Recovering job market or brewing catastrophe?

No doubt Malaysia is experiencing a job market boom. According to the **department of statistics Malaysia's (DOSM)** second-quarter job market report, the economy added half a million jobs in 2022 Q2, compared with the same quarter in 2019 (pre-Covid).

The strong employment market points indicate a recovering economy after the Covid slump in the past two years.

While it is tempting to jump with joy, the report tells many stories. While there are indications for optimism, there are also obscure forebodings of potential trouble in the near future.

Strong prospects in digital, manufacturing sectors

With an expanding employment market, it would be in our interest to see if jobs are created in productive industries. Taking the 2019 median wage as the benchmark (2019 data is used due to a lag in data reporting), information and communication; finance, insurance, real estate & business services; and mining & quarrying were the highest paying industries, whereas wholesale and retail trade; food & beverages and accommodation; and agriculture were amongst the lowest paid.

The digital sector experienced the most robust employment growth in 2022 Q2, with an addition of 24,000 headcounts (+10.3%) since 2019. This shows that the rapid digitalisation trend accelerated due to Covid restrictions is here to stay. This includes digital services that enable e-commerce, digital banking and payment, and working-from-home technologies, amongst others.

The booming e-commerce sector, valued at US$6.3 billion in 2021, also spilled over into the transportation and storage sector, with warehousing and delivery services in high demand. Malaysia's eCommerce sector is expanding so rapidly that global giants like eBay positions Malaysia as a strategic market for eCommerce.

The job report also showed a massive job creation in the manufacturing sector: the industry has generated 166,000 new jobs, or a good 6.5% growth since 2019. The industry has been one of the backbones of the economy – almost one in 5 of Malaysia's workforce is employed in the manufacturing sector – particularly the electrical, electronic, and optical products as well as petroleum, chemical, rubber and plastic products.

These growths pushed unemployment down to 3.9% in 2022 Q2, much lower than 2021 Q2 and 2020 Q2 (4.8% and 5.1%, respectively), but slightly higher than the 3.3% before Covid.

Despite these strong numbers, a closer look at the statistics and news reveals two worrying trends: underemployment and the low-skill trap. In this article, I'll address the former and leave the latter for part 2.

Underemployment & younger workforce

During the pandemic, diploma and degree holders alike suddenly found themselves out of employment. In a desperate attempt to find work in such a tight labour market, many turned to low-skilled or part-time jobs that do not match their qualifications – these range from sales reps, administrative assistants, restaurant workers and gig workers (such as grab riders). These transitions often come with a pay cut, though this is not always the case.

While the change in remunerations varies, these transitions often jeopardise personal growth and career progression. Employers often look at previous job experience and salary as a benchmark for recruitment. The two years of being underemployed could mean that many struggle to return to work in their industry.

For instance, a chemist turned sales assistance for two years not only creates a skills and knowledge vacuum, but such a person may find himself disadvantaged against his peers who managed to hang on to their old job during the pandemic. Transitioning back to the industry is both difficult and costly. It is difficult because such gaps are often frowned upon by potential employers and costly because they have to restart their careers in which they might need to take a pay cut and be treated no differently than a fresh graduate.

There are also worrying indicators that suggest an inequality gap in underemployment. Underemployment in women is more common than in men, particularly for skills-related underemployment.

Younger workers (15 to 34 years old) are also more likely to be underemployed compared with their older counterparts. The data suggests two in three underemployed workers are from this age group.

Some youths took to social media to express their adversities. Twitter stories and an article by G Vinod in Focus Malaysia on "Underemployment: Netizens share stories of sacrificing qualification for low pay" feature heartbreaking stories about tertiary graduates in low-skilled employment as KFC workers and pump attendants at Petronas.

Underemployment & lifetime income

Headline sentiments will never be as clear as a numerical representation. To simulate how underemployment affects lifetime income in different scenarios, we first contrast the lifetime income projection between individuals with regular career tracks and those who were underemployed for 2-years, 3-years, and 4-years. Then, we will also compare workers who managed to re-enter the high-skilled industry and those perpetually trapped in low-skilled jobs.

In the simulation, we make a few simple assumptions. First, all workers start working at 25. We assume no prior working experience before this age. Under a regular career track, a worker receives a starting salary of RM2,186 (benchmark 2019 median wage) with a 4% to 10% annual pay increment – the worker is given a higher pay increment at the early stage of their career, which tapers off as he gets older. Underemployed individuals start off with a lower monthly salary of RM1,672 and receive an annual increment of between 3% and 8% depending on age. When they switch from underemployment to a regular career track (mid or high-skilled), they start from the bottom (RM2,186 salary). We ran the income simulation for workers aged 25 to 59.

The simulation shows that the longer a worker remains underemployed, the more disadvantages he has relative to his peers. At age 30, workers on a regular career track earn a predicted average of RM3,457, compared with RM2,857, RM2,597, RM2,361 and RM2,411 for 2-years, 3-years, 4-years and perpetual underemployment, respectively. At age 40, a regular-track worker will earn RM6,545. His peers will earn a wage that is lower by RM1,000, RM1,500, RM2,000 and RM2,500, respectively. By 59, the contrast is wide between regular track workers and those who are trapped in perpetual underemployment, such that their wage is expected to differ by over RM6,500.

If we count lifetime earnings, the regular earners accumulate RM3 million over 35 years of their working life. If they spend 2-years in underemployment due to Covid, this figure drops to RM2.5 million. At the other end of the scale, the workers in perpetual underemployment will only earn RM1.78 million during this period, just slightly over half of what their friends earn on average.

These figures are concerning. As most of the affected workers are young workers and women, leaving this issue unchecked would not only result in a great loss in valuable human capital, but also perpetuate inequalities between genders and age groups.

We have also seen an exodus of youths crossing over to Singapore in search of better job opportunities due to the failure in our job market. Talent outflow is one key area that has become too big to ignore.

To prevent these issues from spiralling further, government intervention is critical and necessary, from providing training to career consultation and job matching to helping workers regain their competitiveness in the employment market.

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