



From the Desk
of the
Chief Economist

BANK ISLAM

ASSESSING THE UNDEREMPLOYMENT & INCOME DISPARITY

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ECONOMIC RESEARCH

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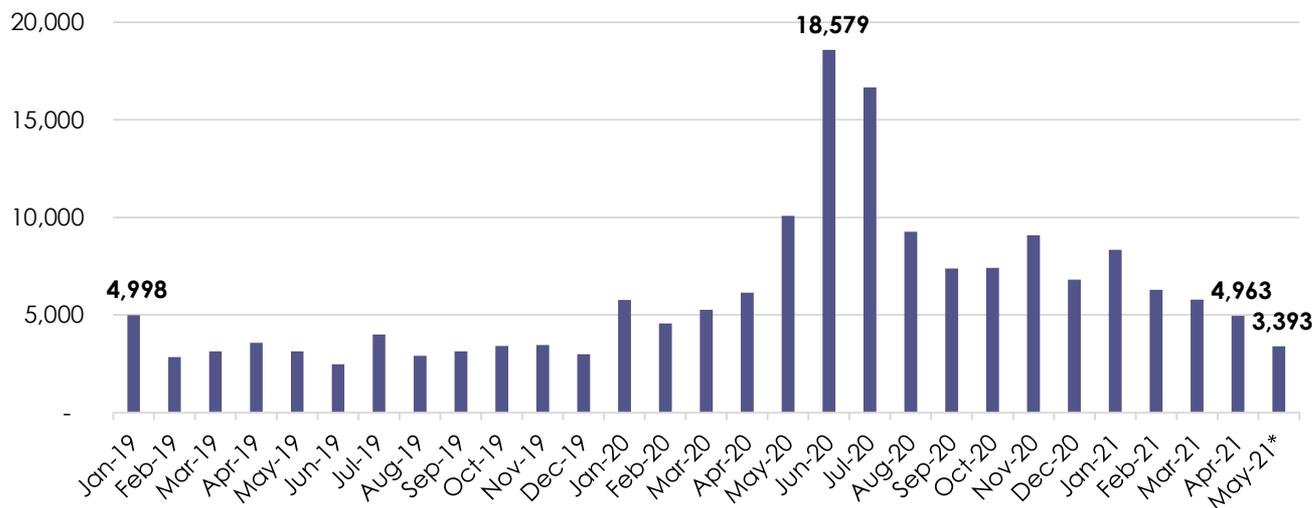
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- ✓ In light of the ongoing Covid-19 pandemic, the series of Movement Control Orders (MCO) imposed by the government to curb infections have impacted human mobility and subsequently caused businesses to be unable to operate on a full scale.
- ✓ As such, job losses have been higher compared to the pre-pandemic period. In 2020, the total loss of employment (LOE) in Malaysia reached 107,024 compared to 40,084 in 2019 as employers had to bear the brunt of the Covid-19 pandemic.
- ✓ Even on a Year-To-Date (YTD) basis, as at 28 May 2021, the total LOE in 2021 had reached 28,774 which was more than half of the total LOE recorded in 2019.
- ✓ The high number of LOE in 2021 so far will translate to more job seekers applying to limited vacancies as companies remain cautious on the headcount to manage costs. Therefore, an issue of underemployment will arise as some job seekers will accept a job regardless of their qualifications.

Loss of Employment in Malaysia



Annual Loss Of Employment

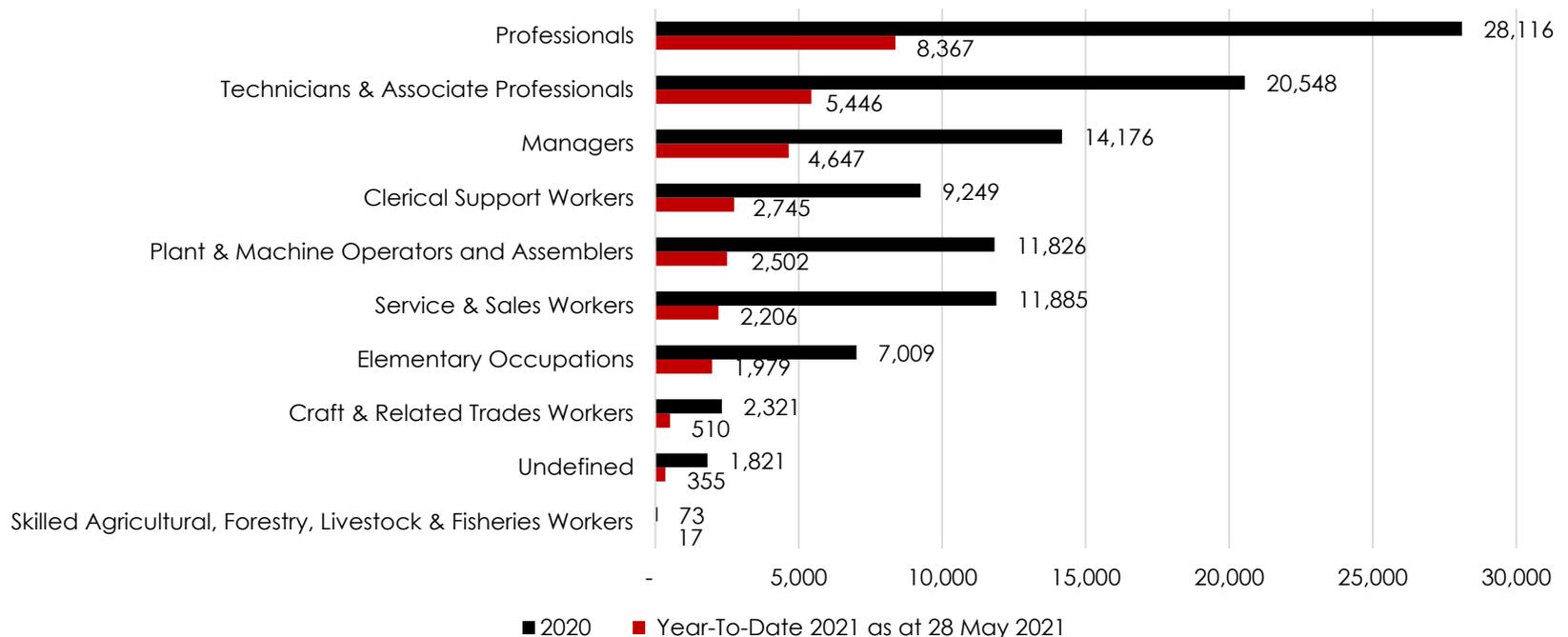
Year	Total Loss Of Employment
2019	40,084
2020	107,024
Year-To-Date 2021*	28,774

Source: SOCSO
Note: *As at 28 May 2021

Source: SOCSO

- ✓ Among major occupation categories, professionals faced the highest LOE for the period between 1 January 2021 to 28 May 2021 and also for the full year of 2020. Engineers, accountants, lawyers and even pilots are considered professional occupations.
- ✓ On the other hand, skilled agricultural, forestry, livestock and fisheries workers experienced the smallest LOE for the period between 1 January 2021 to 28 May 2021 and also for the full year of 2020. The reason being is that such occupations relate to consumer staples which are always in demand.

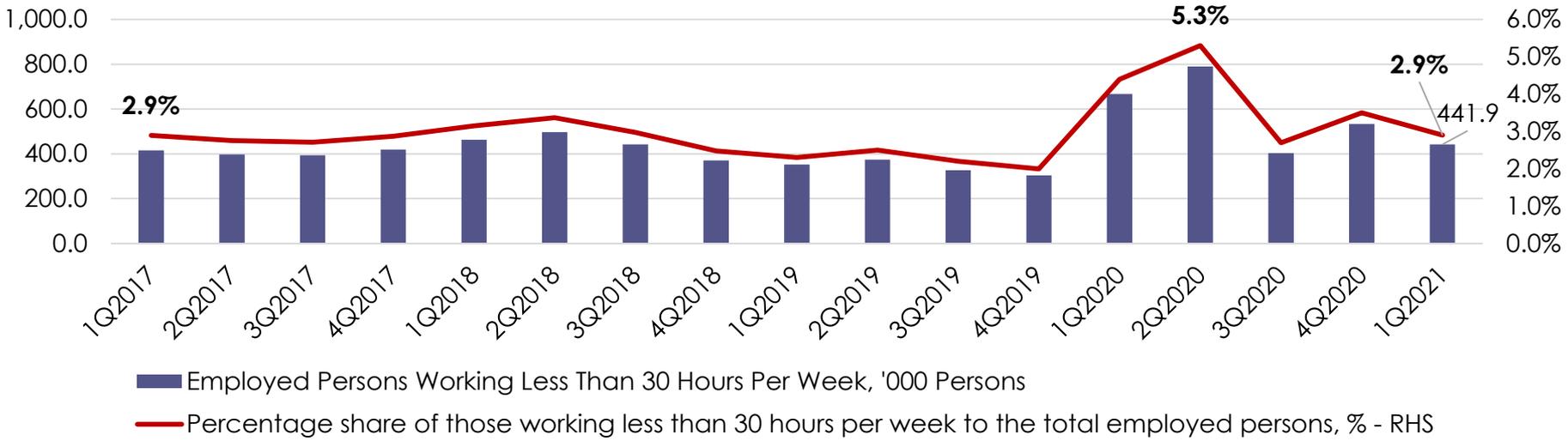
Loss Of Employment By Major Occupation Category



Source: SOCSO

UNDEREMPLOYMENT: EMPLOYED PERSONS WORKING LESS THAN 30 HOURS PER WEEK

Employed Persons Working Less Than 30 Hours Per Week

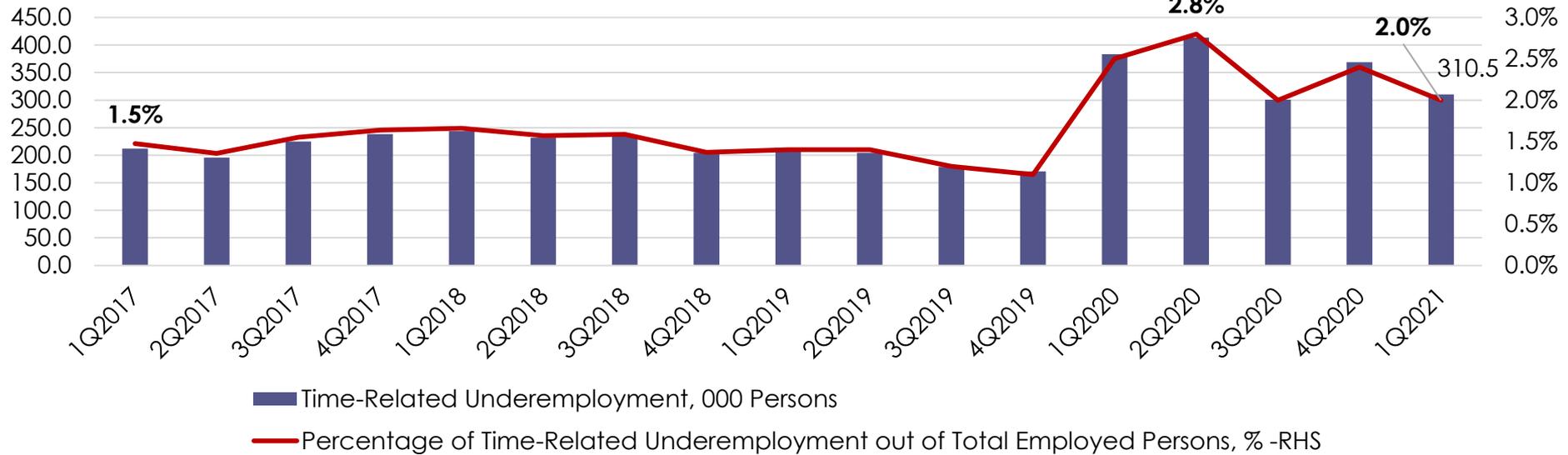


Source: DOSM

- ✓ Underemployment may refer to those who worked less than 30 hours during the reference week because of the nature of their work or due to insufficient work.
- ✓ In 1Q2021, the number of employed persons who were working less than 30 hours per week decreased by 91.8k persons to 441.9k persons (4Q2020: 533.7k persons).
- ✓ Likewise, the percentage share of those working less than 30 hours per week to the total employed persons decreased to 2.9% in 1Q2021 (4Q2020: 3.5%).
- ✓ Despite the decline in the percentage share of those working less than 30 hours per week to the total employed persons, the latest figure of 2.9% in 1Q2021 is still higher than the three-year historical average from 1Q2017 to 4Q2020 of 2.7% before the Covid-19 pandemic occurred.

TYPE OF UNDEREMPLOYMENT: TIME-RELATED UNDEREMPLOYMENT

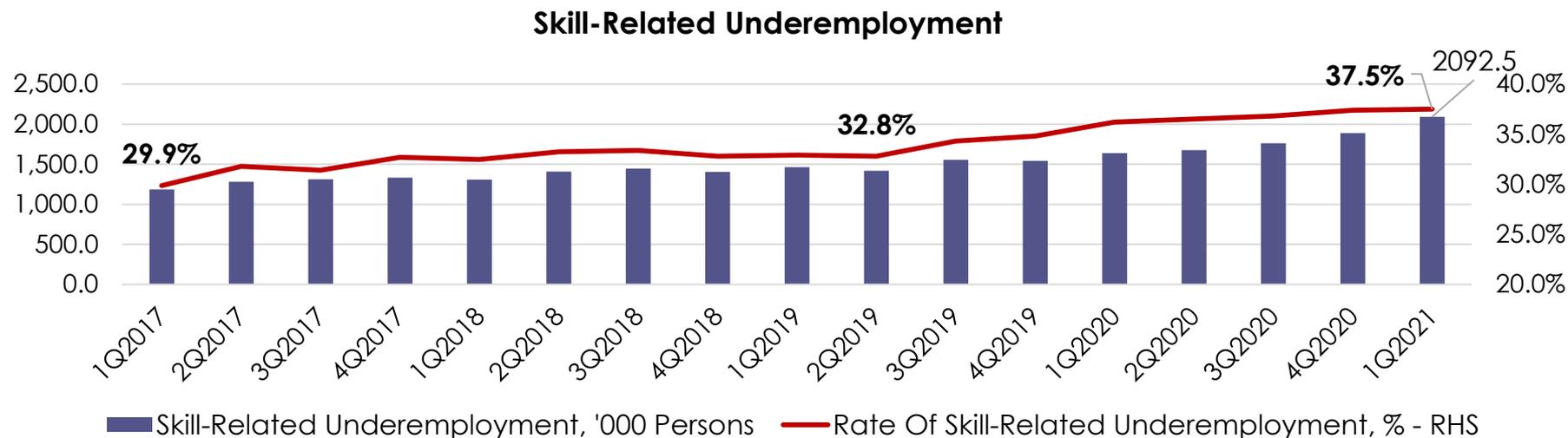
Time-Related Underemployment



Source: DOSM

- ✓ Time-related underemployment refers to a group of people who are employed less than 30 hours during the reference week because of the nature of their work or due to insufficient work and are able and willing to accept additional hours of work.
- ✓ During 1Q2021, time-related underemployment decreased to 310.5k persons from 369.1k persons recorded in fourth quarter of 2020. Out of the total employed person, time-related underemployment encompassed 2.0% in 1Q2021, 0.4 percentage points (ppts) lower compared to 2.4% in 4Q2020.
- ✓ The reduction was partly due to the resumption of nearly all economic activities in compliance with strict standard operating procedures (SOPs) following the implementation of the Conditional MCO (CMCO) in most states in March 2021.

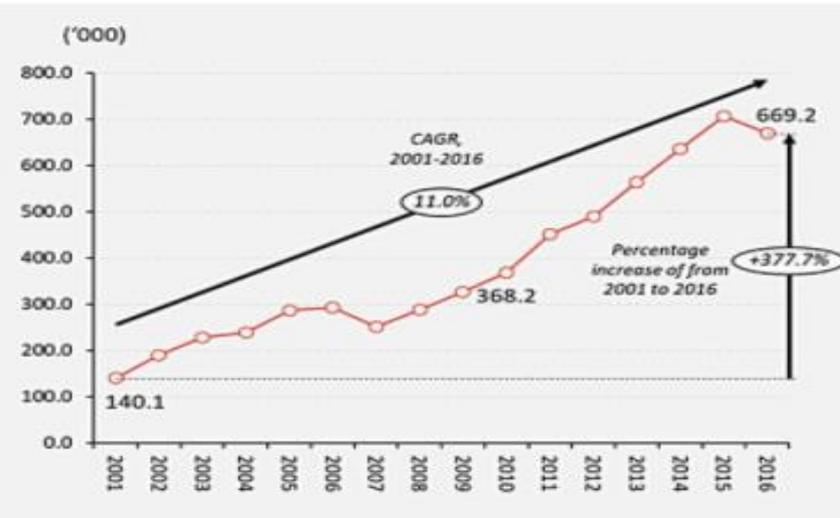
TYPE OF UNDEREMPLOYMENT: SKILL-RELATED UNDEREMPLOYMENT



Source: DOSM

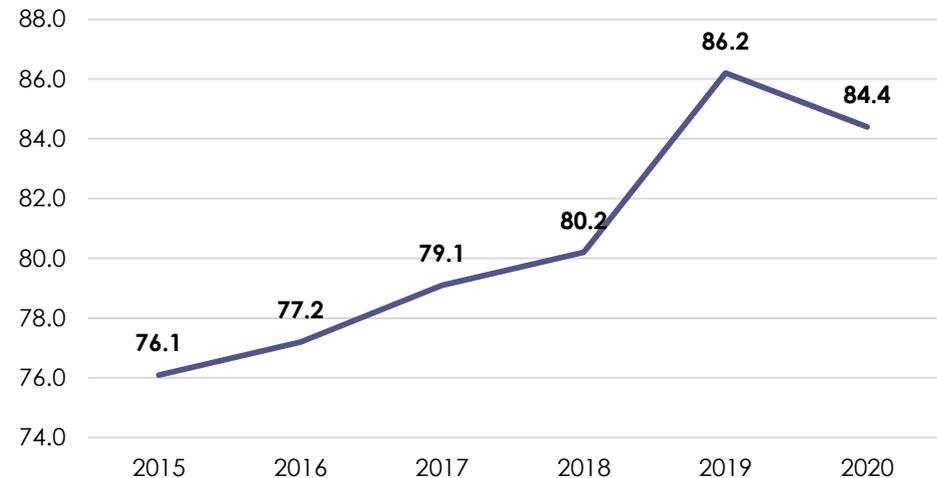
- ✓ Based on the Department of Statistics Malaysia's (DOSM) Labour Force Survey, skill-related underemployment was measured from the perspective of those with tertiary education but working in the semi-skilled and low-skilled occupations.
- ✓ In 1Q2021, the rate of skill-related underemployment which is the percentage of employed persons with tertiary education facing skill-related underemployment increased further to 37.5% (4Q2020: 37.4%).
- ✓ It seems that the current ongoing pandemic has exacerbated skill-related underemployment because the average rate of skill-related underemployment prior to the pandemic from 1Q2017 to 4Q2019 was only at 32.7%.
- ✓ A higher competition in the labour market amid heavy supply of graduates is one of the reasons for jobseekers especially graduates to take any jobs for living regardless their qualification, leading to a mismatch of jobs within graduates.

Past Trend Of Graduate Mismatch Incidences



Source: DOSM Labour Force Survey Reports

Graduate Employability Rate in Malaysia, %

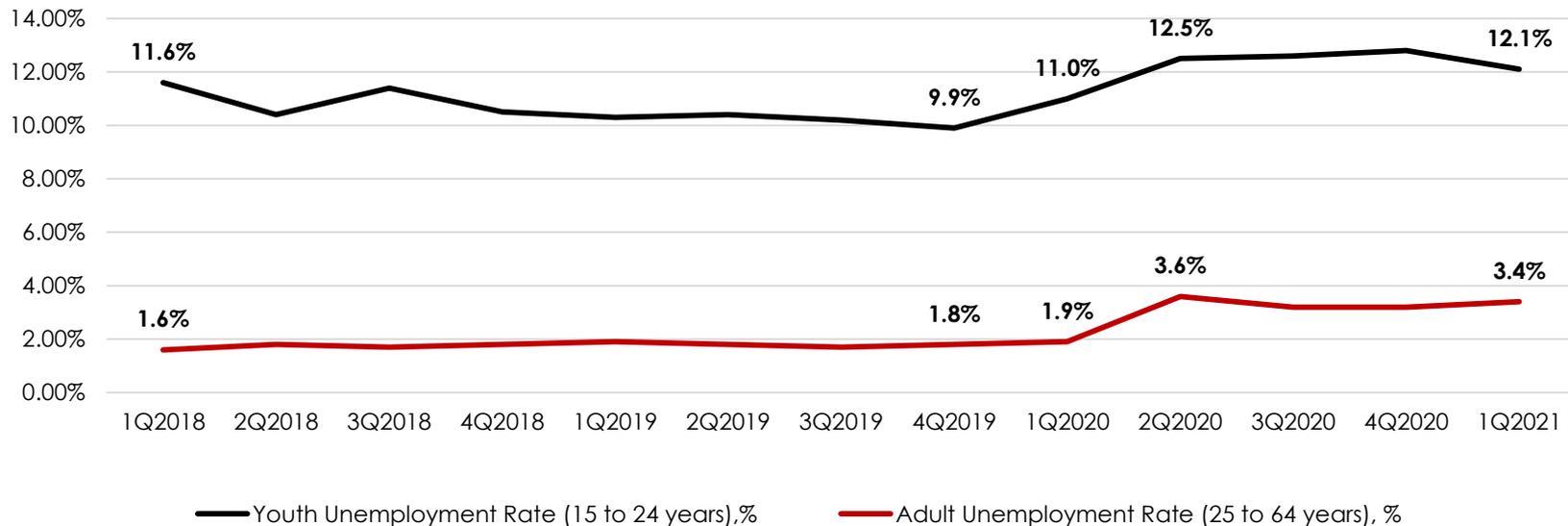


Source: Ministry of Higher Education

- ✓ One of the causes underemployment is the mismatch between graduate's skill and the job that the graduate is working in which as already been an issue even before the pandemic.
- ✓ The chart above shows that the past trend for graduates occupying non-graduate jobs registered a double-digit Compound Annual Growth Rate (CAGR) of 11.0% per annum between 2001 and 2016.
- ✓ A total of 669.2k or 20.7% of the total graduate employment is found in non-graduate occupations in 2016, resulting in the incidence of education mismatch, compared to 140.1k in 2001. As such, graduate mismatch is seen as persistent over time, depicting a structural nature similar to unemployment.
- ✓ Although graduate employability rates have been steadily rising and remain above 80.0% in 2020 despite the pandemic, it could likely be that the increase in skill-related underemployment may have pushed the employability rate as many graduates are willing to be employed in fields that do not commensurate with their qualification.

- ✓ On further scrutiny, the issue of underemployment will likely lead to unemployment, particular among youths. **As more graduates are underemployed, the ones who have educational attainment below tertiary level will face more challenges in securing jobs as vacancies meant for them have been taken up by graduates.**
- ✓ The youth unemployment rate (UR) of 12.1% in 1Q2021 (4Q2020: 12.8%) remained significantly higher than the adult UR which stood at 3.4% in the same period (4Q2020: 3.2%) and may rise further due to movement restrictions in light of the surge in Covid-19 cases in the country.
- ✓ As more graduates are working in jobs that do not commensurate with their qualification, their contribution or output to the nation's GDP will be less than their true potential. Therefore, the trajectory of economic recovery could be slightly impacted.

Unemployment Rate by Youth and Adult in Malaysia, %

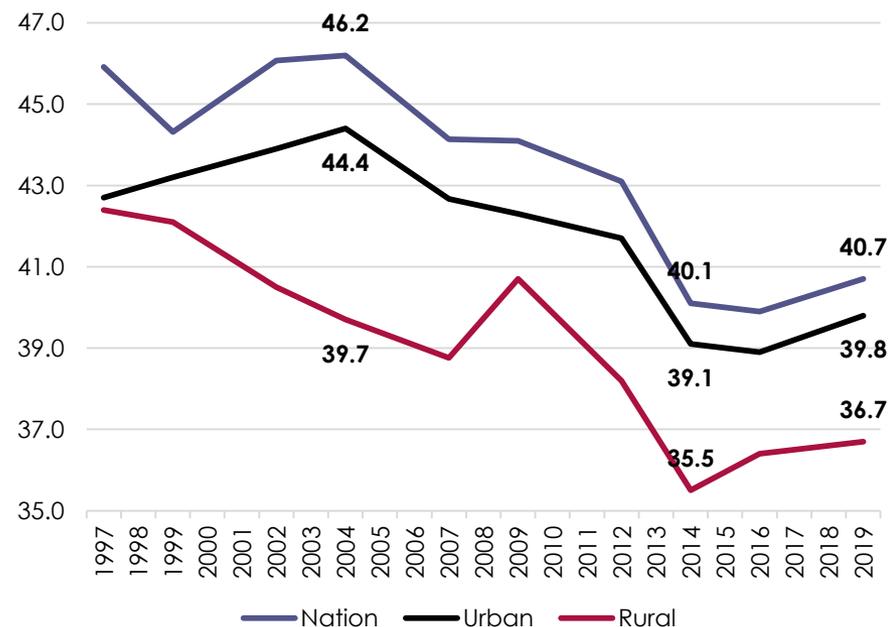


Source: DOSM

INCOME INEQUALITY

- ✓ The issue of underemployment can trickle down to other problems such as income inequality.
- ✓ Interestingly, Malaysia's Gini Coefficient measured according to gross income was on a downward trend from 2004 to 2016, indicating that income inequality narrowed during that period of time. However, the nation's Gini Coefficient started to rise in 2019, reaching 40.7% compared to 39.9% in 2016.
- ✓ Based on different ethnic groups, all races saw a declining pattern in the Gini Coefficient from 2012 to 2016 and later increased in 2019.
- ✓ Among the different ethnic groups, Indians saw the largest increase in the Gini Coefficient from 2016 to 2019 by 2.9 ppts followed by Others (1.1 ppts), Chinese (0.6 ppts) and Bumiputera (0.4 ppts).
- ✓ Meanwhile, the Chinese recorded the highest Gini Coefficient in 2019 at 41.7% (2016: 41.1%) showing the income disparity is wide in the ethnic group.

Malaysia's Gini Coefficient, %



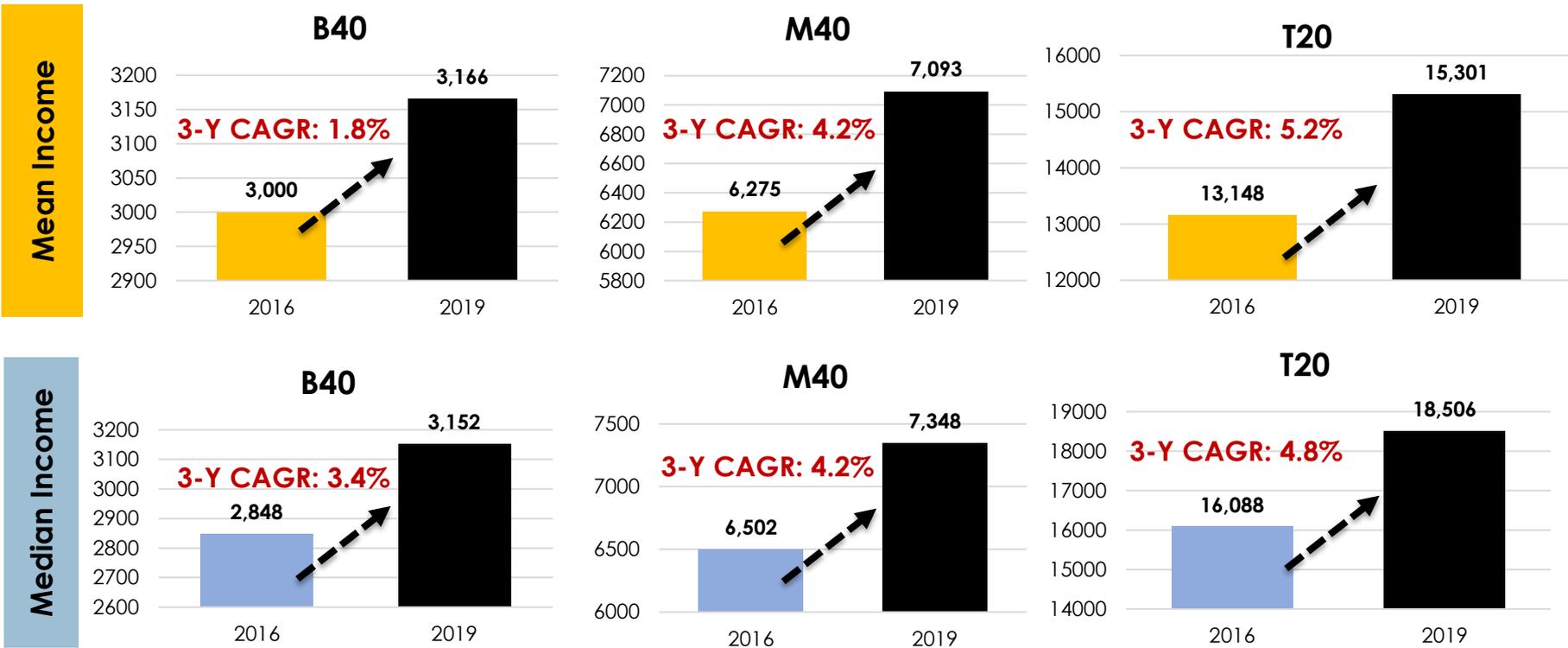
Source: DOSM

Gini Coefficient According To Ethnic Groups, %

Ethnic Group	1997	1999	2002	2004	2007	2009	2012	2014	2016	2019
Bumiputera	44.8	43.3	43.5	45.2	43.0	44.0	42.1	38.9	38.5	38.9
Chinese	41.6	43.4	45.5	44.6	43.2	42.5	42.2	40.5	41.1	41.7
Indian	40.9	41.3	39.9	42.5	41.4	42.4	44.3	39.6	38.2	41.1
Others	55.5	39.3	44.9	46.2	54.6	49.5	43.5	43.3	39.1	40.2

Source: DOSM

WIDENING INCOME GAP

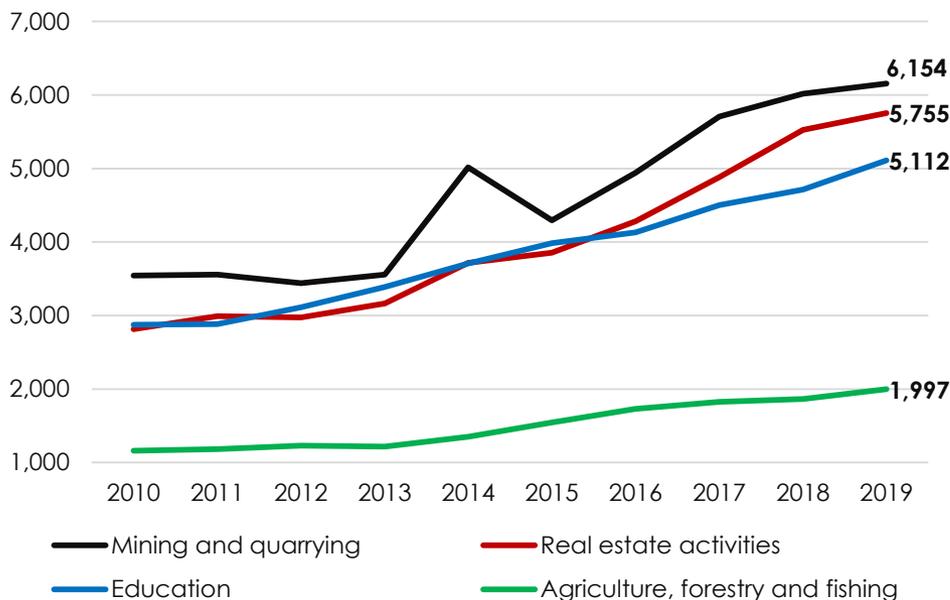


Source: DOSM

- ✓ The B40 group experienced the smallest CAGR in terms of mean and median income for the period between 2016 and 2019.
- ✓ CAGR for median and mean income for the B40 group only stood at 1.8% and 3.4% between 2016 and 2019 respectively. This is lower compared to the CAGR of for median and mean income for the T20 group which 5.2% and 4.8% respectively during the same period.
- ✓ Henceforth, the current pressures in the labour market namely high UR may exert larger impact towards the B40 group which are already earning low level of income.

WAGES DIFFERENTIAL IN MALAYSIA

Salaries and Wages by Industry, RM



Source: DOSM

- ✓ Differences in interindustry wages have been widely discussed with distinct types of tasks and skills of certain jobs, as well as the level of difficulties might play an important role in explaining the rationale of different wages based on industries.
- ✓ Thus far, in Malaysia, Mining and Quarrying industry registered the highest mean monthly salaries and wages of RM6,154, followed by Real Estate activities (RM5,755) and Education (RM5,122) in 2019.
- ✓ Meanwhile, Agriculture, Forestry and Fishing industry which usually comprise of B40 group has the lowest mean monthly salaries and wages of RM1,997 in 2019.

- ✓ With the latest statistics, we foresee that this current situation could create income gaps and inequality among the industries moving forward. Apart from that, it is also a highly important sociological issue need to be addressed by the government in order to reduce income disparities between the industries.

MINING AND QUARRYING SECTOR RECORDED THE HIGHEST MEAN MONTHLY SALARIES AND WAGES

Industry	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	9-YEAR CAGR
	Mean Salaries (RM)										
Agriculture, forestry and fishing	1,159	1,182	1,229	1,218	1,351	1,543	1,729	1,825	1,865	1,997	6.2%
Mining and quarrying	3,544	3,557	3,441	3,558	5,016	4,295	4,940	5,706	6,017	6,154	6.3%
Manufacturing	1,691	1,709	1,884	1,969	2,154	2,187	2,348	2,443	2,565	2,616	5.0%
Electricity, gas, steam and air conditioning supply	2,939	2,706	2,684	2,940	2,867	2,877	3,324	4,011	4,437	4,573	5.0%
Water supply, sewerage, waste management and remediation activities	1,532	1,911	1,679	1,667	1,961	2,175	2,070	2,429	2,719	2,833	7.1%
Construction	1,646	1,767	1,814	1,908	2,024	2,131	2,220	2,587	2,821	2,854	6.3%
Wholesale and retail trade, repair of motor vehicles and motorcycles	1,432	1,478	1,511	1,607	1,727	1,791	1,883	2,015	2,154	2,363	5.7%
Transportation and storage	1,958	1,872	1,999	2,044	2,179	2,431	2,548	2,707	2,866	3,000	4.9%
Accommodation and food and beverage service activities	1,115	1,134	1,218	1,329	1,393	1,477	1,547	1,754	1,914	2,081	7.2%
Information and communication	3,188	3,078	3,153	3,496	3,460	3,695	4,010	4,429	4,805	4,898	4.9%
Financial and insurance/takaful activities	2,981	2,949	3,060	3,165	3,615	3,502	4,093	4,437	4,703	4,737	5.3%
Real estate activities	2,812	2,992	2,974	3,164	3,716	3,855	4,281	4,880	5,526	5,755	8.3%
Professional, scientific and technical activities	2,356	2,644	2,815	2,801	3,174	3,334	3,689	4,129	4,704	4,799	8.2%
Administrative and support service activities	1,372	1,278	1,180	1,393	1,513	1,522	1,667	1,859	2,094	2,195	5.4%
Public administration and defence, compulsory social security	2,350	2,474	2,561	2,873	3,154	3,196	3,496	3,681	3,848	4,142	6.5%
Education	2,875	2,885	3,113	3,386	3,707	3,984	4,132	4,500	4,714	5,112	6.6%
Human health and social work activities	2,347	2,329	2,467	2,637	2,980	3,043	3,182	3,705	4,022	4,071	6.3%
Arts, entertainment and recreation	1,496	1,502	1,598	1,627	1,831	2,000	2,091	2,521	2,687	2,797	7.2%
Other service activities	1,387	1,370	1,421	1,551	1,742	1,751	1,848	2,022	2,197	2,333	5.9%

Source: DOSM

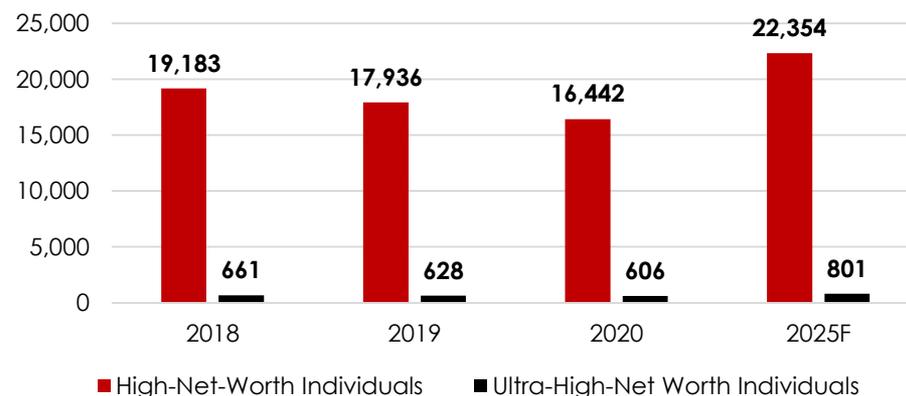
- ✓ According to the Wealth Report 2021 by Knight Frank, a real estate agency and residential and commercial property consultancy based in London, the number of high-net-worth individuals (HNWI) in Malaysia dropped by 8.3%, from 17,936 in 2019 to 16,442 in 2020.
- ✓ In the same period, the number of ultra-high net-worth individuals (UHNWI) declined by 3.5%, from 626 in 2019 to 606 last year.
- ✓ The decline in the number of rich people is not surprising as the country was experiencing recessionary economics last year. Notwithstanding this, the number of HNWI and UHNWI in Malaysia is expected to increase by 36.0% and 32.2% to reach 22,354 and 801 individuals respectively in 2025.
- ✓ This is in line with the anticipated economic recovery in the years to come as the global economy could reach the herd immunity in the near future. This would allow the reopening of the economy to occur in a sustainable manner.
- ✓ Against such backdrop, there are opportunities for Bank Islam to expand its reach to this segment via wealth management products and services.

Qualifying Criteria To Be A High Net Worth individual According To The Securities Commission

- An individual whose total net personal assets, or total net joint assets with his or her spouse, exceeds RM3.0 million or its equivalent in foreign currencies, excluding the value of the individual's primary residence, or
- An individual who has a gross annual income exceeding RM300,000 or its equivalent in foreign currencies per annum in the preceding 12 months, or
- An individual who, jointly with his or her spouse, has a gross annual income of RM400,000 or its equivalent in foreign currency.

Source: Securities Commission

High-Net-Worth Individuals and Ultra-High-Net Worth Individuals in Malaysia



Source: The Wealth Report 2021 by Knight Frank

*High-net-worth individual – someone with a net worth of over USD1.0 million excluding their primary residence.

*Ultra-high-net-worth individual – someone with a net worth of over USD30.0 million excluding their primary residence.

CONCLUSION

- ✓ **Underemployment and self-employment will be prevalent** - looking ahead, we expect underemployment to be more focused on the youths which would lead to self-employment as they seek for better opportunities. Recall that the number of people facing skill-related underemployment was 27.8% higher at 2.1 million persons in 1Q2021 compared to 1.6 million people in 1Q2020. Likewise, self-employed registration had reached 149,909 registrations so far as at 21 May 2021 which is 86.2% year-on-year (y-o-y) higher than the 80,512 registrations seen for the full year of 2020.
- ✓ **Income and wealth inequality would be more apparent going forward** – the economic recovery is expected to be fragile and uneven, leading to economic imbalances such as disparity in income and wealth. Creative solution such as Waqf should be galvanized in order to complement the fiscal policy that would allow effective redistribution of wealth.
- ✓ **Every problems create opportunities** – the philanthropy economy is likely to be more relevant especially in the context of limited fiscal space. Therein lies opportunities for Bank Islam to promote Waqf as an instrument that could act as a catalyst for addressing the income and wealth inequality. The Waqf agenda would fit-in nicely within a spectrum of Value Based Intermediaries (VBI) that focuses **on People, Planet and Prosperity**. To a large degree, it could also help elevate the Bank Islam stature in the context of Environmental, Social and Governance (ESG) screening as long term investors have gone beyond purely financial appraisals in order to attain a sustainable investment returns.

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