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Contribution of Compensation of Employees to the Economy - Highest Ever at 35.3% in 2016

- *Low income group grew faster than other groups after GFC. The low income group, which is the bottom 40% of the income groups, grew faster than the M40 and T20 income groups after 2009. Income growth of B40 for the period of 2012 to 2014 was 17.2%yoy while M40 and T20 recorded at only 11.3%yoy and 8.2%yoy respectively.*
- *Malaysia is moving closer towards developed nation status. Based on Malaysia's performance, labour income share still below developed economy's level but yet the trend is heading upwards. We anticipate Malaysia's labour income share to successfully breach through the 40.0% by 2020.*
- *Compensation of employees improved to 35.3%. Within the last six years from 2010 to 2016, there was a steady increase in labour income share by almost 5% points. On the other hand, corporate earnings share which reflected by gross operating surplus shrank from 64.6% in 2010 to 59.5% in 2016.*

Compensation of employees improved to 35.3%. Within the last six years from 2010 to 2016, there was a steady increase in labour income share by almost 5% points. On the other hand, corporate earnings share which reflected by gross operating surplus shrank from 64.6% in 2010 to 59.5% in 2016. In a simple word, for every RM1 generated in 2016, 35.3 cents paid to the employee and 59.5 cents went to corporate earnings while another 5 cents received by the government. Among others, we foresee the implementation of new minimum wage RM1,000 per month in Peninsular Malaysia and RM920 per month for Sabah and Sarawak in 2016 was a major factor pushing up Malaysia's labour income share.

Malaysia's economy is on right track. Since 2010, Malaysia has undergone structural change by reforming certain economic policies. In particular, subsidy rationalisation program which executed in July 2010 with the aim to restructure government's balance sheet by reducing expenditure on subsidies and social assistances. In fact, the implementation of GST also aimed at improving government revenue position. The bigger goal of the policy reform program is to tackle and address income inequalities between the rich and the poor. With bigger government revenue, better efficiency and allocations of funds can be provided to targeted income groups such as the BR1M program. Indirectly, the policy reform contributed towards the increase in the share of government revenue from 3.7% in 2010 to 5.2% in 2016.

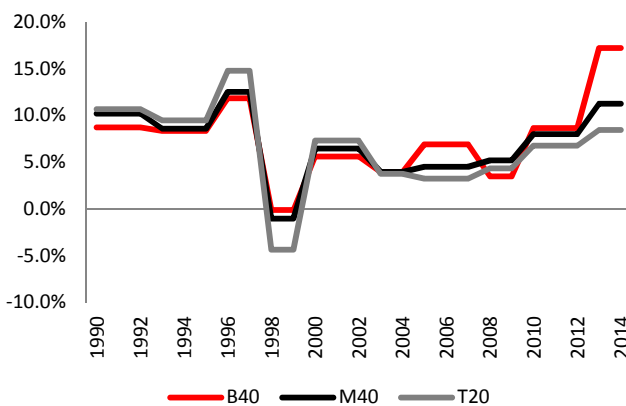
Table 1: Share of GDP by Income Components (%)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Compensation of Employees | 31.7 | 32.1 | 33.2 | 33.9 | 34.3 | 34.8 | 35.3 |
| Agriculture | 1.9 | 2.2 | 1.9 | 1.7 | 1.7 | 1.6 | 1.7 |
| Mining and quarrying | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Manufacturing | 7.5 | 7.5 | 7.6 | 7.7 | 7.9 | 8.0 | 8.0 |
| Construction | 2.5 | 2.5 | 2.8 | 3.1 | 3.2 | 3.4 | 3.6 |
| Services | 19.2 | 19.3 | 20.4 | 20.8 | 20.8 | 21.1 | 21.4 |
| Gross Operating Surplus | 64.6 | 65.5 | 64.9 | 64.0 | 62.8 | 60.3 | 59.5 |
| Agriculture | 8.0 | 9.2 | 7.8 | 7.3 | 7.0 | 6.4 | 6.6 |
| Mining and quarrying | 10.1 | 9.8 | 9.7 | 9.5 | 9.1 | 8.2 | 7.8 |
| Manufacturing | 14.5 | 15.2 | 15.4 | 14.8 | 14.2 | 13.6 | 13.2 |
| Construction | 0.9 | 0.9 | 1.1 | 1.1 | 1.1 | 1.1 | 1.0 |
| Services | 31.0 | 30.4 | 30.9 | 31.3 | 31.3 | 31.0 | 31.0 |
| Government Revenue | 3.7 | 2.5 | 1.8 | 2.0 | 3.0 | 4.9 | 5.2 |
| GDP | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: DOSM, MIDFR

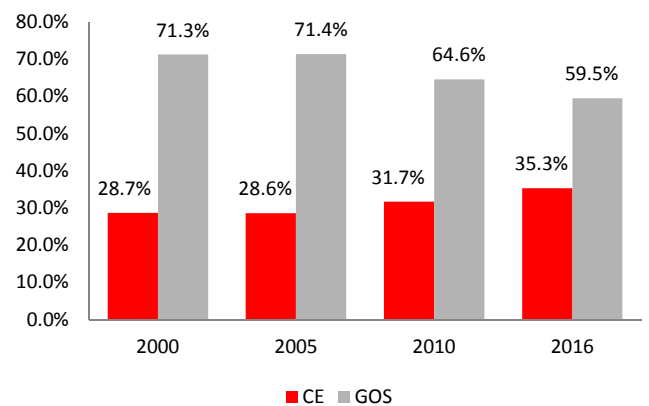
Services sector remain as the biggest contributor for labour income. Significant portion from 35.3% of contribution of compensation of employees to Malaysia's economy came from the services sector at 21.4% in 2016. However, most notably is the rise in manufacturing and construction share for labour income. Labour income share in the manufacturing sector increased from 7.5% to 8% in six years while construction sector saw the income share reached 3.6% in 2016 as compared to 2.5% in 2010. Therefore, with the improving trade activities and construction of infrastructure projects in Malaysia, we can expect the labours involved in the manufacturing and construction sectors to benefit by receiving higher wages and salaries. Moving forward, the shift from labour-intensive to capital-intensive will lead to reduction of low-skilled labour and replace with the expected-rise of skilled-labour. Therefore, we could expect labour income share to GDP to reach 40% by 2020.

Chart 1: Growth in Low-Income Group Higher Post-GFC (CAGR by Period %)



Source: DOSM, MIDFR

Chart 2: Compensation of Employee vs Gross Operating Surplus (%)



Source: DOSM, MIDFR


Low income group grew faster than other groups after GFC. The low income group, which is the bottom 40% of the income groups, grew faster than the M40 and T20 income groups after 2009. Income growth of B40 for the period of 2012 to 2014 was 17.2%yoy while M40 and T20 recorded at only 11.3%yoy and 8.2%yoy respectively. We believe the upward trend in income growth of B40 as well as other groups was driven by the policy reform undertaken by the government to address the income inequalities gap. In addition, we foresee the momentum in income growth for all groups will sustain due to the increase in the share of labour income and government revenue in 2016.

Household debt remains as downside risk. Malaysia's household debt to GDP ratio stood at 88.4% in 2016, among the highest in Asia. The elevated level of household debt was due to surge in mortgages as rising housing price lead towards high value of loan and mortgages. In turn, the high household debt will continue to pose a challenge on domestic spending. Additionally, any shock in cost prices especially fuel price will have a negative effects on consumer spending. At present, the downside risks including the household debt level is contained.

Table 2: Share of Compensation of Employees and Gross Operating Surplus by Selected Economies (%)

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------------------|------|------|------|------|------|------|------|
| Compensation of Employees | | | | | | | |
| Malaysia | 31.7 | 32.1 | 33.2 | 33.9 | 34.3 | 34.8 | 35.3 |
| EU 28 | 48.9 | 48.9 | 49.0 | 48.8 | 48.7 | 48.4 | 48.6 |
| US | 53.2 | 52.4 | 53.1 | 52.6 | 52.4 | 53.6 | 53.5 |
| UK | 51.7 | 50.5 | 50.0 | 49.7 | 49.1 | 49.1 | 49.0 |
| Japan | 69.6 | 71.6 | 71.2 | 68.4 | 67.9 | 67.2 | 53.6 |
| Singapore | 39.1 | 39.1 | 40.0 | 41.1 | 42.8 | 43.3 | 44.5 |
| Australia | 50.6 | 51.1 | 52.1 | 51.6 | 52.3 | 52.8 | 51.1 |
| Gross Operating Surplus | | | | | | | |
| Malaysia | 64.6 | 65.5 | 64.9 | 64.0 | 62.8 | 60.3 | 59.5 |
| EU 28 | 39.9 | 39.7 | 39.2 | 39.4 | 39.4 | 39.5 | 39.5 |
| US | 40.1 | 40.9 | 40.3 | 40.8 | 41.1 | 40.0 | 41.1 |
| UK | 36.7 | 37.0 | 37.5 | 37.7 | 38.3 | 38.2 | 38.2 |
| Japan | 22.8 | 20.5 | 20.7 | 23.8 | 23.1 | 23.3 | 36.8 |
| Singapore | 53.9 | 53.3 | 52.2 | 51.1 | 49.7 | 49.0 | 47.1 |
| Australia | 38.6 | 38.5 | 37.0 | 37.4 | 36.6 | 35.8 | 37.9 |

Source: CEIC, MIDFR

Malaysia is moving closer towards developed nation status. Amongst developed economies, we notice similar trend in shares of labour income and corporate earnings. Most of developed economies show its labour income share ranging from 45% to 55%. This probably explains why the domestic spending in these economies is significant in driving up domestic economic activity. Based on Malaysia's performance, labour income share still below developed economy's level but yet the trend is heading upwards. We anticipate Malaysia's labour income share to successfully breach through the 40.0% by 2020. 

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