No ‘wealth effect’ in S’poreans’ spending: MAS

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STOCK and property prices in Singapore go up or down, but people do not change how they spend.

The lack of a so-called “wealth effect” in Singapore was highlighted by the Monetary Authority of Singapore (MAS) in its latest macroeconomic review.

MAS found that people do not rush to go on shopping sprees just because the values of stocks or homes in general have soared.

Similarly, people do not cut back significantly on their spending just because there is a stock or property market downturn.

This is unlike studies conducted in the US, UK, and Australia, which found that people do spend more when their assets grow in value, and less when their assets decline.

DBS economist Irvin Seah said that this is because Singapore has a conservative spending culture.

“Singaporeans are more prudent with their finances. We have a saving culture. High inflation is also eroding the wealth effect,” he said.

Sundaram Janakiramanan, finance programme head at SIM University, added that in countries like the US and UK, consumers tend to borrow money from banks or use credit cards for their short-term spending.

They also borrow money from banks for property purchases, and use margin accounts to trade stocks on borrowed cash.

When property prices go down, banks give them less credit. When stock prices go down, banks give them less credit.

When stock prices go down, margin accounts have to be topped up. Thus general spending goes down, he said.

MAS said that the study was conducted to investigate if the active property market in recent years and increasing interest in the stock market have caused people to spend more.

For its Singapore study, MAS used data on per capita private spending, retail sales, real GDP per capita, the money supply, the Straits Times Index (STI) as well as the private Property Price Index.

It analysed the data across two timeframes: quarterly data from Q1 1983 to Q2 2011, and monthly data from January 2000 to August 2011.

It found correlations between a slight increase in property prices with a slight fall of private consumption, and a slight increase in stock prices with a slight increase in the retail sales index.

But these correlations disappeared when other calculations are added to the model, or when another set of data was used.

Thus MAS said there was “little evidence” that consumer spending in the short term was significantly affected by stock or property prices.

“The findings . . . should be taken as tentative since a more complete analysis of wealth effects requires appropriate controls for socioeconomic characteristics, and agents’ expectations that may affect both expenditure and wealth,” it said.

Nanyang Technological University assistant professor Zhou Xie said that going forward, a future study could emphasise the differences between domestic and external spending.

Given Singapore is a small and open economy, asset-rich people might spend more abroad, he said.