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Household Budgets Among Different Income Groups in Klang Valley

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Abstract

Budgeting is a common approach financial advisors introduce to teach individuals how to manage their expenses. Without budgeting, however, family living expenses may exceed the available income and jeopardise the family's overall financial goals. Financial issues are one of the significant causes of instability among families, especially low-income earners who live below the usual standard and have an income that can only go for food and housing, making it impossible to satisfy their family's needs and attain goals. This scenario puts low-income families in a problematic state or condition that can be resolved through adequate financial support. This study examines the dynamics of household budgeting practices across various income groups within the Klang Valley region. The study also aims to identify the importance of budget allocation and expenditure priorities among low-income, middle-income, and high-income households. It underscores the crucial role of financial literacy and planning factors in budgeting practices, empowering individuals with the knowledge to manage their finances effectively. Data were collected from 65 tourism industry workers with multiple backgrounds by distributing questionnaires using a convenient sampling approach. The data collected were analysed using the Statistical Package for Social Science (SPSS) software. The findings contribute to a better understanding of how income disparities shape household finances and inform policy interventions to enhance financial resilience and equity within the Klang Valley community.

Keywords: budgeting, financial planning, financial literacy, income groups.

I. INTRODUCTION AND BACKGROUND

Malaysia is a Southeast Asian country that has achieved an upper-middle-income status (Takahashi, 2023). Malaysia comprises 11 states on the Malay Peninsula and Sabah and Sarawak on the island of Borneo, totalling 13 states. The Klang Valley, also known as Lembah Klang in Malay, is a densely populated urban area in Malaysia. It is mainly located in the federal territories of Kuala Lumpur and Putrajaya, with additional cities and towns in Selangor. Currently, Malaysians are categorised into three distinct income groups: the bottom 40% (B40), the middle 40% (M40), and the top 20% (T20), as shown in Table 1.1. B40 refers to households with a monthly income of less than RM4,850, indicating they are classified as low-income. M40 denotes households in the middle-class category with incomes ranging from RM4,850 to RM10,959, while T20 represents homes in the upper-income category earning more than RM10,959 (Bernama, 2022).

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Table 1.1.**Income Category**

B40			
B1	B2	B3	B4
Less than RM2,499	RM2,500-RM3,169	RM3,170-RM3,969	RM3,970-RM4,849
M40			
M1	M2	M3	M4
RM4,850-RM5,879	RM5,880-RM7,099	RM7,110-RM8,699	RM8,700-RM10,959
T20			
T1		T2	
RM10,960-RM15,039		More than RM15,039	

Malaysia's economic terrain has witnessed a rise in fiercely competitive corporate environments, demanding labour market circumstances, and exorbitant living expenses, all of which have impacted households and consumers. As stated by Mahdzan et al. (2020), an escalation in living expenses may result in an adverse impact on financial well-being, an increase in credit and debt utilisation, a decline in household purchasing power, and an escalation in unemployment, poverty, and criminal activity, among other socioeconomic issues. According to data provided by Yin (2021), the price of food and beverages increased by 7.3% in November 2022, compared to 7.1% in the previous month. The rise in food prices, especially for chicken and flour, resulted in a four % increase in the inflation rate. It is expected that in 2023, prices for products and food will rise by more than 10% due to the anticipated increase in inflation rate to 6% or 7% (Abidin, 2023). According to data from the consumer price index, 87.4% of 230 food items reported price rises from 2022 to 2023, while inflation rose by 3.6% to 129.7 points in Q1 2023 (Zulkifli, 2023). Managing high living costs can be challenging, causing financial stress and impacting quality of life. Hence, families and individuals should carefully budget, search for cost-saving measures, or consider relocating to more affordable areas (Friedline et al., 2020).

Affordable housing in large cities has been a concern of several Malaysian government policies. The government has provided various home schemes such as Perumahan Rakyat 1 Malaysia, Rumah Mesra Rakyat, Program Penyelenggaraan 1Malaysia, Rumah Selangorku, and Federal Territories Housing Scheme (Lateef et al., 2020). Zainudin and Eni (2020) emphasise the inconsistent increase in house prices, primarily due to household income making homeownership difficult, particularly for groups B40 and M40. The M40 group is most affected due to limited eligibility requirements for affordable housing. The shortage of affordable housing is caused by an imbalance between supply and demand, an excess of high-end housing policy, and the high cost of housing (Lateef et al., 2020). Ferlito (2019) contends that the inability of private developers in Malaysia to offer affordable housing primarily stems from regulatory restrictions imposed by the government. To promote private initiatives, he proposes that governments refrain from impeding the market for affordable housing. A unified institution should be established to manage Malaysia's affordable housing program, according to Ling et al. (2017), who connected the country's policy fragmentation to the absence of cheap housing. Ismail et al. (2019) verified that the government should disengage from the affordable housing market and grant it the ability to regulate itself.

Effective policy-making to target financial education and address regional disparities requires understanding how income disparity affects household budgets and informing policies to promote economic resilience and equity (Hamid et al., 2021).

However, a more thorough examination of the distribution of household budgets amongst income categories concerning consumption and home ownership is required. This disparity impedes endeavours to formulate customised economic policies and assistance programs that cater to the distinct requirements of various demographic segments (Hamid et al., 2021; Ismail et al., 2023). This study explores how income disparity affects household budgets and informs policy to promote financial resilience and equity in Klang Valley.

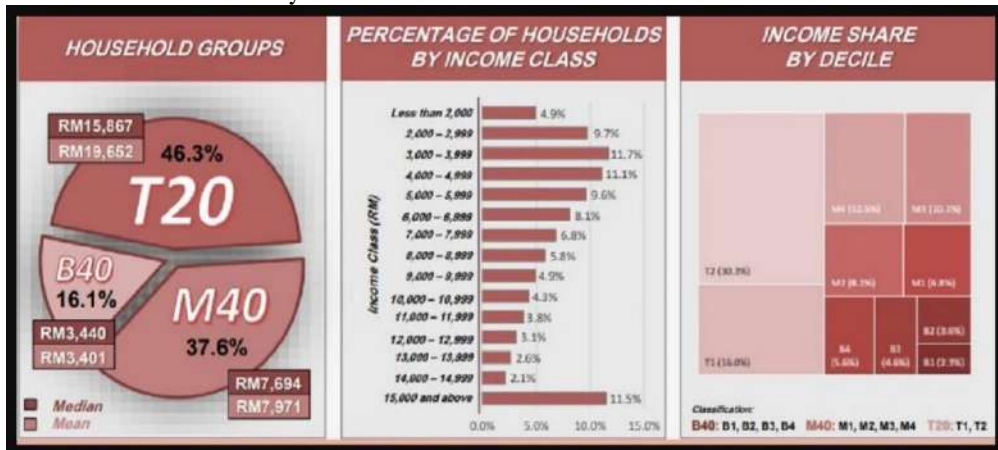
II. LITERATURE REVIEW

In 2022, the average monthly expenditure of Malaysian households was RM5,150. This amount represented an increase of 11.7% compared to the RM4,609 they previously spent in 2019. Concerns about inflation are shared by 40% of Malaysians, making the increase in household spending a prominent issue. The majority of households in Malaysia allocate a significant portion of their budget towards essential expenses, including housing, water, electricity, gas, and other fuels (23.2%), food (16.3%), and transportation (11.3%). Restaurant and accommodation services account for a significant portion of expenses in many households, totalling 16.1%. Households in highly urbanised locations like Putrajaya, Kuala Lumpur, and Selangor have the highest average monthly expenditures. Putrajaya’s average monthly consumer spend was RM8,987, the highest among all locations (Chee, 2024).

2.1. Malaysia Income Group

T20, M40, and B40 were the income classifications utilised in Malaysia, as illustrated in Figure 1. The bottom 40% of income earners are denoted by B40, the middle 40% by M40, and the highest 20% by T20. These categories are subdivided into tiers, including B1, B2, B3, etc. The existing T20, M40, and B40 classifications, established based on fixed income, must accurately represent Malaysian households’ disposable income capacity (iMoney Editorial, 2024). By employing net household disposable income as a metric, the financial circumstances of Malaysians falling within the low-income and middle-income brackets can be more accurately represented. Typically, household size and the cost of living differ between states and regions and are not considered when calculating income levels.

Figure 2.1
Household Income Malaysia 2022



Source: Department of Statistics Malaysia (DOSM), Household Income Survey Report 2022.

2.2. House Ownership

A comfortable, affordable home is essential for a good quality of life, symbolising wealth and achievement, and can be a long-term investment asset (Mohamed et al., 2020). Perspektif et al. (2024) emphasise that owning a home requires considering multidimensional factors beyond economics and finance, including social, cultural, demographic, and environmental factors, as well as political and psychological aspects. Besides, financial capability is essential for estimating the costs of buying and keeping a property, even if homeownership may be lucrative and fulfilling (Mohamed et al., 2020). According to Zainudin and Eni (2020) and Perspektif et al. (2024), the government enacts public policies and provides incentives to foster sustainable housing development while considering social, economic, and environmental factors. This approach highlights the significance of housing in enhancing quality of life and promoting sustainable development.

2.3. Household Consumption

Household consumption encompasses all financial transactions households conduct to obtain goods and services to meet their needs and desires (Ismail et al., 2023). According to previous research conducted by Al Buhari et al. (2023), the consumer behaviour of households is influenced by preferences, opportunities, and limits, and the decisions that these households make have a substantial impact on the financial system. Individuals must reduce spending to maintain a consistent income level while increasing consumption. Failure to do so may result in inadequate consumption in the community. Ismail (2022) states that households increase their savings rate during periods of economic uncertainty by reducing consumption and economic growth. As a result, there is a direct relationship between the degree of uncertainty surrounding income from work and the extent to which households save money as a precautionary measure.

2.4. Financial Planning

The financial planning process is dynamic and needs to be reassessed often as professional paths and life stages change. Individuals must actively assess their economic plans to guarantee they can reach their goals within a specified timeframe (Ehsan et al., 2024). Previous studies by Soepding et al. (2021) have posited that financial planning could contribute to an individual's overall well-being. Inadequate knowledge of fundamental financial planning and debt literacy constrains individual well-being. In theory, individuals could potentially experience a greater sense of ease regarding their financial well-being and investments and retirement plans, as well as budgeting for income, living expenses, and savings, with the implementation of prudent financial practices such as having a proper contingency plan in place to guide money management (Tilai et al., 2022). Ehsan et al. (2024), emphasised that effective personal financial planning and management are essential for individuals to improve their quality of life through effective financial management.

2.5. Financial Literacy

Financial literacy is essential for achieving financial stability and promoting an effective economy. However, lacking information can impede individuals from making well-informed financial choices and adapting to economic disturbances (Dewi et al., 2020). The importance of making sound financial decisions is growing due to the increased availability of more intricate financial products and the heightened necessity to save for retirement. According to Affandi and Malik (2020), financial literacy concerning financial institutions and how members of low-income groups obtain financial products

and services determines their level of financial development. Financial institutions consider financial literacy a critical prerequisite for successfully including low-income individuals in the financial system. Bernheim (1995) was the first to document that specific consumers lacked financial literacy. Although numerous studies have examined financial literacy in impoverished rural regions, a dearth of research specifically examines the middle class in emerging economies (Grohmann et al., 2018).

III. RESEARCH METHODOLOGY

This study's population consists of tourist workers in Klang Valley. It used a cross-sectional design with a self-administered questionnaire and a quantitative methodology.

3.1. Sample Size and Respondents

The study was conducted in Klang Valley, as the population in rural areas is more susceptible to poverty because of the higher cost of living in these places (Mayan & Nor, 2020). A total of 64 questionnaires were given to tourism business employees. Tourism workers are chosen for this study as they are the most affected industry during and after the post-COVID-19 pandemic outbreak (Yuan, 2023). Convenience sampling was utilised as a non-probability sampling method in this study. Non-probability sampling has traditionally been used in academic research because of its cost and convenience advantages (Sarstedt et al., 2018). Furthermore, non-probability sampling is a quick, simple, and cost-effective approach to collecting data because it does not require a complete survey frame. According to Sarstedt et al. (2018), non-probability samples can produce results that are just as accurate as probability samples as long as the elements influence a population member's presence or absence.

3.2. Data Collection Instruments

Primary sources were used to acquire data. A closed-ended survey instrument was employed to gather the participants' responses. The questionnaire was conducted based on the literature research themes, and experts' comments were gathered. Pilot tests were performed to construct the questionnaire for the population of interest. The questionnaire is adapted from existing questionnaires, which comprise 39 questions, 16 demographic questions, and 23 closed-ended questions. This study employed a non-comparative scaling technique, with all items being assessed on a 5-point Likert scale. The study participants were instructed to evaluate their viewpoints using a 5-point Likert scale, ranging from "strongly disagree" (1) to "strongly agree" (5). Previous research has assessed budget by employing the 5-point Likert scale, as demonstrated in studies conducted by Habibah et al. (2018). The 5-point Likert Scale reduces confusion and a higher response rate (Bouranta et al., 2009). The 5-point Likert scale is easily understandable and user-friendly for survey administrators and responders. It requires less time and less effort to finish compared to scales with greater point values.

IV. RESULTS AND DISCUSSIONS

Data was analysed using IBM SPSS 26. The demographics and components of each variable were examined using descriptive analysis. The following are the results:

4.1. Respondents' Profile

The sample of 65 respondents employed in the tourism sector exhibited a wide range of demographic characteristics, including area of living, age, gender, race, income category, marital status, educational level, monthly household income, number of children, type of tourism industry, year of service, house ownership, monthly house payment, monthly grocery budget, monthly utility budget, and yearly family vacation

budget. Table 4.1 summarises the demographic findings.

Table 4.1

Demographic Characteristics of the Participants

Area of Living	N (65)	%	Age	N (65)	%
Kuala Lumpur	21	32.3	< 20 years old	1	1.5
Putrajaya	3	4.6	20 – 29 years old	51	78.5
Petaling	12	18.5	30 – 39 years old	12	18.5
Gombak	14	21.5	40 – 49 years old	0	0
Klang	3	4.6	50 – 59 years old	1	1.5
Hulu Langat	7	10.8	60 and above	0	0
Sepang	5	7.7	Income Category	N (65)	%
Gender	N (65)	%	B40	53	81.5
Male	11	16.9	M40	10	15.4
Female	54	83.1	T20	2	3.1
Race	N (65)	%	Education Level	N (65)	%
Malay	57	87.7	SPM	8	12.3
Indian	2	3.1	SVM	1	1.5
Chinese	2	3.1	S'IPM	2	3.1
Others	4	6.2	Diploma	18	27.7
Marital Status	N (65)	%	Bachelor's Degree	33	50.8
Single	53	81.5	Master's Degree	3	4.6
Married	12	18.5	Type of Tourism Industry	N (65)	%
Monthly Household Income	N (65)	%	Heritage, Arts and Culture	3	4.6
< RM2500	32	49.2	Eco and Nature	2	3.1
RM2501 – RM3169	13	20.0	Agritourism	2	3.1
RM3170 – RM3969	6	9.2	Food and Beverages	2	3.1
RM3970 – RM4849	2	3.1	Accommodation	12	18.5
RM4850 – RM5879	3	4.6	Entertainment and Recreation	6	9.2
RM5880 – RM7099	1	1.5	Travel and Tourism	28	43.1
RM7100 – RM8699	3	4.6	Medical and Wellness	1	1.5
RM8700 – RM10959	3	4.6	Educational Tourism	4	6.2
RM10960 – RM15039	2	3.1	MICE & Business Tourism	5	7.7
RM15040 and above	0	0	Year of Service	N (65)	%
Number of Children	N (65)	%	< 1 year	24	36.9
No Children	57	87.7	1 – 9 years	38	58.5
1 Child	3	4.6	10 – 19 years	2	3.1
2 Children	2	3.1	20 – 29 years	1	1.5
3 Children	1	1.5	30 or more years	0	0
4 Children	1	1.5	House Monthly Payment	N (65)	%
> 4 Children	1	1.5	None	32	49.2
House Ownership	N (65)	%	< RM500	10	15.4
Rent	25	38.5	RM500 – RM1000	12	18.5
Own	10	15.4	RM1001 – RM2000	10	15.4
Belongs to the Parents	30	46.2	RM2001 – RM3000	1	1.5
Monthly Grocery Budget	N (65)	%	Yearly Family Vacation Budget	N (65)	%
None	5	7.7	None	23	35.4
< RM500	24	36.9	< RM500	2	3.1
RM500 – RM1000	28	43.1	RM500 – RM1000	15	23.1
RM1001 – RM2000	7	10.8	RM1001 – RM2000	9	13.8
RM2001 – RM3000	1	1.5	RM2001 – RM3000	5	7.7
Monthly Utility Budget	N (65)	%	RM3001 – RM4000	5	7.7
None	12	18.5	> RM4000	6	9.2
< RM500	37	56.9			
RM500 – RM1000	13	20.0			
RM1001 – RM2000	3	4.6			

4.2. Reliability Analysis

Reliability testing was conducted on the designed measurement model. The questionnaire's reliability was confirmed using a reliability test (Cronbach alpha) conducted in SPSS, as indicated by the findings. Hair et al. (2022) define consistency as the extent to which two measurements exhibit a strong correlation. Table 4.2 displays the Cronbach's alpha (CA) values for all constructs, which were consistently higher than 0.7, ranging from 0.720 to 0.955.

Table 4.2.

Measurement Items

Construct	N of Items	Cronbach's Alpha (CA)
Income	5	0.720
Price and Location of House	5	0.955
Type of House	5	0.881
Household Consumption	8	0.872

4.3. Income

Table 4.3 shows the income items. The respondents were asked five questions on a 5-point Likert scale. The overall items indicate income in the average range of 3.22 to 4.41.

Table 4.3.

Income Items

No	Items	N	Mean	Std. Deviation
IP1	Income is the main factor determining an individual's ability to own a house	65	4.41	0.811
IP2	I need to work additional overtime to earn a side income to support the family's needs	65	4.23	0.811
IP3	Based on my current income, I can afford to buy a house for my family	65	3.22	1.228
IP4	I have enough emergency savings in a situation requiring desperate financial resources	65	3.47	1.007
IP5	My income after paying the housing instalment is sufficient for our daily needs	65	3.34	1.144

4.4. Price and Location of House

Table 4.4 shows the price and location of house items. The respondents were asked five questions on a 5-point Likert scale. The overall items indicate the price and location of the house in the average range of 2.84 to 3.14.

Table 4.4.

Price and Location of House Items

No	Items	N	Mean	Std. Deviation
PL1	I can afford to own a house that is close to my workplace and located in a strategic location	65	3.14	1.255
PL2	The price of the house offered in the real estate market is currently within my financial eligibility rate	65	2.84	1.322
PL3	The price of the house that fits within your financial eligibility is located near my workplace	65	3.00	1.332
PL4	Tourism workers in the Klang Valley can afford houses close to their work location at the current market price	65	3.02	1.276

To be continued Table 4.4.

No	Items	N	Mean	Std. Deviation
PL5	The price of the house offered in the market is in line with the income I earn	65	3.00	1.308

4.5. Type of House

Table 4.5 shows the type of house items. The respondents were asked five questions on a 5-point Likert scale. The overall items indicate the type of house in the average range of 3.84 to 4.16.

Table 4.5.

Type of House Items

No	Items	N	Mean	Std. Deviation
TH1	If I did not live in my current home, I would prefer a more comfortable house with more bedrooms that fit my family's needs	65	3.94	0.957
TH2	I have a dream of owning more than one house for my family's future planning	65	4.05	0.916
TH3	My current house has enough bedrooms for my family members	65	3.84	1.130
TH4	My current home is suitable for my family's activities	65	3.95	0.983
TH5	I feel comfortable with the house my family and I live in now	65	4.16	0.895

4.6. Household Consumption

Table 4.6 shows the household consumption items. The respondents were asked eight questions on a 5-point Likert scale. The overall items indicate the household consumption in the average range of 3.48 to 4.24.

Table 4.6.

Household Consumption Items

No	Items	N	Mean	Std. Deviation
HC1	I find it easy to afford essential items like food and groceries	65	4.11	0.889
HC2	My household income can comfortably cover the costs of essential utilities (water, electricity, etc.)	65	3.97	0.905
HC3	My household income can comfortably cover the costs of essential children's expenses (diapers, formula, milk, babysitting, etc.)	65	3.76	1.035
HC4	I tend to purchase items that gain popularity (viral items) through their social media advertisements	65	3.48	1.340
HC5	Saving money is a wise financial decision that can benefit you and your household in the long run	65	4.19	0.884
HC6	Prioritising saving can be a proactive way to reduce stress and increase financial security	65	4.24	0.900
HC7	The diverse housing market options in my area allow me to find a home that fits my budget and preferences	65	3.77	1.165
HC8	I feel that cultural and recreational activities are accessible to different income groups	65	3.84	1.089

V. CONCLUSION AND DISCUSSION

The findings of this study indicate that income, price, location of house, type of house, and household consumption are crucial dynamics of household budgeting practices across various income groups within the Klang Valley region. The findings indicate that the respondents agree about the essentiality of budget practices. According to the validity and reliability test results, income, type of house, price and location, and household consumption were significant dimensions of household budgeting practices. This test is illustrated by the results at CA of 0.720, 0.955, 0.881, and 0.872 for income, type of house, price, location of the house, type of house, and household consumption, respectively. Therefore, the research accepted the validity and reliability of this dimension as reasonable measures. These research findings are consistent with the study conducted by Mahdzan et al. (2020).

This study also found the importance of budget allocation and expenditure priorities among low-income, middle-income, and high-income households, supported by Yunchao et al. (2020) and Shakur et al. (2021). Besar et al. (2020) and Mohamed et al. (2020) confirmed that income, type of house, price, location, type of house, and household consumption are related to the importance of budget allocation and expenditure priorities among all the income groups. Besides, the findings found that financial literacy and planning factors are also essential in budgeting practices, as Widjaja and Pertiwi (2021) stated.

According to Al Buhari et al. (2023), financial difficulties often result from limited knowledge, difficulty accessing necessary data, and lack of expertise. Therefore, it is imperative to enhance financial literacy, particularly among the youth, and it is vital to tackle this matter on a global scale to prevent imprudent financial choices and economic disruptions. Furthermore, Lee et al. (2019) and Al Buhari et al. (2023) confirmed that financial literacy affects how people manage their money and handle financial challenges, influencing financial decision-making, including judgments regarding investments, risk tolerance, saving, borrowing, and lifestyle choices. Engaging in financial planning can enhance an individual's overall welfare, as implementing financial planning strategies and fostering a culture of saving within a family is crucial to prevent excessive expenditure on superfluous items (Lee et al., 2019).

Nugraha et al. (2023) state that young people need financial literacy education to manage their money effectively. Youngsters nowadays struggle with spending control and investment understanding, leading to increased debt. However, interactive programs, games, simulations, and technology-based educational resources can improve financial literacy, enabling smarter financial decisions and wise investments (Nugraha et al., 2023). The study posits that acquiring financial information in isolation is inadequate for enhancing one's financial well-being. This statement underscores the need to improve one's financial literacy, consider one's financial situation, strategise financial objectives, attain financial autonomy, and enhance overall well-being (Iriani et al., 2021).

In conclusion, household budget practices have significant dynamics, including income, type of house, price and location, type of house, and household consumption. This study suggests that household budgets may enhance the tourism industry workers' quality of life with sound financial stability and sufficient income to support their daily lives. Instilling budgets and expenditure priority requires a solid understanding of budgeting and spending patterns. Since consumption rises with disposable income, home economics relies heavily on income constraints, and understanding saving habits is crucial to prevent wasteful expenditure. Abidin (2023) has emphasised that the government must

adopt a well-rounded approach to tackle the ever-increasing cost of living. Changes in spending patterns and living standards further exacerbate this issue. Several factors are responsible for this situation, such as income, wages, social security, household debts, poverty, and the rise in property prices (Abidin, 2023). Future researchers should broaden the research to identify the relationship between household budgets, education, and health, as these two elements are crucial in ensuring an individual's quality of life

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