

Income has risen, so has expenditure

Joyce Tan
 Research Librarian
 joycet@refsa.org

You can't eat G.D.P. You can't feed a family with G.D.P. You can't live in a rising share market. You can't give your kids a better life because your company's C.E.O. was able to give himself a big raise.

When rubber-meets-road, it has been argued that a better way to measure whether the economy is working for the mass of Malaysians is not GDP but household income. [1] To the average Malaysian, what matters most is how much money is going into their pockets and what they can buy with that money.

It has been reported on 10 Oct 2017 that the minister in the Prime Minister's Department, Abdul Rahman Dahlan quoting the Report of Household Income and Basic Amenities Survey 2016 released by the Statistics Department, claimed that the report showed rising household income, declining incidence of poverty and decreasing income inequality under the BN government.

"This debunks the popular notion that income in Malaysia is stagnant or income increment does not match the rising prices of goods and services," Rahman, who is also BN strategic communications director, said in a statement. [2]



Figure 1: Malaysian's median and mean household income [3]
 Source: Department of Statistics Malaysia

A 6.6% hike in the median household income, and a 6.2% hike in the mean household income means that the average Malaysian experienced a pay hike of some sort last year.

While it is true that household income has increased (not as fast as people would like) over the two years from 2014 to 2016, [3] so has household consumption expenditure. [4]

	Median			Mean		
	2014	2016		2014	2016	
Monthly household income	RM 4,585	RM 5,228	Growth rate of 6.6% per annum at nominal value In terms of real value, median monthly household income grew at 4.4% per annum	RM 6,141	RM 6,958	Growth rate of 6.2% per annum at nominal value In terms of real value, mean monthly household income grew at 4.2% per annum
Monthly Household Consumption Expenditure	-	RM 3,314	Compounded annual growth rate 5.9%	RM 3,578	RM 4,033	Growth rate of 6.0% per annum at nominal value In terms of real value, mean monthly household expenditure grew at 3.9% per annum
Difference		RM 1,914		RM 2,563	RM 2,925	

Table 1: Median and mean monthly household income and consumption expenditure: 2014, 2016 [3][4]
Source: Department of Statistics Malaysia

The current expenditure and consumption patterns shows that over half of the monthly household consumption expenditure (55.7%) consist of necessities, including: Housing, water, electricity, gas & other fuels (24%), food & non-alcoholic beverages (18%), transport (13.7%). [4] This is hardly extravagant spending.

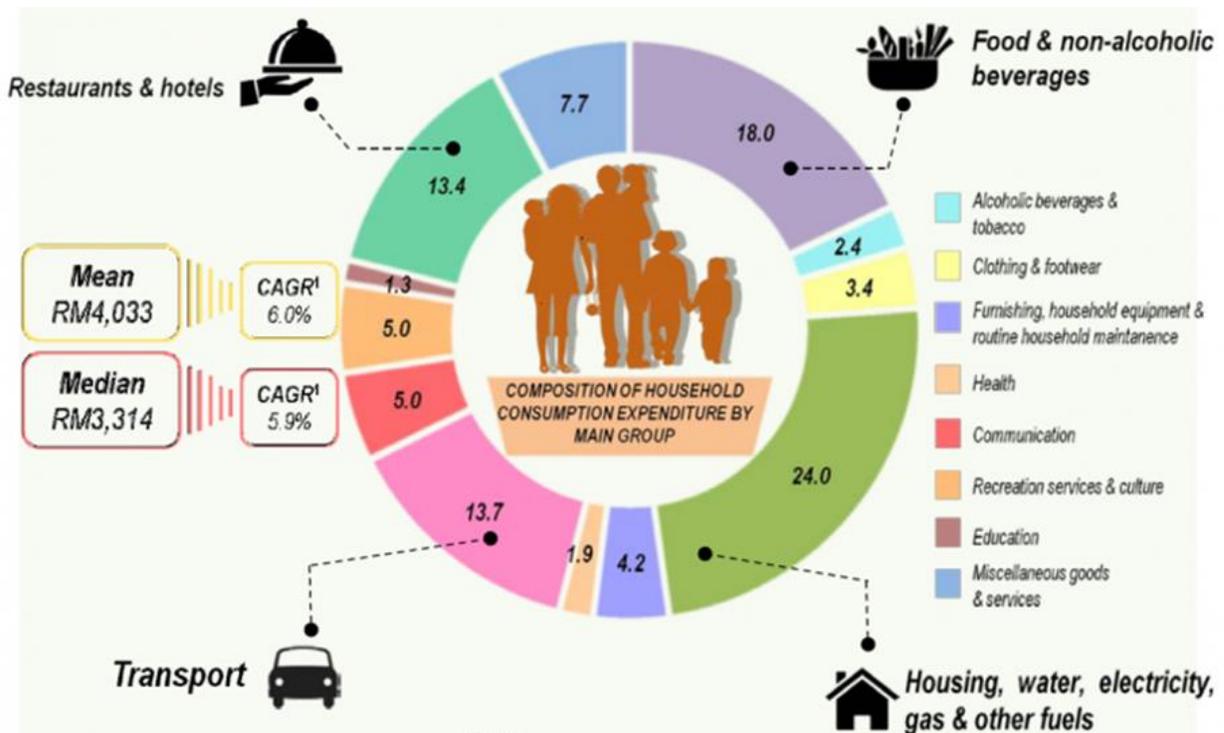


Figure 2: Malaysian household consumption expenditure [4]
Source: Department of Statistics Malaysia

Higher median household income means little to B40 group

	Median			Mean		
	2014	2016	Difference	2014	2016	Difference
B40 household income	RM 2,629	RM 3,000	RM 371	RM 2,537	RM 2,848	RM 311
M40 household income	RM 5,465	RM 6,275	RM 810	RM 5,662	RM 6,502	RM 840
T20 household income	RM 11,610	RM 13,148	RM 1,538	RM 14,305	RM 16,088	RM 1,783

Table 2: Median and mean household income for the B40 M40 and T20 groups [3][4]
Source: Department of Statistics Malaysia

While a rise in median monthly household income is a positive counter to the rising cost of living, an unequal distribution of income may render it meaningless to the lower income group (B40). As some would say, the rich get richer and the poor get poorer.

The national median monthly household income in 2016 was RM 5,228, the median monthly household income for the B40 group is almost half the national figure at RM 3,000. The difference in median household income for the B40 group is barely half that of the M40 group and a quarter of the T20 group.

Because of unequal income increases and spending behaviour among different households, some families, especially the B40 and the lower segment of the M40, will be worse off because their income growth lags the rise in cost of living. [5]

Bank Negara reported that the financial obligations of the B40 households, including loan repayments, have registered relatively strong growth. Consequently, these households, who only have a relatively small amount of savings, are vulnerable to both income and price shocks. And about 28% of the B40 households do not save on a monthly basis, while 11% of them save RM100 or less a month. [6] With the implementation of GST (a form of regressive tax) it would only promise financial hardship for this group.

At this point, it is also worth noting that CPI inflation is not equivalent in all states. The same report shows that inflation tends to be higher for more urbanised states. Thus, the lower income households living in highly urbanised states tend to experience the largest increase in their cost of living.

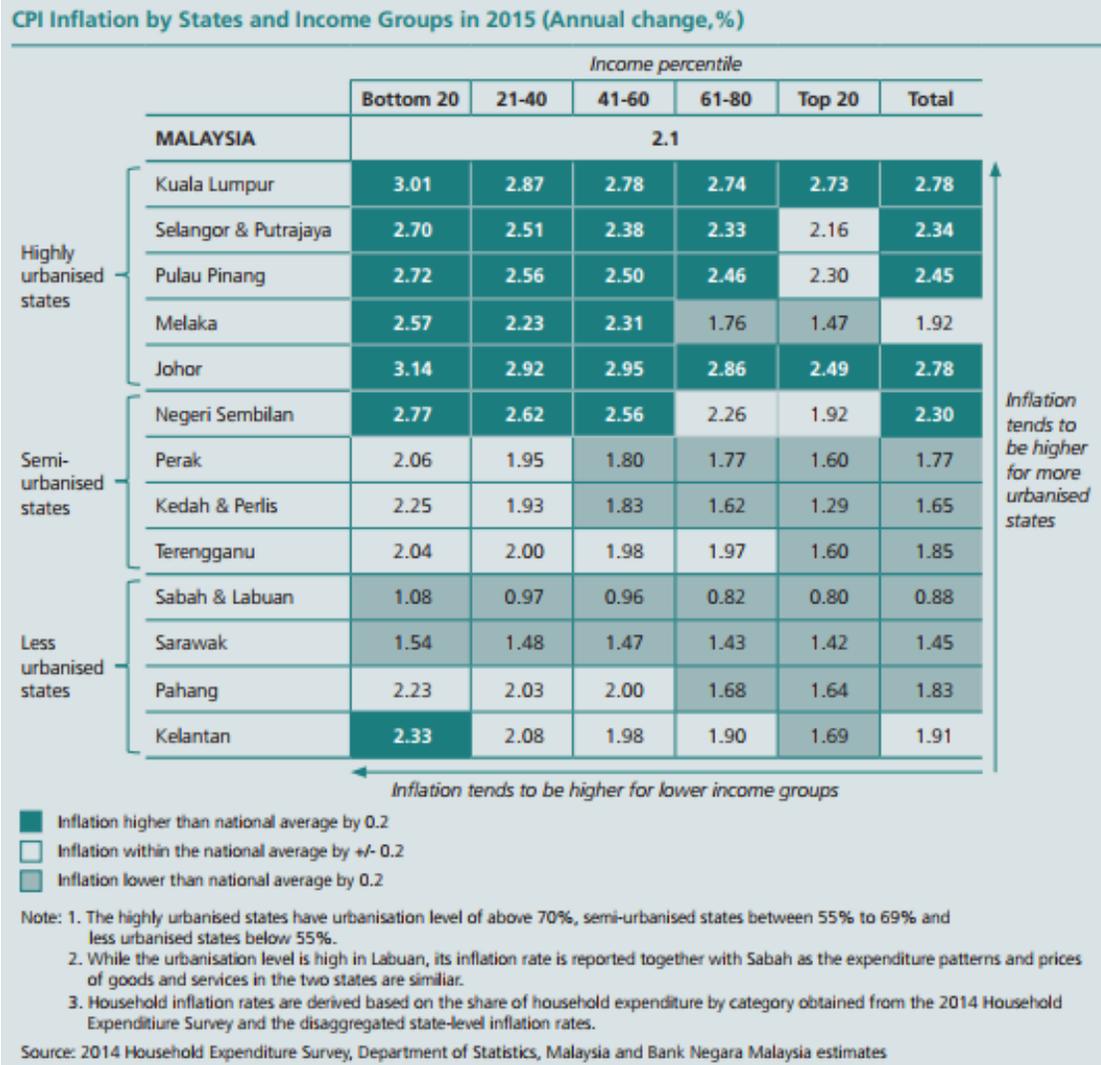


Figure 3: CPI inflation by States and Income Groups in 2015 [6]
Source: Central Bank of Malaysia

To add salt to the wound, in 2016 households in Kuala Lumpur experienced the highest inflation rate of 2.8%, which is higher than the national average of 2.1%. [7]

Comparing across income groups, in 2016 households in the bottom 20% of the income group experienced inflation rates that were 0.12 to 1.12 percentage points higher than households in the top 20% of the income group. This is due to their higher share of expenditure on food, which generally experienced a higher rate of inflation compared to other goods and services. [7]

The M40 are also struggling

The median household income for the M40 group in 2016 was RM 6,275, slightly above the national median household income of RM 5,228. Yet, many M40 households, typically younger households have difficulty or are even unable to afford to purchase their first homes. This despite government aid for affordable housing such as PR1MA for households with income not more than RM15,000.

Property prices have skyrocketed since 2010. House prices around **Kuala Lumpur, Johor and Penang** have drastically risen by 15.6%, 22.7% and 15.6% respectively year-on-year in 2013. [8]

Bank Negara Malaysia’s Annual Report 2016 [9] discusses affordable housing (pg 90-pg 98) and youth unemployment (pg 99 – pg 106), among other issues. I would like to examine the issue of affordable (or unaffordable) housing.

By 2014, the housing affordability ratio was 4.49, indicating that houses in Malaysia as a whole, were ‘seriously unaffordable’ (Figure 4).

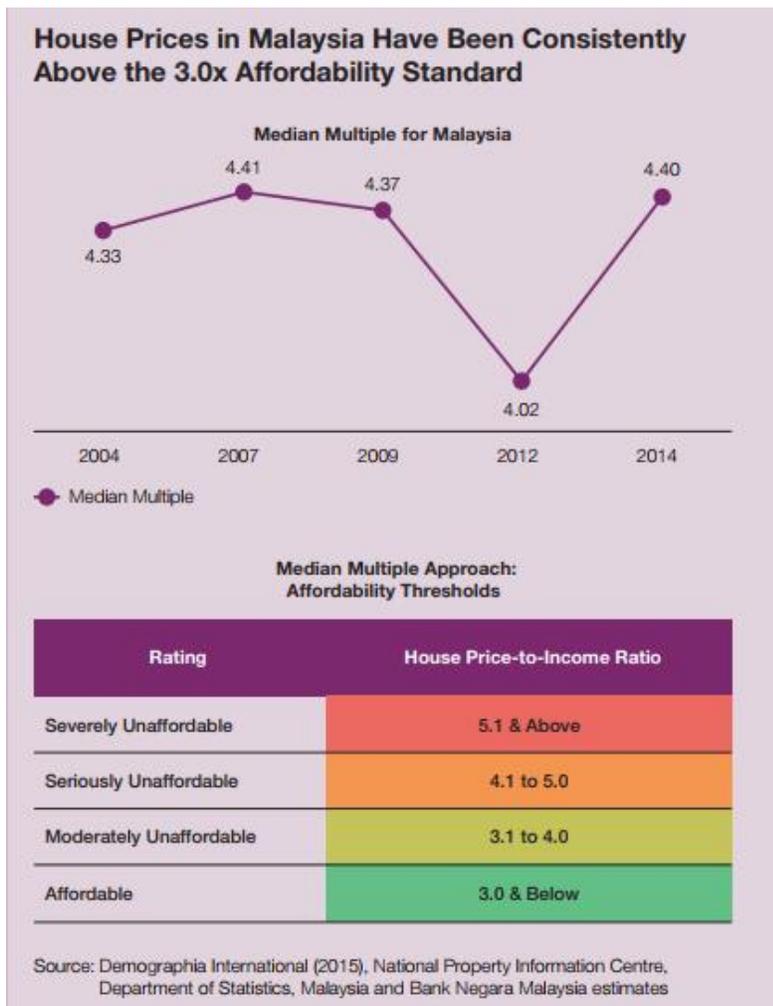


Figure 4: House prices in Malaysia have been consistently above 3.0x affordability standard [9]
Source: Central Bank of Malaysia

Within Malaysia, house prices range from ‘affordable’ in Melaka (affordability ratio of 2.98 in 2014) to ‘severely unaffordable’ in Terengganu, Kuala Lumpur, Penang and Sabah (ratio above 5, Figure 5).



Figure 5: Houses in most states are unaffordable for households earning the median income [9]
Source: Central Bank of Malaysia

The report [9] attributes the **unaffordability of houses** to supply-demand imbalances, slower increase in household incomes relative to house prices, and the trend of higher property launches in the price categories above RM250,000.

Furthermore, economists and analysts warned that household debt might continue to increase in the coming years. Apart from external headwinds and the state of the economy, home buyers scheme like the 1Malaysia People’s Housing Programme (PR1MA), higher loan limits for civil servants to purchase homes, motorcycles and computers/smartphones under Budget 2017 and higher inflation could raise household debt. [10] With a meagre increase in household income and a rising household debt, this is a reason for much concern.

Decreasing poverty and income inequality: how do we fare?

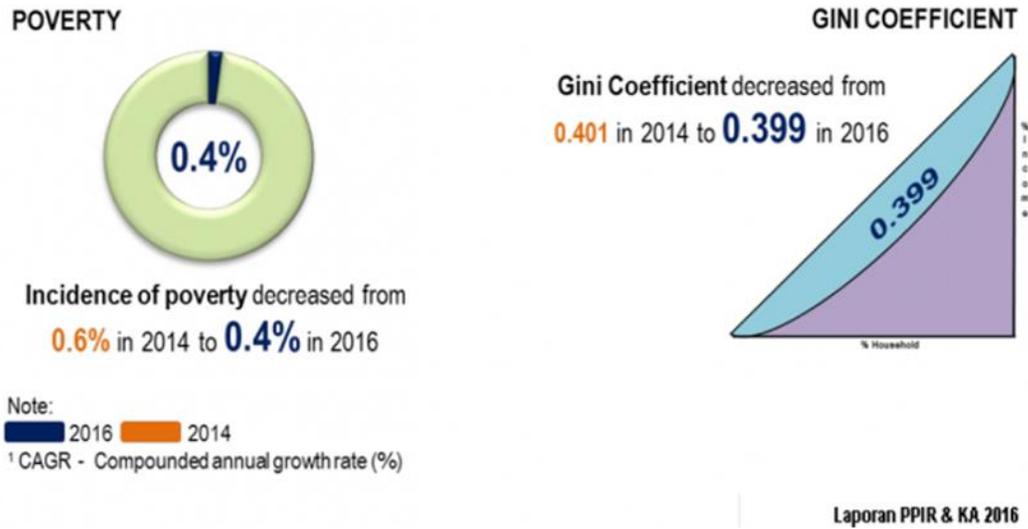


Figure 6: Incidence of poverty and Gini coefficient [3]
Source: Department of Statistics Malaysia

To the government's credit, the Gini Coefficient (measure of income inequality) has decreased from 0.401 in 2014 to 0.399 in 2016. So now we are more equal, right?

But how do we fare among other ASEAN countries?

Countries	Gini Index	Date of information
Thailand	0.303	2015
Indonesia	0.394	Sept, 2016
Vietnam	0.430	2014
Malaysia	0.399	2016
Philippines	0.4439	2015
Singapore	0.402	2016, after government transfers and taxes
Myanmar (Burma)	-	-
Cambodia	0.29	2014
Laos	0.3617	2012/2013
Brunei	-	-

Table 3: Gini index of ASEAN countries [11][12][13][3][14][15][16][17]

Behavioural experiments have suggested that people care just as much about fairness and relative income as they do about absolute income. Thus, the decrease in Gini index is a welcomed development, but we still lag behind countries such as Thailand, Indonesia, Cambodia, and Laos.

That said, before we start patting ourselves on the back that we fare better than Singapore in terms of the Gini index, we have to also remember that Gini indexes only measure income inequality, it doesn't measure wealth inequality, nor access to quality education, health, social security, and protection measures. As such, two countries might have identical Gini indexes but vastly different gross national incomes. [18]

This is why many Malaysians scoffed when Minister in the Prime Minister's Department Datuk Seri Abdul Rahman Dahlan said: Malaysian household income grew faster than the inflation rate AND Malaysia's impressive GDP growth in recent years has benefited the people. [2]

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Mean and median Household Income 2014, 2016						
	Median			Mean		
	2014	2016		2014	2016	
Monthly household income	RM 4,585	RM 5,228	growth rate of 6.6% per annum at nominal value “In terms of real value, median monthly household income grew at 4.4% per annum	RM 6,141	RM 6,958	growth rate of 6.2% per annum at nominal value “In terms of real value, mean monthly household income grew at 4.2% per annum
Monthly household income - urban	RM 5,156	RM 5,860	Increased 6.4% per annum	RM 6,833	RM 7,671	Increased 5.8% per annum
Monthly household income - rural	RM 3,123	RM 3,471	Increased 5.3% per annum	RM 3,831	RM 4,359	Increased 6.5% per annum
B40 household income	RM 2,629	RM 3,000	Compounded annual growth rate 6.6%	RM 2,537	RM 2,848	Compounded annual growth rate 5.8%
M40 household income	RM 5,465	RM 6,275	Compounded annual growth rate 6.9%	RM 5,662	RM 6,502	Compounded annual growth rate 6.9%
T20 household income	RM 11,610	RM 13,148	Compounded annual growth rate 6.2%	RM 14,305	RM 16,088	Compounded annual growth rate 5.9%
Income – Kuala Lumpur	RM 7,620	RM 9,073	Annual growth rate 8.7%	RM 10,629	RM 11,692	Annual growth rate 4.8%
Income – Putrajaya	RM 7,512	RM 8,275	Annual growth rate 4.8%	RM 10,401	RM 11,555	Annual growth rate 5.3%
Income – Selangor	RM 6,214	RM 7,225	Annual growth rate 7.5%	RM 8,252	RM 9,463	Annual growth rate 6.8%
Income – Labuan	RM 5,684	RM 5,928	Annual growth rate 2.1%	RM 7,591	RM 8,174	Annual growth rate 3.7%
Income – Johor	RM 5,197	RM 5,652	Annual growth rate 4.2%	RM 6,207	RM 6,928	Annual growth rate 5.5%
Income – Melaka	RM 5,029	RM 5,588	Annual growth rate 5.3%	RM 6,046	RM 6,849	Annual growth rate 6.2%
Income – Pulau Pinang	RM 4,702	RM 5,409	Annual growth rate 7.0%	RM 5,993	RM 6,771	Annual growth rate 6.1%
Income – Terengganu	RM 3,777	RM 4,694	Annual growth rate 10.9%	RM 4,816	RM 5,776	Annual growth rate 9.1%
Income – Negeri Sembilan	RM 4,128	RM 4,579	Annual growth rate 5.2%	RM 5,271	RM 5,887	Annual growth rate 5.5%
Income – Perlis	RM 3,500	RM 4,204	Annual growth rate 9.2%	RM 4,445	RM 4,998	Annual growth rate 5.9%
Income – Sarawak	RM 3,778	RM 4,163	Annual growth rate 4.9%	RM 4,934	RM 5,387	Annual growth rate 4.4%
Income – Sabah	RM 3,745	RM 4,110	Annual growth rate 4.7%	RM 4,879	RM 5,354	Annual growth rate 4.6%
Income – Perak	RM 3,451	RM 4,006	Annual growth rate 7.5%	RM 4,268	RM 5,065	Annual growth rate 8.6%
Income – Pahang	RM 3,389	RM 3,979	Annual growth rate 8.0%	RM 4,343	RM 5,012	Annual growth rate 7.2%
Income – Kedah	RM 3,451	RM 3,811	Annual growth rate 5.0%	RM 4,478	RM 4,971	Annual growth rate 5.2%
Income – Kelantan	RM 2,716	RM 3,079	Annual growth rate 6.3%	RM 3,715	RM 4,214	Annual growth rate 6.3%

Table 4: Mean and median Household Income 2014, 2016 [3]
Source: Department of Statistics Malaysia

Incidence of Poverty and Gini Coefficient 2014, 2016		
	2014	2016
Incidence of poverty	0.6%	0.4%
Urban poverty		0.2%
Rural poverty		1%
Gini coefficient	0.401	0.399
Income distribution for urban strata	0.391	0.389
Income distribution for rural strata	0.355	0.364

Table 5: Incidence of Poverty and Gini Coefficient 2014, 2016 [3]
Source: Department of Statistics Malaysia

Household Consumption Expenditure 2014, 2016						
	Median			Mean		
	2014	2016		2014	2016	
Monthly Household Consumption Expenditure		RM 3,314	Compound annual growth rate 5.9%	RM 3,578	RM 4,033	Growth rate of 6.0% per annum at nominal value In terms of real value, mean monthly household expenditure grew at 3.9% per annum
Monthly household consumption expenditure - urban				RM 3,921	RM 4,402	Increased 5.8% per annum
Monthly household consumption expenditure - rural				RM 2,431	RM 2,725	Increased 5.7% per annum
Monthly Household Consumption Expenditure - Putrajaya					RM 6,971	Growth rate 10.7%
Monthly Household Consumption Expenditure – W.P Kuala Lumpur					RM 6,214	
Monthly Household Consumption Expenditure - Selangor					RM 5,183	
Monthly Household Consumption Expenditure - Melaka					RM 4,374	Growth rate 6.9%
Monthly Household Consumption Expenditure – Pulau Pinang					RM 4,190	Growth rate 8.9%
Monthly Household Consumption Expenditure - Johor					RM 4,148	
Monthly Household Consumption Expenditure - Labuan					RM 4,069	Growth rate 7.6%
Monthly Household Consumption Expenditure - Terengganu					RM 3,802	Growth rate 10.4%
Monthly Household Consumption Expenditure – Negeri Sembilan					RM 3,658	Growth rate 8.4%
Monthly Household Consumption Expenditure - Pahang					RM 3,316	
Monthly Household Consumption Expenditure - Perlis					RM 3,085	Growth rate 9.0%
Monthly Household Consumption Expenditure - Perak					RM 3,233	Growth rate 7.9%
Monthly Household Consumption Expenditure - Sarawak					RM 3,118	
Monthly Household Consumption Expenditure - Kedah					RM 3,061	
Monthly Household Consumption Expenditure - Kelantan					RM 2,875	
Monthly Household Consumption Expenditure - Sabah					RM 2,595	

Table 6: Household Consumption Expenditure 2014, 2016 [4]
Source: Department of Statistics Malaysia

Mean Urban and Rural Household Income and Consumption Expenditure 2014, 2016			
	Mean		
Urban	2014	2016	
Monthly household income	RM 6,833	RM 7,671	Increased 5.8% per annum
Monthly household consumption expenditure	RM 3,921	RM 4,402	Increased 5.8% per annum
Difference	RM 2,912	RM 3,269	
Rural			
Monthly household income	RM 3,831	RM 4,359	Increased 6.5% per annum
Monthly household consumption expenditure	RM 2,431	RM 2,725	Increased 5.7% per annum
Difference	RM 1,400	RM 1,634	

Table 7: Mean Urban and Rural Household Income and Consumption Expenditure 2014, 2016 [3][4]
Source: Department of Statistics Malaysia

Mean monthly household income and consumption expenditure by state in 2016			
	Mean monthly household Income	Mean monthly household consumption expenditure	Balance
Kuala Lumpur	RM 11,692	RM 6,214	5,478.00
Putrajaya	RM 11,555	RM 6,971	4,584.00
Selangor	RM 9,463	RM 5,183	4,280.00
Labuan	RM 8,174	RM 4,069	4,105.00
Johor	RM 6,928	RM 4,148	2,780.00
Melaka	RM 6,849	RM 4,374	2,475.00
Pulau Pinang	RM 6,771	RM 4,190	2,581.00
Terengganu	RM 5,776	RM 3,802	1,974.00
Negeri Sembilan	RM 5,887	RM 3,658	2,229.00
Perlis	RM 4,998	RM 3,085	1,913.00
Sarawak	RM 5,387	RM 3,118	2,269.00
Sabah	RM 5,354	RM 2,595	2,759.00
Perak	RM 5,065	RM 3,233	1,832.00
Pahang	RM 5,012	RM 3,316	1,696.00
Kedah	RM 4,971	RM 3,061	1,910.00
Kelantan	RM 4,214	RM 2,875	1,339.00

Table 8: Mean monthly household income and consumption expenditure by state in 2016 [3][4]
Source: Department of Statistics Malaysia

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