

DEMAND IN CONSUMER CREDIT

OTHPMAN MOHD RASHID

MASTER OF SCIENCE (BANKING)

UNIVERSITI UTARA MALAYSIA

October 2010

0000 7691086



KOLEJ PERNIAGAAN
(College of Business)
Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PROJEK
(Certification of Project Paper)

Saya, mengaku bertandatangan, memperakukan bahawa
OTHMAN MOHD RASHID (802613)

Calon untuk Ijazah Sarjana
(Candidate for the degree of) **MASTER OF SCIENCE (BANKING)**

telah mengemukakan kertas projek yang bertajuk
(has presented his/her project paper of the following title)

DEMAND IN CONSUMER CREDIT

Seperti yang tercatat di muka surat tajuk dan kulit kertas projek
(as it appears on the title page and front cover of the project paper)

Bahawa kertas projek tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.

(that the project paper acceptable in the form and content and that a satisfactory knowledge of the field is covered by the project paper).

Nama Penyelia : **DR. ROHANI BT MD. RUS**
(Name of Supervisor)

Tandatangan :  _____

Tarikh : **12 OCTOBER 2010**
(Date)



2610

DEMAND IN CONSUMER CREDIT

A dissertation submitted to the Faculty of Finance and Banking in partial fulfillment
of the requirement for the degree
Master of Science (Banking)
Universiti Utara Malaysia

by

Othman Mohd Rashid

©Othman Mohd Rashid, October 2010. All rights reserved

DECLARATION

I hereby certify that the material of this thesis has not been submitted to any degree nor currently being submitted for any other degree qualifications.

I also certify that any assistance received and all sources used have been acknowledged during preparing of this thesis.

Othman Mohd Rashid

802613

College of Business

Universiti Utara Malaysia

Kuala Lumpur Campus

30th September 2010

PERMISSION TO USE

In presenting this report in partial fulfilment of the requirements for a postgraduate degree from Universiti Utara Malaysia, I agree that the Universiti library may make it freely available for inspection. I further agree that permission for copying of this report in any manner, in whole or in part, for scholarly purpose may be granted by my supervisor Dr. Rohani Md Rus or, in her absence, by the Dean of Research and Innovation, College of Business. It is understood that any copying or publication or use of this project or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me or to the Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Request for the grant of permission to copy or to make other use of materials in this project, in whole or in part should be addressed to:

Dean of Research and Innovation

College of business

Universiti Utara Malaysia

Kuala Lumpur Campus

ABSTRAK

Kredit pengguna telah menyaksikan pertumbuhan yang ketara di sepanjang kitaran ekonomi. Pertumbuhan ekonomi yang mapan di Malaysia, dengan purata 5.9% setahun dalam tempoh 6 tahun terakhir ini, telah meningkatkan pendapatan isirumah dan menggalakan kepercayaan pengguna, yang mana telah merangsang jangkaan pendapatan akan datang yang optimistik. Pengaruh variasi makroekonomi terhadap permintaan kredit pengguna adalah tidak dapat dielakkan dan seperti juga prestasi transaksi hartanah perumahan, automotif, penggunaan kad kredit dan pinjaman peribadi.

Maka, kajian ini bertujuan untuk memahami dan menerangkan pengaruh-pengaruh variasi makroekonomi tersebut. Terdapat beberapa variasi ekonomi berbeza dalam cara ia mempengaruhi kredit pengguna tetapi apabila produk dalaman kasar, kadar dasar pinjaman dan pengangguran meningkat didapati permintaan terhadap kredit pengguna menurun. Sementara, index harga pengguna dan kumpulan umur menunjukkan satu perhubungan yang positif dan apabila variasi tersebut meningkat permintaan credit pengguna juga akan meningkat. Penemuan ini mencadangkan bahawa dengan memantau variasi makroekonomi, permintaan bagi kredit pengguna juga boleh diramalkan.

ABSTRACT

Consumer credit has witnessed a significant growth throughout the economic cycles. Sustained economic growth in Malaysia, averaging 5.9% a year over the past six years, has raised household incomes and boosted consumer confidence, which, in turn, has induced optimistic expectations of future income. The influence of macroeconomic variables toward the demand in consumer credit is inevitable as well as the performance of residential property transaction, automotive, credit cards usage and personal loans.

Hence, this study aims to understand and explain the influence of these macroeconomic variables. Several analytical methods such as trend, correlation analysis and regressions were carried out. Some of the economic variables vary in the way they influence consumer credit but when GDP, BLR and unemployment increased it leads to decrease in demand of consumer credit while CPI and age group which are significantly positive correlated leads to increased of consumer credit. This finding suggests that by monitoring the macroeconomic variables, the demand in consumer credit may be predictable.

ACKNOWLEDGEMENT

First of all I thank God Almighty for His grace and mercy that enabled me to complete this master thesis. I would like to express my immense gratitude to my supervisor, Dr. Rohani Md Rus and Lecturer En. Ahmad Latfi Kechik for their constant guidance, support and motivation that has encouraged me to come up with this thesis.

My special thanks to Institute of Bank-Bank Malaysia (IBBM) for the collaboration with Universiti Utara Malaysia introducing Master of Science (Banking) and made available to all banks employee. I am also thankful and wish to express my gratitude to the officials and staff members of Universiti Utara Malaysia who rendered their help.

Last but not least, I wish to avail myself of this opportunity and express a sense of gratitude and my beloved parents, wife, children and friends for their support, strength and help.

TABLE OF CONTENTS

Declaration	ii
Permission to use	iii
Abstract (Bahasa Malaysia)	iv
Abstract (English)	v
Acknowledgement	vi
Table of contents	vii & viii
List of tables	ix
List of figures	ix
Abbreviations	x

CHAPTER ONE : BACKGROUND OF THE STUDY

1.1 Introduction	1
1.2 Consumer Credit in US	2
1.3 Consumer Credit in Malaysia	3
1.4 Problem Statement	4
1.5 Research Question	4
1.6 Research Objective	5
1.7 Scope of Study	5
1.8 Limitation of Study	6

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction	7
2.2 Types of Consumer Credit	7
2.2.1 Credit Card	7
2.2.2 Auto Loan	10
2.2.3 Mortgage Loan	13
2.2.4 Personal Finance	17
2.3 Life Cycle Theory of Consumption	20
2.4 Real interest rates, Per Capita Income, Unemployment and GDP	20

CHAPTER THREE : METHODOLOGY

3.1 Introduction	23
3.2 Data Source	23
3.3 Research Framework	24
3.4 Operational Definition	25
3.4.1 Dependent Variable	25
3.4.2 Independent Variables	25
3.4.3 Correlation	27
3.4.4 Multiple Regressions	27
3.4.5 Trend Analysis	28

CHAPTER FOUR : RESULT AND DISCUSSION

4.1 Introduction	29
4.2 Correlation Analysis	29
4.3 Multiple Regressions	30
4.4 Trend Analysis	32

CHAPTER FIVE : CONCLUSION

5.1 Introduction	34
5.2 Conclusion	34
5.3 Recommendations for Future Research	35

REFFERENCES	36
--------------------	----

LIST OF TABLES

	Table	Page
Table 2.1	Quarterly Usage of Credit Card in Ringgit by Cardholders	9
Table 2.2	Quarterly Auto Loan Disbursed (2000-2008)	13
Table 2.3	Quarterly Mortgage Loan Disbursed (2000-2008)	16
Table 2.4	Quarterly Personal Loan Disbursed (2000-2008)	19
Table 3.1	Data extracted from various sources	23
Table 3.2	Theoretical Framework Flow Chart	24
Table 3.3	Consumer Financial Needs and Demand	26
Table 4.1	Result of Pearson Correlation	29
Table 4.2	Result of Multiple Regression	30
Table 4.3	Consumer Credit Loan Disbursed (2000-2008)	33

LIST OF FIGURES

	Figures	Page
Figure 1.1	US Household Debt to GDP	3
Figure 2.1	Islamic Credit Card-Flow Chart	8
Figure 2.2	Quarterly Comparison of Credit Card Usage (2000-2008)	9
Figure 2.3	Ijarah Thumma Al-Bay-Flow Chart	11
Figure 2.4	Quarterly Comparison of Auto Loan Disbursed (2000-2008)	12
Figure 2.5	Bay-Bithaman-Ajil-Flow Chart	14
Figure 2.6	Quarterly Comparison of Mortgage Loan Disbursed Between 2000-2008	16
Figure 2.7	Bay-Al-Inah- Flow Chart	18
Figure 2.8	Quarterly Comparison of Personal Loan Disbursed Between 2000-2008	19
Figure 4.1	Trend Analysis of Consumer Credit (2000-2008)	32

ABBREVIATIONS

AITAB	Ijarah Thumma Al- Bay
BNM	Bank Negara Malaysia
BLR	Base Lending Rate
BBA	Bay-Bithaman Ajil
BSN	Bank Simpanan Nasional
CPI	Consumer Price Index
GDP	Gross Domestic Product
MAA	Malaysian Automotive Association
MBSB	Malaysian Building Society Bhd

CHAPTER ONE

BACKGROUND OF THE STUDY

1.1 Introduction

Consumer debt or household debt can be defined as ‘money, goods or services provided to an individual in lieu of payment.’ Common forms of consumer credit include credit cards, motor (auto) finance, personal finance and mortgages. The concept of debt is not difficult to understand. When you need something and borrow it and you're in debt to the lender. When you give it back you're considered out of debt. It's when you throw in the concept of adding interest to what you've borrowed that things get interesting. Now you borrow from a bank and pay them back more than you borrowed and if you don't, you pay a penalty in fees, late charges, over-the-limit charges and any other charges that they can come up with to increase what you owe.

Debt has been around for hundreds of years and is seen to be burden to many. In early Greece debt was physically tied to bondage, for if one was unable to repay their debts they simply became property of the lender. In his wisdom Solon, the great lawgiver, passed a law in 594 B.C. that outlawed debt bondage and canceled all outstanding debts. It was in the Italian banking system in the 1300's that modern lending got its start. Using a bill of exchange a bank could lend money and a safest mode of transaction. The bill of exchange was then able to be used as currency among merchants and lenders. Lending continued to be reserved for the upper class until fairly recently. Most middle-class and working-class people had no debt because the banks refused to lend them money. A middle class person in need of a loan only had the options of a pawnshop or a loan shark. In an attempt to curb loan

The contents of
the thesis is for
internal user
only

REFERENCES

Ando, Albert & Modigliani, F. (1963). The life cycle hypothesis of saving: Aggregate implications and test. *American Economic Review* Vol.53 (March), pp.55-84.

Aretis, P., Demetraides, P. O., & Luintel, K. B. (2001). Credit and banking financial development and economic growth: The role of stock market, *Journal of Money*, 33, pp. 16-41.

Ashley, D. W. (2005). "The demand for consumer credit". Thesis submitted to faculty of the Virginia Polytechnic Institute and State University

Barnes, S. & Young, G (2003). "The rise in US household debt: assessing its causes and sustainability", working paper no. 206, Bank of England.

Bank Negara Malaysia, Monthly Statistical Bulleting 1998-2009 [On-line] Available <http://bnm.gov.com>.

Beck, T., Levine, R. and Loayza, N. (2000). Finance and the sources of growth, *Journal of Financial economic*, 58, pp 261-300.

Black, Sandra, Morgan & Donald.(1998)."Risk and democratization of credit cards", working paper, 9815, Federal Reserve Bank of New York.

Bolbol, A. A., Fatheldin, A. & Omran, M. M. (2005). Financial development, structure, and economic growth: the Case of Egypt, 1974-2002, *Researched in International Business and Finance*, 19, pp. 171-194.

Dean, M. Maki. (2000).The growth of consumer credit and the household debt service burden. *Federal Reserve Board Finance and Economics Discussion Series 2000-12*

Demetraides, P. O. & Hussein, K. A. (1996). Does financial development cause economic growth? Time series evidence from 16 countries, *Journal of Development Economics*, 51, pp. 387-411.

Dr.Tan, J, Neelakanan, N., Onn, T. K. & Buan, T. M. (2004) *Certified Credit Professional, Financial System and Principle of Credit*, Damansara Heights,KL: Institut Bank-Bank Malaysia.

Endut, N. & Teoh, G. H. (2007). " Household debt in Malaysia", Bank International Settlement papers No. 46, pp. 107-116

Follain, J. R. (1982). 'Does inflation affect real behavior: the case of housing', *Southern Economic Journal*, Vol.3, No ½, pp.71-76.

Garcia, G. (1980). Credit Cards: An interdisciplinary Survey, *Journal of Consumer Research*, 6, pp.327-337.

Garner, C. A. (1996). "Can measures of the consumer debt burden reliably predict an economic slowdown?," *Federal Reserve Bank of Kansas City Economic Review*, 81, pp. 63-76.

Granger, C. W. (1969). "Investigating causal relationship by econometric models and cross -spectral method," *Econometrica*, 37, pp. 424-38

Levine, R. (1997) Financial development and economic growth: views and agenda, *Journal of Economic Literature*, 35, pp. 688-726

Mote, L. (2005). "Rising household debt": A long run view. *Quarterly Journal U.S Treasury Department*, Vol.24 No.1, pp. 41-55

Malaysian Statistics Dept. Key Statistics [On-line] Available <http://www.statistics.gov.my/> key statistics

Malaysian Automobile Association, Vehicles Sales Report [On-line] Available <http://www.maa.org.my/>

Pearce, D.K.(1985). "Rising household debt in perspective" *Monthly Economic Review* July/August, pp. 3-17.

Ruben, M.(2009). "Forgive us our trespasses? The rise of consumer debt in modern America".

Rajan, R. G. Zingales, L. (1998) Financial dependence and growth, *American Economic Review*, 88, pp. 559-586.

Robert Y. C, Brian L. D. & Sekaran, U. (2001). *Applied business research: qualitative and quantitative methods*, NY: John Wiley & Sons Australia.

Schmitt, E. D. (2000) "Does rising consumer debt signal future recessions; Testing the causal relationship between consumer Debt and the economy". *American Economic Journal* September 2000, Vol.28, No.3.

Schumpeter, J. A. (1912). The theory of economic development, translated by Redvers Opie, 1934, Cambridge, MA: Harvard University Press.

Sim, B. H. (2005). "A study of macro economy in determining the commercial property market". Thesis submitted to Universiti Teknologi Malaysia.

Tullio, Jappelli, Pagano, M. & Maggio, M. (2008). "Households' indebtedness and financial fragility".

Tan, T. H. & Ang W. L. (1980). The residential sub sector housing activities in Malaysia. Thesis submitted to Taylor's Business School, Taylor University College Malaysia.