

Interesting Trends in the Malaysian Consumption Pattern

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One of the virtues of earning money is to be able to spend it later. Spending is also sometimes associated with the standard of living. The higher the standard of living of a nation, the higher the purchasing power of its people. Information on consumption patterns is particularly useful for government programmes to assist the lower income group. In Malaysia, household-spending data is hard to come by. One of the publicly available source of information on household spending pattern is the Household Expenditure Survey (HES) conducted by the Department of Statistics. The survey is carried about once every five years due to the large costs involved, said to reach millions of ringgit. The purpose of the survey is to know how much does a household spend on a variety of items. Information on the household consumption pattern would then be used to determine the weights for the Consumer Price Index (CPI) basket. Some estimates on private consumption items to be included in GDP calculations are also derived from the household survey. The latest HES released was for the year 1998/99 (undertaken in parts of 1998 and 1999), made available for the public January this year.

Household consumption items are grouped into nine broad categories, following some international standards on data categorizing. The nine broad categories are food, beverages and tobacco, clothing and footwear, gross rent fuel and power, furniture, medical care expenses, transport and communications, recreation and education, and finally, miscellaneous goods and services. However, specific items such as food would depend on 'actual' domestic spending which includes local fish such as ikan kembong and ikan cincaru. Under the fruits category, local fruits such as durian and duku are included to capture the actual local flavour as much as possible. The three major groups, namely, food, gross rent fuel and power, and transport and communications constitute close to 80 per cent of total household expenses. According to the 1998/99 HES, a household of (approximately) four, spends an average amount of RM1,631 per month on consumer items. This shows a rise from expenses of RM1,161 per month found in 1993/94 HES. Average household expenditure has increased at an average rate of 7.0 per

cent between 1994 and 1999. Wages, on the other hand, grew at an average rate of 8.9 per cent during the same period. Based on a rough estimate, average household income in 1999 (*for the whole of Malaysia*) was around RM2,732. This seems to suggest that an average Malaysian household is quite prudent in managing its finances and avoids over-spending. Whatever is left after spending will likely go into its savings. In 1980/82, average household spending amounted to RM732 monthly, compared to RM412 in 1973.

One obvious observation from the data was that household spending in urban areas (RM1,943) was higher than in rural areas (RM1,270), close to a RM700 difference. There is quite a significant difference between household expenditures in Peninsular Malaysia and East Malaysia. Household expenditures in Sarawak (RM1,871) was higher than in Peninsular Malaysia (RM1,648), while in Sabah the amount was at RM1,215.

The rise in household consumption during the period 1994-1999 was not due to price increases only. Households have been consuming more and more, indicating an increase in their purchasing power, corresponding to many years of healthy economic growth. After adjusting for inflation, households recorded a 3.4 per cent growth in expenditures, in real terms, during the period 1994-1999. The higher household spending in 1999 was accompanied by an increase in the bundle of goods bought by households, not just because of higher prices.

Does all this mean that the average cost of living in Malaysia has been increasing at a rate of 7 per cent per year during 1994-1999? The HES is the only comprehensive measure of household living expenses that is publicly available in Malaysia. It could be used as a rough yardstick measure of an average countrywide cost of living. Nevertheless, since we are, most of the time, talking about average spending, there is the problem of aggregation which could mask a number of interesting trends. Getting an “accurate” measure cost of living is a difficult task because cost of living for a household would depend on a number of factors such as income, taste, preferences, and family size, not to mention differences across races and cultures.

Over the years, the HES had consistently revealed that the largest amount of household expenditure went to food. This includes raw food at home, such as rice and meat, as well as food expenses away from home. Over time, spending on food at home has declined steadily from a share of 33.7 per cent in 1973 to 22.2 per cent in 1999. In the meantime, spending on food away from home rose from only 4.6 per cent in 1973 to 10.9 per cent in 1999. This reflects the changing trend in the lifestyle of households where having a meal at home is becoming less often while eating out has become more frequent. Adding food at home and 'eating out' expenditures together, we see the share of the two gradually declining from 38.3 per cent in 1973 to 33.1 per cent in 1999. Still, for those earning less than RM500 per month, expenditures for the two types of food constituted about half (48.4%) of their household spending. Compared to other ASEAN countries, Malaysia's household spending on food, as a share of total, (33.1%; 1999) is similar to Thailand's (33.3%; 1999), but is much lower than Philippines's share of 44.2 per cent (1997). In the case of Indonesia, 62.9 per cent (1999) of household expenses goes to food. By contrast, in Japan and USA, the share on food stands at 16.3 per cent and 10.6 per cent (1996 figures), respectively.

Looking at household spending by stratum, it is interesting to note that in 1999, an average urban household spent a similar amount on raw food at home (RM370) as compared to an average rural household (RM366), with expenditure shares of 19.0 per cent and 28.8 per cent, respectively. An average urban household has to spend more on gross rent, fuel and power, at a value of RM463, compared to a rural household at RM246. The same is also the case for the category under "transport and communication". It appears that the lower cost advantage of living in the rural area is related to cheaper rent and transportation costs rather than food expenses.

There were some expenses in the survey which at first appears to be quite unrealistic. Spending on motorcars, which is most likely related to loan payments, amounts to only RM72.92 per month for an average Malaysian household. The low figure is due to the calculations where we divide total expenses on cars by the total number of respondents regardless of whether or not they own a car. However, by looking at the detailed table,

we find that, for a household with income of RM3,000-3,999, spending for “transport and communication”, which include car expenses, amounts to a more realistic RM644.

The household survey also provides some clues as to why the recent hike in gasoline prices did not translate into a large direct impact on consumer prices. Spending on “petrol, motor oil and grease” constituted only a modest 5.2 per cent of a household budget valued at RM84.59. A 10 per cent increase in gasoline prices would mean a meagre rise of RM8.46 in the expenditure for petrol. It is also interesting to note that expenses on water charges amounted to only RM16.97 per household per month in 1999 (RM13.47 in 1994 survey), lower than electricity charges (RM38.21 per month) and much cheaper compared to an average phone bill charges (RM57.31 per month). A 100 per cent increase in water bills will still result in consumers paying less than what they would be paying for electricity and phone charges. Although a higher water bill may be a small matter to a well-off household, even a minor increase in living costs can be a painful experience to the lower income group.

It is understandable that not every household owns a car, the reason for getting a somewhat low figure on motorcar expenses. However, it is hard to discern why an average Malaysian household spends only a meagre RM3.21 per month on books (RM2.00 in 1994 survey). In fact, we spend more on toiletries (RM23.25 per month) than on books. It may be argued that one can borrow books from the library without having to buy them. But, still, the very low figure does not augur well for Malaysia’s aspiration of transforming into a knowledge-based economy. There is, however, some comfort in noting that at least households spend quite a bit on newspapers and magazine (RM8.89 per month). We still have a long way to go in order to instil a good reading habit in the public. But, first, people must recognise that buying books is a form of investment that will benefit not just them but the nation as well.