The Growth and Evolution of Consumer Spending in Malaysia

Introduction

Private consumption is increasingly becoming an important component of the Malaysian economy. It was the main driver of economic growth in this recent decade, increasing at an annual average of 7.4% during the period of 2000-2009\(^1\), which exceeded the 4.8% average growth of real gross domestic product (GDP), and contributed more than two thirds of total GDP growth. As a result, the share of real private consumption in GDP increased steadily from 43.8% in 2000 to 53.5% in 2009.

In tandem with the robust growth of private consumption, there were clear shifts in the composition of private consumption over the last decade. This article analyses and explains the changing patterns of private consumption by main expenditure groups between 2000 and 2009, and concludes with insights on private consumption trends moving forward.

Changing Patterns of Consumption Expenditure

Based on the data of household consumption by purpose\(^2\) during the period of 2000-2009, expenditure on food and non-alcoholic beverages formed the largest component, accounting for about 23% of total household expenditure. This was followed by expenditures on housing and utilities; transport; restaurants and hotels; and miscellaneous goods and services. These five largest components of consumption expenditure accounted for 75.6% of total household spending.

Table 1

<table>
<thead>
<tr>
<th>Household Consumption by Purpose</th>
<th>2000</th>
<th>2009</th>
<th>2000-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of total household consumption</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Food and non-alcoholic beverages</td>
<td>24.1</td>
<td>21.8</td>
<td>23.0</td>
</tr>
<tr>
<td>Alcoholic, beverages and tobacco</td>
<td>2.2</td>
<td>2.3</td>
<td>2.1</td>
</tr>
<tr>
<td>Clothing and footwear</td>
<td>3.5</td>
<td>2.4</td>
<td>2.7</td>
</tr>
<tr>
<td>Housing, water, electricity, gas and fuels</td>
<td>21.7</td>
<td>16.7</td>
<td>18.9</td>
</tr>
<tr>
<td>Furnishings, household equipment and maintenance</td>
<td>5.9</td>
<td>5.2</td>
<td>5.4</td>
</tr>
<tr>
<td>Health</td>
<td>2.1</td>
<td>2.1</td>
<td>2.0</td>
</tr>
<tr>
<td>Transport</td>
<td>12.6</td>
<td>13.1</td>
<td>13.4</td>
</tr>
<tr>
<td>Communication</td>
<td>4.9</td>
<td>7.4</td>
<td>6.3</td>
</tr>
<tr>
<td>Recreation and culture</td>
<td>4.3</td>
<td>4.9</td>
<td>4.5</td>
</tr>
<tr>
<td>Education</td>
<td>1.5</td>
<td>1.6</td>
<td>1.5</td>
</tr>
<tr>
<td>Restaurants and hotels</td>
<td>5.8</td>
<td>9.7</td>
<td>7.5</td>
</tr>
<tr>
<td>Miscellaneous goods and services</td>
<td>11.6</td>
<td>12.7</td>
<td>12.8</td>
</tr>
</tbody>
</table>

Source: Department of Statistics, Malaysia

\(^1\) Detailed information on private consumption for 2010 is not available at the time of publication of this article.

\(^2\) Follows the domestic concept of consumption expenditure where it measures purchases of goods and services by all households in Malaysia. The analysis on consumption patterns in this article refers to nominal household spending.
Two clear shifts in consumer spending patterns have emerged since 2000. First, the share of expenditure on discretionary items has increased relative to spending on basic necessities. Expenditure on discretionary items (such as restaurants and hotels, communication as well as recreation and culture) was particularly strong, followed by the expenditure on miscellaneous goods and services such as personal care, financial, insurance and other services. The share of these four components of income-sensitive spending rose from 26.5% of total household expenditure in 2000 to 34.7% in 2009 (Chart 2).

In contrast, the proportion of household expenditure on basic necessities has declined gradually since 2002, attributable mostly to the decline in the shares of expenditure on food and non-alcoholic beverages, and housing and utilities. Spending on food items as a share of total household expenditure decreased from 24.1% in 2000 to 21.8% in 2009. Similarly, the average household spending on housing and utilities fell from 21.7% in 2000 to 16.7% in 2009.

Second, consumption of services has outpaced expenditure on goods. Between 2000 and 2009, household consumption of services grew by about 10% annually, compared to the 8.4% growth of consumption of goods. Accordingly, the share of expenditure on services increased from 46.2% of total household spending in 2000 to almost 50% in 2009. Expenditure on services includes spending for services rendered by restaurants and hotels, financial and insurance intermediaries, education, healthcare and other intermediaries. As the ratio of spending on services rose, the share of household spending on goods declined gradually, accounted for mainly by the declines in expenditure on durable and semi-durable goods. Together, the share of expenditure on durable and semi-durable goods decreased from 15.1% of total expenditure in 2000 to 12.5% in 2009, reflecting mainly the lower price levels of both durable and semi-durable goods in comparison with the overall consumer prices (Chart 3). For example, during the period of 2000-2009, price of clothing and footwear category declined by 1.6% annually. As a result, the share of expenditure on clothing and footwear decreased from 3.5% of total household spending in 2000 to 2.4% in 2009. Consumer spending on non-durables, which constituted 38.7% of total household spending in 2000, remained stable at 38% in 2009.

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3 Spending on non-essential goods and services, which typically can be postponed and often consists of luxury items.

4 Comprises of essential categories, such as food consumption at home, clothing, rent and utilities.

5 Consist of items which are tangible and can be divided into sub-groups such as durable, semi-durable and non-durable goods. Durable and semi-durable goods can be used repeatedly and have an expected lifetime of more than one year. Durable goods usually have longer lifespan and cost substantially more than semi-durable goods. Durable goods include furniture, household appliances and consumer electronics.

6 The declining trend in the ratio is largely a nominal development. In real terms, the share of expenditure on durable and semi-durable goods has risen gradually since 2000, indicating an increase in the volume purchased under both categories.
These two changing patterns of household spending over this recent decade reflected several factors that influence consumers’ preferences and decision-making. The main factor is the growing affluence of Malaysians, supported by the steady rise in disposable income and accumulation of wealth. Between 2004 and 2009, nominal per capita GDP increased by 6.8% annually, with mean monthly gross household income rising by 4.4% annually from RM3,249 in 2004 to RM4,025 in 2009. Similarly, household financial assets\(^7\) grew at an annual rate of 14% during 2004-2009 to account for 180% of GDP in 2009 (2004: 167% of GDP).

These trends are consistent with consumer spending trends observed in other countries, which indicate that as income rises, the share of expenditure on basic necessities tends to decline while that on services tends to increase. Given the lower level of income in developing economies, the proportion of household expenditure on food is usually higher in developing economies and lower in high income economies (Chart 4). In contrast, advanced economies typically have a higher share of expenditure on services relative to developing economies (Chart 5).

\[\text{Chart 4}\]

**Consumer Spending on Food Items**

Source: IMF, Eurostat and National Statistical Offices

\[\text{Chart 5}\]

**Consumer Spending on Services**

Source: IMF, Eurostat and National Statistical Offices

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\(^7\) Consists of deposits held in the banking system, total assets of life insurance funds, household direct holdings of equity, Employees Provident Fund contributions and net asset value of unit trust funds for the period of 2003-2009.
Three other factors also contributed to the last decade’s growth and evolution of consumer spending towards increased consumption of non-essentials. The demographic characteristics of Malaysians, given the relatively young and large working-age population\(^8\) provide support for income growth. Younger people, who generally have a higher marginal propensity to consume, tend to spend more on non-essential goods and services. This is further supported by the increasing urbanisation\(^9\) of the population. With higher income levels compared to rural households, households in the urban areas would normally have a higher proportion of spending\(^10\) on discretionary items. This is especially true for services such as financial, recreation and entertainment, where the demand and the supply tend to be higher in urban areas.

Increased financial deepening and inclusion also influenced changes in consumer spending patterns. The financial sector plays an integral role in supporting private consumption by facilitating greater access to credit for households. In particular, greater access to credit allows individuals to fund discretionary expenditure, particularly that on durable goods, the purchase of which is generally financed more through borrowing as compared to other types of consumption. During the period 2000-2009, household debt grew at an annual rate of 13.5%. Household debt-to-GDP ratio increased from 46% in 2000 to 76% in 2009. Credit disbursed for consumption, which consists of loans for personal uses, credit card spending and the purchase of consumer durable goods, expanded by 20.5% annually between 2000 and 2009. Similarly, total loans disbursed to households for purchases of residential property and passenger car increased by 13.4% annually. The strong performance of these loans is indirectly translated into higher consumer spending as purchases of residential properties and passenger car are closely linked to spending on housing and transport-related items, which include furnishings and the maintenance of transport equipment. Although the ratio of household debt to GDP is relatively high, overall household balance sheet remained sound and debt repayment capacity continued to be intact. Household financial assets were more than two times of total household debt and the non-performing loans ratio of the household sector continued to trend downwards.

In addition, technological developments have affected trends in consumer spending, as evident from the increasing share of expenditure on communication and recreation. Technological innovations have encouraged consumer spending in technology-related goods and services, such as internet services, mobile communication equipment and data services, cable television services and audio visual equipment. Furthermore, the strong demand for technology-related goods and services was supported by the country’s relatively young and educated population that expedited the adoption of newly available technological innovations.

Conclusion

The sustainability of private consumption growth is an important aspect of the transformation of the Malaysian economy moving forward. As the sources of growth shift towards domestic demand, private consumption will continue to play a significant role in contributing to economic growth. The pre-requisites to support sustainable growth in private consumption are already in place, namely rising income and wealth, favourable demographic, greater financial deepening and technological developments.

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\(^8\) 68% of the total population fall in the 15 – 64 age group.

\(^9\) The urban population increased from 62% of total population in 2000 to 63.3% in 2009.

\(^10\) Based on the Household Expenditure Survey 2004/05, households living in urban areas spent 1.8 times more than households in rural areas.