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'Millennials spending beyond their means'

They are at risk of being bankrupt, says World Bank report

By FATIMAH ZAINAL
fatimah@thestar.com.my

Money matters: (From left) World Bank Group country director for Brunei, Malaysia, Philippines and Thailand Mara Warwick presenting the 21st edition of Malaysia Economic Monitor report to Domestic Trade and Consumer Affairs Minister Datuk Seri Saifuddin Nasution Ismail with Deputy Defence Minister Liew Chin Tong and others looking on.

KUALA LUMPUR: Low-income Malaysians and millennials are piling up debts and risking bankruptcy by turning to banks for loans and credit cards to support their lifestyle choices, says a World Bank Group report.

According to the 21st edition of its Malaysia Economic Monitor, about 27% of households in Kuala Lumpur earn less than Bank Negara's estimated living wage of RM2,700 for a single adult, RM4,500 for a childless couple or RM6,500 for a couple with two kids.

Households with income below the living wage tend to take on personal financing loans and credit cards to keep up with lifestyle choices and raise living standards, it said.

"Findings by BNM also show that 73% of those earning below the living wage have either secondary, primary or no education.

"In contrast, 72% of those earning above the living wage have completed tertiary education.

"High rates of bankruptcy because of borrowing for consumption rather than for wealth accumulation are an increasing concern, especially among younger borrowers with limited financial knowledge and literacy," it said.

Defaults in motor vehicle and personal financing loans constituted 49% of the total bankruptcy cases in 2018 while bankruptcy cases involving personal financing and credit card debts had grown by 104% and 43% respectively last year compared to 2012.

The report also mentioned an increasing concern over bankruptcy among those aged 25 to 34, noting that 60% of bankrupt borrowers were within this age group.

The study also pointed out that millennials or Gen Y – the generation born between 1981 to 1996 – spend well beyond their means due to "impulse-buying behaviour, easy access to personal loans and credit card financing, the want for instant gratification and seamless online purchasing".

About 40% of millennials admitted to spending more than they can afford while 70% expressed dissatisfaction with their current income, it said.

"Most of the spending by millennials is on necessities such as food and utilities.

"Up to 40% of consumption was spent on food expenditures among the Gen Y household including food at home and food away from home in 2016," it said.

Due to inadequate income, many Malaysians also turn to family and friends to borrow money from to buy essential goods, with 28% of the 3,540 working adults surveyed by the Credit Counselling and Debt Management Agency (AKPK) last year admitting to doing so.

The study also showed how living costs varied significantly across Malaysia as even for a very basic consumption basket, the cost can vary by 70% depending on the location.

"Both rural and urban Sabah, and to a lesser degree Sarawak, stand out as having high prices for basic consumption items, not far below the three Federal Territories and higher than Pulau Pinang and in some cases Selangor," it said.

For example, the study noted that a kilogram of spinach in Selangor cost RM3.39 compared to RM6.05 in Sarawak, or RM5.27 in Terengganu.

A 40-inch LED television would be sold at RM1,163.65 in Kelantan but cost RM1,352.85 in Selangor or RM1,527.75 and 1,506.81 in Sabah and Sarawak respectively.

The lack of affordable housing was also particularly severe among households earning less than RM5,000, with more than half in Kuala Lumpur and Petaling district lacking access to housing they can afford, said the report.

"Households in the RM6,000 to RM10,000 income bracket can typically afford to buy a home in the RM230,000 to RM500,000 price range but the availability of such homes is very uneven," it said.

The study also noted that Malaysian households, particularly the lower-income, do not have adequate financial savings and 89% of Employees Provident Fund (EPF) members agreed that they have insufficient retirement funds.

Moreover, 60% of Malaysian adults were not covered by the EPF, said the study, adding that although more than 89% agree that their EPF savings were insufficient, only 38% have started planning for retirement.

The study also found that slowing income growth among lower-income households and younger workers has contributed to perceptions of being "left behind".

Although median incomes continued to outpace inflation, income growth rates for low-income Malaysians slowed between 2014 and 2016.

Moreover, wage growth for younger and less-educated workers has been sluggish, persistently trailing the earnings of older and better-educated workers, it said.

"Median employment income for younger workers aged between 20 and 29 grew at an annual rate of 2.4%, compared to 3.9% for those 40 to 49 years old over the same period.

"The increase in the monthly absolute earnings gap between these two age groups has been more pronounced, more than doubling from RM529 in 2004 to RM1,197 in 2016 (all amounts adjusted for inflation).

"This signifies a growing wage divide and wage stagnation for youth, " it said.

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