

Consumers send Najib warning on growth as ringgit drops

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There's a growing risk for the Malaysian economy, and it's not just the plunging currency, falling oil exports or the political scandal. The warning signs can be found right on the doorstep of Prime Minister Datuk Seri Najib Razak's party headquarters.

At the Putra World Trade Centre in Kuala Lumpur and Umno seat, cafe employee Noraini Ibrahim is feeling gloomy and spending less due to rising living costs. The cashier even curbed festivities during Hari Raya Aidilfitri, the celebration that marks the end of the Muslim fasting month.

"It was a very difficult Hari Raya for my family and me," the 43-year-old mother of four said. A new consumption tax increased her spending budget and "we invited fewer people" to our open house, she said.

Malaysian consumers are discovering their money isn't going as far as it used to, eroding confidence at a time when the economy needs it the most. Beyond the goods and services tax (GST) introduced in April to contain the budget deficit, people like Noraini face the risk of even higher prices at supermarkets, gas pumps and restaurants as China's yuan devaluation this week spurs further ringgit declines.

With the currency already at a 17-year low, that could spell trouble for an economy that's probably growing at the slowest pace in more than two years, according to a Bloomberg survey before a report Thursday. A key confidence gauge is at the lowest since 2008, and measures of manufacturing wages and credit-card spending weakened last quarter, according to inflation-adjusted data compiled by Bloomberg.

Withdrawn enthusiasm

"Sentiments, as a whole, are in a trough right now," said Shankaran Nambiar, a senior research fellow at the Malaysian Institute of Economic Research, whose latest consumer sentiment index slid to 71.7.

"The rather withdrawn sense of enthusiasm pervades all portions of the market."

He cited a weaker ringgit, the burden of the consumption levy and subsidy cuts, and allegations of financial irregularities at a state investment company as reasons for the confidence decline. Najib has also come under fire for RM2.6 billion (US\$700 million) of donations from the Middle East that were deposited into his personal bank accounts.

Malaysia's currency is Asia's worst-performing this year with a 12% drop against the dollar, sliding in July past the 3.8-a-dollar peg that was set during the Asian Financial Crisis and was kept from 1998 to 2005.

1MDB scandal

As Najib got embroiled in a scandal over the finances of debt-ridden 1Malaysia Development Bhd, foreign funds have dumped about US\$3 billion of the nation's shares this year amid concern the crisis will distract him as a commodities rout and the prospect of higher US interest rates threaten economic growth.

Gross domestic product probably increased 4.5% last quarter from a year earlier, according to the median estimate in a Bloomberg News survey. In contrast, the economy had expanded 5% or more for six straight quarters previously.

"Domestic growth, basically private consumption and investment have always been a very important driver of the Malaysian economy," said Irvin Seah, an economist at DBS Group Holdings Ltd in Singapore. "This is especially important when it comes to cushioning against the slack in exports performance."

Exports fall

Exports from the Southeast Asian nation have fallen in four of the first six months of 2015 as an uneven global recovery and a slowdown in China weigh on demand. China devalued the yuan by the most in two decades Tuesday amid forecasts for the weakest annual economic expansion since 1990.

Malaysian businesses, especially small and medium-sized enterprises, are also feeling the pinch as the ringgit's decline boosts production costs. EITA Resources Bhd, which imports steel, copper and electrical components from Germany, China and Japan to manufacture its elevator systems, said raw material prices have risen.

"It is more than a double whammy and outlook is definitely not good," said Fu Wing Hoong, the company's group managing director. "Prices for our products will have to be adjusted."

Exporters stand to benefit from a weaker ringgit, Joseph Zveglich, assistant chief economist with the Asian Development Bank, said in June. The currency depreciation may also attract investors who see costs of doing business in the country getting cheaper, said Jalilah Baba, president of the Malaysian International Chamber of Commerce & Industry.

Malaysia's consumer prices rose 2.5% in June from a year earlier, the fastest pace in 2015. While the government imposed price controls nationwide on food items from chicken to chillies and coconuts in the weeks before Aidilfitri, consumers have been complaining of profiteering by companies since the 6 percent consumption tax started.

"I come from a very moderate family and with the rise in prices of goods and services after GST, the entire family has reduced our spending and also outings like eating outside," Cheska Abdullah, a college student said in Kuala Lumpur.

"It's very costly now." – Bloomberg, August 12, 2015.

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