Rising food prices eat into consumer spending

Raising concern private consumption growth may be dampened

BY TAN SIEW MUNG

KUALA LUMPUR: Food is getting costlier in Malaysia nowadays. And higher food prices are eating into consumers' spending power, particularly the low- and middle-income groups.

This may not augur well for consumer spending as households have to tighten their belts when grocery bills are getting more expensive each month.

"Food inflation is a real concern for us; it has been escalating for many months," Malaysian Institute of Economic Research's executive director Dr Zakariah Abdul Rashid told *The Edge Financial Daily*.

The reading of the Consumer Price Index (CPI), the country's inflationary pressure, is tamed. The increase in the index decelerated between April and June. In June, the CPI went up by 1.6% year-on-year (y-o-y), while the index rose 2% in May and 2.1% in April.

However, the index for food and non-alcoholic beverage increased 4.2% y-o-y in June and 4.1% in May. Food and non-alcoholic beverage account for nearly one-third of the CPI composition.

Higher food prices have indeed raised concern that the growth on private consumption — the key growth engine for the country's economy — may be dampened.

Refined sugar prices have increased by RM600 to between RM2,400 and RM2,500 per tonne for industrial consumers under approved permit segment. But there is no hike in retail prices of refined sugar.

Still, food and beverage (F&B) manufacturers and confectioneries will face higher raw material costs. Will there be a domino impact on consumers?

"F&B manufacturers and confectionery firms consume a substantial amount of sugar. As their intermediate inputs cost higher now, they may ultimately pass on to the final consumers," said Zakariah.

"I think consumers may feel the pinch, noting that food-price inflation is more than double the headline inflation," Zakariah emphasised.

While the government is counting on private consumption to spur the economy, Malaysians' spending power may be limited no thanks to the rising cost of living and high household debt, which is about 89% of the country's gross domestic product.

He said, the headline inflation of 1.6% in June has shown that private consumption is not driving the economy. The reasons, to him, could be the high household debt. Furthermore, generally Malaysians are earning too low salaries.

When contacted, UOB Malaysia economist Julia Goh Mei Ling is of the view that the rising food inflation is reflecting operation costs are generally going up, and the manufacturers have to pass on the cost increments to consumers.

She noted that the index for food has actually come off the peak of 5% in March. Going forward, she expects it would be held at around current level. She maintains her forecast of headline inflation at average 2.4% this year.

Goh said the government is aware of rising food prices and tries to curb the impact by embarking on such as reducing the dependence on imported items, setting up shops like Kedai Rakyat 1Malaysia.

"The problem is some measures may be out of reach for all Malaysians, thus, majority are still living in a city that food is costly," she said.

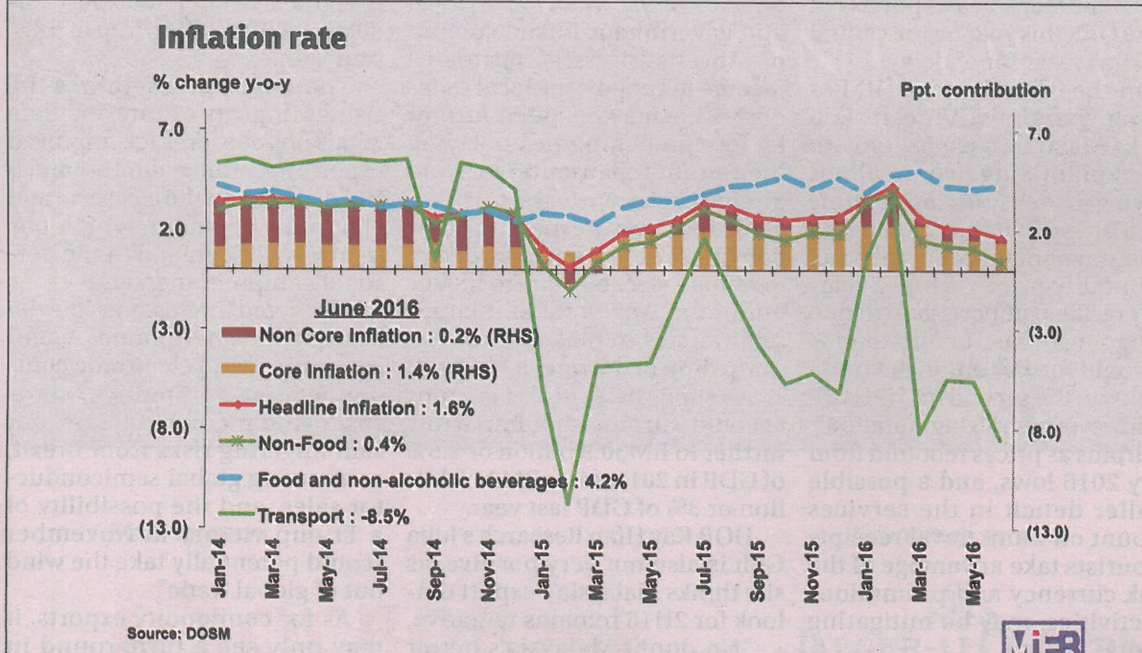
Due to a series of price hikes, she anticipates further support measures for the lower- and middle-income groups to be announced in the coming budget.

Meanwhile, Maybank Investment Bank chief economist Suhaimi Illias opines that there are many factors influencing consumer spending. He is positive that the slowdown in consumer spending post-goods and services tax has bottomed.

He sees signs of recovery in consumer spending as it has picked up since the fourth quarter last year and latest Department of Statistics data on monthly retail sales index suggested that the recovery in consumer spending was sustained in the second quarter this year.

"So while consumer spending growth will slow to 5.3% this year from 6% last year, we see it improving to 5.8% next year," he said, adding that measures to directly boost income, especially for the low- and middle-income group — such as BR1M (1Malaysia People's Aid), cut in workers' contribution to Employees Provident Fund, mininum wage hike, civil service salary increase, personal income tax relief for middle-income taxpayers — are working.

"There is also the recent OPR (overnight policy rate) cut by BNM (Bank Negara Malaysia) with expectations that there could be at least one more round," he said.



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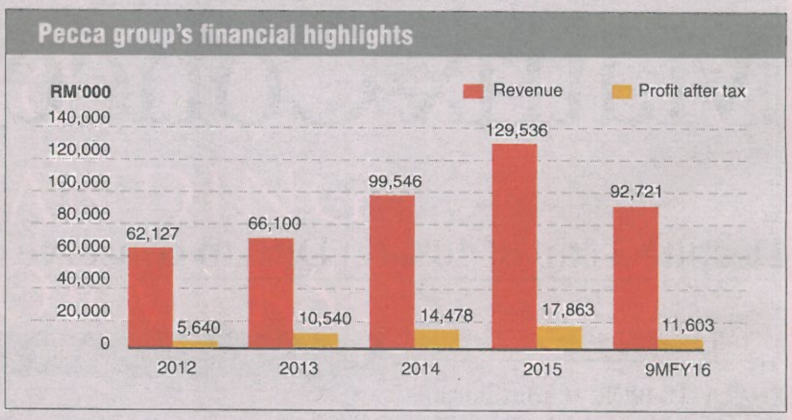

Car sales weaken but not Pecca's prospects

BY BILLY TOH

KUALA LUMPUR: The dwindling car sales should have minimal impact on Pecca Group Bhd, according to Pecca Group's executive director Michael Tan, who noted that there is less correlation between the company's performance and the total industry volume (TIV).

"There is this misconception about us as being part of the auto-parts industry. Auto parts mean items like batteries, which have a higher correlation with TIV. In our case, leather upholstery is normally found in the premium variants or luxury segment of car models, which is less impacted during the slowdown as witnessed by the increased sales of luxury car segment recently," Tan told *The Edge Financial Daily* in an interview.

A fund manager with a local asset management also concurred with Tan, saying that with the slowdown in car sales, it is likely to have an increase in promotional activities by car manufacturers to induce sales, which could eventually benefit the leather upholstery business.

"There is a trend in the past for car manufacturers to offer freebies such as leather seats when sales are less than optimistic. This could lead to a higher demand for leather upholstery business," he said.

That said, the company's earnings for the financial quarter ended June 30, 2016 (3QFY16) were below expectations with a net profit of RM3.1 million — 33.3% below the previous corresponding quarter.

Its net profit of RM11.6 million for the nine-month period ended June 30, 2016 is only 58% of Maybank IB Research's initial full-year forecast.

The TIV declined by 46,795 units or 14.5% year-on-year in the first half of 2016, according to Malaysian Automotive Association.

However, Tan noted that the recent launch of the sedan car by Perusahaan Otomobil Kedua Sdn Bhd (Perodua), one of its major customers, is positive for Pecca Group.

"This will be helpful to us. I think the only car manufacturer still talking about sustaining the growth momentum or maintaining the volume selling is Perodua," Tan said.

Last month, Pecca Group's share price hit its all-time high of RM1.88 since its listing in April after Perodua launched its first sedan car, Bezza, over that week. Maybank IB research said that the group's 4QFY16 should be better on the back of the new launch.

"The group's long-standing relationships with key clients such as Toyota Boshuku UMW Sdn Bhd and Fuji Seats (Malaysia) Sdn Bhd have also enabled Pecca Group to be the sole supplier of leather seat covers to Perodua. The company supplies car seat covers to Fuji Seats and Perodua Sales Sdn Bhd," Tan said.

According to Tan, the barrier of entry to the car leather upholstery industry is rather high. Pecca Group commands a lion's share of 68% of the domestic original equipment manufacturing and pre-delivery inspection passenger vehicle segments in 2015.

The company's available patented technology such as Smart Fit is an example of its expertise. Smart Fit is a patented technology that Pecca Group introduced so that leather car seat cover can be installed for any car without the need to dismantle the car seat.

"We believe we will see higher volume for Smart Fit car seat cover," said Tan when commenting on Pecca Group's outlook moving into FY17.

Pecca Group's established presence in providing high-quality standards to the automotive industry has enabled it to penetrate new markets such as the aviation sector and overseas.

"One of the examples is the VDA 6.3 audit standard for OE (original equipment) fit car seat covers that we obtained. This enabled the group to penetrate the European marque market such as Volkswagen.

"As for the aviation sector, the group has been appointed a vendor to a commercial craft for parts refurbishment work after it obtained the approval from the Department of Civil Aviation Malaysia on the parts refurbishment scope and is expected to secure approval for aviation leather upholstery as well," Tan said.

On its fundamentals, Pecca Group's balance sheet is expected to improve with the proceeds from its initial public offering (IPO) of RM62 million that could help the group achieve a debt-free status and the interest savings will help lift the company's bottom line according to Maybank IB research.

Pecca Group's share price has climbed 23% to RM1.75 against its IPO price of RM1.42. Based on last Friday's closing price of RM1.75, the stock is trading at a price-earnings ratio of 15.8 times based on its annualised earnings per share of 11.08 sen per share.