

29 April 2015

Chinese consumer sentiment declined in April Westpac MNI China CSI: 111.1, -3.6pts, -3.1% m/m Confidence down; weak growth dominates the equity boom

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, decreased by 3.6pts in April, printing 111.1 versus 114.7 in March, -3.1% over the month and -5.3% over the year. The April outcome is 8.7% below the long run average. The absolute level of the **CSI** indicates that Chinese consumers are still anxious about their personal financial wellbeing and the economy more broadly.
- Each of the five components that go into the calculation of the **Westpac MNI China CSI** decreased from their March levels. The major negative impulse was a steep decline in current and expected **family finances**, which more than reversed March's rate-cut infused gains. Forward looking assessments of **business conditions** also declined, but to a lesser extent. Current business conditions (not part of the composite, but highly correlated with the PMIs and IP) were a touch firmer. *The post Lunar New Year rate cut has clearly faded from the minds of consumers already, just as the November 2014 cut failed to inspire anything more than a one-month knee jerk gain.*
- **Investment preferences** tilted in a **risk-seeking** direction in April. Both domestic **real estate** and, naturally, the **booming share market**, attracted a greater share of adherents than in March. However, the scale of these gains is relatively small, implying there remains plenty of room for a **rebalancing of portfolios** towards these asset classes. For now though, there is little sign that the spectacular gain in share prices is having more than a marginal impact on the conservative financial mind-set of the ordinary Chinese citizen. See page 8 for a range of insights on the booming equity market.
- The **employment indicator** declined by a cumulative 11.3% between May and October 2014 and has since gained just 2.2%. The April reading (-1.1pt from March) is 9.1% below long run average. Ergo, 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. We noted a month ago that the softer employment reading argued that the observed improvement in family finances was highly dependent on the interest rate cut. The weak aforementioned update on family finances validates that position.
- The consumers' attitude towards **real estate** (see table 3 on page 4) was mixed in April, following on from the modest cumulative improvement in Nov-Mar. **Expectations for house prices** declined; but the share of respondents reporting it was a **'good time to buy a house'** moved higher; while more consumers nominated domestic real estate as the **'wisest place for their savings'**. Back on the negative side, the proportion of consumers nominating a **housing purchase** as their **primary motivation for saving** fell modestly, following on from four straight gains. We interpret these outcomes as somewhat disappointing, given the increase in max LVRs, which we hoped would produce a more definitive positive overall read. However, we note a) the firmer March official house price figures, b) that survey respondents expect listed real estate firms to perform well, and c) that policy has been eased further since this survey was taken. Will it be a case of delayed gratification?

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Figure 1: Westpac MNI China CSI: the headline

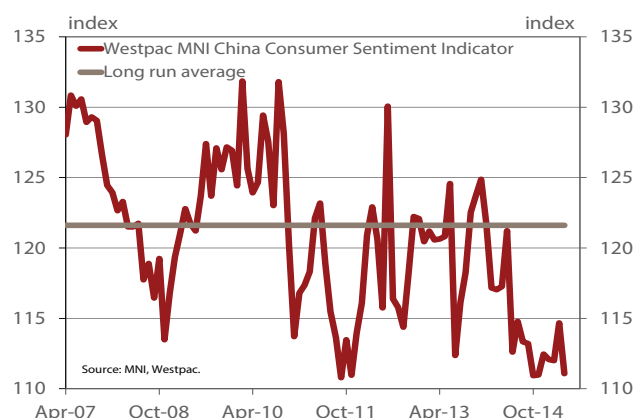


Figure 2: Family finances: current & expected

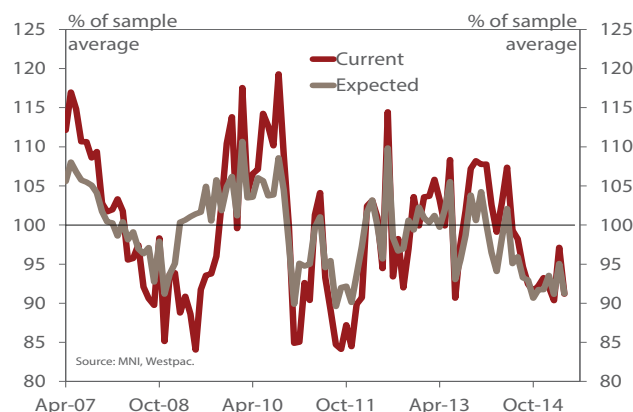
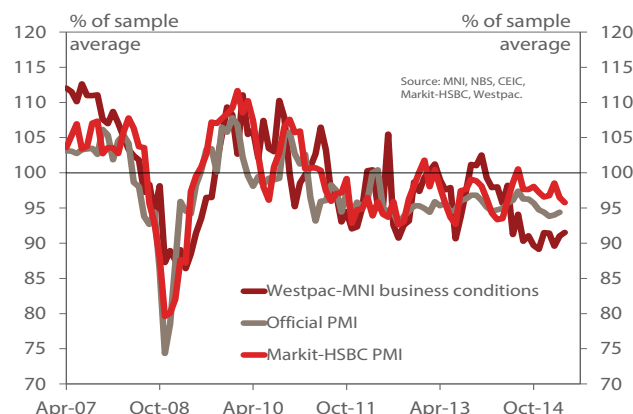


Figure 3: Consumer perceptions of business conditions & the manufacturing business surveys



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Figure 4: Business conditions & industrial output

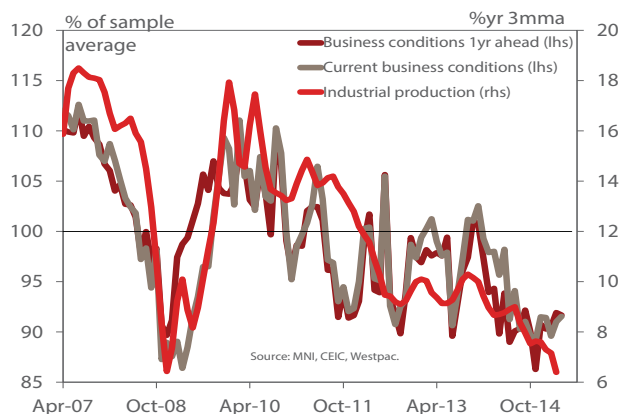


Figure 5: Expected house prices & land prices

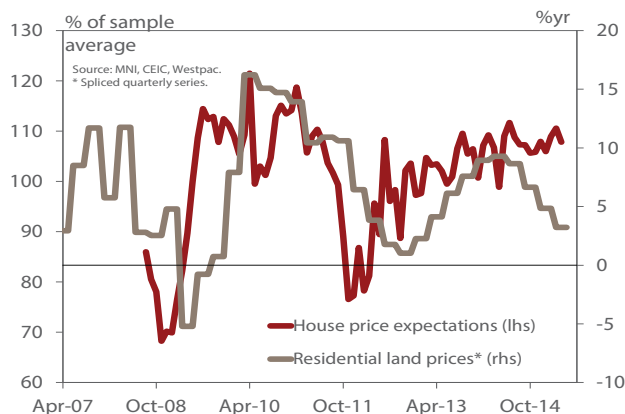


Figure 6: Employment outlook & export growth

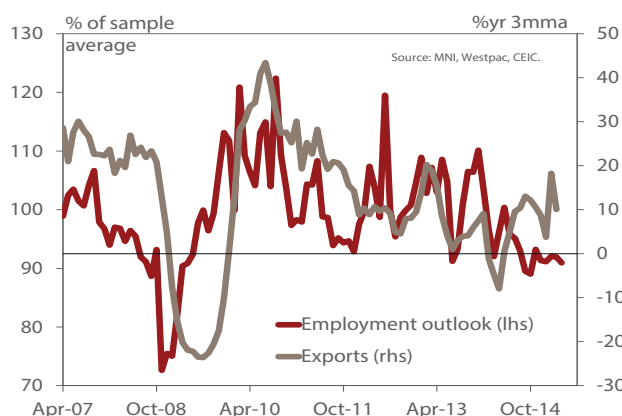


Figure 7: House prices & 'good time to buy'

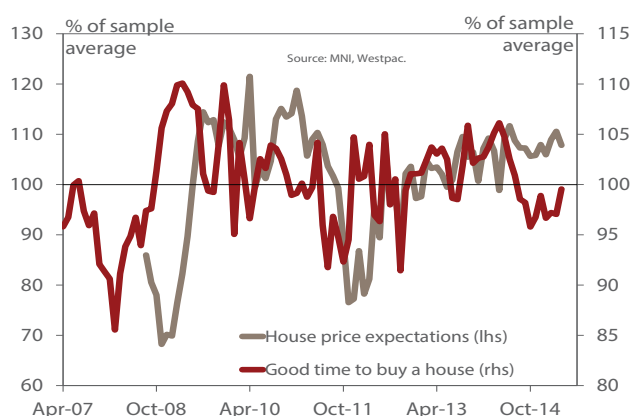


Table 1: The Westpac MNI China Consumer Sentiment Survey

	long run average ¹	level one year ago	level 6 mths ago	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Consumer Sentiment Indicator	121.6	117.3	110.9	112.5	112.1	112.0	114.7	111.1
Current Indicator	109.5	111.2	101.1	101.9	101.1	101.5	103.8	100.4
Expectations Indicator	129.7	121.3	117.5	119.5	119.4	119.0	121.9	118.2
Personal finances vs a year ago	110.4	113.6	101.1	103.0	101.7	99.8	107.3	100.7
Personal finances next 12 months	122.1	120.0	110.7	112.0	114.2	111.3	116.1	111.4
Business conditions next 12 months	122.7	110.2	110.4	111.4	110.8	111.1	112.8	112.5
Business conditions next 5 years	144.3	133.8	131.3	135.1	133.1	134.7	136.9	130.8
Time to buy a major household item ²	108.5	108.8	101.2	100.8	100.6	103.2	100.4	100.1
Housing composite	111.8	110.5	118.1	120.7	118.5	121.8	123.6	120.6
Auto composite	87.5	92.5	85.6	85.5	87.0	87.1	87.6	86.3
Business conditions vs a year ago	114.7	109.7	102.9	105.0	104.9	102.7	104.4	105.0
Employment expectations	107.1	103.0	95.3	97.8	97.6	98.6	98.5	97.4
House Price expectations	111.8	110.5	118.1	120.7	118.5	121.8	123.6	120.6
Inflation expectations	136.3	130.0	139.6	141.8	140.5	142.0	141.8	138.0
Interest rate expectations	114.9	112.9	114.0	114.0	112.7	116.9	114.2	111.5
Stock market expectations	108.5	112.3	98.1	100.6	98.8	99.3	102.0	100.9

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

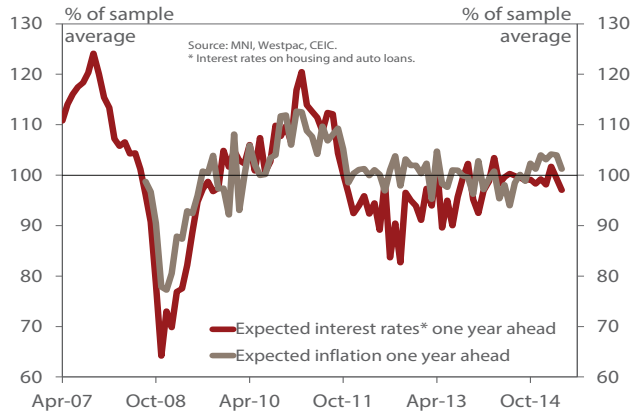


Figure 9: Inflation expectations & the CPI

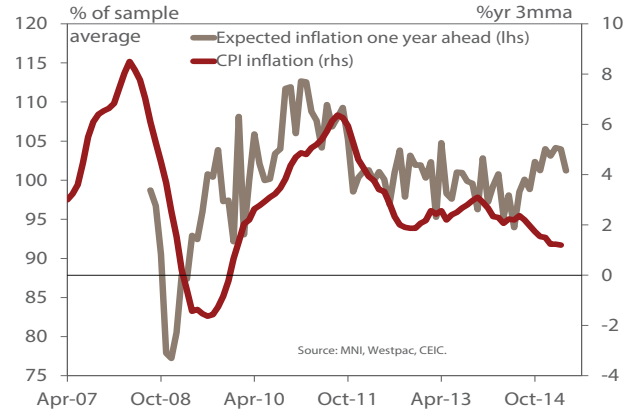


Figure 10: Sentiment by region

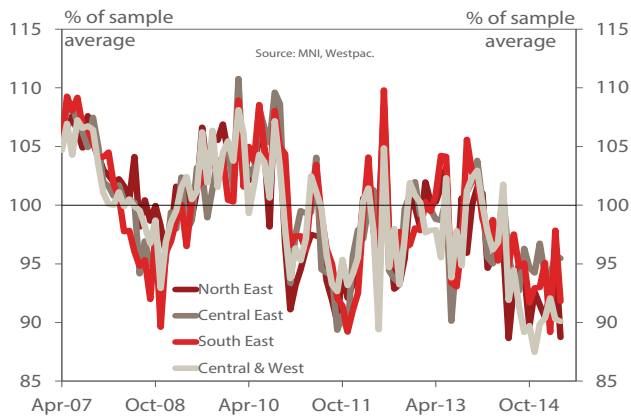


Figure 11: Auto composite & auto sales

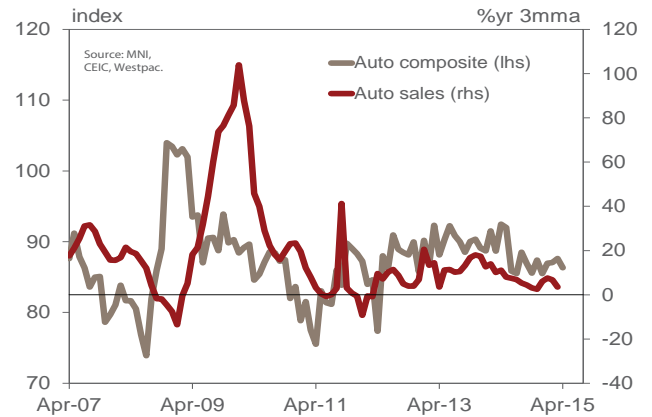


Figure 12: International comparison: jobs

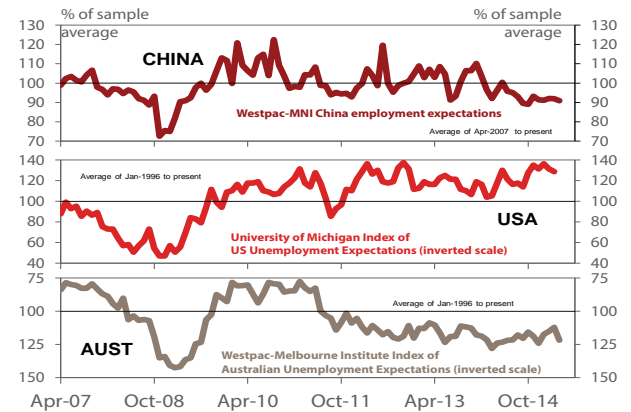


Figure 13: Uses of household income

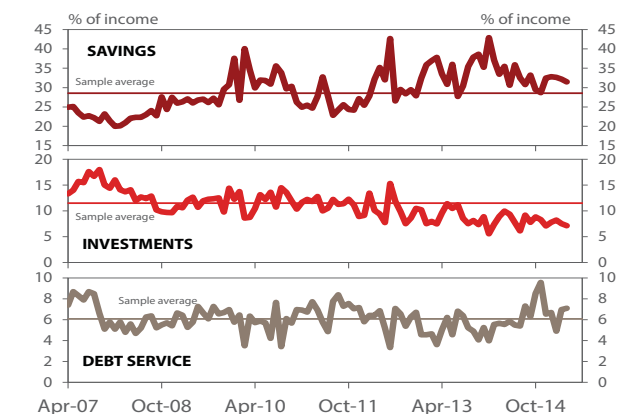


Table 2: Regional and major city results, headline CSI

	long run average	level one year ago	level 6 mths ago	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Eastern	120.9	119.0	111.2	113.4	112.5	111.3	116.5	111.2
North East	121.5	117.3	108.9	111.1	109.9	112.3	116.1	107.8
Centre East	120.3	121.1	113.9	116.4	113.2	113.0	115.2	114.9
South East	120.9	118.7	110.8	112.4	115.0	107.8	118.3	111.0
Beijing	120.5	121.0	115.6	109.9	109.6	114.6	122.6	110.0
Shanghai	119.0	108.0	115.3	119.9	114.0	117.7	115.2	116.5
Guangzhou	120.8	116.1	110.2	109.8	121.4	112.1	116.2	108.6
Central & Western	123.0	125.2	110.4	110.6	111.2	113.3	111.1	110.9

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Table 3: Consumer attitudes towards real estate

	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
House price expectations : % of average	107.3	105.6	105.8	108.0	105.9	108.9	110.6	107.8
House price expectations: % net	119.9	118.1	118.3	120.7	118.5	121.8	123.6	120.6
% nominating <i>Go Up Dramatically</i> ^	6.1	7.4	8.1	6.9	6.5	9.9	9.2	6.8
% nominating <i>Go Up Slightly</i> ^	38.6	35.2	35.0	39.3	36.7	33.6	38.9	36.2
% nominating <i>Stay the Same</i> ^	30.7	31.8	29.5	30.5	31.5	30.8	29.7	32.5
% nominating <i>Go Down Slightly</i> ^	8.1	9.1	11.4	8.5	8.5	7.7	7.3	7.1
% nominating <i>Go Down Sharply</i> ^	1.4	2.3	1.5	1.6	2.1	1.0	1.4	0.8
Don't Know/No Answer^	15.1	14.2	14.4	13.2	14.7	16.9	13.7	16.7
House price expectations by region: % net								
East	118.5	119.2	120.5	122.6	121.5	123.0	123.0	121.7
North East (incl. Beijing)	118.9	119.7	121.3	123.4	120.8	121.7	126.2	123.9
Centre East (incl. Shanghai)	120.1	119.3	121.3	123.1	120.7	121.7	118.4	121.4
South East (incl. Guangdong)	115.9	118.3	118.4	121.0	123.4	126.4	124.0	118.9
Central & Western	122.7	116.1	114.2	116.9	112.6	119.5	124.8	118.3
Good time to buy a house? % of average	98.2	95.8	96.7	98.9	96.6	97.2	97.0	99.6
Good time to buy a house? % net	94.7	92.4	93.3	95.4	93.2	93.8	93.6	96.0
% of responses due to* income	11.4	11.4	5.6	8.1	0.5	25.5	31.5	14.3
% of responses due to* policy	7.5	4.1	7.3	5.6	5.6	2.9	7.5	4.7
% of responses due to* prices	81.1	84.5	87.1	86.3	93.9	71.6	61.0	81.0
Bad time to buy a house due to ...								
% nominating* income	17.8	20.4	28.3	24.3	38.5	20.3	32.5	29.9
% nominating* policy	7.3	8.0	5.0	3.7	1.0	9.5	10.5	6.8
% nominating* prices	74.9	71.5	66.7	72.1	60.6	70.2	57.0	63.4
Primary motivation for saving - housing purchase or downpayment^#	7.9	5.5	4.4	4.7	6.3	6.4	6.8	5.0
Wisest place for savings: domestic real estate^#	13.8	15.6	17.0	16.8	19.3	19.7	14.6	16.6
Wisest place for savings: foreign real estate^#	0.5	0.2	0.3	0.2	0.4	0.7	1.0	0.7
Does your family currently have a housing loan?								
% nominating yes	19.4	23.4	23.0	19.7	20.0	16.3	19.5	21.8
% nominating no	80.4	76.3	76.7	79.7	79.7	83.5	80.1	78.0
What sectors will perform well in the stock market? % nominating^ ...								
steel	1.3	2.5	2.3	1.3	1.5	2.1	1.3	1.7
construction and building materials	5.1	5.6	2.7	8.0	3.8	3.2	3.1	3.1
real estate	7.3	12.2	9.9	14.1	2.6	10.4	3.0	9.3

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 mixed in April, following on from the modest cumulative improvement in Nov-Mar. **Expectations for house prices** declined; but the share of respondents reporting it was a '**good time to buy a house**' moved higher; while more consumers nominated domestic real estate as the '**wisest place for their savings**'. Back on the negative side, the proportion of consumers nominating a **housing purchase** as their **primary motivation for saving** fell modestly, following on from four straight gains. We interpret these outcomes as somewhat disappointing, given the increase in max LVRs for both first home buyer and investor purchases and the strong pass-through of benchmark cuts to mortgage rates. We had hoped this would produce a more definitive positive overall reading. However, we note a) the firmer

March official house price figures, b) that survey respondents expect listed real estate firms to perform well (see below), and c) that monetary policy has been eased further since this survey was taken, with the promise of more to come. Will it be a case of delayed gratification?

- We also note that the change in price expectations is benign in the sense that the fall was not brought about by a spike in "prices will go down". "Go up" and "go down" both declined, the latter by less, with a rise in non-definitive responses.
- Confidence in the **share market performance** of firms with **real estate linkages** rebounded from the depressed levels seen in March. Notably, this lift was concentrated on real estate 'proper', with steel and building materials firms seeing little change, which seems like a rational stance.

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

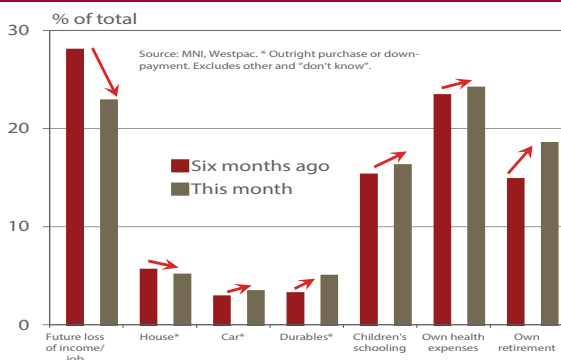
	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Loss of income or employment	24.4	28.3	27.9	22.2	23.3	22.4	22.4	22.7	22.7
Housing purchase or downpayment	6.5	7.9	5.5	4.4	4.7	6.3	6.4	6.8	5.0
Car purchase or downpayment	1.6	1.9	2.8	1.7	2.3	2.1	1.6	2.4	3.3
Household good purchase	3.8	2.1	3.1	3.5	3.5	2.9	2.7	3.2	4.9
Children's education	14.4	13.7	15.2	15.2	15.8	16.7	18.4	17.7	16.1
Own health expenses	22.8	23.4	23.3	26.6	24.2	24.1	24.4	25.2	24.0
Own retirement	14.1	12.3	14.7	15.6	18.1	17.0	19.3	15.3	18.4
Saving to start own business	2.6	2.6	2.3	2.9	2.8	2.3	1.1	1.4	1.8
Other*	9.9	7.9	5.3	7.7	5.2	6.3	3.8	5.3	3.8

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

	Aug-14	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Bank Deposits	35.1	35.1	38.2	35.4	37.9	35.3	38.3	39.7	34.9
Fund	4.4	6.9	4.6	4.5	3.9	4.9	5.3	6.2	4.9
Bonds	2.7	6.4	1.8	4.3	1.2	1.8	2.6	3.8	3.6
Local Shares	6.6	4.5	5.7	5.3	5.7	4.4	3.9	4.7	6.5
Foreign Shares	0.3	0.2	0.1	0.2	0.4	0.3	0.0	0.9	0.3
China Real Estate	18.5	13.8	15.6	17.0	16.8	19.3	19.7	14.6	16.6
Foreign Real Estate	0.2	0.5	0.2	0.3	0.2	0.4	0.7	1.0	0.7
Wealth management products^	20.2	20.4	21.3	22.6	23.7	22.6	19.0	20.5	22.0
Micro Finance Loan Own Region	1.0	1.3	0.4	0.3	0.8	0.2	0.4	0.6	0.8
Pay Down Debt	0.4	0.4	0.9	0.5	0.0	0.1	0.5	0.6	0.3
Other*	10.6	10.5	11.2	9.5	9.3	10.8	9.7	7.2	9.4
Risk averse share#	47.5	47.8	51.9	49.5	52.1	49.0	50.2	52.6	48.3
Risk seeking share	52.5	52.2	48.1	50.5	47.9	51.0	49.8	47.4	51.7

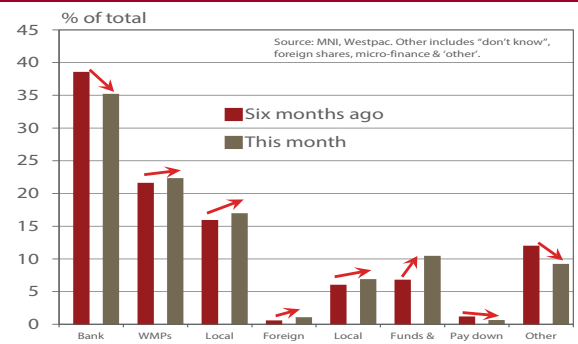
Source to tables 4 and 5: MNI, Westpac. ^ Issued by either banks or trust companies. * Includes both “Other” and “Don’t know/refuse to answer”. “Don’t know” is generally zero with respect to savings motivations, but tends to be the dominant element of “other” in savings preferences. # Deposits, ‘pay down debt’ and WMPs scaled by the approximate share of fixed rate products.

Figure 14: Motivations for savings



- On **savings motivations** (table 4, figure 14), in April 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 5.0% of respondents as their primary savings motive, which is up from the lows, but still well below the June level of 9.9%, and is down from the prior month. Saving for a household good purchase rose to an all-time high just short of 5%.

Figure 15: Wisest place for savings



- Regarding **savings/investment preferences** (table 5, figure 15), our categorization of risk averse vs risk seeking asset classes resulted in an approximate ratio of 48/52 in April, a pronounced risk seeking shift from the 53/47 reading in March. The shift was due to both equities and housing attracting more adherents (a combined 3.8ppts), with that shift ‘funded’ by a drop in those citing deposits. Given the recent bull run in the share market (which we believe has considerable legs), we have dedicated page 8 to showcase the equity related information contained in the survey.

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Figure 16: Shopping indicator & retail sales

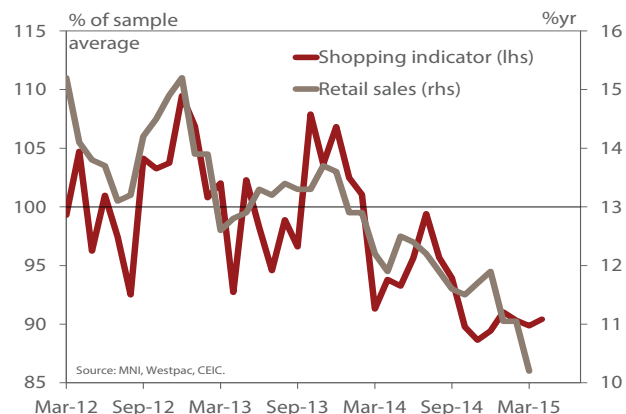


Figure 17: 'Dining out' & retail sales

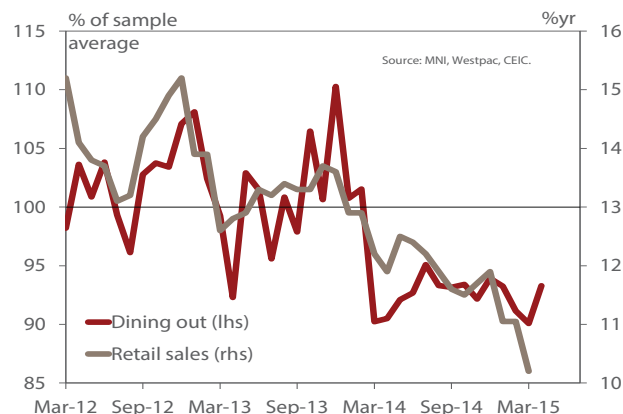


Figure 18: Entertainment spending & retail sales

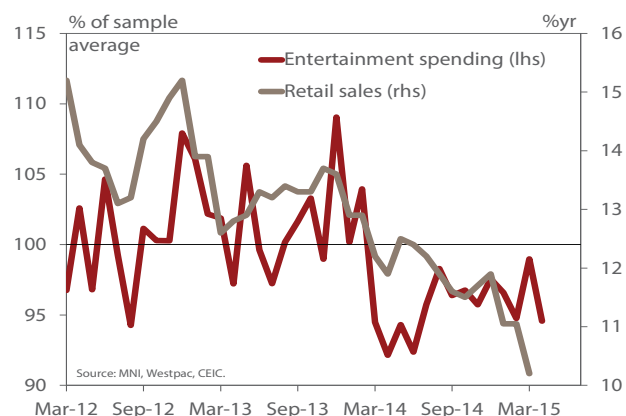


Figure 19: Western style fast food & 'dining out'

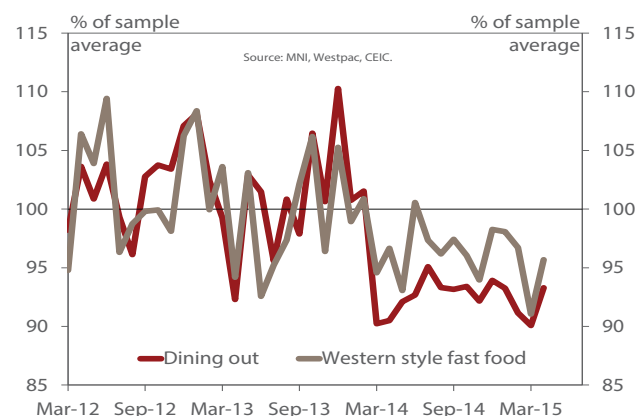


Table 6: Selected indicators of spending plans & buying conditions

	long run average	one year ago	six months ago	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15
Expected change in spending on ... (net bal %)								
Expected spending on <i>shopping</i>	104.7	98.2	94.0	93.7	95.3	94.6	94.1	94.7
Expected spending on <i>entertainment</i>	102.9	94.9	99.6	100.4	99.4	97.6	101.9	97.4
Expected spending on <i>dining out</i>	106.3	96.2	99.3	99.8	99.1	96.9	95.7	99.1
Expected spending on <i>Western style fast food</i>	92.6	89.5	89.0	91.0	90.9	89.6	84.4	88.6
Buying conditions for ... (net bal %)								
Buying conditions for <i>houses</i>	96.7	102.4	92.4	95.4	93.2	93.8	93.6	96.0
Buying conditions for <i>cars</i>	102.3	104.7	97.0	96.6	97.9	97.4	99.3	97.6
Buying conditions for <i>major household items</i>	108.3	108.8	101.2	100.8	100.6	103.2	100.4	100.1
Buying conditions for <i>IT products</i>	107.2	100.1	102.8	102.7	103.2	102.3	101.4	101.6
Buying conditions for <i>communication devices</i>	108.1	101.1	102.5	101.5	101.5	102.2	98.8	100.9
Buying conditions for <i>all other appliances</i>	107.3	101.9	101.7	101.7	103.1	101.7	100.3	101.5
% nominating yes								
Does your family <i>plan to buy a car</i> in the next 12 months?	12.6	8.1	13.7	13.8	17.7	14.5	12.8	17.3
Have you done any <i>online shopping</i> in the last 3 months?	na	na	56.6	55.6	56.9	50.2	51.2	50.0

Source: MNI, Westpac.

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Figure 20: Sentiment by age group (smoothed)

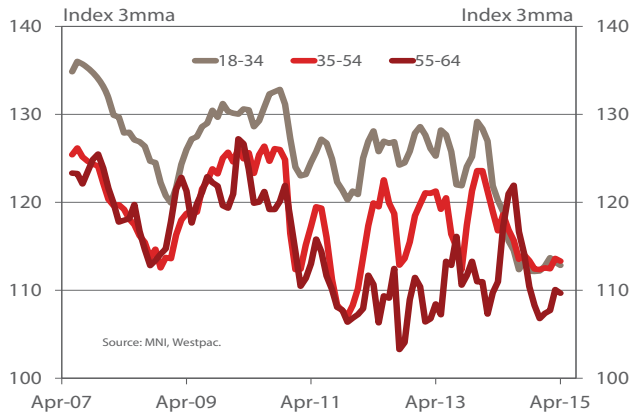


Figure 21: Expected inflation & family finances

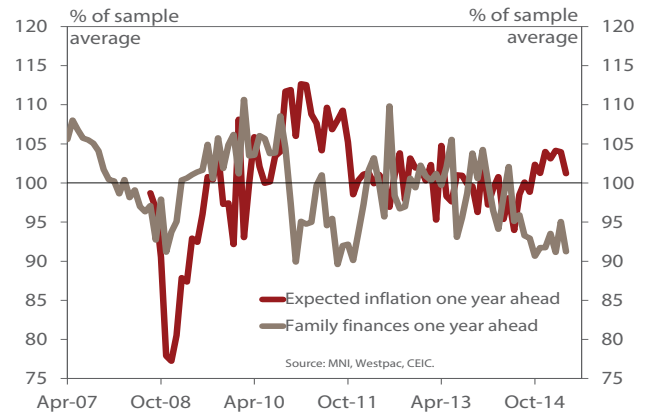


Figure 22: Westpac MNI & “Policy Uncertainty”

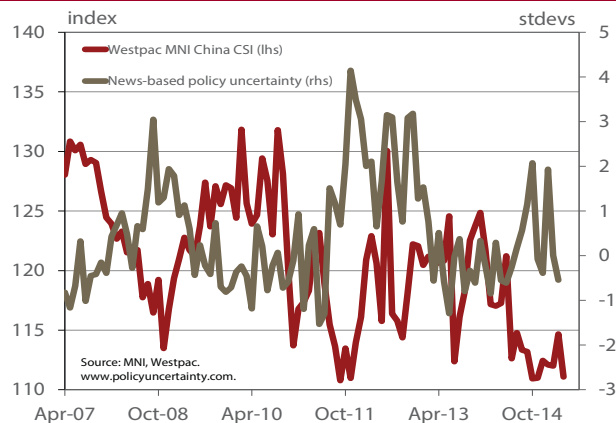


Figure 23: House price expectations: current cycle

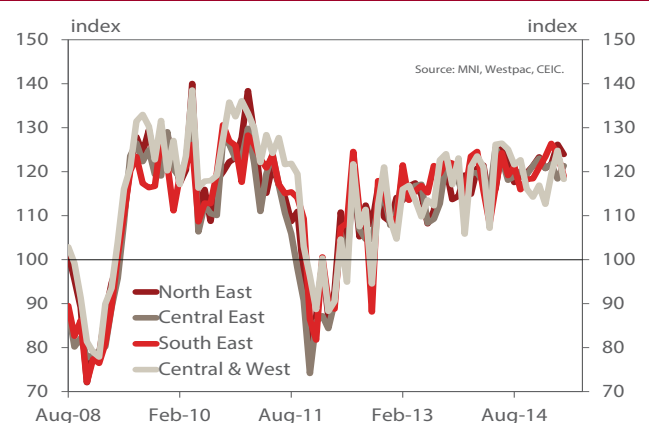


Figure 24: House price expectations breakdown

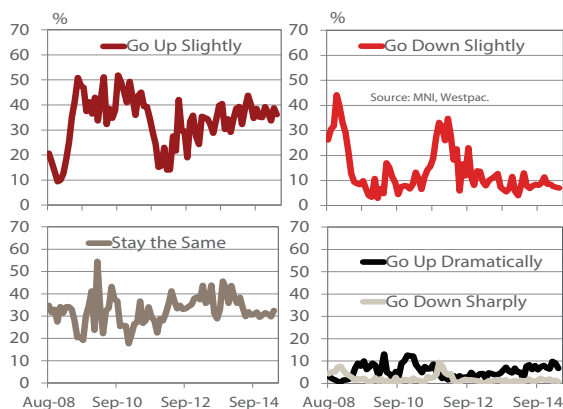
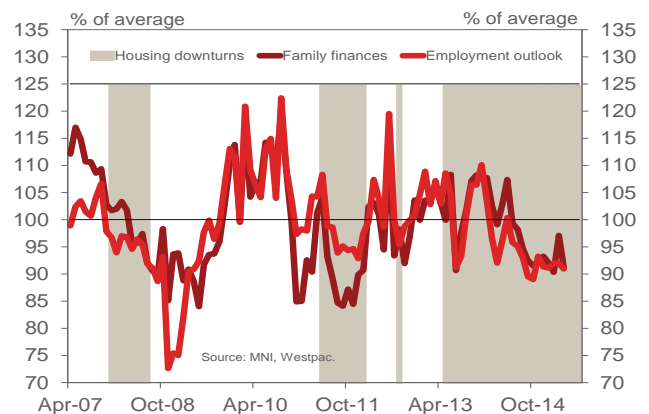


Figure 25: Jobs, finances & housing downturns



29 April 2015

Figure 26: Perception of equity market value

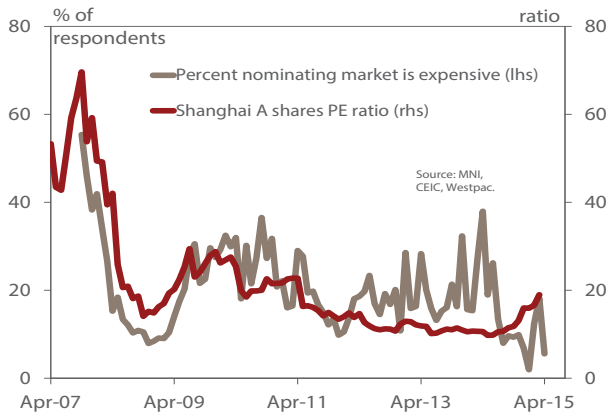


Figure 27: Equity price expectations: next 3mths

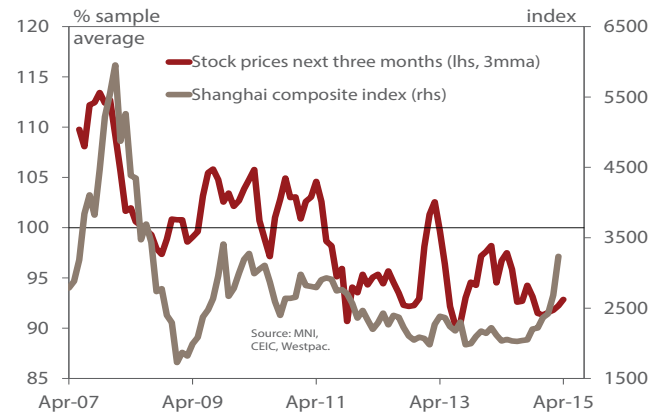


Figure 28: Equity market valuation breakdown

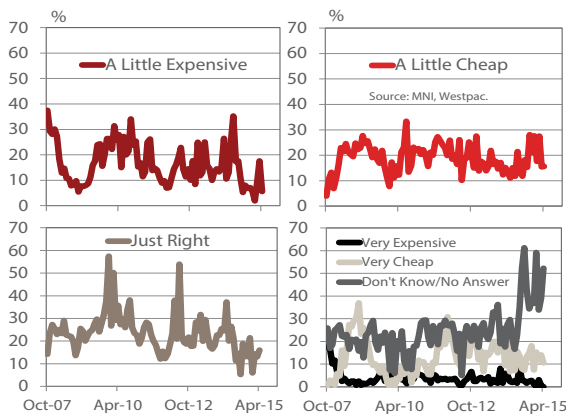


Figure 29: Trailing annual profit or loss

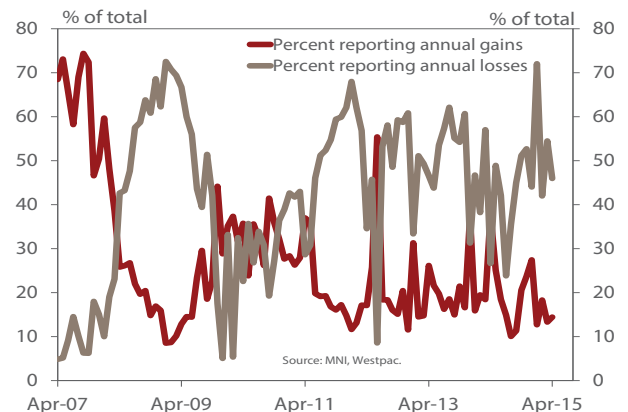


Figure 30: Equity price expectations: regional

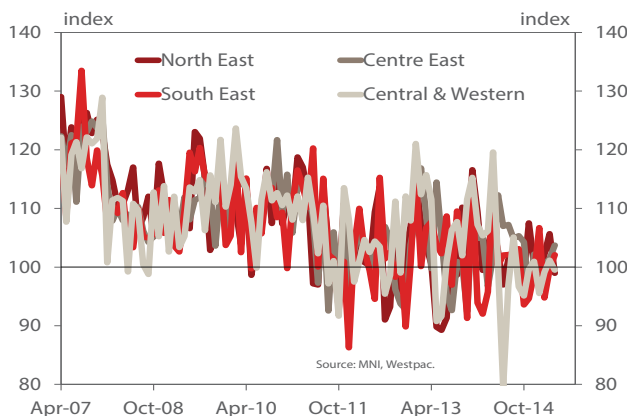
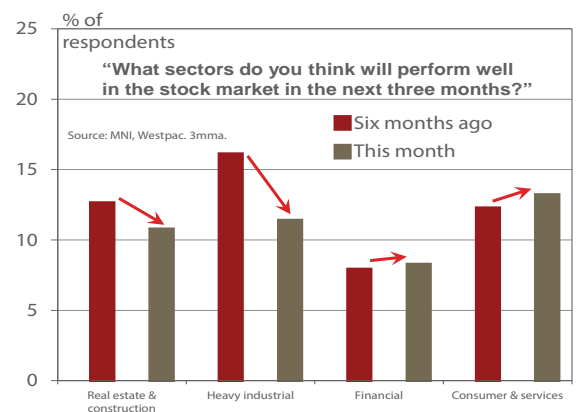


Figure 31: Expected relative sector performance



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

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