



# Malaysia's labour market conditions: When weak and strong can co-exist

26 February 2026

## Snapshot Summary...

- Labour market conditions appear robust, reflected in a historically high labour force participation rate and a decade-low unemployment rate.
- However, these data alone leave open the question of whether current labour market conditions are as strong as they appear, given signs of growing household financial stress that continue to necessitate fiscal and monetary support.
- Skill-underemployment is steadily rising while time-underemployment falls along with unemployment, highlighting persistent structural mismatches between labour supply and demand.

## Labour market indicators show strength

Malaysia's labour market has continued to tighten, with the unemployment rate ending 2025 at 2.9%, suggesting tremendous improvement attributable to stable economic conditions, as GDP growth sustained around a healthy 5.0% mark (2025: 5.2% vs 2024: 5.1%). In addition, employment growth has consistently outpaced labour force expansion since August 2021, indicating a strong job market that continues to support a historically high labour force participation rate of 70.9%.

At the same time, wage growth in both the services (4Q2025: 5.0% vs 3Q2025: 4.7%) and manufacturing (4Q2025: 2.3% vs 3Q2025: 2.0%) sectors has continued to accelerate. This signals favourable labour market dynamics that can help sustain job creation in these sectors.

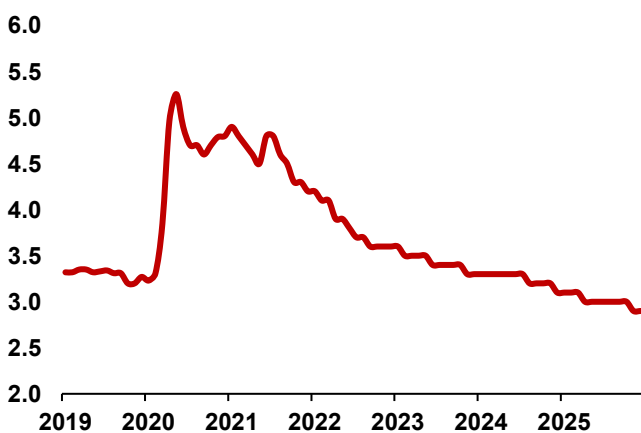
## Macroeconomic Variables

	2024	2025	2026F*
Real GDP (y/y%)	5.1	5.2	4.5
Private Consumption (y/y%)	5.1	5.2	4.9
Unemployment Rate (% average)	3.3	3.0	2.9
OPR (% period-end)	3.00	2.75	2.75

\*Forecast by AmBank Economics

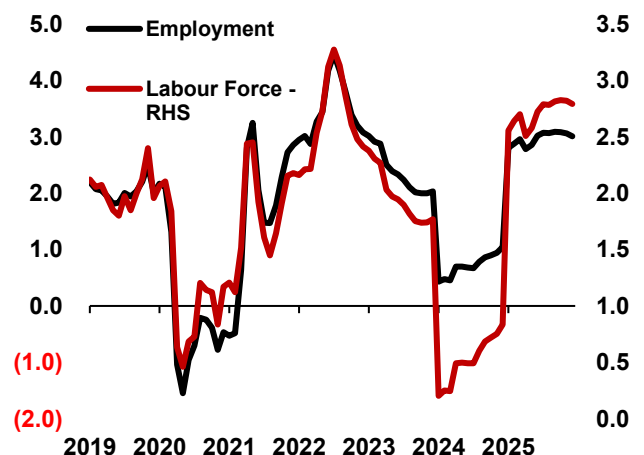
Sources: Department of Statistics Malaysia (DOSM), Bank Negara Malaysia (BNM), AmBank Economics

Exhibit 1: Unemployment rate, %



Sources: DOSM, AmBank Economics

Exhibit 2: Labour Market, y/y%



Sources: DOSM, AmBank Economics

We opine that labour market strength could persist in view of government initiatives under Visit Malaysia Year 2026 (VMY 2026), with the government allocating RM500 million for promotional activities, marketing, and organising tourism and cultural events. We believe these support employment opportunities in tourism-related sectors, especially in the services sector, as the country aims to reach 40 million tourist arrivals.

## But Beneath Lies Structural Strain

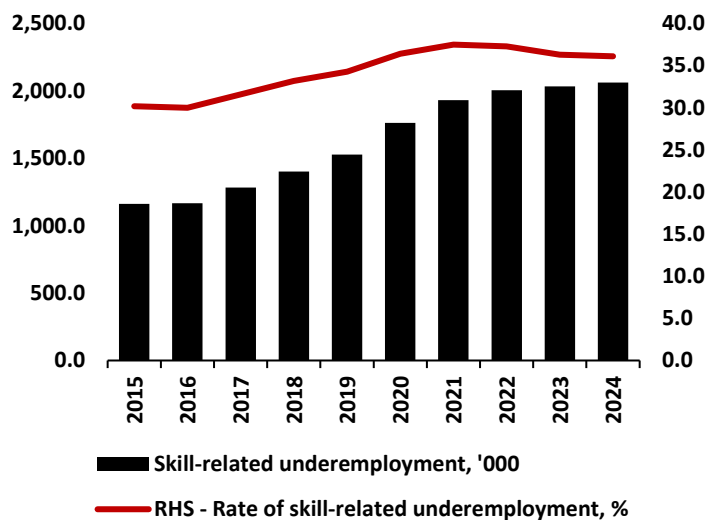
However, these numbers do not reveal the quality of the jobs being created, nor do they reflect underlying wage dynamics. It remains unclear whether workers are moving into roles that fully utilise their skills or offer commensurate wages. As such, pockets of underemployment and wage rigidity may be masked within otherwise strong labour market indicators.

While the unemployment rate trended lower (4Q2025: 2.9% vs 3Q2025: 3%) on a quarterly basis, the loss of employment (LOE) data sourced from the Employment Insurance System PERKESO offers a different perspective. The number of reported unemployment benefits accelerated (4Q2025: 32% vs 3Q2025: 23%), suggesting rising demand for financial protection and re-employment support for those who lose their jobs. Notably, professionals, managers, executives and technicians (PMETs) accounted for the highest share among all occupation categories, at 53% as of January 2026. Meanwhile, agricultural workers experienced the smallest LOE, most likely because their jobs involve consumer staples, which are typically in high demand.

Apart from that, the labour market is facing higher competition, especially from graduates. Though the graduates' employability rate has steadily improved since the post-pandemic period, underemployment persists, as some graduates may accept any available job for livelihood reasons, hence pushing up the employability rate. This is reflected in the skill-underemployment rate, which is the percentage of employed persons with tertiary education who work in semi-skilled and low-skilled occupations, which still hovers around 36% albeit at a slower pace (2024: 36.1% vs 2023: 36.3%). This suggests a continued mismatch between qualifications and job opportunities.

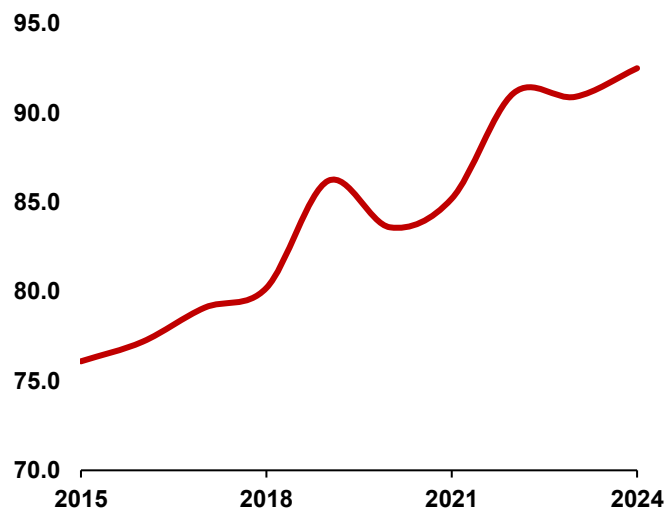
The continued rise in the own-account worker share (3.45 million or 21.8% of the country's total workforce) – which includes self-employed individuals and gig workers – points to a growing segment of workers who face greater income volatility and lack access to formal labour protections, including EPF or SOCSO. This underscores the need to expand social protection mechanisms for these workers. The government has already taken steps in this direction, such as enforcing the Gig Workers Act 2025 (Act 872) and introducing the 24-hour LINDUNG scheme.

Exhibit 3: Skill-related underemployment



Sources: DOSM, AmBank Economics

Exhibit 4: Graduate employability, %



Sources: MOHE, AmBank Economics

## Household Support Still Needed

Historically, Malaysia has shown a strong inverse correlation between the unemployment rate and the Overnight Policy Rate (OPR) – periods of high unemployment are typically accompanied by lower interest rates. In contrast, periods of low unemployment tend to coincide with tighter monetary policy.

We suspect this correlation might be decoupling. While the unemployment rate eased to a record low, BNM kept OPR unchanged at 2.75% at its January MPC meeting, maintaining the accommodative stance following the pre-emptive 25bp OPR cut in July 2025.

At the same time, the government continues to implement income-support measures, including the second batch of RM100 SARA cash handouts to all Malaysian adults in February, alongside salary hikes for civil servants.

Both fiscal and monetary policy have reasons to remain supportive. Private consumption growth has averaged around 5.0% since 2024, slower than the roughly 7.0% recorded during the pre-pandemic period (2016-2019). This moderation coincides with a slowdown in household loan growth and double-digit increases in credit card non-performing loans (NPLs), signalling growing household financial stress. These trends point to eroding household purchasing power amid higher living costs and suggest that wages are lagging inflationary pressures.

Given these, the OPR will remain accommodative in the near term, as tightening could further strain household finances. In the meantime, government support, particularly measures aimed at cushioning vulnerable groups and supporting household consumption, is likely to continue.

## Unemployment is cyclical; skill underemployment is structural (and rising)

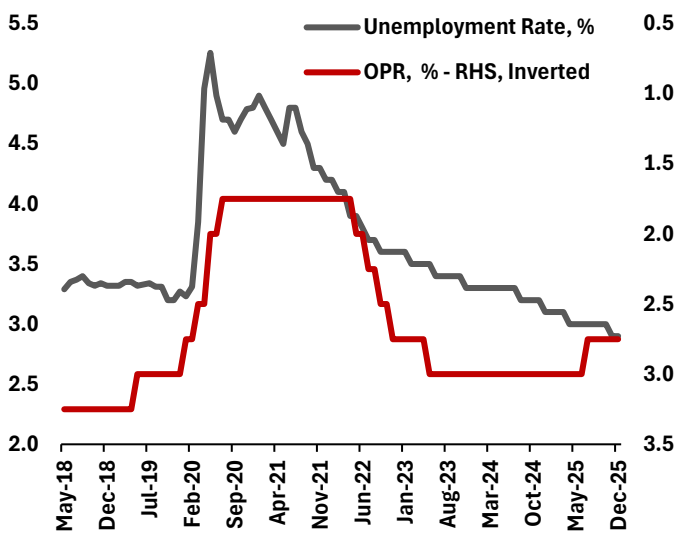
Malaysia's labour market conditions are pretty unique, where they can be strong and weak at the same time. In our view, it is currently strong in the short run but weak in the long run's perspective.

When the unemployment rate falls steadily, it usually implies that labour demand is strong and in line with a growing economy. However, as underemployment rises, it also implies that strong labour demand is filled with jobs created by the economy that do not match workers' skills. To put it crudely, these workers are underpaid.

Exhibit 7 shows that while unemployment has fallen, skill-underemployment has risen steadily and now exceeds 1.9 million workers since 1Q2023. The latest labour data suggests that skill-underemployment is now almost 4x the number of unemployed persons in December 2025, at 517.9k. This contrasts with time-related underemployment, which has shown a steady decline over the years, aligning with unemployment. Workers who want to put in more hours are getting them, most likely due to elevated cost-of-living pressures, but not jobs that match their education level.

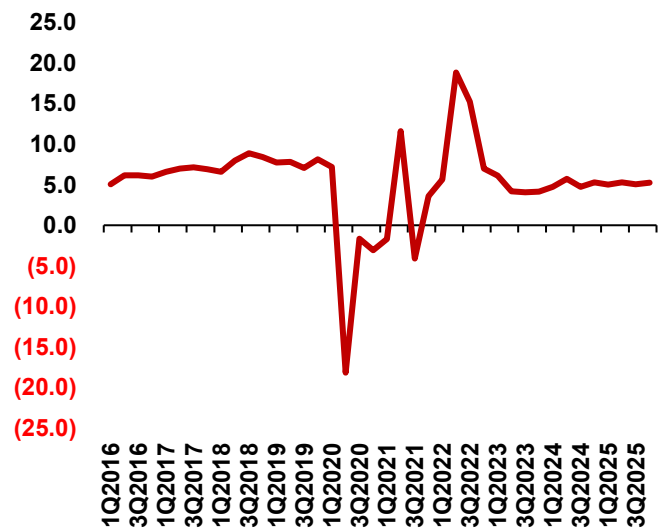
This, in our view, highlights structural mismatches between labour supply and demand, which is one critical explanation for why private consumption growth is not as robust as it was pre-pandemic. Despite a very low unemployment rate, low inflation and strong GDP growth, workers may not necessarily feel the fruits of economic growth, which we believe is one of the reasons the government is focusing on improving cost-of-living support rather than on job-creation support commensurate with skill.

Exhibit 5: Unemployment rate vs OPR, %



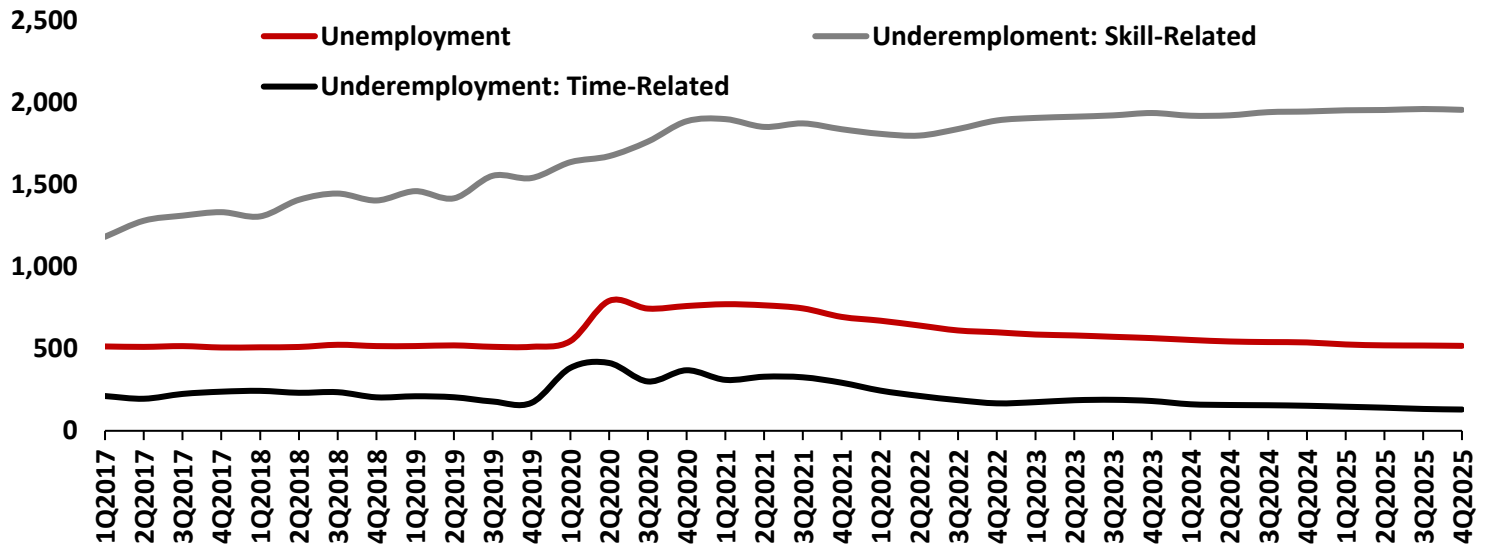
Sources: DOSM, BNM, AmBank Economics

Exhibit 6: Private consumption, y/y%



Sources: DOSM, AmBank Economics

Exhibit 7: Unemployment vs. underemployment, '000



Sources: DOSM, AmBank Economics

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