8 Prices, Employment And Wages

Inflation, as indicated by the Consumer Price Index (CPI, 1994=100) increased by 2.6% in the first nine months of 1997, compared with 3.6% during the corresponding period of 1996. This rate of inflation is the lowest achieved since 1990. This achievement was to a large extent due to the success of a comprehensive package of measures aimed at easing price pressures in the domestic economy, overcoming supply constraints as well as reducing pressure on wages resulting from the labour shortage situation. Fiscal and monetary measures continued to be tightened with the aim of reducing excess demand, which had caused capacity constraints in some industries and the tight labour market situation which can potentially exert upward pressures on prices, wages and unit labour costs. At the same time, the further abolition and reduction of import duties on a large number of consumer items, as well as stricter enforcement of administrative measures to curb unhealthy business practices, had also contributed to the lower inflation rate. In addition, subdued inflation in many of the nation's large trading partners also contributed to the low inflation rate. At the producer level, the Producer Price Index (PPI, 1986= 100) increased by 0.9% during the first eight months of 1997, compared with 1.5% during January-August 1996, mainly due to lower prices of imported goods as well as more moderate growth in domestic production costs.

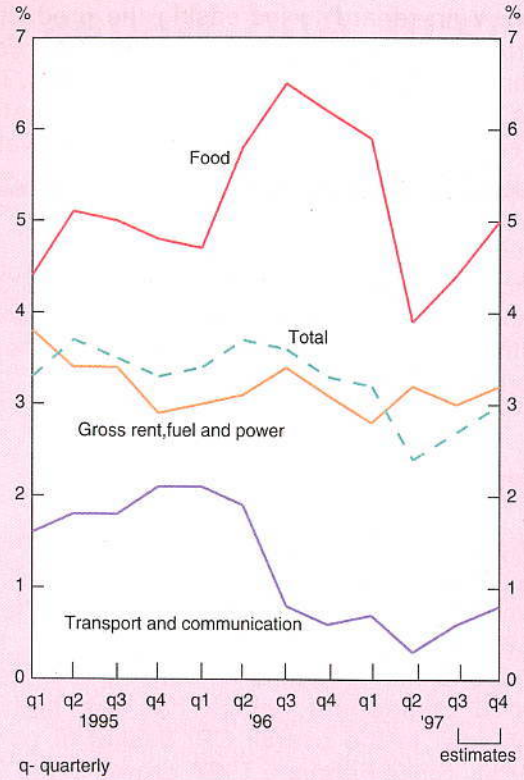
The labour market situation continues to remain tight. In 1997, a total of 229,500 new job opportunities is expected to be created compared with 246,000 in 1996. The rate of unemployment is expected to remain at 2.5% in 1997 (1996: 2.5%). Private sector collective wage agreements concluded in the first seven months of 1997 provided for a weighted average increase in wages of 7.7%, lower than the 12.3% increase in the corresponding period of 1996. A total of 226 collective wage agreements involving 69,300 workers was concluded during the first seven months of 1997 as against 398 agreements covering 113,300 workers in 1996.

Prices

The moderate increase in the **Consumer Price Index (CPI),** which was particularly evident since the middle of the year, reached its lowest level of 2.6% in August 1997. To a large extent, this was due to the continued decrease in the index of food component, which has the highest weightage in the overall CPI basket of goods (34.9%). Since February 1997, growth in the CPI had slowed down consistently from a high of 3.2% in the first two months to 3.1% (January-March), 3.0% (January-April), 2.9% (January-May), 2.8% (January-June), 2.7% (January-July) and 2.6% (January-August). With this, the overall growth in the CPI for the period of January-September 1997 averaged 2.6%. On a regional basis, the price trend in Sabah and Sarawak showed a lower increase than that in Peninsular Malaysia. The CPI for Peninsular Malaysia rose 2.8% (January-September 1996: 3.9%) while the index for Sabah increased 2.1% (January-September 1996: 2.8%) and Sarawak 1.4% (January-September 1996: 2.2%) as shown in Table 8.1.

The moderate growth in the CPI during January-September 1997 was virtually across the board as lower prices were recorded in all sub-groups of the consumer basket except for the sub-index for medical care and health expenses and miscellaneous goods and services. While food prices remain the major contributor to the increase in the overall CPI, its rate of increase moderated to 4.3% during January-September 1997 compared with 5.7% during the corresponding period last

Chart 8.1
Consumer Price Index (1994 = 100)
(annual change)



q- quarterly

year. This was largely due to a lower growth of 3.6% in the sub-index for food consumed at home (January-September 1996: 6.0%). However, the sub-index for food consumed away from home increased by 5.9%(January-September 1996: 4.7%). In terms of the prices of individual food items, the sub-index for fish rose by 7.0%, a significantly lower increase compared with a double digit growth of 12.5% during the same period in 1996. Higher imports as well as increased domestic production have contributed to the easing of price pressure. The sub-index for rice, bread and other cereals also moderated with an annual growth of 4.5% compared with 6.9% during the corresponding period last year. In addition, the sub-index for fruits and vegetables increased at a significantly lower rate of 1.5% (3.4% in January-September 1996) because of the increase in both supply and imports. Among the nine sub-components under food consumed at home, oils and fats recorded a decline of 1.9% in the CPI (January-September 1996: 0.8%). The CPI for the other sub-indices under the food component is shown in Table 8.2.

Table 8.1

Malaysia: Consumer Price Index (1994=100)

			Annual Change (%) (January-September)	
	Weights	*1996*	*1996*	*1997*
Total	**100.0**	**3.5**	**3.6**	**2.6**
Food	34.9	5.7	5.7	4.3
Beverages and tobacco	3.6	2.2	2.4	1.1
Clothing and footwear	3.6	–0.7	–0.7	–0.6
Gross rent, fuel and power	21.1	3.2	3.2	3.1
Furniture, furnishings and household equipment and operation	5.6	1.1	1.6	0.0
Medical care and health expenses	1.9	3.7	3.6	3.7
Transport and communication	17.9	1.4	1.7	0.6
Recreation, entertainment, education and cultural services	5.8	3.3	3.5	0.3
Miscellaneous goods and services	5.6	2.5	2.6	4.0
Peninsular Malaysia	100	3.8	3.9	2.8
Sabah	100	2.8	2.8	2.1
Sarawak	100	2.2	2.2	1.4

Source: Department of Statistics.

The increase in CPI for the sub-index of medical care and health expenses remained high at 3.7% compared with 3.6% during the corresponding period of 1996. This is mainly attributable to higher demand for better medical services and increased awareness of the importance of health care as a result of the generally higher standard of living of the people in the country. The sub-index for gross rent, fuel and power also registered a significant increase of 3.1% (January-September

Table 8.2

Malaysia: Consumer Price Index For Food (1994=100)

			Annual change (%) (January-September)	
	Weights	*1996*	*1996*	*1997*
Total Food	34.9	5.7	5.7	4.3
Food at home	25.1	6.0	6.0	3.6
Rice, bread and other cereals	5.5	7.4	6.9	4.5
Meat	3.8	4.7	3.9	3.7
Fish	4.9	11.7	12.5	7.0
Milk and eggs	2.3	4.0	3.8	2.4
Oils and fats	0.7	0.2	0.8	-1.9
Fruits and vegetables	5.4	3.0	3.4	1.5
Sugar	0.6	0.8	1.0	0.3
Coffee and tea	0.8	0.5	0.6	0.8
Other food	1.1	4.4	4.5	1.1
Food away from home	9.8	5.2	4.7	5.9

Source: Department of Statistics.

1996: 3.2%) on account of increases in rental of homes. In addition, the increase in the electricity tariff rate by 8.3% from 21.7 sen/kwh to 23.5 sen/kwh from Ist of May 1997 also contributed to the increase in the overall CPI. In contrast, lower prices were recorded for clothing and footwear with its CPI declining by 0.6% during the first nine months of 1997 (January-September 1996: -0.7%),

The Government continues to place emphasis on addressing supply constraints, particularly of food, such as fish, vegetables and meat which has been a major contributor to the increase in the CPI. As a measure to further increase the supply of fish, the "Tabung Ikhtiar Nelayan" (Fisherman's Initiative Fund) was launched in June 1997 to help traditional fishermen obtain interest-free loans to finance their fishing activities. The Fund is expected to benefit about 25,000 fishermen throughout the country. The Malaysian Fisheries Development Board has contributed RM4 million to the Fund, which is managed by Amanah Ikhtiar Malaysia. The Government has also taken steps to expedite the construction of jetties such as in Kuala Kedah to facilitate fishermen to land their catch. With regard to increasing the production of fruits and vegetables, the Fund For Food continues to provide attractive loan facilities. This is in addition to efforts to encourage state Governments to provide suitable land for cultivation and production activities. Specific measures were also taken to deal with the problem of price increase of meat, which ranked fourth (after rice, fruit and vegetables and fish) in the food basket, through such efforts as seeking new sources of supply. This is reflected by the increase in the number of import permits issued by the Department of Veterinary from 13,978 in 1995 to 14,332 in 1996.

The second largest component in the CPI is gross rent, fuel and power. It has contributed about 25% to the increase in CPI, mainly due to increase in home rentals. During the first six months of 1997, the House Price Index (IHRM) continued to increase at a rate of 6.1% compared with a 12.9% increase during the corresponding period in 1996. On a sectoral basis, the four National House Price Indices showed a mixed performance with the terrace and semi-detached indices having a relatively constant higher percentage increase, ranging from about 8.0% to 11% during the last six months of 1996 and the first half of 1997. In contrast, the index for the high-rise units continued to show a negative trend, decreasing at a slightly higher percentage of 4.6% during January-June 1997 compared with 1.0% in the same period of 1996. However, the drop in demand may vary, as the removal of the RM100,000 levy on foreign purchasers of properties worth more than RM250,000, announced by the Government on 28 August 1997, may reduce the decline in demand for medium range high-rise units. In terms of the total number of transactions within the residential property sector, the last three years have witnessed a continued increase in the total value of residential properties being transacted. For the period of January to June 1997, total value of property transacted rose to RM1.77 billion, although the rate of increase declined from 32.6% in the first six months of 1996 to 21.2% for the corresponding period in 1997. In terms of price range, transactions of houses priced below RM150,000 formed 74.5% of the total transactions of 86,652 compared with 80.3% of a total 82,755 houses transacted during the same period of 1996.

The Government continues to emphasis the implementation of low and medium cost housing to ensure adequate, affordable and quality houses to the lower income group, particularly in the urban area. The Government has established three special funds to ease the housing problem faced by the lower income group, namely, the Housing Fund for the Hardcore Poor, the Fund to Accelerate the Construction of Low-Cost Houses (FACLCH) and the Low Cost Housing Revolving Development Fund (LCHRDF). As of the middle of 1997, a total of 32 projects involving 81,700 units of low and medium cost houses was approved under the LCHRDF. At the same time, the FACLCH, which provides attractive funding for low cost housing development, approved loans amounting to RM 496.3 million as of the end of August 1997, to finance the construction of 25,916 unit of low cost houses. During the 1997 Budget, the Government has also announced the establishment of a National Housing Company to assist developers to build more low and medium cost houses.

The Ministry of Domestic Trade and Consumer Affairs has stepped up administrative measures to monitor as well as regulate excessive price pressures on essential items. On 16 March 1997, the Government approved a price reduction of RM0.10 per kg. of flour as the prices of imported raw materials (Australian Standard White Wheat) had decreased towards the end of 1996 and early 1997 (by 23% from US$262 per metric tonne in the second quarter of 1996 to US$202 per metric tonne in the first quarter of 1997). Meanwhile, the Government is also undertaking a study on highway toll rates with a view to easing the burden on users. The study is expected to be completed by the middle of 1998.

The Department of Statistics (DOS) has formulated a second CPI for the lower income group to provide indicators on price changes of essential goods and services, which affect the purchasing power of this category of consumers. A new basket of goods with 75 new items (revised from the original 430 items under the overall CPI basket of goods) has been identified as the basic needs for the group. The food component shows a big difference in the expenditure pattern as those earning below RM1500 per month spent 40.9% of their monthly income on food (overall CPI: 34.9%). While the weightage for gross rent, fuel and power remained at 21.1%, transport and communication showed a decline in weightage by 4.9 percentage points (from 17.9% in the overall CPI to 13.0% for the CPI of lower income group). The survey found that, in 1996, the second CPI increased by 3.9%, slightly higher than the 3.5% recorded in the overall CPI. This is mainly due to higher prices for food components, which experienced a 6.0% increase in the second CPI compared with 5.7% in the overall CPI. The 3.0% increase in index for gross rent, fuel and power also contributed to the higher increase. Together, these two components contributed about 84% to the higher CPI for the lower income group. In addition, the DOS has also undertaken the computation of the CPI for the rural and urban areas. Results showed that the CPI experienced marginal differences between urban and rural areas (1996: 3.2% for the rural compared with 3.6% for the urban), largely on account of marginal differences in the pattern of expenditure between the rural and urban areas.

To reflect more accurately the current prices of intermediate and final goods, the DOS has revised the **Producer Price Index** (PPI), using the Input-Output Tables of 1987. The revised PPI shows that local production has a higher weightage (an increase of 7.5 percentage points from 71.8% to 79.3%), reflecting an increase in the local content of domestic manufacturing. The revised PPI also shows significant changes in the composition of items used by local producers. The items that have higher weights in the revised PPI are mineral fuels, lubricants and related materials (+7.5 percentage points to 18.82%); animal and vegetable oils and fats (+2.56 percentage points to 8.47%); machinery and transport equipment (+0.59 percentage points to 18.35%); and chemicals and related products (+0.04 percentage points to 4.42%). In contrast, other sub-groups have lower weights, namely, manufactured goods (-4.08 percentage points to 10.81%); crude materials (-2.78 percentage points to 17.97%) and food and live animals (-1.95 percentage points to 14.87%).

FEATURE ARTICLE 3

Second Consumer Price Index

The Consumer Price Index (CPI) has been frequently referred to as a measure of inflation. It measures the changes in the general level of retail prices of a constant basket of consumer goods and services which are commonly consumed by an average household in Malaysia. It measures change in transaction prices i.e. the prices actually paid by consumers for the goods and services they buy. The basket of goods and services used in the CPI is selected to represent the spending or expenditure pattern of the population as a whole in accordance with international accepted practice. As the CPI is a weighted average of changes in the prices of goods and services, items with larger weights have a greater influence on the index than those with smaller weights. Therefore, food is assigned a much larger weight than medical and health care, since the amount spent on the former is many times that of the latter and a rise in the price of food by 1 sen would have a bigger bearing on the index than a rise in the price of medical care by 10 sen.

The Department of Statistics has formulated a second CPI based on items commonly consumed by the lower income group. The second CPI focuses on the price change of items commonly bought by those with incomes lower than RM1,500 per month. To reflect the real expenditure pattern of households for the lower income group, the selected 430 items under the overall CPI basket of goods have been revised. For this purpose, a number of new items have been added to the existing list of goods and services, while several items have been removed from the basket as they are not appropriate. The final list consisting of 75 items considered as meeting the basic needs for the lower income group were identified. The following table shows some of the different goods and services selected under each component of the basket of goods for the lower income group compared with the higher income group:-

Table 1

Selected Items Under Different Income Groups

	< RM1,500 per month	> RM2,500 per month
Food		
Oil and fat	mixed edible oil	Vecorn Mazola
Vegetable	kangkong pucuk paku pucuk ubi	kai lan lettuce asparagus mashroom (canned)
Fruits	papaya banana rambutan	grape apple lychee
Fish	selayang sepat tongkol duri	pomfret jenahak tenggiri merah
Other Food	kaya budu	marmalade honey
Clothing and Foot Wear	batik less quality t-shirt (Don)	shirt (branded) Van Hausen YSL Dunhill
Gross Rent, Fuel and Power	house rent: flat terrace squarters	house rent: condo double storey semi - D banglow
Transportation and Communication	bicycle motorcycle bus fare	car Mercedes BMW Volvo Citreon
Medical Expenses and Health Care	fees Government hospital	fees private clinic specialist

(a) *Household Expenditure Pattern By Income Group*

The survey indicated a significant difference in the household expenditure of the two income groups, as shown in Table 2. The food component shows a larger difference in the expenditure pattern where those earning below RM1,500 per month spend 40.9% of their monthly income on food, while the higher income household with RM2,500 or above per month spend only 29.8% on food. In contrast, the lower income group spend only 13% of their monthly income for transportation and communication, lower than that spent by the higher income group (21.5%). For beverages and

Table 2:

Malaysia: Household Expenditure Pattern (%) For Income Groups

Components of expenditure	<RM1,500	>RM2,500	Average
0 Food	40.9	29.8	34.9
1 Beverages and tobacco	4.7	2.5	3.6
2 Clothing and footwear	4.2	3.0	3.6
3 Gross rent, fuel and power	21.1	21.5	21.1
4 Furniture, furnishing and household equipment and operation	5.3	6.0	5.6
5 Medical care and health expenses	1.4	2.4	1.9
6 Transport and communication	13.0	21.5	17.9
7 Recreation, entertainment education and cultural services	4.6	6.7	5.8
8 Miscellaneous goods and services	4.8	6.7	5.6
Total	**100.0**	**100.0**	**100.0**

tobacco as well as clothing and footwear, the lower income household has a larger weightage (4.7% and 4.2%) compared with the higher income household (2.5% and 3.0%). For medical and health expenses, recreation, entertainment, education and cultural services, those with an income of less than RM1,500 monthly, spend a smaller portion of their monthly income on these items compared with the higher income group (1.4% compared with 2.4% and 4.6% compared with 6.7%). In general, the lower income household spend 62% or approximately 2/3 of their monthly income on basic needs such as food and residential rentals compared with the higher income household (51%).

(b) *CPI For Households Earning Less Than RM1,500 Per Month*

On average, the percentage change in the index for both income groups shows the same trend, with food component accounting for the highest percentage increase in both CPIs. In 1996, the CPI for income group of less than RM1,500 per month increased by 3.9%, slightly higher than 3.5% recorded in the overall CPI. This is mainly due to the higher prices for food components, which experienced a 6.0% increase in the CPI compared with 5.7% in the overall CPI. The 4.1% increase in medical treatment for the lower income group compared with 3.7% for the overall CPI, also contributed to a large extent, to the higher increase. On the other hand, for gross rent, fuel and power as well as furniture, furnishings and household equipment and operation expenditure, the percentage increase in prices is lower for the lower income group (3.0% compared with 3.2% and 0.6% compared with 1.1%). Other components however, do not show any significant differences in the CPI as shown in Table 3.

(c) *Major Contributor To The Increase In The Second CPI And The Overall CPI*

The survey done by the Department of Statistics also found that food was the major contributor to the increase in the CPI for both income groups (66% for the CPI of the lower income group and 59.3% for the CPI of the overall household). Gross rent, fuel and power is the second largest contributor which contributed 16.8% to the increase in the CPI for the lower income group and 19.2% to the overall CPI. The contribution from the other components, namely transport and communication as well as recreation, entertainment, education and cultural services to the CPI of the lower income group were only 4.1% compared with 6.8% and 5.3%, respectively to the overall CPI. The breakdown of the contribution from each component to the increase in the CPI is shown in Table 3.

The detailed breakdown of contribution by items under the food component to the increase in the CPI for both income groups is shown in Table 4. From the nine sub-components of food, fish is the major contributor to the increase in CPI, i.e. 23.4% to the lower income group index and 19% to the overall household index. Similarly, the components of rice, bread and other cereals as well as fruits and vegetables have a greater contribution to the increase in the CPI of the lower income group, 14.8% and 6.8%, respectively compared with 11.1 % and 4.9% for the overall CPI. On the whole, the increase in the index for the lower income group was largely due to the increase in the index of food consumed at home (almost 82%).

Table 3:

Malaysia: Percentage Change in the Consumer Price Index (CPI) And Its Contribution By Major Components of Expenditure (1996/1995)

Component	Overall CPI			Income group <RM1,500 Per month		
	Weightage	*% Change*	*Contri-bution*	*Weightage*	*% Change*	*Contri-bution*
Total	100.0	3.5	100.0	100.0	3.9	100.0
Food	34.9	5.7	59.3	40.9	6.0	66.6
Beverages and tobacco	3.6	2.2	2.2	4.7	2.2	2.8
Clothing and footwear	3.6	–0.7	–0.7	4.2	–0.5	–0.5
Gross rent, fuel and power	21.1	3.2	19.2	21.1	3.0	16.8
Furniture, furnishing and household equipment and operation	5.6	1.1	1.8	5.3	0.6	0.8
Medical care and health expenses	1.9	3.7	2.0	1.4	4.1	1.5
Transport and communication	17.9	1.4	6.8	13.0	1.3	4.1
Recreation, entertainment, education and cultural services	5.8	3.3	5.3	4.6	3.5	4.1
Miscellaneous goods and services	5.6	2.5	4.1	4.8	2.9	3.8

Table 4:

Malaysia: Weightage, Percentage Change And Contribution of Sub-Component Of Food To CPI (1996/1995)

Sub-components of expenditure	*Overall Household*			*Income group <RM1,500 Per month*		
	Weightage	*% Change*	*Contri-bution*	*Weightage*	*% Change*	*Contri-bution*
Food	34.9 (100)	5.7	59.3 (100)	40.9 (100)	6.0	66.6 (100)
Food at home	25.1 (72)	6.0	44.2 (75)	32.1 (78)	6.3	54.4 (81.7)
Rice bread and other cereals	*5.5*	*7.4*	*11.1*	*7.6*	*7.8*	*14.8*
Beef	*3.8*	*4.7*	*5.1*	*4.1*	*3.9*	*4.3*
Fish	*4.9*	*11.7*	*19.0*	*6.6*	*11.6*	*23.4*
Milk and eggs	*2.3*	*4.0*	*2.5*	*2.7*	*4.3*	*2.9*
Oils and fats	*0.7*	*0.2*	*0.0*	*0.9*	*0.4*	*0.1*
Fruits and vegetable	*5.4*	*3.0*	*4.9*	*6.6*	*3.7*	*6.8*
Sugar	*0.6*	*0.8*	*0.2*	*1.1*	*0.9*	*0.2*
Cofee and tea	*0.8*	*0.5*	*0.1*	*1.1*	*0.4*	*0.1*
Other foods	*1.1*	*4.4*	*1.3*	*1.4*	*5.0*	*1.8*
Food away from home	9.8 (28)	5.2	15.1 (25)	8.8 (22)	5.2	12.2 (18.3)

Overall, the PPI rose moderately by 0.9% during the first eight months of 1997 (January-August 1996: 1.5%). The moderate increase was mainly due to declines in prices of crude materials (January-August 1997: -6.1% compared with –1.2% in January-August 1996) and miscellaneous manufactured articles (January-August 1997: -1.7% compared with 4.2% in January-August 1996). On a disaggregated basis, the PPI for local production rose marginally by 0.8% during the first eight months of 1997 (January-August 1996: 2.0%) mainly due to the 7.3% increase in prices index of mineral fuels and lubricants, (January-August 1996: 9.9%), animal and vegetable oils and fats 4.6% (January-August 1996:-7.1%) while the subindex for food and live animals rose by 2.1% (January-August 1996: 6.0%). The PPI for imports increased marginally by 1.5% (January-August 1996: -0.5%), attributed mainly to the 3.3% increase in the cost of machinery.

Chart 8.2
Producer Price Index (1989 = 100)
(annual change)

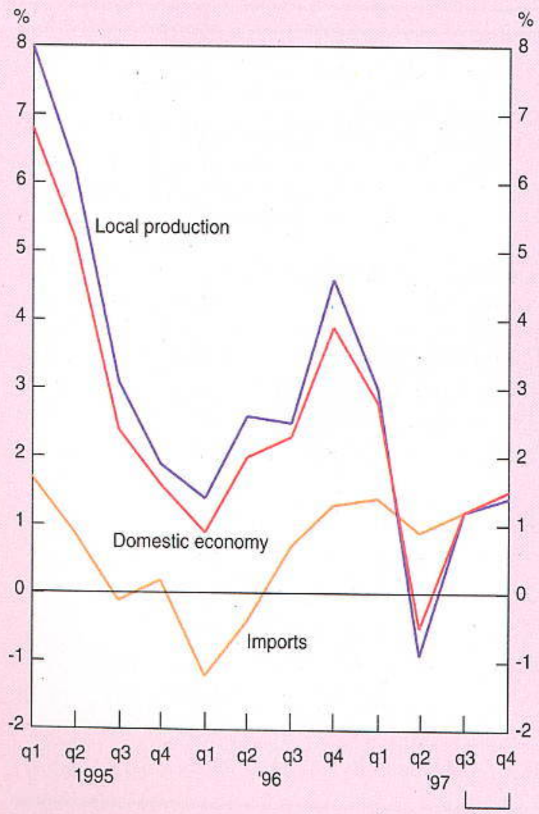


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Table 8.3

Malaysia: Producer Price Index (1989=100)

	Weights	1996	*Annual Change (%) (January–August)* 1996	1997
Domestic Economy	**100.0**	**2.3**	**1.5**	**0.9**
Food and live animals chiefly for food	14.9	5.5	5.6	1.6
Beverages and tobacco	2.1	0.5	0.7	0.0
Crude materials, inedible except fuels	18.0	–1.5	–1.2	-6.1
Mineral fuels, lubricants	18.8	12.5	8.4	6.8
Animal and vegetable oils and fats	8.5	–5.8	–7.0	4.5
Chemicals and chemical products	4.4	1.0	1.3	0.2
Manufactured goods classified chiefly by materials	10.8	0.8	1.3	–0.8
Machinery and transport equipment	18.3	0.5	–0.2	2.0
Miscellaneous manufactured articles	3.6	3.4	4.2	–1.7
Commodities and transactions not classified elsewhere	0.6	0.3	0.3	–0.6
Local production	***79.3***	***2.8***	***2.0***	***0.8***
Import	***20.7***	***0.1***	***–0.5***	***1.5***

Source: Department of Statistics.

Employment

The employment situation tightened further in 1997. Employment is expected to grow at a slightly slower rate of 2.8% in 1997 to reach 8.39 million (1996: 8.16 million) compared with a 3.1% growth in 1996, due mainly to the decline recorded in the primary sector (1997: 1,318,600 compared with 1996: 1,382,000). The employment expansion of the secondary and tertiary sectors, however, remains high at an average rate of 4.3%. With this increase, both sectors are expected to account for about 84% of total employment in 1997 compared with 83% in 1996. The percentage share of the primary sector (including agriculture, forestry and fishing, and mining) to total employment, is expected to further decline to 16% in 1997 compared with 17.0% in 1996. With the total labour force increasing at the same rate of 2.8% or 235,200 persons to 8.6 million (2.8% or 232,000 persons to 8.4 million in 1996), the unemployment rate is expected to remain at 2.5% in 1997.

As at the end of July 1997, a total of 23,321 persons compared with 24,070 persons in the corresponding period of last year, were actively seeking employment through the Manpower Department, recording a decline of 3.1%. Of the total, 2,980 of them were Higher School Certificate/ diploma/degree holders from various institutions

Table 8.4

Malaysia: Comparison of Active Registrants and New Vacancies According to States

	Active Registrants			*New Vacancies*		
	July[1] 1996	*July[1] 1997*	*Change (%)*	*Jan–July 1996*	*Jan–July 1997*	*Change (%)*
Perlis	740	848	14.6	400	386	–3.5
Kedah	2,410	2,055	–14.7	2,473	2,468	–0.2
Pulau Pinang	1,031	764	–25.9	5,431	5,380	–0.9
Perak	1,624	2,010	23.8	2,813	3,546	26.1
Selangor	1,239	1,317	6.3	4,549	4,430	–2.7
Negeri Sembilan	1,190	1,333	12.0	3,013	1,544	–48.7
Melaka	512	465	–9.2	455	208	–54.3
Johor	1,458	1,583	8.6	4,749	3,482	–26.7
Pahang	1,319	2,141	62.3	1,261	2,686	113.0
Terengganu	2,072	1,981	–4.4	1,399	1,670	19.4
Kelantan	2,209	1,691	–23.4	1,999	1,591	–20.4
Wilayah Persekutuan	2,448	2,086	–14.8	1,791	2,067	15.4
Sabah	4,462	3,616	–19.0	1,573	2,947	87.3
Sarawak	1,356	1,431	5.5	1,577	5,671	259.6
Total Malaysia	24,070	23,321	–3.1	33,483	38,076	13.7

Source: Manpower Department, Ministry of Human Resources

Note: [1] Accumulative figures as at end of July 1997 of higher learning while 54.8% were Malaysian Certificate of Education holders. However, increases were recorded in most states with Pahang, Perak and Perlis showing a higher rate of increase of 62.3%, 23.8% and 14.6%, respectively. At the same time, total vacancies reported during the first seven months of 1997 increased by 13.7% to 38,076 compared with 33,483 during the corresponding period in 1996, with increases recorded mostly from the three major sectors, namely manufacturing, wholesale and retail trade, hotels and restaurant, and construction.

On sectoral basis, employment in the services sector is expected to remain at 47.5% of total employment, accounting for the largest share of total employment. The rapid expansion in the services sector has resulted in the growing number of jobs created in the sector, especially in the wholesale and retail trade, hotels and restaurants (an increase of 2.1% or 27,900 new jobs) as well as transport, storage and communication (increased by 5.4% or 22,300 new jobs). Total employment in the services sector increased by 3.1% from 3.87 million jobs recorded in 1996 to 3.99 million jobs in 1997. Employment provided by the Government sub-sector is expected to grow marginally by 0.5% or 4,300 persons during 1997 from 876,600 persons in 1996 reflecting the Government's on going efforts towards right sizing the public sector. The manufacturing sector is the second largest employer, accounting for 27.5% of total employment an increase of 129,800 persons, compared with 26.7% in 1996. The share of employment in the agriculture, forestry and fishing sector to total employment continues to decline from 16.4% in 1996 to 15.2% in 1997. The share of employment of the mining and quarrying sector remains at 0.5% or 43,900 persons, with the petroleum and gas industry accounting for the largest number of employment.

Table 8.5

Malaysia: Employment by Sector (1996-1997[1])

	1996		1997	
	('000)	(%)	('000)	(%)
Agriculture, forestry and fishing	1,339.4	(16.4)	1,274.7	(15.2)
Mining	42.6	(0.5)	43.9	(0.5)
Manufacturing	2,177.8	(26.7)	2,307.6	(27.5)
Construction	726.2	(8.9)	768.4	(9.2)
Electricity, gas and water	72.4	(0.9)	76.0	(0.9)
Wholesale and retail trade, hotels and restaurants	1,358.8	(16.6)	1,386.7	(16.5)
Finance, insurance real estates, business services	403.3	(4.9)	422.4	(5.0)
Transport, storage and communication	414.2	(5.1)	436.5	(5.2)
Government services	876.6	(10.7)	880.9	(10.5)
Other services	750.2	(9.2)	793.7	(9.5)
Primary sector	1,382.0	(16.9)	1,318.6	(15.7)
Secondary sector	2,904.0	(35.6)	3,076.0	(36.7)
Tertiary sector	3,875.4	(47.5)	3,996.3	(47.6)
TOTAL	8,161.4	(100.0)	8,390.9	(100.0)

1: Estimate

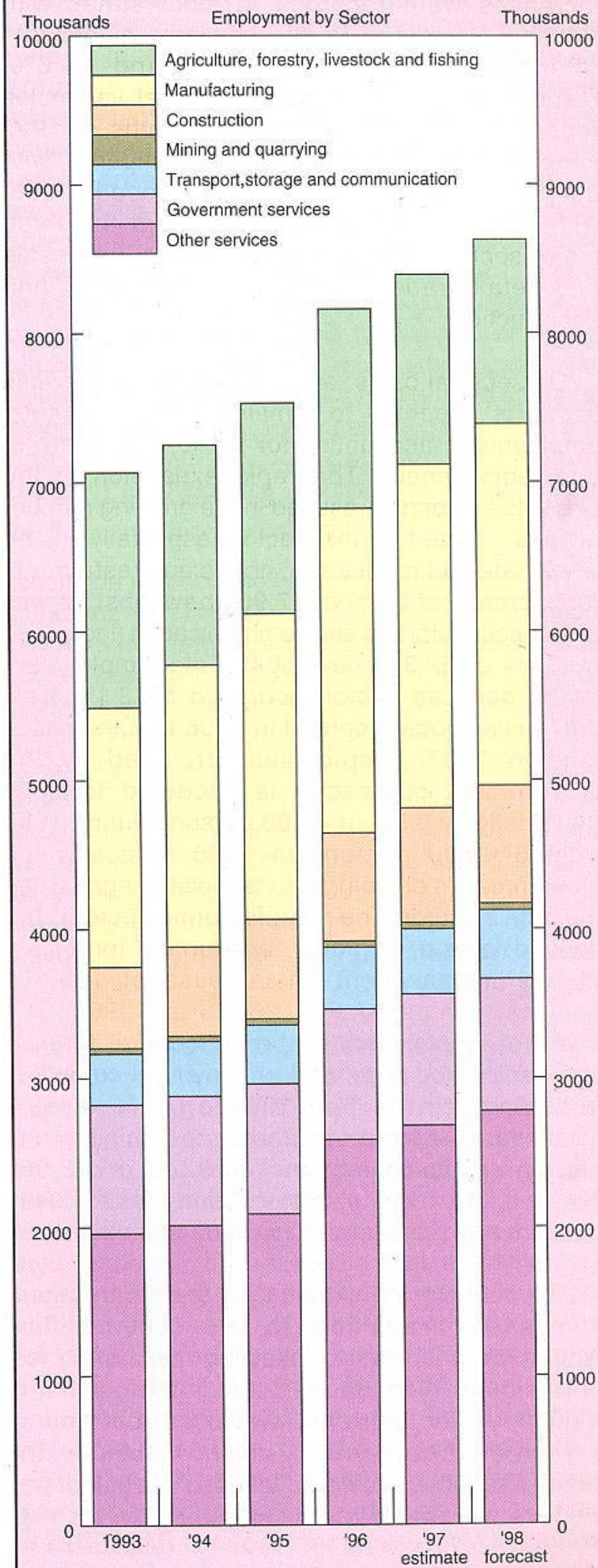
Source: Economic Planning Unit

The economy continues to operate with labour shortages prevailing in all sectors. The Government's policy of allowing the recruitment of foreign workers has resulted in the number of foreign workers currently employed reaching an estimated figure of 1.7 million. Under the regularisation exercise to "legalise" illegal foreign workers, which lasted six months until 31 December 1996, a total of 423,180 illegal foreign workers was registered by their employers. This was in addition to the 300,000 foreign workers registered during the first exercise done in 1992. In light of the large presence of foreign workers in the economy, the Government on 20 August 1997, announced the freeze on recruitment of foreigners in all sectors with immediate effect. This is to ensure that employers give priority to hire locals as well as expedite efforts to reduce dependence on labour intensive production. The ban covers all nationalities (earlier, the Government allowed recruitment of foreign workers from five countries, namely, Bangladesh, Philippines, Indonesia, Pakistan and Thailand) and all sectors, including plantation, manufacturing, construction and services. Since 10 July 1996, the Government has stopped approving new entry permits for foreign workers in the construction, services and plantation sectors.

On short term recruitment of skilled workers, however, the Government has further relaxed conditions governing the employment of foreign expatriates and other high-skilled manpower, to increase the supply of skilled and knowledge workers in the country. In January 1997, a special counter was opened at the Immigration Department headquarters to ensure that applications by expatriates are processed within two weeks. In addition, expatriates will have a one-year endorsement on their passport instead of having to renew the approval on a short term basis. At the same time, as a long term measure to alleviate the supply constraint of skilled labour, a sum of RM13.2 billion has been set aside in 1997 for the education sector and for manpower training. Of this amount, a sum of RM10.00 billion is to be allocated for schools, computer programmes and institutions of higher learning. Other programmes will include the construction and upgrading of technical and vocational schools and polytechnics, as well as improve training programmes at the industrial training institutes, the "Institute Kemahiran Belia Negara" and at the "Giat MARA" centres.

In order to further address manpower shortage, the Government plans to enlarge the pool of professional, managerial, technical and skilled manpower through faster expansion and privatization of training institutions. The Government has approved 415 licences for private colleges, which is an increase of almost 50% from 280 licences approved in 1995. Up to July 1997, four companies have been offered to operate higher learning institutions throughout the country which also include campuses and twinning programmes. With this gradual liberalization in education development, the number of private college students has increased by almost 10% from 127,596 students in 1995 to 139,858 students in 1997. It is expected that in 1998, with an annual increment of 8%, the number will increase to 151,046 students. The corporatization of public higher learning institutions, on the other hand, will create healthy competition between them and

Chart 8.3
Employment Indicators



Source : EPU

this could be a catalyst to supplement and complement the process of providing courses and programmes which could meet the national manpower requirements. In addition, corporatization is expected to reduce 'brain drain' being experienced by the public higher learning institutions, particularly in critical professions like engineering and medicine. With the corporatisation of universities, a launching grant for the Higher Education Fund, amounting to RM100 million, was announced during the 1997 Budget to provide financial assistance to students given places in local institutions of higher learning. For the longer term, the Ministry of Education is embarking on new programmes like smart schools, electronic resource centre, and the implementation of design and computer subjects for secondary schools students, to develop and nurture skills and technological capabilities, especially in the field of information technology.

The 1997 Budget has also provided for additional incentives to non-resident lecturers or speakers as a means to overcome the shortage of experts. Foreign lecturers who teach in selected fields, namely, science, engineering and technical skills, information technology, high technology, philosophy and other critical disciplines, are eligible for a 50% tax exemption on their income received from approved educational and training institutions or organisations. In addition, a 50% income tax exemption is also given on income received by any non-resident company or organisation for services rendered by their lecturers in approved training institutions.

With the implementation of the Multimedia Super Corridor (MSC), more employment opportunities, particularly in the field of information-based industries, will be created. There are seven special flagship applications to be promoted under the MSC, which include telemedicine, smart card, research and development clusters and electronic government. In light of this, the Government takes cognition of the importance for the local labour force to be well trained in the area of information technology (IT). Hence, it would be necessary for public institutions as well as private training institutes to be more market driven in adjusting to the changing needs of the IT industry. The Government has recently decided that agencies, such as the Ministry of Education, Malaysian Institute of Micro-electronic Systems (MIMOS) and Telecoms University will be the principal institutions to provide training in IT. The Human Resource Development Fund (HRDF) is also increasing its financial assistance to IT-based training programmes by almost six-fold from RM3.2 million in 1994 to over RM17.2 million in 1996. The HRDF was established in 1993 mainly to cater for skills retraining and work force upgrading to facilitate firms to shift to high technology and capital intensive production operations. It has up to the middle of 1997 assisted companies in various industries to retrain 1,382,969 workers. During the period January to July 1997, a total of RM81.9 million was approved for the retraining and skill upgrading of 329,919 employees. For the whole of 1996, a total of RM158.9 million was utilised, representing a 73.3% increase over the previous year (1995: RM89.6 million). The number of employees trained was 518,325, an increase of 63% compared with 319,710 employees in 1995. As of 31 July 1997, a total of RM432.4 million has been collected, of which 88.2% or RM381.4 million were allocated for training programmes.

The Government also plans to further enhance the effectiveness of the Employment Act originally enacted in 1955 which at that time was to cater mainly for the agricultural and mining industries. The amendment of the Act will allow for greater part-time employment and flexible work practices to encourage greater female participation in the labour force and to formulate guidelines to allow foreign spouses to work in Malaysia. To increase the private sector's involvement in training and human resource development, the Government has established communication channels at various levels including having dialogues and meetings between Government and industry representatives. A significant number of private sector representatives is also appointed to the National Vocational Training Council (NVTC). There are more than 10 Trade Advisory Committees with representatives from the private sector for curriculum development in training. In addition, private sector inputs are also sought in training and development at the training institute level in terms of designing and delivering special programmes to meet specific needs of the industry through customised courses and modular packages.

Wages

The tight labour market and increased demand for higher skills have resulted in significant increases in wages. The Department of Statistics'

Monthly Survey on the manufacturing sector showed that up to July 1997, the productivity growth of 10.8% was still lagging behind the growth of real average wage of 19.9% which has resulted in higher growth of real labour cost per employee (January-July 1997:8.3% compared with January-July 1996: 4.4%). This, in turn, has eroded labour cost competitiveness of the manufacturing sector. In the unionized sector, the average wage increase, as reflected in the collective wage agreements for the first seven months of 1997 was 7.7% compared with 12.3% during the corresponding period in 1996. The commercial and manufacturing sectors showed increases at slower rate in average wages of 8.0% and 8.3%, respectively, compared with 13.0% and 10.6% in 1996.

Recognising the need to adopt a systematic approach to monitor wage increases and to ensure that such increases are linked to productivity, the Government has adopted the "Guidelines For a Productivity-Linked Wage Reform System" in August 1996. Both employers and employees are encouraged to use the Guidelines in wage negotiations. As part of its promotional effort, the Government has distributed copies of the Guidelines to all employers' organisation, trade unions, industry associations as well as individuals. Although the policy was introduced in 1996 with a clear objective of enabling employees to obtain a fair share of the gains arising from productivity and performance improvements, implementation of the policy by the private sector is still slow. As an additional effort to encourage firms to increase efficiency and productivity, the Government has increased the reinvestment allowance (which is granted to manufacturing and agricultural firms) for tax exemption to be given on reinvestment in equipment from 70% to 100% of their statutory income.

Table 8.6

Malaysia: Private Sector Wage Agreements

	No. of Wage Agreements		*No. of Workers Involved*		*Average wage Increases (%)*	
	1996	1997[1]	1996	1997[1]	1996	1997[1]
Manufacturing	210	100	47,674	21,936	10.6	8.3
Commercial	42	27	4,866	4,651	13	8.0
Transport/Storage & Communication	55	41	9,918	617	10	3.0
Services	38	23	6,364	3,288	9	8.2
Agriculture Product	32	22	12,990	35,375	15	7.0
Mining & Quarrying	6	4	1,342	235	9	4.4
Electrical/Gas and Water Supply	9	6	29,713	1,950	5	18.3
Construction	0	0	0	0	0	0
Other	6	3	466	1,223	9	4.6
TOTAL	398	226	113,333	69,275	10.1	7.7

[1]: January-July

Source: Ministry of Human Resources

A total of four strikes involving 746 workers was registered during the first seven months of 1997 compared with seven cases involving 876 workers during the same period in 1996. Of the total, one case was in the agriculture sector, two in the manufacturing and the other one in the services sector. A total of 2198 man-days were lost as a result of the strikes. However, this is significantly lower than the 2315 man-days lost during the same period in 1996. Disputes over terms and conditions of employment, such as non-implementation of contractual terms in collective agreements and other services contracts, infringement of workers' rights and disciplinary matters were the main reasons for the strikes.

The number of industrial disputes also decreased during the first seven months of 1997. However, the number of workers involved increased significantly. A total of 234 industrial disputes occurred during this period involving 43,720 workers compared with 270 disputes involving 31,760 workers during the same period of 1996. The manufacturing sector, which accounted for 40.2% of the total disputes, also registered a decline in the number of cases reported. A total of 94 cases in this sector involving 20,959 workers occurred during the first seven months of 1997 compared with 109 cases involving 18,891 workers for the same period in 1996. About 48.3% or 113 cases of disputes originated from disagreement over terms and conditions of service, including the refusal of employers to adhere to conditions laid out in the collective agreements. Another 29.5% or 69 cases centered around deadlocks in collective bargaining. Other reasons included dissatisfaction over management decisions and actions that were taken against workers.