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Balancing Wages: Investigating Labour Hoarding Dynamics in Malaysia

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Balancing Wages: Investigating Labour Hoarding Dynamics in Malaysia

Gloria Tsan Ern Hui[1]

July 2025

Abstract

In recent years, Malaysia has observed moderate wage growth within its manufacturing and services sectors, with compensation increases lagging behind historical trends. This study examines labour hoarding as a potential contributor of this phenomenon. Labour hoarding, where firms retain more workers than immediately necessary during economic downturns, is hypothesized to dampen marginal productivity and consequently restrain wage increases. Using qualitative insights from the Regional Economic Surveillance (RES) team, this research introduces a new Labour Hoarding Index (RES-LHI) designed specifically for the Malaysian context. Based on firm-level responses regarding employment and revenue expectations, the index reveals two notable episodes of labour hoarding in 2020 and 2023, each corresponding with distinct economic challenges. While the 2020 period was largely driven by pandemic-related disruptions and proactive measures facilitated by Government support schemes, the 2023 phase emerged amid tightening labour market conditions, where difficulties in hiring and retaining talent intensified labour hoarding practices. Comparisons between the RES-LHI, labour productivity trends and private sector wage growth further illustrate that heightened labour hoarding coincides with reduced productivity and subdued wage growth. The findings highlight the dual-edged nature of labour hoarding: while it preserves crucial skills and ensures operational readiness for future recovery, it may also suppress wage dynamics by dispersing workloads across a larger pool of employees. This study contributes to a deeper understanding of labour hoarding in Malaysia and underscores the importance of monitoring its trends as policymakers and industries navigate an evolving economic landscape marked by regulatory changes and shifting workforce preferences.

JEL Classification Numbers: J24, J31, E24

Keywords: Labour hoarding, wage growth, labour productivity

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1 Introduction

In recent years, Malaysia has experienced relatively slower wage growth, prompting questions about the underlying factors that may be limiting wage increases. For instance, total wages and salaries in the manufacturing and services sectors grew by only 3.7% and 2.7% in 2023 and 2024 respectively, compared to its long-term (2015–19) average of 4.1%. This moderation in wage growth suggests several issues within the labour market that warrant further investigation[2].

One potential explanation for Malaysia's slower wage growth is the phenomenon of labour hoarding[3]. Labour hoarding occurs when firms retain more workers than necessary during economic downturns, often as a strategy to prepare for future economic recovery. This surplus of labour can lead to a decline in the marginal productivity of each worker, resulting in firms limiting wage increases since pay levels are typically tied to productivity. The concept of labour hoarding has been explored in various contexts, including by Bank of England (Felices, 2003) and European Commission (Gayer et al., 2024), and offers an alternative lens through which wage trends can be analysed.

Therefore, this study aims to investigate the key determinants of labour hoarding in Malaysia and evaluate whether its prevalence has contributed to the moderation in wage increases. To this end, a new Labour Hoarding Index for Malaysia is introduced, developed using insights from firms' interviews conducted by the Regional Economic Surveillance (RES) team.

The rest of this article is structured as follows: Section 2 introduces the concept of labour hoarding, while Section 3 explores the challenges of measuring labour hoarding and details the methodology behind the newly developed RES Labour Hoarding Index. Section 4 investigates instances of labour hoarding in Malaysia, exploring key periods, contributing factors, and its relationship with productivity and wage trends. Finally, the article concludes by summarising the findings.

2 Literature Review

Labour hoarding is an important concept for central banks and policymakers, as it provides valuable insights into the dynamics of labour markets. It refers to the underutilisation of a company's workforce during its production process at a given point in time (ECB, 2003). This practice is most observed during economic downturns, when firms opt to retain their workforce rather than resorting to layoffs (Hart and Malley, 1996).

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[2] Studying labour market dynamics in Malaysia presents several challenges. Key data such as Compensation of Employee (COE) is not available at high frequencies, while there is a discernible trend toward an increasing role of mixed income sources, including shifts to the informal sector. Due to data limitations for the informal sector, this study focuses on the formal sector.

[3] While labour hoarding is the central focus of this analysis, other factors, such as changes in technology and shifts in the bargaining of workers may also influence wage moderation. Nonetheless, these factors remain beyond the scope of the current study.

2.1 Why do firms hoard labour?

The decision to hoard labour is influenced by several strategic considerations. One key factor is the preservation of essential skills and institutional knowledge. Retaining workers ensures that critical expertise and experience, which are often challenging to replace, remain within the organisation. This helps protect the company's ability to maintain its operations effectively, even during periods of economic uncertainty. For industries where skills are highly specialised or where employees hold significant tacit knowledge, replacing lost workers can be costly and time-consuming, making labour hoarding particularly appealing (Vella, 2017).

Another significant consideration is operational flexibility for future recovery. By maintaining a stable workforce, firms can quickly scale up operations when economic conditions improve, avoiding the delays and inefficiencies associated with rehiring and retraining new employees (Hart and Malley, 1996). This strategy ensures that companies are better positioned to respond to market demands and seize growth opportunities once the economy rebounds. Labour hoarding provides firms with a competitive advantage during recovery periods, as businesses that have retained their workforce can adjust production levels more efficiently than those forced to rebuild their teams.

Lastly, cost considerations play a crucial role in labour hoarding decisions. Adjusting workforce size involves substantial fixed costs, such as recruitment, screening, and training of new employees, as well as termination costs like severance pay (Hamermesh and Pfann, 1996; Bertola and Caballero, 1994). By retaining staff during uncertain times, companies can minimise these costs and adopt a more cost-effective approach while navigating periods of economic instability. Additionally, labour hoarding reduces indirect costs, such as reputational damage from layoffs, which can negatively affect employee morale and consumer perception of the brand (Vella, 2017). Firms often weigh these costs against the financial strain of maintaining an underutilised workforce during downturns.

2.2 What is the impact of labour hoarding?

In the short term, labour hoarding can initially lead to a decline in productivity as underutilised workers lead to lower output per worker, while higher labour costs strain financial resources (Hart and Malley, 1996). During economic downturns, firms that hoard labour may experience tighter profit margins due to the mismatch between labour costs and reduced revenue generation (Vella, 2017). Despite this, firms adopt this strategy to avoid the disruptions associated with layoffs and rehiring, which can impact operational efficiency and workforce morale.

During periods of recovery, firms that hoard labour during economic downturns can increase production without hiring, providing them with a competitive edge. This approach moderates labour demand growth during economic recovery, reducing overall upward pressure on wages, particularly in tight labour markets (Felices, 2003). Furthermore, labour hoarding may also contribute to macroeconomic stability by cushioning the impact of unemployment during recessions, which can reduce the social and economic costs of widespread job losses. However, its effectiveness depends on the duration of the downturn and firms' ability to manage financial pressures while maintaining their workforce.

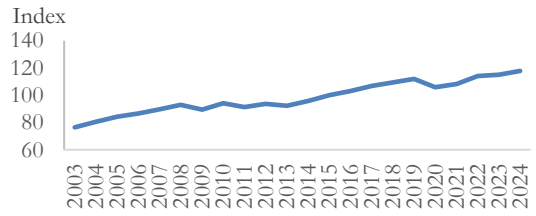
To cope with the near-term downsides associated with labour hoarding, firms employ various strategies to address inefficiencies while retaining their workforce. They often send employees for training, reassign them to different roles, or engage them in internal projects, which help mitigate short-term productivity losses and prepare the firms for future growth. These measures also maintain operational flexibility, allowing firms to adapt to changing conditions. To manage labour costs without resorting to layoffs, firms may reduce working hours and limit overtime pay, ensuring financial stability while preserving their workforce (Hart & Malley, 1996).

3 Methodology

Despite its relevance for economic analyses, labour hoarding lacks direct statistical measures because the "appropriate" level of employment is not directly observable (Gayer et al., 2024). Researchers instead rely on labour productivity indicators as proxies, although these come with inherent limitations. In Malaysia, for instance, productivity data may face challenges related to granularity, frequency and methodological adjustments. More importantly, productivity indicators are not purely cyclical as they capture not only labour utilisation but also variations in capital stock, technological advancements, and workforce skills composition (Felices, 2003).

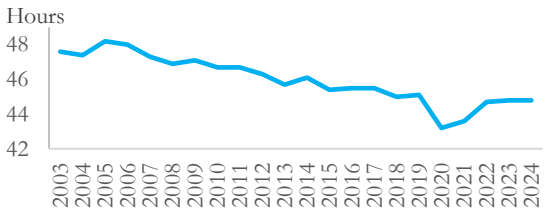
Similar to the experience of most other countries, data on output per worker in Malaysia indicates a long-term structural upward trend, mainly influenced by technological advancements that enhance productivity (Figure 2). In contrast, average hours worked per worker have decreased over time due to improved technology, a preference for part-time or gig employment, and laws mandating reduced working hours such as the Employment Act and Labour Ordinances (Figure 3). As a result, it could be difficult to determine whether fluctuations in productivity are indicative of actual labour underutilisation, potentially due to labour hoarding, or are merely the natural outcomes of long-term structural developments in the economy.

Figure 2: Malaysia's Output per Worker (2015=100)



Source: Haver

Figure 3: Malaysia's Mean Hours Worked Per Worker



Source: CEIC

To address these challenges in distinguishing labour hoarding from broader structural trends, researchers from the European Commission (EC) have developed a method to derive information on labour hoarding using existing survey data[4]. An advantage of relying on existing survey

[4] The EC developed a new Labour Hoarding Indicator in 2023, derived from existing survey data generated by its Joint Harmonised EU Programme of Business and Consumer Surveys (EU BCS). For more information, please refer to the European Business Cycle Indicators (2Q 2023 Edition).

questions rather than introducing new ones is the ability to leverage historical data to construct time-series indicators.

Drawing inspiration from the approach by EC, the RES team has constructed its own **Labour Hoarding Index (RES-LHI)** using scores from business interview questions collected since 2019[5]. The RES-LHI is determined from two key questions about a firm's employment and revenue expectations. If a firm anticipates lower revenue (i.e., expecting a downturn) but plans to maintain or raise employment levels, it scores 1 for labour hoarding. All other combinations of responses score 0 (Figure 4). These scores are averaged[6] to create overall RES-LHI values, showing labour hoarding trends over time.

Figure 4: Answer Combinations Leading to Firm-Level Labour Hoarding Indicator

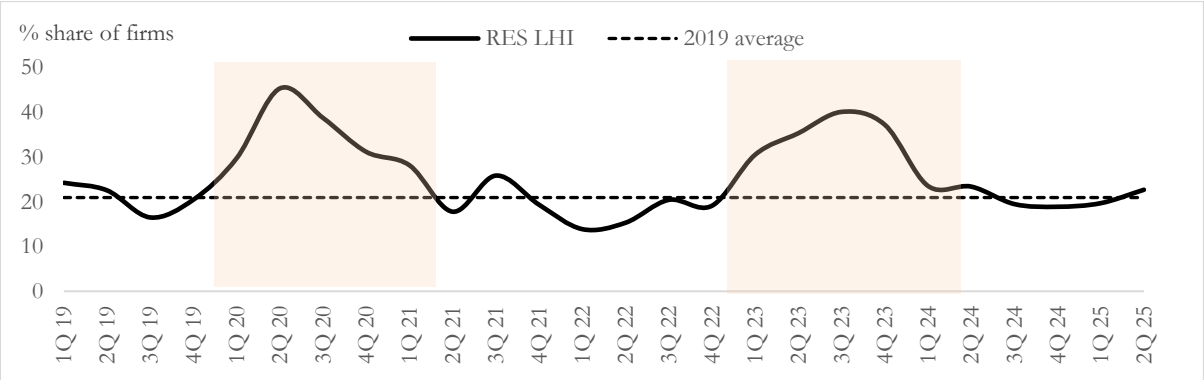
Revenue outlook	Employment outlook	Labour hoarding variable
Lower	Higher / Same	1
All other combinations		0

4 Results

4.1 Instances of labour hoarding in Malaysia

Figure 5 illustrates the RES-LHI, capturing trends in labour hoarding among firms in Malaysia. By comparing the RES-LHI versus its 2019 average, which serves as a proxy for normal conditions, two notable periods of labour hoarding were identified in **2020** and **2023**. Each labour hoarding period typically persisted for about 4 quarters.

Figure 5: RES-LHI



Note: The RES-LHI is the share of firms that have not reduced their workforce while facing a worsening of their firm-specific outlook.

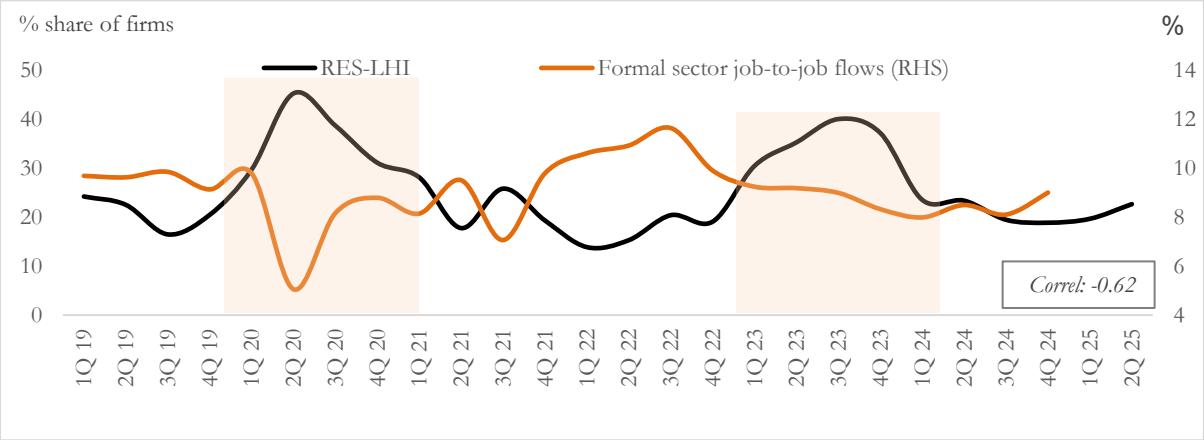
[5] While this approach provides valuable insights, it is constrained by limitations in the existing dataset. To enhance the robustness and accuracy of the RES-LHI, RES could consider refining and expanding its set of interview questions in the future, ensuring greater rigour and reliability in capturing labour hoarding dynamics.

[6] While the EC uses a detailed weighting scheme to aggregate results based on factors like sectoral value added across responses from different countries and different sectors, the RES uses a simple average. This approach reduces complexity and avoids potential biases that can arise when larger firms or certain sectors disproportionately influence the results. Additionally, differences in survey methods further justify the use of simple average. While the EC relies on standardised survey data across countries where sample sizes are mostly large and uniform, the RES' methodology is built on interviews that involve smaller, more targeted samples. By treating all firm responses equally, this method ensures a straightforward aggregation that makes it easier to compare outcomes across different time periods.

As a robustness check, the RES-LHI is compared against the formal sector job-to-job flows, which shows the percentage of salary earners who underwent a job change in each period, also known as the job churn rate (Figure 6). Of note, salary earners are classified as churners if they transition to a different employer between quarters, and as non-churners if they remain within the same employer.

The observed inverse relationship between the RES-LHI and the job-to-job flows suggests that periods of labour hoarding correspond to reduced job mobility. This finding aligns with theoretical expectations, thereby supporting the validity of the labour hoarding measure.

Figure 6: RES-LHI vs Formal Sector Job-to-Job Flows



Note: The job-to-job flows data was compiled by the Data Science, Analytics & Engineering (DSAE) Unit in BNM using EPF data sources on formal sector workers who have mandatory contribution to EPF.
Source: EPF and BNM estimates

4.2 Key contributing factors of labour hoarding

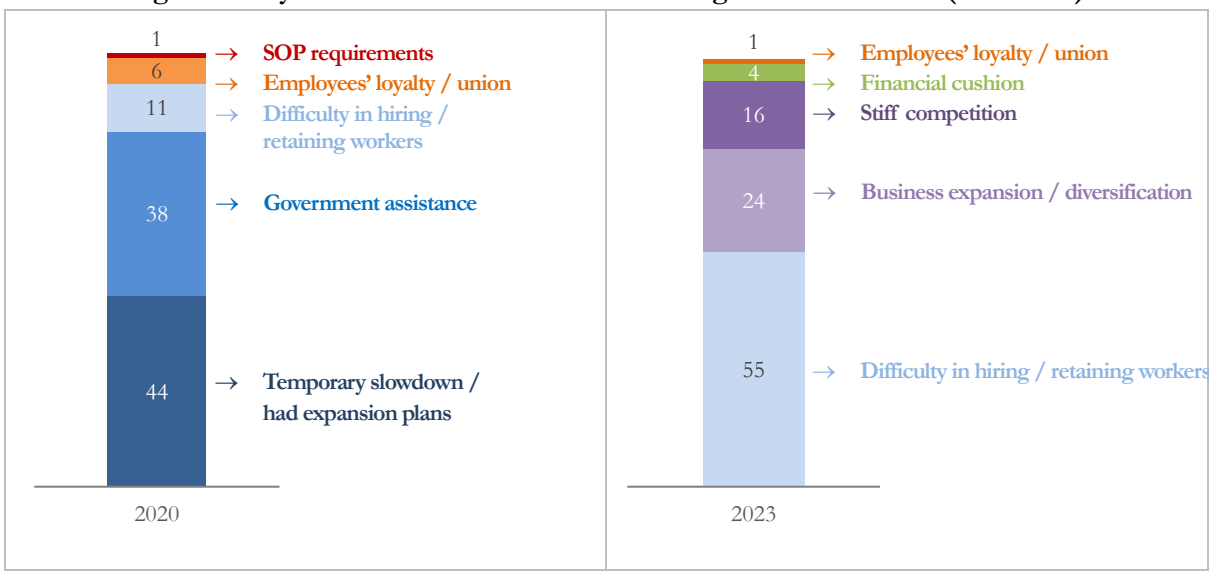
While firms resorted to labour hoarding in both 2020 and 2023 to navigate challenging business environments, the underlying drivers differed notably between the two periods (Figure 6).

In 2020, labour hoarding by firms, which peaked in the second quarter in Malaysia, was primarily driven by the expectation that the economic slowdown during the pandemic would be temporary. Additionally, some firms were anticipating future hiring needs for planned expansions, which contributed to this behaviour. However, as the pandemic persisted and its impact became more prolonged, the proportion of firms engaging in labour hoarding declined.

Consistent with the European Commission's findings, Government support during the pandemic was also a pivotal factor in driving labour hoarding. In Europe, the more extensive use of short time working (STW) schemes had provided income support for reduced working hours (Giupponi and Landais, 2023). In the case of Malaysia, schemes like the Wage Subsidy Programme significantly reduced labour costs by covering a large portion of employee salaries, enabling firms to keep their workforce intact during turbulent times. Complementing this, the PENJANA initiative provided incentives for hiring and training the unemployed, while the Bank's Special Relief Facility (SRF) eased the financial strain on SMEs, facilitating the resumption of business operations.

Furthermore, travel bans and stricter immigration during the pandemic caused firms to hoard their foreign workers. Some firms also avoided retrenchment despite reduced demand due to strong labour unions, long-standing employee loyalty, and compliance with additional procedures.

Figure 6: Key Determinants of Labour Hoarding in 2020 and 2023 (% of total)



In 2023, firms entered a period of normalisation that followed the heightened economic activity of 2H 2022, which had been marked by pent-up demand in the aftermath of the COVID-19 pandemic. This recalibration phase presented significant workforce challenges, prompting more firms to adopt labour hoarding strategies as a response to address difficulties in hiring and retaining workers.

This situation was not unique to Malaysia as the European Union[7] also experienced a tight labour market throughout 2022 and 2023. Persistent labour shortages prompted firms to retain their employees, with the aim to avoid the high costs associated with recruiting new staff when economic growth picks up (European Commission, 2023; Arce et al., 2023).

According to RES insights, the challenges for Malaysia stemmed mainly from stringent immigration policies and rising costs associated with recruiting foreign workers, which particularly impacted sectors such as construction, agriculture and manufacturing.

Shifting workforce preferences also intensified these hiring difficulties, as an increasing number of workers prioritised flexibility and work-life balance. The growing appeal of the gig economy offered workers autonomy and freedom through freelance or contract-based roles, making traditional full-time employment in sectors like services less desirable in certain cases.

Close to one quarter of firms (24%) were also hoarding labour as part of their business strategies to ensure future growth amid expansion and diversification plans. Meanwhile, 16% of firms

[7] It is important to note that differences in labour market law and structure between Malaysia and other economies such as the European Union may affect the direct comparability of these observations.

adopted labour hoarding strategies due to intense competition among businesses vying for talent, a trend particularly pronounced in the services and manufacturing sectors. Furthermore, as global mobility improved, many skilled employees pursued better-paying opportunities abroad, exacerbating the talent shortage in domestic markets.

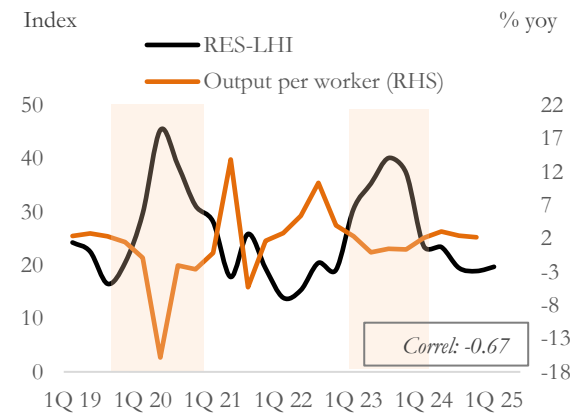
Some firms also hoarded labour due to strong financial performance in the previous year, which offered them the necessary financial cushion and flexibility to retain their workforce despite facing lower-than-expected demand for their products or services. This aligns with findings from a recent study by the European Central Bank, which indicated that higher profit margins enhance firms' capacity to hoard labour during periods of adverse economic shocks (Botelho, 2024).

4.3 Implications of labour hoarding on productivity and wages

Comparing the RES-LHI with labour productivity indicator suggests that during periods of increased labour hoarding, firms tend to experience a noticeable slower labour productivity growth (Figure 8). This relationship can be attributed to the inefficiencies that could have risen when firms retain excess labour.

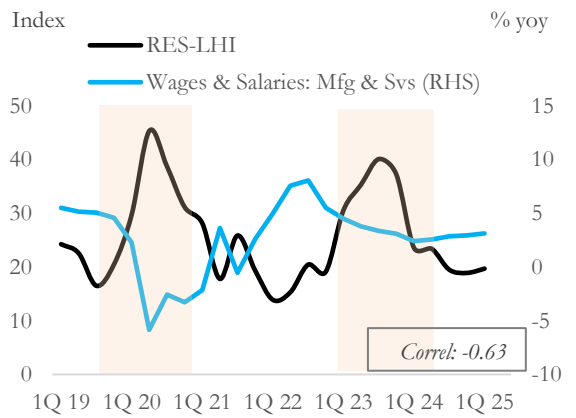
Similarly, periods of heightened labour hoarding also coincide with lower wage growth (Figure 9). The slower gains in productivity likely translated into more restrained wage growth during these periods.

Figure 8: RES-LHI vs Labour Productivity



Source: RES and Haver

Figure 9: RES-LHI vs Wage Growth



Source: RES and Haver

Typically, when there is a shortage of workers or hiring difficulties, such as in 2023, firms would respond by offering higher wages to attract talent. However, labour hoarding may have altered this dynamic. By retaining extra workers on their payroll, firms create an internal surplus of labour. This surplus then spreads the same amount of work across a larger pool of employees, reducing the productivity of each worker. Since wages are often linked to worker productivity, this internal imbalance leads to slower wage growth, even if hiring remains difficult in the broader labour

market[8]. This finding is consistent with existing literature. For example, Hart and Malley (1996) found that labour hoarding leads to lower average working hours, which leads to lower wage earnings.

In today's economic context, monitoring whether firms revert to labour hoarding practices in response to global uncertainties is crucial. Such developments could have meaningful implications for wage dynamics, as retaining surplus labour might dampen wage growth through reduced individual productivity as workloads are spread across a larger pool of employees. Examining this relationship could offer valuable insights into how firms adapt to economic uncertainty while managing trade-offs between labour retention, productivity, and wage adjustments.

5 Conclusion

The RES Labour Hoarding Index (RES-LHI) is a new tool developed to provide nuanced insights into labour hoarding patterns among firms in Malaysia, especially during periods of uncertainty. By integrating qualitative responses from interviews, the index sheds light on the reasons behind labour hoarding practices.

Firms often retain excess manpower during downturns to safeguard valuable skills and ensure operational readiness for recovery phases. While this strategy helps maintain long-term productivity, it can lead to reduced worker efficiency and impact wage dynamics.

Looking ahead, monitoring labour hoarding trends will be crucial as Malaysia navigates shifting global conditions, rising uncertainty, and evolving regulatory frameworks, including the effects of labour policies such as the minimum wage increases in 2025. Future research could enhance these findings through sector-specific analyses, providing more targeted insights into how labour retention strategies influence economic performance.

[8] However, during abnormal periods following a crisis, labour hoarding might not lead to subdued wages, as evidenced by Malaysia's post-pandemic recovery trends in 2022. The strong economic rebound and heightened demand for labour can drive significant wage growth, offsetting the wage-suppressing effects of surplus labour retained during the crisis. Additionally, inflationary pressures further push firms to offer competitive wages to attract and retain talent. This phenomenon was reflected in the advanced economies too, with widespread labour market tightness leading to increased nominal wage growth in the post-pandemic period (Doornik et al., 2023).

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