



29 July 2015

Chinese consumer sentiment rose in July Westpac MNI China CSI: 114.5, 1.9%*m/m*, -0.3%*y/y* Confidence rises; equities collapse, consumers shrug

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, increased by 2.2pts from 112.3 in June to 114.5 in July, which is 0.3% lower than a year ago and 5.9% below the long run average. The survey was conducted whilst the equity market was in free fall to its early July trough (figure 3). Ergo, this survey can be interpreted as a referendum on the question “Is the equity market an important factor in the collective psyche of Chinese households?” The ballots are in - and the answer is a decisive “no”.
- Every one of the five components that go into the calculation of the **Westpac MNI China CSI** increased in July. The positive impulse on four of the five fell within the +2.4% to +2.9% range. By contrast, current business conditions (not part of the composite, but closely correlated with the PMIs & IP) lost some ground after a strong June, falling 1.8pts to be down 3.3%*y/y*. That cautions against a naïve extrapolation of the somewhat more positive recent trend in the official data (figure 4).
- Excluding the volatile 55-64yo cohort, the **Westpac MNI China CSI** was steady at 113.9. That is still up 2.0pts from the confidence level prevailing before the equity conflagration.
- **Investment preferences** (pg 5), as distinct from concrete responses on family finances, predictably moved into net **risk-averse** territory in July. However, a rising share of self-identified investors gauged equities as ‘cheap’ in July, reversing their ‘expensive’ assessment for June (pg 8). The idea that there may have been value to be found at the early July lows resulted in a resilient performance for equity related responses re the ‘wisest place for savings’. Even so, half of our respondents declined to nominate a specific sector that they felt would do well, implying that the general perception of ‘value’ was of the abstract, rather than actionable, variety. The huge losses of Monday the 27th eloquently express that pent-up selling pressure (a mix of profit taking & loss limiting), temporarily rendered latent by policy, is still a stronger force than potential bargain hunting.
- The **employment indicator** is the pessimistic outlier in the activity related components of the survey. The steep July fall has unwound the entire gain from the trough. Ergo, in absolute terms **job security** remains in short supply. Our interpretation is that weaker labour-intensive exports are impinging on the outlook for jobs (figure 6) despite firmer domestic conditions. Given the primacy of full employment in the leadership’s policy calculus, as well as the subsidiary need to sponsor equities, we remain on the alert for further monetary and fiscal easing.
- The consumers’ attitude towards **real estate** (pg 4) improved on a broad front in July, building on cumulative gains dating back to November 2014. Of 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’**, three increased and the other registered a trivial decline. It is also reasonable to ascribe some of this lift to a residual benefit garnered from the reputational losses suffered by the stock market during the sampling period. We will continue to closely monitor the evolution of relative attitudes toward these two asset classes in coming months.

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Figure 1: Westpac MNI China CSI: the headline

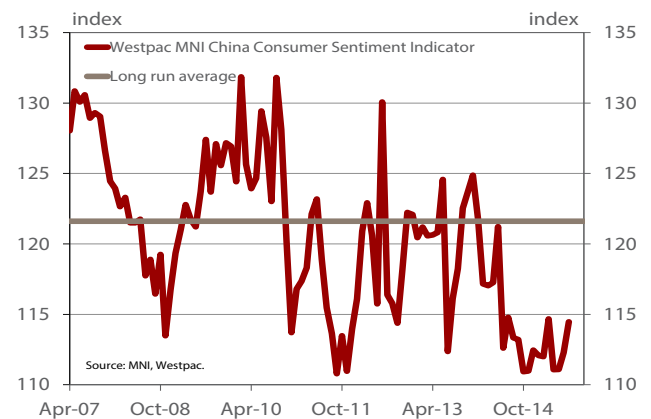


Figure 2: Family finances: current & expected

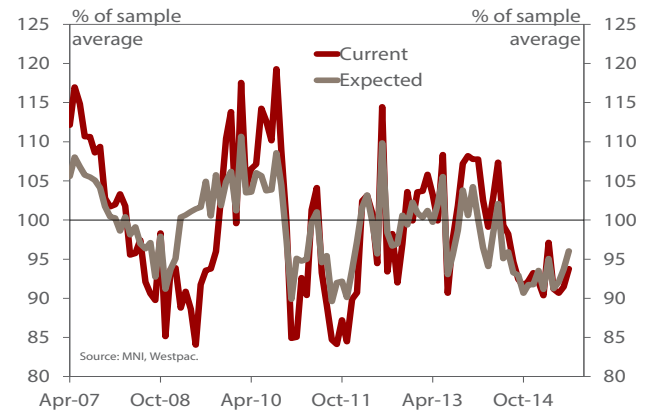
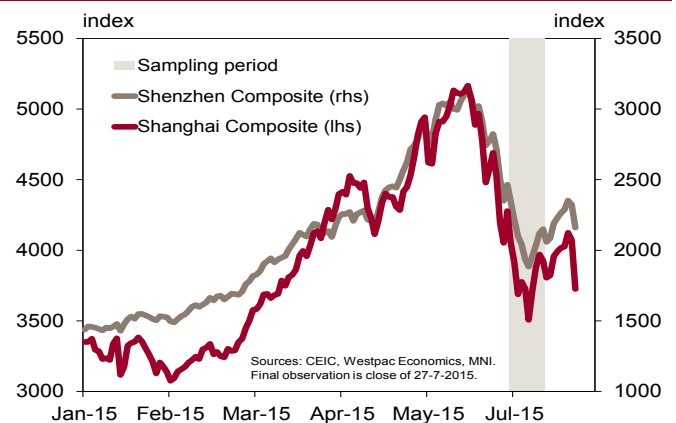


Figure 3: The Shanghai & Shenzhen composite indices & the sampling period for the July survey



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Figure 4: Business conditions & industrial output

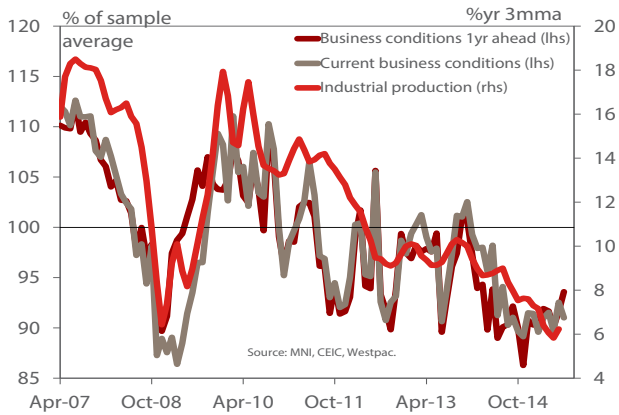


Figure 5: Expected house prices & land prices

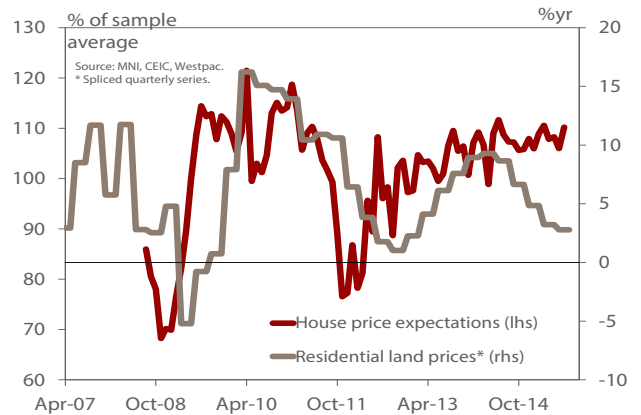


Figure 6: Employment outlook & export growth

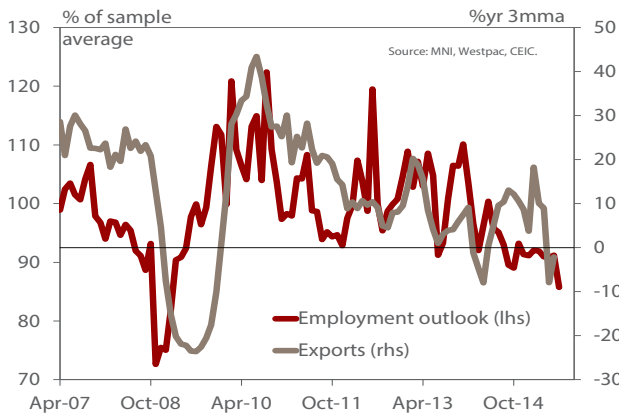


Figure 7: House prices & 'good time to buy'

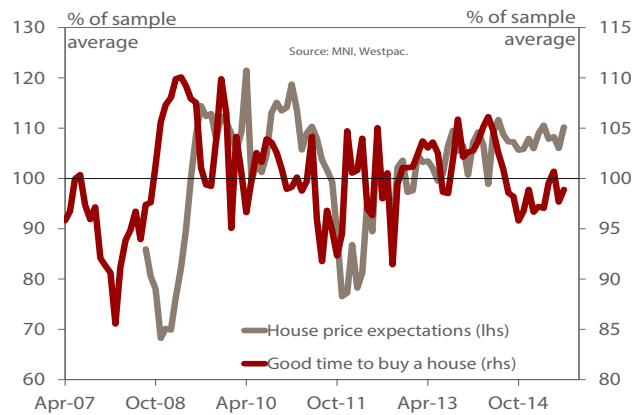


Table 1: The Westpac MNI China Consumer Sentiment Survey

	long run average ¹	level one year ago	level 6 mths ago	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Consumer Sentiment Indicator	121.6	114.8	112.1	114.7	111.1	111.1	112.3	114.5
Current Indicator	109.5	105.3	101.1	103.8	100.4	101.4	100.9	103.4
Expectations Indicator	129.7	121.1	119.4	121.9	118.2	117.6	119.9	121.8
Personal finances vs a year ago	110.4	108.5	101.7	107.3	100.7	100.1	101.0	103.6
Personal finances next 12 months	122.1	117.1	114.2	116.1	111.4	112.4	114.4	117.3
Business conditions next 12 months	122.7	110.5	110.8	112.8	112.5	110.5	112.4	114.8
Business conditions next 5 years	144.3	135.6	133.1	136.9	130.8	129.7	132.8	133.4
Time to buy a major household item ²	108.5	102.2	100.6	100.4	100.1	102.6	100.8	103.3
Housing composite	111.8	121.6	118.5	123.6	120.6	121.1	118.5	123.2
Auto composite	87.5	85.5	87.0	87.6	86.3	86.7	87.2	87.1
Business conditions vs a year ago	114.7	108.0	104.9	104.4	105.0	102.9	106.2	104.4
Employment expectations	107.1	101.9	97.6	98.5	97.4	97.3	97.7	91.8
House Price expectations	111.8	121.6	118.5	123.6	120.6	121.1	118.5	123.2
Inflation expectations	136.3	134.3	140.5	141.8	138.0	139.2	141.4	142.3
Interest rate expectations	114.9	114.8	112.7	114.2	111.5	107.5	112.0	114.7
Stock market expectations	108.5	101.7	98.8	102.0	100.9	103.0	106.9	93.5

Note: all index point changes are calculated on rounded numbers; see page 9 for methodological details.

Sources for all tables: Westpac and MNI. 1. Average calculated from Apr-2007 to May-2014.

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Figure 8: Inflation & interest rate expectations

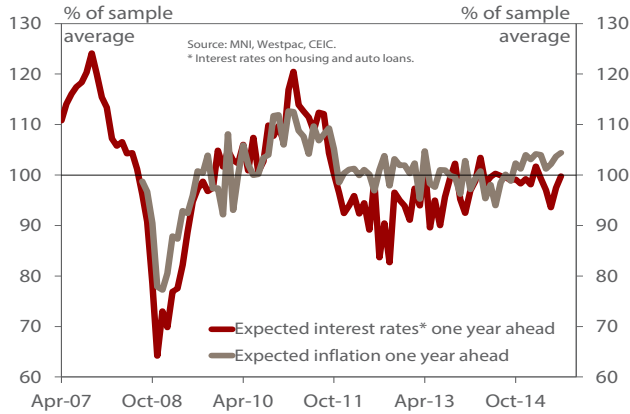


Figure 9: Inflation expectations & the CPI

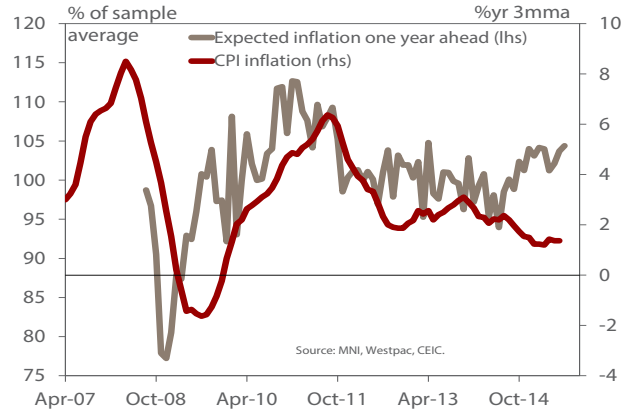


Figure 10: Sentiment by region

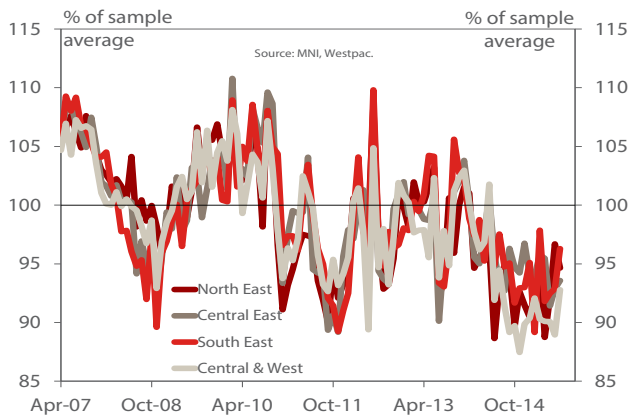


Figure 11: Auto composite & auto sales

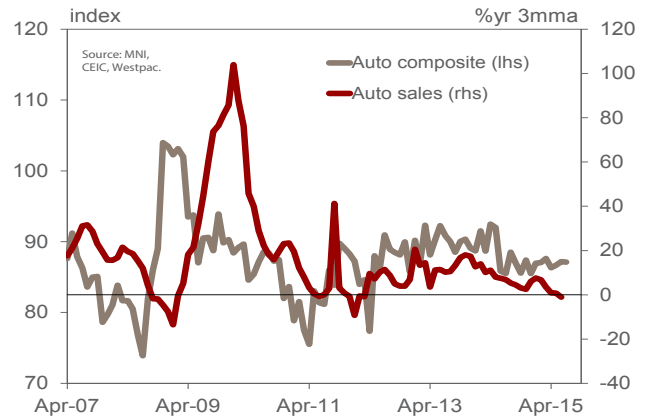


Figure 12: International comparison: jobs

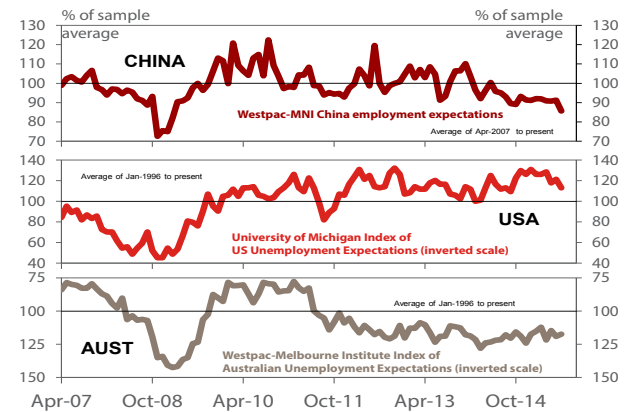


Figure 13: Uses of household income

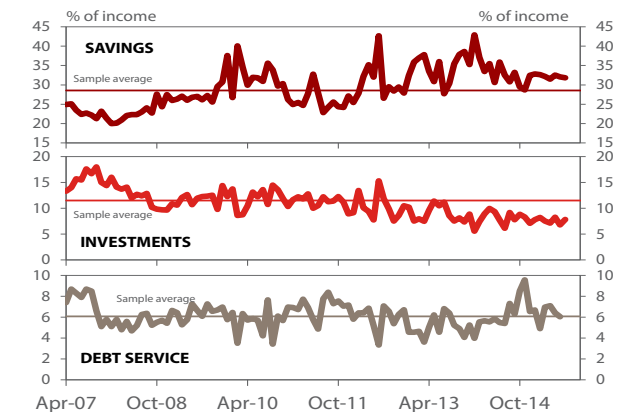


Table 2: Westpac MNI China CSI & other economic surveys, % of long run average

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Westpac MNI CSI	92.5	92.2	92.1	94.3	91.3	91.4	92.3	94.1
Westpac MNI business conditions vs a year ago	91.5	91.4	89.6	91.0	91.5	89.7	92.6	91.0
Caixin Manufacturing PMI	96.5	96.7	98.5	96.5	95.1	95.7	96.1	93.8
Caixin Services PMI	97.1	94.3	94.6	95.1	96.3	97.4	94.2	na
NBS Manufacturing PMI	94.4	93.8	94.0	94.4	94.4	94.6	94.6	na
NBS Services PMI	95.3	94.6	94.9	94.6	94.0	93.7	94.8	na

Sources: MNI, Westpac, Markit, Chinese National Bureau of Statistics, CEIC. Caixin née HSBC.

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Table 3: Consumer attitudes towards real estate

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
House price expectations : % of average	108.0	105.9	108.9	110.6	107.8	108.3	106.0	110.2
House price expectations: % net	120.7	118.5	121.8	123.6	120.6	121.1	118.5	123.2
% nominating <i>Go Up Dramatically</i> [^]	6.9	6.5	9.9	9.2	6.8	8.3	8.9	9.6
% nominating <i>Go Up Slightly</i> [^]	39.3	36.7	33.6	38.9	36.2	36.0	31.8	38.4
% nominating <i>Stay the Same</i> [^]	30.5	31.5	30.8	29.7	32.5	31.2	30.8	27.3
% nominating <i>Go Down Slightly</i> [^]	8.5	8.5	7.7	7.3	7.1	8.3	9.8	6.5
% nominating <i>Go Down Sharply</i> [^]	1.6	2.1	1.0	1.4	0.8	1.1	1.4	2.3
Don't Know/No Answer [^]	13.2	14.7	16.9	13.7	16.7	15.2	17.2	16.0
House price expectations by region: % net								
East	122.6	121.5	123.0	123.0	121.7	121.6	120.0	122.5
North East (incl. Beijing)	123.4	120.8	121.7	126.2	123.9	120.1	120.3	121.7
Centre East (incl. Shanghai)	123.1	120.7	121.7	118.4	121.4	121.6	118.8	121.2
South East (incl. Guangzhou)	121.0	123.4	126.4	124.0	118.9	123.3	121.1	124.9
Central & Western	116.9	112.6	119.5	124.8	118.3	120.1	115.7	124.5
Good time to buy a house? % of average	98.9	96.6	97.2	97.0	99.6	100.7	97.6	98.9
Good time to buy a house? % net	95.4	93.2	93.8	93.6	96.0	97.1	94.2	95.4
% of responses due to* income	8.1	0.5	25.5	31.5	14.3	9.7	14.6	16.3
% of responses due to* policy	5.6	5.6	2.9	7.5	4.7	17.6	12.8	10.8
% of responses due to* prices	86.3	93.9	71.6	61.0	81.0	72.6	72.6	72.9
Bad time to buy a house due to ...								
% nominating* income	24.3	38.5	20.3	32.5	29.9	39.2	30.5	28.5
% nominating* policy	3.7	1.0	9.5	10.5	6.8	3.0	8.8	11.7
% nominating* prices	72.1	60.6	70.2	57.0	63.4	57.8	60.7	59.8
Primary motivation for saving – housing purchase or downpayment[^]#	4.7	6.3	6.4	6.8	5.0	8.9	6.6	6.5
Wisest place for savings: domestic real estate[^]#	16.8	19.3	19.7	14.6	16.6	16.8	15.7	16.2
Wisest place for savings: foreign real estate[^]#	0.2	0.4	0.7	1.0	0.7	0.7	0.3	0.1
Does your family currently have a housing loan?								
% nominating yes	19.7	20.0	16.3	19.5	21.8	21.1	19.3	23.2
% nominating no	79.7	79.7	83.5	80.1	78.0	78.1	80.6	76.6
What sectors will perform well in the stock market? % nominating[^] ...								
steel	1.3	1.5	2.1	1.3	1.7	4.3	6.6	2.1
construction and building materials	8.0	3.8	3.2	3.1	3.1	5.1	6.4	3.2
real estate	14.1	2.6	10.4	3.0	9.3	7.8	5.7	0.6

See page 9 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** improved on a broad front in July, building on cumulative gains dating back to November 2014. Of 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'**, three increased in July and the other registered a trivial decline. This is consistent with the notable improvement in **dwelling prices** and **sales turnover** seen in the official data.
- The **Central & Western (C&W)** region was the biggest positive mover in July, having spent most of the recovery as a drag, with the coastal area being much quicker to turn. Its laggard status in the cycle to date makes sense given asymmetric property market fundamentals by region. The lift in the C&W in July presumably reflects the fact that

the market consolidation has broadened to a much larger sample of cities lately. While in aggregate the market still faces modest downward price pressure from over-supply in the new segment in many small and/or inland cities, which will hold back the timing of any recovery in starts, the month of July represent a further incremental movement towards the healing of this recently bed-ridden asset class.

- We have noted previously that one potential threat to the frothy equity market was a consolidation in the performance of the key alternative asset class: housing. *It is reasonable to ascribe some of the aforementioned lift in housing sentiment to a residual benefit garnered from the reputational losses suffered by the stock market.* We will continue to closely monitor the evolution of relative attitudes to these two asset classes in coming months.

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

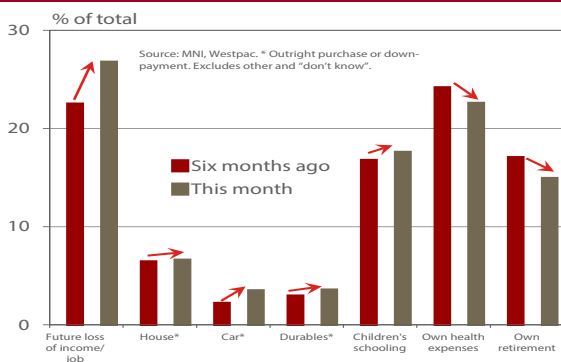
	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Loss of income or employment	22.2	23.3	22.4	22.4	22.7	22.7	22.1	24.2	26.7
Housing purchase or downpayment	4.4	4.7	6.3	6.4	6.8	5.0	8.9	6.6	6.5
Car purchase or downpayment	1.7	2.3	2.1	1.6	2.4	3.3	2.1	3.0	3.4
Household good purchase	3.5	3.5	2.9	2.7	3.2	4.9	3.4	3.1	3.5
Children's education	15.2	15.8	16.7	18.4	17.7	16.1	17.5	17.5	17.5
Own health expenses	26.6	24.2	24.1	24.4	25.2	24.0	22.3	24.6	22.5
Own retirement	15.6	18.1	17.0	19.3	15.3	18.4	15.4	16.8	14.8
Saving to start own business	2.9	2.8	2.3	1.1	1.4	1.8	1.3	1.0	2.2
Other*	7.7	5.2	6.3	3.8	5.3	3.8	6.9	3.2	2.9

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

	Nov-14	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Bank Deposits	35.4	37.9	35.3	38.3	39.7	34.9	33.4	37.4	38.0
Fund	4.5	3.9	4.9	5.3	6.2	4.9	6.3	8.5	6.7
Bonds	4.3	1.2	1.8	2.6	3.8	3.6	2.2	4.7	3.0
Local Shares	5.3	5.7	4.4	3.9	4.7	6.5	7.8	5.9	6.2
Foreign Shares	0.2	0.4	0.3	0.0	0.9	0.3	0.4	0.0	0.4
China Real Estate	17.0	16.8	19.3	19.7	14.6	16.6	16.8	15.7	16.2
Foreign Real Estate	0.3	0.2	0.4	0.7	1.0	0.7	0.7	0.3	0.1
Wealth management products^	22.6	23.7	22.6	19.0	20.5	22.0	20.4	18.0	18.8
Micro Finance Loan Own Region	0.3	0.8	0.2	0.4	0.6	0.8	0.6	0.2	1.2
Pay Down Debt	0.5	0.0	0.1	0.5	0.6	0.3	0.3	1.2	1.5
Other*	9.5	9.3	10.8	9.7	7.2	9.4	11.1	8.1	8.1
Risk averse share#	49.5	52.1	49.0	50.2	52.6	48.3	46.0	49.4	50.7
Risk seeking share	50.5	47.9	51.0	49.8	47.4	51.7	54.0	50.6	49.3

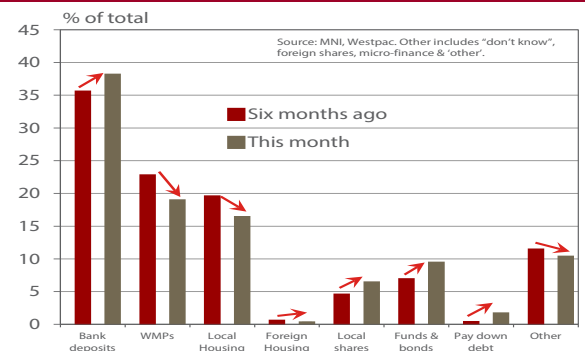
Source to tables 4 and 5: MNI, Westpac. ^ Issued by either banks or trust companies. * Includes both "Other" and "Don't know/refuse to answer". "Don't know" is generally zero with respect to savings motivations, but tends to be the dominant element of "other" in savings preferences. # Deposits, 'pay 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 July 26.7% of respondents nominated **future loss of income or employment** as their primary saving motivation, the highest in some time, consistent with the decline in the job indicator. Healthcare, education and retirement costs tend to loom large in the budget calculus of households, although they collectively fell back a touch in July. **Housing purchases and downpayments** were cited by 6.5% of respondents as their primary savings motive in July, which is well up from the lows, but is still moderately disappointing given the clear rebound in sales turnover & prices in a range of coastal cities.

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 51/49 in June, down from 46/54 two months ago. The outright risk averse posture reflects a more cautious stance on indirect stock investment & bonds and a further lift in deposits following on from a large gain in June. The large denomination CD reform continues to resonate. Direct stock investment was curiously resilient, although the fact that the market is now seen as 'cheap' (see figures 26 & 28) may be offsetting the volatility story. For more on equities, see page 8.

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Figure 16: Shopping indicator & retail sales

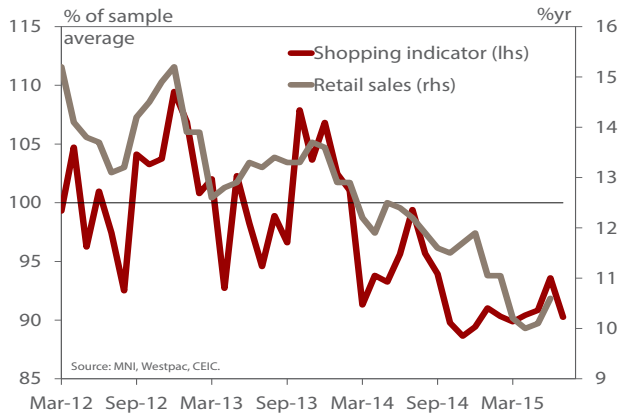


Figure 17: 'Dining out' & retail sales

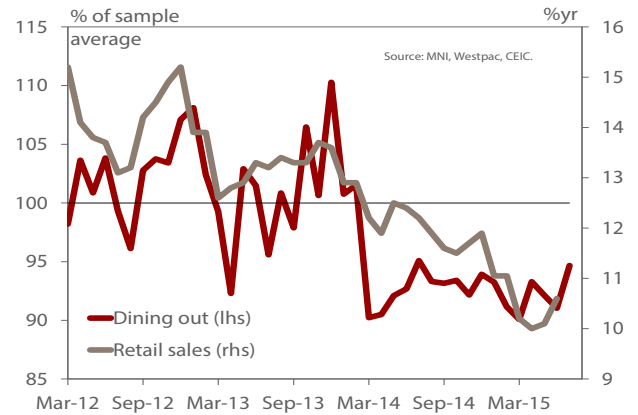


Figure 18: Entertainment spending & retail sales

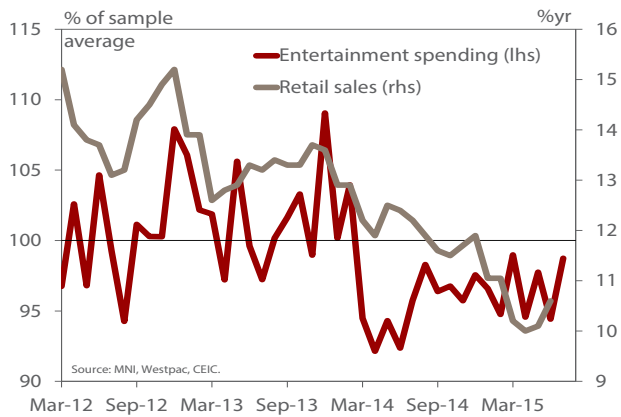


Figure 19: Western style fast food & 'dining out'

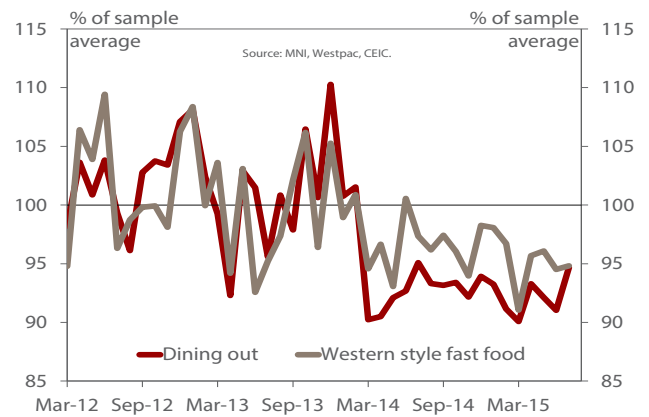


Table 6: Selected indicators of spending plans & buying conditions

	long run average	one year ago	six months ago	Mar-15	Apr-15	May-15	Jun-15	Jul-15
Expected change in spending on ... (net bal %)								
Expected spending on <i>shopping</i>	104.7	104.1	95.3	94.1	94.7	95.1	98.0	94.5
Expected spending on <i>entertainment</i>	102.9	98.6	99.4	101.9	97.4	100.6	97.2	101.7
Expected spending on <i>dining out</i>	106.3	101.0	99.1	95.7	99.1	97.9	96.7	100.6
Expected spending on <i>Western style fast food</i>	92.6	90.2	90.9	84.4	88.6	89.0	87.6	87.8
Buying conditions for ... (net bal %)								
Buying conditions for <i>houses</i>	96.7	97.3	93.2	93.6	96.0	97.1	94.2	95.4
Buying conditions for <i>cars</i>	102.3	98.9	97.9	99.3	97.6	96.9	100.1	101.1
Buying conditions for <i>major household items</i>	108.3	102.2	100.6	100.4	100.1	102.6	100.8	103.3
Buying conditions for <i>IT products</i>	107.2	103.4	103.2	101.4	101.6	103.7	103.4	103.7
Buying conditions for <i>communication devices</i>	108.1	100.9	101.5	98.8	100.9	102.2	100.3	102.1
Buying conditions for <i>all other appliances</i>	107.3	102.7	103.1	100.3	101.5	103.4	101.0	101.8
% nominating yes								
Does your family <i>plan to buy a car</i> in the next 12 months?	12.6	15.7	17.7	12.8	17.3	19.4	14.6	18.3
Have you done any <i>online shopping</i> in the last 3 months?	na	56.3	56.9	51.2	50.0	56.7	52.4	53.0

Source: MNI, Westpac.

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Figure 20: Sentiment by age group (smoothed)

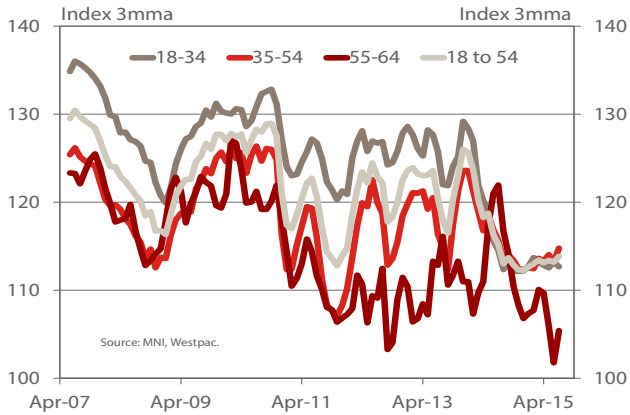


Figure 21: Expected inflation & family finances

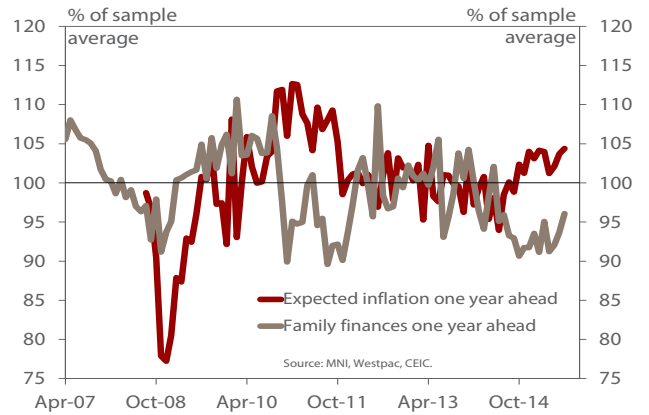


Figure 22: Westpac MNI & "Policy Uncertainty"

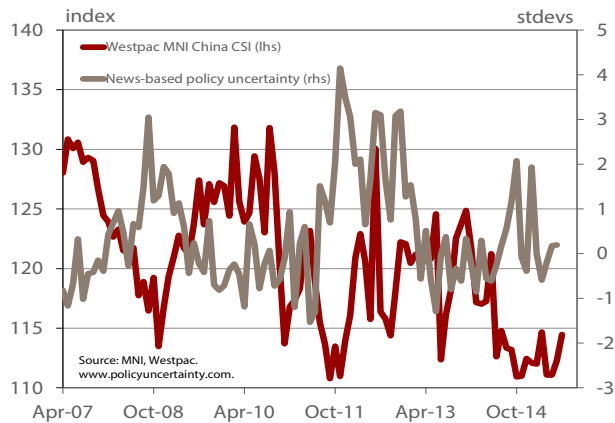


Figure 23: House price cycle by region

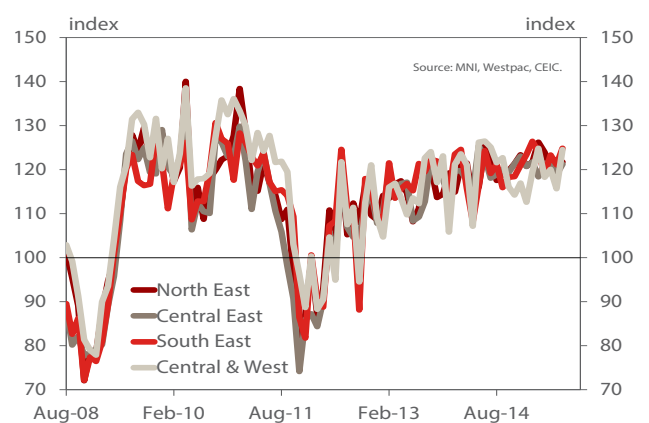


Figure 24: House price expectations breakdown

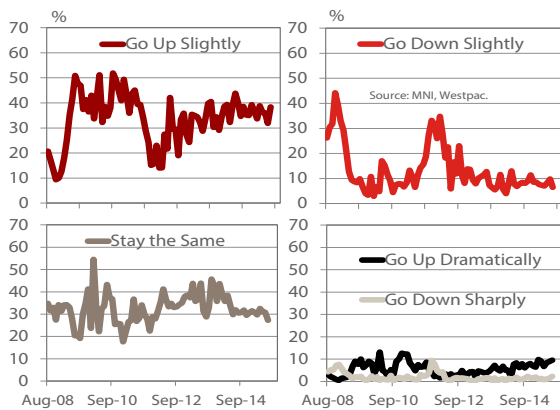
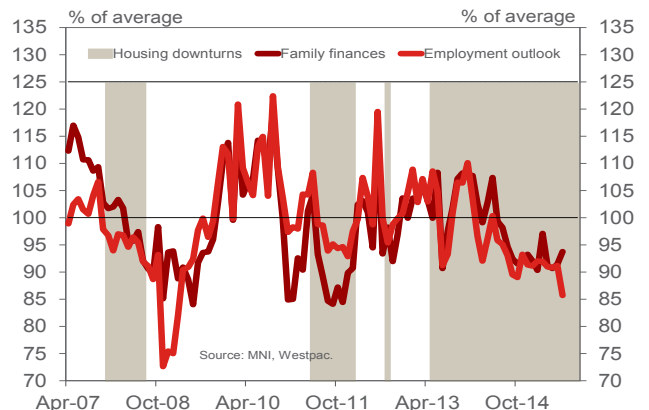


Figure 25: Jobs, finances & housing downturns



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.

29 July 2015

Figure 26: Perception of equity market value

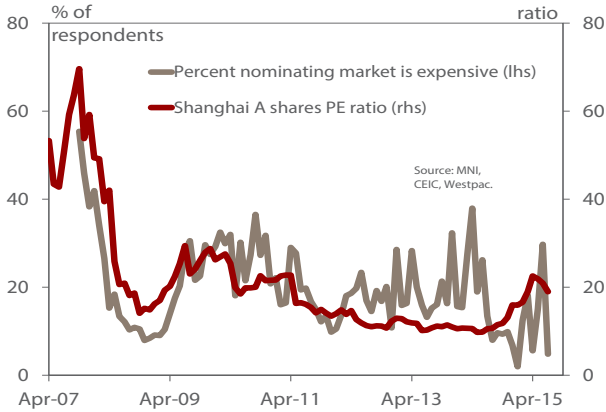


Figure 27: Equity price expectations: next 3mths

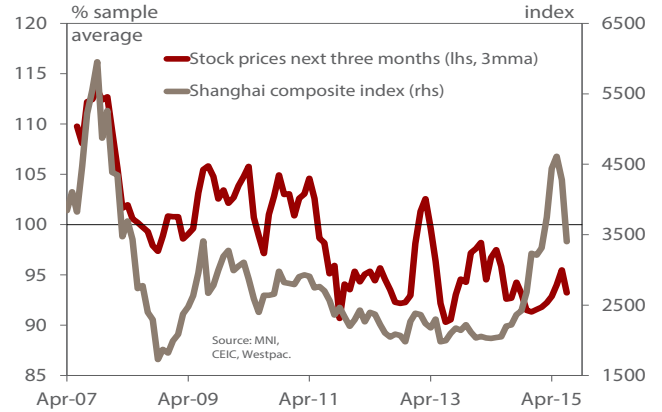


Figure 28: Equity market valuation breakdown

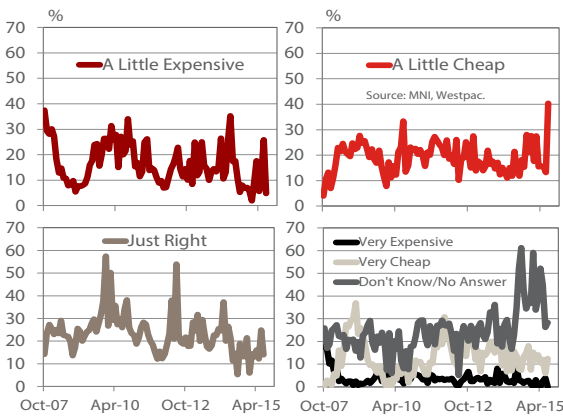


Figure 29: Trailing annual profit or loss

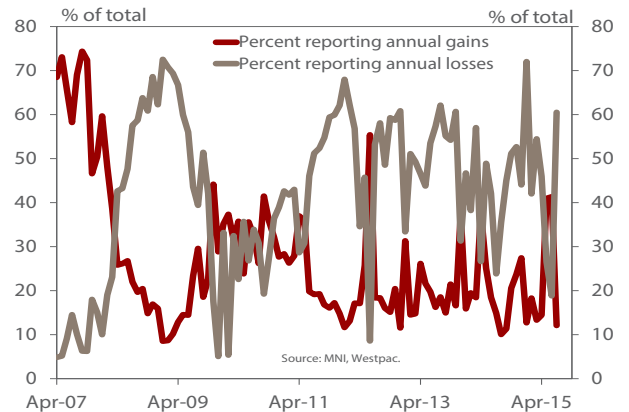


Figure 30: Equity price expectations: regional

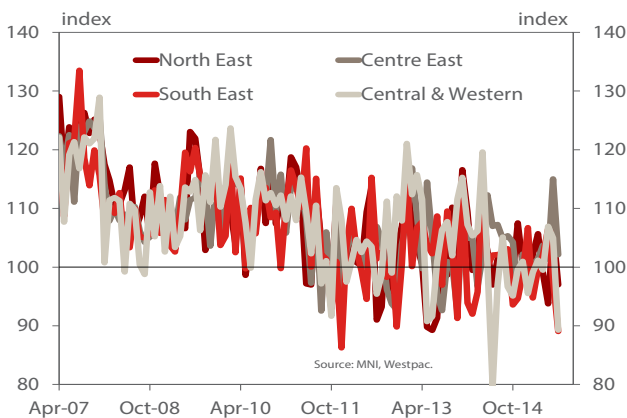
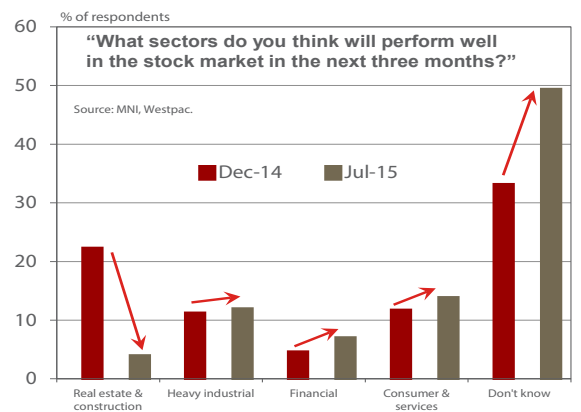


Figure 31: Expected relative sector performance



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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 (18-34; 35-54; 55-64), by gender, by *household* income (above and below 96k RMB pa), by region, sub-region and by tier-1 city for the entire series. The data is also available 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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