

ABSTRACT

Based on the theory of labour demand, the number of workers absorbed is influenced by the prevailing wage level, where wage increases potentially raise production costs, prompting firms to reduce the amount of labour used. However, the degree of sensitivity of employment absorption to wage changes depends on the elasticity of labour with respect to wages in each sector. In this context, the Sectoral Minimum Wage policy (UMSK), which accounts for sector characteristics and productivity, becomes relevant to examine in order to observe its impact on industrial sector employment absorption. This study aims to analyze the effect of UMSK, investment, average years of schooling, and industrial sector GRDP on industrial sector employment absorption in 13 districts of the Pantura Central Java region over the period 2016-2025.

The data used in this study were obtained from the Central Statistics Agency (BPS). This study employs panel data from 13 districts over the 2016-2025 period, with the Fixed Effect Model as the estimation method, combined with Driscoll-Kraay standard errors to address autocorrelation, heteroskedasticity, and cross-sectional dependence. This study also develops a UMSK proxy using the Location Quotient (LQ) method as its main methodological contribution, given the unavailability of official UMSK data for all sample districts.

The results show that UMSK, investment, and industrial sector GRDP have a positive and significant effect on industrial sector employment absorption. Meanwhile, Average Years of Schooling (RLS) has no significant effect on industrial sector employment absorption. Simultaneously, all four variables are shown to have a significant effect on industrial sector employment absorption in the Pantura Central Java region.

Keywords: *Sectoral Minimum Wage, Industrial Sector Employment Absorption, Location Quotient, Fixed Effect Model, Pantura Central Java.*