Tough to Revive Household Spending

Cutting back spending and saving more, which is good during stable times, will undermine the economy when times are bad. The paradox of thrift is such that frugal living and saving more is not always good for the economy. Maybe a sensible response is to spend moderately and cautiously, giving priority to necessities and holding back on luxuries. This would keep total consumer spending afloat, while at the same time providing the urgently needed support to the economy.

The greater fear is what if US consumers start to change their habits and become thriftier. If the US ceases to be a major global consumer in future, Asia will have to find other ways to generate growth. One view is for Asia to boost its domestic demand and reduce its savings. The impression is that Asia is being blamed for saving too much and not spending enough.

It is argued that precautionary savings are high in Asia due to inadequate social services such as healthcare and education, limited pensions, and little or no unemployment benefits. It is asserted that improving social services will reduce the need to save more and will free up money for spending.

The more casual spending ways of the younger generation suggests that we need not worry about saving too much in the future. The changing lifestyle of the coming generation means greater worry should be placed on how to control spending. On top of that, big spending items such as housing, education and health are not getting any cheaper. As long as there is enforced savings through the Employees Provident Fund (EPF), at least some savings are set aside for the country to rely on during rainy days.

As if to signal the changing generation with shifting attitudes towards savings, the Credit Counselling and Debt Management Agency (AKPK) came into being in 2006. The agency that helps households facing financial difficulties had received close to 150,000 enquiries in 2008 alone, and more than 70,000 customers had receive assistance. The agency has been active in increasing consumers' awareness in financial matters.

Some countries have taken drastic measure to get consumers to spend. It is reported that Taiwan gave spending vouchers worth US$108 to each of its 23 million citizens in a US$2.5 billion programme. The vouchers have an expiry date in September 2009. In Japan, cash money of US$130 was given out to adults, but recipients may decide to keep it rather than spend. Thailand has given US$58 checks to about 10 million low-income households. Malaysia does not pursue this path maybe because of the implementation difficulty, the large costs involved and the urgency to prioritise funding for investments.

Malaysia's March 2008 mini budget did not have any specifics that can cheer up households. No income tax cuts were mentioned, implying that the revenue from taxes cannot be compromised any longer because funds are needed to finance public spending. More focus has been given to retrenched workers with measures intended to provide some relief to this group. Sadly, there are no unemployment benefits to help jobless workers to ride the tide of recession with less pain.

Given the fragile consumer confidence, low interest rates seem not to be inducing much spending among consumers. The recent incentive to give RM5,000 rebates to 10-year old cars for purchasing national cars looks attractive. Oddly, the hire-purchase rates for non-national cars have been raised despite cuts in the policy rates. What could be more attractive to consumers are low or no down-payments and a longer repayment period. Some banks are already offering car loans of up to 9-10 years.

The long repayment period is more glaring in the case of housing loans, where payments can be extended up to a maximum of 45 years or 75 years of age, which is way pass retirement age. Longer-term loan will reduce the amount of monthly instalments, which consumers would rejoice, but the issue is that total interest charges would be bigger and households may be encouraged to take up more debts than necessary. Longer loan tenure can make durable items more affordable, but the consequence of stretching out loan tenures can be negative if not considered carefully.

It is hard to persuade consumers to spend when they constantly hear bad news. One way to force them to spend is to take drastic measures like giving out vouchers, especially for those out of jobs and the low-income group. They are most likely to spend rather than save. In the medium term, improving social services can reduce uncertainties in the family's budget and spur spending. With indicators in the US slowly healing, some stability in consumer confidence could return.

The writer is a senior fellow with the Malaysian Institute of Economic Research (MIER).