

27 May 2015

## Chinese consumer sentiment steady in May Westpac MNI China CSI: 111.1, 0.0% m/m, -8.4% y/y Confidence flat overall, but risk appetite & 18-54yo cohort firmer

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, was unchanged at 111.1 in May, which is 8.4% lower than a year ago and 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, despite the major shift in the policy stance since late last year. *Note that the 100bp cut in the required reserve ratio (April 20) is fully captured by this survey, whereas the 25bp lending rate cut announced on May 10 came at the end of our sampling period and is thus only partially reflected in these results.*
- Three of the five components that go into the calculation of the **Westpac MNI China CSI** decreased from their April levels. The major negative impulse came through in expected **business conditions**, while expected **family finances** and **'time to buy a major household item'** improved. Current business conditions (not part of the composite, but closely correlated with the PMIs and IP) moved lower, consistent with the weak data flow of late.
- The May headline result was **biased lower** by a dramatic shift towards pessimism among the 55-64 age group (~15% of the sample). Excluding this cohort, the **Westpac MNI China CSI** increased by 1.9pts from 111.8 in April to 113.8 in May. It is encouraging that the **younger cohorts** that are most active in the twin processes of household formation and durables accumulation, and are thus more likely to take advantage of policy incentives, are more optimistic than their elders.
- **Investment preferences** tilted further in the **risk-seeking** direction in May. Both domestic **real estate** and, naturally, the **booming share market**, attracted a greater share of adherents. The scale of these gains is still relatively modest though, implying there remains plenty of room for a **rebalancing of portfolios** towards these asset classes. Other aspects of the survey indicate that the equity boom is not yet having a major impact on the conservative financial mind-set of the ordinary Chinese citizen. The **rate of saving** out of income is still well above average and the proportion of income used for **active investment** is still well below average.
- The **employment indicator** declined by a cumulative 11.3% between May and October 2014 and has since gained just 2.0%. The latest reading is 9.2% below long run average. Ergo, in absolute terms **job security** remains in short supply. This possibly explains why despite this year's generous minimum wage increase, low income respondents are relatively less optimistic than their higher earning counterparts.
- The consumers' attitude towards **real estate** (see table 3 on page 4) improved on a broad front in May, following on from the modest cumulative improvement in Nov-Apr. The four major indicators, namely **house price expectations**; **'good time to buy a house'**; and the relevant components of **'wisest place for savings'** and **'motivation for saving'** all improved. This is the definitively positive directional reading on housing that we had hoped for in April. We argued then that perhaps it would be a case of delayed gratification. Count us as relieved.

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Figure 1: Westpac MNI China CSI: the headline

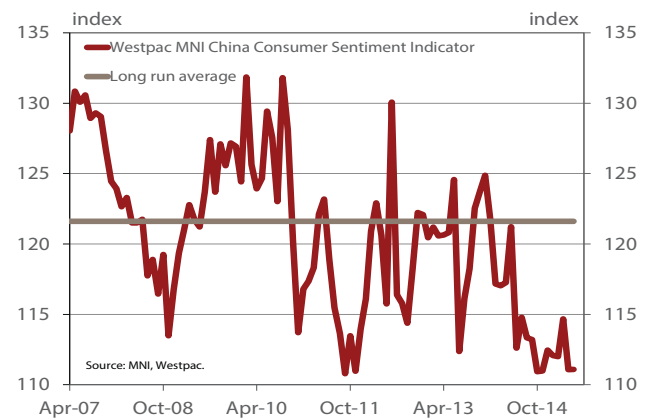


Figure 2: Family finances: current & expected

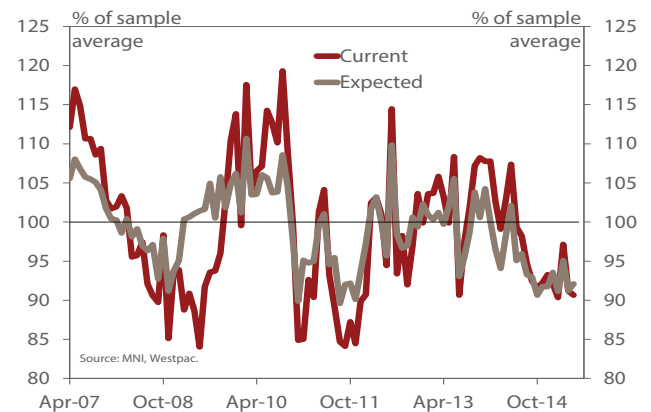
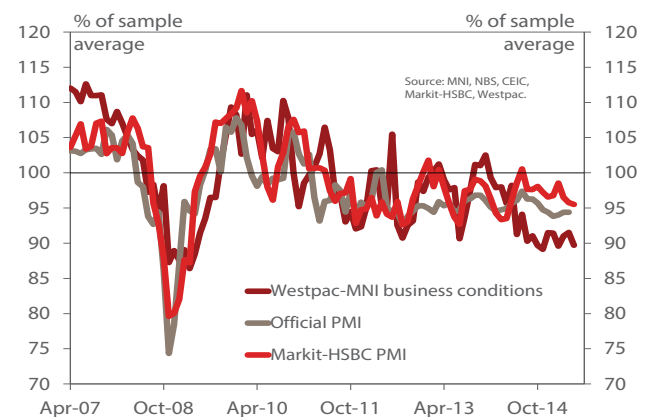
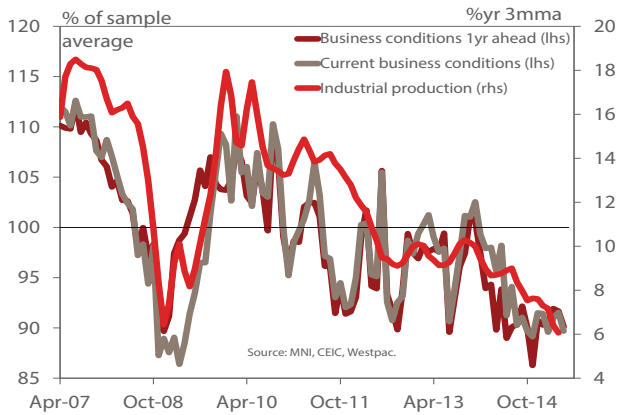


Figure 3: Consumer perceptions of business conditions & the manufacturing business surveys

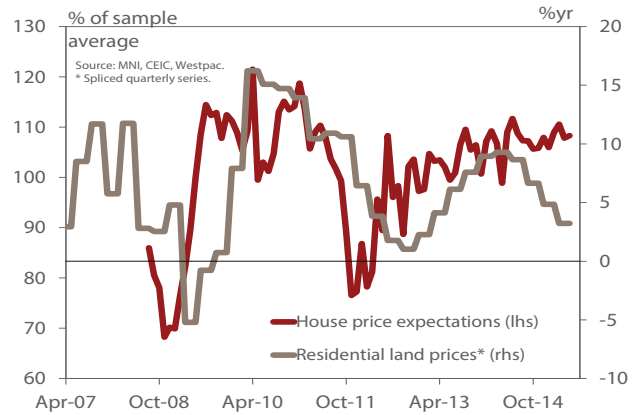


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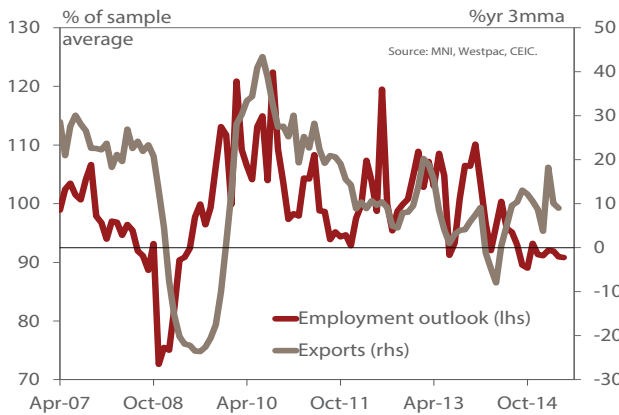
**Figure 4: Business conditions & industrial output**



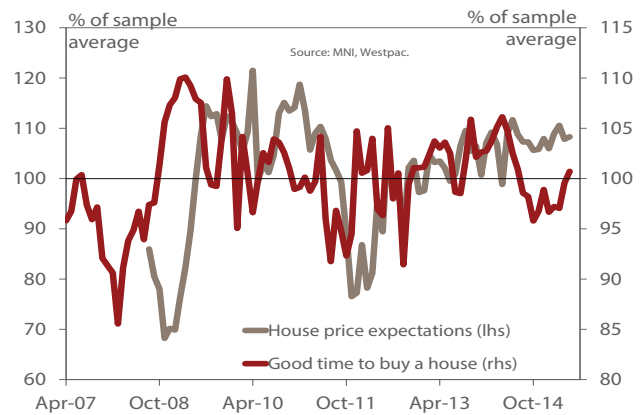
**Figure 5: Expected house prices & land prices**



**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	Jan-15	Feb-15	Mar-15	Apr-15	May-15
<b>Consumer Sentiment Indicator</b>	<b>121.6</b>	<b>121.2</b>	<b>111.0</b>	<b>112.1</b>	<b>112.0</b>	<b>114.7</b>	<b>111.1</b>	<b>111.1</b>
Current Indicator	109.5	114.3	102.5	101.1	101.5	103.8	100.4	101.4
Expectations Indicator	129.7	125.8	116.6	119.4	119.0	121.9	118.2	117.6
Personal finances vs a year ago	110.4	118.6	101.8	101.7	99.8	107.3	100.7	100.1
Personal finances next 12 months	122.1	124.6	112.0	114.2	111.3	116.1	111.4	112.4
Business conditions next 12 months	122.7	115.2	105.9	110.8	111.1	112.8	112.5	110.5
Business conditions next 5 years	144.3	137.7	132.1	133.1	134.7	136.9	130.8	129.7
Time to buy a major household item <sup>2</sup>	108.5	110.1	103.1	100.6	103.2	100.4	100.1	102.6
Housing composite	111.8	121.9	118.3	118.5	121.8	123.6	120.6	121.1
Auto composite	87.5	92.0	87.4	87.0	87.1	87.6	86.3	86.7
Business conditions vs a year ago	114.7	112.7	102.2	104.9	102.7	104.4	105.0	102.9
Employment expectations	107.1	107.5	99.9	97.6	98.6	98.5	97.4	97.3
House Price expectations	111.8	121.9	118.3	118.5	121.8	123.6	120.6	121.1
Inflation expectations	136.3	133.7	138.0	140.5	142.0	141.8	138.0	139.2
Interest rate expectations	114.9	114.4	112.9	112.7	116.9	114.2	111.5	107.5
Stock market expectations	108.5	103.7	98.5	98.8	99.3	102.0	100.9	103.0

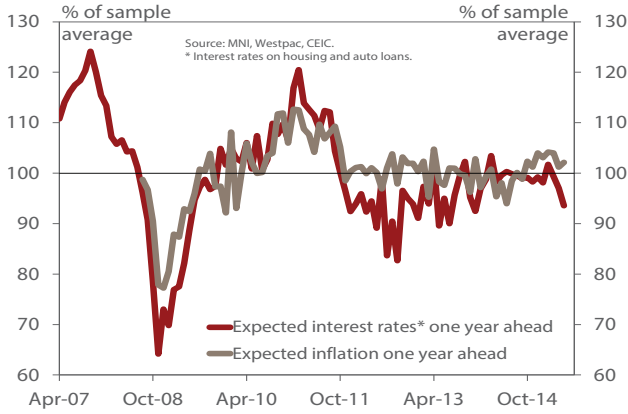
Note: all index point changes are calculated on rounded numbers; see page 7 for methodological details.

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.

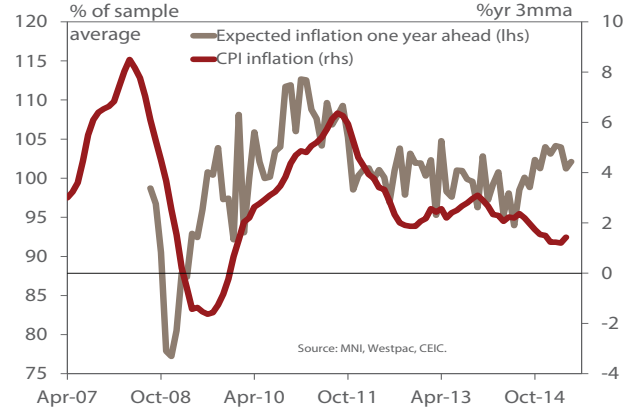
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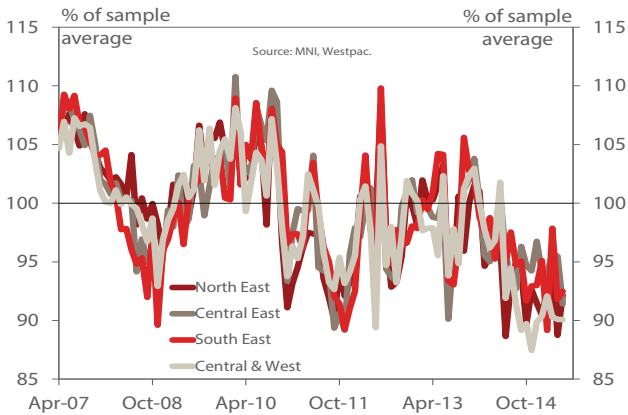
**Figure 8: Inflation & interest rate expectations**



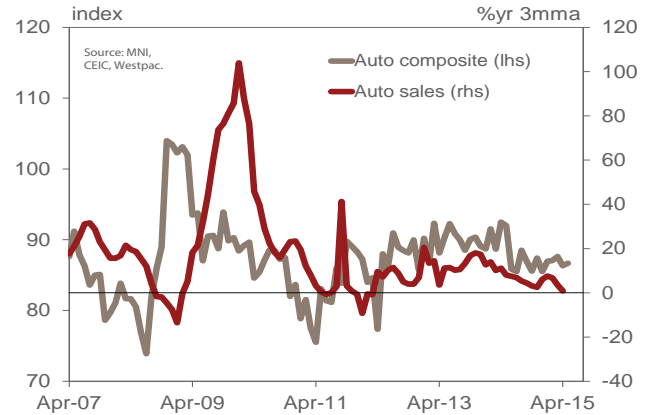
**Figure 9: Inflation expectations & the CPI**



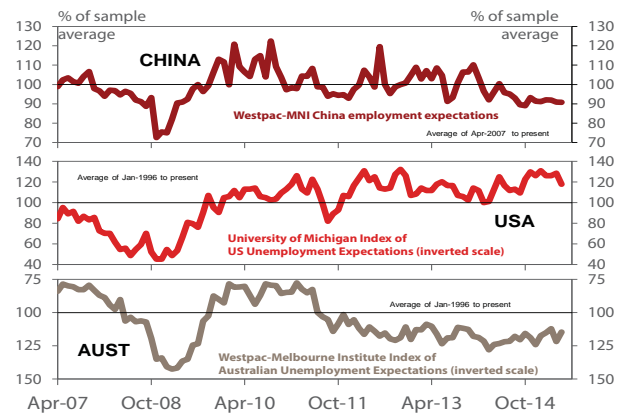
**Figure 10: Sentiment by region**



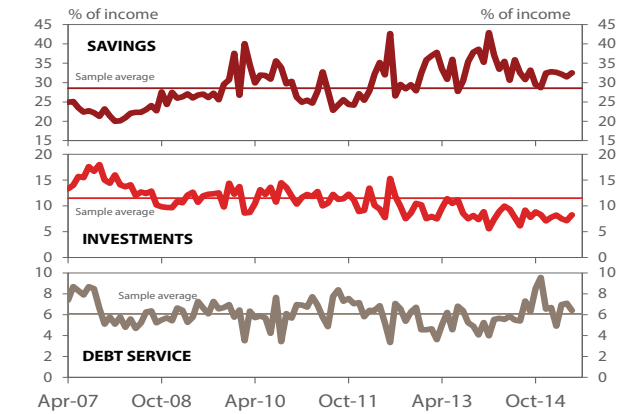
**Figure 11: Auto composite & auto sales**



**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	Jan-15	Feb-15	Mar-15	Apr-15	May-15
<b>Eastern</b>	<b>120.9</b>	<b>119.0</b>	<b>112.8</b>	<b>112.5</b>	<b>111.3</b>	<b>116.5</b>	<b>111.2</b>	<b>111.2</b>
North East	121.5	117.3	112.5	109.9	112.3	116.1	107.8	111.9
Centre East	120.3	121.1	113.4	113.2	113.0	115.2	114.9	110.0
South East	120.9	118.7	112.4	115.0	107.8	118.3	111.0	111.8
Beijing	120.5	121.0	113.2	109.6	114.6	122.6	110.0	115.1
Shanghai	119.0	108.0	117.8	114.0	117.7	115.2	116.5	113.5
Guangzhou	120.8	116.1	116.8	121.4	112.1	116.2	108.6	114.1
<b>Central &amp; Western</b>	<b>123.0</b>	<b>125.2</b>	<b>107.6</b>	<b>111.2</b>	<b>113.3</b>	<b>111.1</b>	<b>110.9</b>	<b>110.8</b>

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

	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
<b>House price expectations : % of average</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>	<b>107.8</b>	<b>108.3</b>
House price expectations: % net	118.1	118.3	120.7	118.5	121.8	123.6	120.6	<b>121.1</b>
% nominating <i>Go Up Dramatically</i> <sup>^</sup>	7.4	8.1	6.9	6.5	9.9	9.2	6.8	<b>8.3</b>
% nominating <i>Go Up Slightly</i> <sup>^</sup>	35.2	35.0	39.3	36.7	33.6	38.9	36.2	<b>36.0</b>
% nominating <i>Stay the Same</i> <sup>^</sup>	31.8	29.5	30.5	31.5	30.8	29.7	32.5	<b>31.2</b>
% nominating <i>Go Down Slightly</i> <sup>^</sup>	9.1	11.4	8.5	8.5	7.7	7.3	7.1	<b>8.3</b>
% nominating <i>Go Down Sharply</i> <sup>^</sup>	2.3	1.5	1.6	2.1	1.0	1.4	0.8	<b>1.1</b>
Don't Know/No Answer <sup>^</sup>	14.2	14.4	13.2	14.7	16.9	13.7	16.7	<b>15.2</b>
<b>House price expectations by region: % net</b>								
East	119.2	120.5	122.6	121.5	123.0	123.0	121.7	<b>121.6</b>
North East (incl. Beijing)	119.7	121.3	123.4	120.8	121.7	126.2	123.9	<b>120.1</b>
Centre East (incl. Shanghai)	119.3	121.3	123.1	120.7	121.7	118.4	121.4	<b>121.6</b>
South East (incl. Guangzhou)	118.3	118.4	121.0	123.4	126.4	124.0	118.9	<b>123.3</b>
Central & Western	116.1	114.2	116.9	112.6	119.5	124.8	118.3	<b>120.1</b>
<b>Good time to buy a house? % of average</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>	<b>99.6</b>	<b>100.7</b>
Good time to buy a house? % net	92.4	93.3	95.4	93.2	93.8	93.6	96.0	<b>97.1</b>
% of responses due to* income	11.4	5.6	8.1	0.5	25.5	31.5	14.3	<b>9.7</b>
% of responses due to* policy	4.1	7.3	5.6	5.6	2.9	7.5	4.7	<b>17.6</b>
% of responses due to* prices	84.5	87.1	86.3	93.9	71.6	61.0	81.0	<b>72.6</b>
Bad time to buy a house due to ...								
% nominating* income	20.4	28.3	24.3	38.5	20.3	32.5	29.9	<b>39.2</b>
% nominating* policy	8.0	5.0	3.7	1.0	9.5	10.5	6.8	<b>3.0</b>
% nominating* prices	71.5	66.7	72.1	60.6	70.2	57.0	63.4	<b>57.8</b>
<b>Primary motivation for saving - housing purchase or downpayment<sup>^</sup>#</b>	5.5	4.4	4.7	6.3	6.4	6.8	5.0	<b>8.9</b>
<b>Wisest place for savings: domestic real estate<sup>^</sup>#</b>	15.6	17.0	16.8	19.3	19.7	14.6	16.6	<b>16.8</b>
<b>Wisest place for savings: foreign real estate<sup>^</sup>#</b>	0.2	0.3	0.2	0.4	0.7	1.0	0.7	<b>0.7</b>
Does your family currently have a housing loan?								
% nominating yes	23.4	23.0	19.7	20.0	16.3	19.5	21.8	<b>21.1</b>
% nominating no	76.3	76.7	79.7	79.7	83.5	80.1	78.0	<b>78.1</b>
<b>What sectors will perform well in the stock market? % nominating<sup>^</sup> ...</b>								
steel	2.5	2.3	1.3	1.5	2.1	1.3	1.7	<b>4.3</b>
construction and building materials	5.6	2.7	8.0	3.8	3.2	3.1	3.1	<b>5.1</b>
real estate	12.2	9.9	14.1	2.6	10.4	3.0	9.3	<b>7.8</b>

See page 8 for methodological details. <sup>^</sup> 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** improved on a broad front in May, following on from the modest cumulative improvement in Nov-Apr. The four major indicators, namely **house price expectations**; **'good time to buy a house'**; and the relevant components of **'wisest place for savings'** and **'motivation for saving'** all improved, albeit modestly. This is the definitively positive directional reading on housing that we had hoped for in April, post the easing of LVR restrictions. We argued then that perhaps it would be a case of delayed gratification. Count us as relieved, but not surprised then, to see the broad based gains documented above.
- We noted the clear improvement in the official April updates on housing prices and sales volumes with considerable interest. The inference is that consumers now have evidence

of a market consolidation in a reasonably sized minority of cities, as well as the reality of easier policy, to underpin expectations of an improvement in overall real estate conditions. While in aggregate the market is still facing downward pressure from over-supply in a large number of small and/or inland cities, which will hold back the timing of any recovery in starts, it does appear that the early stages of a tier-1 led healing process is now underway.

- Confidence in the **share market performance** of firms with **real estate linkages** rebounded from depressed levels a month ago, with the lift concentrated on real estate 'proper', with steel and building materials firms seeing little change. In May, these latter two sectors saw a clear increase in adherents, which more than offset a modest drop-off in expectations for real estate 'proper'.

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

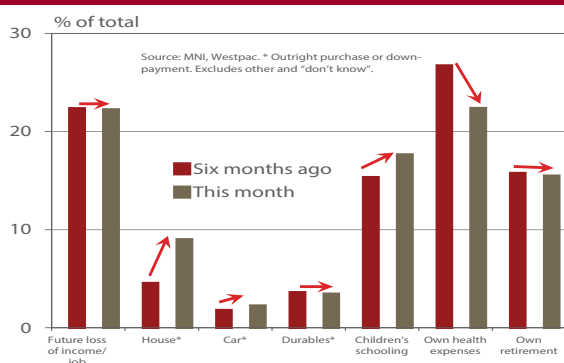
	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Loss of income or employment	28.3	27.9	22.2	23.3	22.4	22.4	22.7	22.7	<b>22.1</b>
Housing purchase or downpayment	7.9	5.5	4.4	4.7	6.3	6.4	6.8	5.0	<b>8.9</b>
Car purchase or downpayment	1.9	2.8	1.7	2.3	2.1	1.6	2.4	3.3	<b>2.1</b>
Household good purchase	2.1	3.1	3.5	3.5	2.9	2.7	3.2	4.9	<b>3.4</b>
Children's education	13.7	15.2	15.2	15.8	16.7	18.4	17.7	16.1	<b>17.5</b>
Own health expenses	23.4	23.3	26.6	24.2	24.1	24.4	25.2	24.0	<b>22.3</b>
Own retirement	12.3	14.7	15.6	18.1	17.0	19.3	15.3	18.4	<b>15.4</b>
Saving to start own business	2.6	2.3	2.9	2.8	2.3	1.1	1.4	1.8	<b>1.3</b>
Other*	7.9	5.3	7.7	5.2	6.3	3.8	5.3	3.8	<b>6.9</b>

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

	Sep-14	Oct-14	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15
Bank Deposits	35.1	38.2	35.4	37.9	35.3	38.3	39.7	34.9	<b>33.4</b>
Fund	6.9	4.6	4.5	3.9	4.9	5.3	6.2	4.9	<b>6.3</b>
Bonds	6.4	1.8	4.3	1.2	1.8	2.6	3.8	3.6	<b>2.2</b>
Local Shares	4.5	5.7	5.3	5.7	4.4	3.9	4.7	6.5	<b>7.8</b>
Foreign Shares	0.2	0.1	0.2	0.4	0.3	0.0	0.9	0.3	<b>0.4</b>
China Real Estate	13.8	15.6	17.0	16.8	19.3	19.7	14.6	16.6	<b>16.8</b>
Foreign Real Estate	0.5	0.2	0.3	0.2	0.4	0.7	1.0	0.7	<b>0.7</b>
Wealth management products^	20.4	21.3	22.6	23.7	22.6	19.0	20.5	22.0	<b>20.4</b>
Micro Finance Loan Own Region	1.3	0.4	0.3	0.8	0.2	0.4	0.6	0.8	<b>0.6</b>
Pay Down Debt	0.4	0.9	0.5	0.0	0.1	0.5	0.6	0.3	<b>0.3</b>
Other*	10.5	11.2	9.5	9.3	10.8	9.7	7.2	9.4	<b>11.1</b>
<b>Risk averse share#</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>48.3</b>	<b>46.0</b>
<b>Risk seeking share</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>	<b>51.7</b>	<b>54.0</b>

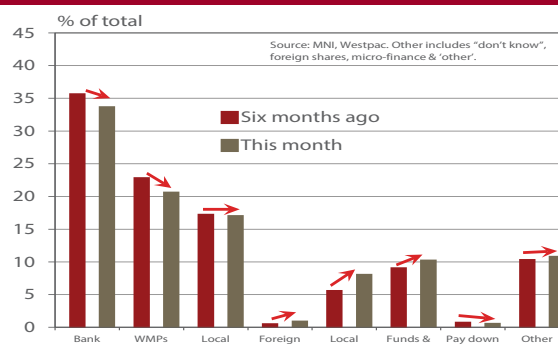
Source to tables 4 and 5: MNI, Westpac. ^ Issued by either banks or trust companies. \* Includes both "Other" and "Don't know/refuse to answer". "Don't know" is generally zero with respect to savings motivations, but tends to be the dominant element of "other" in savings preferences. # Deposits, 'pay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

**Figure 14: Motivations for savings**



- On *savings motivations* (table 4, figure 14), in May 22.1% 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, but they have collectively fallen back by 7ppts since February. **Housing purchases and downpayments** were cited by 8.9% of respondents as their primary savings motive in May, which is well up from the lows, and is now approaching the June 2014 level of 9.9%, which pre-dates the real estate collapse.

**Figure 15: Wisest place for savings**

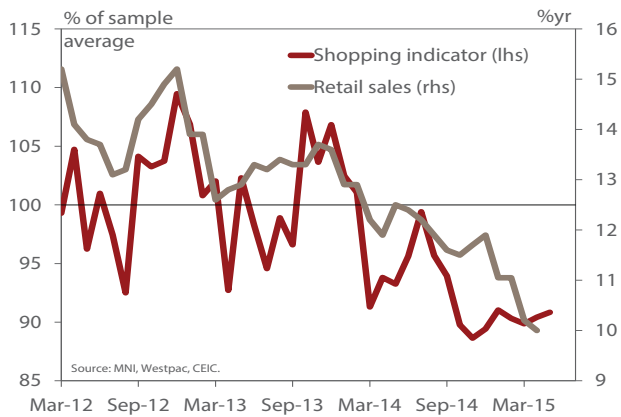


- Regarding *savings/investment preferences* (table 5, figure 15), our categorization of risk averse vs risk seeking asset classes resulted in an approximate ratio of 46/54 in May. There has been a pronounced risk seeking shift over the last two months from the 53/47 reading in March. The shift has been due to both domestic equities and housing attracting more adherents (a combined 5.3ppts), with that shift 'funded' by a 6.3ppt drop in those citing deposits. The latest update on attitudes towards the share market (which we believe has considerable legs), is showcased on [prosperous] page 8.

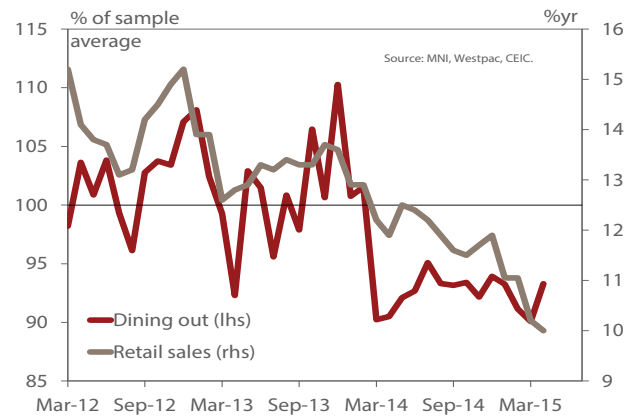
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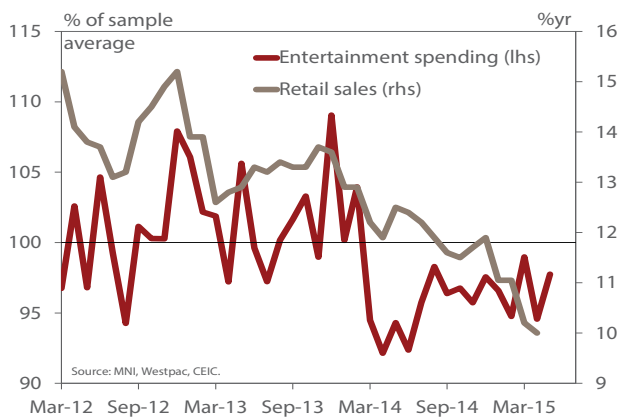
**Figure 16: Shopping indicator & retail sales**



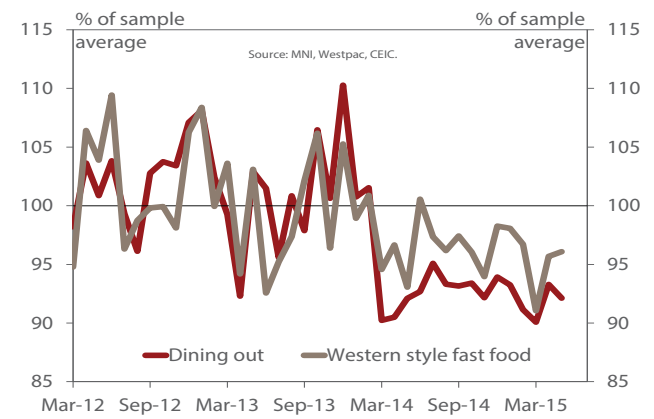
**Figure 17: 'Dining out' & retail sales**



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



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



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

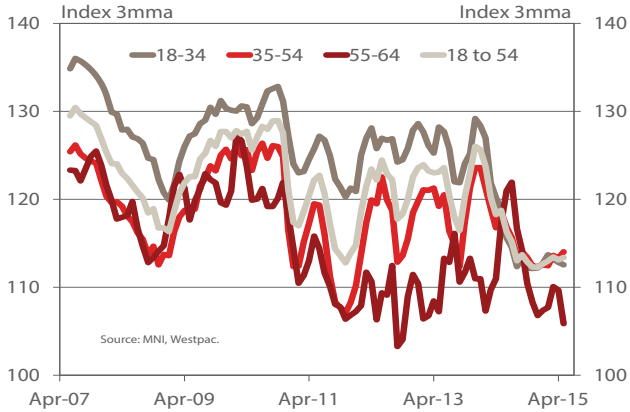
	long run average	one year ago	six months ago	Jan-15	Feb-15	Mar-15	Apr-15	May-15
<b>Expected change in spending on ... (net bal %)</b>								
Expected spending on <i>shopping</i>	104.7	97.7	92.8	95.3	94.6	94.1	94.7	<b>95.1</b>
Expected spending on <i>entertainment</i>	102.9	97.1	98.5	99.4	97.6	101.9	97.4	<b>100.6</b>
Expected spending on <i>dining out</i>	106.3	97.9	97.9	99.1	96.9	95.7	99.1	<b>97.9</b>
Expected spending on <i>Western style fast food</i>	92.6	86.2	87.0	90.9	89.6	84.4	88.6	<b>89.0</b>
<b>Buying conditions for ... (net bal %)</b>								
Buying conditions for <i>houses</i>	96.7	101.0	93.3	93.2	93.8	93.6	96.0	<b>97.1</b>
Buying conditions for <i>cars</i>	102.3	105.8	97.5	97.9	97.4	99.3	97.6	<b>96.9</b>
Buying conditions for <i>major household items</i>	108.3	110.1	103.1	100.6	103.2	100.4	100.1	<b>102.6</b>
Buying conditions for <i>IT products</i>	107.2	108.9	101.8	103.2	102.3	101.4	101.6	<b>103.7</b>
Buying conditions for <i>communication devices</i>	108.1	102.5	100.3	101.5	102.2	98.8	100.9	<b>102.2</b>
Buying conditions for <i>all other appliances</i>	107.3	104.7	102.4	103.1	101.7	100.3	101.5	<b>103.4</b>
<b>% nominating yes</b>								
Does your family <i>plan to buy a car</i> in the next 12 months?	12.6	7.0	12.9	17.7	14.5	12.8	17.3	<b>19.4</b>
Have you done any <i>online shopping</i> in the last 3 months?	na	87.3	55.9	56.9	50.2	51.2	50.0	<b>56.7</b>

Source: MNI, Westpac.

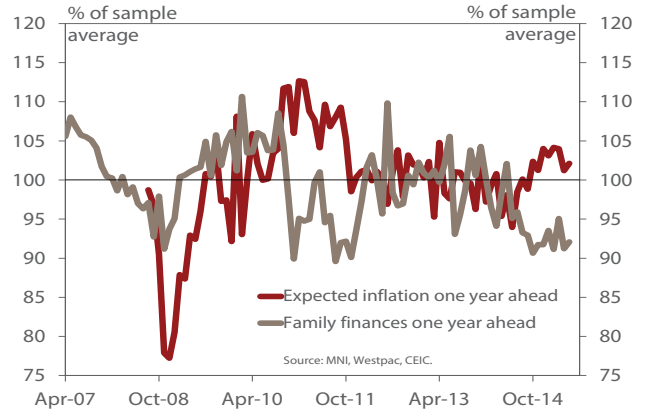
Past performance is not a reliable indicator of future performance. The forecasts given above are predictive in character. Whilst every effort has been taken to ensure that the assumptions on which the forecasts are based are reasonable, the forecasts may be affected by incorrect assumptions or by known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

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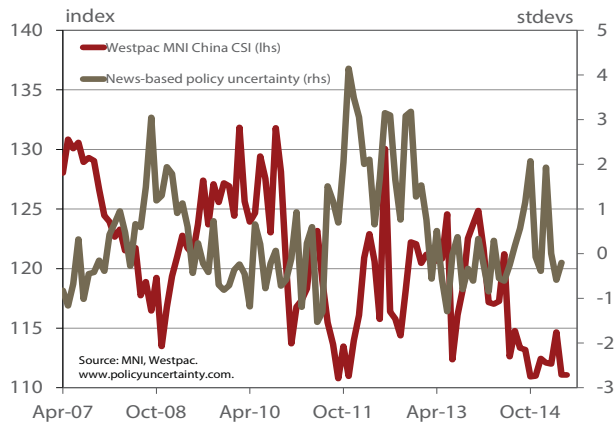
**Figure 20: Sentiment by age group (smoothed)**



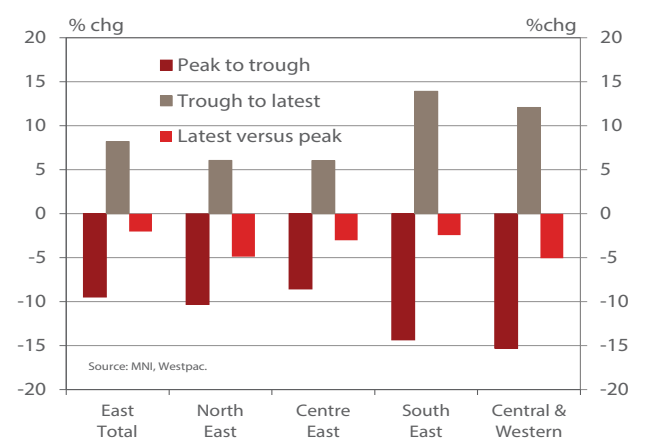
**Figure 21: Expected inflation & family finances**



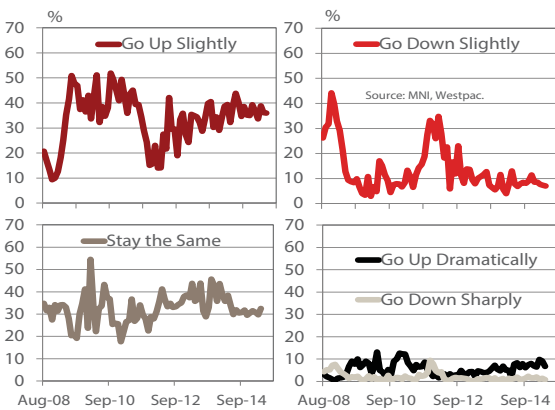
**Figure 22: Westpac MNI & "Policy Uncertainty"**



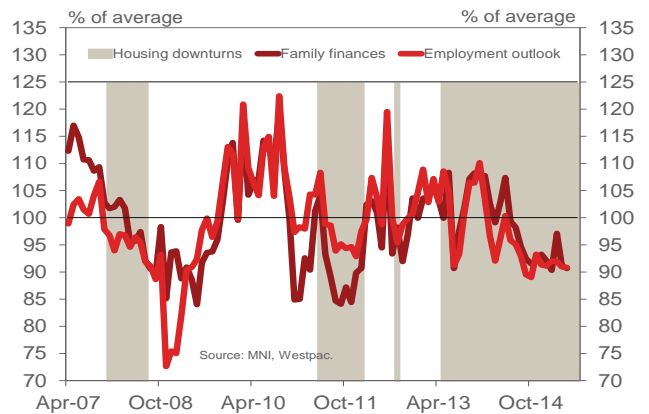
**Figure 23: House price cycle by region**



**Figure 24: House price expectations breakdown**



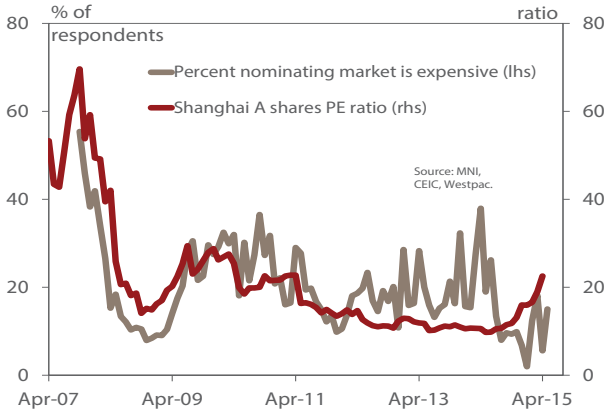
**Figure 25: Jobs, finances & housing downturns**



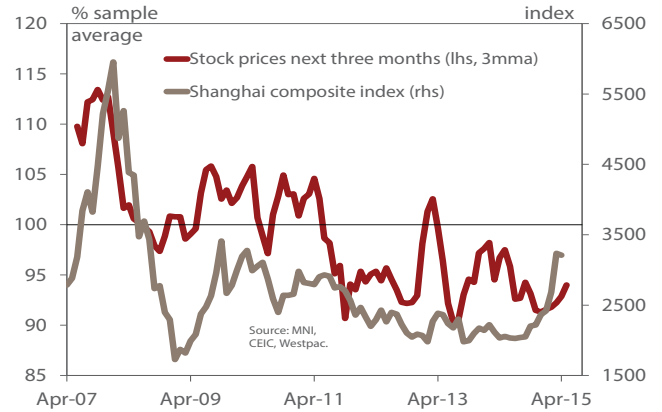
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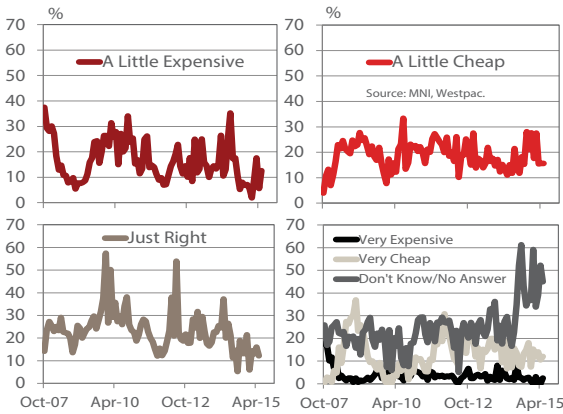
**Figure 26: Perception of equity market value**



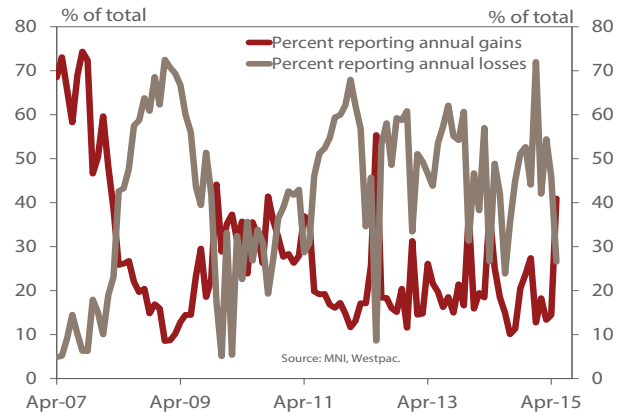
**Figure 27: Equity price expectations: next 3mths**



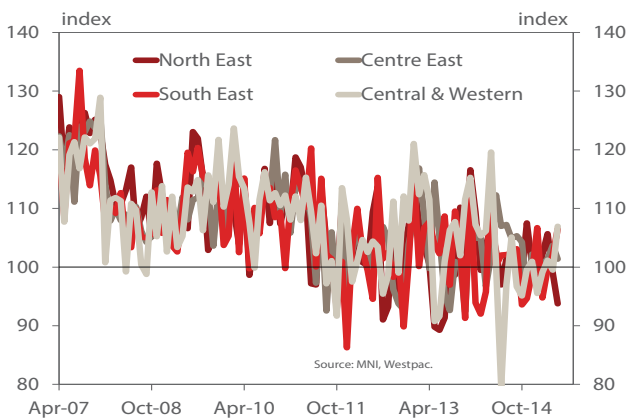
**Figure 28: Equity market valuation breakdown**



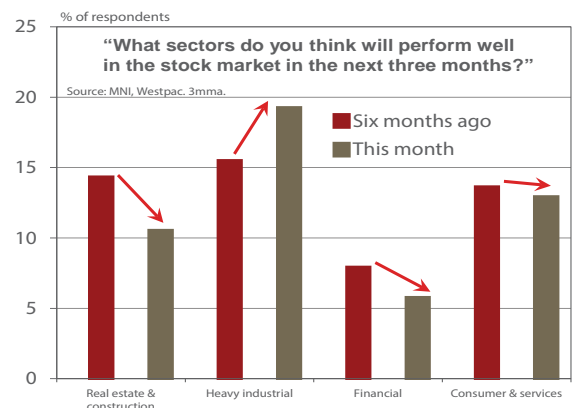
**Figure 29: Trailing annual profit or loss**



**Figure 30: Equity price expectations: regional**



**Figure 31: Expected relative sector performance**



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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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