

## ECONOMIC REVIEW | 2017 Labour Market

### Youth Unemployment Rate Remains High as Skills Mismatch Stay Prevalent

- *Youth unemployment rate stays high amid skills mismatch. Based on the latest labour survey 2017, youth unemployment rate registered highest ever recorded at 10.8%. Graduate unemployment in 2017 is approximately 204K, constituting about 40.5% of total unemployment.*
- *Low skilled-job still dominates. As mentioned earlier, we noticed the demand for low-skill jobs remains dominant in Malaysia's job market given that job vacancies data show rising proportions of the low-type jobs. In simple word, for every 100 jobs available, there are 76 jobs for elementary occupations and 10 jobs for plant & machinery operators & assemblers.*
- *Malaysia's youth unemployment rate expected to improve in 2018. Based on the latest developments in global and domestic economies, we forecast Malaysia economy to grow by 5.5% in 2018. We anticipate youth unemployment rate to slightly fall to 9.9% while overall unemployment rate to stand at 3.3% in 2018.*

**Steady & healthy labour market condition.** Malaysia's unemployment rate stays low at 3.4% in 2017, considered as full employment condition. Labour force and employment up by 1.9% and 2% respectively last year. On a flip side, number of unemployment shrank by -0.3% to 503K. Moving forward, the job market outlook is stable and healthy due to steady recovery in global economy, optimistic business activity and supportive macroeconomic policies. We forecast Malaysia's unemployment rate for 2018 to average at 3.3%.

**Upbeat macroeconomic performance supports job market.** Steady expansion in both labour force and employment last year indirectly due to robust macroeconomic performance. GDP growth recorded at 5.9%, fastest in 3-year. In addition, the strong economic growth was supported by soaring exports growth of 19.3% and sturdy pace in overall IPI of 4.4% in 2017. The spill-over effects of the surge in external trade and industrial activities last year indirectly boost employment growth and lower down unemployment rate in Malaysia. We forecast exports and IPI to expand by 9.3% and 4.2% in 2018.

**Table 1: Malaysia – Summary of Labour Market**

	Number of Worker ('000)				YoY%			
	2014	2015	2016	2017	2014	2015	2016	2017
Labour Force	14,264	14,518	14,668	14,953	2.0	1.8	1.0	1.9
Employment	13,853	14,068	14,164	14,450	2.3	1.6	0.7	2.0
Unemployment	411	450	504	503	(5.5)	9.6	11.9	(0.3)

Source: DOSM; MIDFR

**Youth unemployment rate stays high amid skills mismatch.** Based on the latest labour survey 2017, youth unemployment rate registered highest ever recorded at 10.8%. The youth is classified by the age group of between 15-24. Zooming into details, the high youth jobless rate is mainly contributed by the soaring graduate unemployment rate which went up to 9.6%. Graduate unemployment in 2017 is approximately 204K, constituting about 40.5% of total unemployment. Plus, the employment share of the youth decrease from 17% in 2014 to 16.2% in 2017. Among others, we view the rising youth unemployment rate is possibly due to skills mismatch. For instance, out of all job vacancies last year, 76% is for elementary occupation and followed by 10.3% for plant & machinery operators & assemblers. Henceforth, 86.3% of job vacancies in 2017 is low-skill jobs and very likely not suitable for a fresh graduate. As for high-skill jobs such as professional and technicians & associate professionals, there are only 4.1% of the total job vacancies.

**Table 2: Labour Market Performance by Age Group**

	Employment Share (%)				Unemployment Rate (%)			
	2014	2015	2016	2017	2014	2015	2016	2017
<b>15–19</b>	3.6	3.2	3.1	3.0	13.0	15.7	15.9	15.4
<b>20–24</b>	13.4	13.1	13.4	13.2	8.5	9.3	9.1	9.6
<b>25–29</b>	18.0	18.0	18.3	18.2	3.3	3.5	4.2	3.9
<b>30–34</b>	15.8	16.1	15.9	16.4	1.3	1.5	2.1	1.8
<b>35–39</b>	12.5	12.5	12.6	12.9	1.0	1.1	1.6	1.2
<b>40–44</b>	10.9	10.9	10.9	10.8	0.8	0.7	0.9	0.9
<b>45–49</b>	9.7	9.7	9.6	9.4	0.6	0.7	1.0	1.3
<b>50–54</b>	8.1	8.1	8.1	8.0	0.5	0.5	0.6	0.7
<b>55–59</b>	5.3	5.5	5.5	5.4	0.4	0.3	0.3	0.5
<b>60–64</b>	2.7	2.8	2.6	2.6	0.3	0.3	0.4	0.3

Source: DOSM; MIDFR

**Low youth jobless rate in Melaka.** Melaka remains as the state with the lowest youth unemployment rate, 2.9% while Sabah recorded the highest at 13.5% in 2017. Melaka has been recording the lowest youth jobless rate for 7-consecutive years since 2011. Meanwhile, Selangor the largest employer, 23.2% of total national employment saw overall unemployment rate of 2.8% and youth unemployment rate of 9.4% last year. Overall, youth unemployment rate across all states registered poor performances as compared to the previous year, 2016. However, only 3 states that indicate lower youth jobless rate which are Johor, Kelantan and Kuala Lumpur.

**ECRL may put a relief on the high youth unemployment.** Graduate unemployment is at 9.6%. Among the east coast states, the highest graduate unemployment rate is in Kelantan at 10.9%, followed by Terengganu of 12.2% and Pahang of 9.8%. Looking ahead, the multiplier effects of ECRL will help tapering down the unemployment crisis in those states and Malaysia in general. 70% of the transportation is mainly for freight, hence improvement in industrial and external trade activities will eventually generate jobs, uplift in household income and reduce inequality gap.

**Only 30% of ECRL workers are foreigners.** According to MRL, the project owner, only 18% of the workers are from China. The other 12% are from other Asian countries. The project owner together with its main contractor, China Communications Construction Co Ltd (CCCC) and Universiti Malaysia Pahang organize East Coast Rail Line Industrial Skills Training Programme (PLKI-ECRL) in order to train and hire Malaysians who had successfully completed the training.

**Table 3: Unemployment Rate (%) by Age Group and States**

	Ave.	Youth (15-24)	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64
Malaysia	3.4	10.8	3.9	1.8	1.2	0.9	1.3	0.7	0.5	0.3
Johor	3.4	11.0	3.1	2.2	1.7	0.9	1.0	0.7	0.9	1.0
Kedah	2.8	10.0	3.6	1.9	1.0	0.3	0.3	0.2	0.2	0.3
Kelantan	3.6	11.9	5.3	1.2	0.4	0.3	0.0	0.0	0.0	0.0
Melaka	1.0	2.9	1.6	0.5	0.2	0.0	0.0	0.6	0.0	0.0
Negeri Sembilan	2.8	8.5	4.1	1.4	0.9	0.6	0.9	0.5	0.3	0.0
Pahang	2.9	11.0	3.2	0.9	1.0	0.1	0.9	0.2	0.7	0.0
Pulau Pinang	2.1	6.9	2.4	0.9	0.8	1.0	0.9	0.8	0.2	0.4
Perak	3.7	11.1	5.0	2.1	0.7	0.9	1.2	0.8	0.3	0.0
Perlis	3.5	13.0	2.8	2.1	0.9	1.1	0.0	0.0	0.0	0.0
Selangor	2.8	9.4	3.2	1.6	1.4	1.3	2.8	1.1	0.8	0.0
Terengganu	4.5	13.1	4.6	3.5	1.8	1.1	1.2	1.0	0.7	1.6
Sabah	5.6	13.5	5.9	2.8	1.4	1.3	1.0	1.5	0.9	0.3
Sarawak	3.0	10.3	3.4	1.1	0.9	0.9	0.4	0.3	0.2	0.8
W.P. Kuala Lumpur	3.1	11.3	4.1	1.9	1.8	1.0	2.3	0.8	0.7	0.0
W.P. Labuan	8.6	22.8	7.2	8.3	5.4	4.9	0.0	3.6	0.0	0.0
W.P. Putrajaya	1.3	12.5	5.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0

Source: DOSM; MIDFR

**Table 4: Youth Unemployment Rate (%) by States**

	2011	2012	2013	2014	2015	2016	2017
Johor	8.0	10.4	8.8	9.4	10.8	11.6	11.0
Kedah	14.4	12.2	9.5	10.0	10.2	9.7	10.0
Kelantan	7.8	9.1	10.5	12.1	12.1	13.8	11.9
Kuala Lumpur	10.9	10.5	10.3	12.1	13.0	12.3	11.3
Melaka	3.4	1.8	2.8	3.2	4.1	2.8	2.9
Negeri Sembilan	10.6	10.3	11.5	8.3	10.6	8.1	8.5
Pahang	9.8	9.8	8.8	10.0	10.4	9.0	11.0
Perak	9.3	10.7	12.0	10.8	10.9	10.5	11.1
Perlis	14.0	14.8	12.1	12.5	11.1	10.4	13.0
Penang	5.1	6.4	7.0	5.9	5.5	5.5	6.9
Sabah	13.4	14.4	13.9	13.3	13.7	13.0	13.5
Sarawak	13.5	10.9	12.5	10.6	11.6	10.1	10.3
Selangor	7.1	7.4	8.0	7.9	8.1	8.8	9.4
Terengganu	10.9	10.5	11.9	13.5	12.3	12.8	13.1

Source: DOSM; MIDFR

**Malaysia’s youth unemployment rate is considered normal among regional and global economies.**

High single and double digit rate for youth jobless rate is regarded normal in emerging and developed economies. Not just Malaysia, Euro Area is experiencing high youth unemployment rate of 18.8% while South Korea and the US registered high single digit rate of 8.9% and 9.2% respectively in 2017. Skills mismatch and market uncertainties remain as challenges for every economy in tackling the issue of high youth unemployment rate.

**Table 5: Global Youth Unemployment Rate (%)**

	2013	2014	2015	2016	2017
Malaysia	9.8	9.5	10.7	10.5	10.8
South Korea	9.3	10.0	10.5	10.7	8.9
Japan	6.8	6.2	5.6	5.2	4.7
Euro Area	24.4	23.8	22.3	20.9	18.8
United States	15.5	13.4	11.6	10.4	9.2

Source: CEIC; MIDFR

**Improving skilled-labour ratio.** Among the type of education attainment, worker with tertiary background expanded the fastest in 2017 by 4.1%, followed by secondary at 3.2% and no formal education by 0.3%. On a flip side, primary-educated workers contracted by -6.1% for 4-consecutive years. In terms of share, the rising stake of skilled-worker or tertiary-educated is in line with the Eleventh Malaysia Plan. Under the plan, the government estimated skilled-worker to total workforce ratio to touch 35% by 2020. Nevertheless, we view the ratio is not expected to reach the target at the current pace. We forecast the skilled-worker ratio to register at 32% by 2020. 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.

**Table 6: Labour Market by Education Attainment**

	Employment Share (%)				Unemployment Rate (%)			
	2014	2015	2016	2017	2014	2015	2016	2017
No formal education	2.8	3.1	2.7	2.6	3.1	3.3	2.6	2.8
Primary	16.1	15.6	14.7	13.5	1.3	1.5	1.8	1.8
Secondary	55.3	53.9	55.2	55.8	2.9	3.2	3.5	3.4
Tertiary	25.8	27.4	27.5	28.1	3.8	3.8	4.2	4.2

Source: DOSM; MIDFR

**Services and manufacturing sectors remain as major sources of employment.** Employment in manufacturing and services sectors constitute about 17.4% and 62% respectively in 2017. Employment growths in both sectors expand by 5% and 1.6% accordingly. As global commodity prices stay volatile since 2014, employment share in commodity-based sectors like agriculture etc. and mining & quarrying recorded at 11.3% and 0.7% respectively last year. 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. For example, average price of Brent crude oil touched \$72.1 in Apr-18, highest in 3.5 years.

**Table 7: Labour Market by Education Attainment**

	Employment Share (%)			YoY%		
	2015	2016	2017	2015	2016	2017
<b>Agriculture, forestry and fishing</b>	12.5	11.4	11.3	3.5	(8.2)	1.3
<b>Mining and quarrying</b>	0.7	0.7	0.7	23.3	(7.8)	0.7
<b>Manufacturing</b>	16.5	16.9	17.4	(2.1)	2.9	5.0
<b>Construction</b>	9.3	8.8	8.7	2.5	(4.4)	0.3
<b>Services;</b>	61.0	62.2	62.0	1.8	2.8	1.6
<i>Electricity, gas, steam and air conditioning supply</i>	0.4	0.5	0.4	(5.9)	26.3	(20.3)
<i>Water supply; sewerage, waste management and remediation activities</i>	0.5	0.5	0.6	(11.2)	6.0	5.9
<i>Wholesale and retail trade; repair of motor vehicles and motorcycles</i>	16.8	17.1	17.2	1.6	2.8	2.2
<i>Transportation and storage</i>	4.4	4.5	4.5	2.8	2.5	4.3
<i>Accommodation and food and beverage service activities</i>	8.2	8.9	9.1	0.1	9.5	4.7
<i>Information and communication</i>	1.5	1.5	1.5	0.5	(2.6)	5.4
<i>Financial and insurance/ takaful activities</i>	2.5	2.4	2.6	7.7	(2.1)	6.2
<i>Real estate activities</i>	0.5	0.6	0.6	(10.7)	15.7	2.4
<i>Professional, scientific and technical activities</i>	2.6	2.6	2.4	9.3	0.7	(3.9)
<i>Administrative and support service activities</i>	4.5	4.6	4.7	(3.0)	3.5	2.9
<i>Public administration and defense: compulsory social security</i>	5.3	5.3	5.1	1.3	(0.4)	(1.0)
<i>Education</i>	6.4	6.6	6.1	3.2	3.3	(5.4)
<i>Human health and social work activities</i>	4.1	4.0	4.1	7.5	(0.5)	2.9
<i>Arts, entertainment and recreation</i>	0.6	0.6	0.6	(13.2)	(1.0)	4.1
<i>Other service activities</i>	1.7	1.6	1.8	17.1	(1.0)	12.5
<i>Activities of households as employers</i>	1.0	0.9	0.7	(10.6)	(12.4)	(14.8)

Source: DOSM; MIDFR

**Low skilled-job still dominates.** As mentioned earlier, we noticed the demand for low-skill jobs remains dominant in Malaysia's job market given that job vacancies data show rising proportions of the low-type jobs. In simple word, for every 100 jobs available, there are 76 jobs for elementary occupations and 10 jobs for plant & machinery operators & assemblers whereas leave 14 jobs for the high-skill and other low-skill occupations. On the other hand, in line with the steady increase in tertiary-educated worker in the workforce, employment share of professionals and technicians & associate professionals improved to 12.2% and 10.5% respectively in 2017. Both occupations expanded by 0.8% and 4.6% last year.

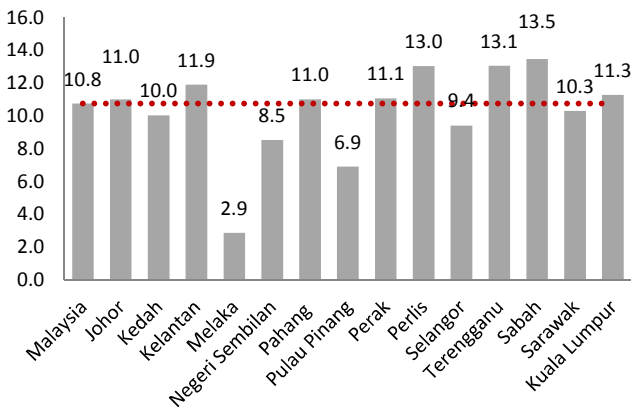
**Table 8: Labour Market by Occupation**

	Employment Share (%)				YoY%			
	2014	2015	2016	2017	2014	2015	2016	2017
Managers	4.8	5.1	4.6	4.8	(4.5)	8.2	(8.4)	4.7
Professionals	9.9	10.4	12.4	12.2	7.1	6.2	20.1	0.8
Technicians & Associate Professionals	9.9	10.0	10.3	10.5	5.8	2.9	3.3	4.6
Clerical Support Workers	8.9	8.8	8.2	8.5	4.0	0.3	(6.2)	6.1
Service & Sales Workers	22.9	22.7	22.4	22.2	8.9	0.6	(0.4)	0.9
Skilled Agricultural, Forestry & Fishery Workers	7.2	6.7	6.2	6.2	(15.1)	(6.2)	(7.3)	2.9
Craft & Related Trade Workers	11.2	11.2	11.1	10.5	4.2	1.5	(0.5)	(3.6)
Plant & Machine-Operators & Assemblers	12.0	11.3	11.8	12.2	(2.1)	(4.5)	5.3	5.6
Elementary Occupations	13.1	13.8	13.0	12.8	0.9	6.9	(5.2)	0.6

Source: DOSM; MIDFR

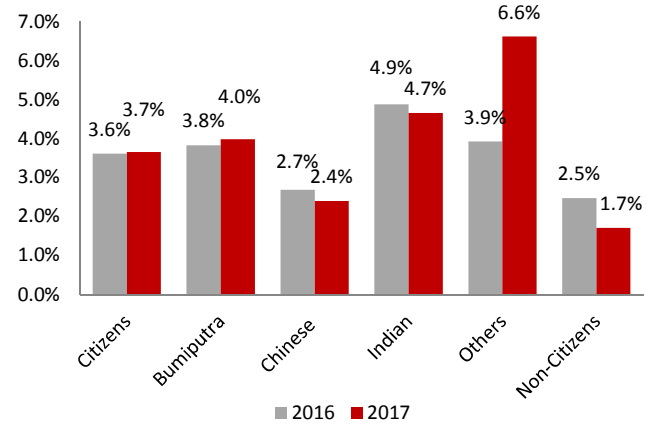
**Malaysia's youth unemployment rate expected to improve in 2018.** Based on the latest developments in global and domestic economies, we forecast Malaysia economy to grow by 5.5% in 2018. Anticipated-improvement in global trade activity and further stabilization in commodities prices would spur Malaysia external trade performance via higher demand on exports products. Export-oriented and commodity-based industries such as E&E and mining are likely to benefit from the positive development in global economy and hence more job opportunities will be created in these industries. We anticipate youth unemployment rate to slightly fall to 9.9% while overall unemployment rate to stand at 3.3% in 2018. 

**Chart 1: Youth Unemployment Rate 2017 (%)**



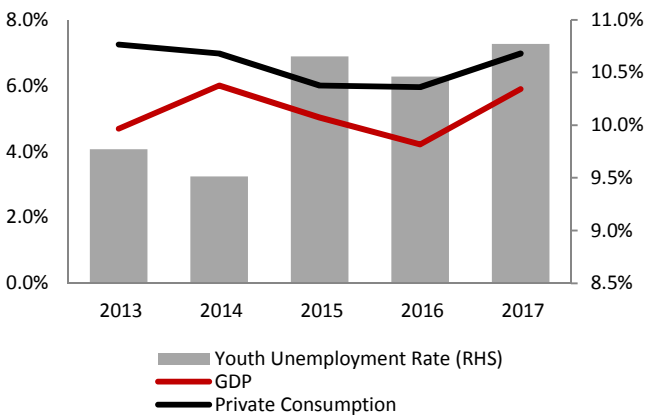
Source: DOSM; MIDFR

**Chart 2: Unemployment Rate by Race (%)**



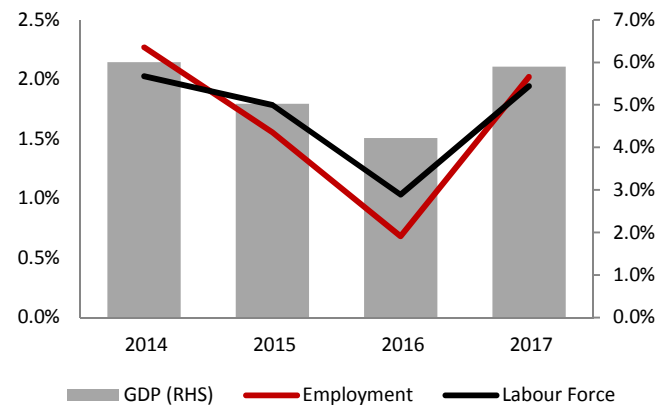
Source: DOSM; MIDFR

**Chart 3: Youth UE Rate (%) vs GDP Performance (YoY%)**



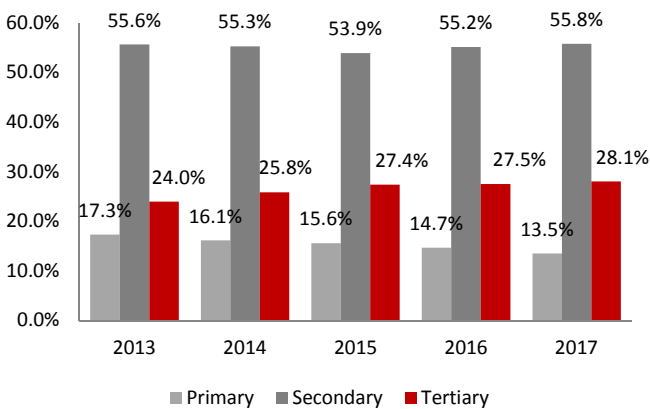
Source: DOSM; MIDFR

**Chart 4: GDP vs Labour Market Performance (YoY%)**



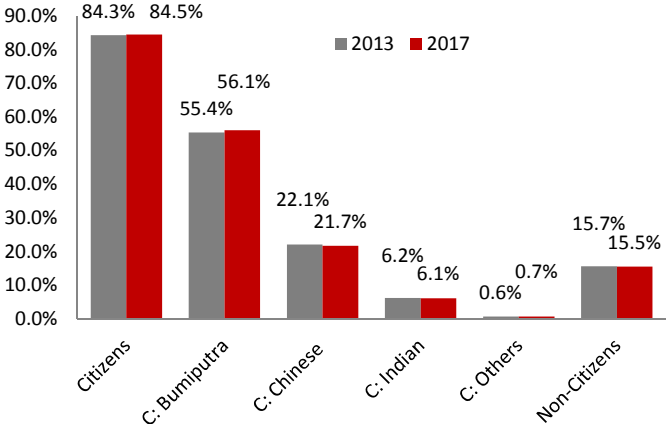
Source: DOSM; MIDFR

**Chart 5: Employment Share by Education Attainment (%)**



Source: DOSM; MIDFR

**Chart 6: Employment Share by Race (%)**



Source: DOSM; MIDFR

**MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (23878 - X).  
(Bank Pelaburan)  
(A Participating Organisation of Bursa Malaysia Securities Berhad)**

## **DISCLOSURES AND DISCLAIMER**

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (23878-X). It is for distribution only under such circumstances as may be permitted by applicable law.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that we believe are reliable. MIDF AMANAH INVESTMENT BANK BERHAD makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such.

This report is not, and should not be construed as, an offer to buy or sell any securities or other financial instruments. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. All opinions and estimates are subject to change without notice. The research analysts will initiate, update and cease coverage solely at the discretion of MIDF AMANAH INVESTMENT BANK BERHAD.

The directors, employees and representatives of MIDF AMANAH INVESTMENT BANK BERHAD may have interest in any of the securities mentioned and may benefit from the information herein. Members of the MIDF Group and their affiliates may provide services to any company and affiliates of such companies whose securities are mentioned herein. This document may not be reproduced, distributed or published in any form or for any purpose.