

29 October 2014

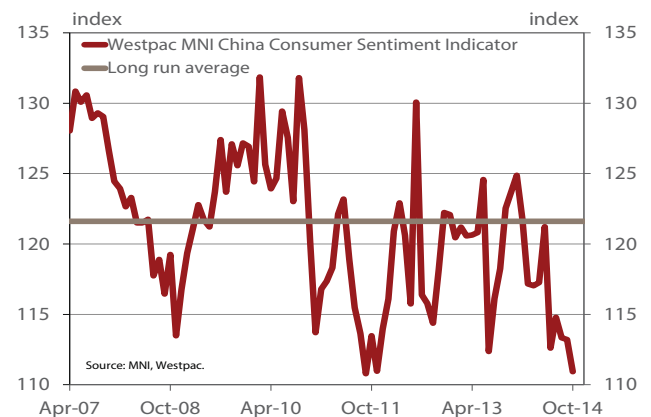
## Chinese consumer sentiment plunged in Oct Westpac MNI China CSI: 110.9, -2.3pts, -2.0% m/m Confidence craters as jobs & housing deepen anxiety levels

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, fell markedly in October from an already weak level, printing 110.9 versus 113.2 in September, a -2.0% change over the month and -9.5% over the year. The October outcome is 8.8% below the long run average. The survey indicates that the anxieties gnawing away at the Chinese consumer through most of this year remain very much in evidence as Q4 opens. Indeed, those anxieties arguably now run even deeper.
- We have noted repeatedly that households have been considerably less impressed with the state of the economy than have been manufacturing firms. Taking into account the weak tone of the general data flow over the last quarter or so, with hindsight we can safely claim that the **scepticism of the consumer** was closer to the mark.
- Each of the five components that go into the calculation of the **Westpac MNI China CSI** declined from the previous month. Current and expected **family finances** moved lower, by 1% and 2.5% respectively, while **'time to buy a major household item'** declined by 2%. **'Business conditions one year ahead'** and **'five years ahead'**, fell by 2.3% and 2.2% respectively. **Current business conditions** (not a part of the headline composite, but tightly correlated with official industrial production data) also declined, but by somewhat less than the forward looking measures. A month ago it seemed as though consumers did not expect the economy to weaken anew from its already underwhelming state. This survey questions that assumption.
- Back in June the **employment indicator** was sitting at levels that have been associated with policy easing in previous cycles. Four consecutive declines from those already depressed levels alongside weak official data provide a watertight case to strengthen policy support for growth. Westpac applauds the administration's plan to proceed with the publication of an internationally comparable unemployment rate. To date, the employment indicator from this survey has been the only reliable measure of labour market trends. We look forward to benchmarking to a credible official baseline before too long.
- The consumers' attitude towards **real estate** has been evolving in step with the market correction. **Expectations for house prices** fell for the fourth consecutive month in October; the share of respondents reporting it was a **'good time to buy a house'** fell further, while the proportion of consumers nominating a **housing purchase** as their **primary motivation for saving** fell. 15.6% of consumers now nominate domestic real estate as the **'wisest place for their savings'**, down from 22.1% in June. The reasoning behind the good/bad **'time to buy a house'** questions continue to imply that a durable upturn in the housing market will require an improvement in overall conditions, in addition to the easing of sectoral controls. The fact that the Sept 30 policy package was announced prior to this survey being undertaken underscores the point.
- Overall, this survey does not augur particularly well for the November 11 'Single's Day' online shopping sales, which is China's version of the US' Black Friday.

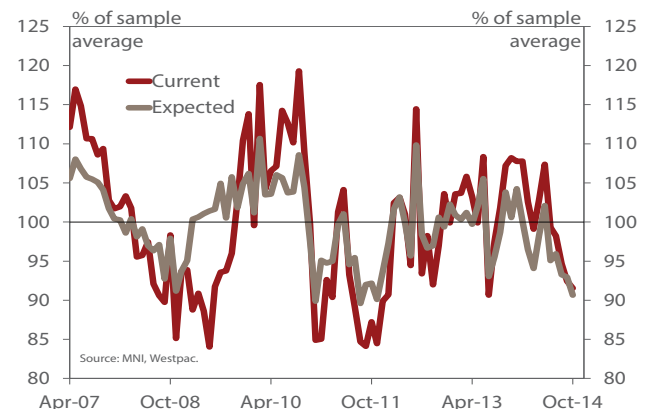
**Huw McKay** Senior international economist, +61 (2) 8254 9338

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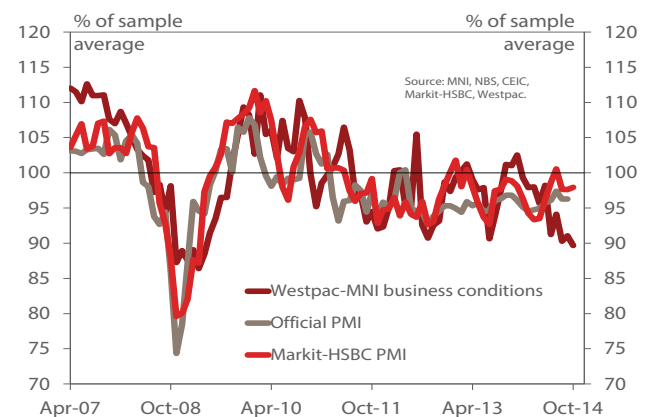
**Figure 1: Westpac MNI China CSI: the headline**



**Figure 2: Family finances: current & expected**

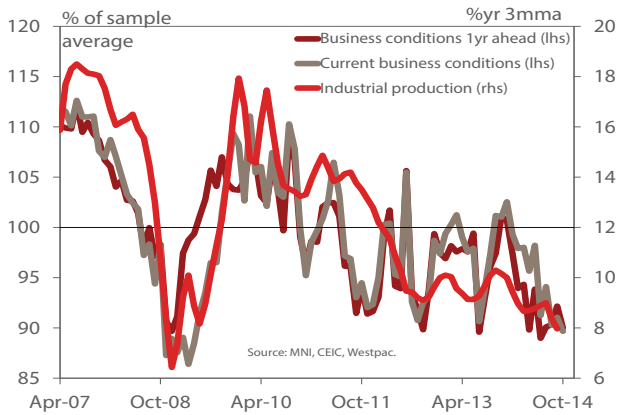


**Figure 3: Consumer perceptions of business conditions & the manufacturing business surveys**

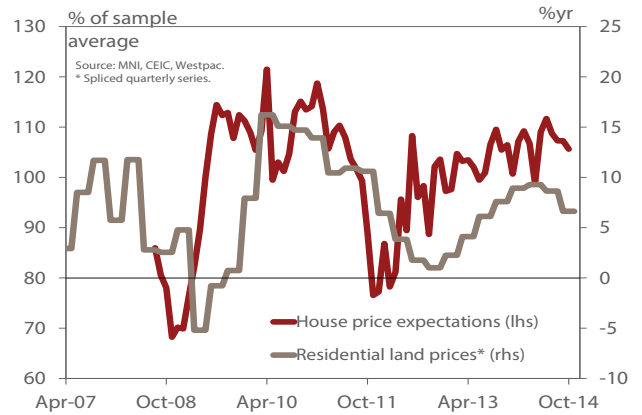


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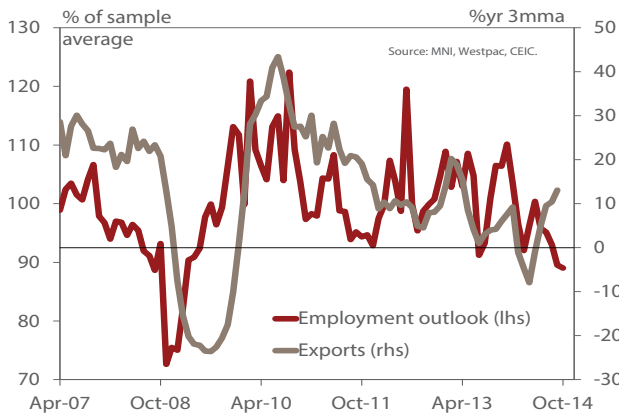
**Figure 4: Business conditions & industrial output**



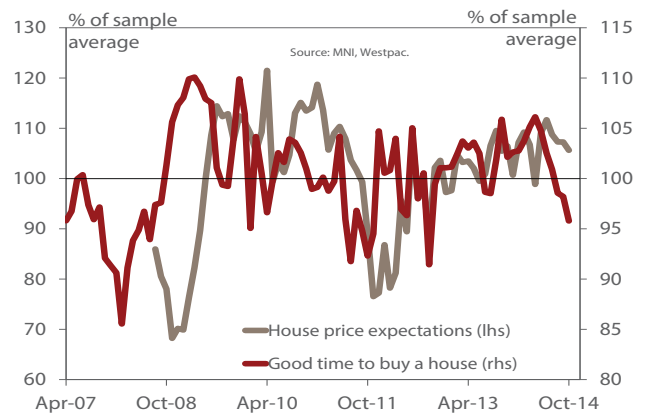
**Figure 5: Expected house prices & land prices**



**Figure 6: Employment outlook & export growth**



**Figure 7: House prices & 'good time to buy'**



**Table 1: The Westpac MNI China Consumer Sentiment Survey, October 2014**

	long run average <sup>1</sup>	level one year ago	level 6 mths ago	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
<b>Consumer Sentiment Indicator</b>	<b>121.6</b>	<b>122.5</b>	<b>117.3</b>	<b>112.6</b>	<b>114.8</b>	<b>113.3</b>	<b>113.2</b>	<b>110.9</b>
Current Indicator	109.5	113.9	111.2	105.7	105.3	104.0	102.6	101.1
Expectations Indicator	129.7	128.3	121.3	117.2	121.1	119.6	120.3	117.5
Personal finances vs a year ago	110.4	118.4	113.6	109.7	108.5	104.5	102.1	101.1
Personal finances next 12 months	122.1	126.8	120.0	116.1	117.1	113.9	113.5	110.7
Business conditions next 12 months	122.7	119.5	110.2	109.2	110.5	110.8	113.1	110.4
Business conditions next 5 years	144.3	138.5	133.8	126.4	135.6	134.0	134.3	131.3
Time to buy a major household item <sup>2</sup>	108.5	109.5	108.8	101.7	102.2	103.4	103.2	101.2
Housing composite	111.8	117.9	110.5	124.9	121.6	120.0	119.9	118.1
Auto composite	87.5	90.0	92.5	85.8	85.5	88.5	86.9	85.6
Business conditions vs a year ago	114.7	116.1	109.7	104.7	108.0	103.5	104.4	102.9
Employment expectations	107.1	114.1	103.0	102.6	101.9	99.6	95.9	95.3
House Price expectations	111.8	117.9	110.5	124.9	121.6	120.0	119.9	118.1
Inflation expectations	136.3	135.8	130.0	128.1	134.3	136.5	134.7	139.6
Interest rate expectations	114.9	117.6	112.9	115.3	114.8	114.4	113.7	114.0
Stock market expectations	108.5	103.8	112.3	96.0	101.7	104.0	101.1	98.1

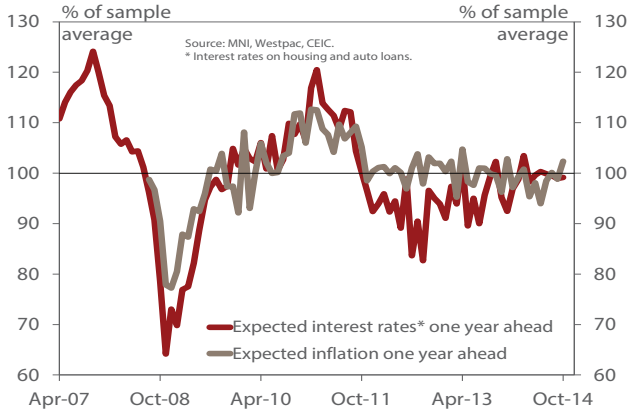
Note: all index point changes are calculated on rounded numbers; see page 7 for methodological details.

Sources for all tables: Westpac and MNI. 1. Average calculated from Apr-2007 to May-2014. 2. Referred to as "durable buying conditions" in figure 11 overleaf.

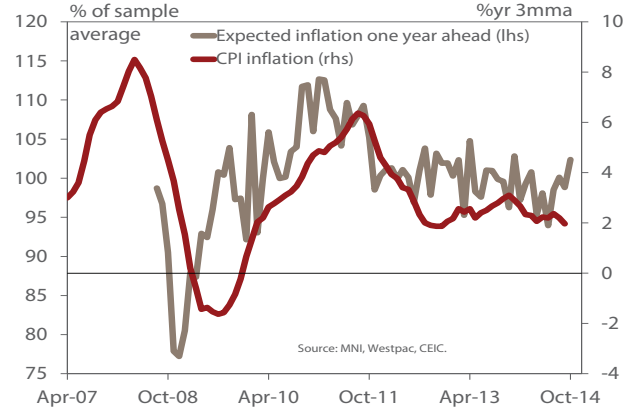
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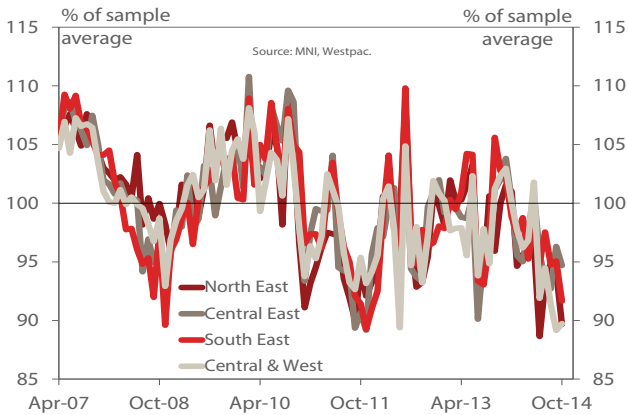
**Figure 8: Inflation & interest rate expectations**



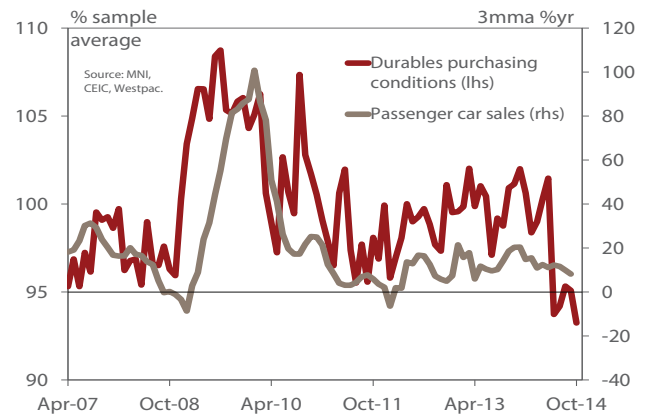
**Figure 9: Inflation expectations & the CPI**



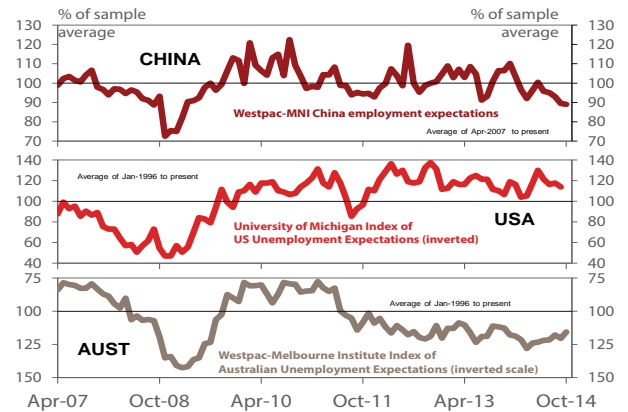
**Figure 10: Sentiment by region**



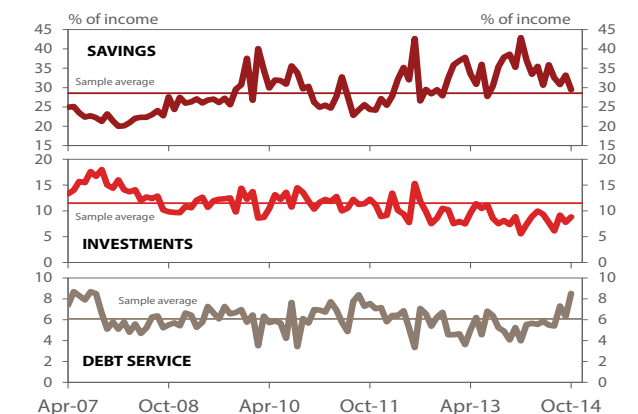
**Figure 11: Durables buying conditions & car sales**



**Figure 12: International comparison: jobs**



**Figure 13: Uses of household income**



**Table 2: Regional and major city results, headline CSI, October 2014**

	long run average	level one year ago	level 6 mths ago	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
<b>Eastern</b>	<b>120.9</b>	<b>121.3</b>	<b>116.2</b>	<b>112.4</b>	<b>114.1</b>	<b>113.8</b>	<b>115.1</b>	<b>111.2</b>
North East	121.5	116.5	115.8	107.7	113.2	115.3	114.4	<b>108.9</b>
Centre East	120.3	121.7	117.5	115.1	112.4	111.5	115.9	<b>113.9</b>
South East	120.9	127.7	115.2	114.7	117.9	114.6	114.9	<b>110.8</b>
Beijing	120.5	115.5	115.9	112.1	116.9	121.4	116.4	<b>115.6</b>
Shanghai	119.0	122.7	114.8	119.7	113.0	111.2	117.1	<b>115.3</b>
Guangzhou	120.8	130.3	110.1	112.2	118.4	111.1	123.1	<b>110.2</b>
<b>Central &amp; Western</b>	<b>123.0</b>	<b>124.6</b>	<b>119.1</b>	<b>113.1</b>	<b>116.3</b>	<b>112.4</b>	<b>109.7</b>	<b>110.4</b>

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**Table 3: Consumer savings motivations, all China: "What is the main reason you are saving?"**

	Future loss of income/job	Housing purchase or downpayment	Car purchase or downpayment	H'hold good purchase or downpayment	Children's schooling	Family health expenses	Own retirement	Saving to start your own business	Other*
June	30.1	9.9	2.1	2.6	12.0	22.1	12.6	1.8	6.9
July	30.1	8.0	1.3	1.2	13.6	21.1	14.5	3.0	7.1
August	24.4	6.5	1.6	3.8	14.4	22.8	14.1	2.6	9.9
September	28.3	7.9	1.9	2.1	13.7	23.4	12.3	2.6	7.9
October	27.9	5.5	2.8	3.1	15.2	23.3	14.7	2.3	5.3

**Table 4: Consumer savings preferences, all China: "What is the wisest place for your savings?"**

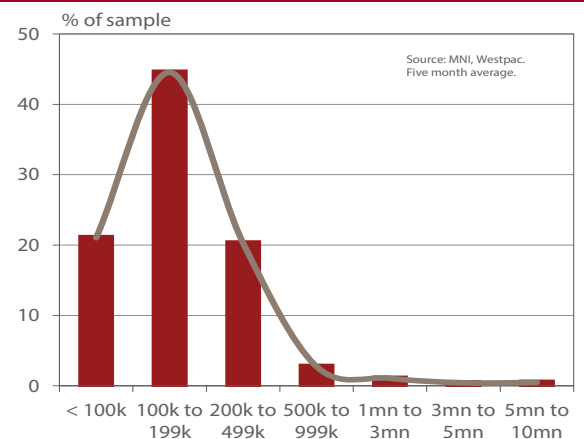
	Bank Deposits	Fund	Bonds	Local Shares	Foreign Shares	China Real Estate	Foreign Real Estate	Wealth management products^	Micro Finance Own Region	Pay Down Debt	Other*
June	36.4	4.9	3.3	5.1	0.2	22.1	0.2	16.9	0.6	1.7	8.6
July	42.4	4.0	2.3	4.2	0.2	16.8	0.6	16.3	1.1	0.7	11.3
August	35.1	4.4	2.7	6.6	0.3	18.5	0.2	20.2	1.0	0.4	10.6
September	35.1	6.9	6.4	4.5	0.2	13.8	0.5	20.4	1.3	0.4	10.5
October	38.2	4.6	1.8	5.7	0.1	15.6	0.2	21.3	0.4	0.9	11.2

Source to tables 3 and 4: MNI, Westpac. ^ Issued by either banks or trust companies. \* Includes both "Other" and "Don't know/refuse to answer". "Don't know" is generally zero with respect to savings motivations, but tends to be the dominant element of "other" in savings preferences. Note these figures have been revised due to a change in weighting methodology.

- The **Westpac MNI China Consumer Sentiment Survey** was expanded in June 2014 to incorporate detailed questions on the savings motivations of consumers; their preferred avenues for investing their savings; and the physical amount of savings that households have accrued (see figure 14).
- On **savings motivations** (table 3) we note that the generally 'defensive' or precautionary approach to savings attributed to Chinese households is backed up by the survey data. Roughly two in five respondents consistently nominate future loss of income or employment as their main motivation for saving. Family healthcare costs, schooling expenses and retirement all loom large in the budget calculus of households. Housing purchases and downpayments were cited by just under 10% of respondents as their primary savings motive back in June: that has now almost halved. That reflects a rational response to the material weakening of the housing market. Saving to establish one's own business, buy a car or a household durable have generally registered at or below 3%. The latter category relating specifically to durables purchasing plans rose in the month, possibly reflecting the introduction of the latest iteration of the Apple iPhone. A glance at the specific purchasing plans on the following page argues against that though, with 'buying conditions for communications devices' showing no unusual movement.
- Regarding **savings preferences** (table 4), deducing the overall **risk appetite of consumers** via their preferred asset classes is somewhat more straightforward than in the month of September, when deposit and wealth management products (WMPs) preferences were essentially unchanged and the step decline in attitudes towards domestic real estate was offset by increased interest in financial assets. In October, a more risk averse posture can be deduced from the 3.1ppt increase in bank deposits (38.2% from 35.1%) and a slight

further gain in WMPs, which have gained 5ppts since July. The popularity of WMPs is entirely consistent with official data on the rate of new issuance, but may surprise casual observers who recall the reputational issues that emerged earlier this year with certain types of WMPs. Domestic real estate has declined by 6.5ppts, from 22.1% in June to 15.6% in October, which is obviously not a great surprise. Even with this decline, domestic real estate remains more than twice as popular as direct investment in the stockmarket, even in the midst of a substantial house price correction. Non-deposit, non-WMP financial assets (i.e. equities, bonds and managed funds) collectively now attract 12.1% of respondents, down from 18% a month ago. The entire loss can be attributed to bonds (1.8% from 6.4% prior) and managed funds (4.6% from 6.9% prior), with local equities rising from 4.5% to 5.7%.

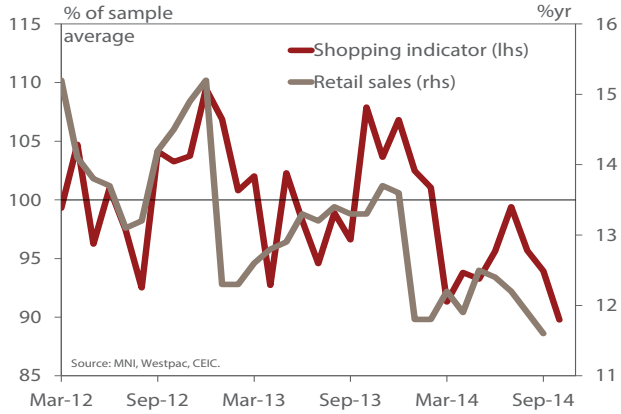
**Figure 14: The stock of household savings**



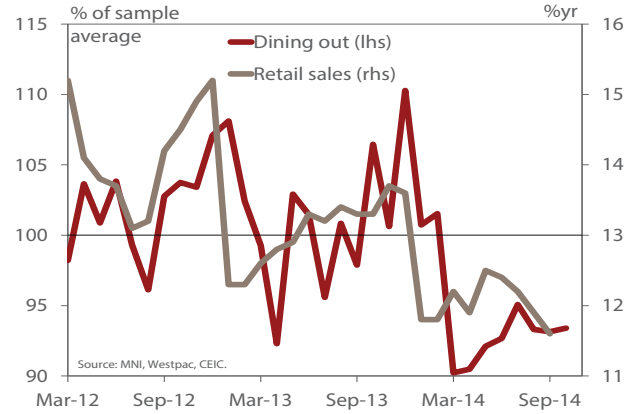
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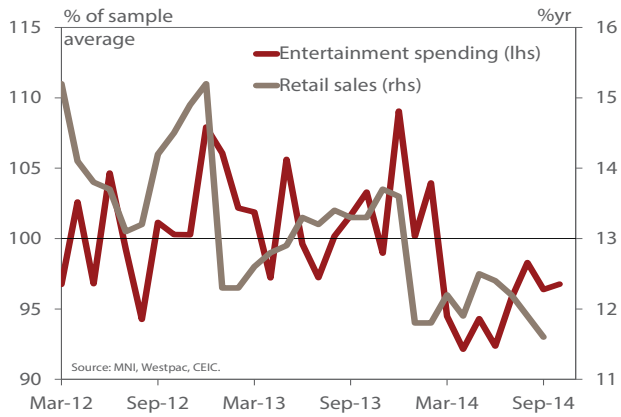
**Figure 15: Shopping indicator & retail sales**



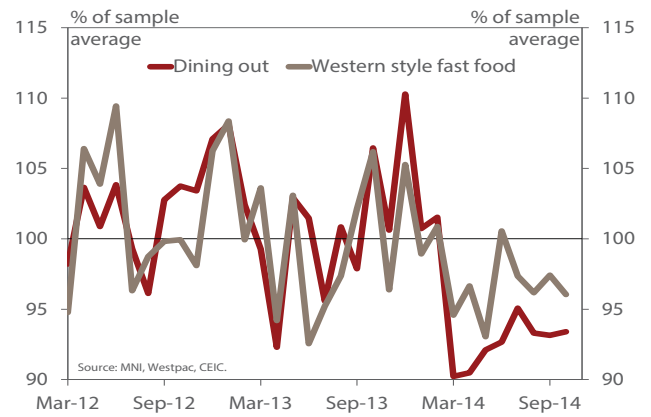
**Figure 16: 'Dining out' & retail sales**



**Figure 17: Entertainment spending & retail sales**



**Figure 18: Western style fast food & 'dining out'**



**Table 5: Selected indicators of spending plans & buying conditions**

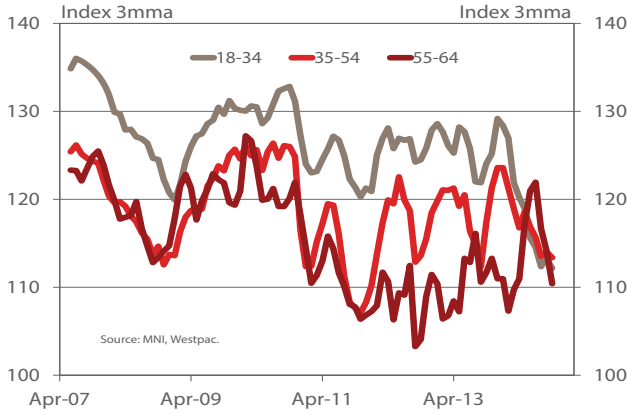
	long run average	level one year ago	level 6 mths ago	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14
<b>Expected change in spending on ... (net bal %)</b>								
Expected spending on <i>shopping</i>	104.7	113.0	98.2	100.1	104.1	100.2	98.4	<b>94.0</b>
Expected spending on <i>entertainment</i>	102.9	106.3	94.9	95.1	98.6	101.2	99.2	<b>99.6</b>
Expected spending on <i>dining out</i>	106.3	113.1	96.2	98.5	101.0	99.1	99.0	<b>99.3</b>
Expected spending on <i>Western style fast food</i>	92.6	98.4	89.5	93.2	90.2	89.1	90.2	<b>89.0</b>
<b>Buying conditions for ... (net bal %)</b>								
Buying conditions for <i>houses</i>	96.7	102.1	102.4	98.9	97.3	95.0	94.7	<b>92.4</b>
Buying conditions for <i>cars</i>	102.3	105.5	104.7	98.0	98.9	102.6	99.0	<b>97.0</b>
Buying conditions for <i>major household items</i>	108.3	109.5	108.8	101.7	102.2	103.4	103.2	<b>101.2</b>
Buying conditions for <i>IT products</i>	107.2	111.6	100.1	100.5	103.4	103.3	103.9	<b>102.8</b>
Buying conditions for <i>communication devices</i>	108.1	110.3	101.1	99.7	100.9	101.2	102.7	<b>102.5</b>
Buying conditions for <i>all other appliances</i>	107.3	110.6	101.9	99.8	102.7	102.1	103.2	<b>101.7</b>
<b>% nominating yes</b>								
Does your family <i>plan to buy a car</i> in the next 12 months?	13.0	15.0	14.3	12.5	10.0	12.4	12.4	<b>17.0</b>
Have you done any <i>online shopping</i> in the last 3 months?	na	na	na	54.1	56.3	54.4	57.2	<b>56.6</b>

Source: MNI, Westpac.

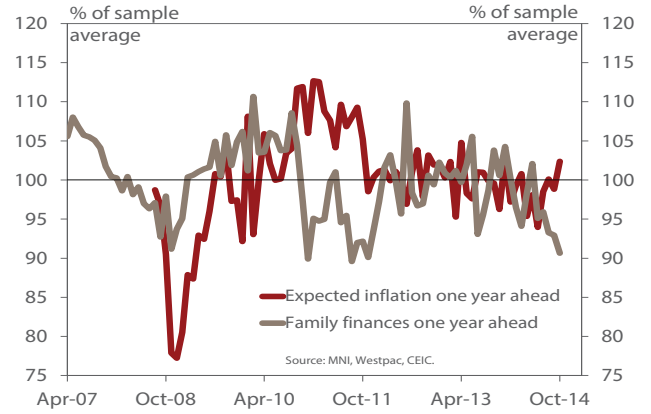
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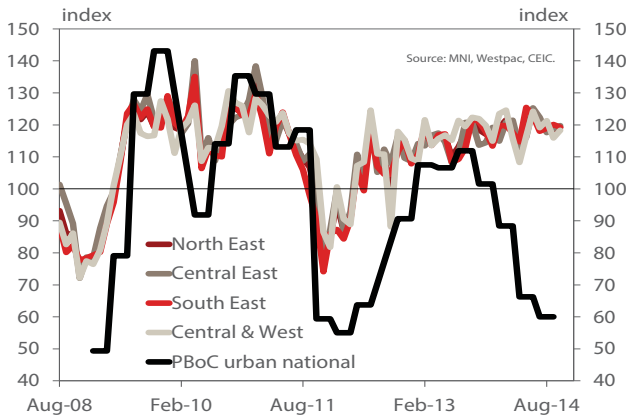
**Figure 19: Sentiment by age group**



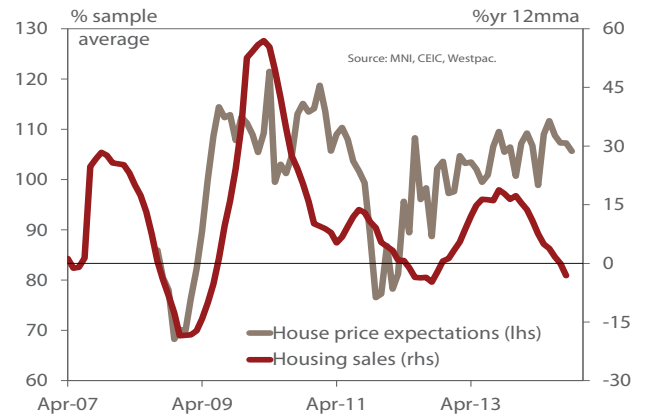
**Figure 20: Expected inflation & family finances**



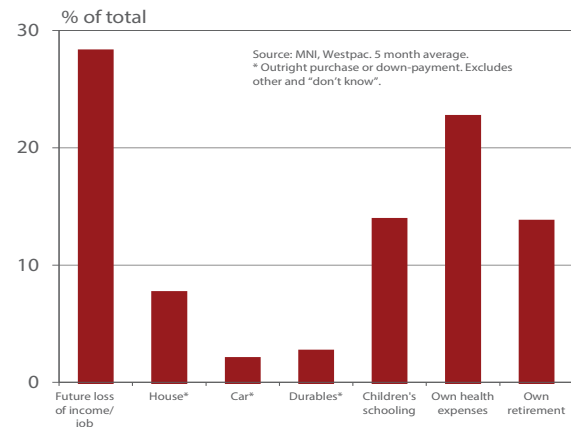
**Figure 21: House price expectations by region**



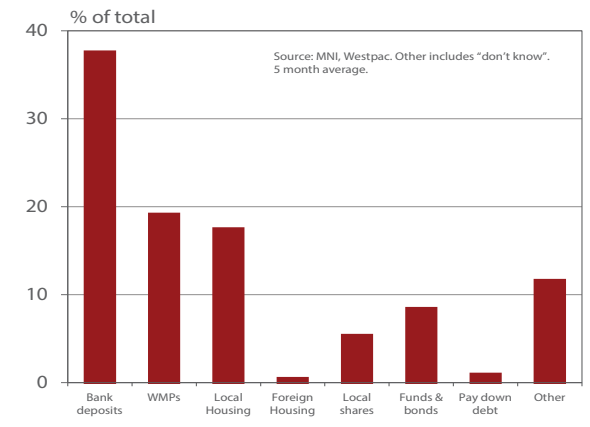
**Figure 22: House prices & housing sales**



**Figure 23: Motivations for savings**



**Figure 24: Wisest place for savings**



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## The survey at a glance

**Sponsor:** Westpac Banking Corporation.

**Production:** MNI Indicators.

**Release time:** The final Wednesday of each calendar month at 9:45am local time in the People's Republic of China.

**Date range:** Monthly since April 2007.

**Collection method:** Computer aided telephone interviews.

**Collection period:** Ten working days from the first business day of the month in the People's Republic of China.

**Sample size and geographic area:** Minimum of 1000 respondents aged between 18 and 64 across 30 cities in the 1st, 2nd and 3rd tiers. Cf. The University of Michigan surveys a minimum of 500 respondents in the United States excluding Alaska and Hawaii.

**Sampling error:** 3.5% for the "All China" series. Cf. The University of Michigan survey reports a sampling error of 5% at the national level.

**Disaggregation:** By age, by gender, by income, by region, sub-region and by tier 1 city for the entire series and by occupation from March 2012.

**Calculation method:** Each individual question is a diffusion index where 100 represents a neutral position, i.e. optimists and pessimists are equal in number. The headline and other composite indicators are weighted measures comprised of the individual diffusion indices.

**Seasonal adjustment:** The raw data has been analysed for identifiable seasonality using Census X-13. No identifiable seasonal pattern was present. Please refer to the Analytical User Guide for further discussion.

**Headline indicator:** The **Westpac MNI China CSI** is an equally weighted composite of two current and three forward looking assessments, namely current and future family finances; overall business conditions one and five years ahead; and buying conditions for major household items.

**Sub-indicators:** These cover consumer perceptions and/or intentions regarding employment conditions, the real estate and equity markets, autos, inflation, gasoline prices, shopping, entertainment, IT & communications products, dining out and interest rates.

**Other available information:** Household expenditure breakdown, detailed reasoning behind responses, profit and loss on stock investments, and more. Savings motivations and preferred asset classes are also tracked from June 2014 onwards.

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