



25 March 2015

## Chinese consumer sentiment improved in March Westpac MNI China CSI: 114.7, +2.7pts, +2.4% m/m Confidence higher; broad based uplift on post-LNY rate cut

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, increased by 2.7pts in March, printing 114.7 versus 112.0 in February, +2.4% over the month and -2.0% over the year. The March outcome is 5.7% 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.
- Four of the five components that go into the calculation of the **Westpac MNI China CSI** increased from the previous month. The major impulse in the month was a steep uplift in current and expected **family finances**, which more than corrected their overly weak February readings. Current and forward looking assessments of **business conditions** all increased, but to a lesser extent than family finances. *The post Lunar New Year interest rate cut has clearly out-weighed the announcement of a lower annual growth target in the minds of Chinese consumers.*
- A month ago the “current” portion of the **CSI** was down by 7.7% from a year ago, whereas the “expected” portion was down by a lesser 2.4%. The updated figures are -4.2% and -0.7%. Periods where the forward looking responses are materially stronger than current assessments tend to presage improvement in economy-wide conditions. Genuine turning points tend to have stable or moderately improving current readings coinciding with steeply 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 3.3%. The March reading (-0.1pt from February) is 8.1% below long run average. In absolute terms **job security** remains in short supply. Consumers are awaiting a more durable pick-up in growth before they fundamentally reassess the job outlook. Given this lukewarm description of labour market conditions, the aforementioned lift in family finances looks even more dependent on the interest rate cut (and to some degree, lower inflation expectations than a month ago).
- The consumers’ attitude towards **real estate** (see table 3 on page 4) was positive, on balance, following on from the modest cumulative improvement in Nov-Feb. **Expectations for house prices** gained ground; but the share of respondents reporting it was a **‘good time to buy a house’** edged lower; while fewer consumers nominated domestic real estate as the **‘wisest place for their savings’**. Back on the positive side, the proportion of consumers nominating a **housing purchase** as their **primary motivation for saving** rose for a fourth month, albeit modestly. The wide gulf between price expectations in the East and the Central & Western (C&W) regions observed late last year has been bridged due to large back-to-back gains in the C&W. Relative to the recent peak, the East is now down by 0.9% versus the C&W at -1.3%. Two months ago, those figures were -2.1% and -10.9%. We will continue to treat 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

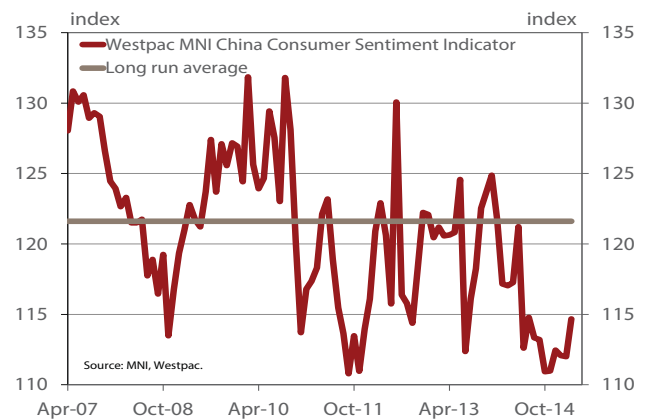


Figure 2: Family finances: current & expected

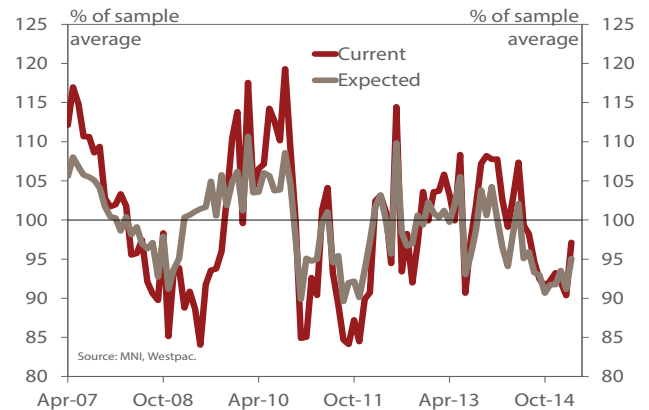
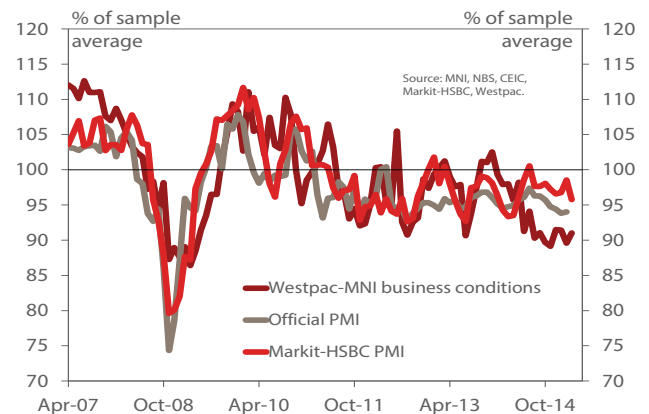
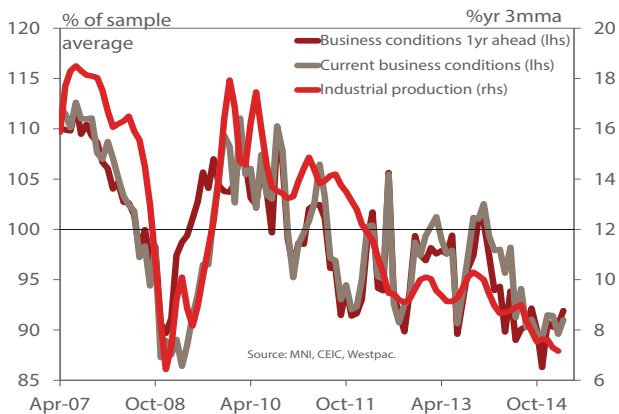


Figure 3: Consumer perceptions of business conditions & the manufacturing business surveys

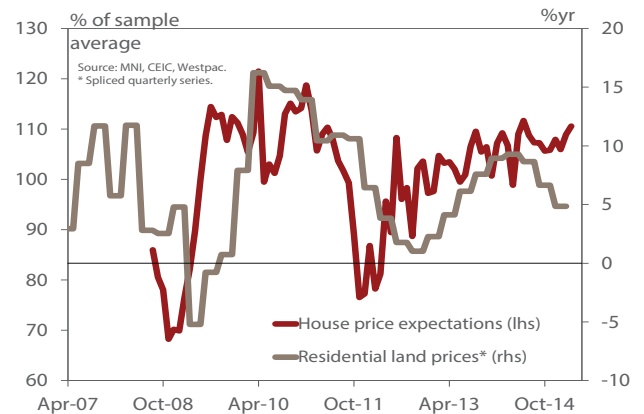


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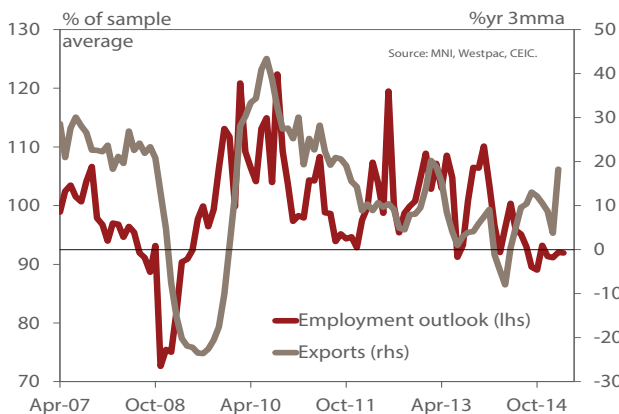
**Figure 4: Business conditions & industrial output**



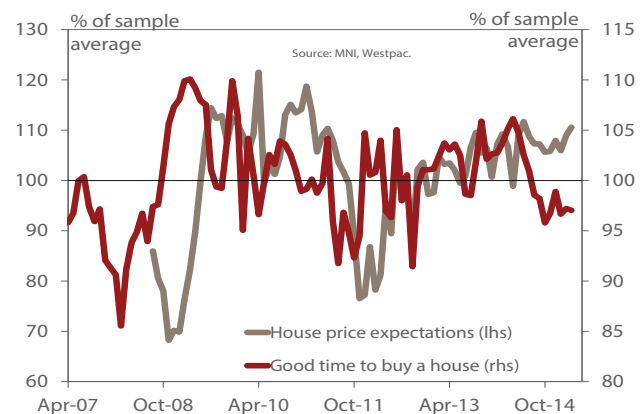
**Figure 5: Expected house prices & land prices**



**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	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
<b>Consumer Sentiment Indicator</b>	<b>121.6</b>	<b>117.0</b>	<b>113.2</b>	<b>111.0</b>	<b>112.5</b>	<b>112.1</b>	<b>112.0</b>	<b>114.7</b>
Current Indicator	109.5	108.4	102.6	102.5	101.9	101.1	101.5	<b>103.8</b>
Expectations Indicator	129.7	122.8	120.3	116.6	119.5	119.4	119.0	<b>121.9</b>
Personal finances vs a year ago	110.4	109.4	102.1	101.8	103.0	101.7	99.8	<b>107.3</b>
Personal finances next 12 months	122.1	114.9	113.5	112.0	112.0	114.2	111.3	<b>116.1</b>
Business conditions next 12 months	122.7	115.7	113.1	105.9	111.4	110.8	111.1	<b>112.8</b>
Business conditions next 5 years	144.3	137.8	134.3	132.1	135.1	133.1	134.7	<b>136.9</b>
Time to buy a major household item <sup>2</sup>	108.5	107.4	103.2	103.1	100.8	100.6	103.2	<b>100.4</b>
Housing composite	111.8	119.3	119.9	118.3	120.7	118.5	121.8	<b>123.6</b>
Auto composite	87.5	88.7	86.9	87.4	85.5	87.0	87.1	<b>87.6</b>
Business conditions vs a year ago	114.7	112.4	104.4	102.2	105.0	104.9	102.7	<b>104.4</b>
Employment expectations	107.1	98.5	95.9	99.9	97.8	97.6	98.6	<b>98.5</b>
House Price expectations	111.8	119.3	119.9	118.3	120.7	118.5	121.8	<b>123.6</b>
Inflation expectations	136.3	137.4	134.7	138.0	141.8	140.5	142.0	<b>141.8</b>
Interest rate expectations	114.9	118.9	113.7	112.9	114.0	112.7	116.9	<b>114.2</b>
Stock market expectations	108.5	101.4	101.1	98.5	100.6	98.8	99.3	<b>102.0</b>

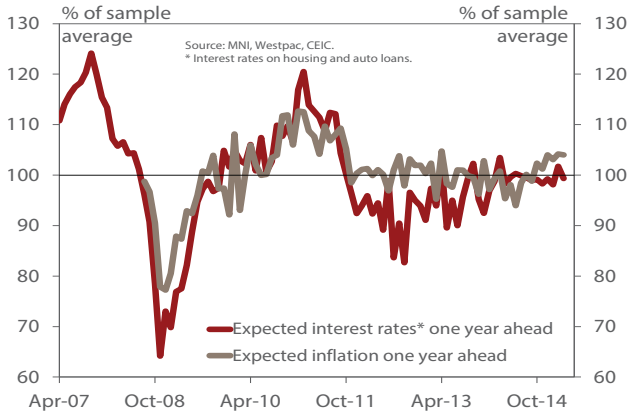
Note: all index point changes are calculated on rounded numbers; see page 7 for methodological details.

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.

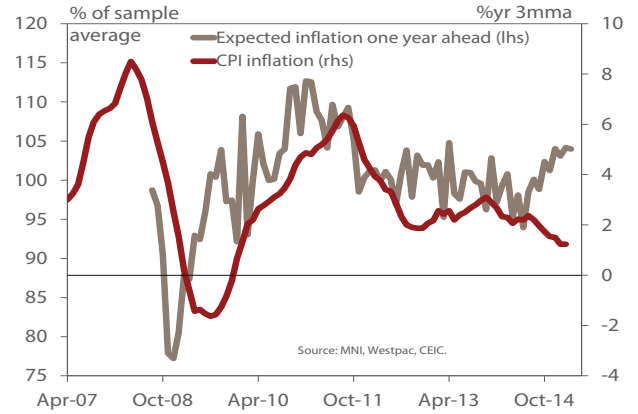
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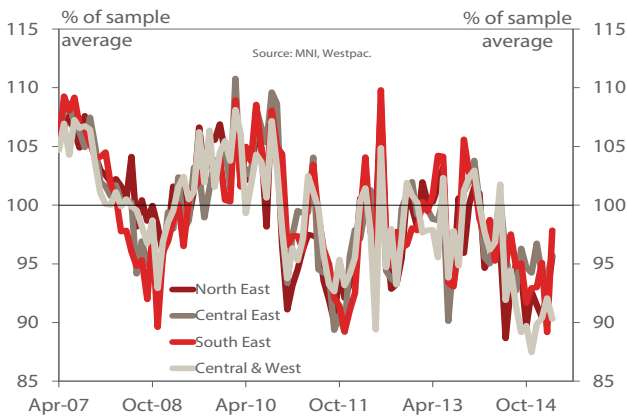
**Figure 8: Inflation & interest rate expectations**



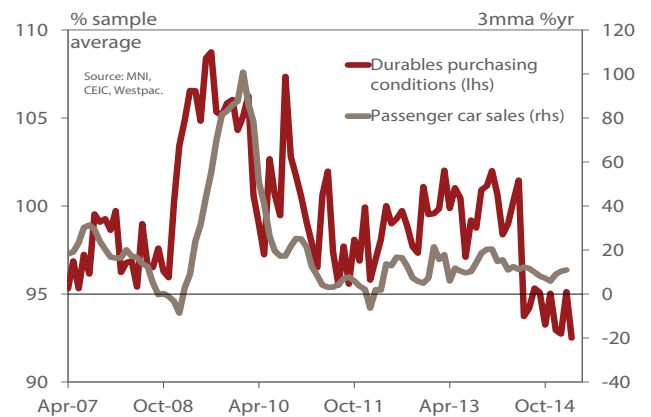
**Figure 9: Inflation expectations & the CPI**



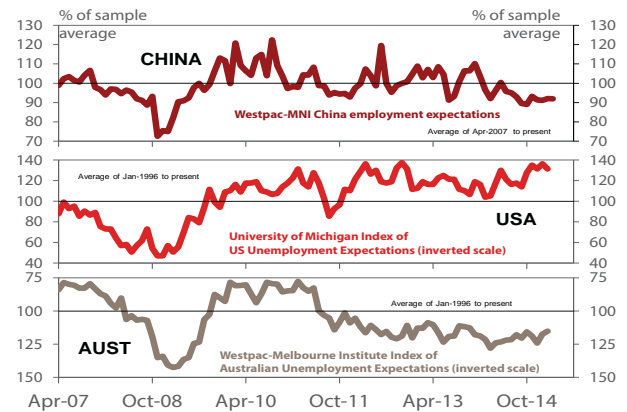
**Figure 10: Sentiment by region**



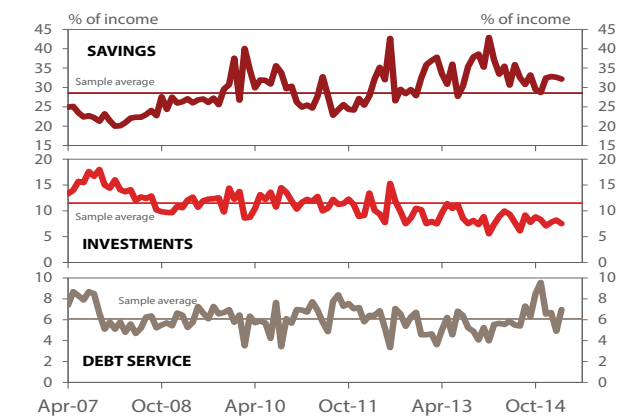
**Figure 11: Durables buying conditions & car sales**



**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	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
<b>Eastern</b>	<b>120.9</b>	<b>116.2</b>	<b>115.1</b>	<b>112.8</b>	<b>113.4</b>	<b>112.5</b>	<b>111.3</b>	<b>116.5</b>
North East	121.5	115.8	114.4	112.5	111.1	109.9	112.3	116.1
Centre East	120.3	117.5	115.9	113.4	116.4	113.2	113.0	115.2
South East	120.9	115.2	114.9	112.4	112.4	115.0	107.8	118.3
Beijing	120.5	115.9	116.4	113.2	109.9	109.6	114.6	122.6
Shanghai	119.0	114.8	117.1	117.8	119.9	114.0	117.7	115.2
Guangzhou	120.8	110.1	123.1	116.8	109.8	121.4	112.1	116.2
<b>Central &amp; Western</b>	<b>123.0</b>	<b>119.1</b>	<b>109.7</b>	<b>107.6</b>	<b>110.6</b>	<b>111.2</b>	<b>113.3</b>	<b>111.1</b>

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

	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
<b>House price expectations : % of average</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>	<b>110.6</b>
House price expectations: % net	120.0	119.9	118.1	118.3	120.7	118.5	121.8	<b>123.6</b>
% nominating <i>Go Up Dramatically</i> <sup>^</sup>	7.9	6.1	7.4	8.1	6.9	6.5	9.9	<b>9.2</b>
% nominating <i>Go Up Slightly</i> <sup>^</sup>	34.6	38.6	35.2	35.0	39.3	36.7	33.6	<b>38.9</b>
% nominating <i>Stay the Same</i> <sup>^</sup>	30.5	30.7	31.8	29.5	30.5	31.5	30.8	<b>29.7</b>
% nominating <i>Go Down Slightly</i> <sup>^</sup>	8.4	8.1	9.1	11.4	8.5	8.5	7.7	<b>7.3</b>
% nominating <i>Go Down Sharply</i> <sup>^</sup>	1.0	1.4	2.3	1.5	1.6	2.1	1.0	<b>1.4</b>
Don't Know/No Answer <sup>^</sup>	17.6	15.1	14.2	14.4	13.2	14.7	16.9	<b>13.7</b>
<b>House price expectations by region: % net</b>								
East	119.1	118.5	119.2	120.5	122.6	121.5	123.0	<b>123.0</b>
North East (incl. Beijing)	117.6	118.9	119.7	121.3	123.4	120.8	121.7	<b>126.2</b>
Centre East (incl. Shanghai)	118.9	120.1	119.3	121.3	123.1	120.7	121.7	<b>118.4</b>
South East (incl. Guangdong)	121.3	115.9	118.3	118.4	121.0	123.4	126.4	<b>124.0</b>
Central & Western	121.6	122.7	116.1	114.2	116.9	112.6	119.5	<b>124.8</b>
<b>Good time to buy a house? % of average</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>	<b>97.0</b>
Good time to buy a house? % net	95.0	94.7	92.4	93.3	95.4	93.2	93.8	<b>93.6</b>
% of responses due to* income	10.9	11.4	11.4	5.6	8.1	0.5	25.5	<b>31.5</b>
% of responses due to* policy	17.2	7.5	4.1	7.3	5.6	5.6	2.9	<b>7.5</b>
% of responses due to* prices	71.9	81.1	84.5	87.1	86.3	93.9	71.6	<b>61.0</b>
Bad time to buy a house due to ...								
% nominating* income	18.9	17.8	20.4	28.3	24.3	38.5	20.3	<b>32.5</b>
% nominating* policy	4.2	7.3	8.0	5.0	3.7	1.0	9.5	<b>10.5</b>
% nominating* prices	76.9	74.9	71.5	66.7	72.1	60.6	70.2	<b>57.0</b>
<b>Primary motivation for saving - housing purchase or downpayment<sup>#</sup></b>	<b>6.5</b>	<b>7.9</b>	<b>5.5</b>	<b>4.4</b>	<b>4.7</b>	<b>6.3</b>	<b>6.4</b>	<b>6.8</b>
<b>Wisest place for savings: domestic real estate<sup>#</sup></b>	<b>18.5</b>	<b>13.8</b>	<b>15.6</b>	<b>17.0</b>	<b>16.8</b>	<b>19.3</b>	<b>19.7</b>	<b>14.6</b>
<b>Wisest place for savings: foreign real estate<sup>#</sup></b>	<b>0.2</b>	<b>0.5</b>	<b>0.2</b>	<b>0.3</b>	<b>0.2</b>	<b>0.4</b>	<b>0.7</b>	<b>1.0</b>
Does your family currently have a housing loan?								
% nominating yes	19.3	19.4	23.4	23.0	19.7	20.0	16.3	<b>19.5</b>
% nominating no	80.5	80.4	76.3	76.7	79.7	79.7	83.5	<b>80.1</b>
<b>What sectors will perform well in the stock market? % nominating<sup>^</sup> ...</b>								
steel	1.8	1.3	2.5	2.3	1.3	1.5	2.1	<b>1.3</b>
construction and building materials	1.7	5.1	5.6	2.7	8.0	3.8	3.2	<b>3.1</b>
real estate	5.8	7.3	12.2	9.9	14.1	2.6	10.4	<b>3.0</b>

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

- The consumers' attitude towards **real estate** in March was positive, on balance, following on from the modest cumulative improvement in Nov-Feb. **Expectations for house prices** gained ground; but the share of respondents reporting it was a '**good time to buy a house**' edged lower; while fewer consumers nominated domestic real estate as the '**wisest place for their savings**'. Back on the positive side, the proportion of consumers nominating a **housing purchase** as their **primary motivation for saving** rose for a fourth consecutive month, albeit modestly.
- The wide gulf between the East and the Central & Western (C&W) regions observed late last year has been bridged due to large back-to-back gains in the C&W. Relative to the recent peak, the East is now down by 0.9% versus the C&W at -1.3%. Two months ago, those figures were -2.1%

and -10.9%. We will continue to treat the size of the C&W 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 participating in the 'recovery'. 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.

- Confidence in the share market performance of firms with real estate linkages fell back from the elevated levels seen in February. Also, **foreign real estate** hit the 1% level in the 'wisest place for savings' category. That may not sound like much, but the purchasing power of China's "one-percent" has become a major force in many destination markets.

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**Table 4: Consumer savings motivations, all China: "What is the main reason you are saving?"**

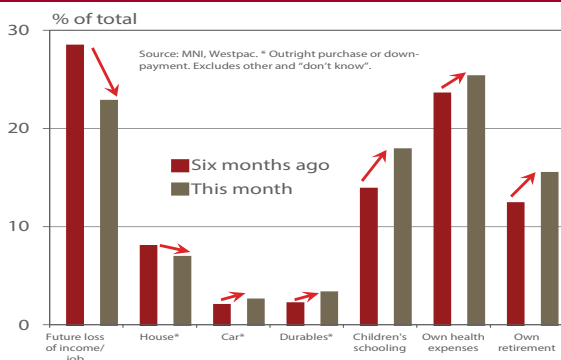
	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Loss of income or employment	30.1	24.4	28.3	27.9	22.2	23.3	22.4	22.4	<b>22.7</b>
Housing purchase or downpayment	8.0	6.5	7.9	5.5	4.4	4.7	6.3	6.4	<b>6.8</b>
Car purchase or downpayment	1.3	1.6	1.9	2.8	1.7	2.3	2.1	1.6	<b>2.4</b>
Household good purchase	1.2	3.8	2.1	3.1	3.5	3.5	2.9	2.7	<b>3.2</b>
Children's education	13.6	14.4	13.7	15.2	15.2	15.8	16.7	18.4	<b>17.7</b>
Own health expenses	21.1	22.8	23.4	23.3	26.6	24.2	24.1	24.4	<b>25.2</b>
Own retirement	14.5	14.1	12.3	14.7	15.6	18.1	17.0	19.3	<b>15.3</b>
Saving to start own business	3.0	2.6	2.6	2.3	2.9	2.8	2.3	1.1	<b>1.4</b>
Other*	7.1	9.9	7.9	5.3	7.7	5.2	6.3	3.8	<b>5.3</b>

**Table 5: Consumer savings preferences, all China: "What is the wisest place for your savings?"**

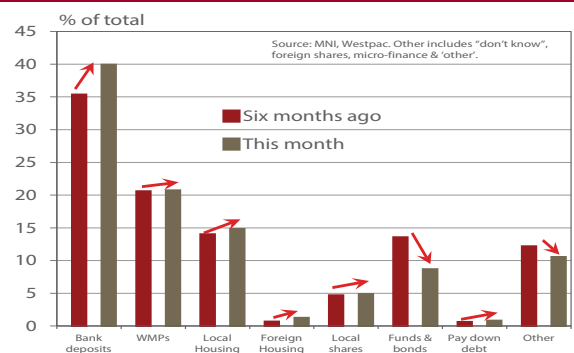
	Jul-14	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
Bank Deposits	42.4	35.1	35.1	38.2	35.4	37.9	35.3	38.3	<b>39.7</b>
Fund	4.0	4.4	6.9	4.6	4.5	3.9	4.9	5.3	<b>6.2</b>
Bonds	2.3	2.7	6.4	1.8	4.3	1.2	1.8	2.6	<b>3.8</b>
Local Shares	4.2	6.6	4.5	5.7	5.3	5.7	4.4	3.9	<b>4.7</b>
Foreign Shares	0.2	0.3	0.2	0.1	0.2	0.4	0.3	0.0	<b>0.9</b>
China Real Estate	16.8	18.5	13.8	15.6	17.0	16.8	19.3	19.7	<b>14.6</b>
Foreign Real Estate	0.6	0.2	0.5	0.2	0.3	0.2	0.4	0.7	<b>1.0</b>
Wealth management products^	16.3	20.2	20.4	21.3	22.6	23.7	22.6	19.0	<b>20.5</b>
Micro Finance Loan Own Region	1.1	1.0	1.3	0.4	0.3	0.8	0.2	0.4	<b>0.6</b>
Pay Down Debt	0.7	0.4	0.4	0.9	0.5	0.0	0.1	0.5	<b>0.6</b>
Other*	11.3	10.6	10.5	11.2	9.5	9.3	10.8	9.7	<b>7.2</b>
<b>Risk averse share#</b>	<b>53.0</b>	<b>47.5</b>	<b>47.8</b>	<b>51.9</b>	<b>49.5</b>	<b>52.1</b>	<b>49.0</b>	<b>50.2</b>	<b>52.6</b>
<b>Risk seeking share</b>	<b>47.0</b>	<b>52.5</b>	<b>52.2</b>	<b>48.1</b>	<b>50.5</b>	<b>47.9</b>	<b>51.0</b>	<b>49.8</b>	<b>47.4</b>

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. # Deposits, 'pay down debt' and WMPs scaled by the approximate share of fixed rate products.

**Figure 14: Motivations for savings**



**Figure 15: Wisest place for savings**



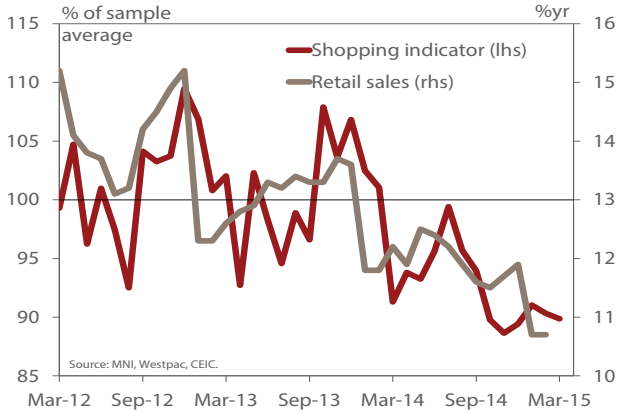
- On **savings motivations** (table 4, figure 14), in March 22.7% of respondents nominated **future loss of income or employment** as their primary saving motivation. Healthcare, education and retirement costs continue to loom large in the budget calculus of households. **Housing purchases and downpayments** were cited by 6.8% of respondents as their primary savings motive, 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 *back2back2back2back* gains in this indicator.

- Regarding **savings preferences** (table 5, figure 15), our categorization of risk averse vs risk seeking asset classes resulted in an approximate ratio of 53/47 in March, the most 'risk averse' read since July last year. That is mainly due to a drop-off in attitudes towards property, which is a surprise given the reasonably positive vibe vis-a-vis housing seen elsewhere in the survey. On the sharemarket, the publicity surrounding the 'Under the Dome' documentary presumably contributed to the strong anticipated performance for listed firms in the 'environmental protection' business.

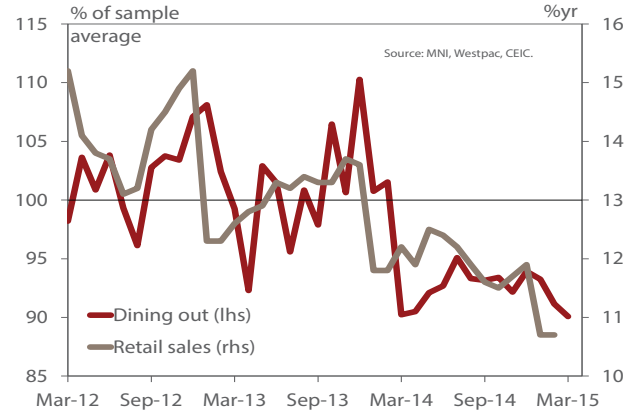
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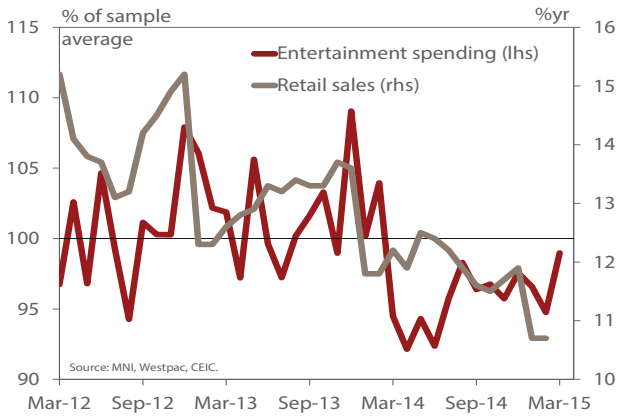
**Figure 16: Shopping indicator & retail sales**



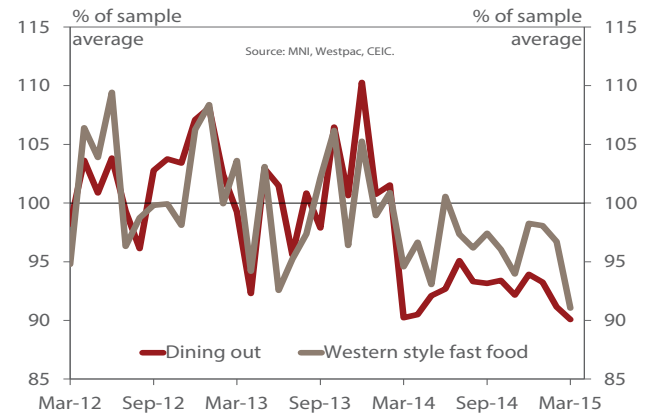
**Figure 17: 'Dining out' & retail sales**



**Figure 18: Entertainment spending & retail sales**



**Figure 19: Western style fast food & 'dining out'**



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

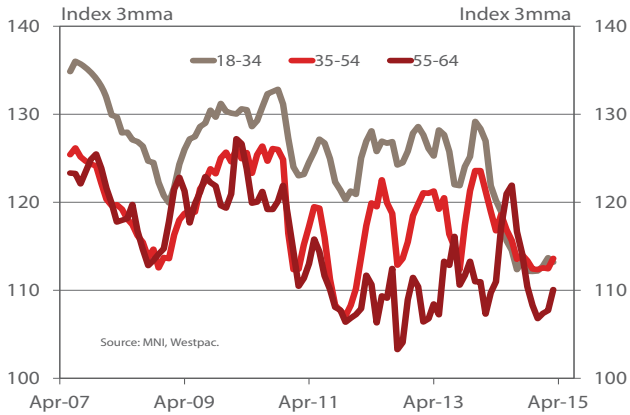
	long run average	level one year ago	level 6 mths ago	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15
<b>Expected change in spending on ... (net bal %)</b>								
Expected spending on <i>shopping</i>	104.7	95.6	98.4	92.8	93.7	95.3	94.6	<b>94.1</b>
Expected spending on <i>entertainment</i>	102.9	97.3	99.2	98.5	100.4	99.4	97.6	<b>101.9</b>
Expected spending on <i>dining out</i>	106.3	95.9	99.0	97.9	99.8	99.1	96.9	<b>95.7</b>
Expected spending on <i>Western style fast food</i>	92.6	87.6	90.2	87.0	91.0	90.9	89.6	<b>84.4</b>
<b>Buying conditions for ... (net bal %)</b>								
Buying conditions for <i>houses</i>	96.7	101.4	94.7	93.3	95.4	93.2	93.8	<b>93.6</b>
Buying conditions for <i>cars</i>	102.3	101.0	99.0	97.5	96.6	97.9	97.4	<b>99.3</b>
Buying conditions for <i>major household items</i>	108.3	107.4	103.2	103.1	100.8	100.6	103.2	<b>100.4</b>
Buying conditions for <i>IT products</i>	107.2	102.4	103.9	101.8	102.7	103.2	102.3	<b>101.4</b>
Buying conditions for <i>communication devices</i>	108.1	103.5	102.7	100.3	101.5	101.5	102.2	<b>98.8</b>
Buying conditions for <i>all other appliances</i>	107.3	102.7	103.2	102.4	101.7	103.1	101.7	<b>100.3</b>
<b>% nominating yes</b>								
Does your family <i>plan to buy a car</i> in the next 12 months?	12.6	11.8	11.6	12.9	13.8	17.7	14.5	<b>12.8</b>
Have you done any <i>online shopping</i> in the last 3 months?	na	na	57.2	55.9	55.6	56.9	50.2	<b>51.2</b>

Source: MNI, Westpac.

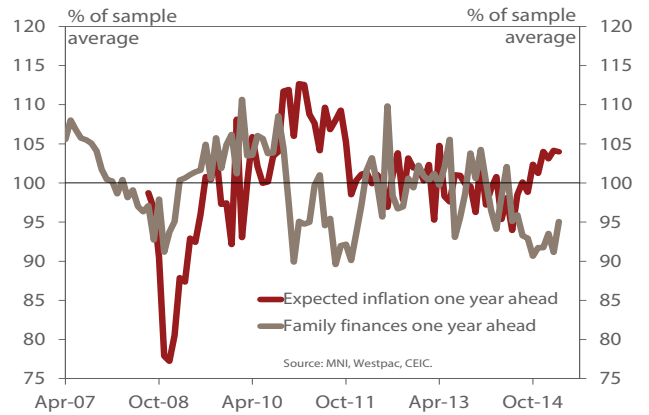
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

25 March 2015

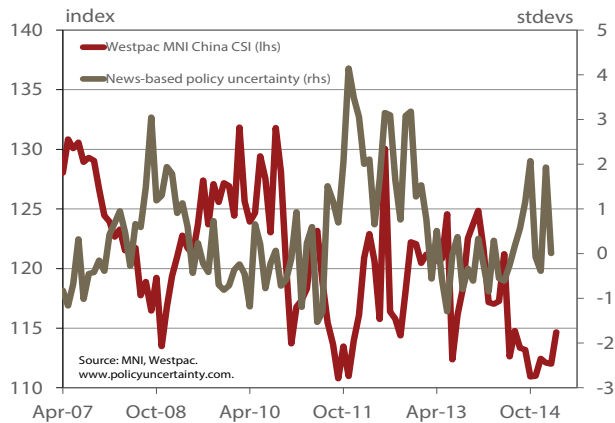
**Figure 20: Sentiment by age group (smoothed)**



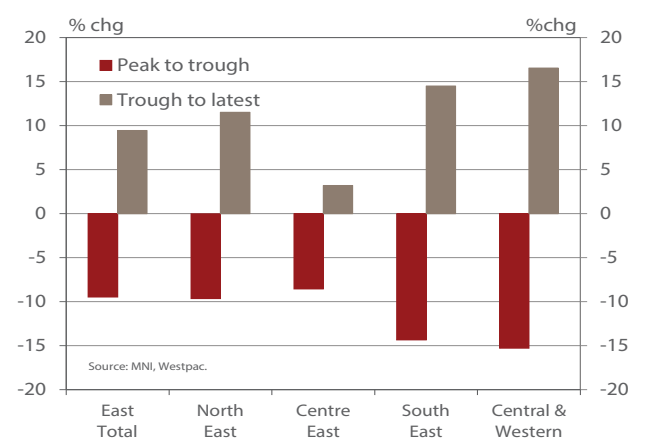
**Figure 21: Expected inflation & family finances**



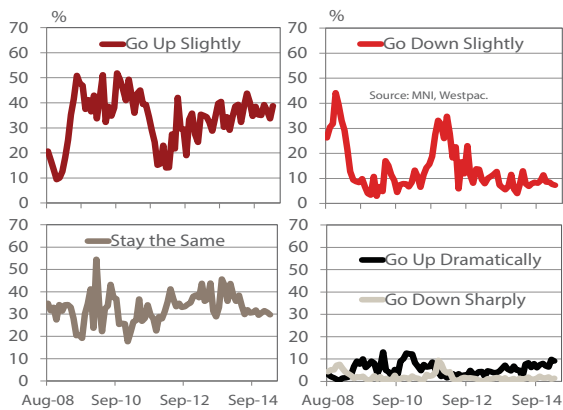
**Figure 22: Westpac MNI & "Policy Uncertainty"**



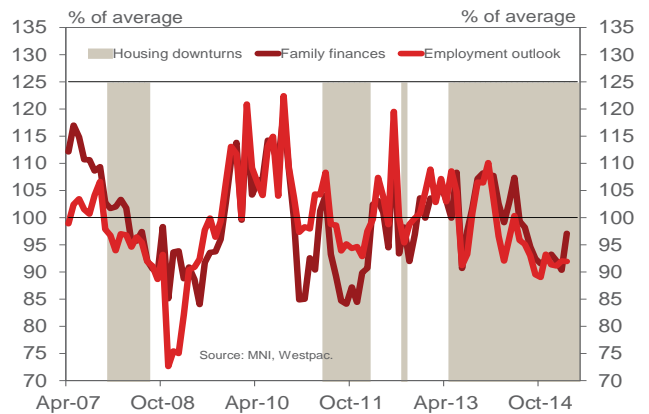
**Figure 23: House price expectations: current cycle**



**Figure 24: House price expectations breakdown**



**Figure 25: Jobs, finances & housing downturns**



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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