Higher wages necessary to boost consumption

ECONOMY

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Price factor: The Government expects inflation to be around 2.5 to 3.5 this year while Bloomberg consensus saw inflation increasing 2.7%.

Consumer sentiments index remains below 100-point threshold

PETALING JAYA: Moderating inflation, after the jump in prices in 2017, may not necessarily mean that Malaysians’ purchasing power will improve as it will depend on how much wages are raised.

Consumer sentiment, as gauged through the Malaysian Institute of Economic Research’s consumer sentiments index, remains below the crucial 100-point threshold despite having improved from its lowest of 63.8 in the fourth quarter of 2015 to 77.1 points in the third quarter of last year.
The Government expected inflation to be around 2.5% to 3.5% this year while Bloomberg consensus saw inflation increasing 2.7% this year compared with the projected 3.8% in 2017.

Meanwhile, Malaysian Employers Federation (MEF) executive director Datuk Shamsuddin Bardan has described 2018 as a “bad year for the employees and employers”.

He expected Malaysians’ average salary increment in 2018 to be lower than last year. Shamsuddin blamed several new policies and measures introduced by the Government that would increase the costs borne by domestic businesses.

“Insurprisingly, average wage increment is anticipated to be much lower than 5.5% as cost of doing business continues to increase. New measures such as the extension of maternity leave by 30 days and the introduction of Employment Insurance System will take a hit on the employers.

“The biggest whammy is employers nationwide are now required to pay the levy for their foreign workers from Jan 1.

“This alone will add an additional RM3bil to RM4bil to the operational costs borne by Malaysian employers.

“It will be difficult for employers to raise salaries after this, given such dampeners. Hence, it would be better if the Government can revise some of the measures announced earlier,” he said.

Based on MEF’s salary surveys for executives and non executives, salaries of employees across-the-board have been on the decline in the last few years.

MEF expected salaries of executives to grow by 5.3% in 2017, compared with 6.31% in 2013. As for non-executives, average salary increased by 5.43% in 2017, down from 6.78% in 2013.

Meanwhile, AllianceDBS Research chief economist Manokaran Mottain expected the purchasing power of Malaysians to improve in 2018, as the ringgit continues to strengthen to a full-year average of RM4.04. Last year, the local currency averaged at RM4.18.

“The strengthening of the ringgit will be driven by higher share of foreign holding in the Malaysian Government Securities, better equity market performance, potentially higher overnight policy rate and increasing reserves.

“With these factors strengthening the value of the local note, we believe Malaysians’ purchasing power will improve in the current year,” Manokaran said, adding in a recent report that private consumption remains the engine of economic growth in 2018.

While he believed real wage growth could remain weak due to the elevated headline inflation, there could be a steady growth in nominal wage.

Real wages refer to income adjusted for inflation. Manokaran cautioned that higher cost of living, rising unemployment rates and high household indebtedness would continue to weigh on the domestic economy’s growth momentum.
“Private consumption, which has registered improved performance in recent quarters, will remain the engine for growth. We see private consumption growth to stay steady at 6.3% in 2018 compared with 2017’s estimated growth of 7%.

“The Government’s initiatives such as cash transfers, personal income tax rate cut and consumption-stimulating measures from Budget 2018 would remain supportive of household spending,” AllianceDBS Research said in the report.

This is mainly as a result of possible interest rate hike by Bank Negara and the “technical” high-base effect in 2017.

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