

ECONOMIC REVIEW | 2017 Labour Market**Wage Growth to Remain Stable Underpin by Positive Economic Outlook**

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- *High inflation pinches wage growth. Despite of solid 8% growth, the real or inflation-adjusted wage growth is 4.2% due to inflationary effects. Looking ahead, with the newly-elected government, among its promises to stabilize fuel prices and implementing zero-rated GST which will expect to cause inflation to moderate in 2018.*
- *Graduate experienced solid wage growth but still below national average. As median wage for Malaysia is RM2,160, wage levels for those below 29 are below the national average level. Nonetheless, wage growth for fresh graduate (20-24) group registered double digit growth of 12.9% in 2017.*

Overall wage growth registered at 3.8% in 2017. Malaysia's median wage grew on nominal term by 8% to RM2,160 last year. The surge in the wage increment is in line with the solid expansion in domestic economy in 2017. Stellar performance of external trade activities, thus lead to positive spillover effects throughout the overall economic activities including improvement in income level. Moving forward, we foresee wage growth to stay on upward trajectories due to steady upbeat momentum in global trade activities, gradual recovery in crude oil prices and supportive economic policies. On top of that, as guided by Pakatan Harapan manifesto, national minimum wage is expected to rise to RM1,500 from current level of RM1,000 for Peninsular Malaysia and RM920 for Sarawak and Sabah. We view there would not be sharp rise of RM500 over a year. The increment process will take place in gradually over the next 5 years.

High inflation pinches wage growth. Despite of solid 8% growth, the real or inflation-adjusted wage growth is 4.2% due to inflationary effects. Among others, modest pick-up in global commodity prices and the introduction of weekly changes in retail fuel prices are major factors contributing to the rise in overall prices in Malaysia last year. Looking ahead, with the newly-elected government, among its promises to stabilize fuel prices and implementing zero-rated GST which will expect to cause inflation to moderate in 2018. We maintain our forecast for headline inflation to average at 2.6% this year. We opine the moderating inflationary pressure will support real wage growth to remain stable above 3%.

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

	2012	2013	2014	2015	2016	2017
Median (RM)	1,450	1,700	1,800	1,942	2,000	2,160
Nominal Growth	9.8	3.4	5.9	7.9	3.0	8.0
Inflation Rate	1.7	2.1	3.1	2.1	2.1	3.8
Real Growth	8.2	1.3	2.8	5.8	0.9	4.2

Source: DOSM; MIDFR

*Wage Growth is Inflation-Adjusted Growth

High wage growth in Melaka. Melaka emerges as the state with the highest wage growth, 17.6% while Johor recorded the lowest at -2.1% in 2017. This is in line with the fact that Melaka remains as the state with the lowest youth unemployment rate for 7-consecutive years since 2011. Although the state inflation is among the highest, it is neutralized with the high wage growth. Meanwhile, Selangor remains as the largest employer in Malaysia comprising 23.2% of total national employment which saw overall unemployment rate of 2.8% and youth unemployment rate of 9.4% last year, recorded negative wage growth. Nevertheless, there are 4 states that recorded double digit growth last year namely Melaka, Sarawak, Pahang and Terengganu. Overall, wage growth across all states registered better performances as compared to the previous year, 2016 in which only Kelantan recorded double digit growth.

New economic policies to benefit various stages. As mentioned earlier, new scale for national minimum wage as promised by the newly-elected government will benefit employees across all states in Malaysia. In addition, the zero-rated GST and possible tolls abolishment would provide extra rooms for businesses to invest and expand its business activities from low-value to high-value stages. Under the same manifesto, the new government promised to prioritize local workers and reduce the number of foreign workers. Consequently, we expect a solid increase in employment of medium and high-skilled workers as well as bright prospects for continuous solid wage growth in 2018 and long terms.

Table 2: Wage Level and Wage Growth by States

	Wage Level (RM)			Wage Growth (%)		
	2015	2016	2017	2015	2016	2017
Johor	2,200	2,200	2,250	7.2	(2.8)	(2.1)
Kedah	1,400	1,510	1,650	6.0	6.1	5.2
Kelantan	1,200	1,345	1,500	13.6	10.5	8.0
Kuala Lumpur	2,500	2,500	2,650	(2.8)	(2.8)	2.2
Melaka	1,600	1,760	2,145	(5.6)	8.0	17.6
Negeri Sembilan	1,950	2,060	2,170	5.9	3.6	1.1
Pahang	1,620	1,650	1,870	0.6	0.0	10.2
Penang	1,900	2,000	2,160	3.1	2.8	3.9
Perak	1,500	1,650	1,700	2.5	8.6	(0.3)
Perlis	1,495	1,630	1,800	9.0	7.3	6.4
Sabah	1,480	1,600	1,763	4.6	7.7	7.1
Sarawak	1,450	1,500	1,800	2.2	1.9	17.0
Selangor	2,500	2,500	2,580	11.2	(2.3)	(0.7)
Terengganu	1,500	1,500	1,700	18.5	(1.5)	10.2

Source: DOSM; MIDFR

*Wage Growth is Inflation-Adjusted Growth

Wage level between urban and rural widest ever recorded. Based on the latest wages and salaries survey 2017, the wage difference between urban and rural is RM860. For 2-consecutive years, urban's wage growth has outpacing rural. The huge difference is partly contributed by tepid growth in rural's wage. Plus, relatively low employment growth in sectors like agriculture and government services contribute towards the dragging rural's wage level.

Table 3: Wage Level and Wage Growth by Strata

	Wage Level (RM)			Wage Growth (%)		
	2015	2016	2017	2015	2016	2017
Urban	2,000	2,115	2,260	(2.1)	3.7	3.1
Rural	1,300	1,350	1,400	6.2	1.7	(0.1)

Source: DOSM; MIDFR

*Wage Growth is Inflation-Adjusted Growth

Graduate experienced solid wage growth but still below national average. As median wage for Malaysia is RM2,160, wage levels for those below 29 are below the national average level. Nonetheless, wage growth for fresh graduate (20-24) group registered double digit growth of 12.9% in 2017. Among others, the revision of minimum wage in 2016 indirectly benefits the youth groups. Comparatively, middle age groups of 35-49 saw tepid growth and contractions. Age group of 35-39 and 45-49 had no increment by absolute value last year. Despite of the strong wage growth, high unemployment rate among youths remain a national challenge. Skills mismatch in Malaysia's job market is among critical factor pushing up high unemployment rate among the youth.

Table 4: Wage Level and Wage Growth by Age Group

	Wage Level (RM)			Wage Growth (%)		
	2015	2016	2017	2015	2016	2017
15–19	900	900	1,180	(2.1)	(2.1)	27.3
20–24	1,200	1,200	1,400	(2.1)	(2.1)	12.9
25–29	1,800	1,865	2,000	3.8	1.5	3.4
30–34	2,180	2,230	2,365	6.9	0.2	2.3
35–39	2,350	2,500	2,500	4.1	4.3	(3.8)
40–44	2,470	2,500	2,600	7.1	(0.9)	0.2
45–49	2,500	2,500	2,500	6.6	(2.1)	(3.8)
50–54	2,500	2,600	2,750	(2.1)	1.9	2.0
55–59	2,500	2,600	2,845	16.9	1.9	5.6
60–64	1,400	1,500	1,800	9.0	5.0	16.2

Source: DOSM; MIDFR

*Wage Growth is Inflation-Adjusted Growth

Tepid wage growth for high skilled-labor. Among the type of education attainment, wages for worker with primary education background expanded the fastest in 2017 by 12.3%, followed by no formal education and secondary at 10.8% and 2.3% respectively. On a flip side, wage for workers with tertiary background contracted by -0.8% as compared to the previous year. This is not in line with the employment growth for those with tertiary education which expanded the fastest in 2017. As mentioned earlier, we noticed the rising stake of low-skilled worker, thus it is somehow expected that the wage growth for those with primary and below education would jump higher than the others. Nevertheless, continuous improvement in production efficiency, resource allocations and better technology adoptions under the Industry 4.0 will facilitate and accelerate productivity level in Malaysia in the long run. Hence, help to boost the wage growth for semi-skilled and skilled labor.

Table 5: Wage Level and Wage Growth by Education

	Wage Level (RM)			Wage Growth (%)		
	2015	2016	2017	2015	2016	2017
No Formal Education	900	960	1,100	3.8	4.6	10.8
Primary	1,110	1,206	1,400	(1.2)	6.5	12.3
Secondary	1,500	1,650	1,750	(2.1)	7.9	2.3
Tertiary	3,090	3,300	3,400	0.9	4.7	(0.8)

Source: DOSM; MIDFR

*Wage Growth is Inflation-Adjusted Growth

Low-skilled occupations experienced highest wage growth. By job type, wage growth of elementary occupations and service & sales workers recorded at 10.5% and 19.3% respectively in 2017. The solid upsurge in the wage growth is in tandem with the steady momentum in overall IPI and services sector performances last year. However, we saw the real income for high-value added jobs such as professional contracted by 2.3%, while managers registered a moderate growth of 2.6%. In spite of this, we foresee Malaysia's labour market remains intact given that business confidence stays optimistic for the near term and further stabilization in commodities prices would spur Malaysia external trade performance via higher demand on exports products. This development would put an upward pressure for income in 2018.

Table 6: Wage Level and Wage Growth by Occupation

	Wage Level (RM)			Wage Growth (%)		
	2015	2016	2017	2015	2016	2017
Managers	5,300	5,450	5,800	3.9	0.7	2.6
Professionals	4,200	4,400	4,467	2.9	2.7	(2.3)
Technicians & Associate Professionals	2,720	2,784	2,840	1.9	0.3	(1.8)
Clerical Support Workers	1,900	2,000	2,000	3.5	3.2	(3.8)
Service & Sales Workers	1,300	1,300	1,600	6.2	(2.1)	19.3
Skilled Agricultural, Forestry & Fishery Workers	1,500	1,350	1,450	22.9	(12.1)	3.6
Craft & Related Trade Workers	1,500	1,600	1,650	2.1	4.6	(0.7)
Plant & Machine-Operators & Assemblers	1,500	1,620	1,650	1.3	5.9	(1.9)
Elementary Occupations	1,000	1,050	1,200	(2.1)	2.9	10.5

Source: DOSM; MIDFR

*Wage Growth is Inflation-Adjusted Growth

Sticky wage growth in mining & quarrying sector. In 2017, mining & quarrying sector registered negative wage growth of -3.5% as compared to previous year. The impacts of oil-plunge in 2014 still lasting despite recent modest pick-up in the commodity prices are still impinging the sector. Plus, production scale-down and restructuring are among reasons that putting pressure on the wage growth. Nevertheless, wage level for mining & quarrying sector remains the highest at RM3,700 in 2017. We predict commodity-based and petroleum-related sectors will improve further in 2018 due to steady upbeat momentum in global trade activities and continuous gradual recovery in crude oil prices.

Positive economic outlook would spur solid wage growth in 2018. Wage growth in manufacturing sector expanded by 1.8% in 2017. As for services sector, wage growth went up by 3.4%. 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 2017 given that economic indicators of domestic and global economic activities are showing signs of sustained recovery. Moreover, as exports and industrial productions continue expanding, it is expected to translate into better performance in employment and wage growths especially in manufacturing sector. Added with supportive economic policies and low inflationary pressure, we opine solid wage growth will positively contribute to domestic consumption in 2018.

Table 7: Wage Level and Wage Growth by Sectors

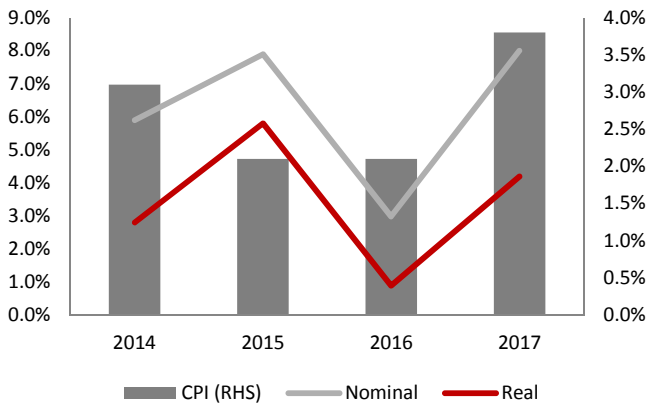
	Wage Level (RM)			Wage Growth (%)		
	2015	2016	2017	2015	2016	2017
Agriculture, forestry and fishing	1,130	1,200	1,350	6.1	4.1	8.7
Mining and quarrying	3,600	3,690	3,700	0.8	0.4	(3.5)
Manufacturing	1,610	1,800	1,900	(7.4)	9.7	1.8
Construction	1,560	1,630	1,900	1.9	2.4	12.8
Services;	2,252	2,411	2,585	2.5	5	3.4
<i>Electricity, gas, steam and air conditioning supply</i>	2,550	3,000	3,150	(0.1)	15.5	1.2
<i>Water supply; sewerage, waste management and remediation activities</i>	1,798	1,650	2,000	10.3	(10.3)	17.4
<i>Wholesale and retail trade; repair of motor vehicles and motorcycles</i>	1,400	1,600	1,650	5.6	12.2	(0.7)
<i>Transportation and storage</i>	1,900	2,000	2,000	3.5	3.2	(3.8)
<i>Accommodation and food and beverage service activities</i>	1,100	1,140	1,500	(2.1)	1.5	27.8
<i>Information and communication</i>	3,000	3,200	3,500	(1.1)	4.6	5.6
<i>Financial and insurance/ takaful activities</i>	3,000	3,070	3,100	(2.1)	0.2	(2.8)
<i>Real estate activities</i>	3,000	3,365	3,400	17.9	10.1	(2.8)
<i>Professional, scientific and technical activities</i>	2,500	2,800	3,000	(2.1)	9.9	3.3
<i>Administrative and support service activities</i>	1,150	1,200	1,350	2.4	2.2	8.7
<i>Public administration and defense: compulsory social security</i>	2,800	3,015	3,160	(2.1)	5.6	1.0
<i>Education</i>	3,990	4,132	4,458	5.3	1.5	4.1
<i>Human health and social work activities</i>	2,550	2,800	3,000	(0.1)	7.7	3.3
<i>Arts, entertainment and recreation</i>	1,544	1,682	1,700	0.8	6.8	(2.7)
<i>Other service activities</i>	1,500	1,510	1,800	5.0	(1.4)	15.4

Source: DOSM; MIDFR

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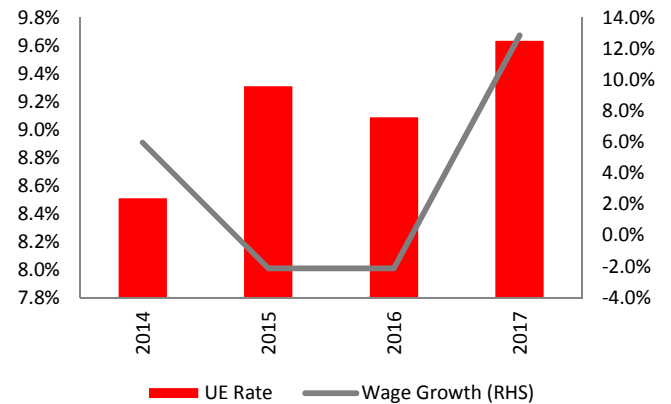
Nominal wage growth is expected to improve by 5.3% in 2018. We expect inflation to average at 2.6% this year which is mainly driven by unfavorable base effects, zero-rated GST and stabilized retail fuel prices. As inflationary pressure remains steady, we anticipate this will translate into improve labor market which unemployment rate is projected to be at 3.3%. Nevertheless, concerns persist on the potential trade war between China and US. In spite of this, we foresee better job market outlook for the commodity-based sectors given that the commodity prices have been on gradual upward trajectory since late last year, hence more job opportunities will be created in these industries. Strengthening labor market and steady wage growth will boost private consumption and contributed positively to Malaysia's economic performance in 2018. 

Chart 1: Wage Growth vs Inflation (YoY%)



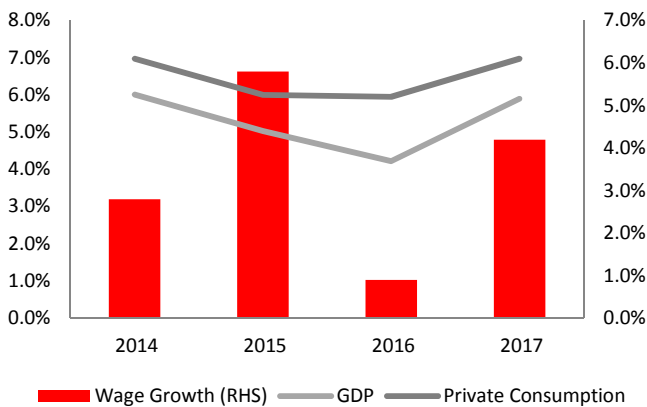
Source: DOSM; MIDFR
*Wage Growth is Inflation-Adjusted Growth

Chart 2: Graduate; Wage Growth (YoY%) vs UE Rate (%)



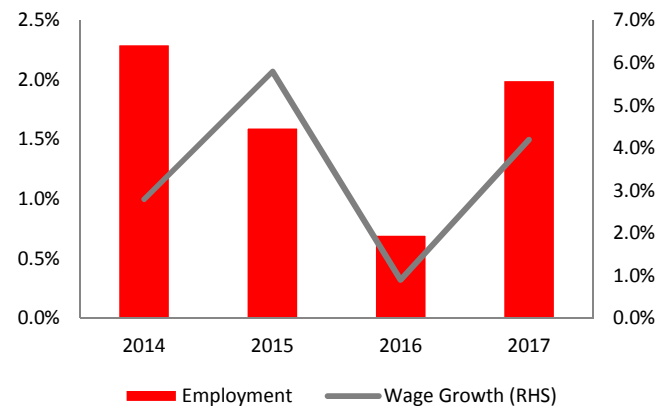
Source: DOSM; MIDFR
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Chart 3: Wage Growth vs Macro Indicators (YoY%)



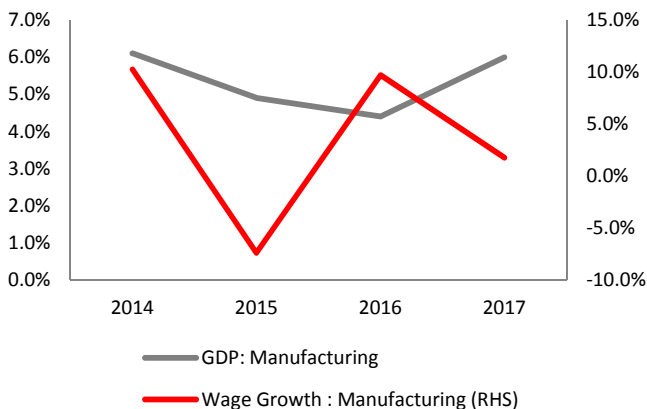
Source: DOSM; MIDFR
*Wage Growth is Inflation-Adjusted Growth

Chart 4: Wage Growth vs Employment Rate (YoY%)



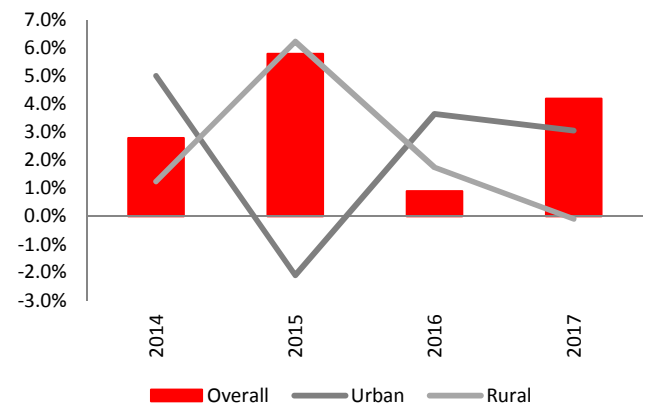
Source: DOSM; MIDFR
*Wage Growth is Inflation-Adjusted Growth

Chart 5: Manufacturing Sector Performance (YoY%)



Source: DOSM; MIDFR
*Wage Growth is Inflation-Adjusted Growth

Chart 6: Overall Real Wage Growth by Strata (YoY%)



Source: DOSM; MIDFR
*Wage Growth is Inflation-Adjusted Growth

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