# THEMATIC REPORT

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## Improving Labour Market Yet Structural Issues Remained

### KEY HIGHLIGHTS

- **Jobless rate ended at 3.6% for 2022. Recovery of Malaysia's labour market continued as unemployment rate was maintained at 3.6% in Dec-22.**
- **Among age groups, employment of 15~24 and 45~54 in 2022 were -1.6% and -1.5% lower than their 2019 levels respectively.**
- **Referring to 12th Malaysia Plan, tertiary-educated employment is projected to contribute 35% of total workforce by 2025. The current data showed 31.8% is represented by the tertiary group (2019: 29%).**
- **Throughout the pandemic years, we saw significant contractions of non-citizens, -12.3% in 2020 and -0.3% in 2021. In absolute value, almost 300K left the workforce.**
- **Employment of non-citizens is -9.6% lower than its 2019 level while citizens employment registered +7.1% higher.**
- **Skill-related underemployment shares to total employment at 11.9% in 2022, slightly lower than record high 12.4% in 2020.**
- **We foresee Malaysia's unemployment rate to decline further to 3.5% in 2023 and return to pre-pandemic levels at 3.3% in 2024.**

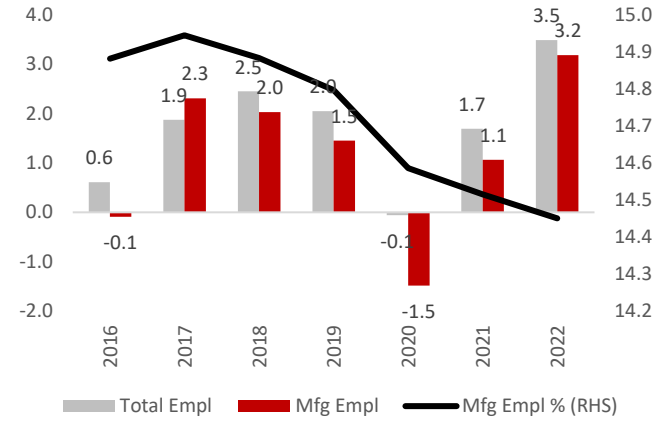
### ECONOMIC & POLICY

**Jobless rate ended at 3.6% for 2022.** Recovery of Malaysia's labour market continued as unemployment rate was maintained at 3.6% in Dec-22. Youth aged 15~24 unemployment rate descended to a new pandemic low of 11.8%, but remained higher than pre-pandemic (2019: 10.4%). Labour force and employment continued expanding +2.4%yoy and +3.1%yoy, respectively, supported by robust domestic economic growth and still upbeat external front. Unemployment dipped further by -12.8%yoy, marking the 16th-consecutive months of contraction. In addition, outside labour force was reduced by -1.3%yoy, registering the 14th-straight months of negative growth rate. As for 2022, employment growth hit new record high at +3.5% with solid support from additional job gains of employer by +9.5%, employee by +1.8%, own account worker by +9.7% and unpaid family workers by +6.2%. Jobless rate averaged lower at 3.8%, still higher than pre-pandemic 2019's average 3.3%. Even though robust economic growth pace recorded last year, we opine labour shortages, tightness in global supply chain and Covid-19 concerns are among downside factors for solid recovery of the job market.

**Manufacturing employment share at record low**. Referring to table 4, manufacturing employment contribution to total employment declined to 14.5% in 2022, the lowest ever recorded. Despite of booming external trade sector during the pandemic years, manufacturing employment rose slower than total employment growth, +3.2% vs. +3.5% in 2022 (2021: +1.1% vs. +1.7%). On a positive note, average monthly wage level stayed on an uptrend from RM2,765 in 2016 to RM3,420 in 2022. However, the wage growth remained tepid in post-pandemic at +2% per annum (Ave. 2016~19: +6%). By sub-sector, E&E related industries still the main employment pool particularly Electronic Integrated Circuits, Electrical Resistor Component and Computers & Peripherals Equipment which accommodated 12.2% of manufacturing job market in 2022. In terms of annual employment growth, there were ten industries which posted double-digit rate, among others by Pumps, Compressors, Taps & Fluid Powered Equipment (+18.2%), Printing Ink (+18.1%) and Dyeing, Bleaching, Printing & Finishing of Yarns (+17.4%). On a flip side, there were almost 30 industries which saw contraction of employment growth last year. As for nominal wage growth, 29 industries posted strong double-

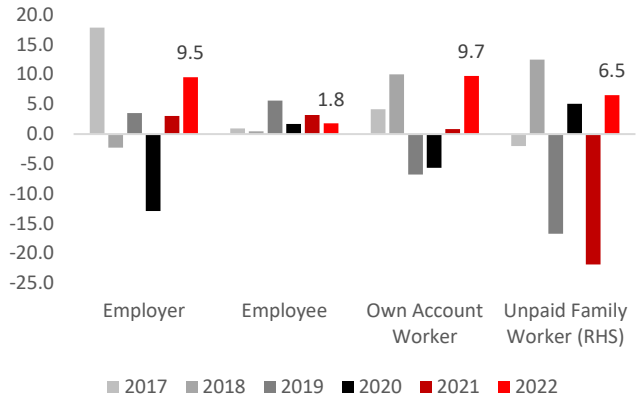
digit rate, partly thanks to the higher minimum wage of RM1,500 per month. The top three industries were (i) Liquefied Inorganic (+59.1%), (ii) Equipment for Measuring, Testing, Navigating & Control (+41.1%) and Optical Instruments, Photographic & Equipment (+35.8%). The economic recovery for manufacturing sector quite uneven given that more than 40 industries registered negative wage growth in 2022.

**Chart 1: Total vs. Manufacturing Employment (YoY%)**




Source: DOSM, MIDFR

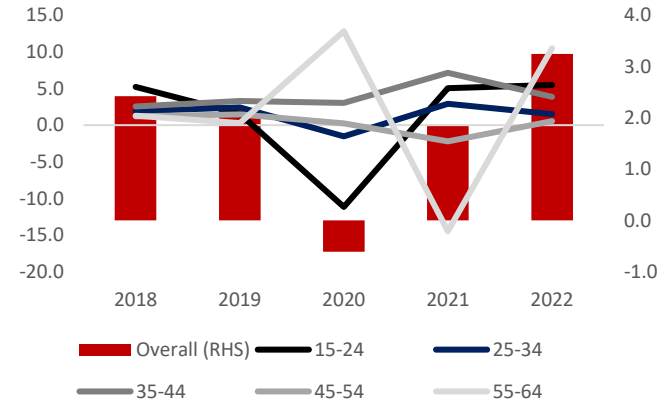
**Chart 2: Employment by Type (YoY%)**




Source: DOSM, MIDFR

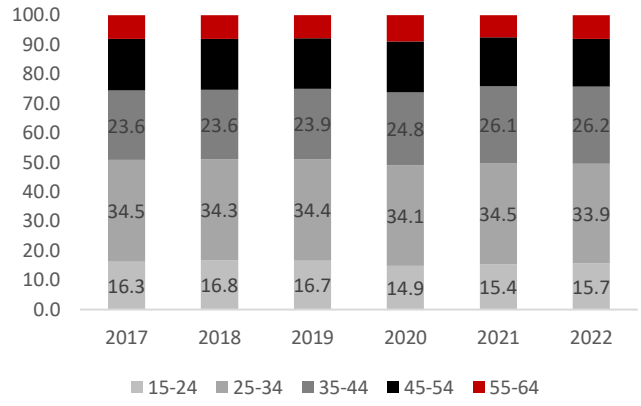
**Two age groups remained below 2019 levels**. Among age groups, employment of 15~24 and 45~54 in 2022 were -1.6% and -1.5% lower than their 2019 levels respectively. Overall employment surpassed the pre-pandemic level by +4.5%. The 15~24 employment hammered by -11.2% in 2020 and recovered gradually by +5.1% and +5.5% in the following years. The older group employment contracted by -2.2% in 2021 but only grew by +0.5% last year. The age group of 25~44 saw steady pick-up throughout the pandemic years which contributed 60.1% in 2022 to the workforce (2019: 58.3%). Nevertheless, we noticed there was a strong pick-up in employment growth of age group 55~64. This jobholder age group posted +6.6% higher than 2019, with +10.5% increase in 2022. In terms of jobholder share, this group represented 8% of total workforce (2021: 7.5%). We believe signs of ageing population is slowly reflecting in Malaysia.

**Chart 3: Employment by Age group (YoY%)**




Source: DOSM, MIDFR

**Chart 4: Employment by Age group (Composition %)**

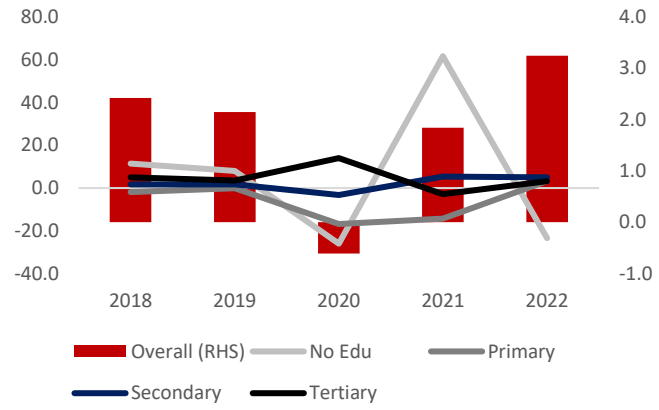



Source: DOSM, MIDFR

**Pandemic crisis elevated tertiary employment, closer to 12MP's target**. Referring to 12th Malaysia Plan, tertiary-educated employment is projected to contribute 35% of total workforce by 2025. The current data showed 31.8% is represented by the tertiary group (2019: 29%). Tertiary-educated employment in 2022 was +14.3% higher than its 2019 level. Somehow the pandemic crises had led to strong upsurge in tertiary-educated employment growth particularly +14% in 2020. Primary-educated employment was already in descending trends even before the pandemic

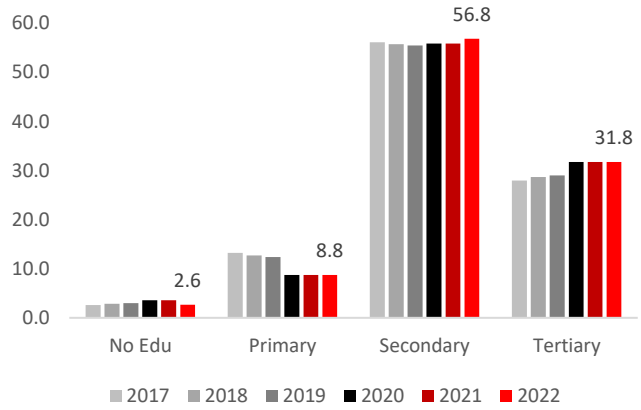
hit. The employment of primary-educated to working population ratio fell from 13.3% in 2017 to 8.8% in 2022. In fact, employment of primary-educated and without formation education were -26.3% and -8.4% lower than its 2019 levels respectively. The low-skilled employment share was close to the 12th Malaysia Plan target of 11% vs. 11.4%. Secondary-educated employment remained in steady trend with 7% higher than 2019 level and slightly above the long-term plan target of 54% by 2025.

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




Source: DOSM, MIDFR

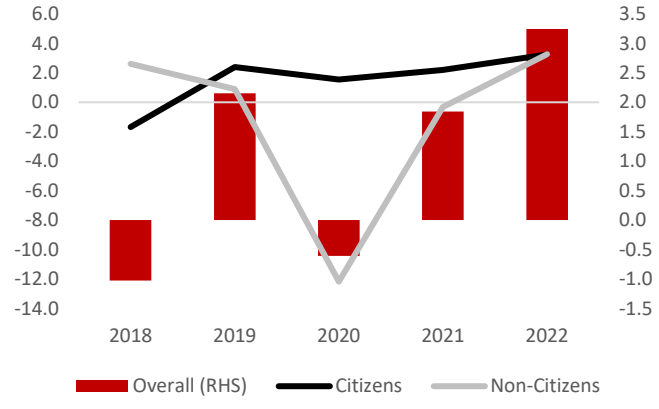
**Chart 6: Employment by Education Attainment (Composition %)**




Source: DOSM, MIDFR

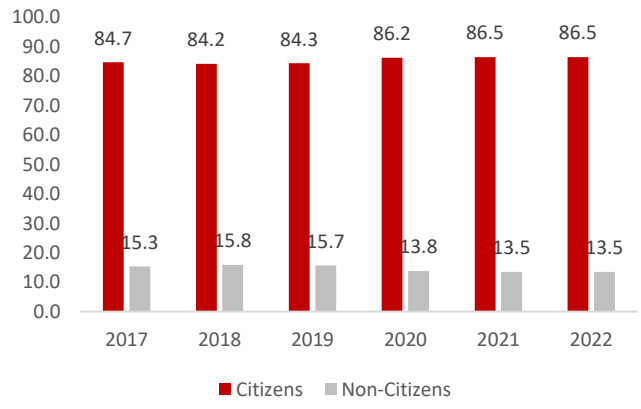
**Non-citizens employment about 10% lower than pre-pandemic level.** Throughout the pandemic years, we saw significant contractions of non-citizens, -12.3% in 2020 and -0.3% in 2021. In absolute value, almost 300K left the workforce. As Malaysia reopened its international borders in Apr-22, employment of non-citizens increased by +3.3% and 68.2K only. Employment of non-citizens is -9.6% lower than its 2019 level while citizens employment registered +7.1% higher. We believe the move made by the government to ease the hiring process of non-citizens will spur higher employment growth rate and reduce overall jobless rate in 2023. The return of non-citizens is very likely positive for labor-intensive sector namely plantation, manufacturing and construction.

**Chart 7: Citizens vs. Non-Citizens Employment (YoY%)**




Source: DOSM, MIDFR

**Chart 8: Citizens vs. Non-Citizens (% Total Employment)**

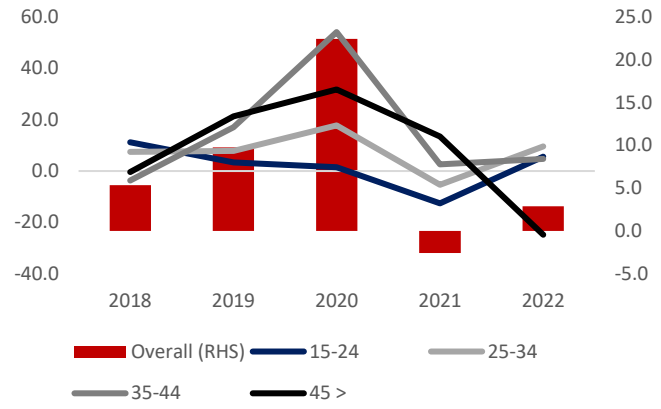



Source: DOSM, MIDFR

**Skill-related underemployment stayed above pre-pandemic level.** Skill mismatch is prevalent in Malaysia given that skill-related underemployment shares to total employment at 11.9% in 2022, slightly lower than record high 12.4% in 2020. The share has been on steady uptrend since 2017. This could be due to two factors; (i) Misalignment between skill-set provided by Education institutions and required in labour market or (ii) The economy does not create jobs that resemble to the skills-set of certain individuals. Despite of domestic economy reopening, overall skill-related underemployment grew by +2.9%. Only those 45 & above age group had significant decline of -24.8% in 2022. As

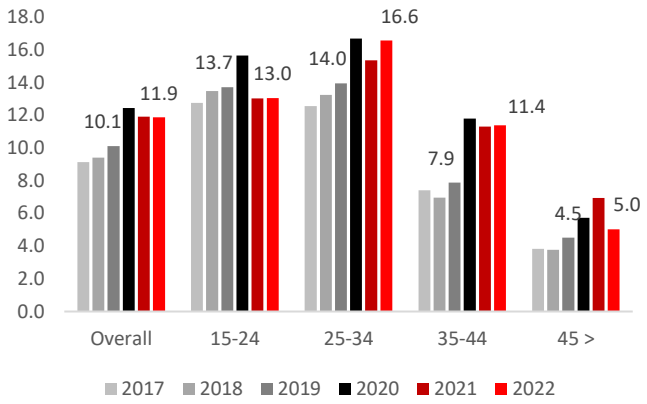
compared to 2019 levels, overall skill-related underemployment is +22.7% higher whereas age group 15~24 is lower by -6.3%.

**Chart 9: Skill-Underemployment by Age Group (YoY%)**




Source: DOSM, MIDFR

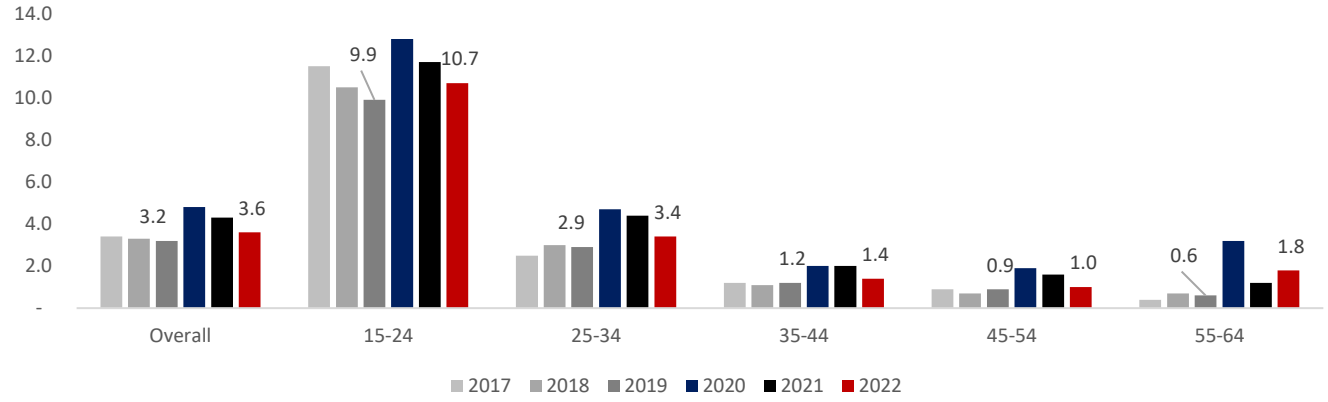
**Chart 10: Skill-Underemployment by Age Group (% of Employment)**




Source: DOSM, MIDFR

**Youth unemployment rate continued on double digit rate.** In line with stronger-than-expected economic performances in 2022, jobless rate across all age groups improved. However, those jobless rates still stubbornly above 2019 levels. Malaysia's youth jobless rate remained at double digit rate, 10.7% in 2022 (2019: 9.9%). Looking ahead, we are optimistic that overall jobless rate to descend further this year amid steady domestic economic expansion rate. We believe some of the age group unemployment rate to recede to pre-pandemic levels in 2022.

**Chart 11: Unemployment Rate by Age Group (%)**



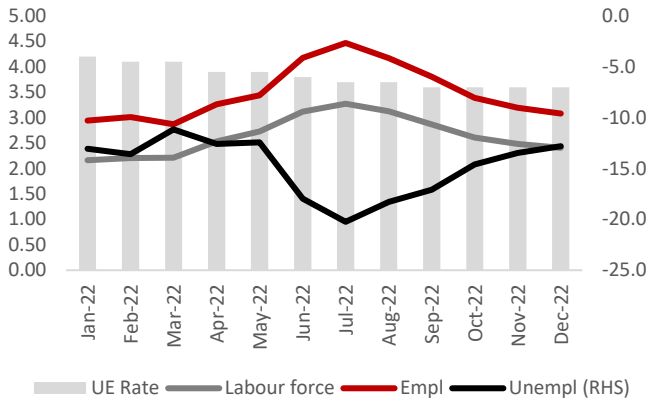

Source: DOSM, MIDFR

**Malaysia's average jobless rate to touch 3.5% in 2023.** Labour market in Malaysia is expected to strengthen further in 2023 underpin by continous upbeat momentum in domestic economy and modest expansion in external sector. We foresee Malaysia's unemployment rate to decline further to 3.5% yet slightly higher than pre-pandemic level of 3.3%. Steady expansion in primary sectors as well as construction and services will prop up more employment opportunities next year. Labour force and employment are predicted to pick-up by +1.6% respectively this year.

**Jobless rate to descend further.** Labour market in Malaysia is expected to strengthen further in 2023 and 2024 underpin by continous upbeat momentum in domestic economy and modest expansion in external sector. We foresee Malaysia's unemployment rate to decline further to 3.5% in 2023 and return to pre-pandemic levels at 3.3% in 2024. The return of non-citizens workers is expected to boost overall employment and reduce jobless rate. As of 3QCY22,

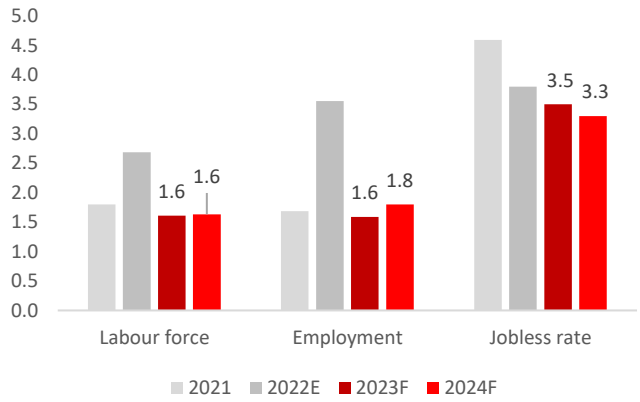
non-citizens employment is almost 10% lower than pre-pandemic levels. During the pandemic years, we notice close to 300K non-citizens workers left the workforce. Steady expansion in primary sectors as well as construction and services will prop up more employment opportunities next year. Labour force and employment are predicted to expand at the range of +1.6~1.8%. As mentioned in our thematic report Positive Real Wage Growth to Continue Fueling Strong Consumer Spending, further improvement in labour market would strengthen consumer spending as wage receipients to employment ratio has reached a new peak at 64.5% in 2021, among others thanks to the minimum wage salary policy.

**Chart 12: Labour Market Performances (%)**




Source: DOSM, MIDFR

**Chart 13: Labour Market Forecasts (YoY%)**




Source: DOSM, MIDFR

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|---|---|
| **STOCK RECOMMENDATIONS** | |
| BUY | Total return is expected to be >10% over the next 12 months. |
| TRADING BUY | Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow. |
| NEUTRAL | Total return is expected to be between -10% and +10% over the next 12 months. |
| SELL | Total return is expected to be <-10% over the next 12 months. |
| TRADING SELL | Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow. |
| **SECTOR RECOMMENDATIONS** | |
| POSITIVE | The sector is expected to outperform the overall market over the next 12 months. |
| NEUTRAL | The sector is to perform in line with the overall market over the next 12 months. |
| NEGATIVE | The sector is expected to underperform the overall market over the next 12 months. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology