Individuals' total savings grew by 2.8% to RM496.9 bil as of end-May

Rise in savings deposits surprises analysts

- **Signs** economy may be improving as May saw rise in total FDs
- **Contrasting** growth trends of savings deposits and FDs could mean individuals want quick access to cash
- **They** could also be investing in other instruments such as stocks

by **Ng Wai Mun**

A SURPRISE change in the recent growth pattern of savings deposits versus fixed deposits (FDs) is getting the attention of economic observers and analysts. As of end-May, total savings (savings deposits plus FDs) stood at RM496.9 bil. This is 2.8% higher than a year ago. Total savings deposits alone stood at RM140 bil in May, an 8.4% growth year-on-year.

Interestingly, in April last year, savings deposits contracted by 0.3% year-on-year. The total savings deposits growth is boosted by the fast pace of deposits. The growth rate accelerated significantly to a high of 9.4% in March this year. The last time savings deposits grew by more than 8% was in the third quarter of 2013.

Analysts observe that the average Malaysian places 90% of his/her savings in savings deposits. Just 12 months earlier, savings deposits accounted for only 15% of total savings.

On the other hand, FDs are going in the opposite direction. In April, FDs grew 0.2%, the lowest since March 2010. Then the growth rate contracted by 0.6%. In May, FD growth was a mere 0.7%.

Ng believes the growth in savings deposits implies people don't want to tie their money down

To put this into perspective, FD growth rates hit a high note of 5.3% in April last year.

The strong growth in savings deposits surprised JF Apex Securities head of research Lee Chung Cheng. "I expect it (savings deposits growth) to be sluggish amid lower disposable income as a result of rising cost of living. The only explanation I can think of is (depositors) switching from longer tenure to shorter tenure," Lee tells ***FocusM***.

The Centre for Research, Advisory and Technology's (CREATE) CEO Ng Yeen Seen agrees. "FD rates are slightly higher than the normal savings deposit rates. I believe the growth in savings deposits means that people prefer to have easy access to their money rather than be tied to a longer-term deposit tenure."

According to Ng, higher savings deposits could also mean that people currently don't have a lot of spare cash for long-term commitments.

So what does this mean for the economy?

When an economy is experiencing tough times, the central bank would usually intervene by managing the interest rates via monetary policy. This has an impact on money supply, or in other words, how much money is kept in circulation within the country. Central banks also change interest rates to control inflation rate.

Put simply, when interest rates are high, customers will find savings deposits an attractive way to earn money. This will ensure more money stays in banks, resulting in less money being circulated. But when interest rates are low, customers may no longer find keeping money in banks attractive. Instead, they might invest elsewhere or perhaps be enticed to spend.

Thus, the growth of total savings deposits is an early indication of consumer sentiments. Savings deposits currently account for 29.6% of total individuals' savings, the highest in the last 10 years. The other 70% are said to be placed in FDs.

Various reasons offered for increase in savings deposits

The prevailing rates for three-month FDs are 2.9% to 3.3 %. As for savings deposits, the interest rates are 0.1% and above. Theoretically, more customers would move their funds into FDs rather than park them in savings accounts. But this is not the case and economic observers find it puzzling.

However, the observers do not concur on the reasons behind this change. Lee says local bank customers are watching the developments in monetary policy in the United States, which would impact Malaysia's interest rates. Hence, he surmises that most customers probably prefer to keep cash in hand for a rainy day.

Ng, however, says people may be placing their funds in other capital markets, such as the stock exchange. "People may be investing in the share market for better yields as the FD rates are not that great. Besides, share prices are low. Hence, some may choose to put their money in the share market because a typical movement in the share price will have more than 3-4% yield compared to FD interest rates," says Ng.

Another research analyst agrees with Ng, saying bank customers probably need faster access to cash and are using savings deposits more than FDs. He, however, also observes that when the economy and the stock market recover, savings deposits will increase. The converse is also true. When the stock market declines, so too will savings deposits.

"The economy was at its trough between the second half of 2015 and the first quarter (of

Lee is surprised to see savings deposits experiencing strong growth

2016). That was also the period when the FD and savings deposit growth rates were declining to the extent that total savings deposits contracted," says the research analyst.

He concurs with Ng that holding more in savings deposits is likely to have greater access to funds for contingency purposes. "Their loss will be the difference between the interest rate offered for FDs and savings deposits. Something which the individuals have to pay if they want to have better access to fast cash," the analyst explains. However, he says that growth in savings deposits does not mean customers are shifting their funds from FDs to savings deposits.

Nevertheless, Lee believes that most savings depositors are from the older generation who are risk averse, especially having gone through a rough path. They have not forgotten the 1997/98 Asian Financial Crisis and the calamity it brought to the economy.

"Capital protection is top priority for them (the older generation)," says Lee, explaining that the older folk prefer to invest in physical assets, such as property, even if it means lower income from them.

Will savings deposits rise further?

Banking analysts say May was the first time since August last year when total fixed deposits were higher than in the previous month. When an economy experiences growth in savings deposits, it is a sign that things are improving. Hence, May may likely be a turning point in the economy, if the momentum can be sustained.

However, business enterprise savings in the form of FDs and general investment deposits have been declining over the years. As of end-May, enterprise deposits totalled RM125 bil, down by over 3% from RM129.5 bil in May 2016. Total enterprise deposits in May 2016 and May 2015 were 11.7% and 11.9% lower, respectively, year-on-year.

So, while there are signs that the economy may be improving, economists are still concerned over the decline in business enterprise savings. This is something central bank policymakers should keep a close eye on. FocusM