

August 27 2014

Chinese consumer sentiment fell in August

Westpac MNI China CSI: 113.3, -1.5pts, -1.3% m/m

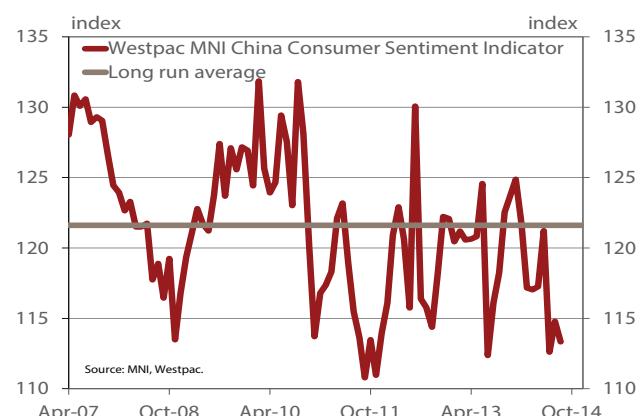
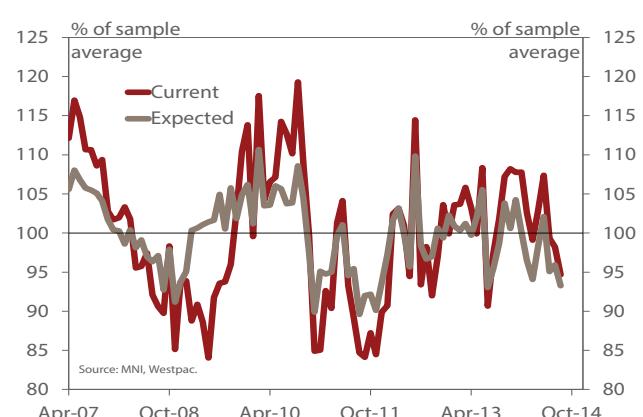
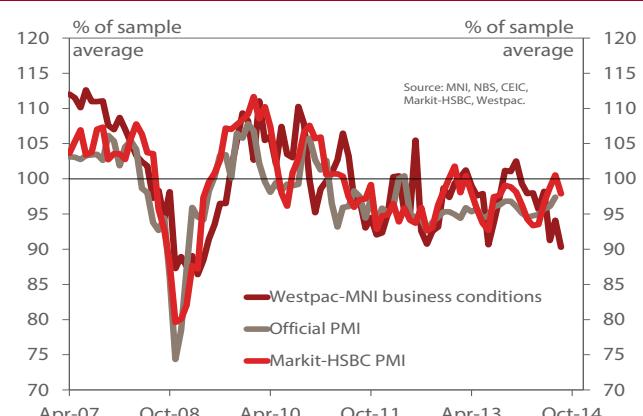
Consumers are not yet buying into the recovery narrative

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, fell modestly to 113.3 in August from 114.8 in July, a -1.3% change over the month and -2.4% over the year. The August outcome is 6.8% below the long run average. The survey indicates that the anxieties gnawing away at the Chinese consumer through the first half of the year remain in evidence, and have arguably strengthened.
- We noted at the time of the July release that a head-to-head comparison with the manufacturing surveys implied that households were less impressed with the state of the economy than the industrial sector. Taking into account the much softer than expected round of official July data that followed, and the weaker flash PMI for the month of August, it seems that the **instinctive scepticism of the consumer** was closer to the mark than industry's relative optimism.
- Three of the five components of the **Westpac MNI China CSI** declined from the previous month, with the exceptions being 'business conditions one year ahead' and 'time to buy a major household item'. Current and expected family finances both declined, by 3.6% and 2.8% respectively, reflecting ongoing concerns regarding the outlook for jobs. 'Business conditions five years ahead' gave back a little of their July bounce, but remain well above their June trough.
- The **employment indicator** continues to track at levels associated with policy easing in previous cycles. A further decline in August from the already depressed July reading implies that it would be most unwise for the authorities to declare victory too early on the growth front: particularly as the official CPI target of 3½% for 2014 seems unlikely to come under any threat, with **inflation expectations** still below their long run average.
- The consumers' confident attitude towards **real estate** in the first half of the year, which was in stark contrast to the gathering evidence of a deepening market correction, is beginning to fray at the edges. A less positive appraisal of the asset class shows up consistently across price expectations, 'time to buy', and the relevant questions on savings preferences and motivations. In particular, '**good time to buy a house**' fell below the long run average in August. The last time a sustained run of readings of this nature occurred was in 2011/12, a period when price declines were broad based across the country. Notwithstanding all of the above, in absolute terms consumers are still reporting **house price expectations** that are above the long run average, which is an expression of collective faith that easier policy will eventually carry the day, even if the short term situation looks increasingly shaky.
- From a balance sheet perspective, the **risk appetite of consumers** vis-à-vis their preferred asset classes increased marginally over July, with WMPs gaining share at the expense of bank deposits, but in absolute terms households continue to deploy their savings very conservatively (see page 4). Short term **expectations for stock prices** firmed for a second month.

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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

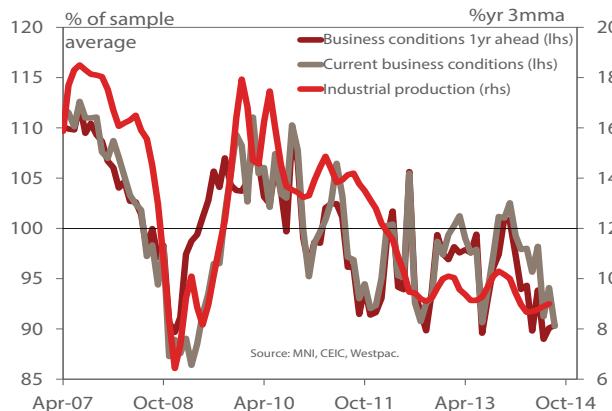


Figure 5: Expected house prices & land prices



Figure 6: Employment outlook & export growth

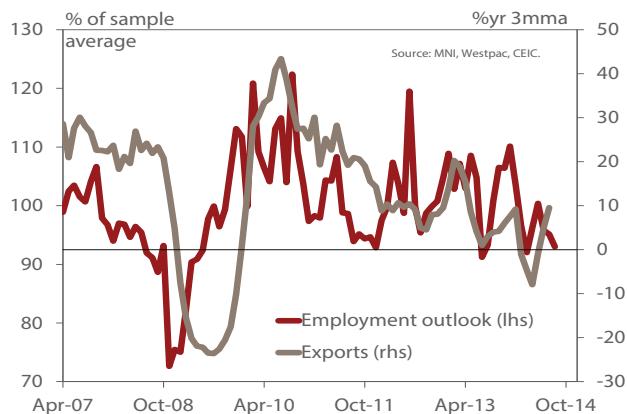


Figure 7: House prices & 'good time to buy'

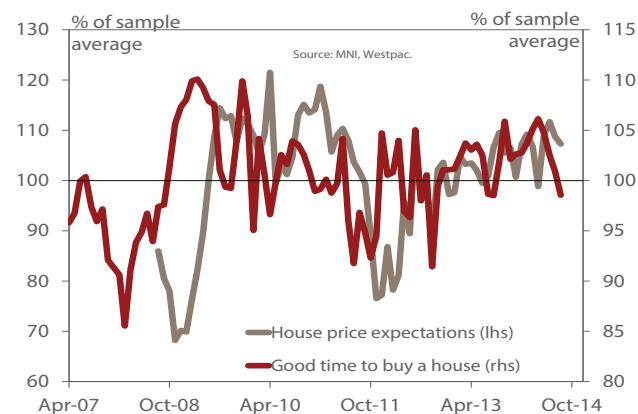


Table 1: The Westpac MNI China Consumer Sentiment Survey, August 2014

	long run average ¹	level one year ago	level 6 mths ago	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Consumer Sentiment Indicator	121.6	116.1	117.2	117.3	121.2	112.6	114.8	113.3
Current Indicator	109.5	107.6	110.0	111.2	114.3	105.7	105.3	104.0
Expectations Indicator	129.7	121.7	121.9	121.3	125.8	117.2	121.1	119.6
Personal finances vs a year ago	110.4	107.7	113.3	113.6	118.6	109.7	108.5	104.5
Personal finances next 12 months	122.1	116.6	117.8	120.0	124.6	116.1	117.1	113.9
Business conditions next 12 months	122.7	113.9	115.2	110.2	115.2	109.2	110.5	110.8
Business conditions next 5 years	144.3	134.7	132.8	133.8	137.7	126.4	135.6	134.0
Time to buy a major household item ²	108.5	107.6	106.7	108.8	110.1	101.7	102.2	103.4
Housing composite	111.8	119.2	122.2	110.5	121.9	124.9	121.6	120.0
Auto composite	87.5	90.0	91.5	92.5	92.0	85.8	85.5	88.5
Business conditions vs a year ago	114.7	107.6	112.3	109.7	112.7	104.7	108.0	103.5
Employment expectations	107.1	99.9	103.4	103.0	107.5	102.6	101.9	99.6
House Price expectations	111.8	119.2	122.2	110.5	121.9	124.9	121.6	120.0
Inflation expectations	136.3	137.6	135.3	130.0	133.7	128.1	134.3	136.5
Interest rate expectations	114.9	109.9	113.5	112.9	114.4	115.3	114.8	114.4
Stock market expectations	108.5	100.2	101.1	112.3	103.7	96.0	101.7	104.0

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

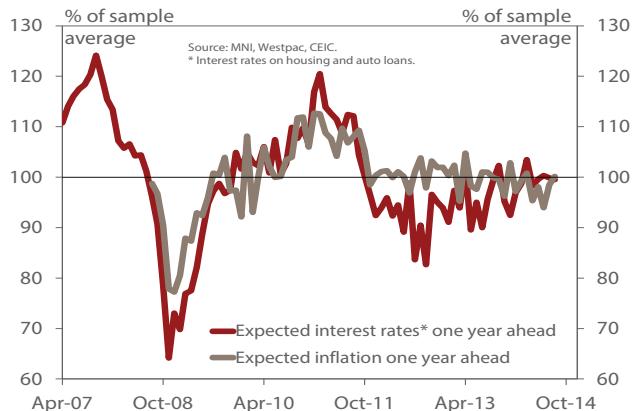


Figure 10: Sentiment by region

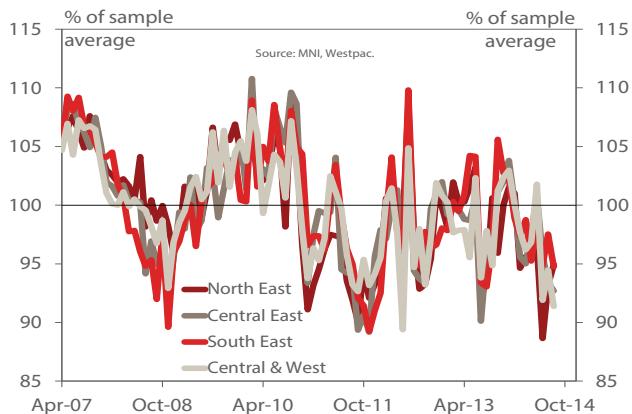


Figure 12: International comparison: jobs



Figure 9: Inflation expectations & the CPI

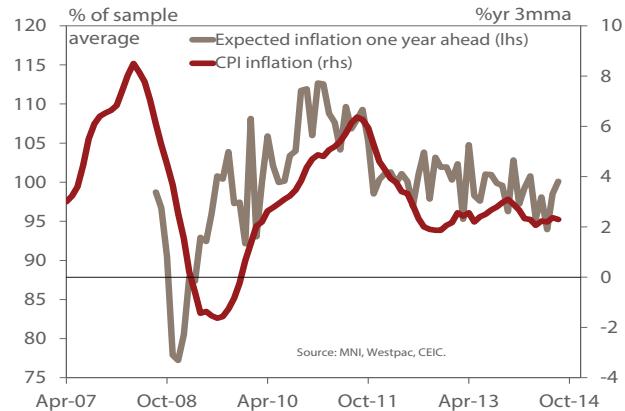


Figure 11: Durables buying conditions & car sales

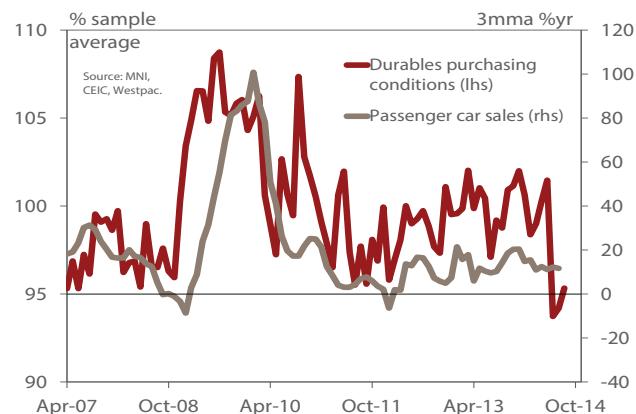


Figure 13: Uses of household income

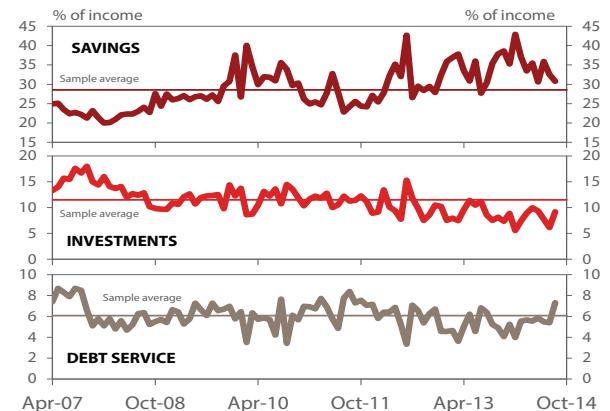


Table 2: Regional and major city results, headline CSI, August 2014

	long run average	level one year ago	level 6 mths ago	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Eastern	120.9	114.0	115.7	116.2	119.0	112.4	114.1	113.8
North East	121.5	113.9	114.9	115.8	117.3	107.7	113.2	115.3
Centre East	120.3	115.1	114.9	117.5	121.1	115.1	112.4	111.5
South East	120.9	112.5	117.8	115.2	118.7	114.7	117.9	114.6
Beijing	120.5	110.9	115.5	115.9	121.0	112.1	116.9	121.4
Shanghai	119.0	115.8	114.2	114.8	108.0	119.7	113.0	111.2
Guangzhou	120.8	116.9	114.9	110.1	116.1	112.2	118.4	111.1
Central & Western	123.0	120.4	120.2	119.1	125.2	113.1	116.3	112.4

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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	24.9	9.6	5.8	3.9	12.0	20.7	15.2	2.6	5.3
July	24.7	7.1	2.1	2.1	16.2	21.1	18.2	2.9	5.6
August	20.6	7.5	2.1	3.5	14.9	24.3	16.3	2.6	8.2

Table 4: Consumer savings preferences, all China: “Where is the wisest place for your savings?”

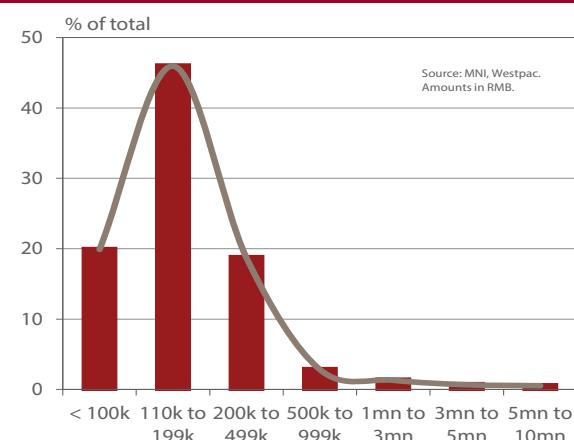
	Bank Deposits	Fund	Bonds	Local Shares	Foreign Shares	China Real Estate	Foreign Real Estate	Wealth management products [^]	Micro Finance Own Region	Pay Down Debt	Other*
June	35.2	7.9	4.0	8.9	0.1	20.1	0.1	15.0	0.5	1.5	6.8
July	38.4	5.0	3.1	8.1	0.4	16.4	0.5	16.5	1.1	0.6	9.7
August	31.9	6.3	3.2	8.2	0.5	19.6	0.2	19.7	0.9	0.3	9.3

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.

- 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 seen in June-July persisted in August, with approximately one fifth of respondents nominating future loss of income or employment as the main motive for saving. That does, however, represent a decline from one quarter of respondents in the previous survey, with family healthcare costs (24.3%) now looming even larger in the budget calculus of households. Housing purchases and downpayments were cited by just 7.5% of respondents as their primary savings motive, up a little from July. That is down from 9.6% in June, which reflects a rational response to the recent weakening of the housing market. Saving to establish one's own business, buy a car or a household durable all registered at or below 3½%. The latter category relating specifically to durables purchasing plans gained ground from July, consistent with the firmer ‘buying conditions’ reported overleaf.
- Regarding **savings preferences** (table 4), the **risk appetite of consumers** vis-à-vis their preferred asset classes increased marginally over July, but in absolute terms they continue to deploy their savings very conservatively. Bank deposits were favoured by 31.9% of respondents in August, down from 38.4% in July. The *level* is consistent with the predominantly precautionary motivations for saving in the first place and the *change* points to an increased risk appetite in the month. The second and third most favoured vehicles for savings are wealth management products (WMPs) and domestic real estate, which both register just short of 20%, with gains of around 3pps in each item coming at the expense of deposits. 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 remains more than twice as popular as direct investment in the stockmarket, even in the midst of a substantial house price correction, although collectively, equities, bonds and managed funds (i.e. non-deposit, non-WMP financial assets) attract 18% of respondents. Foreign real estate and ‘pay down debt’ again had fewer than 1% of households nominating them as the wisest place for their savings. That reflects two facts about China's financial landscape. *One*: foreign property acquisition reflects the diversification of a very small part of the overall savings stock in China, even if the size of that flow may be considerable for some destination markets. *Two*: low levels of average debt create very few servicing issues for households. Even with a jump in the month of August, only 7.3% of household income went towards the servicing of loans, while more than three quarters of respondents reported spending 0% of their income (i.e. nothing) on loan repayments over the last year.

Figure 14: Distribution of household savings



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Figure 15: Shopping indicator & retail sales

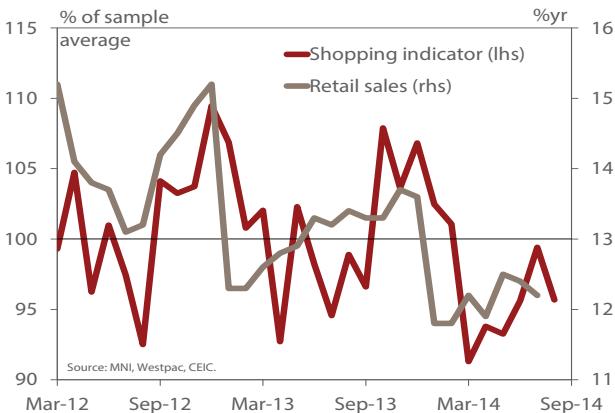


Figure 16: 'Dining out' & retail sales

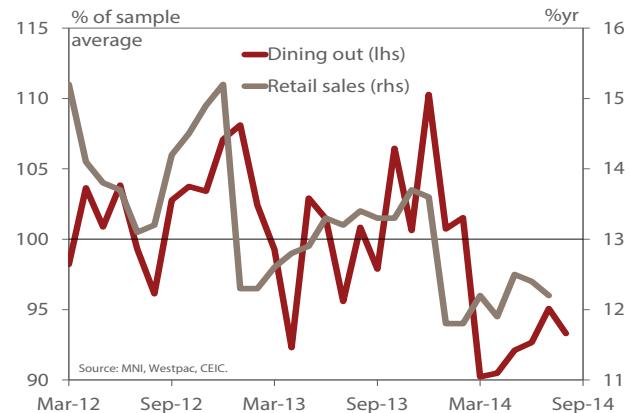


Figure 17: Entertainment spending & retail sales

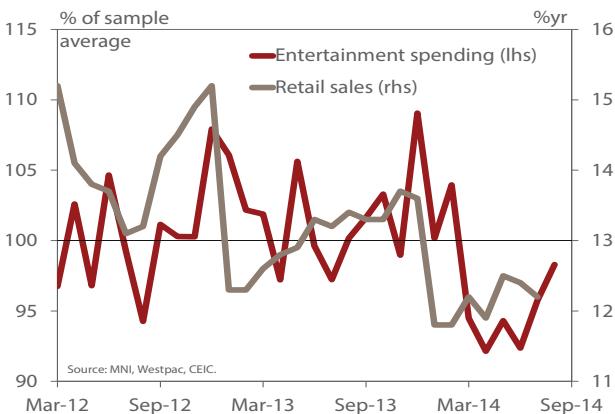


Figure 18: Western style fast food & 'dining out'

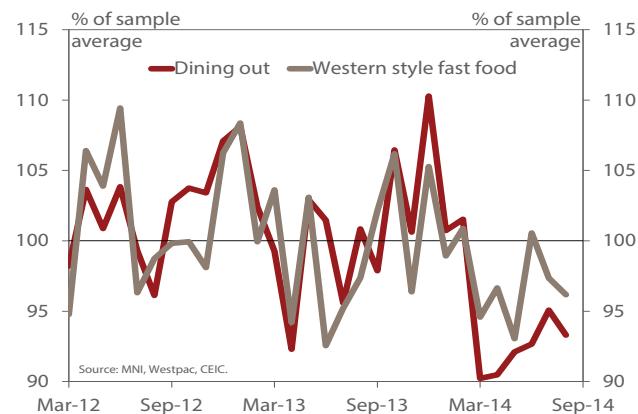


Table 5: Selected indicators of spending plans and buying conditions, August 2014

	long run average	level one year ago	level 6 mths ago	Apr-14	May-14	Jun-14	Jul-14	Aug-14
Expected change in spending on ... (net bal %)								
Expected spending on <i>shopping</i>	104.7	103.6	105.8	98.2	97.7	100.1	104.1	100.2
Expected spending on <i>entertainment</i>	102.9	103.1	107.0	94.9	97.1	95.1	98.6	101.2
Expected spending on <i>dining out</i>	106.3	107.2	107.9	96.2	97.9	98.5	101.0	99.1
Expected spending on <i>Western style fast food</i>	92.6	90.2	93.4	89.5	86.2	93.2	90.2	89.1
Buying conditions for ... (net bal %)								
Buying conditions for <i>houses</i>	96.7	95.0	100.0	102.4	101.0	98.9	97.3	95.0
Buying conditions for <i>cars</i>	102.3	102.1	103.4	104.7	105.8	98.0	98.9	102.6
Buying conditions for <i>major household items</i>	108.3	107.6	106.7	108.8	110.1	101.7	102.2	103.4
Buying conditions for <i>IT products</i>	107.2	105.2	109.6	100.1	108.9	100.5	103.4	103.3
Buying conditions for <i>communication devices</i>	108.1	106.5	109.9	101.1	102.5	99.7	100.9	101.2
Buying conditions for <i>all other appliances</i>	107.3	106.9	105.8	101.9	104.7	99.8	102.7	102.1
% nominating yes								
Does your family <i>plan to buy a car</i> in the next 12 months?	13.0	15.1	9.6	14.3	11.4	12.5	10.0	12.4
Have you done any <i>online shopping</i> in the last 3 months?	na	na	na	86.4	87.3	54.1	56.3	54.4

Source: MNI, Westpac.

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Figure 19: Sentiment by age group

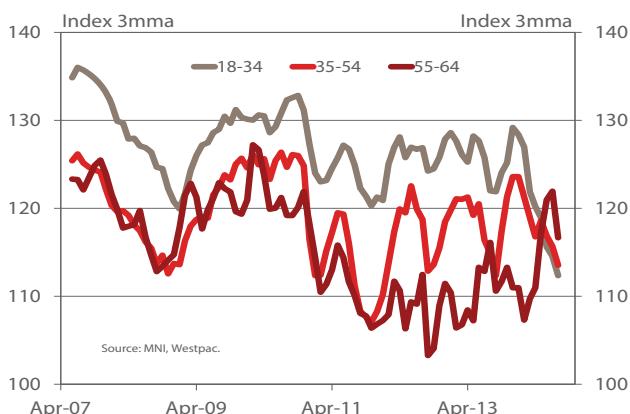


Figure 20: Expected inflation & family finances

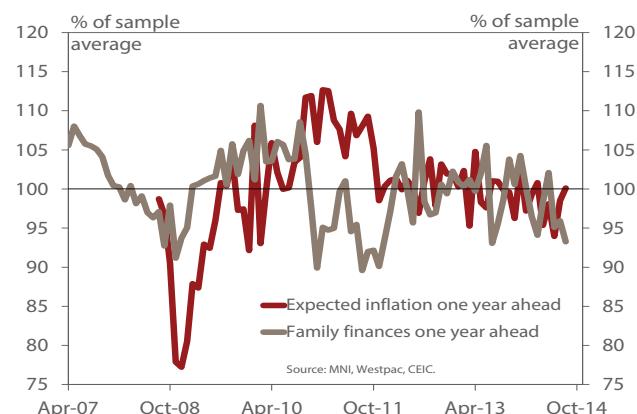


Figure 21: House price expectations by region

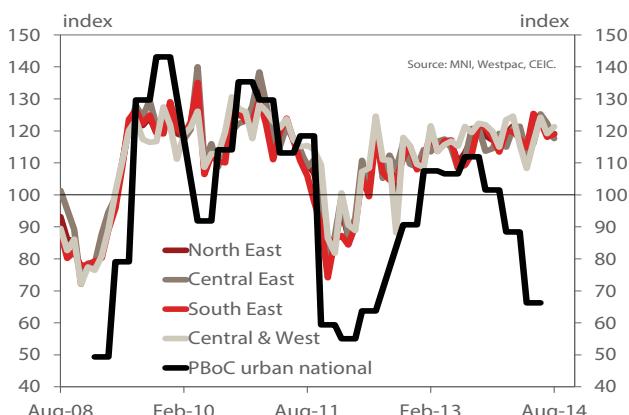


Figure 22: House prices & housing sales

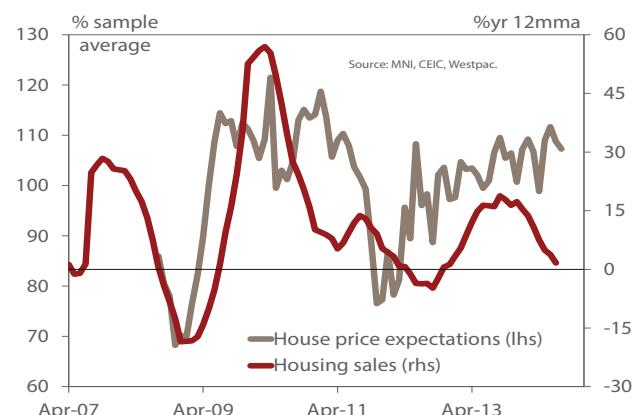


Figure 23: Motivations for savings

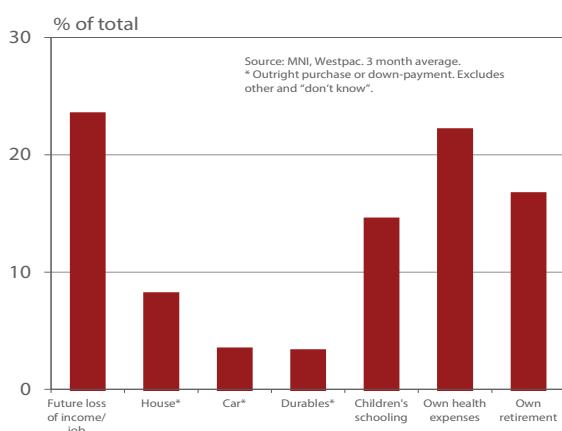
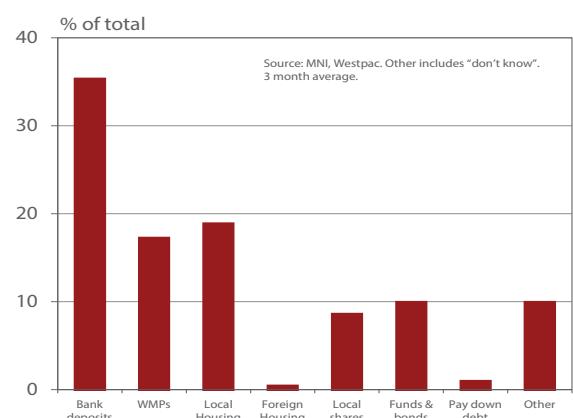


Figure 24: Wisest place for savings



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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.

Bloomberg ticker: <MNCCINDX> <INDEX> <GO> or type <WESTPAC MNI> <HELP>

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