

ECONOMIC REVIEW | 2016 Labour Market**Youth Unemployment Rate Remain High**

- *Youth unemployment rate hits 10.5% with number of unemployed youth reached 273,400 persons in 2016. Youth labour force refers to those below the age of 25 and this group constitutes about 17.8% of Malaysia's total labour force in 2016. Among the age groups, youth unemployment rate remains the highest, registering double-digit rate since 2012.*
- *Melaka continued to record the lowest youth unemployment rate in the past 6 years. In 2016, the lowest and highest youth unemployment rates were recorded for Melaka and Kelantan at 2.8% and 13.8% respectively. Besides Melaka, there are five other states that recorded single digit youth unemployment rate, namely Penang, Negeri Sembilan, Selangor, Pahang and Kedah.*
- *Based on the latest developments in global and domestic economies, we anticipate youth unemployment rate to slightly fall to 10.1% while overall unemployment rate to stand at 3.3% in 2017.*

Youth unemployment rate hits 10.5% with number of unemployed youth reached 273,400 persons in 2016. Youth labour force refers to those below the age of 25 and this group constitutes about 17.8% of Malaysia's total labour force in 2016. Among the age groups, youth unemployment rate remains the highest, registering double-digit rate since 2012. Youth employment rose by 46,700 last year, reducing youth unemployment rate by 0.2% as compared to a year earlier.

Economic slowdown causes youth unemployment to remain high. Malaysia's economy grew by 4.2% last year, the lowest since 2010. Persistent low global commodities prices impacted our economy to decelerate which saw investment and exports of goods and services expanded at modest pace by 2.7% and 0.1% respectively in 2016. The slowdown in economic activities is one of the major factors that drive up unemployment among the youth. During economic slowdown, weak demand affects business activities through small growth in industrial production which leads to less hiring. Additionally, those with lack of work experiences and skills especially the youth will be left out from the job market as businesses are minimising cost during the trough period. Moving forward, we opine youth unemployment rate to soften this year given better economic prospect for 2017. Rise in business confidence in the recent months could be translated into better business activities and hiring. We forecast Malaysia's economy and industrial production to grow by 4.9% and 5.3% respectively for 2017.

Table 1: Malaysia – Summary of Labour Market

	2011	2012	2013	2014	2015	2016
Labour Force ('000)						
Total Age Group	12,676	13,222	13,981	14,264	14,518	14,668
15-24	2,355	2,478	2,593	2,607	2,567	2,614
25-34	4,246	4,388	4,654	4,801	4,927	5,007
35-44	2,963	3,043	3,192	3,265	3,329	3,370
45-54	2,645	2,712	2,836	2,867	2,922	2,933
55-64	891	1,001	1,098	1,117	1,173	1,148
Employment ('000)						
Total Age Group	12,284	12,723	13,210	13,532	14,068	14,164
15-24	2,121	2,111	2,111	2,116	2,294	2,340
25-34	4,146	4,279	4,421	4,568	4,801	4,846
35-44	2,935	3,035	3,157	3,248	3,297	3,325
45-54	2,200	2,304	2,433	2,487	2,506	2,508
55-64	883	995	1,087	1,114	1,170	1,144
Unemployment Rate (%)						
Total Age Group	3.1	3.0	3.1	2.9	3.1	3.3
15-24	9.9	10.3	10.4	10.2	10.7	10.5
25-34	2.3	2.3	2.6	2.4	2.6	3.2
35-44	0.9	0.8	0.9	0.9	1.0	1.3
45-54	0.9	0.9	0.9	0.5	0.6	0.8
55-64	1.0	0.8	0.9	0.4	0.3	0.3

Source: DOSM; MIDFR

Melaka continued to record the lowest youth unemployment rate in the past 6 years. In 2016, the lowest and highest youth unemployment rates were recorded for Melaka and Kelantan at 2.8% and 13.8% respectively. In Melaka, 3,700 persons from youth labour age group secured employment in 2016. As for Kelantan, its youth labour force and employment shrank by 8,300 persons and 9,400 persons respectively in 2016 resulted in higher rate of unemployment among the youth age group. Besides Melaka, there are five other states that recorded single digit youth unemployment rate, namely Penang, Negeri Sembilan, Selangor, Pahang and Kedah.

Thanks to spill over effects of capital investment. According to Malaysian Investment Development Authority (MIDA), capital investment reached RM74.7 billion and RM40.7 billion in 2015 and 2016 respectively. The spill over effects of the strong investment explains the slight drop in youth unemployment in 2016. By states, this explained why Melaka had the lowest youth unemployment rate in 2016. In 2015, Melaka received RM6.9 billion investment, the highest capital investment recorded in the last 15 years. Capital investment generates greater business activities and higher industrial production, thus increase demand on labour. Apart from capital investment, global events also affect youth unemployment in Malaysia. For example, youth unemployment rate in Terengganu rose to 12.8% last year was partly due to drop in low crude oil prices which caused petroleum industry workers in the state being laid off.

Table 2: Youth Unemployment Rate (%) by States

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

Source: DOSM; MIDFR

High youth unemployment rate is norm in global economy. High youth unemployment rate seen in global economy is common due to misalignment in labour market. Mismatch between supply and demand mainly causes high unemployment among the youth. Moreover, the lesser demand from industries is possibly due to youth's lack of work experiences and skills. From the industry's perspectives, recruiting youth may increase business cost as training and mentoring costs will affect their balance sheet especially during the downturn period. Hence, negative economic shocks such as the prolonged low commodities prices since 2014 could be one of the reasons pushing up youth unemployment rate as most businesses in the commodities-based sector choose to minimise business cost due to lower revenue.

Malaysia's youth unemployment rate is considered normal among regional and global economies. South Korea and Malaysia had similar trends in youth unemployment rate since 2011, which both recorded 10.7% and 10.5% youth unemployment rate respectively in 2016. Japan saw its youth unemployment rate went down to 5.2% last year amid structural change in its demographic pattern. In line with gradual economic recoveries in Euro Area and United States, youth unemployment rate in both economies are on declining paths.

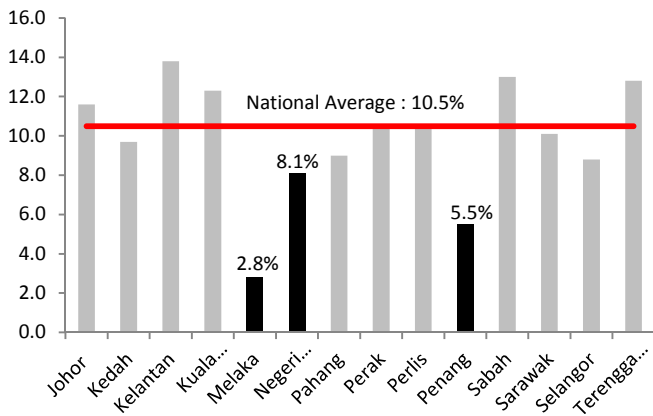
Table 3: Global Youth Unemployment Rate (%)

	2011	2012	2013	2014	2015	2016
Malaysia	9.9	10.3	10.4	10.2	10.7	10.5
Indonesia	20.0	19.6	21.6	22.2	22.6	19.4
South Korea	9.6	9.0	9.3	10.0	10.5	10.7
Japan	8.3	6.8	6.8	6.2	5.6	5.2
Euro Area	23.5	24.4	24.4	23.8	22.3	20.9
United States	17.3	16.2	15.5	13.4	11.6	10.4

Source: CEIC; MIDFR

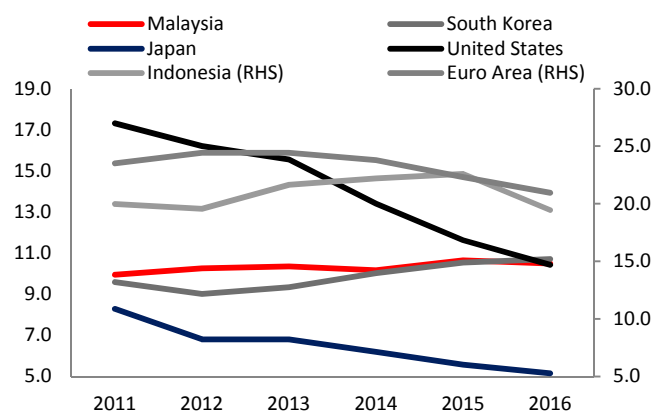
Malaysia's youth unemployment rate expected to fall further in 2017. Based on the latest developments in global and domestic economies, we forecast Malaysia economy to grow by 4.9% in 2017. Anticipated-improvement in global trade activity and further stabilization in commodities prices would spur Malaysia 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 10.1% while overall unemployment rate to stand at 3.3% in 2017. 

Chart 1: Youth Unemployment Rate 2016 (%)



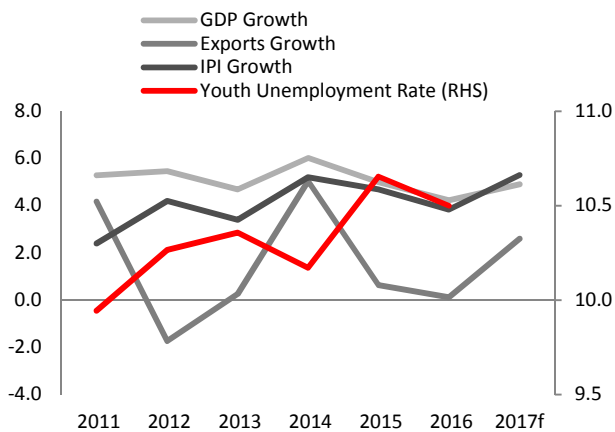
Source: DOSM; MIDFR

Chart 2: Selected Global Youth Unemployment Rate (%)



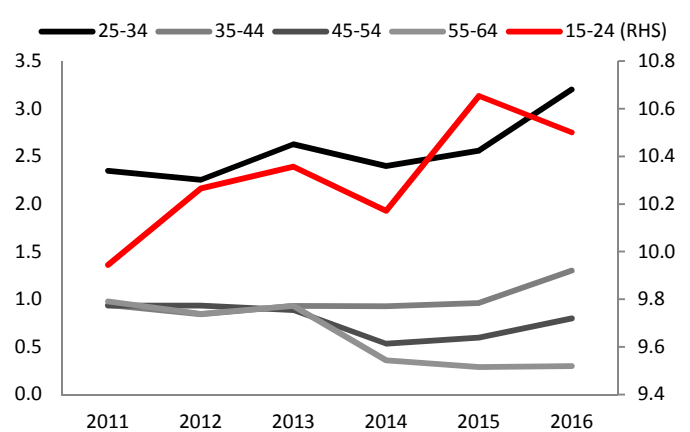
Source: CEIC; MIDFR

Chart 3: Youth Unemployment Rate (%) is Expected to Fall in 2017



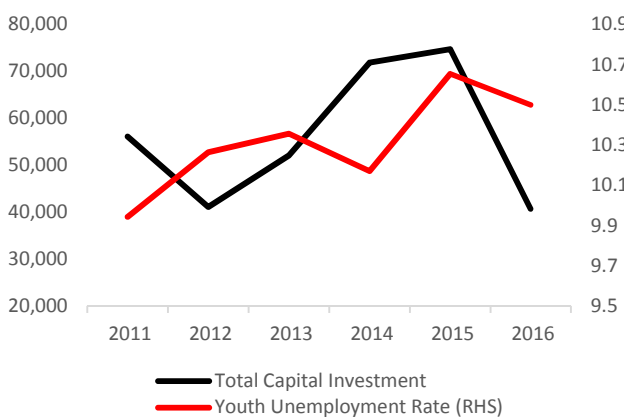
Source: DOSM; MIDFR

Chart 4: Unemployment Rate (%) Among Age Groups in 2016



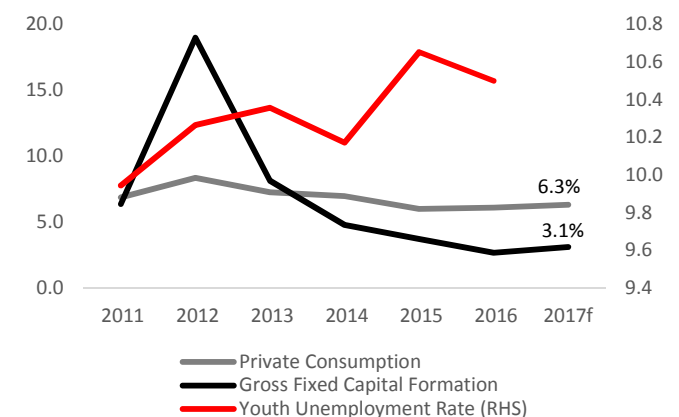
Source: DOSM; MIDFR

Chart 5: Youth Unemployment Rate (%) vs Total Capital Investment (RM Million)



Note: Capital Investment for 2016 (Jan-Sept)
Source: MIDA; MIDFR

Chart 6: Youth Unemployment Rate (%) vs Selected Component of GDP (%yoy)



Source: DOSM; MIDFR

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