Malaysia’s Unemployment Paradox

Why low joblessness does not tell the whole story

Assoc. Prof. Dr Gabriel Wee Wei En

Southampton Malaysia Business School, University of Southampton Malaysia

Independent Ventara Press publication; affiliation is for author identification only.

7 November 2026 | Data cutoff: 7 November 2026 | Research-informed report (not peer reviewed)

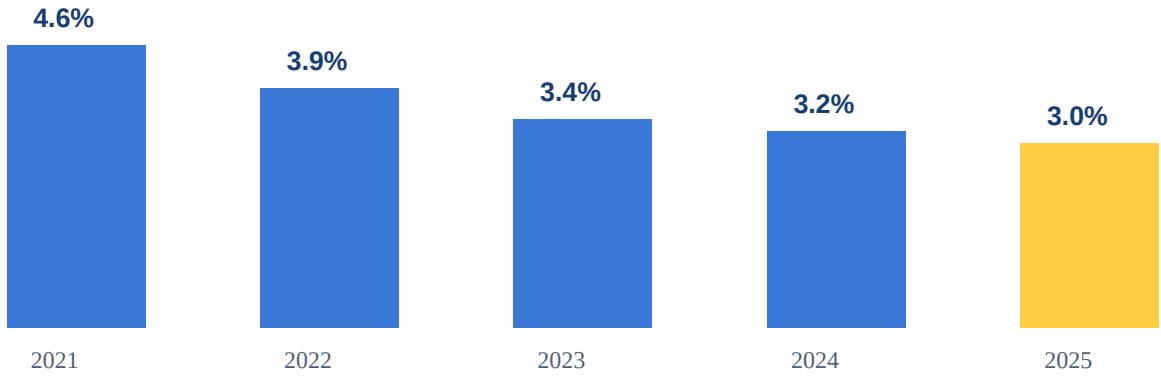
2.9%
Unemployment · Aug 2026

511,600
Unemployed · Aug 2026

35.2%
Skills underemployment · Q2 2026

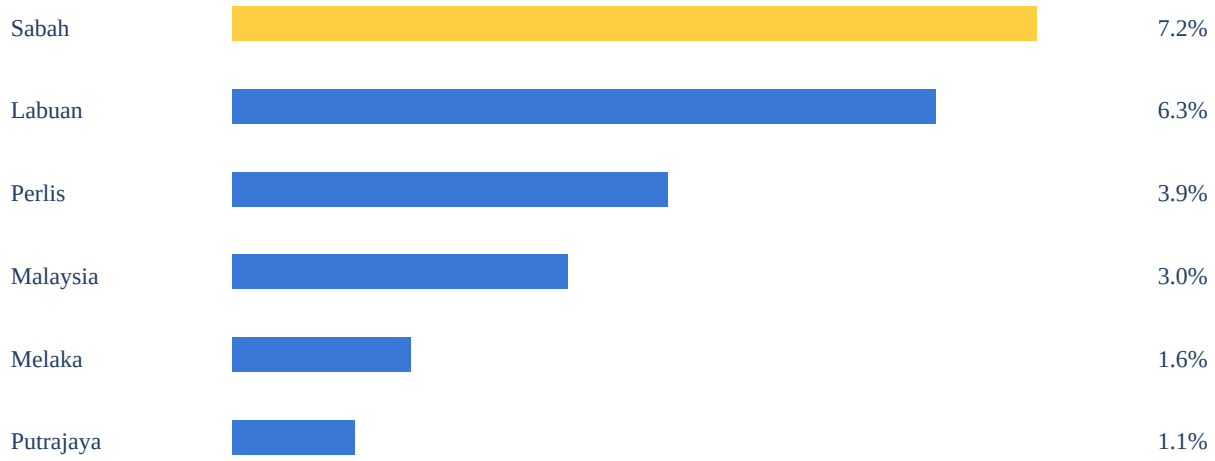
Keywords: Malaysia; unemployment; labour force; skills mismatch; youth employment; regional inequality.

Figure 1. Annual unemployment rate, Malaysia, 2021–2025



Source: DOSM Labour Force Survey 2025 and annual principal labour force statistics [2, 3].

Figure 2. Selected unemployment rates by location, 2025



Source: DOSM Labour Force Survey 2025 [2]. Selected locations; annual, not monthly rates.

Abstract

Malaysia's headline unemployment rate fell to 2.9% in August 2026, the lowest monthly reading in the latest official release. Yet aggregate joblessness is only one dimension of labour-market performance. This research-informed visual report triangulates monthly labour-force statistics, the 2025 annual labour-force survey, the second-quarter 2026 labour-market review and the latest published graduate statistics. It finds that the improving aggregate picture coexists with persistent regional inequality, substantial skills-related underemployment among tertiary-educated workers, and significant differences between unemployment, labour-force non-participation and job quality. The central argument is that a low unemployment rate is necessary evidence of labour-market resilience but insufficient evidence of optimal human-capital utilisation. The report proposes a multi-indicator approach to evaluating Malaysia's labour-market transition.

1. The headline: a labour market that has recovered

The Department of Statistics Malaysia (DOSM) reported 511,600 unemployed people in August 2026, equivalent to 2.9% of the labour force. Employment reached approximately 16.87 million, the labour force stood at 17.39 million, and participation rose to 71.0%. Compared with July, unemployment declined by 8,700 people while employment rose by 28,800. These figures describe genuine short-term improvement; they should not be dismissed simply because other challenges remain [1].

Annual statistics reinforce the recovery narrative. The unemployment rate fell from 4.6% in 2021 to 3.9% in 2022, 3.4% in 2023, 3.2% in 2024 and 3.0% in 2025 [2, 3]. The decline amounts to 1.6 percentage points between 2021 and 2025, or roughly 35% relative to the 2021 rate. However, annual averages and monthly readings are different statistical periods and should not be connected as if they formed one uninterrupted annual series.

2. The denominator matters

The unemployment rate divides the number of unemployed people by the labour force, not by the entire working-age population. The labour force includes people in employment and those unemployed under the survey definition; people outside it are not counted as unemployed. In August 2026, about 7.11 million people were outside the labour force. Of these, 43.6% cited housework or family responsibilities and 40.2% schooling or training as their main reason [1]. These are not categories that can simply be relabelled as "hidden

unemployment". Some individuals are unavailable for paid work or not actively seeking it.

Nevertheless, participation changes the interpretation of a low unemployment rate. At 71.0%, the August 2026 labour-force participation rate indicates that almost three in ten people in the relevant working-age population were not participating. The employment-to-population ratio was 68.9%. Evaluating unemployment alongside participation and employment rates therefore gives a fuller account of labour-market inclusion. A useful policy question is not only whether jobseekers find work, but also whether barriers prevent people who wish to work from participating.

3. Employment is not the same as effective skills use

The most consequential counterpoint to the headline rate comes from skills-related underemployment. DOSM's Labour Market Review reported that 35.2% of employed people with tertiary education were in skills-related underemployment in the second quarter of 2026 [4]. This indicator is not a second unemployment rate: it measures a mismatch between educational attainment and the skill level associated with the job. The denominators differ and the two percentages must not be added together.

That distinction matters. An economy can absorb a growing number of workers while assigning a significant proportion of tertiary-educated employees to roles below their qualifications. The result may be weaker returns on education, slower skills accumulation and dissatisfaction, even where measured unemployment is low. However, the indicator alone cannot establish the cause of mismatch. Individual choice, occupational classification, regional job structures, wage premiums and career-stage transitions may all matter. A rigorous response should examine wage trajectories, occupational mobility and employer demand rather than treating every mismatch as evidence of educational failure.

4. Youth: the transition into work remains distinct

Young people face a different labour-market problem from established workers: the transition from education into stable employment. DOSM publishes a separate monthly youth unemployment series for ages 15–24 and 15–30, which should be analysed with its own denominators rather than inferred from the national rate [5]. A labour-market review for the second quarter of 2025 reported that people aged 15–24 accounted for 55.0% of the unemployed in that quarter, while those aged 25–34 accounted for another 25.1% [6]. These are shares of all unemployed people, not age-specific unemployment rates, and refer to Q2 2025 rather than August 2026.

This concentration suggests that school-to-work transitions deserve sustained attention. Entry-level hiring, access to work experience, geographic mobility, recruitment signalling and career guidance are plausible mechanisms worth investigating. Policy evaluation should go beyond placement rates to examine the durability of employment, wages, progression and the extent to which graduates use their training.

5. The regional economy is not one labour market

The 2025 annual survey shows striking geographic differences. Sabah recorded a 7.2% unemployment rate, W.P. Labuan 6.3%, Perlis 3.9%, Kelantan 3.5% and Perak 3.5%, all above the national annual rate of 3.0%. At the other end, Putrajaya recorded 1.1%, Melaka 1.6% and Pahang 1.8% [2]. Sabah's rate was 2.4 times the national annual average, and more than six times Putrajaya's rate. These are descriptive comparisons, not proof of a particular causal explanation.

National aggregates can therefore obscure differences in industrial composition, geography, migration, infrastructure, job availability and demographic structure. A state with strong labour demand and high participation

may require different interventions from a state where job creation, connectivity or employment access is weaker. Importantly, state unemployment rates are not a league table of policy success: commuting patterns, age composition and measurement context affect comparisons.

6. Graduates, wages and the quality question

The most recent graduate-specific annual release available at the time of writing covers 2024. DOSM estimated 5.98 million graduates, with a graduate unemployment rate of 3.2%, a graduate labour-force participation rate of 86.0% and a median monthly graduate salary of RM4,521. The median was RM5,724 for degree holders and RM3,390 for diploma holders [7]. These measures show that graduate employment and earnings are important complements to general unemployment statistics, but the 2024 graduate figures should not be described as contemporaneous with August 2026.

The salary gap between degree and diploma holders is descriptive; it does not by itself establish a causal earnings premium from obtaining a degree. Field of study, experience, occupation, industry and selection effects also influence earnings. Similarly, the national unemployment rate cannot reveal whether jobs offer sufficient wages, security, career progression or productivity. Future Ventara Press reports should connect labour-force indicators with wage distributions, occupational change and household living costs.

7. What the evidence supports—and what it does not

The evidence supports three conclusions. First, measured unemployment has fallen materially since 2021 and the August 2026 monthly release points to continuing labour-market resilience. Second, the low national rate coexists with sizeable tertiary skills-related underemployment and unequal regional unemployment outcomes. Third, headline unemployment should be assessed alongside labour-force participation, the employment-to-population ratio, youth transitions, wages and job quality.

It does not support the claim that Malaysia is in a general employment crisis, nor does it establish that any single education or labour policy caused the observed trends. The report is descriptive and interpretive rather than causal. To identify causes, future studies should use appropriately designed longitudinal, regional or quasi-experimental analysis and control for confounding changes.

8. An agenda for measurement and policy

A more complete national labour-market scorecard would report five linked dimensions: (i) job access, using unemployment and employment-to-population ratios; (ii) inclusion, using participation by sex, age and state; (iii) matching, using skills-related underemployment and occupation-qualification alignment; (iv) transition, using youth job-finding, duration and early-career stability; and (v) job quality, using wages, hours, security and productivity. Publishing these together would reduce the risk of interpreting a single headline figure as a verdict on the entire labour market.

For policymakers, this points toward geographically differentiated employment strategies, employer–education collaboration evaluated against actual occupational outcomes, support for transitions into first jobs and better evidence on barriers to participation. For universities, graduate employment counts should be paired with indicators of appropriate-level employment, wage development and career progression. For employers, the challenge is to convert labour availability into productive work with opportunities for advancement.

Conclusion

Malaysia's unemployment rate tells an encouraging story, but not a complete one. At 2.9% in August 2026, the national labour market is performing more strongly on conventional joblessness than during the pandemic recovery. Yet a substantial proportion of tertiary-educated workers remain in jobs classified below their skill level, while states experience markedly different unemployment conditions. The next analytical frontier is therefore not simply counting jobs. It is understanding who can access them, how well skills are used, what they pay and whether they create sustainable economic mobility. That is the distinction between a labour market that employs people and one that fully develops their potential.

Methodology and limitations

This is a secondary-data, descriptive research report based on official DOSM releases and open data. The national monthly statistics refer to August 2026; the state and annual trend figures refer to calendar year 2025 (and 2021–2025 for the historical series); the skills-underemployment indicator refers to Q2 2026; the youth composition figure refers to Q2 2025; and the graduate measures refer to 2024. These observations have different reference periods and populations and should not be combined into a single cross-sectional estimate. Rates are reproduced as published, and percentage-point changes are calculated directly. Data series may be subject to population benchmark revisions; OpenDOSM notes a population-census reference change from 2025 onward. No original causal inference, forecasting or primary survey was undertaken. All visualisations label their time period and source.

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Suggested citation: Wee, G. W. E. (2026, November 7). Malaysia's unemployment paradox: Why low joblessness does not tell the whole story. Ventara Press. https://ventarapress.com/articles/malaysia-unemployment-paradox/