

25 February 2015

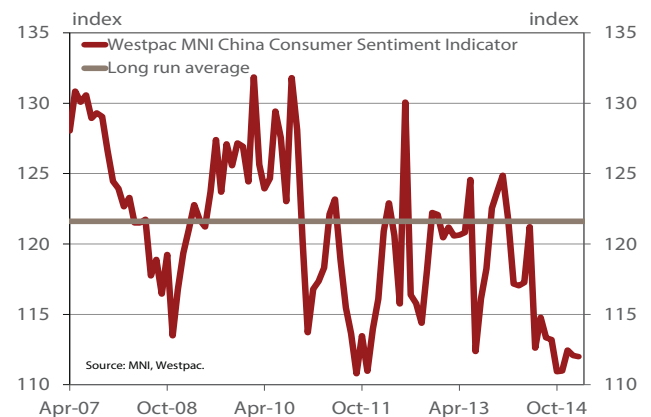
## Chinese consumer sentiment steady in February Westpac MNI China CSI: 112.0, -0.1pts, -0.1% m/m Confidence flat; housing & expected business conditions gain

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, decreased by 0.1pts in February, printing 112.0 versus 112.1 in January, -0.1% over the month and -4.4% over the year. The February outcome is 7.9% 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 since the October trough, with the shift in the policy stance the proximate cause.
- Three of the five components that go into the calculation of the **Westpac MNI China CSI** increased from the previous month. **Business conditions 'one year ahead'** and **'five years ahead'**, and **'time to buy a major household item'** all moved higher, the latter strikingly so. That was offset by weaker responses on both current and expected **family finances**, with steep declines in the sentiment of older respondents out-weighing resilient outcomes for the young and middle aged. **Current business conditions** (not a part of the headline composite, but tightly correlated with official industrial production data) deteriorated.
- A month ago the "current" portion of the **CSI** was down by 11.3% from a year ago, whereas the "expected" portion was down by a lesser 5.9%. The updated figures are -7.7% and -2.4%. Periods where the forward looking responses are materially stronger than current assessments tend to presage improvement in economy-wide conditions. The caveat is that genuine turning points tend to have stable current readings coinciding with rising expectations. The jury is thus still out.
- The **employment indicator** declined by a cumulative 11.3% between May and October, and has since increased by 3.4%. The February reading is 8.0% below the long run average. The survey is arguing that in absolute terms **job security** remains in short supply. Consumers are awaiting a durable pick-up in growth before they fundamentally reassess the job outlook.
- The consumers' attitude towards **real estate** (see table 3 on page 4) was more positive in February, following on from the modest cumulative improvement in Nov-Jan. **Expectations for house prices** gained ground; the share of respondents reporting it was a **'good time to buy a house'** edged higher; while 19.7% of consumers now nominate domestic real estate as the **'wisest place for their savings'**, the highest since June. Also on the positive side, the proportion of consumers nominating a **housing purchase** as their **primary motivation for saving** rose for a third month, albeit modestly. Looking more closely at the house price results, a key feature of the 'recovery', such as it is, has been a widening gulf between the East and the Central & Western (C&W) regions. That trend tallied nicely with the official data. The gulf narrowed sharply in February though, on a large improvement in the C&W. Relative to the recent peak, the East is now down by 0.9% versus the C&W at -5.5%. A month ago, those figures were -2.1% and -10.9%. We are treating the size of the C&W gain with scepticism given the evident imbalances, but the idea that housing has passed the worst is becoming more appealing.

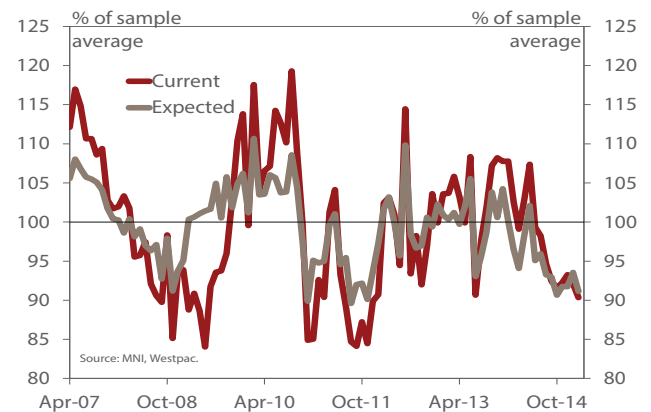
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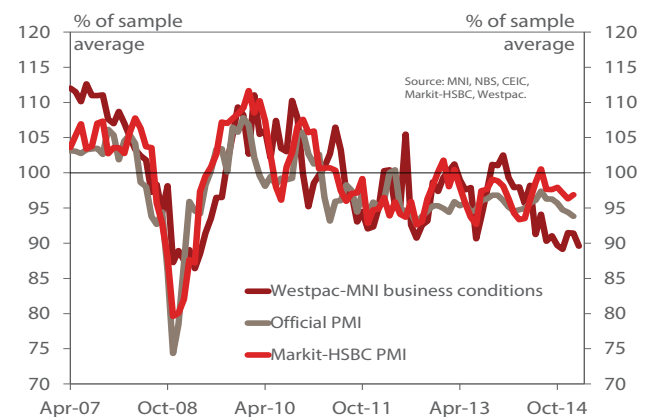
**Figure 1: Westpac MNI China CSI: the headline**



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

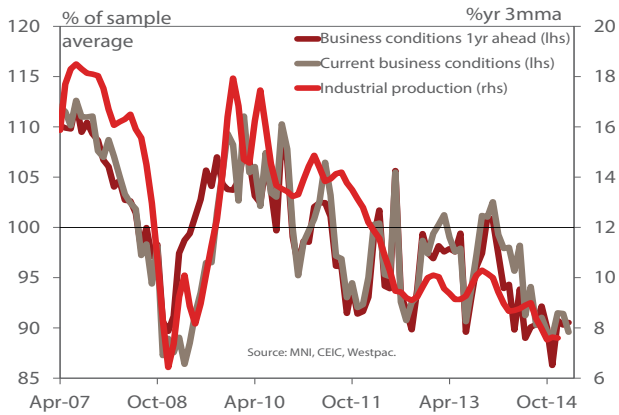


**Figure 3: Consumer perceptions of business conditions & the manufacturing business surveys**

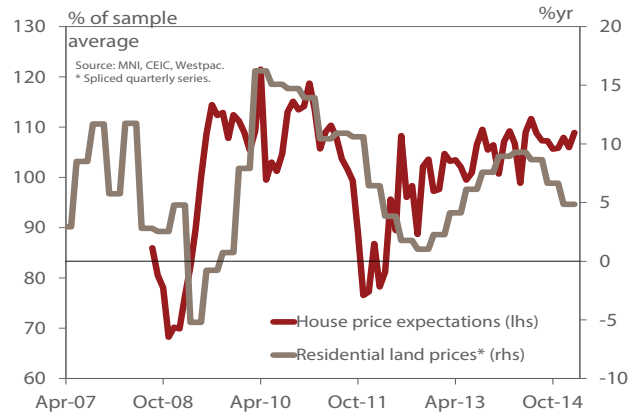


25 February 2015

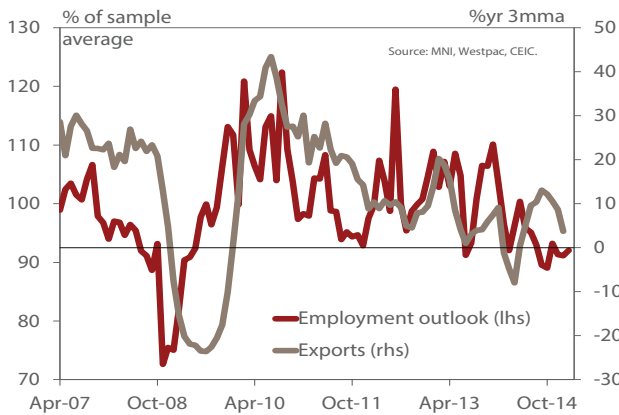
**Figure 4: Business conditions & industrial output**



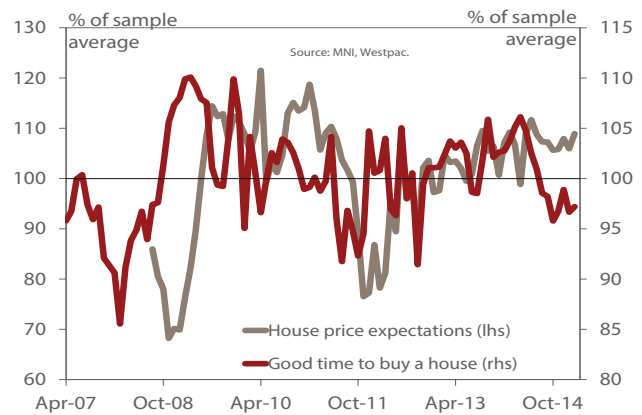
**Figure 5: Expected house prices & land prices**



**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	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
<b>Consumer Sentiment Indicator</b>	<b>121.6</b>	<b>117.2</b>	<b>113.3</b>	<b>110.9</b>	<b>111.0</b>	<b>112.5</b>	<b>112.1</b>	<b>112.0</b>
Current Indicator	109.5	110.0	104.0	101.1	102.5	101.9	101.1	101.5
Expectations Indicator	129.7	121.9	119.6	117.5	116.6	119.5	119.4	119.0
Personal finances vs a year ago	110.4	113.3	104.5	101.1	101.8	103.0	101.7	99.8
Personal finances next 12 months	122.1	117.8	113.9	110.7	112.0	112.0	114.2	111.3
Business conditions next 12 months	122.7	115.2	110.8	110.4	105.9	111.4	110.8	111.1
Business conditions next 5 years	144.3	132.8	134.0	131.3	132.1	135.1	133.1	134.7
Time to buy a major household item <sup>2</sup>	108.5	106.7	103.4	101.2	103.1	100.8	100.6	103.2
Housing composite	111.8	122.2	120.0	118.1	118.3	120.7	118.5	121.8
Auto composite	87.5	91.5	88.5	85.6	87.4	85.5	87.0	87.1
Business conditions vs a year ago	114.7	112.3	103.5	102.9	102.2	105.0	104.9	102.7
Employment expectations	107.1	103.4	99.6	95.3	99.9	97.8	97.6	98.6
House Price expectations	111.8	122.2	120.0	118.1	118.3	120.7	118.5	121.8
Inflation expectations	136.3	135.3	136.5	139.6	138.0	141.8	140.5	142.0
Interest rate expectations	114.9	113.5	114.4	114.0	112.9	114.0	112.7	116.9
Stock market expectations	108.5	101.1	104.0	98.1	98.5	100.6	98.8	99.3

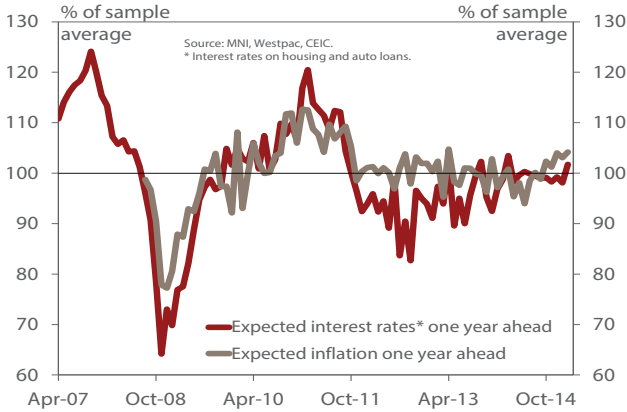
Note: all index point changes are calculated on rounded numbers; see page 7 for methodological details.

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.

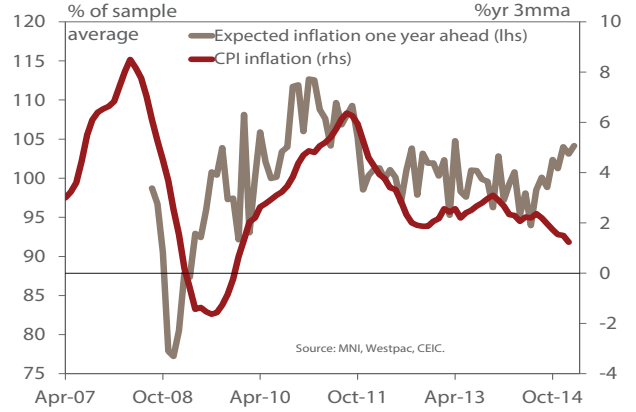
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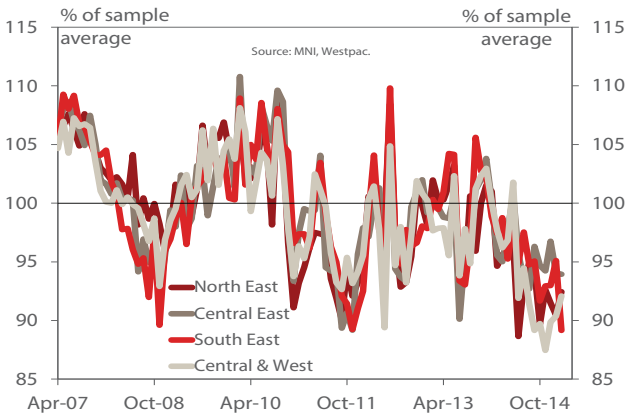
**Figure 8: Inflation & interest rate expectations**



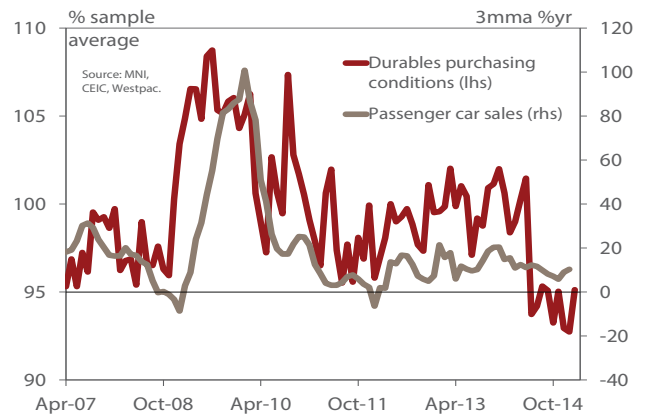
**Figure 9: Inflation expectations & the CPI**



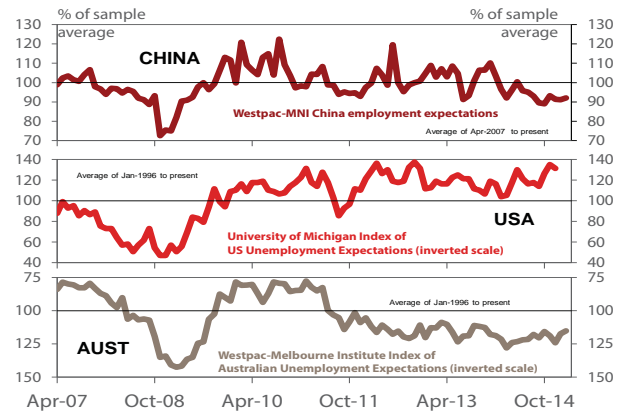
**Figure 10: Sentiment by region**



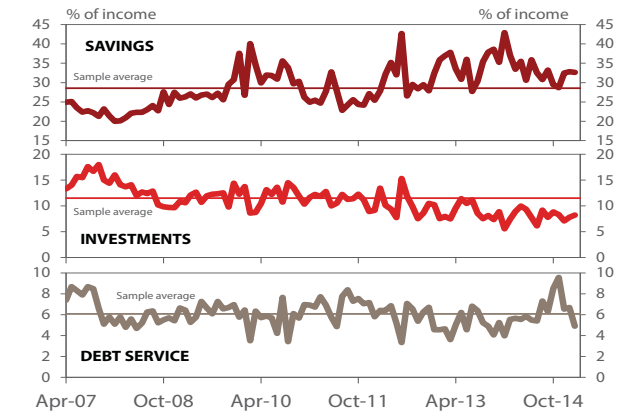
**Figure 11: Durables buying conditions & car sales**



**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	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
<b>Eastern</b>	<b>120.9</b>	<b>116.4</b>	<b>113.8</b>	<b>111.2</b>	<b>112.8</b>	<b>113.4</b>	<b>112.5</b>	<b>111.3</b>
North East	121.5	116.1	115.3	108.9	112.5	111.1	109.9	112.3
Centre East	120.3	114.3	111.5	113.9	113.4	116.4	113.2	113.0
South East	120.9	119.4	114.6	110.8	112.4	112.4	115.0	107.8
Beijing	120.5	112.8	121.4	115.6	113.2	109.9	109.6	114.6
Shanghai	119.0	114.3	111.2	115.3	117.8	119.9	114.0	117.7
Guangzhou	120.8	121.6	111.1	110.2	116.8	109.8	121.4	112.1
<b>Central &amp; Western</b>	<b>123.0</b>	<b>118.4</b>	<b>112.4</b>	<b>110.4</b>	<b>107.6</b>	<b>110.6</b>	<b>111.2</b>	<b>113.3</b>

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25 February 2015

**Table 3: Consumer attitudes towards real estate**

	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
<b>House price expectations : % of average</b>	<b>108.8</b>	<b>107.3</b>	<b>107.3</b>	<b>105.6</b>	<b>105.8</b>	<b>108.0</b>	<b>105.9</b>	<b>108.9</b>
House price expectations: % net	121.6	120.0	119.9	118.1	118.3	120.7	118.5	<b>121.8</b>
% nominating <i>Go Up Dramatically</i> <sup>^</sup>	6.3	7.9	6.1	7.4	8.1	6.9	6.5	<b>9.9</b>
% nominating <i>Go Up Slightly</i> <sup>^</sup>	40.2	34.6	38.6	35.2	35.0	39.3	36.7	<b>33.6</b>
% nominating <i>Stay the Same</i> <sup>^</sup>	31.9	30.5	30.7	31.8	29.5	30.5	31.5	<b>30.8</b>
% nominating <i>Go Down Slightly</i> <sup>^</sup>	7.9	8.4	8.1	9.1	11.4	8.5	8.5	<b>7.7</b>
% nominating <i>Go Down Sharply</i> <sup>^</sup>	0.8	1.0	1.4	2.3	1.5	1.6	2.1	<b>1.0</b>
Don't Know/No Answer <sup>^</sup>	13.0	17.6	15.1	14.2	14.4	13.2	14.7	<b>16.9</b>
<b>House price expectations by region: % net</b>								
East	119.9	119.1	118.5	119.2	120.5	122.6	121.5	<b>123.0</b>
North East	122.4	117.6	118.9	119.7	121.3	123.4	120.8	<b>121.7</b>
Centre East	118.0	118.9	120.1	119.3	121.3	123.1	120.7	<b>121.7</b>
South East	119.1	121.3	115.9	118.3	118.4	121.0	123.4	<b>126.4</b>
Central & Western	125.1	121.6	122.7	116.1	114.2	116.9	112.6	<b>119.5</b>
<b>Good time to buy a house? % of average</b>	<b>100.9</b>	<b>98.5</b>	<b>98.2</b>	<b>95.8</b>	<b>96.7</b>	<b>98.9</b>	<b>96.6</b>	<b>97.2</b>
Good time to buy a house? % net	97.3	95.0	94.7	92.4	93.3	95.4	93.2	<b>93.8</b>
% of responses due to* income	13.3	10.9	11.4	11.4	5.6	8.1	0.5	<b>25.5</b>
% of responses due to* policy	3.4	17.2	7.5	4.1	7.3	5.6	5.6	<b>2.9</b>
% of responses due to* prices	83.4	71.9	81.1	84.5	87.1	86.3	93.9	<b>71.6</b>
Bad time to buy a house due to ...								
% nominating* income	17.9	18.9	17.8	20.4	28.3	24.3	38.5	<b>20.3</b>
% nominating* policy	3.7	4.2	7.3	8.0	5.0	3.7	1.0	<b>9.5</b>
% nominating* prices	78.4	76.9	74.9	71.5	66.7	72.1	60.6	<b>70.2</b>
Primary motivation for saving - housing purchase or downpayment <sup>^</sup> #	8.0	6.5	7.9	5.5	4.4	4.7	6.3	<b>6.4</b>
Wisest place for savings: domestic real estate <sup>^</sup> #	16.8	18.5	13.8	15.6	17.0	16.8	19.3	<b>19.7</b>
Wisest place for savings: foreign real estate <sup>^</sup> #	0.6	0.2	0.5	0.2	0.3	0.2	0.4	<b>0.7</b>
Does your family currently have a housing loan?								
% nominating yes	17.3	19.3	19.4	23.4	23.0	19.7	20.0	<b>16.3</b>
% nominating no	82.7	80.5	80.4	76.3	76.7	79.7	79.7	<b>83.5</b>
What sectors will perform well in the stock market? % nominating <sup>^</sup> ...								
steel	1.0	1.8	1.3	2.5	2.3	1.3	1.5	<b>2.1</b>
construction and building materials	2.1	1.7	5.1	5.6	2.7	8.0	3.8	<b>3.2</b>
real estate	4.4	5.8	7.3	12.2	9.9	14.1	2.6	<b>10.4</b>

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 consumers' attitude towards **real estate** was more positive in February, following on from the modest cumulative improvement in Nov-Jan. **Expectations for house prices** gained ground; the share of respondents reporting it was a '**good time to buy a house**' edged higher; as did the proportion of consumers nominating both real estate as the '**wisest place for their savings**', and a **housing purchase** as their **primary motivation for saving**.
- Looking more closely at the house price results, a key feature of the 'recovery' up to January had been a **widening gulf** between the East and the Central & Western (C&W) regions. That trend tallied nicely with the official data, where the stabilisation to date has been very narrow geographically. However, the gulf narrowed sharply in February on a large improvement in the C&W. Relative to the recent peak, the

East is now down by 0.9% versus the C&W at -5.5%. A month ago, those figures were -2.1% and -10.9% (see figure 22, page 7). We are treating the size of the C&W's February gain with scepticism given the evident imbalances and the apparent lack of response to policy easing to date anywhere but in the tier one cities. That said, the idea that housing has passed the worst is far more appealing when the C&W is seen to be participating in the 'recovery', such as it is. In sum, for now it seems prudent to argue that the near term prospects for the market in aggregate remain subdued, although the direction of change at both a national and regional level is certainly promising.

- Consumers reported higher levels of confidence in the share market performance of firms with real estate linkages in February, although materials lagged real estate 'proper'.

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25 February 2015

**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
February	22.4	6.4	1.6	2.7	18.4	24.4	19.3	1.1	3.8

**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	0.2	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
December	37.9	3.9	1.2	5.7	0.4	16.8	0.2	23.7	0.8	0.0	9.3
January	35.3	4.9	1.8	4.4	0.3	19.3	0.4	22.6	0.2	0.1	10.8
February	38.3	5.3	2.6	3.9	0.0	19.7	0.7	19.0	0.4	0.5	9.7

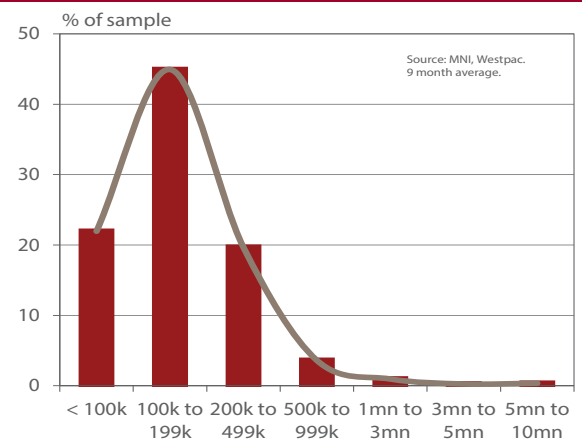
Source to tables 4 and 5: MNI, Westpac. ^ Issued by either banks or trust companies. \* Includes both "Other" and "Don't know/refuse to answer". "Don't know" is generally zero with respect to savings motivations, but tends to be the dominant element of "other" in savings preferences.

- 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 February 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. Each of these items increased in February. **Housing purchases and downpayments** were cited by 6.4% of respondents as their primary savings motive in February, 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-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 February, prima facie, a very minor tilt towards a more risk averse posture can be deduced from a lift in the sum of bank deposits, 'pay down debt' and weighted WMPs. However, the signal is clouded by slim gains in both real estate and in the sum of non-deposit, non-WMP financial assets. This latter group (i.e. equities,

bonds and managed funds) collectively now attracts 11.8% of respondents, versus 11.3% in January, but down from the recent high of 17.8% in September 2014. The equity market was favoured by just 3.9% of consumers in February alone. Note that investors felt the stock market became better value over the month though, and 3mth stock price expectations edged a little higher. The sectors most favoured to perform well going forward are finance & insurance, real estate, telco & computers.

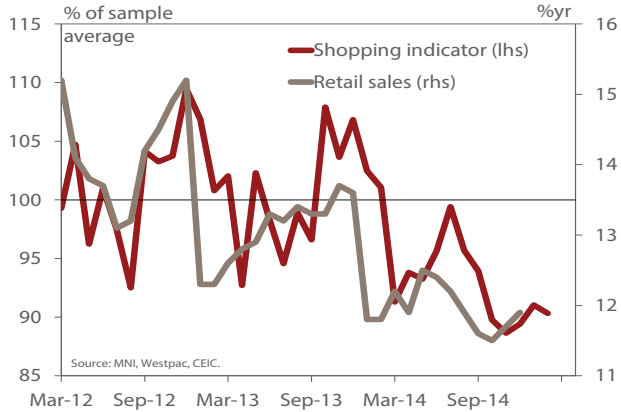
**Figure 14: The stock of household savings**



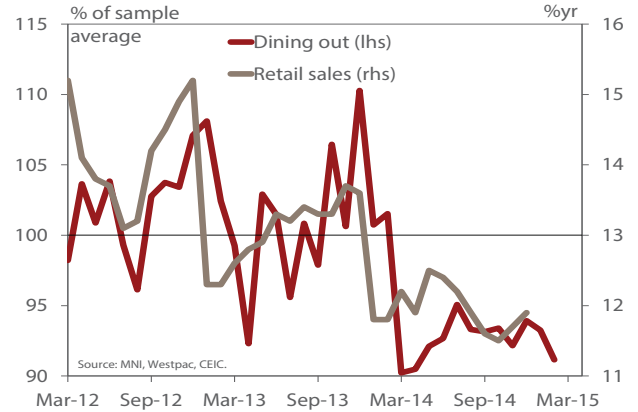
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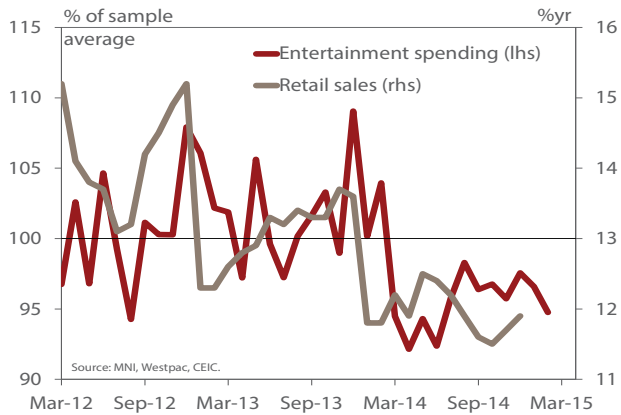
**Figure 15: Shopping indicator & retail sales**



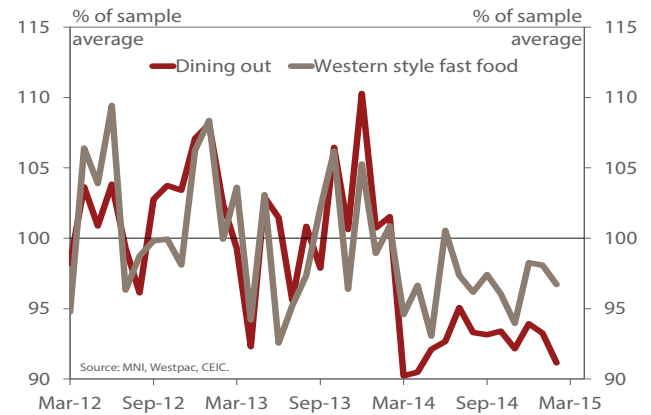
**Figure 16: 'Dining out' & retail sales**



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



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



**Table 6: Selected indicators of spending plans & buying conditions**

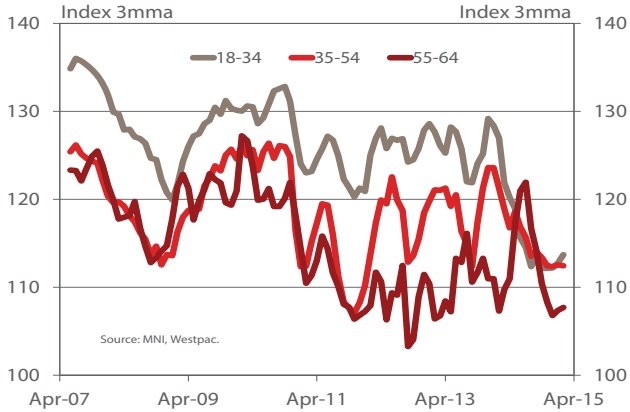
	long run average	level one year ago	level 6 mths ago	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15
<b>Expected change in spending on ... (net bal %)</b>								
Expected spending on <i>shopping</i>	104.7	105.8	100.2	94.0	92.8	93.7	95.3	<b>94.6</b>
Expected spending on <i>entertainment</i>	102.9	107.0	101.2	99.6	98.5	100.4	99.4	<b>97.6</b>
Expected spending on <i>dining out</i>	106.3	107.9	99.1	99.3	97.9	99.8	99.1	<b>96.9</b>
Expected spending on <i>Western style fast food</i>	92.6	93.4	89.1	89.0	87.0	91.0	90.9	<b>89.6</b>
<b>Buying conditions for ... (net bal %)</b>								
Buying conditions for <i>houses</i>	96.7	100.0	95.0	92.4	93.3	95.4	93.2	<b>93.8</b>
Buying conditions for <i>cars</i>	102.3	103.4	102.6	97.0	97.5	96.6	97.9	<b>97.4</b>
Buying conditions for <i>major household items</i>	108.3	106.7	103.4	101.2	103.1	100.8	100.6	<b>103.2</b>
Buying conditions for <i>IT products</i>	107.2	109.6	103.3	102.8	101.8	102.7	103.2	<b>102.3</b>
Buying conditions for <i>communication devices</i>	108.1	109.9	101.2	102.5	100.3	101.5	101.5	<b>102.2</b>
Buying conditions for <i>all other appliances</i>	107.3	105.8	102.1	101.7	102.4	101.7	103.1	<b>101.7</b>
<b>% nominating yes</b>								
Does your family <i>plan to buy a car</i> in the next 12 months?	12.6	8.7	12.6	13.7	12.9	13.8	17.7	<b>14.5</b>
Have you done any <i>online shopping</i> in the last 3 months?	na	na	na	56.6	55.9	55.6	56.9	<b>50.2</b>

Source: MNI, Westpac.

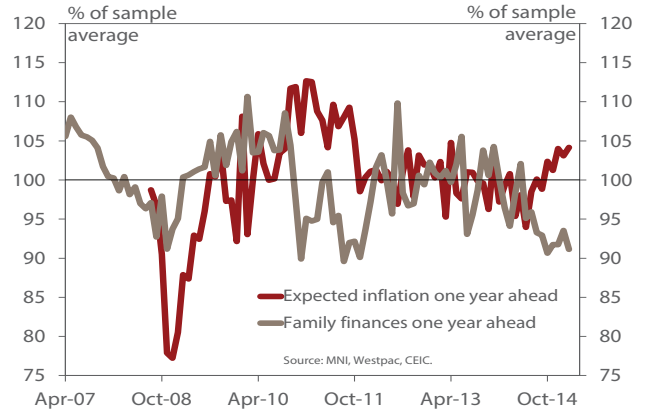
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

25 February 2015

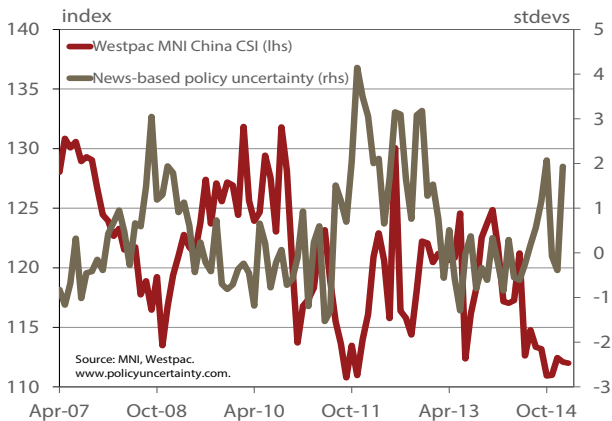
**Figure 19: Sentiment by age group (smoothed)**



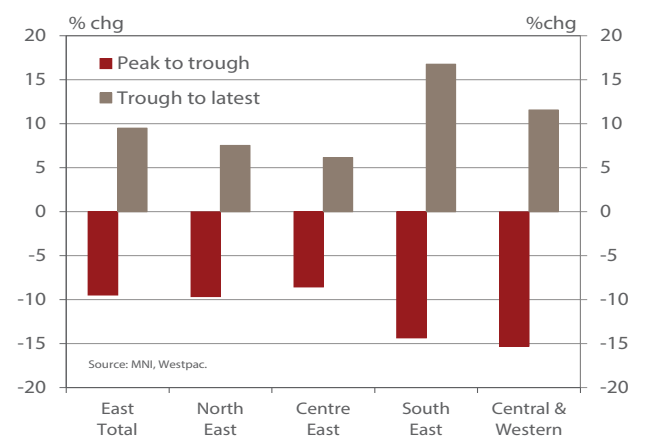
**Figure 20: Expected inflation & family finances**



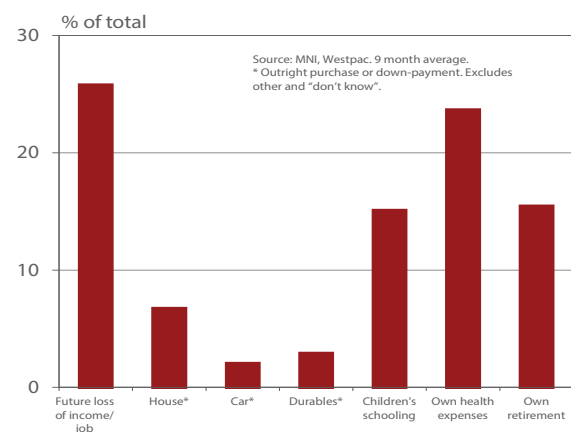
**Figure 21: Westpac MNI & "Policy Uncertainty"**



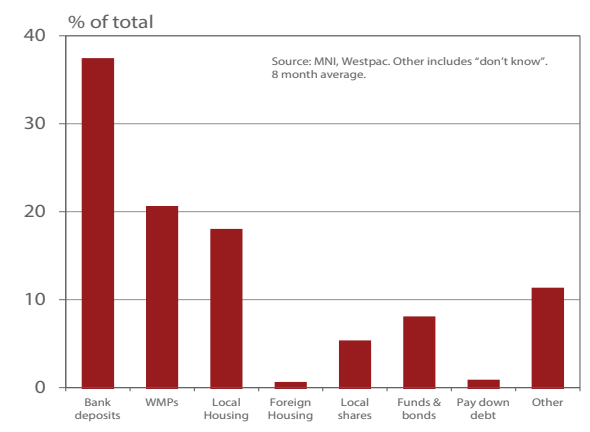
**Figure 22: House price expectations: current cycle**



**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. 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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