

Malaysia

Unemployment rate edged up back to 3% after 4 straight months at 2.7%

- The unemployment rate which had been on a declining trend since March to reach as low as 2.7% in August - at which it had hovered for 4 consecutive months - edged up to 3% in December.
- That was on the back of huge retrenchment in the construction sector in 4Q14 as reported by BNM and the flood crisis in the east coast.
- Unemployment rate may continue to edge up in the near term as the economy sets to slow down but we expect it to stabilize around 3 - 3.5% in 2015.

Increase in unemployment could have been caused by the slowdown in construction sector and the flood crisis in the east coast. The quarterly data by BNM on retrenchment showed that the number of retrenched workers in the construction sector have significantly increased by 78% in 4Q14, although services sector also experienced an increase in the number of retrenched workers. Construction sector growth slowed to 8.7% yoy in 4Q14 compared to the 9.6% yoy in the previous quarter. In our opinion, most of the retrenchment could have occurred in December which could explain the hike in the unemployment rate. Moreover, there is possibility that the recent flood crisis to have had an adverse impact on a large number of businesses which in turn result in job losses, thus adding to the increase in unemployment levels.

Labor force participation rate (LFPR) continued to improve in December on higher number of workforce. The LFPR rose to 67.9% in December from 67.5% in the previous month as total workforce rose by 0.7% to 14.2 million. That was an improvement from the LFPR of 67.6% recorded at the end of 2013.

Table 1. Indicators of Malaysian Labor Market

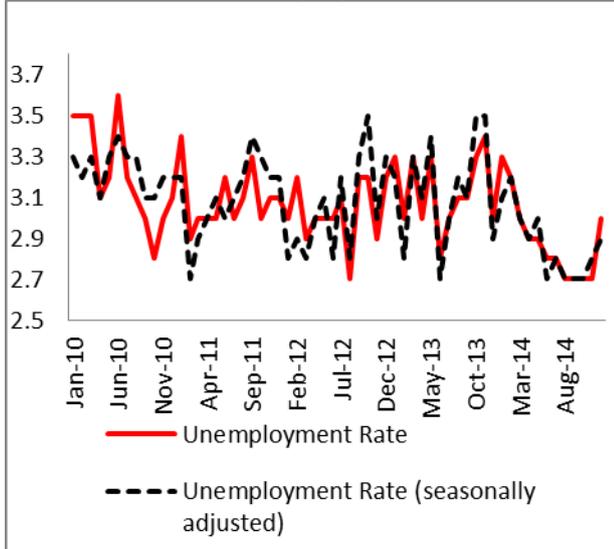
	Month-on-Month			Year-on-Year	
	Dec-14	Nov-14	Change (%)	Dec-13	Change (%)
Labor force ('000)	14,180.5	14,082.9	0.7	13,973.8	1.9
Employed ('000)	14,748.4	13,707.8	0.3	13,497.0	1.9
Unemployed ('000)	432.1	375.1	15.2	423.5	2
Outside labor force ('000)	6,700.6	6,777.1	-1.1	6,663.1	0.6
Labor force participation rate (%)	67.9	67.5	0.4	67.6	0.3
Unemployment rate (%)	3.0	2.7	0.3	3.0	-
Unemployment rate (%)(sa)	2.9	2.8	0.1	2.9	-

Source: Department of Statistics, Malaysia

Moving forward, we expect the unemployment rate to continue to edge up in the near term as the economy sets to slow down but we expect it to stabilize around 3 - 3.5% in 2015. Retrenchments may remain large for the construction and services sector this year but we expect continued strong hiring in the manufacturing sector would help to offset the impact. We expect the unemployment rate to stabilize within 3.0 – 3.5% this year in line with the slowdown in the real GDP growth to 4.7% this year.

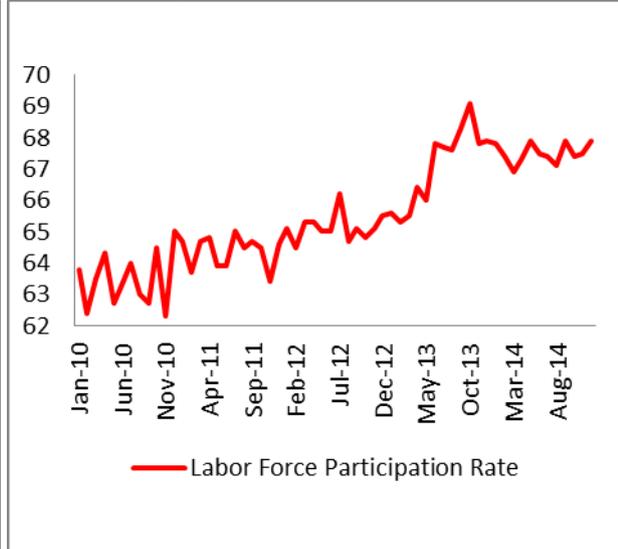


Chart 1. Trend in Unemployment Rate



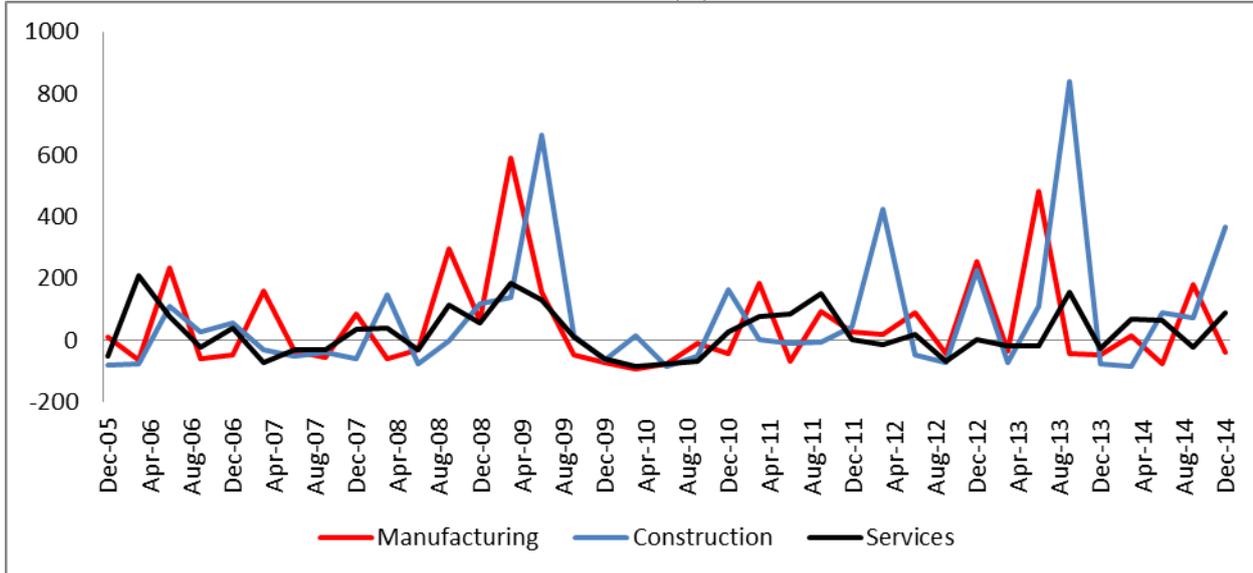
Source: Department of Statistics, Malaysia

Chart 2. Steady increase in LFPR



Source: Department of Statistics, Malaysia

Chart 3. Retrenchment of workers across selected sectors (yoy %)



Source: Bank Negara Malaysia; MIDFR

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