



NEWSLETTER

Prepared by:
NUR LAYALI MOHD ALI KHAN
Principal Assistant Director, MBLS

THE EVOLUTION OF UNEMPLOYMENT IN MALAYSIA

A labour market is the place where **interaction occurs between firms and households**. In this market, **labours are demanded by firms and supplied by households**. The supply and demand of labour in the market is influenced by changes in the bargaining power. An ideal labour market would be a condition where all labours are employed.

However, within an economy, there always exists **imbalances between supply and demand**. This may result in either **vacancies within firms**, or **unemployment** in the segment of the labour force; or often both happening concurrently.

From the perspective of the national economic and labour market policies, **unemployment is one of the most talked about and focused upon indicators**. What is the big deal with unemployment? **What is high and what is low**, as far as unemployment rate is concern? How has the **national unemployment rate evolve since nearly four decades ago**? **Will there ever be zero unemployment? Where do Malaysia stand in terms of unemployment as compared to selected countries in the world?**

Before we delve further into the story on unemployment, what is employment?

International Labour Organization (ILO)

“Persons in employment are defined as **all those of working age** who, during a short reference period, were **engaged in any activity to produce goods or provide services for pay or profit.**”

What is the definition of unemployment?

ILO defines those who are unemployed as “persons within the working age who were **not in employment**, carried out activities to **seek employment** during a specified recent period and were **currently available to take up employment** given a job opportunity..”

DOSM, guided by the ILO describes “those in unemployment as **all persons who did not work** during a specified recent period. These groups are further classified into:

Active unemployment

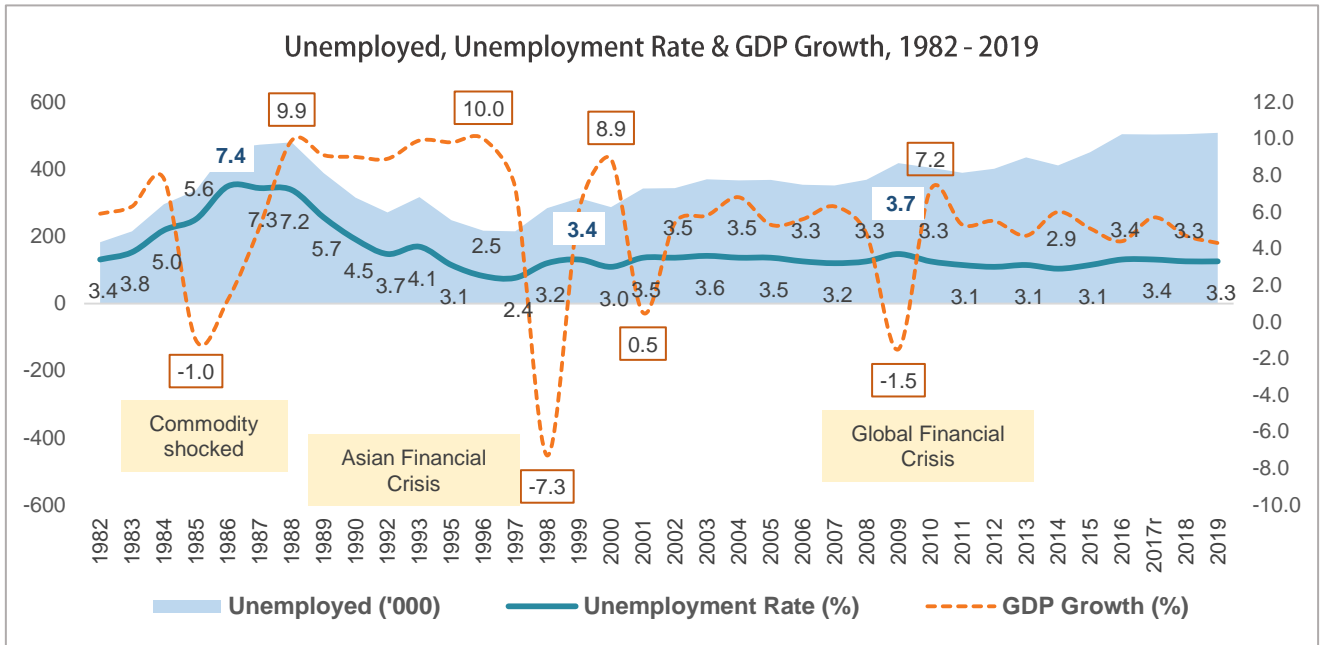
all persons who were **available for work** and were **actively looking** for work

Inactive unemployment

- did not look for work because they **believed no work was available** or that they were not qualified;
- would have looked for work if they had not been **temporarily ill** or had it not been for **weather condition and other restriction**; and
- were **waiting for result of job applications**



The highs and lows of unemployment in Malaysia



Source: Labour Force Survey & National Account

How does the economic cycle impact unemployment?

Looking at the historical series of unemployment rate going back as far as 37 years ago, there were **three significant peaks** which signalled **cyclical unemployment**.

The **first cycle** occurred as the **economy contracted by negative 1.0 per cent** due to **commodity shocked**. The unemployment rate increased gradually to 3.8 per cent in 1983, accelerating to 5 per cent in 1984 and finally **peaked in 1986**. The **national unemployment rate reached all time high in 1986**, at **7.4 per cent**, recording **789,500 unemployed persons**.

The unemployment rate has **managed to reached the all time low in 1997** at **2.4 per cent**, with **214,900 unemployed persons**. Thus, the **second cyclical unemployment** which occurred in **1999** was translated into a low peak, nevertheless **reaching 3.4 per cent**, recording **313,700 unemployed persons**. This was a response to the **1997-1998 Asian Financial Crisis** which brought the economy down by **7.3 per cent**.

The **third peak** was recorded in **2009** when the economy took a downturn of **1.5 per cent** as a result of the **Global Financial Crisis**. There were **418,000 unemployed persons** where the **unemployment rate was 3.7 per cent**.

Besides these peaks, the **unemployment rates hovered between 2.4 per cent to 3.4 per cent** mostly due to **frictional unemployment**. Instances of frictional unemployment are situations where **graduates** who enter the labour market **seeking work**, or **persons upskilling or reskilling** are **temporarily unemployed** as they **seek for work that match their skills and experiences**. Therefore, at one particular point in time, **it is not possible to have zero unemployment** while people move in and out of jobs.

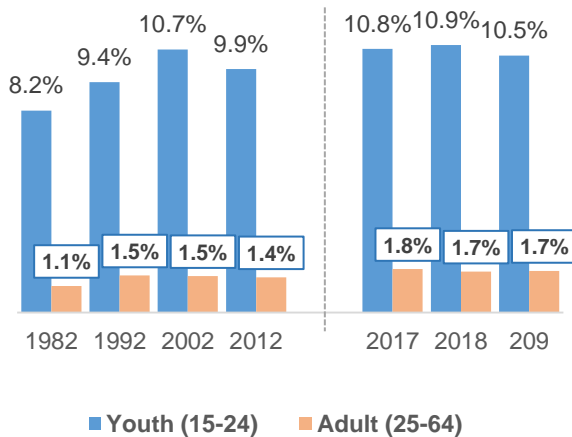
In **2019**, there were **508,200 unemployed persons** while the **unemployment rate was 3.3 per cent**. Despite the rather low rate, it is **important to identify those who are affected** to prescribe the right policy responses and initiatives. For this purpose, let us look at the profile of the unemployed throughout the years which were not affected by the economic crises

The unemployed: Who are they?

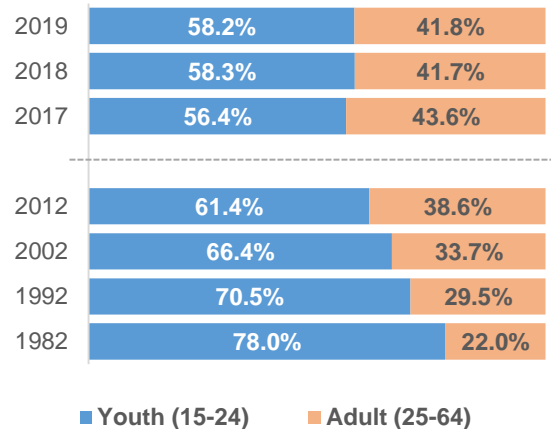
Youth unemployment rate was four to five times higher than adult's

Youth made up the majority of unemployed

Youth & adult unemployment rate



Share of unemployed youth & adult



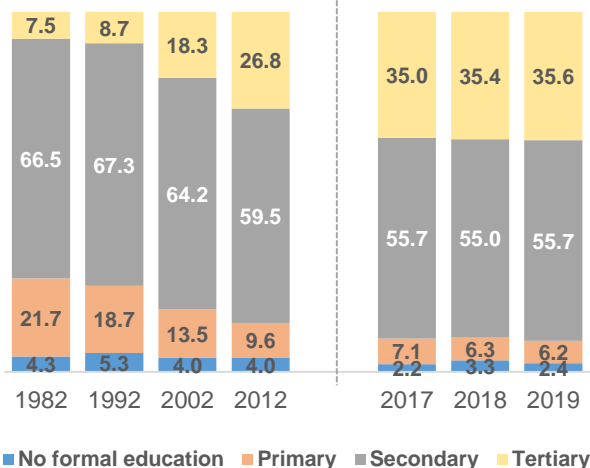
Source: Labour Force Survey

Youths are one of the **most vulnerable groups in the labour market**, especially due to their **lack of skills and experiences**. As such, **youths aged 15 to 24** were observed to record **higher unemployment rate as compared to adults aged 25 to 64**. Between 1982 until 2019, youth unemployment rate were **four to five times higher** than adult unemployment rate.

The share of youth among the unemployed was as high as almost 80 per cent in 1982. Although the share has went down to nearly 60 per cent in 2019, **youth still made up the majority of unemployed persons**.

The share of unemployed with tertiary education increased over the years

Share of unemployed by education attainment



Source: Labour Force Survey

Education is an **element of human capital development**. It is perceived as a pathway into the labour market.

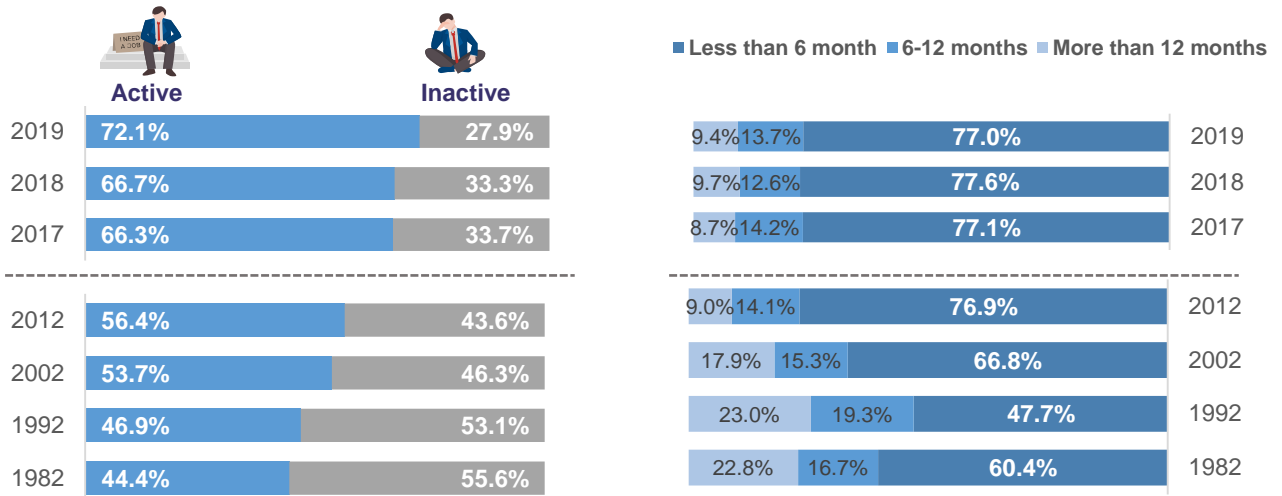
In the **early 80's**, almost **70 per cent** of the unemployed are those with **secondary education** while **less than 10 per cent** had **tertiary education**. This seems to still be the case after ten years.

Over the years, the **share of unemployed with tertiary education** went up. In 2019, this group accounted for **35.6 per cent** of the total unemployment.



About two third of the unemployed are actively seeking work

Less than 10 per cent were in long term unemployment of more than a year

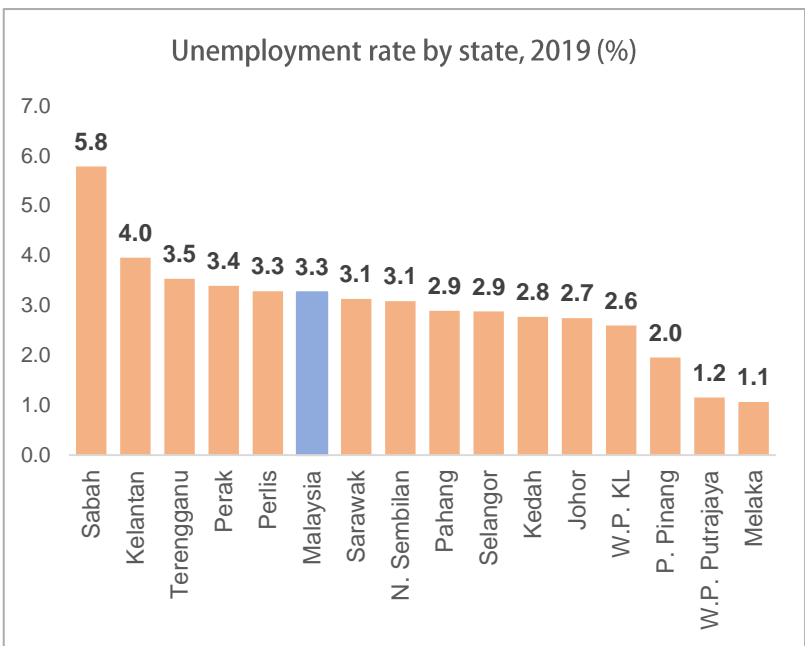


Source: Labour Force Survey

Interestingly, in 1982 more than half of unemployed was inactive. This has changed gradually over the years where the share of inactive unemployment in 2019 accounted for more than a quarter of the total unemployed. Inversely, for every ten unemployed persons, seven were actively seeking work.

In terms of duration of unemployment, nearly a quarter was in long term unemployment of more than a year during the 80s and 90s. The situation has improved considerably where since 2012, long term unemployment made up less than 10 per cent of total unemployment. Meanwhile, majority was unemployed for less than 6 months.

The unemployed: Where are they?



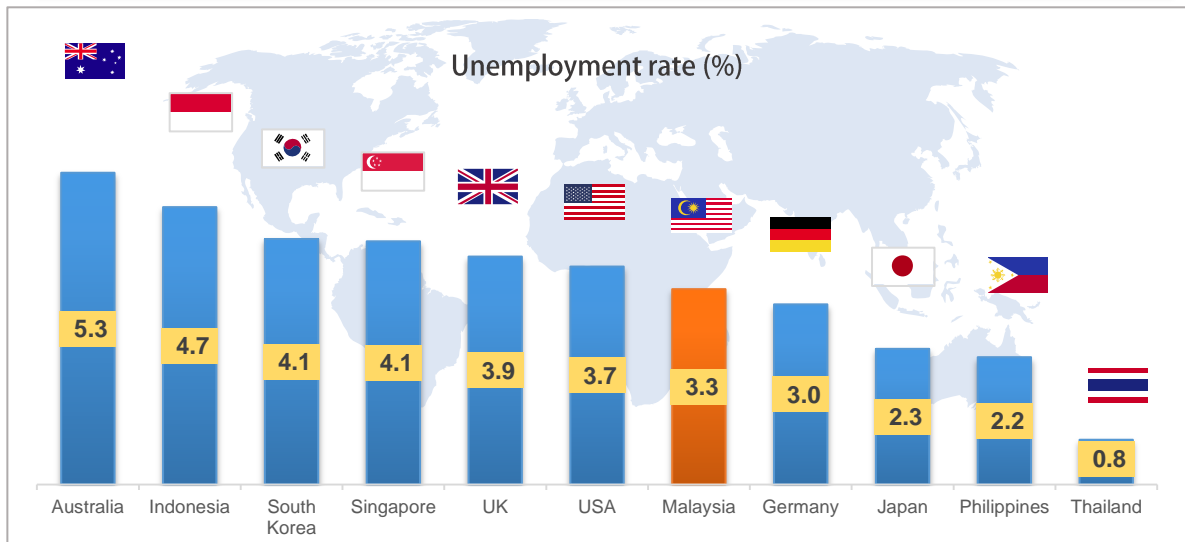
Source: Labour Force Survey

The unemployment rate by states illustrates the ability of the states' labour market to absorb labour supply.

In 2019, four states recorded unemployment rates higher than the national rate namely Sabah with the highest rate at 5.8 per cent, followed by Kelantan (4.0%), Terengganu (3.5%) and Perak (3.4%).

Meanwhile, the lowest unemployment rate of nearly 1 per cent were registered by Melaka (1.1%) and W.P. Putrajaya (1.2%).

How do Malaysia fair against other countries in terms of unemployment?



Number (million)	Australia	Indonesia	South Korea	Singapore	UK	USA	Malaysia	Germany	Japan	Philippines	Thailand
Unemployed	0.7	6.3	1.2	0.1	1.3	6.1	0.5	1.3	1.6	1.0	0.3
Labour Force	13.3	134.8	28.1	3.6	34.9	166.3	15.6	43.8	68.5	44.8	39.0

Source:
1. Malaysia-Labour Force Survey, 2019; 2. Other countries-ILOSTATS

Malaysia's unemployment rate in **2019** stood at **3.3 per cent**. This simply translates into **3 out of 100 labour force are unemployed**, while the remaining **7 are employed**. When compared to selected countries in the world, this rate is within **similar range as Germany**.

Although **the rate is relatively low** compared to other developed countries, there will always be **issues pertaining to the quality of employment** among those who are employed; and the **social safety nets** provided to those who are unemployed.

Australia, UK and USA all recorded rather high unemployment rates. Nevertheless, these countries are among those that have also established sound social safety nets schemes to support the unemployed while they continue to seek job opportunities. In this regards, Malaysia has adopted this practice when Ministry of Human Resource through Social Security Organisation introduced Employment Insurance System in 2018.

Unemployment benefits offered by selected countries ...

Australia funded the unemployment benefit through the taxation system. Newstart Allowance provides financial support to people between the age of 22 and pensionable age who are actively seeking paid work; while Youth Allowance is a payment to assist young people who are looking for work, studying or participating in an apprenticeship or other training.

The Jobseeker's Allowance is a benefit for people in **United Kingdom** needing financial support because of unemployment. It can be either contribution-based or income-based

Unemployment Insurance is a federal-state program in **United States of America** financed through federal and state payroll taxes to provide support to the unemployed.

Malaysia introduced Employment Insurance System, jointly funded by contributions of employers and employees to provide short term assistance to the paid employees losing their jobs to seek new jobs.

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