

**Box Article 3:****The Impact of Full Closure of Social and Economic Sector on Labour Demand: A Quick Survey**

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**Introduction**

The COVID-19 pandemic had a major impact on economic sectors and subsequent implications to the labour market in Malaysia. The economic crisis caused by the COVID-19 pandemic was the worst in Malaysia's history. In response to the outbreak of COVID-19, the Movement Control Order (MCO) has been implemented to curb the spread of the virus and flatten the curve of the infection. At the initial stage, this effort was successful with the number of cases decreasing. However, by the end of the third quarter of 2020, the number of cases began to increase.

In an effort to overcome the increasing new daily COVID-19 infection in the country, total closure of the social and economic sectors (Total Lockdown) was implemented from 1 June 2021. In line with this, the National Security Council (MKN) had issued a list of permitted and prohibited activities with details standard operating procedures (SOPs). Only 17 essential services sectors were allowed to operate during this period which were as follows:

	Sectors
1	Food and beverages – including for animals
2	Health and medical care – including dietary supplements, animal care and clinics as well as veterinary services
3	Water
4	Energy
5	Security and safety, defense, emergency, welfare and humanitarian assistance
6	Solid waste management and public cleaning and sewerage
7	Transportation by land, water or air
8	Services and operations of ports, shipyards and airports – including loading, lattice transportation, cargo handling and piloting, and storage or bulk commodity
9	Communications – including media, telecommunications and Internet, post and courier as well as broadcasting (for purpose of conveying information, news and the like only)
10	Banking, insurance, takaful and capital markets
11	Community credit (mortgage only)
12	E-commerce and information technology
13	Production, distillation, storage, supply and distribution of fuels and lubricants
14	Hotels and accommodation, only for the purpose of quarantine, isolation and not for tourism purposes)
15	Critical construction, maintenance and repairs
16	Forestry services (limited to enforcement) and wildlife
17	Logistics limited to the delivery of necessary services

With the closure of the economy had resulted in many businesses being closed temporarily. The crisis has caused adverse impacts on the labour market demand in the private sector especially the Small and Medium Enterprises (SMEs). A stricter MCO that only allows selected essential businesses to run could also affect the labour market which already has a high

number of joblessness. Apart from unemployment, movement restrictions have also adversely affected labour productivity.

Therefore, a study was conducted to measure the impact of the implementation of total lockdown on the labour market. This study aims to focus on the impact of COVID-19 on Malaysia's labour demand in the formal private sector particularly in terms of the employment and salaries & wages. It was carried out in two (2) phases within two (2) weeks starting from 4 to 21 June 2021.

## **Methodology**

### **Sample Selection**

This study was conducted using establishment approach of which the sample was drawn from the Quarterly Employment and Salaries & Wages Survey sample. In terms of sampling design, the non-probability sampling: convenience sampling technique was adopted taking into consideration that the respondents are approachable during the period of total lockdown measures.

### **Scope and Coverage**

The scope of this study was the establishment that has responded to the Quarterly Employment and Salaries & Wages Survey during the first quarter of 2021 covering all states in Malaysia as well as large, small, medium and micro businesses in all sectors. Since only the essential businesses were permitted to operate, the establishments included in this study were selected with reference to the list of essential activities allowed to operate during the total lockdown period, 1 to 14 June 2021. Considering the limited data collection period, the number of establishments selected during the first and second phase of study was 2,292 and 1,194 establishments respectively, with 1,335 were panel sample for the purpose to observe the consistency of the establishment within the survey period.

### **Data collection**

The data collection method was via telephone interview with the selected establishments. It was implemented by the DOSM State offices. Information gathered in this study, among others were the demography characteristics of the establishment, operational status, changes of number of employees, jobs separation and salaries & wages cut implemented by the establishment. Descriptive statistics were then applied to identify and summarise the impact on the business entity at national level following the imposition of the total lockdown measure.

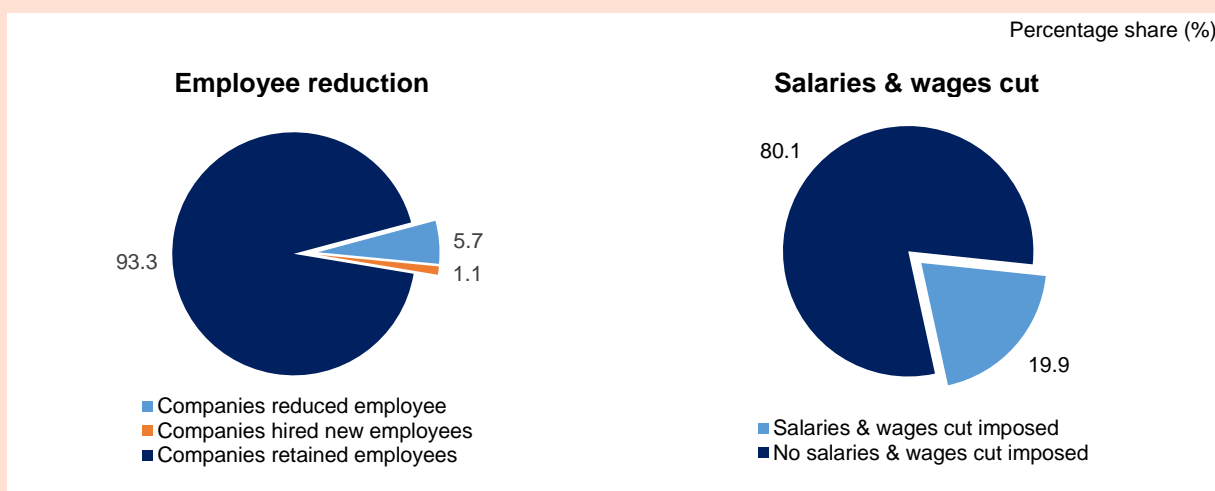
## **Result**

During the survey period, only 5.7 per cent companies or businesses declared that there were reduction of employees in their companies. The remaining, which comprised of 93.3 per cent of the total respondents reported that their employees were retained despite of the total lockdown implementation.

In terms of salaries & wages, more than 80 per cent of the companies / businesses involved in this survey did not impose salaries & wages cut to their employees. A total of 19.9 per cent of companies / businesses have reduced their employees' salaries & wages due to the impact that of the total lockdown [Chart 3.1].

ILO also said the COVID-19 pandemic will affect certain groups that are vulnerable, cause a decline in the number of jobs, as well as affect the quality of work including wages and social protection. In fact, ILO predicts that in the worst conditions there will be nearly 30 million unemployed worldwide due to this pandemic.

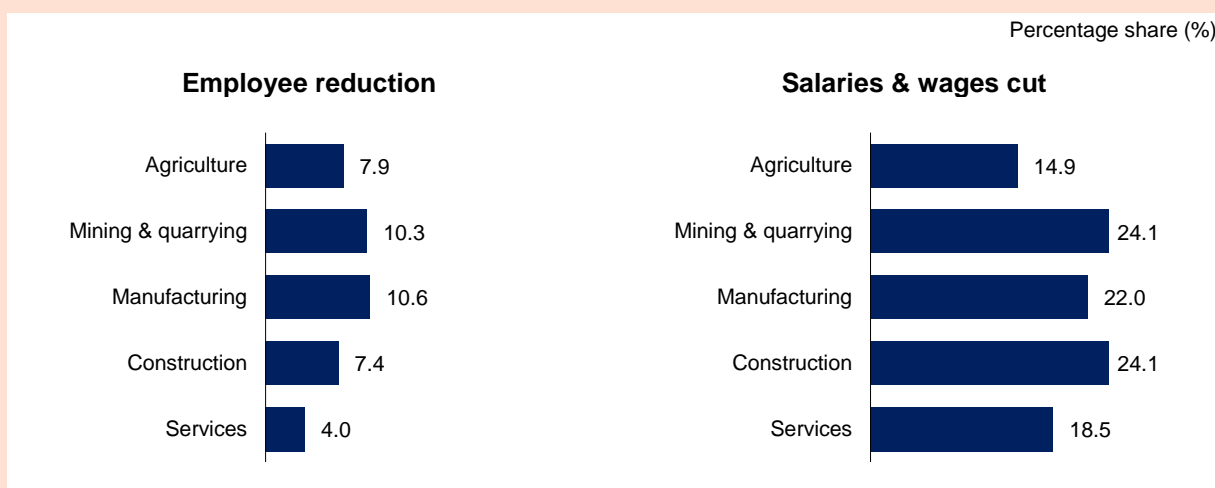
**Chart 3.1:** Impact of Total Lockdown Towards Employee Reductions and Salaries & Wages Cut



Reduction of employees by economic activities showed that 10.6 per cent of the companies / businesses in Manufacturing sector responded that they had reduced employees followed by those in Mining & Quarrying (10.3%) and Agriculture (7.9%).

Meanwhile, higher percentage among companies in Mining & Quarrying and Construction sectors had enforced salaries & wages cut, accounted for 24.1 per cent. In the meantime, there was 22.0 per cent of companies / businesses in Manufacturing sector had adopted the same mechanism [Chart 3.2].

**Chart 3.2:** Impact of total lockdown towards employee reductions and salaries & wages Cut by economic activities

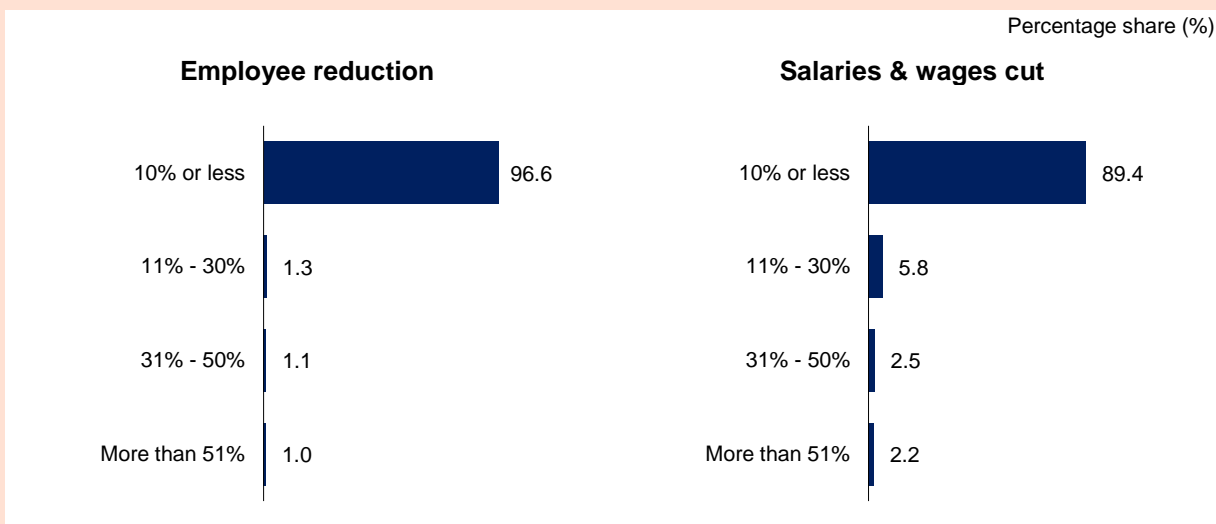


Of the total companies / businesses that declared there were reduction in employees, 96.6 per cent reported that the reduction involved 10.0 per cent of their total employees. While companies/ businesses that had reduced more than 50 per cent of their total employee were only 1.0 per cent.

According to the Mahammed (2020), in each country there are workers who have been laid off and laid off without pay as a result of COVID-19 pandemic. The current crisis situation may leave employers with no choice but to lay off because companies have to reduce large scale operational costs.

During the second week of the MCO 3.0, most of the companies/ businesses had imposed salaries & wages cut to less than 10.0 per cent of their total employees while there were 2.2 per cent companies/ businesses that had cut more than 50 per cent salaries & wages of their total employees [Chart 3.3].

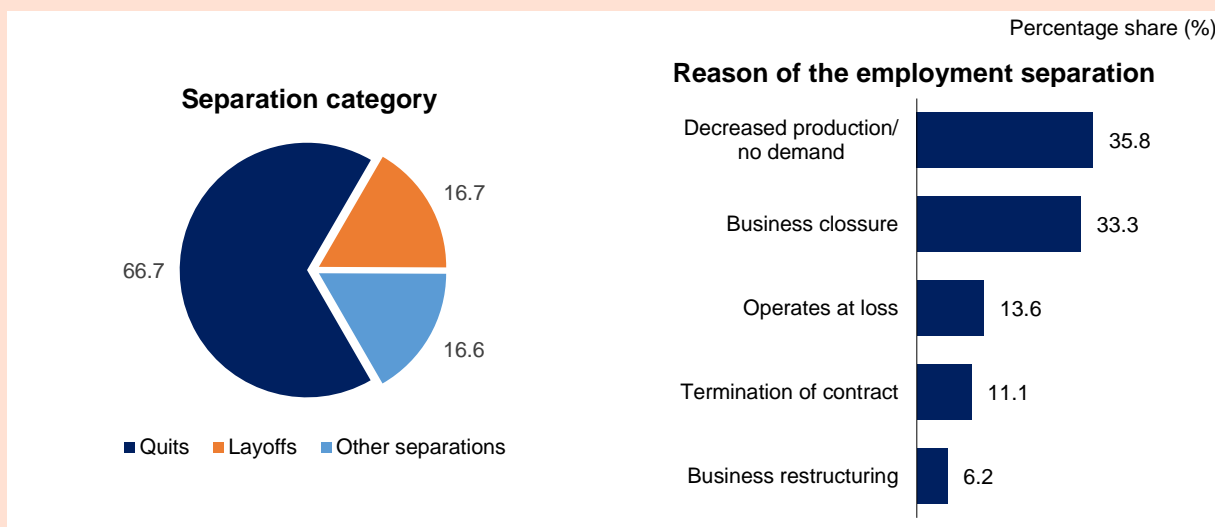
**Chart 3.3:** Companies/ Business Declared Employee Reductions and Salaries & Wages Cut



Of the total companies / business that responded to this survey, 1.6 per cent reported separation. Looking at separation by category, more than half (66.7%) of the separations were in quit category, followed by layoffs and other separations category with a share of 16.7 per cent and 16.6 per cent respectively.

More than 60.0 per cent of the separations were due to the decrease in production/ no demand (35.8%), and closure of the companies/ business (33.3%). Meanwhile, there were 13.6 per cent declared that the separations was because of they were operating at loss followed by termination of contract (11.1%), and business restructuring (6.2%) [Chart 3.4].

**Chart 3.4: Separation of The Employment by Category**



**Discussion and Conclusion**

The imposition of nationwide MCO 3.0 following the escalation of new daily cases of COVID-19 starting from the middle of May 2021 had inevitably contributed to the inter-industry disruption, supply chains and job losses in Malaysia. Although businesses were allowed to operate with a total employee restriction of 60 per cent as compared to the first nationwide MCO in 2020 (50%), the reduction of workforces had slowed down the production and lead to loss of output, but less severe.

Hence, the impact of the measure towards the business entity can be observed as early as in the second week of the containment measures. Based on the finding of the survey, companies/ businesses have chosen the approach of implementing salary cuts instead of reducing employees in ensuring the operation of the company/ business can be sustained. The Construction and Mining & quarrying sectors which are not classified as essential businesses recorded higher percentage of salary cuts compared to other essential sectors. In terms of jobs separation, the decrease of production and no demands were identified as the main cause of companies/ businesses started to layoff their employees.

Notably, the COVID-19 pandemic is not just a health crisis, but equally an economic and labour market crisis. The lockdown measures adopted in most countries to prevent the spread of the pandemic restricted economic activities. Evidently, developing countries have faced slower recovery momentum of labour demand.

The MCO together with targeted screening have slowed the spread of COVID-19 epidemic. On the same note, the government has also provided various economic stimulus packages in order to cushion the impact of the shrinking economy.

To achieve a swift, sustainable, and equitable economic recovery, the implementation of COVID-19 economic recovery plans with a special focus on the worst-affected sectors and demographics need to be reviewed regularly to revitalise the economy.

## Disclaimer

The analyses were based on the response from company/ firm businesses that participated in this survey and did not represent the entire view companies / business firms in Malaysia. As the findings are not official statistics, it should be evaluated and interpreted with great cautions as a complementary information in analysing the short-term labour market scenario. The view expressed in this article are those of the authors and do not necessarily represent the view of DOSM

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