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Labour market gaps:
More than just unemployment

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This view was prepared by Siti Aiysyah Tumin, a researcher from the Khazanah Research Institute (KRI). The authors are grateful for the valuable comments from Nur Thuraya Sazali and Mohd Amirul Rafiq Abu Rahim. Photo by Daniel Subramaniam and used with permission.

Author's email address:
siti.tumin@krinstitute.org

Introduction

Malaysia reported its first COVID-19 case over a year ago. As the number of cases increased, the country imposed a movement control order (MCO) in March to contain the spread of the virus and to not overwhelm the country's public health facilities. Schools and businesses were closed, shifting learning and work to be home-based[1]. The MCO was slightly relaxed in May to be a conditional MCO or CMCO, and subsequently a recovery MCO or RMCO until the end of the year[2]. The government provided various assistance in its stimulus packages, including three rounds of wage subsidies to prevent unemployment numbers from soaring, and it was reported to have helped more than 2.6 million workers[3].

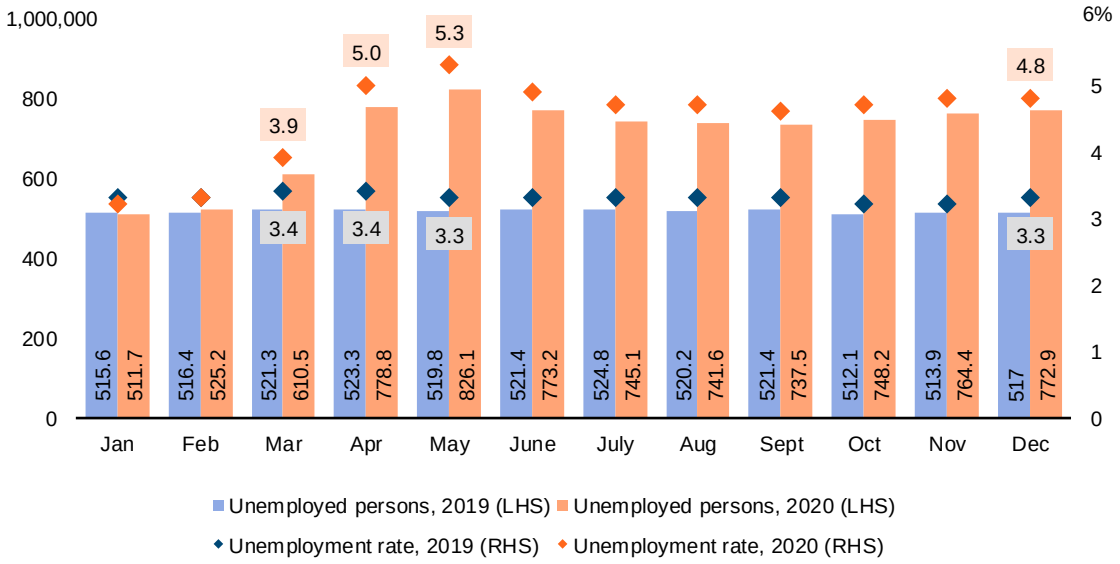
[1] Elengoe (2020)
[2] Fan and Cheong (n.d.)
[3] BERNAMA (2021)

However, not all were saved and Malaysia's unemployment rate was higher than its usual rate of 3.3%. This article also illustrates other labour market gaps throughout 2020—underemployment was high, especially among younger workers; and there were more people who left the workforce. Even when restriction measures were relaxed (post-MCO), the recovery period affected workers differently.

Unemployment remained high in 2020

When the MCO was first introduced in March 2020, the Department of Statistics (DOS) reported that total number of unemployed increased by around 85,000 persons compared to February; and in April, an additional 168,000 persons compared to March. Even when the MCO was subsequently relaxed, the average unemployment numbers for the rest of 2020 was consistently higher than 2019, by more than 200,000 persons. Consequently, the estimated monthly unemployment rate was higher in 2020 than in 2019 (Figure 1).

Figure 1: Total unemployed persons and rate, by month, 2019 and 2020



Source: CEIC (n.d.)

However, the extent of unemployment was different between different demographic groups. Youth unemployment rate is generally about three times the national unemployment figures, and this remained to be true during COVID-19. By the end of 2020, unemployment rate for 15-25 years olds stood at 12.7%, while average unemployment rate was 4.8%. Women in the workforce also faced slightly higher unemployment rate at 3.5% in the fourth quarter of 2019, higher than men's 3.1%; but by fourth quarter of 2020, both stood at 4.8%[4].

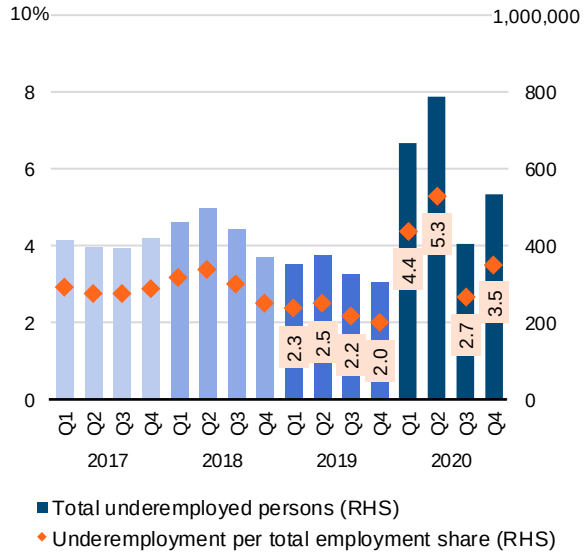
[4] DOS (2021b)

Gaps in employment: Labour underutilisation

However, gaps in the labour market goes beyond unemployment figures. Another key indicator is **underemployment**, defined as those working less than 30 hours per week. For context, the average weekly working hours in 2019 was 45 hours per week[5]. Underemployment happens either due to the nature of work or insufficient work. During COVID-19, this could also be the consequence of restrictions on opening hours. Both unemployment and underemployment represent labour market underutilisation i.e. the gap between demand and supply in the labour market.

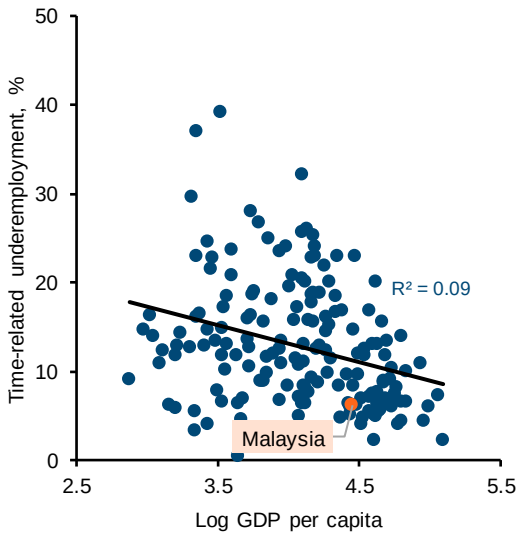
Between 2017 and 2019, underemployment was trending downwards, and longer-term analysis of underemployment using alternative data sources also showed declining underemployment rates in Malaysia[6]. However, total underemployment doubled in the first two quarters of 2020—from 2.3% and 2.5% of total employment in the first and second quarters of 2019, to 4.4% and 5.3% in the first and second quarters of 2020. The relaxation of the MCO moderated total underemployment in the third quarter of 2020, but it increased again in the last quarter of the year (Figure 2).

Figure 2: Total underemployment persons and rate, by quarter, 2017-2019



Source: DOS (2021b)

Figure 3: Time-related underemployment and GDP per capita, 2019



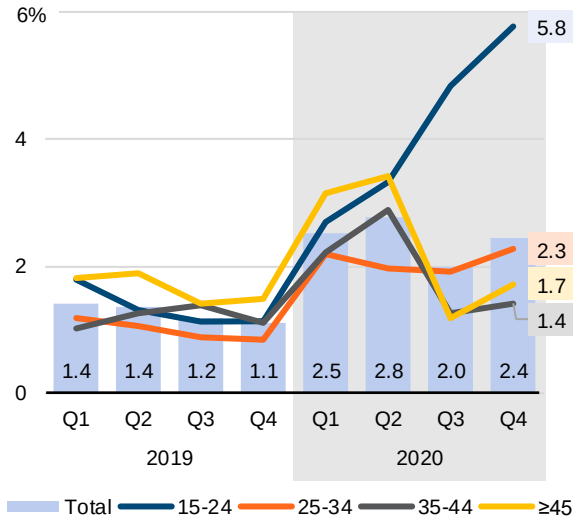
Note: TRU reported by the ILO is different from DOS because of modelling differences and harmonization to allow for cross-country comparison. Source: ILO (n.d.); World Bank (n.d.).

Among the underemployed, half of them were willing and able to accept more work, and this refers to **time-related underemployment (TRU)**. Malaysia's TRU is relatively low compared to other countries in its similar income level (Figure 3) before the public health crisis, but expectedly, TRU increased when the country battled with COVID-19. In 2019, TRU remained to

[5] DOS (2020)
[6] Nur Thuraya (2020)

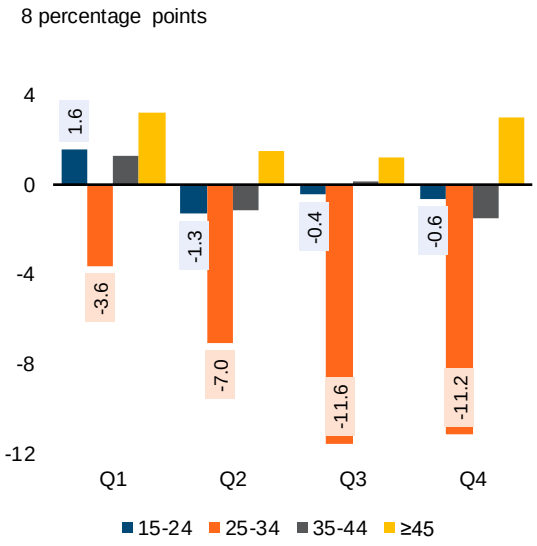
be less than 1.5% of total employment; but in 2020, they were equal or above 2.0%, with the highest rate recorded in the second quarter of the year, at 2.8% of total employment (Figure 4).

Figure 4: Time-related underemployment per total employment, by quarter and age group, 2019 and 2020



Source: DOS (2021b)

Figure 5: Percentage point change in employment share between 2019 and 2020, by quarter and age group



Source: DOS (2021b)

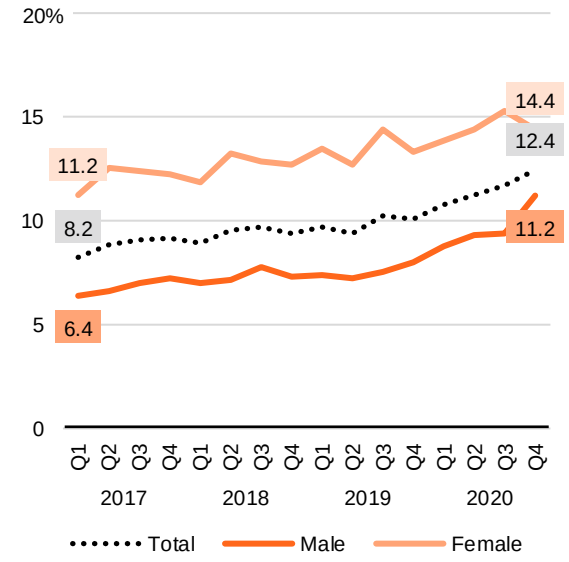
Generally, older workers have higher rates of underemployment, but the differences of TRU rates between different age groups were relatively small in 2019 (Figure 4). In 2020, TRU rates for all age groups increased by more than 1.5 times. Additionally, the short recovery period after the MCO affected underemployment differently for the young and the old. In the third and fourth quarter of 2020, TRU rates for workers older than 35 years old recovered and were closer to their pre-COVID-19 rates. Meanwhile, TRU rates remained high for younger workers, especially those between the ages 15 and 24 years old. By the end of 2020, the TRU rate for this age group more than doubled the overall TRU rate. Workers between the ages 25 and 34 years old who previously had the lowest underemployment rate now have the second-highest underemployment rate. Essentially, the economic recovery phase post-MCO only re-absorbed older workers into full-time employment, whereas younger workers remained to be underemployed.

Another way to illustrate the disproportionate effects of post-MCO recovery is by looking at the general trend of employment. Throughout 2020, employment growth was positive for workers above 45 years old, while the rest largely experienced employment contraction—the least among workers between the ages 35 and 44 years old, and the largest among workers between 25 and 34 years old (Figure 5). This is yet another indicator that COVID-19 disproportionately affected young workers in the labour market, and how periods of recovery tend to miss them out. In the case of underemployment, workers could earn less income if they are paid by the hour. In the case of no employment, they lost their income altogether.

One should not simply assume that gaps in the labour market will decline post-COVID-19, especially if underemployment is associated with more structural issues in the labour market. An example of this labour market mismatch is **skill-related underemployment (SRU)**, defined as tertiary-educated workers who are working in semi-skilled and low-skilled jobs that do not require tertiary education.

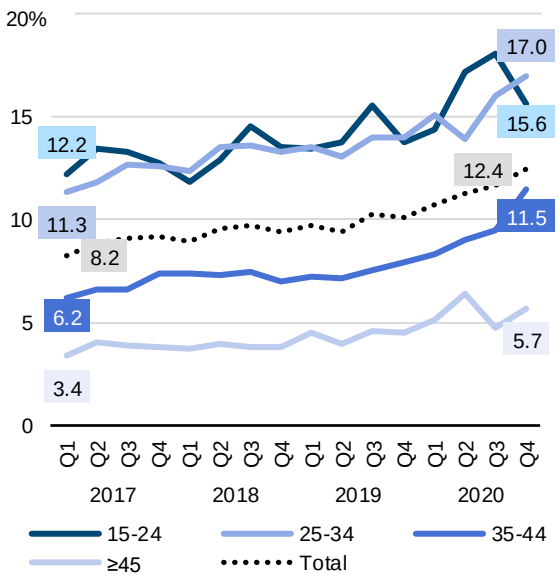
Since 2017, SRU has been growing by around 3% per quarter, increasing from around 8% of total employment to 12% of total employment by the end of 2020. The share of skill-related underemployment was higher among women; by the fourth quarter of 2020, 14% employed women were in jobs that required lower qualification than their educational background, while the rate was 11% for men (Figure 6). SRU was also much higher among younger workers (under 35 years old), compared to older workers (above 35 years old), and it continued to rise during COVID-19 (Figure 7).

Figure 6: Skill-related underemployment per total employment, by quarter and sex, 2017-2019



Source: DOS (2021b)

Figure 7: Skill-related underemployment per total employment, by quarter and age group, 2017-2019

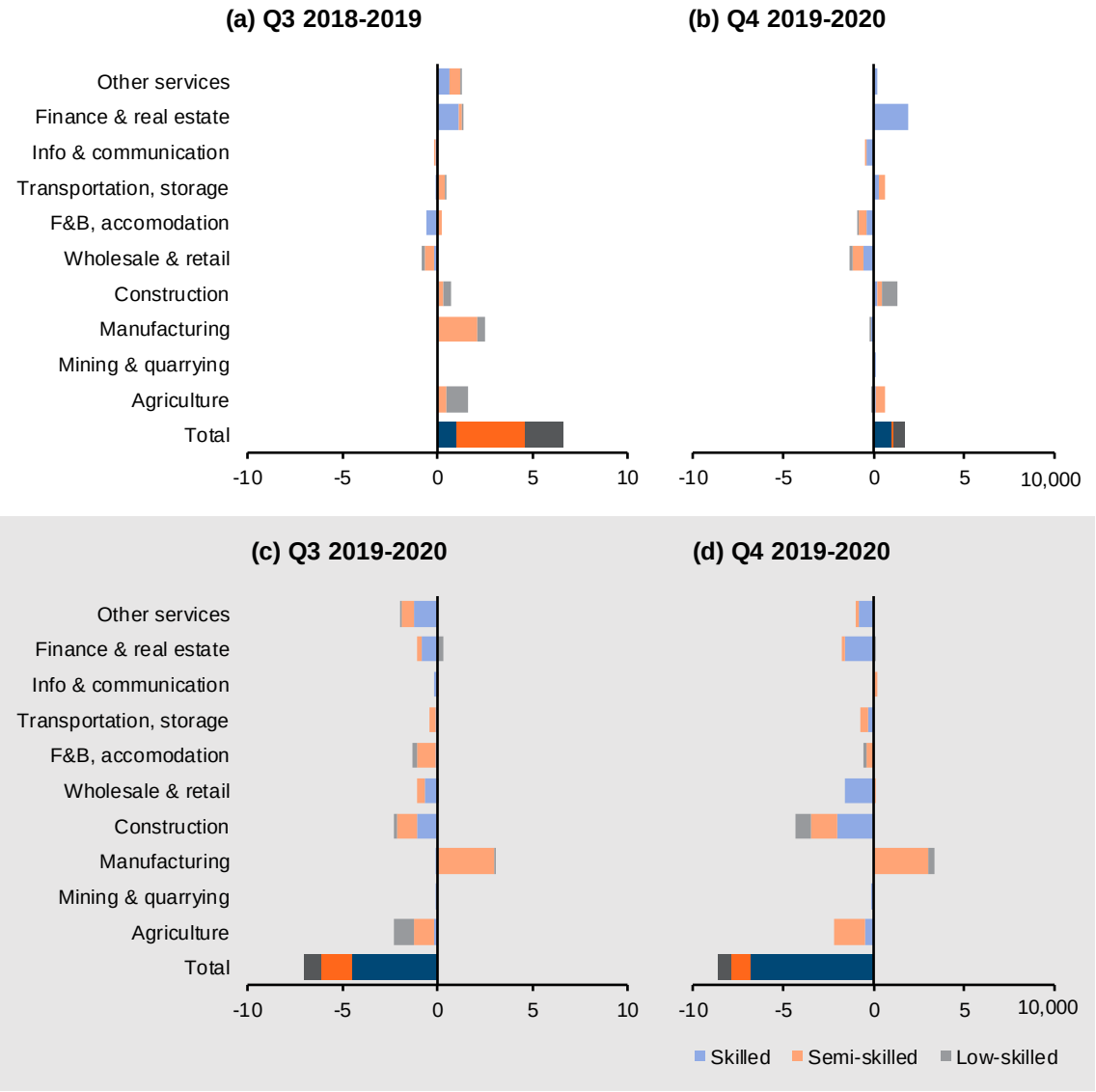


Source: DOS (2021b)

The persistence of SRU could be explained by the nature of job demand pre-COVID-19 and during COVID-19. The workforce is becoming increasingly educated as new graduates enters the job market, but new jobs created were in semi- or low-skilled jobs. If skilled jobs were created, they tend to concentrate in selected sectors like finance and real estate (Figure 8-a and 8-b), and these economic activities employed only a small proportion of the workforce. During the pandemic, and specifically, post-MCO when business activities resumed, overall private-sector job creation contracted. Only manufacturing reported new jobs created, but these jobs were semi-skilled and low-skilled jobs (Figure 8-c and Figure 8-d).

Another potential explanation is the geographical distribution of jobs in the country. In the case of restricted mobility during COVID-19, people mostly turn to their local economy as employment sources. However, past studies indicated that less-advanced states have limited growth of skilled employment, and the extent of skill mismatch was much higher in these states[7]. It is likely that COVID-19 only exacerbated these issues.

Figure 8: Jobs created, by quarter, economic activity and skill, 2018-2020



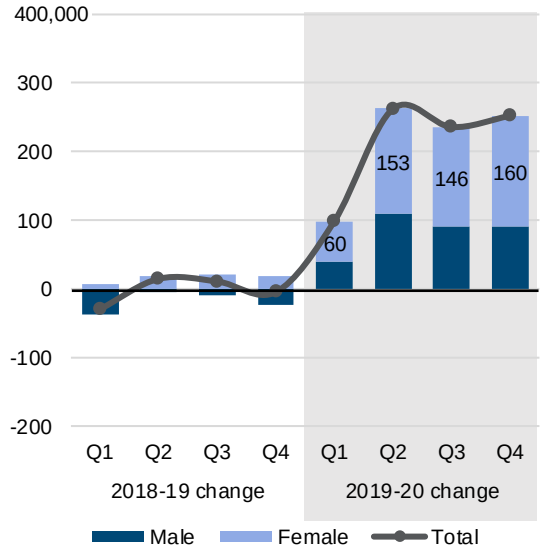
Source: DOS (2021a)

[7] KRI (2020)

Out of the labour force

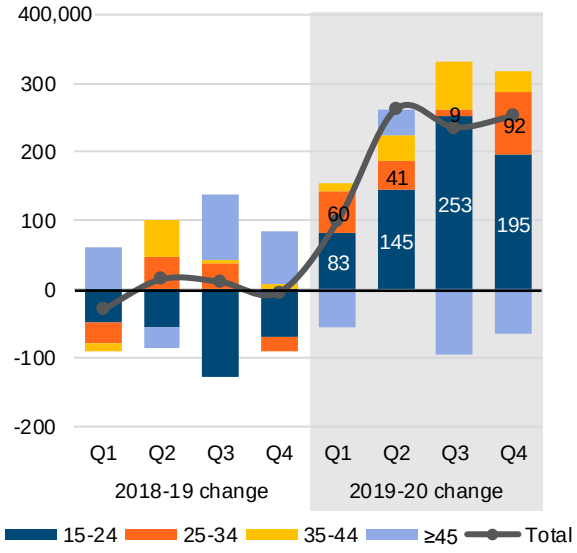
Globally, 71% of employment losses were due to inactivity rather than unemployment[8]. People **out of the labour force** (OLF) or inactive, refers to housewives, students, retirees, disabled persons or those not looking for jobs. Total number of OLF expanded in 2020. Compared to the first and second quarter of 2019, total OLF increased by close to 100,000 and 263,000 persons in 2020, respectively. Throughout the second half of 2020, total OLF continued to be higher than 2019 by more than 200,000 persons. Women made up the main source of OLF expansion (Figure 9), and from previous studies, we know that they do this because of housework or family responsibilities[9]. With the closure of school and care facilities during the pandemic, it is unsurprising that more women reported that they were out of the labour force in 2020, and more people cited housework as their reason remaining out of the workforce (Figure 11).

Figure 9: Quarterly change of population outside the labour force, by quarter and sex, 2018-2020



Source: DOS (2021b)

Figure 10: Quarterly change of population outside the labour force, by quarter and age group, 2018-2020



Source: DOS (2021a)

When OLF was analysed by age groups, COVID-19 also reversed some previous trends. In the past, the expansion of OLF population was generally from the older population, but COVID-19 resulted in more younger population in the OLF (Figure 10). Generally, inactivity was due to retiring, which was why most of the OLF expansion in the past was among the older population (Figure 11). However, more older workers were holding on to their jobs and did not retire in 2020, expectedly since income insecurity is high during this pandemic.

[8] ILO (2021)

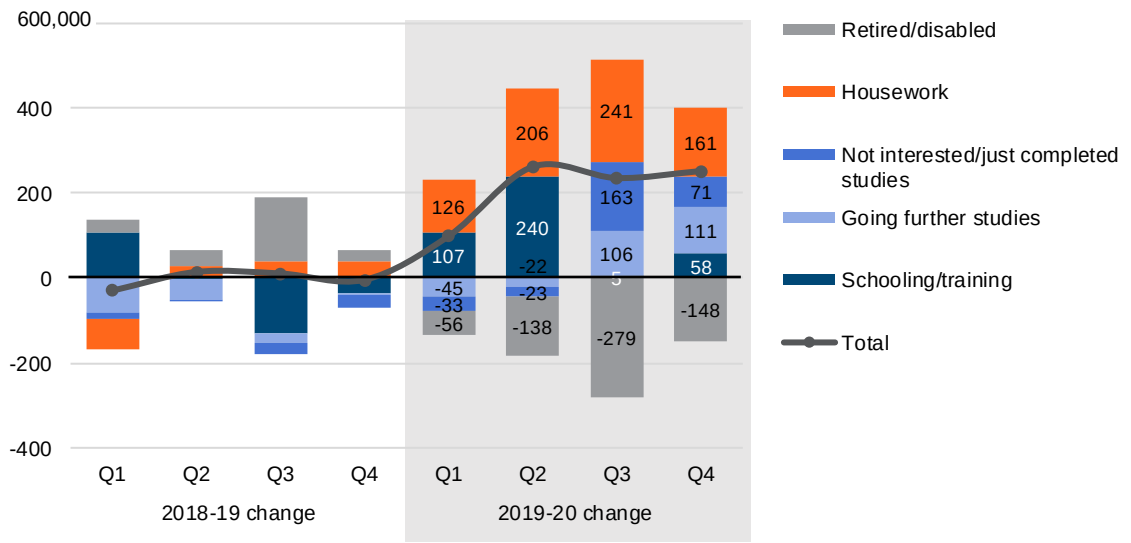
[9] In 2019, 60.7% of women out if the workforce cited housework and family responsibilities as their reason for not seeking work, compared to 3.5% of men. Source: DOS (2020)

The expansion of younger population out of the workforce was also corroborated by the expansion of people citing schooling or continuing their studies as reasons they remain out of the workforce. There was also a non-negligible rise of "waiting" to join the workforce, among people who are currently disinterested or just completed their studies (likely to be younger individuals) (Figure 11).

Staying out of the labour force could be a reasonable strategy for young workers—when the economy is sluggish and the job market is tough during recession, workers can remain in or further their education, and continue to invest in their human capital. Various training initiatives were also introduced to help youth to upskill during COVID-19.

However, not everyone could afford to continue their studies and some might incur debt as they further their education. They will also eventually graduate from these training programmes and formal education, and their fate depends on whether the economy recovers from the pandemic quickly enough. Entry into the workforce during a recession is costly, with some studies showing loss of earnings, being locked in lower-quality jobs, as well as other negative socioeconomic status, health and mortality outcomes[10]. Moreover, if the structural issues of limited skilled jobs for an increasingly educated workforce (i.e. SRU) is not resolved, the returns to young workers' human capital investment will be limited.

Figure 11: Quarterly change of population outside the labour force, by quarter and reasons, 2018-2020



DOS (2021b)

[10] Nesvisky (2006); Cockx (2016); Schwandt (2019)

Concluding remarks

The employment consequences of COVID-19 is uneven and goes beyond just unemployment. Policies such as wage subsidies and job search assistance, in addition to household-based income assistance, were important to assist some unemployed workers, but not all. Underemployment remained higher than previously recorded, even when restrictions were relaxed in the second half of the year. More pertinently, the slight period of recovery affected workers differently. Young workers remained to be underemployed, and employment growth concentrated on older and presumably more experienced worker. The lack of experience, either from being unemployed or underemployed, could have longer-term consequences on the career development of young workers. Additionally, the rising number of women out of the workforce due to rising care needs during the pandemic should not be ignored. If not supported by more comprehensive care policies, the return and new entry of women into the workforce might be hindered in the long-run.

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