



28 January 2015

Chinese consumer sentiment edged lower in Jan Westpac MNI China CSI: 112.1, -0.4pts, -0.3% m/m Confidence off a touch, but uptrend since Oct trough is intact

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, decreased by 0.4pts in January, printing 112.1 versus 112.5 in December, a -0.3% change over the month and -7.9% over the year. The January outcome is 7.8% below the long run average. The absolute level of the **CSI** indicates that Chinese consumers are still relatively anxious about their own personal financial wellbeing and the economy more broadly. However, the pronounced pessimism that dominated much of 2014 has clearly lessened in recent months, with the shift in the policy stance the proximate cause.
- Four of the five components that go into the calculation of the **Westpac MNI China CSI** declined from the previous month. **Current family finances, business conditions 'one year ahead'** and **'five years ahead'**, and **'time to buy a major household item'** all moved lower. **Family finances 'one year ahead'** increased strongly though, presumably jointly reflecting the lower inflation and interest rate expectations reported elsewhere in the survey. **Current business conditions** (not a part of the headline composite, but tightly correlated with official industrial production data) were basically steady.
- We noted a month ago that forward looking indicators of the economy had improved more so than the coincident ones. In January, we build on that observation by noting that the "current" portion of the headline index is down by 11.3% from a year ago, whereas the "expected" portion is down by a lesser 5.9%. The gap between current and expected readings over the last year is most pronounced in family finances, where there is an 8ppt gap. We note that annual minimum wage increases have impacted upon the expected measure in the past, so we await the various provincial announcements with great interest.
- The **employment indicator** declined by a cumulative 11.3% between May and October, and has increased by 2.4% in Nov-Jan combined. The January reading is 8.9% below the long run average. The survey is arguing that in absolute terms **job security** remains in short supply, notwithstanding the fact the indicator is off its lows. Consumers seem to be awaiting a durable pick-up in demand conditions before they fundamentally reassess the outlook for the labour market.
- The consumers' attitude towards **real estate** (see table 3 on page 4) was mixed in January, following on from back-to-back improvements in Nov-Dec. **Expectations for house prices** shed some ground and the share of respondents reporting it was a **'good time to buy a house'** declined. However, 19.3% of consumers now nominate domestic real estate as the **'wisest place for their savings'**, the highest since June. Also on the positive side of the ledger, the proportion of consumers nominating a **housing purchase** as their **primary motivation for saving** rose for a second month. Looking more closely at the house price results, there is a widening gulf between the East and the Central & Western (C&W) regions. This indicator is down a cumulative 2.1% since June 2014 in the East versus 10.9% in the C&W. That tallies nicely with the official house price and activity data, where the market consolidation, such as it is, is basically confined to the wealthy coastal cities.

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Figure 1: Westpac MNI China CSI: the headline

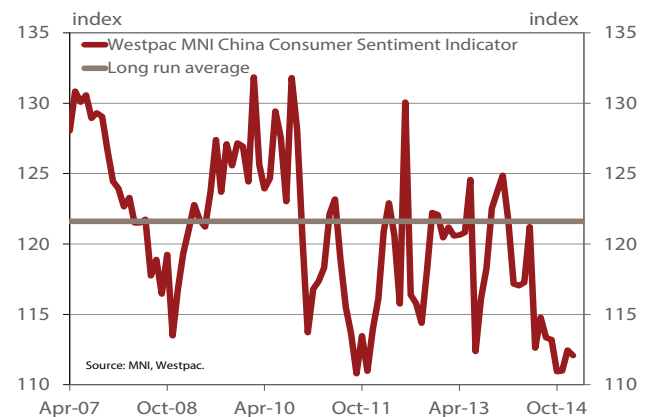


Figure 2: Family finances: current & expected

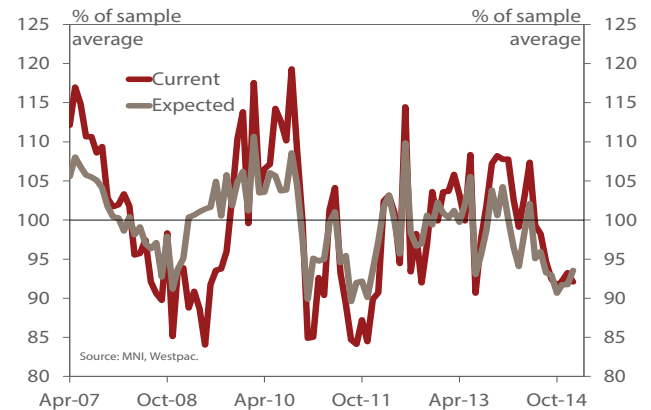
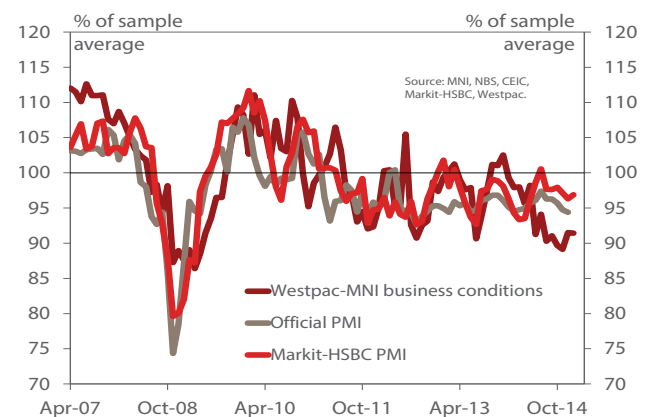


Figure 3: Consumer perceptions of business conditions & the manufacturing business surveys



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Figure 4: Business conditions & industrial output

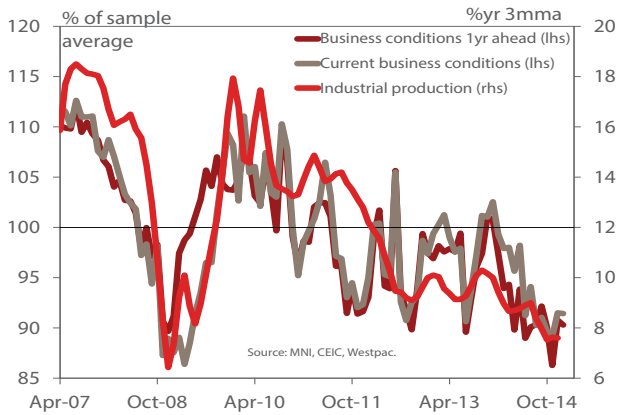


Figure 5: Expected house prices & land prices

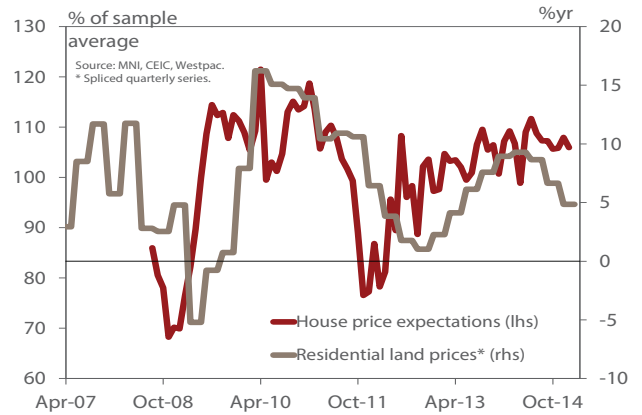


Figure 6: Employment outlook & export growth

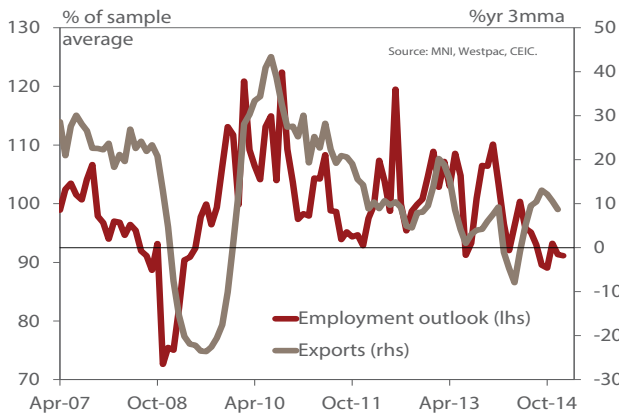


Figure 7: House prices & 'good time to buy'

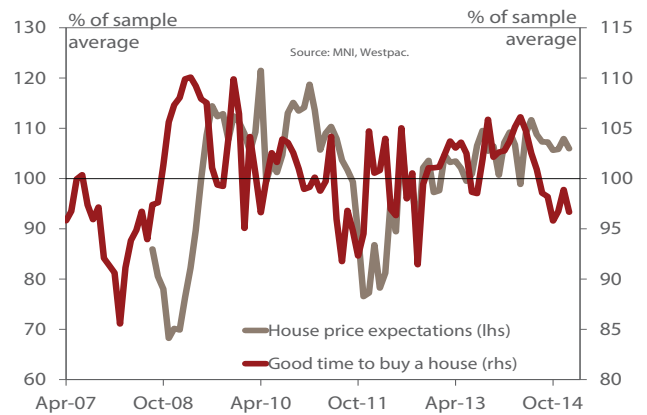


Table 1: The Westpac MNI China Consumer Sentiment Survey

	long run average ¹	level one year ago	level 6 mths ago	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
Consumer Sentiment Indicator	121.6	121.7	114.8	113.2	110.9	111.0	112.5	112.1
Current Indicator	109.5	114.1	105.3	102.6	101.1	102.5	101.9	101.1
Expectations Indicator	129.7	126.8	121.1	120.3	117.5	116.6	119.5	119.4
Personal finances vs a year ago	110.4	119.0	108.5	102.1	101.1	101.8	103.0	101.7
Personal finances next 12 months	122.1	122.3	117.1	113.5	110.7	112.0	112.0	114.2
Business conditions next 12 months	122.7	119.4	110.5	113.1	110.4	105.9	111.4	110.8
Business conditions next 5 years	144.3	138.7	135.6	134.3	131.3	132.1	135.1	133.1
Time to buy a major household item ²	108.5	109.2	102.2	103.2	101.2	103.1	100.8	100.6
Housing composite	111.8	119.9	121.6	119.9	118.1	118.3	120.7	118.5
Auto composite	87.5	88.7	85.5	86.9	85.6	87.4	85.5	87.0
Business conditions vs a year ago	114.7	113.9	108.0	104.4	102.9	102.2	105.0	104.9
Employment expectations	107.1	110.8	101.9	95.9	95.3	99.9	97.8	97.6
House Price expectations	111.8	119.9	121.6	119.9	118.1	118.3	120.7	118.5
Inflation expectations	136.3	132.5	134.3	134.7	139.6	138.0	141.8	140.5
Interest rate expectations	114.9	111.3	114.8	113.7	114.0	112.9	114.0	112.7
Stock market expectations	108.5	105.2	101.7	101.1	98.1	98.5	100.6	98.8

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

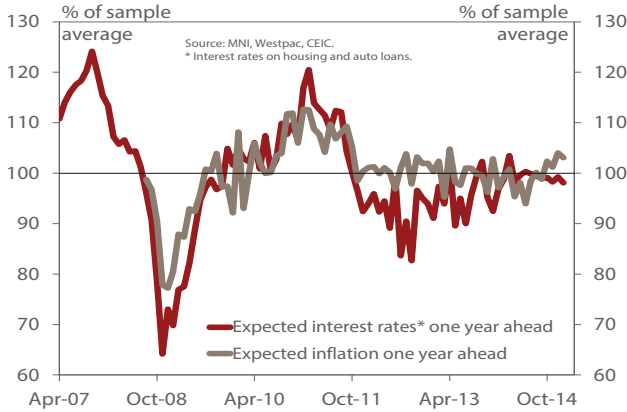


Figure 9: Inflation expectations & the CPI



Figure 10: Sentiment by region

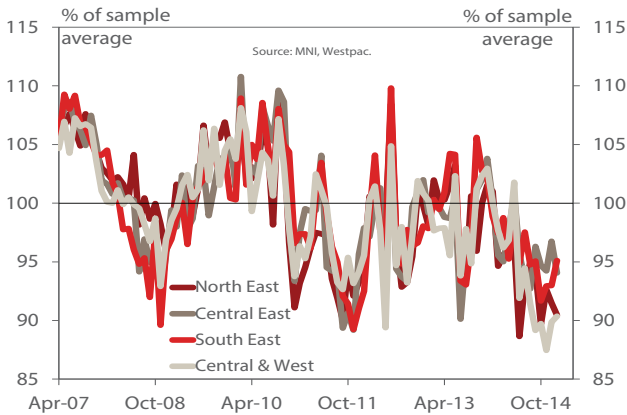


Figure 11: Durables buying conditions & car sales

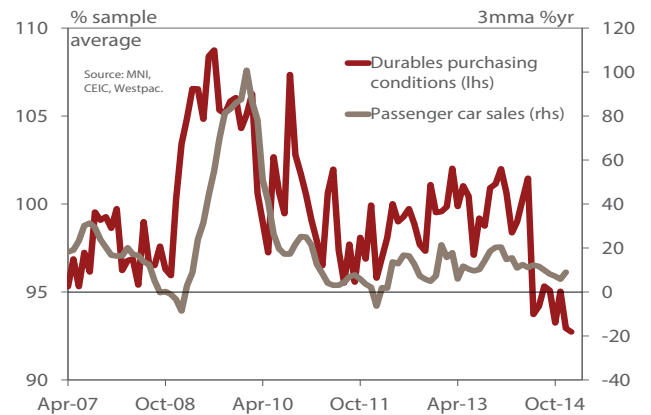


Figure 12: International comparison: jobs

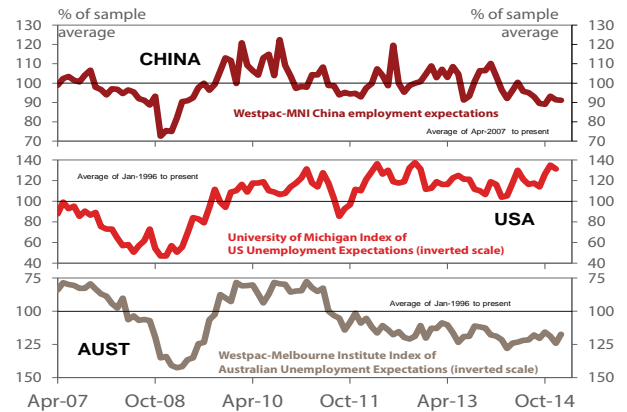


Figure 13: Uses of household income

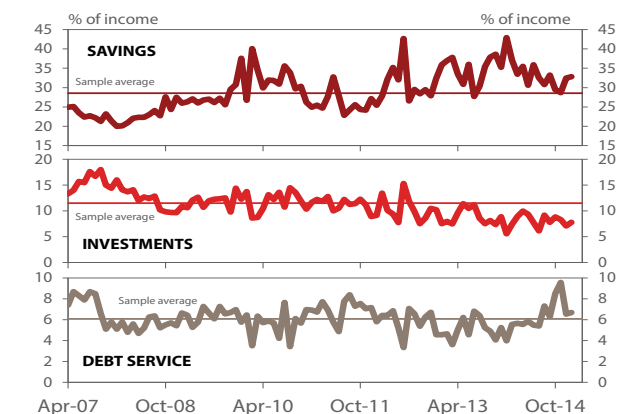


Table 2: Regional and major city results, headline CSI

	long run average	level one year ago	level 6 mths ago	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
Eastern	120.9	115.7	113.8	115.1	111.2	112.8	113.4	112.5
North East	121.5	114.9	115.3	114.4	108.9	112.5	111.1	109.9
Centre East	120.3	114.9	111.5	115.9	113.9	113.4	116.4	113.2
South East	120.9	117.8	114.6	114.9	110.8	112.4	112.4	115.0
Beijing	120.5	115.5	121.4	116.4	115.6	113.2	109.9	109.6
Shanghai	119.0	114.2	111.2	117.1	115.3	117.8	119.9	114.0
Guangzhou	120.8	114.9	111.1	123.1	110.2	116.8	109.8	121.4
Central & Western	123.0	120.2	112.4	109.7	110.4	107.6	110.6	111.2

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Table 3: Consumer attitudes towards real estate

	Jun-14	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
House price expectations : % of average	111.7	108.8	107.3	107.3	105.6	105.8	108.0	105.9
House price expectations: % net	124.9	121.6	120.0	119.9	118.1	118.3	120.7	118.5
% nominating <i>Go Up Dramatically</i> [^]	8.3	6.3	7.9	6.1	7.4	8.1	6.9	6.5
% nominating <i>Go Up Slightly</i> [^]	43.8	40.2	34.6	38.6	35.2	35.0	39.3	36.7
% nominating <i>Stay the Same</i> [^]	29.8	31.9	30.5	30.7	31.8	29.5	30.5	31.5
% nominating <i>Go Down Slightly</i> [^]	6.9	7.9	8.4	8.1	9.1	11.4	8.5	8.5
% nominating <i>Go Down Sharply</i> [^]	1.9	0.8	1.0	1.4	2.3	1.5	1.6	2.1
Don't Know/No Answer [^]	9.3	13.0	17.6	15.1	14.2	14.4	13.2	14.7
House price expectations by region: % net								
East	124.1	119.9	119.1	118.5	119.2	120.5	122.6	121.5
North East	125.3	122.4	117.6	118.9	119.7	121.3	123.4	120.8
Centre East	122.8	118.0	118.9	120.1	119.3	121.3	123.1	120.7
South East	124.3	119.1	121.3	115.9	118.3	118.4	121.0	123.4
Central & Western	126.5	125.1	121.6	122.7	116.1	114.2	116.9	112.6
Good time to buy a house? % of average	102.5	100.9	98.5	98.2	95.8	96.7	98.9	96.6
Good time to buy a house? % net	98.9	97.3	95.0	94.7	92.4	93.3	95.4	93.2
% of responses due to* income	20.4	13.3	10.9	11.4	11.4	5.6	8.1	0.5
% of responses due to* policy	15.0	3.4	17.2	7.5	4.1	7.3	5.6	5.6
% of responses due to* prices	64.7	83.4	71.9	81.1	84.5	87.1	86.3	93.9
Bad time to buy a house due to ...								
% nominating* income	20.5	17.9	18.9	17.8	20.4	28.3	24.3	38.5
% nominating* policy	8.2	3.7	4.2	7.3	8.0	5.0	3.7	1.0
% nominating* prices	71.4	78.4	76.9	74.9	71.5	66.7	72.1	60.6
Motivation for saving - housing purchase or downpayment [^] #	9.9	8.0	6.5	7.9	5.5	4.4	4.7	6.3
Wisest place for savings: domestic real estate [^] #	22.1	16.8	18.5	13.8	15.6	17.0	16.8	19.3
Wisest place for savings: foreign real estate [^] #	0.2	0.6	0.2	0.5	0.2	0.3	0.2	0.4
Does your family currently have a housing loan?								
% nominating yes	15.1	17.3	19.3	19.4	23.4	23.0	19.7	20.0
% nominating no	84.1	82.7	80.5	80.4	76.3	76.7	79.7	79.7
What sectors will perform well in the stock market? % nominating [^] ...								
steel	0.4	1.0	1.8	1.3	2.5	2.3	1.3	1.5
construction and building materials	3.9	2.1	1.7	5.1	5.6	2.7	8.0	3.8
real estate	6.5	4.4	5.8	7.3	12.2	9.9	14.1	2.6

See page 8 for methodological details. ^ Shares of 100%. *Pro rata proportions. #See other categories in tables 4 and 5 overleaf. Sources for all tables: Westpac and MNI.

- The consumer attitude towards real estate was mixed in January, following on from back-to-back improvements in Nov-Dec. **Expectations for house prices** shed some ground and the share of respondents reporting it was a 'good time to buy a house' declined. However, 19.3% of consumers now nominate domestic real estate as the '**wisest place for their savings**', while the proportion of consumers nominating a **housing purchase** as their **primary motivation for saving** rose for a second month.

- In reviewing last month's survey we noted that the scale of the combined Nov-Dec move was small and thus the near term prospects for the market in aggregate remained subdued, although the direction of change was obviously promising. The lack of a clear, uni-directional follow-up in January highlights the prudence of that position.

- Regionally, we note that consumers in the Central and Western (C&W) areas remain materially less positive on the housing outlook than their Eastern counterparts, presumably reflecting the greater mismatch between supply and demand (both in raw terms and in terms of quality-affordability) that has emerged away from the wealthier coastal cities. In terms of price expectations, the gulf between the East and the C&W widened further in January. Price expectations are down a cumulative 2.1% since June 2014 in the East versus 10.9% in the C&W. That tallies nicely with the official house price and activity data, where the market consolidation, such as it is, is basically confined to the wealthy coastal cities.

- Consumers reported considerably lower levels of confidence in the share market performance of firms with real estate linkages in January.

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Table 4: 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
December	23.3	4.7	2.3	3.5	15.8	24.2	18.1	2.8	5.2
January	22.4	6.3	2.1	2.9	16.7	24.1	17.0	2.3	6.3

Table 5: 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	0.17	16.9	0.6	1.7	8.6
July	42.4	4.0	2.3	4.2	0.2	16.8	0.62	16.3	1.1	0.7	11.3
August	35.1	4.4	2.7	6.6	0.3	18.5	0.18	20.2	1.0	0.4	10.6
September	35.1	6.9	6.4	4.5	0.2	13.8	0.46	20.4	1.3	0.4	10.5
October	38.2	4.6	1.8	5.7	0.1	15.6	0.23	21.3	0.4	0.9	11.2
November	35.4	4.5	4.3	5.3	0.2	17.0	0.28	22.6	0.3	0.5	9.5
December	37.9	3.9	1.2	5.7	0.4	16.8	0.18	23.7	0.8	0.0	9.3
January	35.3	4.9	1.8	4.4	0.3	19.3	0.36	22.6	0.2	0.1	10.8

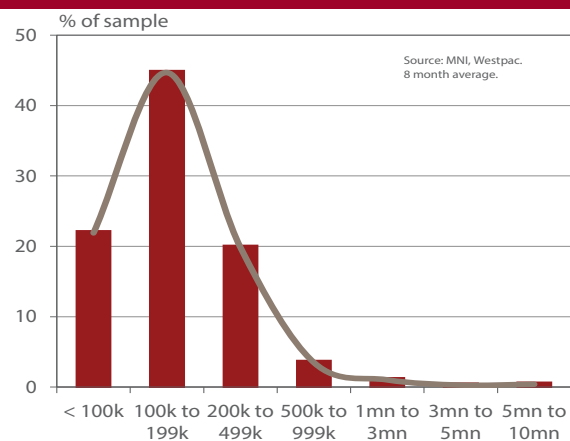
Source to tables 4 and 5: MNI, Westpac. ^ Issued by either banks or trust companies. * Includes both "Other" and "Don't know/refuse to answer". "Don't know" is generally zero with respect to savings motivations, but tends to be the dominant element of "other" in savings preferences.

- On *savings motivations* (table 4), 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 January print of 22.4% is a sign that consumers are feeling less insecure in their jobs than they were at mid-year, consistent with the modest increase in the employment indicator from its October trough. 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 6.3% of respondents as their primary savings motive in January, which is up from the lows, but still well below the June level of 9.9%. Those relativities are a useful curb on any excessive enthusiasm emanating from the back-to-back gains in this measure.

- Regarding *savings preferences* (table 5), it is possible to deduce the overall **risk appetite of consumers** via their preferred asset classes. In January, prima facie, a tilt towards a less risk averse posture can be deduced from both the unwinding of the previous month's increase in bank deposits and the lift in real estate detailed on the previous page. Rumours that the long-awaited national housing register could be launched at the NPC, soon to be followed by a national property tax, may influence this question in coming months. Non-deposit, non-WMP financial assets (i.e. equities, bonds and managed funds) collectively now attract 11.1% of respondents, versus 10.8% a month ago, even though local

equities fell somewhat out of favour in the wake of margin loan curbs. The equity market was favoured by just 4.4% of consumers. Note that investors felt the stock market became better value over the month, with literally zero respondents nominating it was "very expensive", but 3mth stock price expectations still decreased by 1.8%. The sectors most favoured to perform well by investors in January were finance & insurance and pharma-bio. We note also that a) 20 of the 30 sectoral options saw lesser support than in December, and b) there was a steep decrease in the number of respondents willing to express a view on this question versus the average participation across 2014H2.

Figure 14: The stock of household savings



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Figure 15: Shopping indicator & retail sales

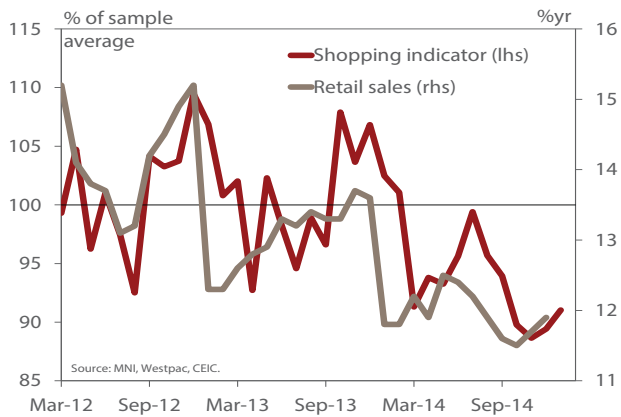


Figure 16: 'Dining out' & retail sales

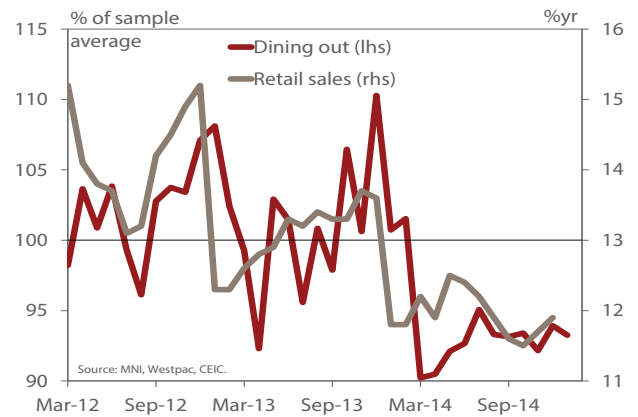


Figure 17: Entertainment spending & retail sales

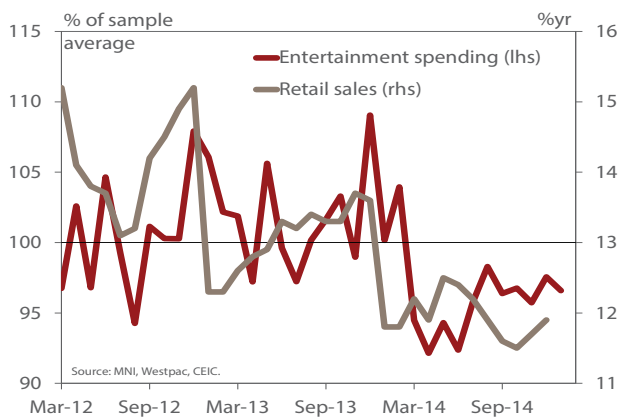


Figure 18: Western style fast food & 'dining out'

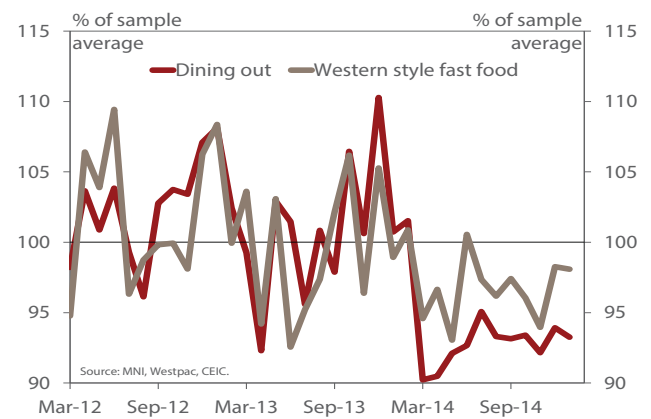


Table 6: Selected indicators of spending plans & buying conditions

	long run average	level one year ago	level 6 mths ago	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15
Expected change in spending on ... (net bal %)								
Expected spending on <i>shopping</i>	104.7	107.3	104.1	98.4	94.0	92.8	93.7	95.3
Expected spending on <i>entertainment</i>	102.9	103.1	98.6	99.2	99.6	98.5	100.4	99.4
Expected spending on <i>dining out</i>	106.3	107.1	101.0	99.0	99.3	97.9	99.8	99.1
Expected spending on <i>Western style fast food</i>	92.6	91.6	90.2	90.2	89.0	87.0	91.0	90.9
Buying conditions for ... (net bal %)								
Buying conditions for <i>houses</i>	96.7	99.1	97.3	94.7	92.4	93.3	95.4	93.2
Buying conditions for <i>cars</i>	102.3	100.1	98.9	99.0	97.0	97.5	96.6	97.9
Buying conditions for <i>major household items</i>	108.3	109.2	102.2	103.2	101.2	103.1	100.8	100.6
Buying conditions for <i>IT products</i>	107.2	108.3	103.4	103.9	102.8	101.8	102.7	103.2
Buying conditions for <i>communication devices</i>	108.1	110.3	100.9	102.7	102.5	100.3	101.5	101.5
Buying conditions for <i>all other appliances</i>	107.3	108.8	102.7	103.2	101.7	102.4	101.7	103.1
% nominating yes								
Does your family <i>plan to buy a car</i> in the next 12 months?	12.6	9.4	15.7	11.6	13.7	12.9	13.8	17.7
Have you done any <i>online shopping</i> in the last 3 months?	na	na	na	57.2	56.6	55.9	55.6	56.9

Source: MNI, Westpac.

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Figure 19: Sentiment by age group (smoothed)

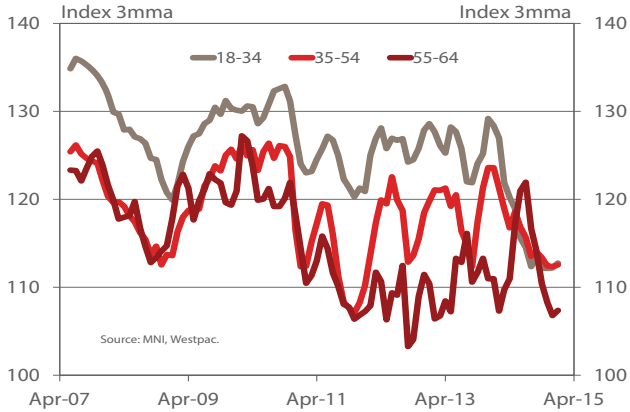


Figure 20: Expected inflation & family finances

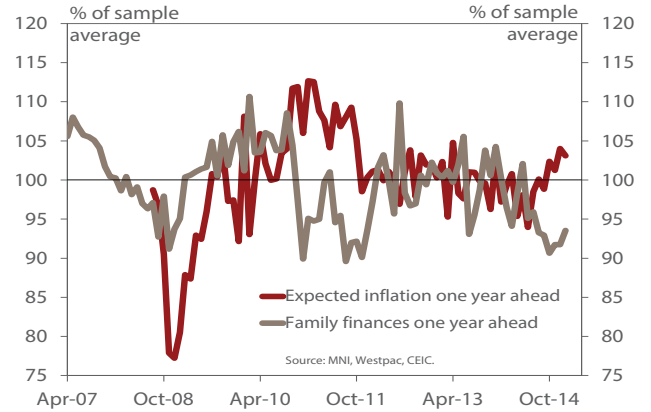


Figure 21: Westpac MNI & "Policy Uncertainty"

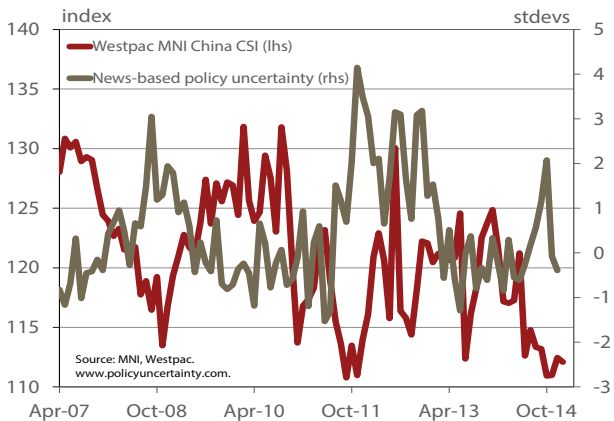


Figure 22: House prices & housing sales

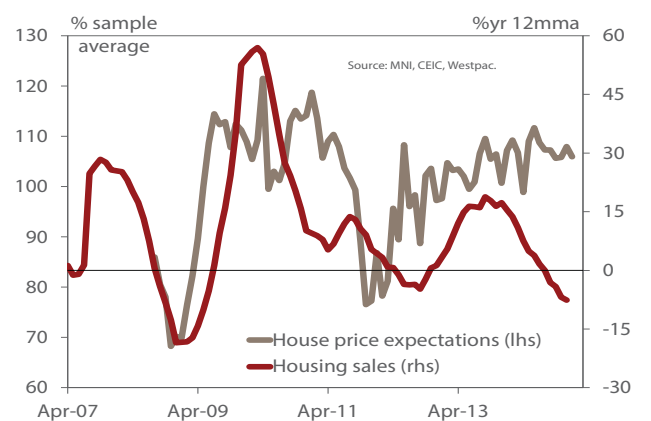


Figure 23: Motivations for savings

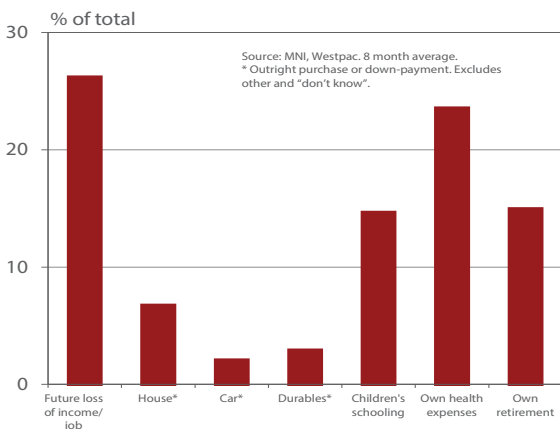
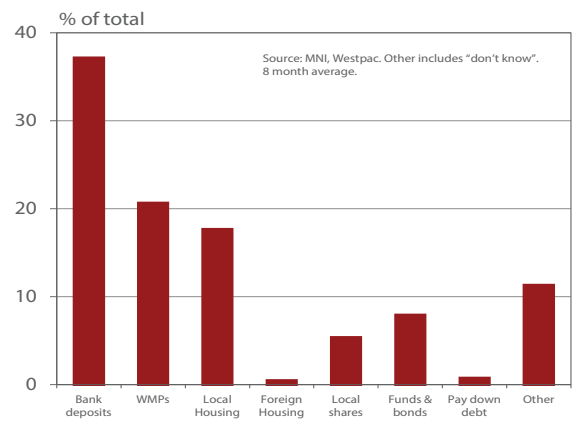


Figure 24: Wisest place for savings



Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known or unknown risks and uncertainties. The results ultimately achieved may differ substantially from these forecasts.



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. The December survey is an exception, with the release delayed until the first Wednesday of January.

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: <MNCCINDEX> <INDEX> <GO> or type <WESTPAC MNI> <HELP>

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