

02/04/2001

EPF contributions cut set to boost retail sales by up to 3.4pc

Hamisah Hamid

THE retail sector will see a 3.4 per cent increase in sales this year if workers spend all or most of their extra take-home pay arising from the 2 per cent cut in their Employees Provident Fund (EPF) contributions.

This will give economic activity a boost, as intended by the Government which unveiled a RM3 billion fiscal stimulus package last week to pre-empt the effects of a slowdown in the US economy.

The cut in EPF contributions, starting this month, is one of the measures contained in the package.

The key to maximising the move's impact is to get consumers to spend, preferably on consumer goods, and more so, local ones.

Malaysian Retailers Association (MRA) honorary secretary Chow Chee Ming said an increase in retail sales will have a positive effect on many other sectors.

"When retailers order more from the factories, factory owners will hire more people to expand production and when they make more money, they will pay their workers more.

"In turn, workers will be able to spend more, and this will benefit the country as a whole," he told Business Times.

The EPF has estimated that it will collect RM125 million less in monthly contributions, or RM1.5 billion over the next one year, which is about 3.4 per cent of last year's total sales of RM44 billion.

MRA has recently revised downwards its sales growth forecast for this year to 6-8 per cent, from 10-12 per cent before.

Asked whether the association would now review its sales target to take into account the rise in disposable income, Chow said:

"It is still too early to say... we have to study the whole thing first," he said, adding that many retailers have yet to fully recover from the 1997-98 Asian economic crisis.

"Business has picked up in the past one and two years, but not all of us have recovered fully.

"The sales volume has not yet returned to its pre-crisis level."

Sales growth peaked at 14.9 per cent in 1990, then moderated to 10.1 per cent and 9.4 per cent in 1995 and 1996, respectively.

In 1998, retail sales contracted by 20 per cent.

They rebounded to grew by 7.4 per cent the following year, and then 10.6 per cent last year.

"Based on our calculations, every 1 per cent increase in retail sales will contribute 0.4 per cent to gross domestic product (GDP) growth," Chow said.

Consumer spending accounts for about 40 per cent of domestic output, and while a 2 percentage point reduction in EPF contribution does not amount to much for most workers, its effects on consumer sentiments may be significant, especially with inflation continuing to be contained.

SungeiWay Group corporate adviser Tan Sri Ramon Navaratnam believes that consumers, particularly the low-income earners, might want to save for the rainy day, "if they feel that the international economy may affect Malaysia".

Malaysian Trades Union Congress (MTUC) president Senator Zainal Rampak concurs, noting that the majority of EPF contributors are low-income earners and do not have strong purchasing power to begin with.

They might also tighten their belts on job security concerns, he added.

The sharper than expected US economic slowdown has led some American multinationals operating in Malaysia to announce retrenchments of about 6,000 workers for this year.

The ongoing merger exercise of banking institutions also see cuts in up to 10,000 jobs.

Zainal said the MTUC will submit a letter to Prime Minister Datuk Seri Dr Mahathir Mohamad today on its members' objection to the cut in EPF contributions.

In fact, the union will propose an increase in contributions, he said, but would want EPF to allow bigger withdrawals by members to buy homes.

Navaratnam said workers may also save their extra income in other instruments such as unit trusts where the returns are potentially higher than that offered by the EPF.

"We are known for our savings habit," he noted, adding that because of this the multiplier effect from the reduction in EPF contributions may not be very significant.

Another analyst disagreed.

"Even if the 2 percentage point cut is translated into, say, RM20 in extra disposable income, it would still have an impact on the economy as there are over 9 million EPF contributors."

There will be a multiplier effect even if consumer spends RM1 more a month, he said.

"Industries which are likely to benefit include consumer-related sectors like food production, garment manufacturers... they may see some increase in sales this year," he said.

Together with the rest of the measures in the stimulus package, like promotion of bank lending and a push for infrastructure projects, he is confident that the 6 per cent GDP growth forecast for this year can be achieved.

(END)