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# Malaysian consumers hold back on big-ticket items such as cars

by leong hung yee

PETALING JAYA: Sales of Perusahaan Otomobil Kedua Sdn Bhd's (Perodua) fell for the first-quarter ended March 31 as consumers responded to the weak economic sentiments and held off buying big-ticket items.

In a crisis, Perodua achieved one of its best sales ever. During the financial crisis of 2007/2008, the company achieved the most bookings in its 15-year history in July 2008.

The managing director then was quoted as saying: "We were in Nirvana."

However, things seems to have changed. People have been holding back purchases in times of uncertainty while financial institutions have seen lower profits and higher doubtful debts.

Last Thursday, Perodua announced that its sales fell by 17.4% in the first quarter from 57,200 units a year ago.

"On a month-to-month basis, Perodua sold 17,300 vehicles in March 2016 against 22,400 units in the same month last year, a drop of 22.8%," Perodua president and chief executive officer (CEO) Datuk Aminar Rashid Salleh said.

He attributed the decline to consumers rushing to buy their vehicles before the implementation of the goods and services tax (GST) in March last year. The GST came into effect last April 1.

Malaysia Automotive Association (MAA) forecast Malaysia's total industry's volume to drop by 2.5% to 650,000 units in 2016 against last year.

The automotive industry grew for six consecutive years from 2010, and peaked at a new all time total industry volume (TIV) high of 666,674 units last year, albeit at a marginal increase of 0.03% against 2014.

The lower car sales, slower property market and slowdown in household loan growth could be a grim reading on the health of the country's consumer demand and the challenging times.

Besides residential properties, cars would be the most expensive purchase most consumers would make in their lifetime. This explains why economists look to car sales to gauge the country's economic performance.

According to analysts, the rising cost of living coupled with a series of subsidy rationalisations, higher car prices by major marques, relative to the lower disposable income will weigh on car sales with more downside pressure to be seen among national marques whose buyers are more sensitive to the cost of living.

"People don't buy big ticket items when there is uncertainty about the economic outlook. Car dealers are sacrificing their margins and giving out big incentives to help attract buyers. The sense of consumer optimism does not appear to be strong," an analyst said. In February, the country's inflation rate rose at a faster-than-expected pace of 4.2% from a year ago following higher food prices and a jump in alcoholic beverages and tobacco.

The Statistics Department said the Consumer Price Index (CPI) for February rose by 4.2% to 114.5 compared with 109.9 a year ago. Economists had forecast a 4.1% increase.

Another element to this is the consumer credit. Banks have been imposing stricter lending rules over the past year for loan applications and approvals have shown a contraction.

Maybank Investment Bank Research sayid industry loan growth continues to slow, with the moderation in household loan growth notably more significant in February 2016.

"While still early days, our 2016 industry loan growth forecast of 6.5% (7.9% in 2015) is still within reach and this is premised on household loan growth of just 6.1% and non-household loan growth of 7.0%," it said in a recent report.

It noted that loan applications rose 5.5% year-on-year on a three month monthly average basis but loan approvals contracted for the sixth consecutive month by 10% year-on-year in February 2016.

Association of Banks Malaysia (ABM), group president and CEO Datuk Abdul Farid Alias said the overall rejection rate for housing loans in Malaysia last year was only 20.39%.

"The total number of applications for housing loans to all banks in Malaysia was 456,000 and of this number, 93,000 applications were rejected," he added.

For loans where principal amount borrowed was less than RM500,000, the rejection rate was 19%.

Loans between RM500,000 and RM1mil saw a 20.71% rejection rate, between RM1mil and RM3mil saw 25% loans rejected, and those over RM3mil saw 36% being turned down.

Between January and February this year, the overall loan rejection rate was at 20.6%.

Retail Group Malaysia (RGM), which tabulates quarterly retail data, said the retail industry in the first three months of this year is expected to register a negative growth of 0.4%, compared with the same period a year ago.

RGM maintained its forecast of 4.0% growth rate for Malaysia retail industry in 2016.

It added that the 3% cut in employees' EPF contribution from March 2016 was not expected to contribute significantly to overall retail sales in 2016.