

## WAGES IN MALAYSIA: THE STORY BEHIND THE STATISTICS

Prepared by: Malaysian Bureau of Labour Statistics

### Introduction

After more than two years of mitigating multiple socioeconomic challenges following the global health crisis, businesses have started to regain momentum towards recovery as Malaysia prepares to enter into endemic phase. In terms of the labour market, among the challenges faced were surged in unemployment following job losses and difficulties to secure jobs among new entrants; time-related underemployment as businesses reduced operation hours; as well as reduction in salaries & wages paid to employees. Department of Statistics, Malaysia (DOSM) as the national statistical office has increased the effort to collect, analyse, compile and disseminate labour market statistics in terms of frequency and granularity in response to the socioeconomic ramification of COVID-19. This newsletter aims to illustrate the salaries & wages situation in Malaysia based on the availability of socioeconomic statistics in DOSM.

### Landscape of Malaysia's Economy

For the period of 2011 to 2019, Malaysia's economy remained positive with the Gross Domestic Product (GDP) expanding between 4.4 per cent to 6.0 per cent. The year 2020 was an exception as GDP dived 5.6 per cent following social and economic restrictions to contain the fast-spreading COVID-19 pandemic in the country.

In terms of share by the main economic sector, the Services sector remained with the largest share of GDP at 57.7 per cent in 2020 while Manufacturing sector ranked second at 22.9 per cent. In the meantime, Agriculture, Mining & quarrying and Construction sectors contributed 7.4 per cent, 6.8 per cent and 4.0 per cent respectively. Further look on growth of GDP in 2020 compared to 2019 indicated decline for all sectors whereby Construction and Mining & Quarrying posted double-digit fall of negative 19.4 per cent and negative 10.6 per cent respectively (**Chart 1**).

**Chart 1:** GDP at constant prices by economic sector (annual percentage change)



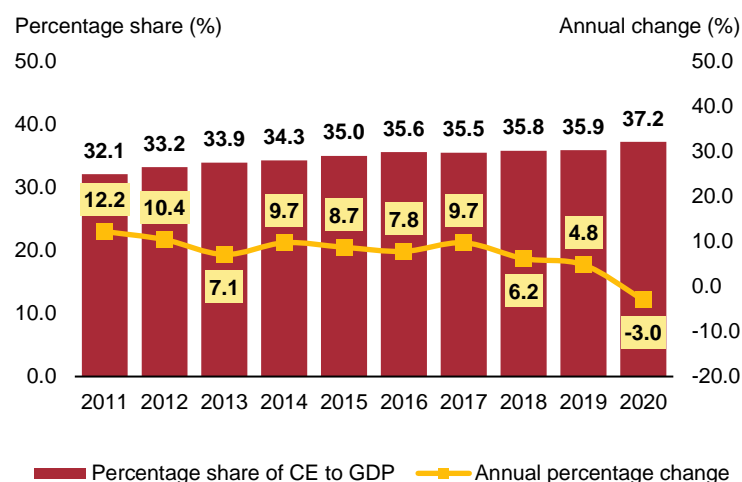
Source: National Account, DOSM

With a more targeted mechanism to reduce the number of daily COVID-19 new cases in 2021, GDP had rebounded by 3.1 per cent as all sectors improved. Nevertheless, the level of GDP has not returned to pre-pandemic period.

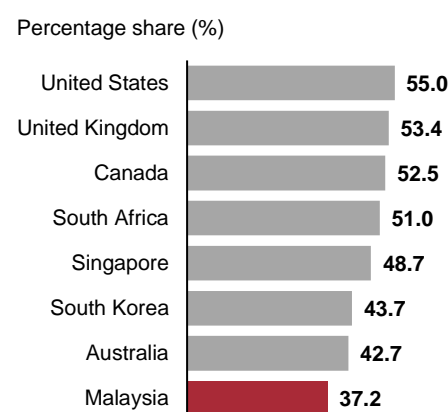
Looking at the return to labour in Malaysia which was indicated by the compensation of employees (CE), the time series from 2011 to 2019 had remained in a positive trend. However, CE registered a contraction of 3.0 per cent in 2020. While the share of CE to GDP had reached the highest point at 37.2 per cent in 2020, it has yet to surpass the 40 per cent target (DOSM, 2021) (**Chart 2**). The increase in share of CE to GDP in 2020 was partly due to a larger decline in gross operating surplus which was return to businesses.

The share of CE for Malaysia is relatively lower than most high-income countries such as Singapore, Australia and the United States of America, which posted shares of CE between 42.7 per cent to 55.0 per cent (**Chart 3**). The low share of CE could be associated with the current economic structure in Malaysia, which is influenced by low value-added and labour intensive industries.

**Chart 2:** Compensation of employees (CE), Malaysia, 2011 – 2020



**Chart 3:** Share of CE to total GDP for selected countries, 2020

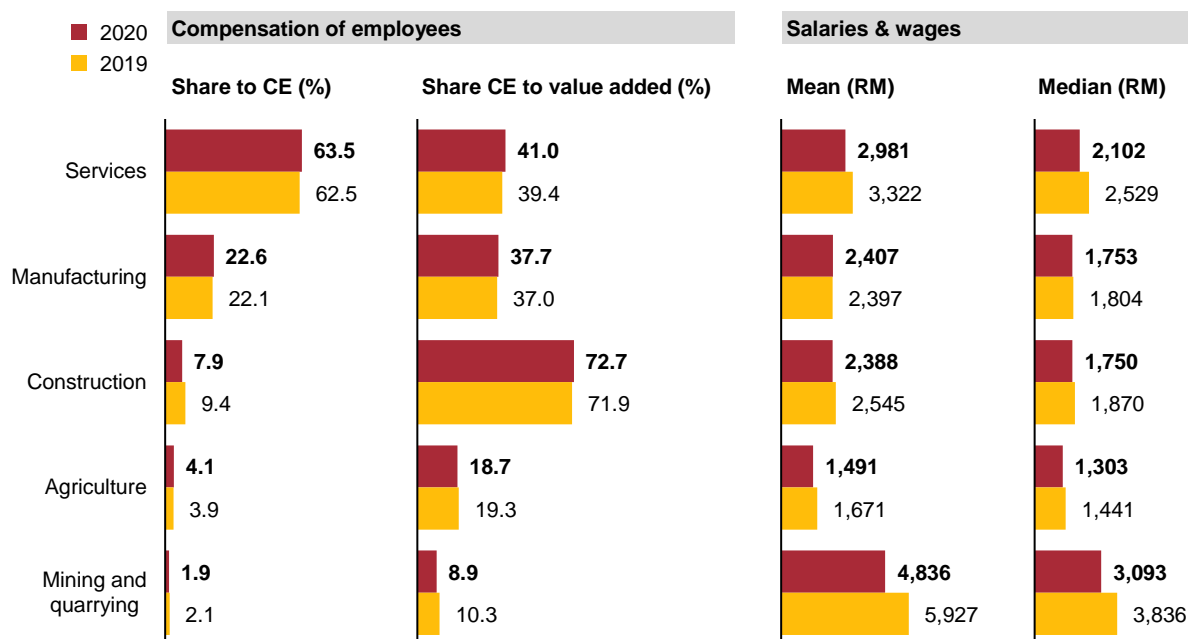


Source: National Account, DOSM

As the major contributor to Malaysia’s economy, the Services sector generated 63.5 per cent of CE in 2020. The share of CE for Manufacturing sector encompassed 22.6 per cent while Construction contributed 7.9 per cent. Meanwhile, CE in Agriculture and Mining & quarrying sectors accounted for 4.1 per cent and 1.9 per cent of share respectively.

Looking at the share of CE to value added, Construction sector registered the largest share at 72.7 per cent in 2020 considering the higher reliance of this sector on labour. The mean monthly salaries & wages received by paid employees in this sector was RM2,388. Although CE share for Services sector was 41.0 per cent, employees earned higher mean monthly salaries & wages of RM2,981. The share of CE to value added for Manufacturing sector was 37.7 per cent while mean monthly salaries & wages amounted to RM2,407. In Agriculture sector, the composition of CE was contributed 18.7 per cent with mean monthly salaries & wages of RM1,491. The lowest share of CE to value added was registered by Mining & quarrying sector at 10.3 per cent following the influence of capital intensive of oil & gas industry in this sector. Mean salaries & wages recorded by this sector was RM4,835 per month, which was the highest among the economic sector (**Chart 4**).

**Chart 4:** Compensation of employee and mean & median salaries and wages by economic sector, Malaysia, 2019 & 2020



Source: National Account and Salaries & Wages Survey, DOSM

### Box 1. Minimum Wage Implementation

*“Minimum wage is the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract”*

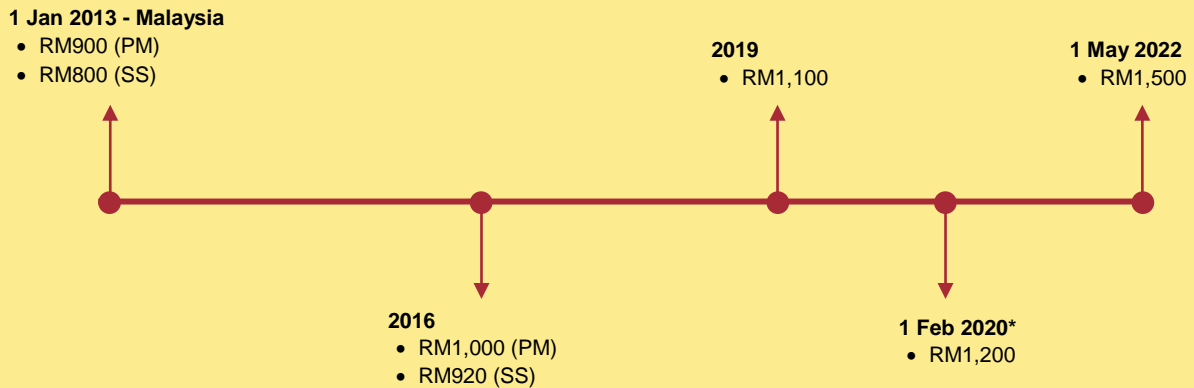
*International Labour Organization*

The minimum wage is a legal requirement that requires employers to pay their employees at least the minimum rate of wage that has been set. Approximately 90 per cent of nations in the world have a minimum wage policy that is acceptable for their economic systems. Australia, for example, has had a minimum wage policy in place since 1904, whereas the United States of America has had one in place since 1983.

The **nationwide implementation of minimum wages** in Malaysia was announced **for the first time** in July 2012 as one of the initiatives to support low income households. The Minimum Wage Order 2012 was formed and **enforced on 1 January 2013** with **monthly minimum of RM900 per month for Peninsular Malaysia and RM800 in Sabah and Sarawak**. This rate was eventually raised to **RM1,000 per month in Peninsular Malaysia and RM920 in Sabah and Sarawak in 2016**.

Then in **2019**, the minimum wage rate was increased to **RM1,100 nationwide**. The last amendment to the minimum wage was on **1 February 2020** to **RM1,200** after the introduction of the 2020 Budget. The announcement of a **new minimum wage** came on 19 March 2022 and **is scheduled to take effect on 1 May 2022 (Exhibit 1.1)**.

**Exhibit 1.1:** Chronology of the implementation of minimum wage order in Malaysia



**Source:** Federal Government Gazzete, Minimum Wages Order

**Note:**

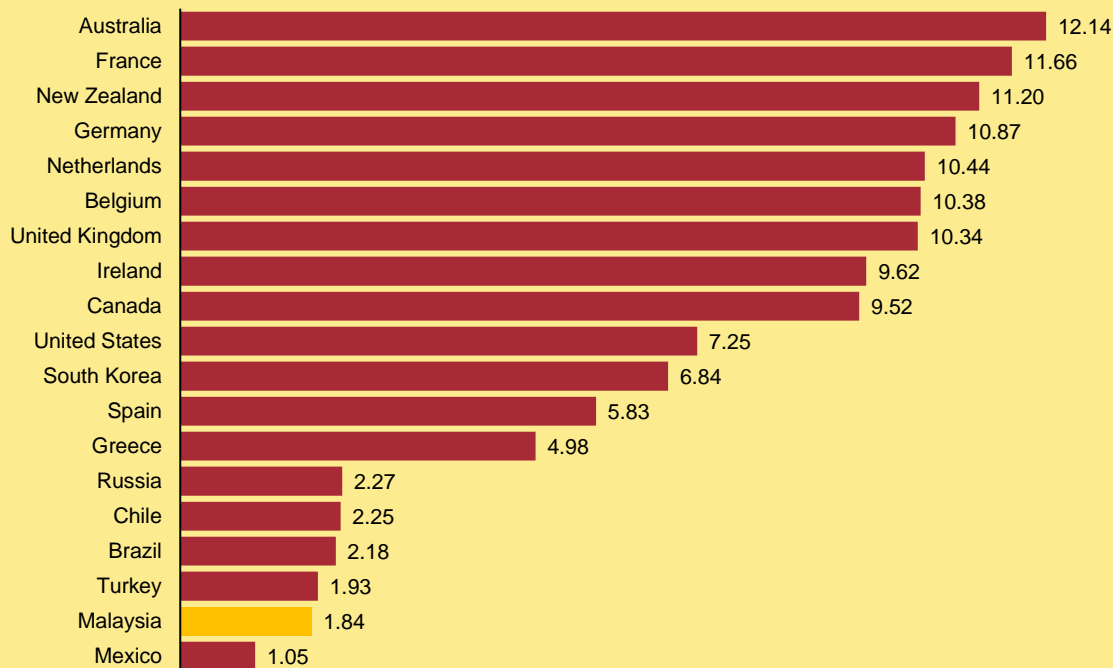
PM: Peninsular Malaysia;

SS: Sabah and Sarawak;

\* New minimum wage order raised to RM1,200 per month in major cities under the administration of 57 city councils and municipal council.

The Malaysia's new minimum wage of RM1,500 (USD355) which is equivalent to RM7.80 (USD1.84) per hour with a maximum of 48 working hours per week is still far behind when compared to other countries (**Chart 1.1**).

**Chart 1.1:** The new minimum hourly wage of selected country (USD)



**Source:** <https://worldpopulationreview.com/country-rankings/minimum-wage-by-country>



## How Has Pandemic Affected Salaries & Wages in Malaysia

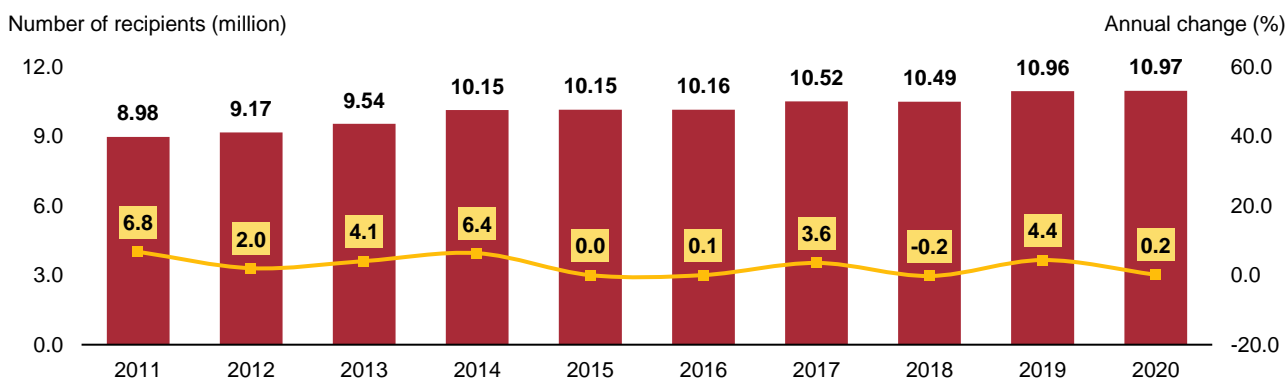
The COVID-19 pandemic was discovered as early as November 2019 and then spread to many countries, including Malaysia. The virus was first found in the country on 24 January 2020. Therefore, some businesses opted for unpaid leave or cut wages when their operations could not be conducted as usual. However, as the new norm set in, creative business models were adopted to mitigate losses. In addition, to cushion this impact, the Government rolled out several policies and initiatives, including the National Economic Recovery Plan, the Wage Subsidy Programme and several grants and financing programmes.

Malaysia’s labour market experienced uneven momentum throughout 2020 following the economic consequences of the health crisis. This had caused cancellation or freezing of new hires and subsequently resulted job losses, decline of total employment and increase in unemployment. Besides, strict COVID-19 containment measures adopted in this country also limited business operation hours and led to reduced working hours.

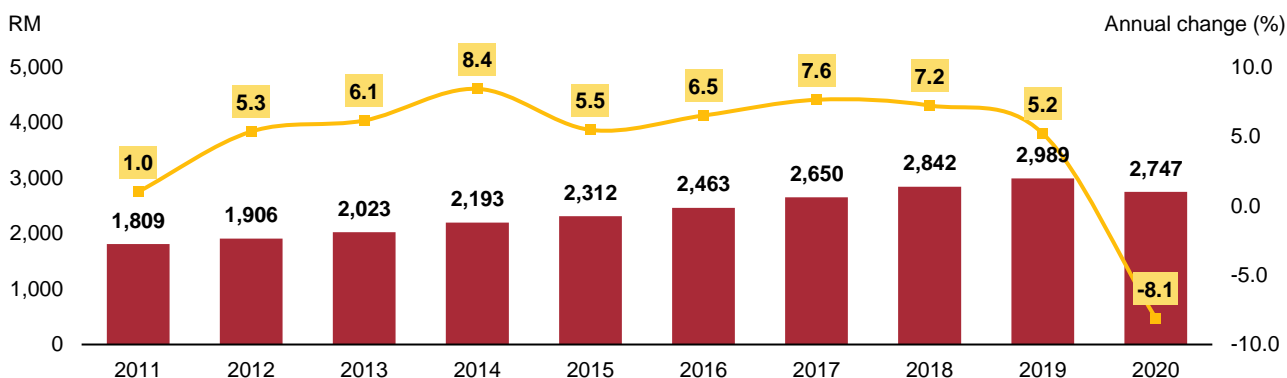
Prior to the health crisis that is between 2011 to 2019, mean monthly salaries & wages received by full-time equivalent of paid employee in the public and private sectors grew 5.9 per cent per annum. The lowest increase was registered in 2011 at 1.0 per cent while the highest was in 2014 at 8.4 per cent. However, the year 2020 saw the mean monthly salaries & wages received fell for the first time since the series began in 2010. The mean value declined by 8.1 per cent to RM2,747 from RM2,989 in 2019. During the same period, median monthly salaries & wages recorded a double-digit decrease of 13.3 per cent to RM1,894 (2019: RM2,185). Despite the reduction in terms of salaries & wages received, the number of recipients remained on a positive growth, albeit at a slower rate of 0.2 per cent (+16.7 thousand persons) in 2020 to record 10.97 million persons (**Chart 5**).

**Chart 5:** Number of recipients, mean and median monthly salaries & wages, 2011 – 2020

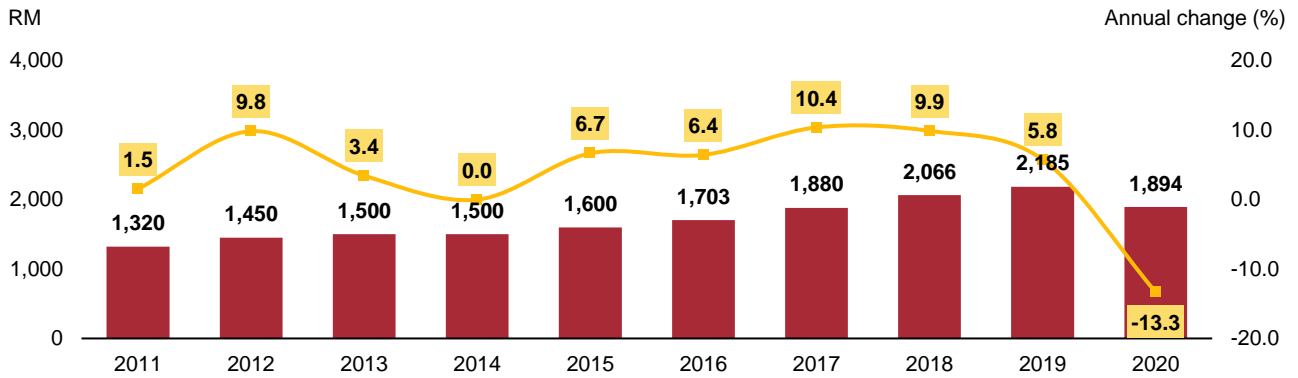
### Salaries & wages recipients



### Mean monthly salaries & wages



**Median monthly salaries & wages**

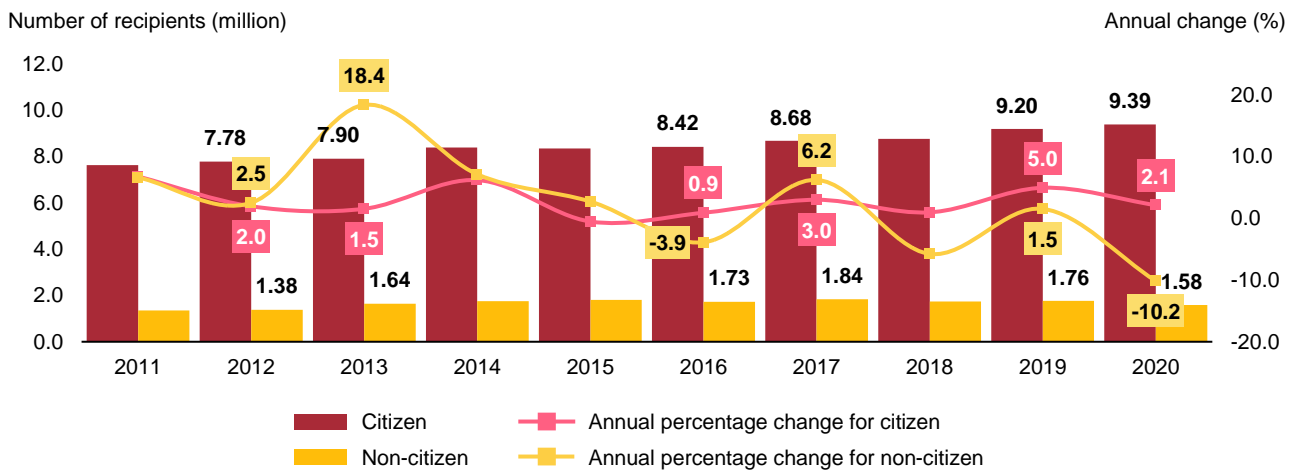


Source: Salaries & Wages Survey, DOSM

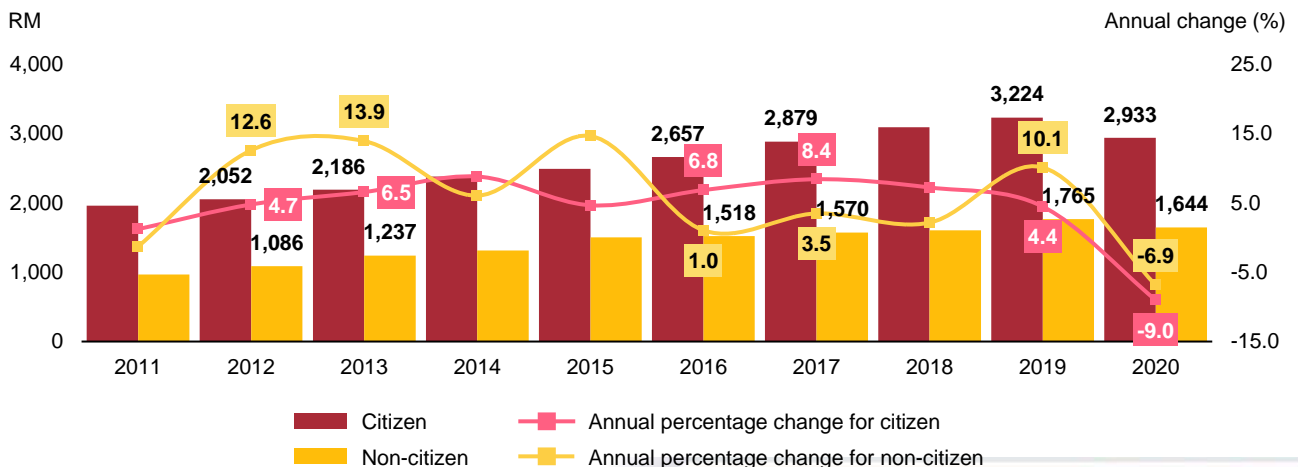
Further analysis by citizenship indicated that the share of non-citizen recipients ranged from 15.0 per cent to 17.8 per cent between 2011 to 2019. In 2020, the number of citizen recipients continued to increase by 2.1 per cent (+195.5 thousand) to 9.39 million persons while, the number of non-citizen recipients reduced by 10.2 per cent (-178.8 thousand) to 1.58 million persons. Thus, the share of non-citizen recipients also declined to 16.1 per cent. The decrease of non-citizens was in line with recalibration of foreign labour and international border closures in 2020. In overall, mean and median monthly salaries & wages of citizens were higher compared to non-citizens since most non-citizens were employed in semi-skilled and low-skilled occupation categories (Chart 6).

**Chart 6:** Number of recipients, mean and median monthly salaries & wages by citizenship, 2011 – 2020

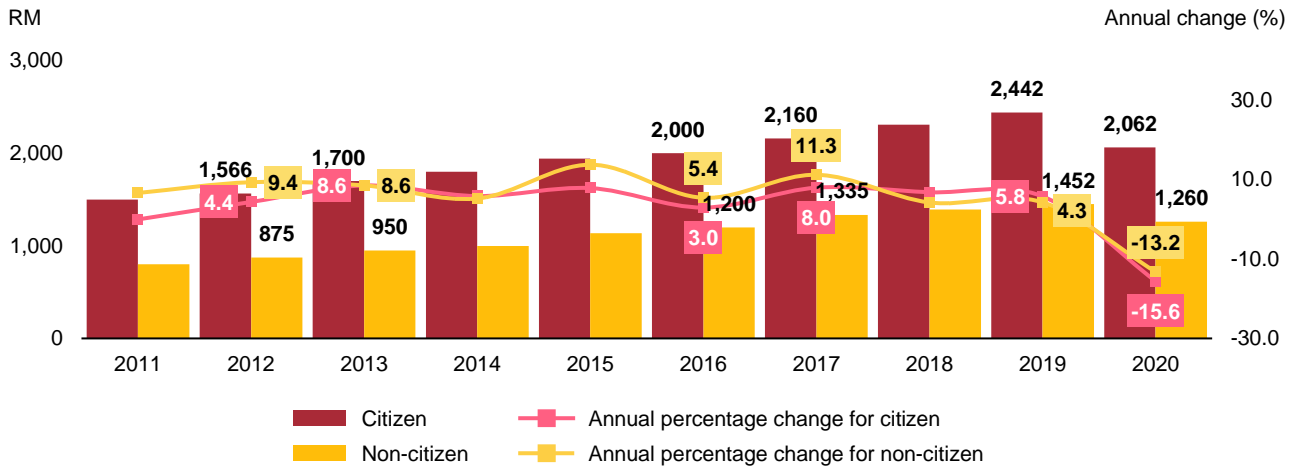
**Salaries & wages recipients**



**Mean monthly salaries & wages**



**Median monthly salaries & wages**

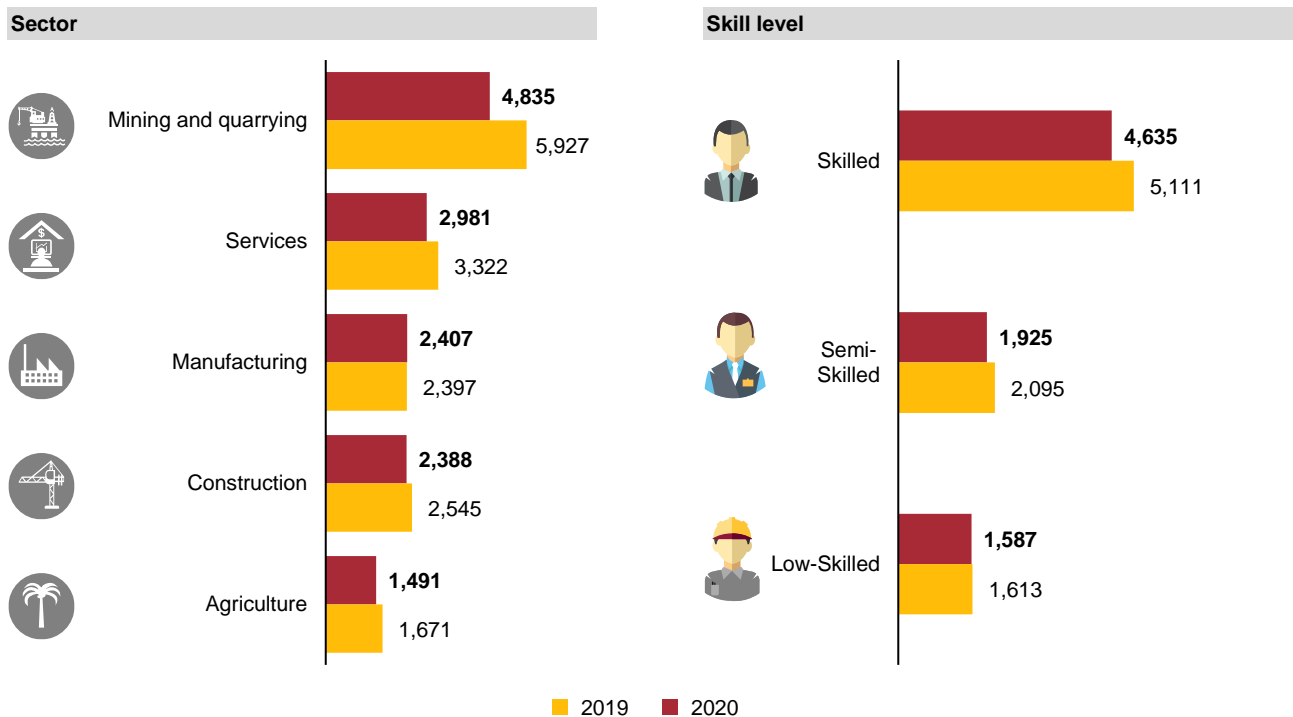


Source: Salaries & Wages Survey, DOSM

Based on the profile of mean salaries & wages by economic sector for the year 2020, Mining and quarrying sector registered the highest mean monthly salaries & wages at RM 4,835. In the meantime, the services sector ranked second at RM 2,981. In the meantime, Agriculture sector recorded the lowest mean salaries & wages at RM 1,491. The Manufacturing sector with mean monthly salaries & wages of 2,407 in 2020 was the only sector which posted increase in salaries & wages as compared to the previous year. Meanwhile, the mean salaries & wages for the other sectors indicated decline from 2019.

As for the category of skill, the mean monthly salaries & wages of recipients in the skilled category stood at RM4,635 in 2020, which was nearly 3 times higher than RM1,587 received by low-skilled employees (Chart 7).

**Chart 7: Mean monthly salaries & wages by sector and skill level, 2019 & 2020**



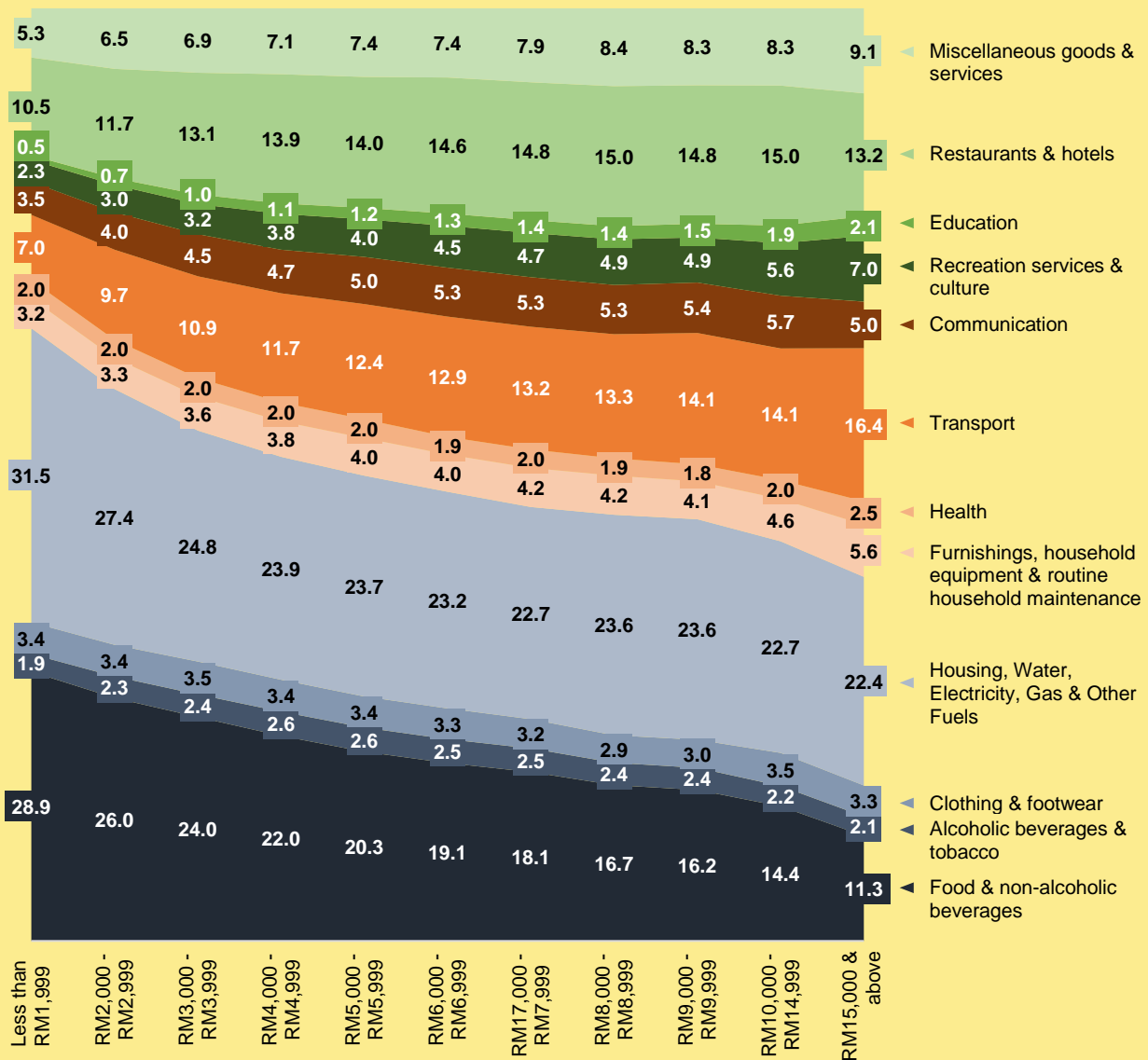
Source: Salaries & Wages Survey, DOSM

**Box 2. Cost of Living**

Cost of living is a measure of the cost required to meet basic needs as well as other needs in order to maintain a certain standard of living. Generally, household consumption expenditure varies depending on the income or salary received. In addition, the increase in the price of goods also affects the decision of household expenditure. Thus, the cost of living is influenced by three main factors mainly individual income, spending patterns, and price of goods.

According to Household Income and Expenditure statistics for 2019, households in lower income bracket spend more on Housing, Water, Electricity, Gas & Other Fuels and Food & Non-Alcoholic Beverages. For households with income less than RM1,999 per month, these two components contributed more than 50 per cent of the expenditure. Unlike high income group, with income RM10,000 and above the share of the two categories ranged between 33.4 per cent to 37.1 per cent.

**Chart 2.1:** Composition of household consumption expenditure by income class, Malaysia, 2019



Source: Household Income, Expenditure and Basic Amenities Survey (HIES/BA), DOSM



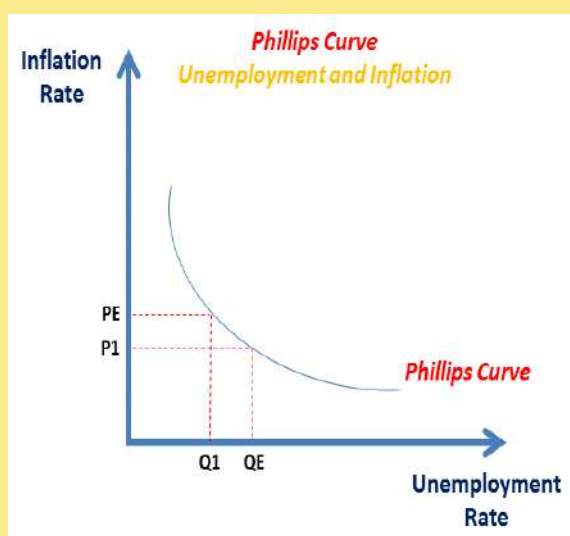
## Does Raising the Minimum Wage Increase Inflation?

Theoretically, raising the minimum wage forces business owners to raise the price of their goods or services, increasing the living standard whilst spurring inflation (Hayes, 2021). Basically, the rise of the minimum wage would increase purchasing power, which favourably impacts the economy. The rise of purchasing power pushes the demand curve towards the economic equilibrium, pushing the price to meet the equilibrium whilst influencing inflation.

### Box 3. Relationship Between Unemployment and Inflation

The relationship between inflation and economic activity is one of the cornerstones of macroeconomics to see a country's economic stability. The Phillips curve theory claims that with economic growth comes inflation, which in turn should lead to more jobs and less unemployment.

**Chart 3.1:** Phillips Curve



### Understanding Phillips Curve

The Phillips Curve is the graphical representation of the short-term relationship between unemployment and inflation within an economy.

According to the Phillips Curve, there exists a negative, or inverse, relationship between the unemployment rate and the inflation rate in an economy.

### Theory behind Phillips Curve

- Lower unemployment is associated with higher inflation.
- Higher unemployment is associated with lower inflation.

**Source:** Engemann, K. M. (2020). What is the Phillips Curve. Federal Reserve Bank of St. Louis.

### Some Reviews

#### Tang & Lean (2017)

Phillips curve is one of the well-known terminologies in economics to explain the relationship between inflation and unemployment rates

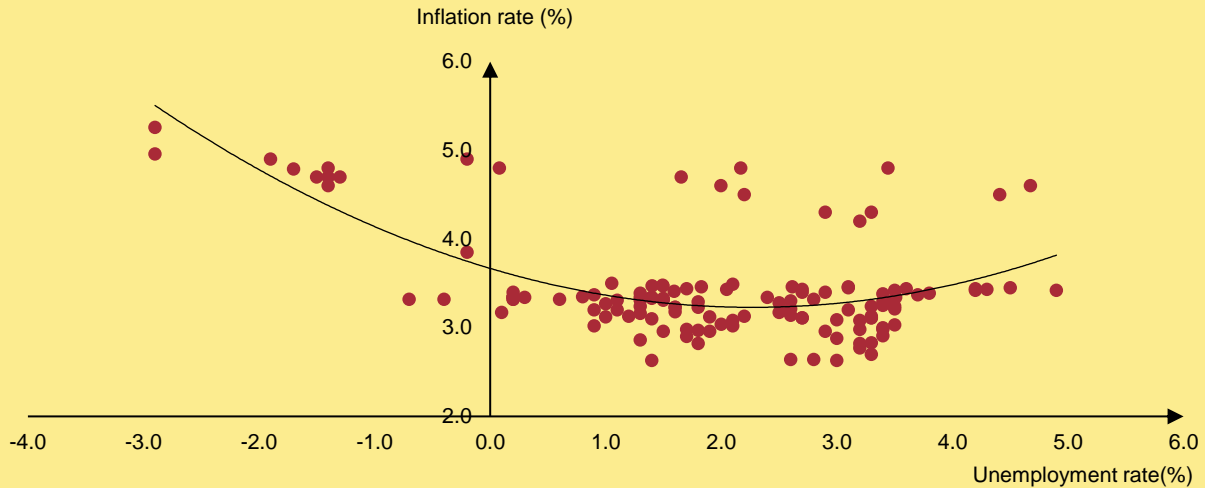
#### Metasari & Erni (2020)

Generally, we will see an inverse relationship between unemployment and inflation in the short-run while such a relationship does not exist in long-run.

#### Daly, Hobijn, and Lucking (2012)

Downward nominal wage rigidity was an important factor that shaped the dynamics of inflation during and after the last three U.S. recessions.

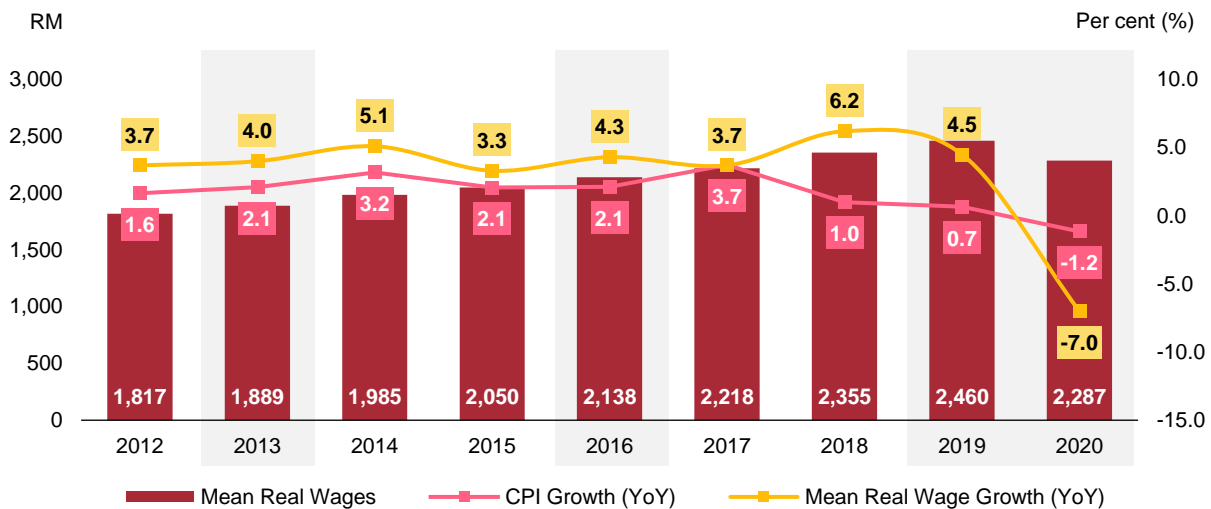
**Chart 3.2:** Relationship of unemployment rate and inflation rate, Malaysia, January 2010 - December 2020



**Source:** Author's calculation from Labour Force Survey Report and Consumer Price Index, Malaysia, DOSM

Preliminary analysis of the relationship between CPI and real wage in Malaysia indicated a year-on-year positive growth of CPI the following year after implementation of minimum wage. After the implementation of minimum wage in 2013, CPI grew 5.1 per cent in 2014. Later, with the 2016 Minimum Wage Order, it was observed that CPI remained elevated at 3.7 per cent and continued to surge 6.2 per cent in 2018. The effect of another rise in minimum wage to inflation cannot be identified based on this analysis considering an unprecedented socioeconomic scenario in 2020. However, it can be seen that as real salaries & wages declined in 2020, CPI dived 7.0 per cent immediately during the same year (**Chart 8**).

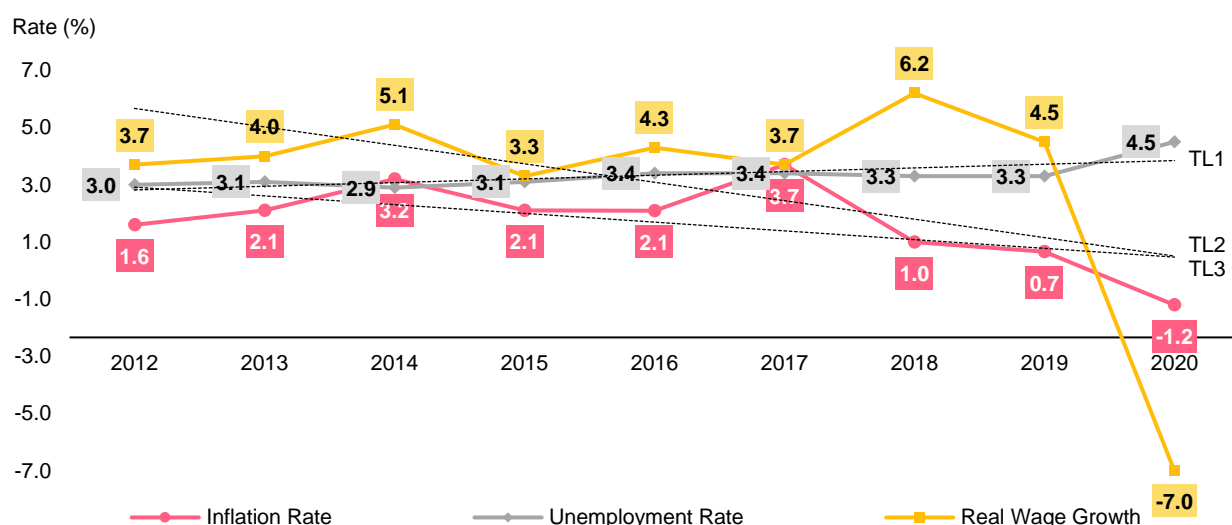
**Chart 8:** Mean monthly real salaries & wages against CPI growth, 2012 - 2020



**Source:** Author's calculation from Salaries & Wages Survey Report and Consumer Price Index, Malaysia, DOSM

Further investigation to map the relationship of real wages, inflation and unemployment was done using the annual statistics produced by DOSM. It was found that inflation rate trend line moves in tandem with the real wage trend line. In the meantime, there is an inverse relationship based on the trend lines of inflation rate and unemployment rate. A downward trend can be observed for inflation rate and an upward trend can be seen on unemployment rate. Social and economic restrictions that took place in Malaysia in 2020 has resulting in slower economy recording a considerable decline of inflation rate by 1.2 per cent while unemployment rate soared to 4.5 per cent. These initial findings corroborate with the Phillips theory which states there is a trade-off between inflation and unemployment (**Chart 9**).

**Chart 9:** Annual percentage change of mean real wage, inflation rate and unemployment rate, Malaysia, 2012 - 2020



**Source:** Author's calculation from Salaries & Wages Survey Report, Labour Force Survey Report and Consumer Price Index, Malaysia, DOSM

**Note:**

TL1 – unemployment rate trend line; TL2 – real wage trend line; TL3 – CPI growth trend line

## Potential Impacts of Implementing Minimum Wage

From the perspective of businesses, increasing minimum wage will incur additional labour cost. While large and multinational companies may be able to absorb this cost, smaller businesses may find the regulation challenging in managing their operation costs. However, willingness to increase wage rate should go hand in hand with adoption of technology and automation in order to create skilled and high value-added jobs. This can ultimately increase productivity and ensure skill retention for the employers.

As for the employees, minimum wage raises the employees' living standards and lowers poverty through promoting income redistribution. This approach had a huge impact on supporting low-paid workers. Increases in the minimum wage will assist to close the income gap between the lowest and highest paid workers as well as reducing wage inequality. The implementation of raising the minimum wage do have better impacts, such as lifting people out of poverty and raising personal and family income.

While in-depth analysis may be able to provide insights into the empirical impact of implementing minimum wage, this section will review some of the literatures on the matter.

<p><b>Salleh, Talib and Rusly, 2007</b> The increase of the minimum wage will <b>enhance the wellbeing and welfare</b> of low-income bracket employees, influence their <b>motivation</b> and hence, lead to an <b>increase in productivity</b>.</p>	<p><b>Poh (2013)</b> Some firms, <b>especially small and medium enterprises (SMEs) may be forced to cease their operation</b> due to <b>inability to absorb increase in cost</b>. In Thailand, 110,000 SMEs were closed down due to minimum wage policy.</p>
<p><b>Dube, Lester and Reich (2016)</b> A <b>10 per cent increase in the minimum wage</b> will <b>reduce turnover for restaurant workers by 2.1 per cent</b> while <b>turnover for teenagers declined by 2.0 per cent</b>.</p>	<p><b>Fang and Lin (2015)</b> A study conducted in <b>China</b> shows that minimum wage <b>reduces the employment of low-skilled employees</b>. Thus, employees with low education level such as below vocational school degrees were directly and adversely affected by the policy in terms of employment opportunity.</p>

<p><b>Brochu and Green (2013)</b> In Canada, <b>quits and layoffs of young workers with low education decline</b> in the year after a minimum wage increase.</p>	<p><b>Neumark (2018)</b> Employers will <b>substitute away from less-skilled workers</b> towards more-skilled workers after a minimum wage increase.</p>
<p><b>Riley and Bondibene (2015)</b> Upon the introduction of National Minimum Wage (NMW) in <b>Britain</b>, low-paying companies responded to the <b>increase in labour costs</b> from minimum wages by <b>increases in the labour productivity</b>. They suggested that these labour productivity increases may have been associated with <b>decrease in employee turnover</b> and <b>improvement in training</b>.</p>	

#### Box 4. Micro, Small & Medium Enterprises in Malaysia

While most businesses were impacted by the myriads of measures and regulations implemented to contain the prolonged public health crisis, large businesses may be able to sustain by tweaking and adapting business strategies as well as identifying emerging sources for growing their profits. Nevertheless, this may not be the case for most **micro, small & medium enterprises (MSMEs)** as they **normally operated with limited resources** and **obtaining small profit margin** through their business activities. Additionally, MSMEs are **usually more labour-intensive**, hence **would be spending more on labour compensation**. These are among the multitudes of issues faced by SMEs in managing their cash flow especially during economic hardship, which make them more vulnerable than the large companies.

**In 2020, the GDP for MSMEs contracted 7.3 per cent** which was lower than the national's GDP for the first time over the past 17 years since 2003. The decline was also larger than decreased in the GDP of non-MSMEs which posted a negative 4.6 per cent. Its **contribution to national GDP shrank to 38.2 per cent** compared to 38.9 per cent in 2019. Comprising **97.2 per cent out of 1.18 million registered establishments** in Malaysia, the number of SMEs **declined 2.6 per cent** or equivalent to 30.3 thousand to record **1.15 million during the year**. SMEs owned **48.0 per cent of total employment** in the country, equivalent to **7.25 million persons**. The **number of MSMEs' employment dived 0.9 per cent** as compared to non-MSMEs which continued to trend up albeit at a smaller rate compared to the year before. The lower numbers signalled challenges faced by the MSMEs to sustain operation and retain employment as COVID-19 and all its consequences struck.

Corresponding to the MCO imposed in March 2020, multiple initiatives were introduced to date to protect lives, ensure well-being, propel businesses and subsequently stimulate the national economic growth. With the daily COVID-19 cases increasing further, social and economic restrictions continue in 2021. This chain of events caused demand to dwindle and put businesses especially the SMEs to exhaust their savings and resources, and subsequently resort to business closures. Recognising the important roles of the SMEs in Malaysia's economy and its vulnerability to uncertain factors, unique initiatives and stimulus packages are continuously tailored by the government to aid this segment of businesses.

As businesses start to regain momentum towards recovery towards the end of 2021, the **number of establishments rose by 6.3 per cent to record 1.26 million establishments**. **MSMEs accounted for 97.4 per cent** whereby the number **increased 6.5 per cent to 1.23 million establishments**.

**Source:** This information is updated based on the excerpt of a sub-topic in Labour Market Review, Second Quarter 2021 entitled "Rebuilding SMEs in Mitigating the Impact of COVID-19 to Businesses", published on 19 August 2021



## Way Forward

Considering the role of labour in progressing the economy, wage is an essential motivational component that will in turn influence the productivity. Thus, continuous upward revision of salaries and wages is well-known practice whether or not regulation is in place. Having said that, setting up of a minimum wage rate will actually ensure well-being of employees, especially in the low-skilled low income segment.

In ensuring increase in payment commensurate with employees' performances, businesses may look at emerging opportunities in automation and digitalisation as one of the solutions in creating skilled jobs. Further to this, investment in technology will ensure increase in output and subsequent rise in revenue. Next, continuous effort to re-skill and upskill employees will also be beneficial in the long run. A significant rise in the minimum wage can alleviate poverty and subsequently raising the family earnings. The higher earning may attribute to higher demand of goods and services, thus will also be a catalyst for potential economic growth.

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