Johor property and prices: foreign blame and domestic considerations (Part 2 of 2)

By Khor Yu Leng, Independent political-economist at Khor Reports – Segi Enam Advisors.

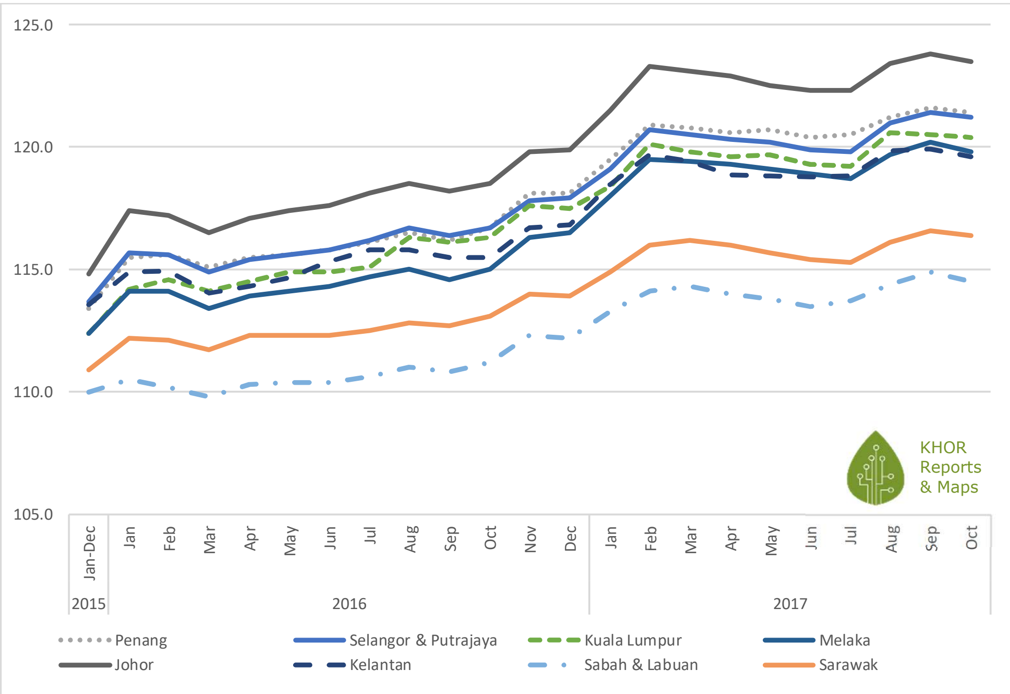
Newly released data allows us to better estimate Johor-Singapore cross border flows; and we think that there could be a quarter million Singaporeans visiting Johore each week [1, 2]. There is no doubt that Singapore cash is sought by restaurants, retailers, and property developers. Johor households are impacted by rising prices; with urban and rural folk also pinched by household debt. Recent surveys point to pro-development views among Johoreans (especially rural), along with a dip anti-Singaporean feelings [3]. Do they recognise homegrown issues contributing to Johor's price inflation; and do they balance this against income opportunities from Singapore FDI and its open job market?

In Part 1, we reviewed the indicators for the property sector and found it hard to lay the blame fully on just one sector of buyers - Singaporeans.

Johor prices are the highest in Malaysia

Rising household incomes have helped Johoreans to weather the fastest consumer price increases of any Malaysian state; headlining at about 2.7% per year since 2010 or 0.3%-age points faster than the Peninsular Malaysia average. The compounding effect on prices and the state-by-state differences are notable, even for what is often considered a tame measure of the cost of living: Johor's regular goods and services are priced about 2.5% higher than those in Selangor-Putrajaya and 15% higher than Sabah, on the official count.

Consumer price index for selected states of Malaysia, 2015-2017 (2010=100)

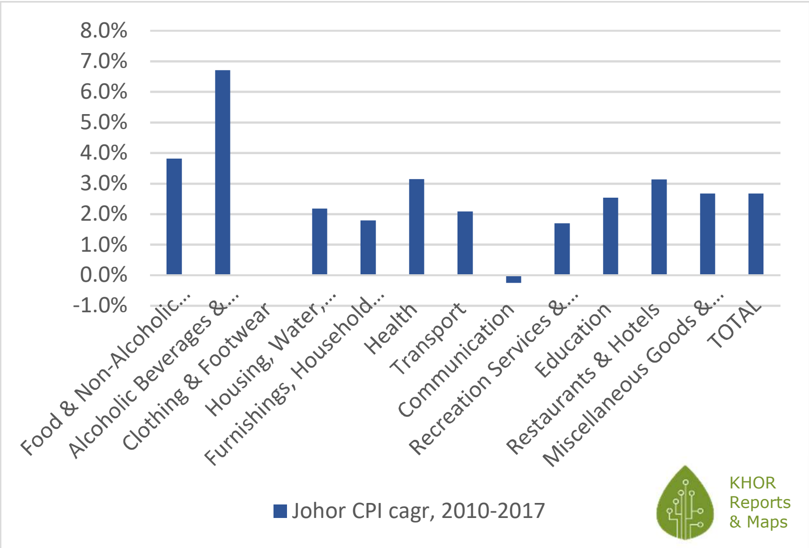


Source: Khor Reports Data: DOS

But whom to blame for the higher prices? An easy target are the potential 250,000 Singapore visitors to JB each week; who could swell the local population by 15% on any weekend. But what about another potential source of price inflation: the many Johoreans who earn higher incomes in Singapore? Chasing Singapore income is also a way for some Johoreans to cope with domestic inflation, especially in view of the long term decline of the Ringgit against the Singapore Dollar.

We estimate 250,000 daily commuters from Johor to Singapore (15% of citizens in the JB-Kulai areas). They brave a long daily commute to boost their salary by 3x in Ringgit terms. Singapore has a total foreign workforce of almost 1.4 million[1]. The median basic salary for a senior accountant is RM58,000 in Johor Bahru (JB) versus SGD63,000 per; and for a quality assurance inspector it is RM28,800 versus SGD30,174 per year. If Singapore visitors and Johore higher-earners congregate in the JB zone each weekend, they could represent 20-30% of the local population.

Johor's annual price inflation by segment, 2010-2017



Source: Khor Reports   Data: DOS

Consumer price index data is not available for districts, but we do have it by spending categories. Johor price inflation exceeds the Peninsular Malaysia average in all areas, especially in miscellaneous goods & services, health and education; but it is below average in transport and at restaurants.

[1] Construction, domestic workers, marine are the key sector of employment. The other major economic sectors are: wholesale trade; good and beverage services; professional services; transportation and storage; fabricated metal products, machinery and equipment; petroleum, chemical and pharmaceutical products; administrative and support services; and electronic, computer and optical products.

Comparing Johor's annual price inflation, 2010-2017

KHOR Reports & Maps	Johor vs Pen. Malaysia	Johor vs Selangor & Putrajaya
Food & Non-Alcoholic Beverage	0.5%	0.2%
Alcoholic Beverages & Tobacco	0.2%	0.1%
Clothing & Footwear	0.3%	0.1%
Housing, Water, Electricity, Gas & Other Fuels	0.1%	0.0%
Furnishings, H'hold Equip. & Routine Maint.	0.0%	-0.5%
Health	0.7%	0.8%
Transport	-0.3%	0.1%
Communication	0.1%	0.0%
Recreation Services & Culture	0.3%	0.2%
Education	0.6%	0.5%
Restaurants & Hotels	-0.1%	-0.8%
Miscellaneous Goods & Services	1.0%	1.4%
TOTAL	0.3%	0.3%

Source: Khor Reports Data: DOS

Note: CAGR of CPI by segment for Johor against the average for Peninsular Malaysia, versus Selangor & Putrajaya.

One might be a bit surprised on lower inflation at Johore restaurants as Singapore visitors are well known to come to eat out in JB. Johore's price inflation for dining out is 3.1% cagr (a top price inflation item), but it lower than the 3.8% cagr faced by Selangor & Putrajaya households.

Singaporeans are less known to buy education services in Johore, other than in the niche international boarding schools. Starting March 2010, Singaporeans have been able to use Singapore mandatory medical savings accounts in at least a dozen Malaysian hospitals and medical centres in the hope of saving 20-35% on their medical bills; at Singapore-owned Health Management International and Parkway Holdings hospitals and medical centres. Again, this seems somewhat segmented, so Johor education and health price inflation bears watching.

The Foreign Worker Swap?

What might help keep some Johore prices down? Malaysia is reliant on foreign workers, and businesses often talk about their role in keeping down the prices of goods and services. There is a consistency across the three urban-industrial states: Johor, KL-Selangor and Penang each have 8-10% foreigners in the total population. Their presence in different economic sectors varies from 90% in plantations and construction to low single digits in other local services.

Johor loses a quarter million workers to Singapore each day, but it has over 330,000 non-citizens in Johore to count on, specifically 180,000 in JB-Kulai (a lot of the rest are likely in the plantations sector). Let's call this "the foreign worker swap".

An avenue of further research would be to check if foreign or other workers adequately fill workspaces vacated by those going to Singapore jobs. The transition to foreign worker reliance varies by sector and they have a low presence in health and education and high in the restaurant sector.

Johor rural households under inflation pressure, debt affects urbanites

We turn to consider whom may have greater concern about rising costs in Johor and how debt-obligations might crimp households finances. What are urban and rural Johoreans facing?

The trend in recent Johor average monthly income and expenditure shows lagging income growth for rural households, facing the pressure of consumer price inflation of 2.8% cagr, 2014-2016.

On a monthly basis:

- All households: RM 6,928 income (cagr 5.5%), RM 4,148 expenses and RM2,780 surplus.
- Urban households: RM7,373 income (cagr 5.6%), RM4,357 expenses and RM3,016 surplus.
- Rural households: RM5,359 income (cagr 3.8%), RM3,420 expenses and RM1,939 surplus.

Of rising concern to the Malaysia regulators is the situation of household debt. Let us consider the case of the average JB household and a rural household in Johor in the District of Kota Tinggi in the southeast of Johor which has a large number FELDA schemes. Debt adjustments are explained in the table below. Under relevant and basic debt assumptions, debt is of greater concern (measured by a larger drop in the debt-adjusted household surplus against the official Department of Statistics / DOS calculation) for the JB household than the rural household, especially if it is a FELDA household with access to a zero-interest replanting loan (akin to a remortgage to replace 4 hectares of old oil palm trees).

A Johor Bahru (JB) urban household & debt	**A Johor rural household & FELDA-type debt**
DOS reports for Johor Bahru: mean RM8,198 income/mth (4.6% cagr), RM 4,357 expenditure/mth, and RM3,841/mth household surplus.	DOS reports for Kota Tinggi: mean RM5,692 income/mth (3.6% cagr), RM 3,420 expenditure/mth, and RM2,272/mth household surplus.
Adjusted for debt, the household surplus drops to RM2,375/mth (-38%)	Adjusted for debt, the household surplus could drop to RM1,909/mth (-16%)**
Debt adjustment: If the household were still under full debt obligation, expenses would rise to RM5,823/mth (+RM 1,465, with instalments replacing rent, imputed rent, motorcar and motorcycles in the official data). The typical double-income JB household might have RM2,400-2,800 per month in various loan instalment payments taking 29-34% of average household income: • A RM 350,000 house loan for a terraced house over 35 years, with RM1,700 per mth instalments. • A RM50,000 loan for a Perodua Myvi, for 5/9 years at RM950/RM578 per mth • A RM3,300 loan for a RM5,500 Honda 110cc motorcycle, for 30 months at RM140 per mth. KHOR Reports & Maps	Debt adjustment: Pegging this to the FELDA smallholder situation, a household under various debt obligations, would have higher expenses at RM 3,783 (+RM363 with replanting which is akin to a remortgage to invest in replanting oil palm trees and other loans estimates replacing imputed and other such costs). The typical FELDA household near Kota Tinggi was replanted in the early or late 2000s. FELDA notes that the average loan obligation across all 104,119 FELDA smallholders nationwide stands at RM50,000 and includes replanting, housing, education, computer and loans for FGV shares. However, FELDA households can get interest-free loans and **repayment is flexible, with monthly instalments (driven by the large replanting portion) adjusting to gross income (that fluctuates with palm oil commodity prices), to stabilize net income.

Source: Khor Reports   Data: DOS, IMoney, FELDA, Khor Reports Estimates
Note: Homeownership is 77% in Johor, Johor household car ownership was significantly above the Malaysia average of 85% and motorbike ownership is 75%. Capital and interest instalments are not accounted for by household expenditure data, which instead uses imputed rent of similar houses in the neighbourhood. Similarly, capital and interest instalments relating to cars and motorcycles are not well accounted in the data.

In summary, while JB attracts large numbers of Singapore visitors it also has a quarter million Johoreans earning Singapore salaries (coping with and possibly also stoking inflation?); but 180,000 non-citizens in JB-Kulai should help to keep some costs down. Might gaps in filling vacated JB sector-specific jobs help explain some surprising variations in consumer price segments? Overall, the data suggests that the impact of foreign visitors adds to domestic-origin pressures; and Johor suffers the highest price inflation in all Malaysia. Urban households face debt concerns and rural households are pressured by price increases. Johoreans should be concerned about the domestic economy, the long term Ringgit trend and Singapore acceptance of foreign workers.

Looking ahead. What will happen when better connectivity arrives in Dec 2024? Johor is still in transition to be more closely link with the Singapore economy. We still have segmented markets in Johor; and economists may consider the rich (foreign-linked) Johor – poor (local) Johor situation a "dual economy" (including in property, health, and education). Businessmen on both sides of the Causeway are well positioned, and working to break down barriers (especially the tedious transit) in order to profit from closing the gap between Johor and Singapore. In so doing, prices of property and everyday things in Johor will adjust. Watch out if Johor CPI diverges even more from the Peninsular average. But if Johor incomes do likewise, who will be there to assign blame?

[1] The foreign (Singapore) vehicle count entering Johore at the Causeway and Second Link is about 105,000 per week they are mostly cars. If each had a driver and 1-2 passengers there could be about 250,000 visitors from Singapore to Johore each week. Khor Reports estimates from vehicle data at the land border crossings (see below).

[2] Author's interview with WONG Shu-Qi on 3 December 2017, reviewed cross border data. From official data on vehicle traffic through the Sultan Iskandar Building (Johor–Singapore Causeway) and the Tanjung Kupang Toll Plaza (Malaysia–Singapore Second Link) as well as the statistics on the entry of foreign vehicles and Road Charge collection, Johor-to-Singapore and Singapore-to-Johor people flows are estimated.

[3] ISEAS-Yushof Ishak's Johor Survey 2017 reports that 42% blame Singaporeans for cost of living issues. In 2013-2017, 71-78% think that Singapore makes property unaffordable for locals, and 79-81% agree of limiting sales of properties; and both are on a reducing trend.

Notes:

- cagr = compound annual growth rate
- 1 Singapore Dollar equals 2.96 Malaysian Ringgit

References and data: DOS Malaysia, ISEAS-Yushof Ishak, Ministry of Manpower, Malaysia vehicle traffic statistics, MM2H, NAPIC, Payscale, The Penang Institute, and Khor Reports Estimates.