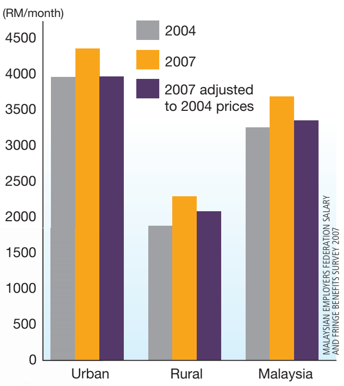
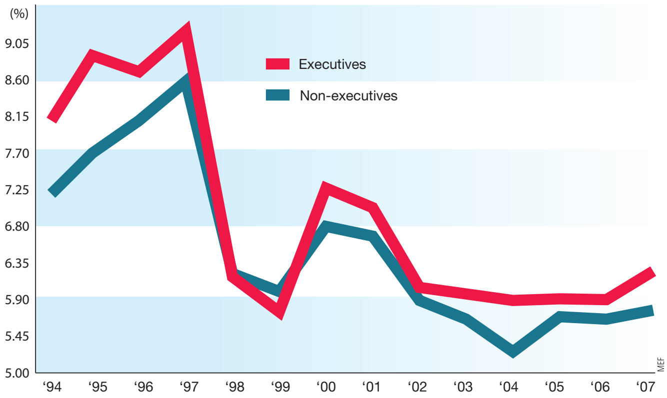
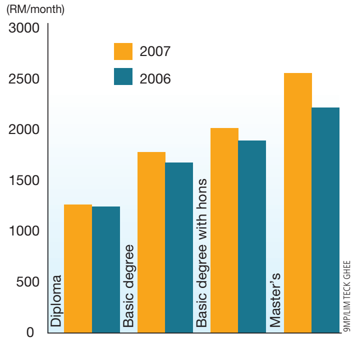
Average household income in Malaysia



Average salary increase for executives and non-executives



Average minimum monthly basic salary for executives without prior working experience



In July and August 2008, inflation hit 8.5%, a 26-year high for Malaysia. This was triggered by the government's decision to increase pump prices on June 4 by 78 sen to RM2.70, a 40.6% increase over the previous price of RM1.92. Fuelled by a steady rise in crude oil price, which climbed above US$120 per barrel in May, higher oil prices have caused the prices of food and other necessities to increase sharply.

The CPI's record high was due mainly to food items, which rose by 11.2% in July and 11.7% in August, as well as transport costs, which jumped 22.7% in July and 21.8% in August. In contrast, the index in May and June was at 3.8% and 7.7%, respectively.

The slowing economic trend has clouded the outlook for the business sector, not just in Malaysia but in the region as well. A nine-country survey by market research firm Synovate in August 2008 involving about 6,500 people shows that some 58% of the Malaysian respondents have cut their spending in the last six months.

The first three items that Malaysians said they will give up are holiday/leisure travel, branded items and meals with their family/partner.

During the same period, some 81% of the Malaysian respondents had been spending less on luxuries. Some 52% of the Malaysian respondents said that they had indulged in less impulse buying, while 59% of them spent more time comparing prices than previously.

But not all consumers went that way. Affluent Malaysians had also spent 12% more on luxury goods, particularly jewellery, watches and clothes as at mid-2008, compared to a year earlier. That, however, would be another story.

Despite the cautious sentiment, however, Malaysia is still the highest spending among the nine countries surveyed — Japan, Taiwan, Brazil, the US, France, Russia, Turkey and South Africa.

The current inflationary trend is especially painful to consumers because once prices go up, they tend to be sticky downwards.

"Higher oil prices have translated into higher food prices, and unfortunately once food prices go up, it is not easy for them to come down," says the chief executive of the Centre for Policy Initiatives Lim Teck Ghee.

A media trainer, 49, who declined to be named, reports that an increasing portion of his household income is going towards food items for his family of five. He currently spends about 25% of the household income on food, compared with 20% in 1998 and 15% in 1988, he says.

Indeed, urban consumers in particular are being hit by a double whammy, with the rising cost of living burning a hole in their pockets, while wages have risen more sedately. (see table on salaries)

Take the price of cars. Since its launch in 1985, the Proton Saga (manual) has escalated in price from RM15,000 to RM38,000 today, that is, by a massive 153.3%. Property values show a similar trend. A 1-storey terraced house in Cheras that went for RM88,000 in 1986 can fetch at least RM250,000 today — an increase of 184%.

In comparison, wages have risen by a much lesser degree. Clerical workers, for example, earned about RM750 in 1987. Last year, a Malaysian Employers Federation survey showed that the average clerk drew RM1,300 monthly — an increase of 73.3%.

A fresh university graduate who started work in 1985 would be paid a base salary of around RM1,500 a month. Today, 23 years later, a fresh graduate starts at around RM2,500 a month, a rise of 66% only and much lower than the rise in the cost of transport and housing.

It is a recipe for sure financial distress among wage earners in the urban centres.

This is a dilemma that can be identified with the middle-income group, which in Malaysia, may be said to include household income levels ranging from RM1,500 to RM10,000. Salaried workers in professional, managerial, service, sales, supervisory and administrative positions would fall in this category. They also cover those in technical and skilled industrial occupations as well as small employers and the self-employed having modest businesses.

A rough methodology is to put 50% to 55% of the population in this band, says Lim of the Centre for Policy Initiatives.

Data compiled by the Department of Statistics shows that nominal household income increased from RM3,249 to RM3,617 over 2004 to 2007. That translates into an annual growth rate of 3.6%, and at an inflation rate of 2.7% over that period, real household income grew at 0.9% per year, says Lim (see table on household income).

"In 2009/10, given inflationary pressures and economic recession, real growth in household income may turn out to be negative," he adds.

As for the household expenditure of Malaysians, the report on household expenditure survey 1998/1999, the most recent by the Statistics Department, shows an increasing trend in consumption expenditure among households in Malaysia.

For example, in 1973, the average monthly consumption expenditure was RM412, and increased to RM1,161 in 1993/94 and RM1,631 in 1998/99.

These figures show that the average monthly consumption expenditure has increased 181.8% over the past 20 years.

About 80% of household expenditure is spent on four main groups — food; gross rent, fuel and power; transport and communication; and miscellaneous goods and services, which include food and beverages away from home.

However, the portion of income spent on these goods and services changes according to the prevailing economic situation, the report says. For example, in 1973, households in Malaysia spent almost 34% of their monthly expenditure on food, but this decreased to 22% in 1998/99.

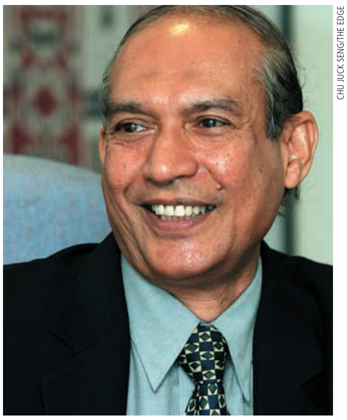
For the main group of gross rent, fuel and power, households in Malaysia in 1973 spent nearly 19% of their total expenditure on this group. This increased to 22% in 1998/99. Similarly, household expenditure on transport and communication showed an increase from 14% to 19% in the same period. Expenditure on food and beverages away from home increased from 8% in 1973 to 13% in 1998/99, the department says.

An indication of a change in spending habits due to the weak economic outlook came earlier this month, when the MasterCard Worldwide Index of Consumer Confidence was released. The index for Malaysia declined significantly to below the 50% mark, shedding 35.6 points to 36.9. All indicators were below the optimistic threshold, with the outlook on quality of life posting the steepest fall of almost 60%, the report said.

A hefty income tax cut for the middle class — particularly those earning between RM4,000 and RM10,000 a month — will help boost consumption, but there is doubt if government finances can support that.

So, as consumers, particularly the middle class, feel the pinch and cut back on spending, what then lies ahead for businesses?

While businesses dealing with basic goods and services may be less affected, those which depend on discretionary spending would be looking for new hope on the horizon. E



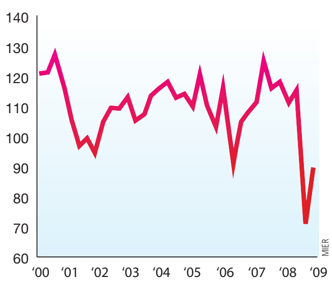
Mohamed Ariff: Watch unemployment figures very carefully

TABLE 1

Business Conditions Index (BCI)

TABLE 2

Consumer Sentiments Index (CSI)



Average basic salary and salary increase for executives 2006-2007

SOURCE: MEF