

26 November 2014

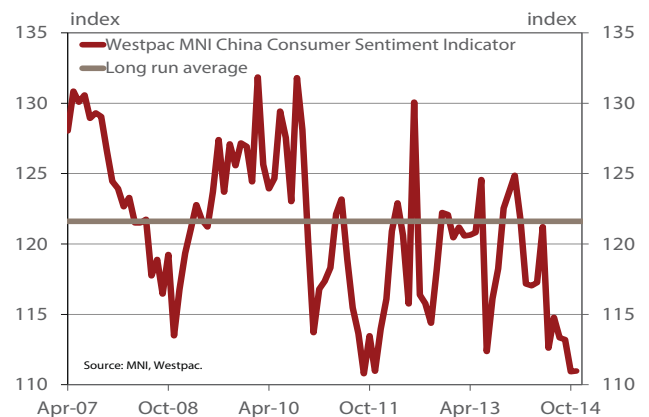
## Chinese consumer sentiment steady in Nov Westpac MNI China CSI: 111.0, +0.0pts, +0.04% m/m Confidence stabilises at low levels, housing sentiment firmer

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, was essentially unchanged in November, printing 111.0 versus 110.9 in October, a +0.04% change over the month and -10.3% over the year. The November outcome is 8.7% below the long run average. The survey indicates that the anxieties that have been gnawing away at the Chinese consumer throughout the year remain in evidence. However, there are some tentative signs that the dominant themes of late - pronounced pessimism regarding the housing and labour markets - are shifting in a more favourable direction.
- Four of the five components that go into the calculation of the **Westpac MNI China CSI** improved from the previous month. Current and expected **family finances** moved higher, by 0.8% and 1.3% respectively, while **'time to buy a major household item'** increased by 1.9%. **'Business conditions one year ahead'** were the weakest link in November, down a striking 4.1%, with the **'five years ahead'** index up 0.6%. **Current business conditions** (not a part of the headline composite, but tightly correlated with official industrial production data) declined narrowly. Consumers seem to be unimpressed with the state of the economy generally, but they are somewhat more positive with respect to their own finances. This apparent inconsistency is due to a perception that inflation is less of a 'tax' at present; in addition to the aforementioned shifts in job and housing sentiment (discussed in more detail below).
- The **employment indicator** has been weak from June through October, during which time it presented a watertight case that the policy support for growth should be strengthened. The downtrend was finally broken this month, with a welcome 4.7% gain. However, the indicator is still 12.4% lower than a year ago, implying absolute **job security** remains in short supply.
- The consumers' attitude towards **real estate** showed signs of improvement in November, with favourable directional shifts across a range of measures, although to be fair the scale of the moves are small. **Expectations for house prices** broke a string of four declines dating back to June; the share of respondents reporting it was a **'good time to buy a house'** rose a little, while 17.0% of consumers now nominate domestic real estate as the **'wisest place for their savings'**, up from 15.6% in October. The exception to the trend of improvement was that the proportion of consumers nominating a **housing purchase** as their **primary motivation for saving** fell again. This slightly more optimistic overall appraisal of the housing market is an extremely welcome development, as it indicates that the September 30 policy support package is beginning to gain some traction following a lukewarm initial reception in October.
- Overall, the tentative consolidation evident in this survey is consistent with our view that growth bottomed out in late Q3. In addition to the more positive housing data coming from other sources and the symbolic import of the interest rate cuts (which post-date this survey), we argue that the distribution of risks regarding the 2015 outlook are more balanced than the pessimistic rhetoric of the analyst community would suggest.

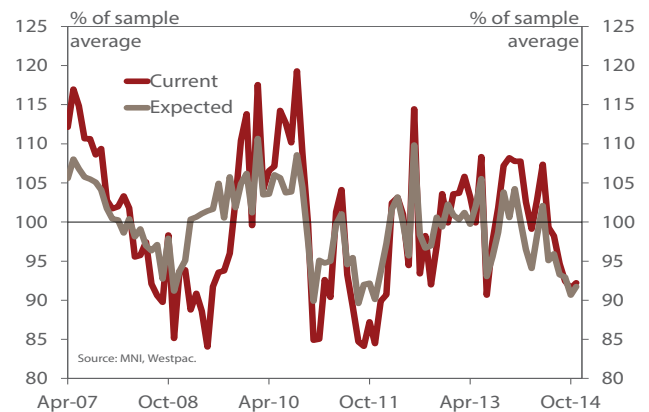
**Huw McKay** Senior international economist, +61 (2) 8254 9338

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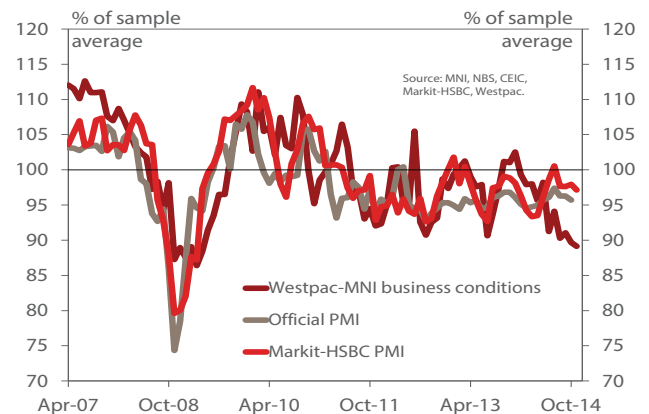
**Figure 1: Westpac MNI China CSI: the headline**



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

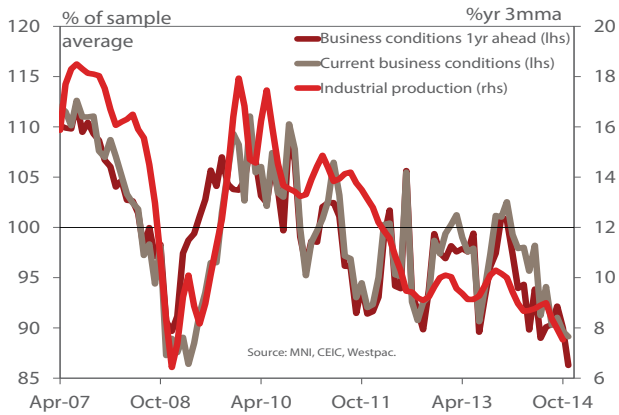


**Figure 3: Consumer perceptions of business conditions & the manufacturing business surveys**

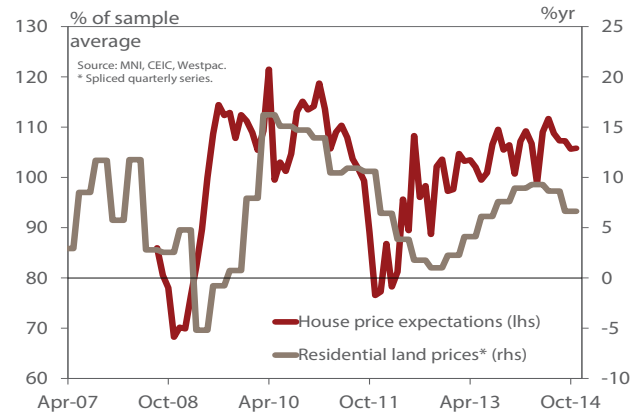


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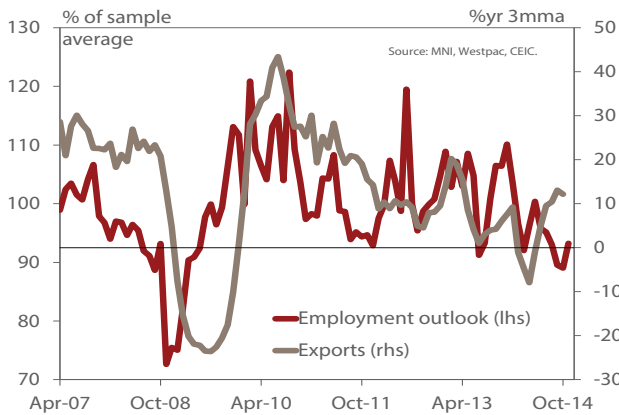
**Figure 4: Business conditions & industrial output**



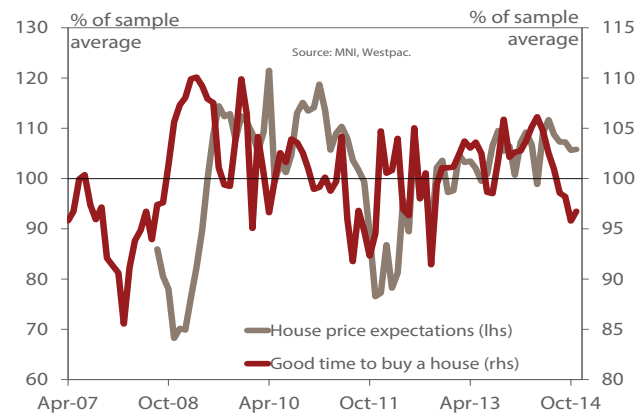
**Figure 5: Expected house prices & land prices**



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



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



**Table 1: The Westpac MNI China Consumer Sentiment Survey**

	long run average <sup>1</sup>	level one year ago	level 6 mths ago	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
<b>Consumer Sentiment Indicator</b>	<b>121.6</b>	<b>123.7</b>	<b>121.2</b>	<b>114.8</b>	<b>113.3</b>	<b>113.2</b>	<b>110.9</b>	<b>111.0</b>
Current Indicator	109.5	114.6	114.3	105.3	104.0	102.6	101.1	<b>102.5</b>
Expectations Indicator	129.7	129.8	125.8	121.1	119.6	120.3	117.5	<b>116.6</b>
Personal finances vs a year ago	110.4	119.5	118.6	108.5	104.5	102.1	101.1	<b>101.8</b>
Personal finances next 12 months	122.1	122.8	124.6	117.1	113.9	113.5	110.7	<b>112.0</b>
Business conditions next 12 months	122.7	124.0	115.2	110.5	110.8	113.1	110.4	<b>105.9</b>
Business conditions next 5 years	144.3	142.6	137.7	135.6	134.0	134.3	131.3	<b>132.1</b>
Time to buy a major household item <sup>2</sup>	108.5	109.7	110.1	102.2	103.4	103.2	101.2	<b>103.1</b>
Housing composite	111.8	119.1	121.9	121.6	120.0	119.9	118.1	<b>118.3</b>
Auto composite	87.5	90.4	92.0	85.5	88.5	86.9	85.6	<b>87.4</b>
Business conditions vs a year ago	114.7	115.9	112.7	108.0	103.5	104.4	102.9	<b>102.2</b>
Employment expectations	107.1	113.9	107.5	101.9	99.6	95.9	95.3	<b>99.9</b>
House Price expectations	111.8	119.1	121.9	121.6	120.0	119.9	118.1	<b>118.3</b>
Inflation expectations	136.3	131.2	133.7	134.3	136.5	134.7	139.6	<b>138.0</b>
Interest rate expectations	114.9	109.4	114.4	114.8	114.4	113.7	114.0	<b>112.9</b>
Stock market expectations	108.5	99.2	103.7	101.7	104.0	101.1	98.1	<b>98.5</b>

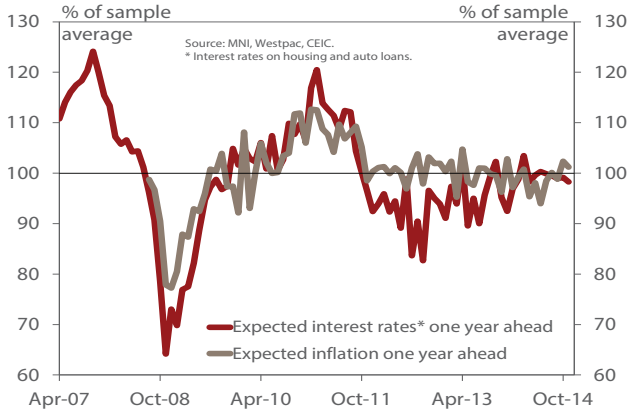
Note: all index point changes are calculated on rounded numbers; see page 7 for methodological details.

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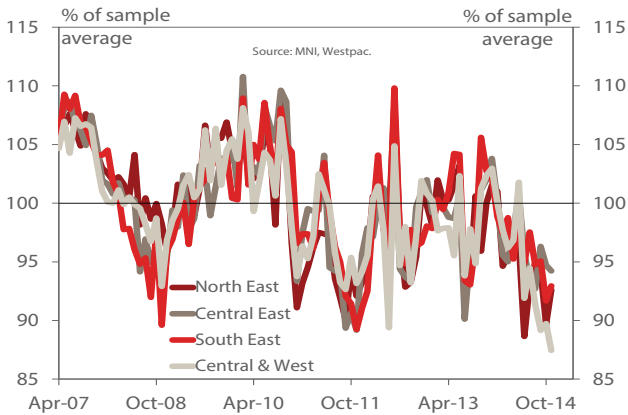
**Figure 8: Inflation & interest rate expectations**



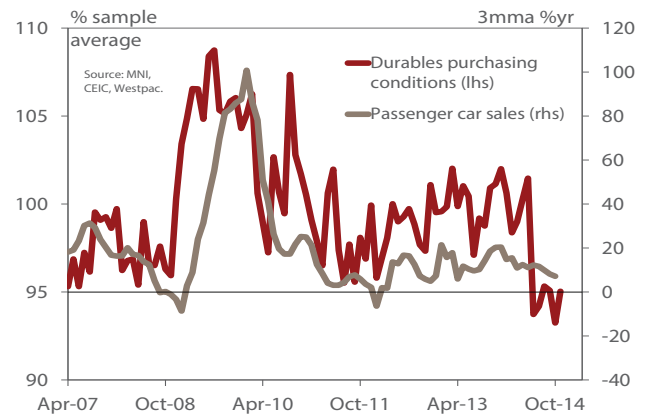
**Figure 9: Inflation expectations & the CPI**



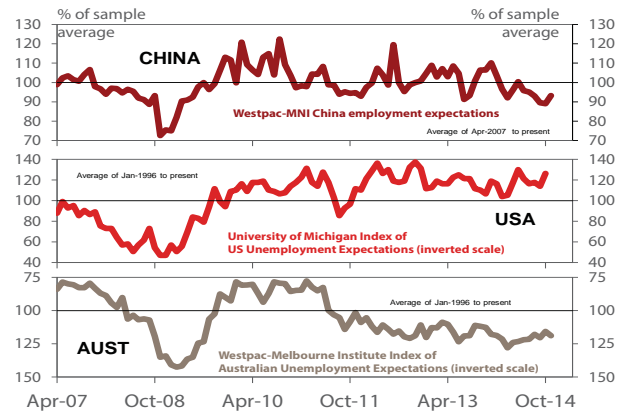
**Figure 10: Sentiment by region**



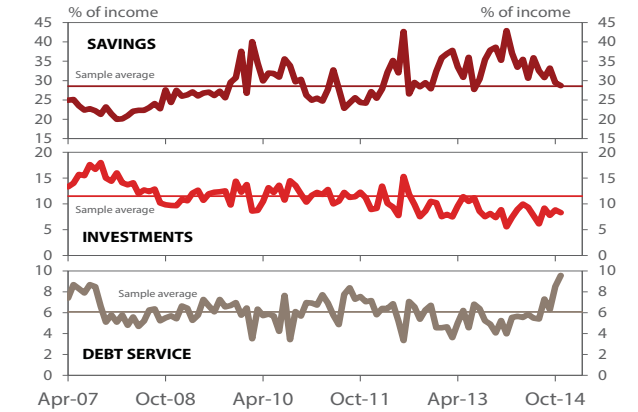
**Figure 11: Durables buying conditions & car sales**



**Figure 12: International comparison: jobs**



**Figure 13: Uses of household income**



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

	long run average	level one year ago	level 6 mths ago	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
<b>Eastern</b>	<b>120.9</b>	<b>122.6</b>	<b>119.0</b>	<b>114.1</b>	<b>113.8</b>	<b>115.1</b>	<b>111.2</b>	<b>112.8</b>
North East	121.5	121.5	117.3	113.2	115.3	114.4	108.9	112.5
Centre East	120.3	122.7	121.1	112.4	111.5	115.9	113.9	113.4
South East	120.9	124.2	118.7	117.9	114.6	114.9	110.8	112.4
Beijing	120.5	121.1	121.0	116.9	121.4	116.4	115.6	113.2
Shanghai	119.0	125.9	108.0	113.0	111.2	117.1	115.3	117.8
Guangzhou	120.8	131.6	116.1	118.4	111.1	123.1	110.2	116.8
<b>Central &amp; Western</b>	<b>123.0</b>	<b>125.9</b>	<b>125.2</b>	<b>116.3</b>	<b>112.4</b>	<b>109.7</b>	<b>110.4</b>	<b>107.6</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
November	22.2	4.4	1.7	3.5	15.2	26.6	15.6	2.9	7.7

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

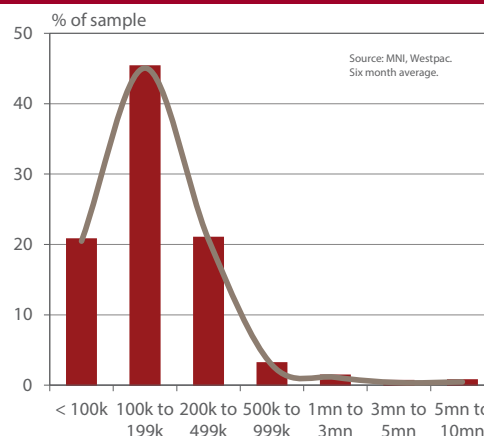
	Bank Deposits	Fund	Bonds	Local Shares	Foreign Shares	China Real Estate	Foreign Real Estate	Wealth management products^	Micro Finance Own Region	Pay Down Debt	Other*
June	36.4	4.9	3.3	5.1	0.2	22.1	0.2	16.9	0.6	1.7	8.6
July	42.4	4.0	2.3	4.2	0.2	16.8	0.6	16.3	1.1	0.7	11.3
August	35.1	4.4	2.7	6.6	0.3	18.5	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
November	35.4	4.5	4.3	5.3	0.2	17.0	0.3	22.6	0.3	0.5	9.5

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. Between 20% and 30% of respondents consistently nominate **future loss of income or employment** as their primary motivation for saving. Readings near the top of that range reflect considerable unease regarding the state of the labour market; readings at the lower end reflect a level of relative comfort on this front, all other things equal. Ergo, the November print of 22.2% is a sign that consumers are feeling less anxious on this front, consistent with the increase in the employment indicator. Family healthcare costs, schooling expenses and retirement continue to loom large in the budget calculus of households, which are all 'non-discretionary' items that drive a structurally high savings rate. **Housing purchases and downpayments** were cited by just under 10% of respondents as their primary savings motive back in June: that has now more than halved, to 4.4%. That reflects a rational response to the trend weakening of the housing market, although given the general improvement in other real estate indicators this month, this item might reasonably have been expected to have held its ground. Therefore, it is a useful curb on any excessive enthusiasm emanating from the tentative evidence of housing stabilisation available elsewhere.
- Regarding *savings preferences* (table 4), it is possible to deduce the overall **risk appetite of consumers** via their preferred asset classes. In November, a less overtly risk

averse posture can be deduced from the 2.8ppt decrease in bank deposits (38.2% to 35.4%, noting again that the deposit rate cut post-dates the survey) and the modest increase in domestic real estate, from 15.6% in October to 17.0%. Non-deposit, non-WMP financial assets (i.e. equities, bonds and managed funds) collectively now attract 14.1% of respondents, up from 12.1% a month ago, with local equities down a touch, from 5.7% to 5.3%. Noting that the 'Hong Kong-Shanghai Connect' scheme launched this month, that is somewhat disappointing. Attitudes towards foreign equities went from 0.05% to 0.24% - which is not quite the dramatic shift one may have anticipated in the wake of this latest initiative towards the liberalisation of private capital flows.

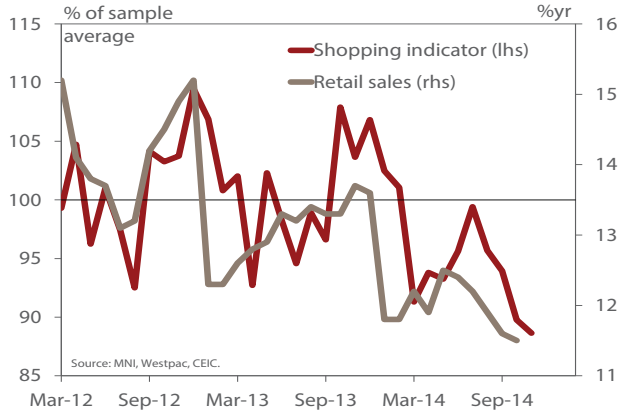
**Figure 14: The stock of household savings**



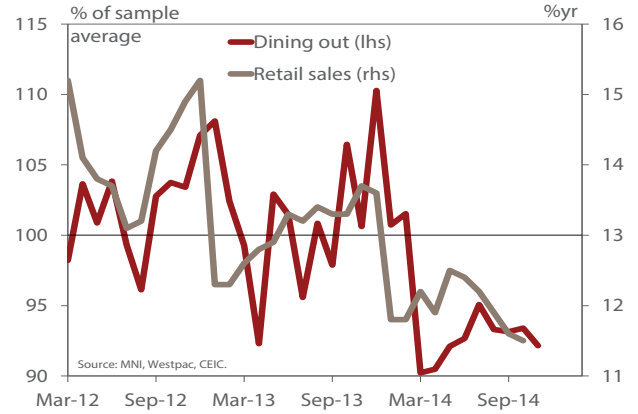
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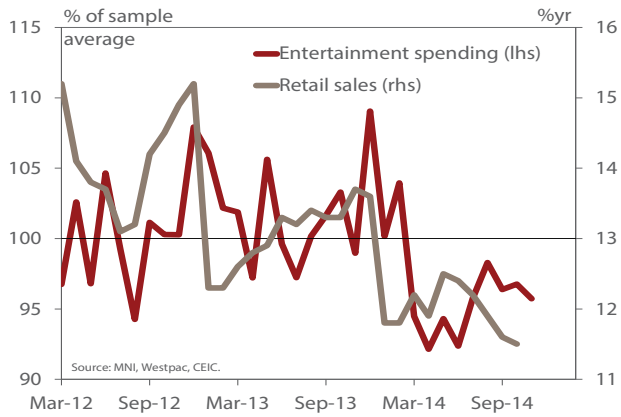
**Figure 15: Shopping indicator & retail sales**



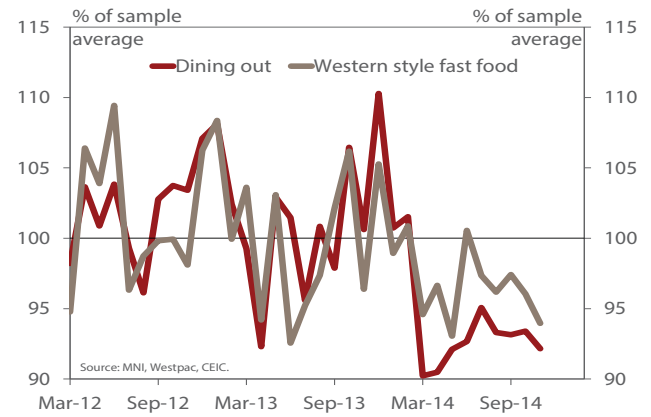
**Figure 16: 'Dining out' & retail sales**



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



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



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

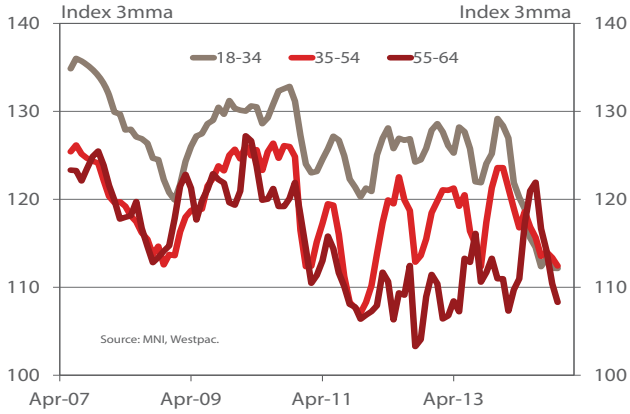
	long run average	level one year ago	level 6 mths ago	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14
<b>Expected change in spending on ... (net bal %)</b>								
Expected spending on <i>shopping</i>	104.7	108.5	97.7	104.1	100.2	98.4	94.0	<b>92.8</b>
Expected spending on <i>entertainment</i>	102.9	101.9	97.1	98.6	101.2	99.2	99.6	<b>98.5</b>
Expected spending on <i>dining out</i>	106.3	106.9	97.9	101.0	99.1	99.0	99.3	<b>97.9</b>
Expected spending on <i>Western style fast food</i>	92.6	89.3	86.2	90.2	89.1	90.2	89.0	<b>87.0</b>
<b>Buying conditions for ... (net bal %)</b>								
Buying conditions for <i>houses</i>	96.7	98.5	101.0	97.3	95.0	94.7	92.4	<b>93.3</b>
Buying conditions for <i>cars</i>	102.3	102.8	105.8	98.9	102.6	99.0	97.0	<b>97.5</b>
Buying conditions for <i>major household items</i>	108.3	109.7	110.1	102.2	103.4	103.2	101.2	<b>103.1</b>
Buying conditions for <i>IT products</i>	107.2	107.5	108.9	103.4	103.3	103.9	102.8	<b>101.8</b>
Buying conditions for <i>communication devices</i>	108.1	108.8	102.5	100.9	101.2	102.7	102.5	<b>100.3</b>
Buying conditions for <i>all other appliances</i>	107.3	109.1	104.7	102.7	102.1	103.2	101.7	<b>102.4</b>
<b>% nominating yes</b>								
Does your family <i>plan to buy a car</i> in the next 12 months?	13.0	11.0	11.4	10.0	12.4	12.4	17.0	<b>13.5</b>
Have you done any <i>online shopping</i> in the last 3 months?	na	na	na	103.4	103.3	103.9	102.8	<b>101.8</b>

Source: MNI, Westpac.

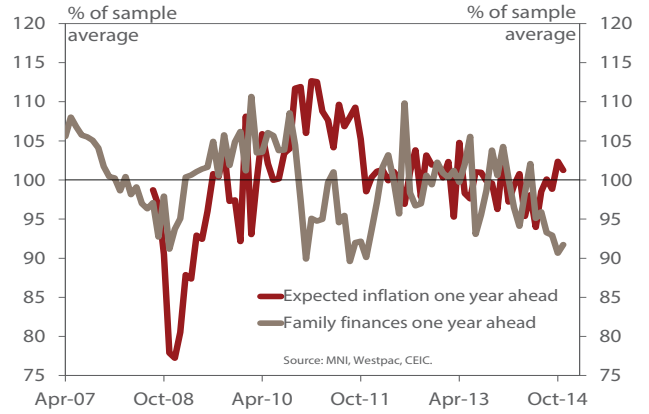
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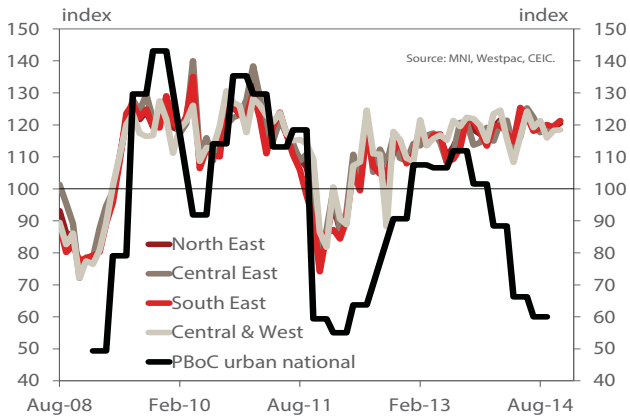
**Figure 19: Sentiment by age group**



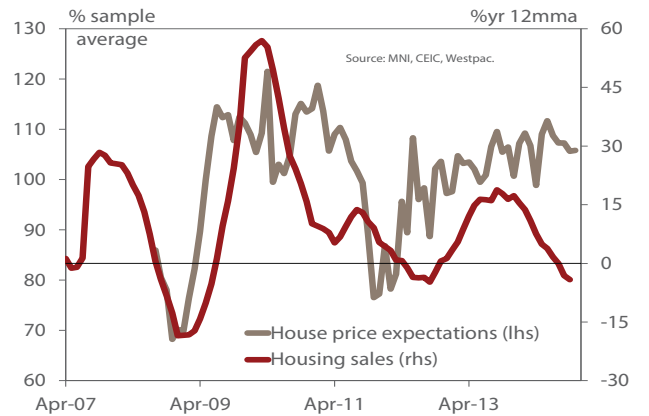
**Figure 20: Expected inflation & family finances**



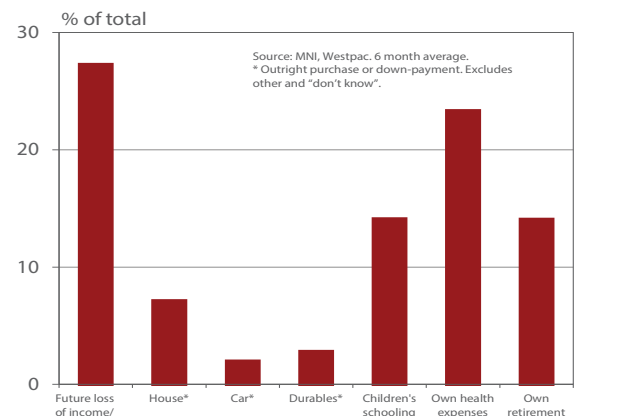
**Figure 21: House price expectations by region**



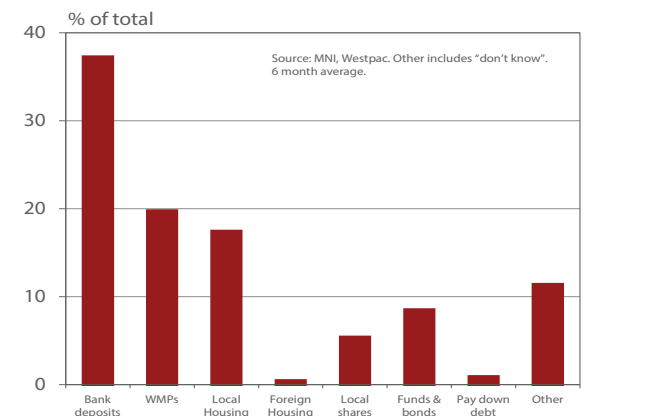
**Figure 22: House prices & housing sales**



**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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MNI Indicators

Westferry House

11 Westferry Circus

London E14 4HE, United Kingdom

Email: [info@mni-indicators.com](mailto:info@mni-indicators.com)

Telephone: +44 (0) 20 7862 7444

### *To receive a copy of the Analytical User Guide*

Westpac Economic Research

Level 2, 275 Kent St

Sydney, New South Wales, 2000

Australia

Email: [economics@westpac.com.au](mailto:economics@westpac.com.au)

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