the strengthening of US labour market and gradual recovery in the economy.

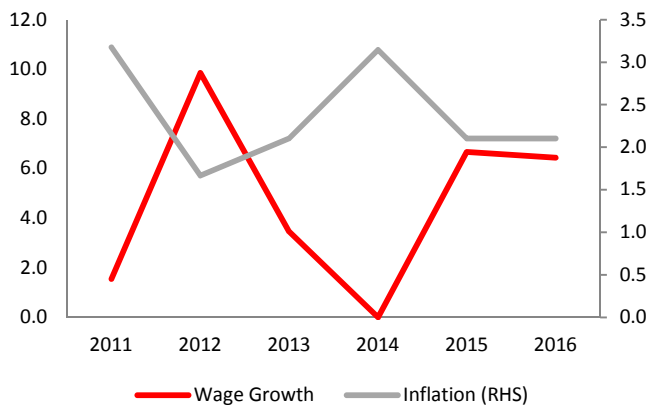
**Table 6: Global Wage Growth (%)**

	2011	2012	2013	2014	2015	2016
Malaysia	1.5	9.8	3.4	0.0	6.7	6.4
Indonesia	11.3	7.7	16.1	4.0	6.5	22.9
Singapore	6.0	2.3	4.3	2.3	3.5	3.7
Thailand	8.0	11.9	7.9	9.7	1.8	1.7
Japan	-0.2	-0.8	-0.4	0.4	0.1	0.5
EU	2.0	1.8	1.3	1.4	2.3	1.7
United States	2.0	1.5	2.1	2.3	2.1	2.5

Source: CEIC; MIDFR

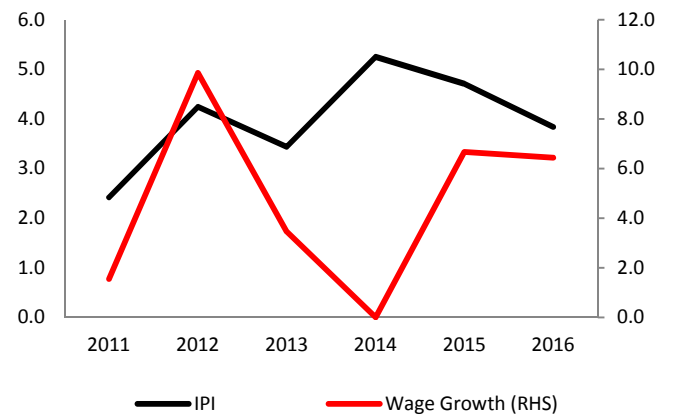
**Wage growth to reach 6.5% in 2017 amid expected-strong inflationary pressure.** We expect inflation to average at 4.5% in 2017 which is mainly driven by cost-push factors. In spite of this, we opine wage growth to reach 6.5% with improve and stable labour market in 2017. Unemployment rate is projected to be at 3.3%. Strengthening labour market and steady wage growth will boost private consumption and contribute positively to Malaysia's economic performance in 2017. 

**Chart 1: Wage Growth vs Inflation (YoY%)**



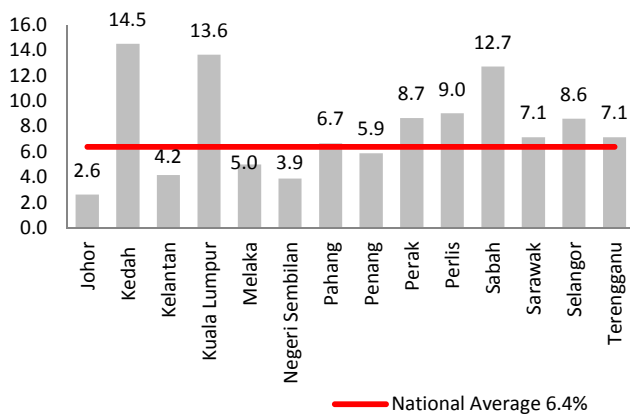
Source: DOSM; MIDFR

**Chart 2: Wage Growth vs IPI (YoY%)**



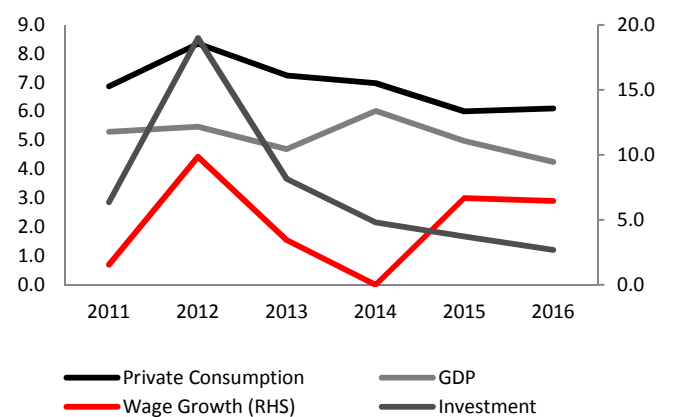
Source: DOSM; MIDFR

**Chart 3: Wage Growth by States (YoY%)**



Source: DOSM; MIDFR

**Chart 4: Wage Growth vs Selected GDP Components (YoY%)**



Source: DOSM; MIDFR

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