

26 August 2015

Chinese consumer sentiment rose in August Westpac MNI China CSI: 116.5, 1.8%*m/m*, +2.8%*y/y* Confidence gains for 3rd month, now higher than a year ago

- The **Westpac MNI China Consumer Sentiment Indicator**, hereafter the **Westpac MNI China CSI**, increased by 1.8pts from 114.5 in July to 116.5 in August, which is 2.8% higher than a year ago and 3.2% below the long run average.
- The Chinese economy remains a major source of concern for global investors. This anxiety is shared to some degree by Chinese households, but where foreign scepticism vis-à-vis growth prospects appears to be deepening on the back of weak business surveys and equity turmoil, consumers are tentatively marking up growth prospects, albeit from a very low level. With the consumer now a key engine in China's evolving growth model, *this incipient divergence demands very close attention*.
- There were two major 'events' during the sampling period: the CNY fix shock (Aug 11) and the Tianjin explosion (Aug 12). Both occurred beyond the midpoint of the survey period. In such cases the impact, if any, tends to be spread across surveys. In this instance, one event is ambiguous for confidence (the CNY) and one is undoubtedly negative (Tianjin). The renewal of equity market distress and the latest package of monetary easing both came after the survey had closed.
- Three of the five components that go into the calculation of the **Westpac MNI China CSI** increased in August. The positive impulse was strong across current & expected family finances and 'business conditions next 12mths'. 'Business conditions next 5yrs' moved slightly lower, as did 'time to buy a major household item'. Excluding the volatile 55-64yo cohort, the **Westpac MNI China CSI** rose 2.5pts to 116.9. That is up 3% from a year ago. That is the first positive y/y reading for the 18-54yo cohort since January 2014.
- The **employment indicator** was the pessimistic outlier in the July survey, recording a discomfoting drop that raised concerns about downside risks. Those concerns have been partially alleviated by a decent rebound in August. Even so, while so ever **job security** remains in short supply we remain on the alert for further monetary and fiscal easing. That is the only sensible position to take given the primacy of full employment in the leadership's policy calculus.
- A month ago, we cautioned against "a naive extrapolation of the somewhat more positive recent trend in the official data" on the basis of soft outcomes for both **current business conditions** (not part of the composite, but closely correlated with the PMIs & IP) and the job market. This proved to be sound advice on the basis of weak July export & IP outcomes.
- The consumers' attitude towards **real estate** (pg 4) improved in August, on balance, 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'**, two increased, one fell markedly & the other was flat. Interestingly, it was 'wisest place for savings' that fell away, despite price expectations firming and a genuine 'risk seeking' move in households' overall portfolio construction.

Huw McKay Senior international economist, +61 (2) 8254 9338

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Figure 1: Westpac MNI China CSI: the headline

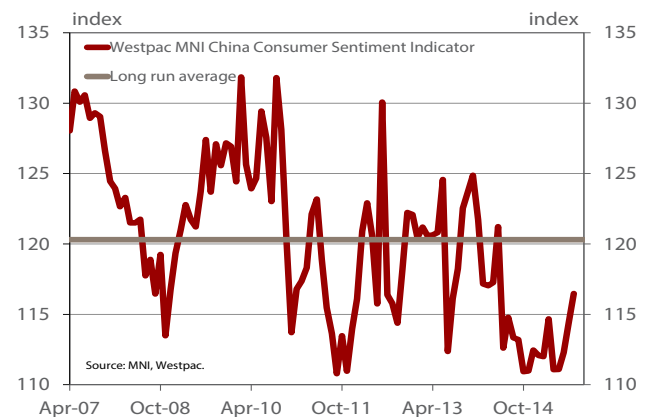


Figure 2: Family finances: current & expected

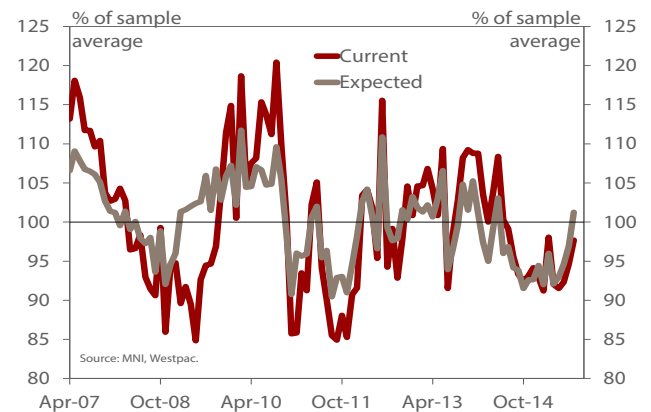
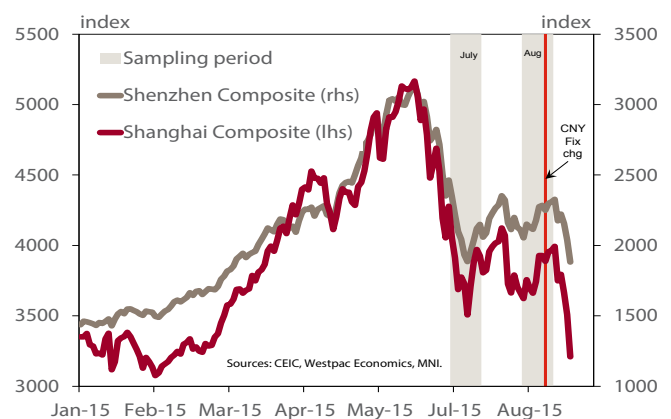


Figure 3: Chinese equities, the CNY shock & the sampling periods for the July & August surveys



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Figure 4: Business conditions & industrial output

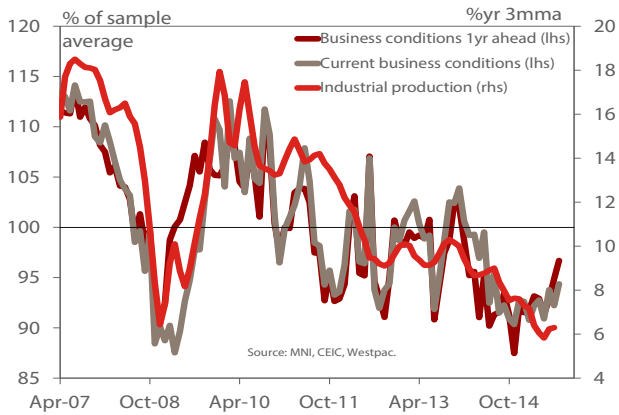


Figure 5: Expected house prices & land prices

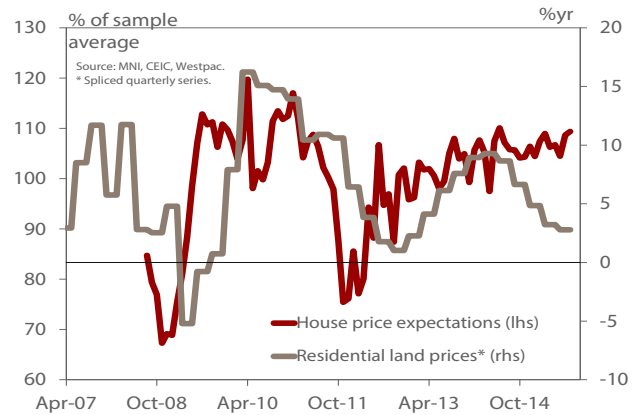


Figure 6: Employment outlook & export growth

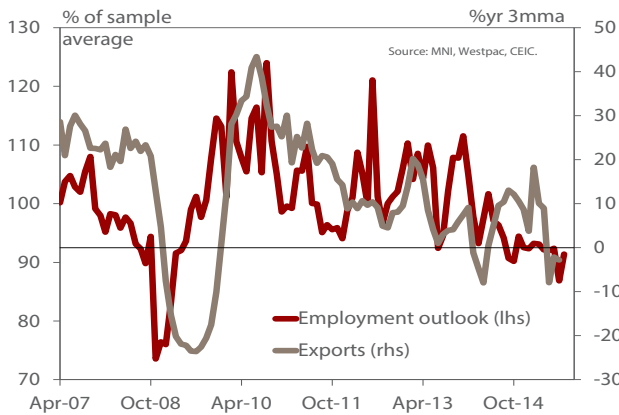


Figure 7: House prices & 'good time to buy'

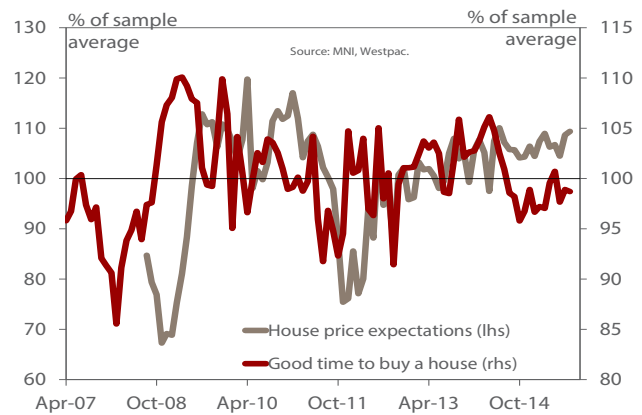


Table 1: The Westpac MNI China Consumer Sentiment Survey

	long run average ¹	level one year ago	level 6 mths ago	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Consumer Sentiment Indicator	120.3	113.3	112.0	111.1	111.1	112.3	114.5	116.5
Current Indicator	108.5	104.0	101.5	100.4	101.4	100.9	103.4	104.9
Expectations Indicator	128.2	119.6	119.0	118.2	117.6	119.9	121.8	124.2
Personal finances vs a year ago	109.4	104.5	99.8	100.7	100.1	101.0	103.6	106.8
Personal finances next 12 months	120.9	113.9	111.3	111.4	112.4	114.4	117.3	122.4
Business conditions next 12 months	121.0	110.8	111.1	112.5	110.5	112.4	114.8	117.0
Business conditions next 5 years	142.6	134.0	134.7	130.8	129.7	132.8	133.4	133.2
Time to buy a major household item ²	107.5	103.4	103.2	100.1	102.6	100.8	103.3	102.9
Housing composite	113.4	120.0	121.8	120.6	121.1	118.5	123.2	124.1
Auto composite	87.4	88.5	87.1	86.3	86.7	87.2	87.1	86.9
Business conditions vs a year ago	113.2	103.5	102.7	105.0	102.9	106.2	104.4	106.8
Employment expectations	105.7	99.6	98.6	97.4	97.3	97.7	91.8	96.6
House Price expectations	113.4	120.0	121.8	120.6	121.1	118.5	123.2	124.1
Inflation expectations	136.7	136.5	142.0	138.0	139.2	141.4	142.3	139.2
Interest rate expectations	114.7	114.4	116.9	111.5	107.5	112.0	114.7	116.2
Stock market expectations	107.3	104.0	99.3	100.9	103.0	106.9	93.5	104.1

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 Aug-2015.

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Figure 8: Inflation & interest rate expectations

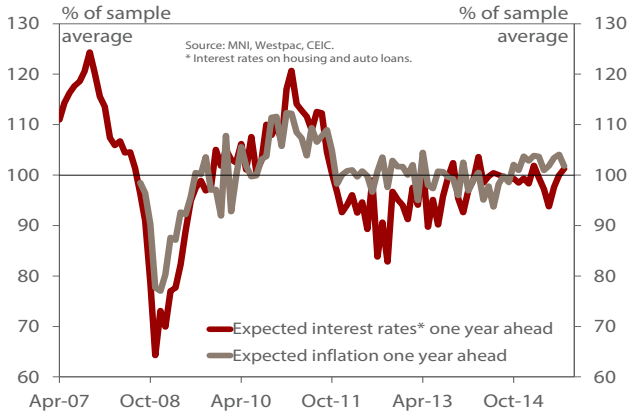


Figure 9: Inflation expectations & the CPI

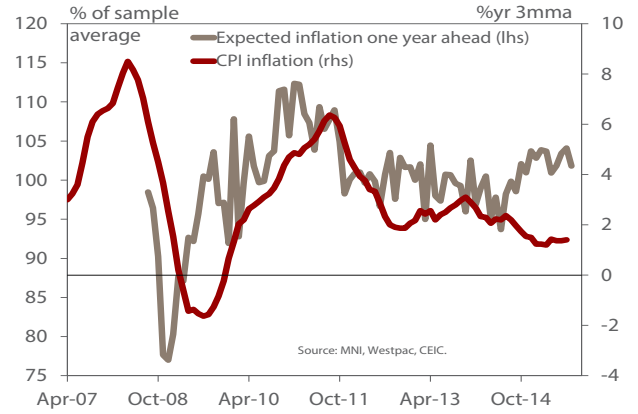


Figure 10: Sentiment by region

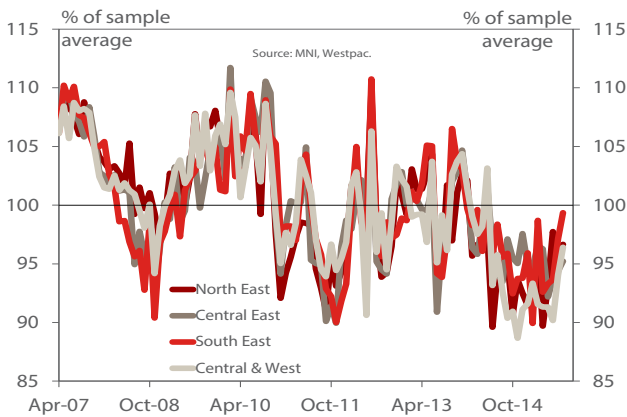


Figure 11: Auto composite & auto sales

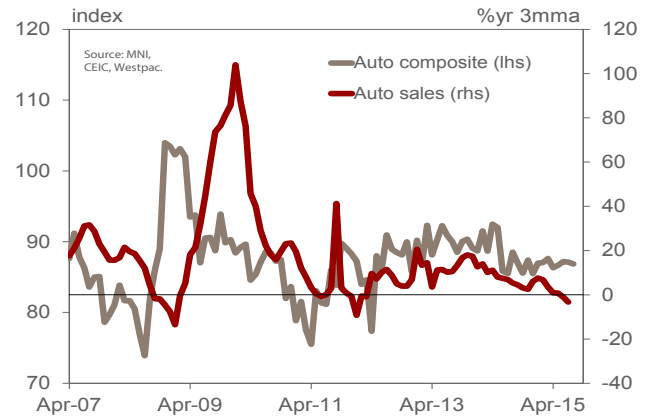


Figure 12: International comparison: jobs

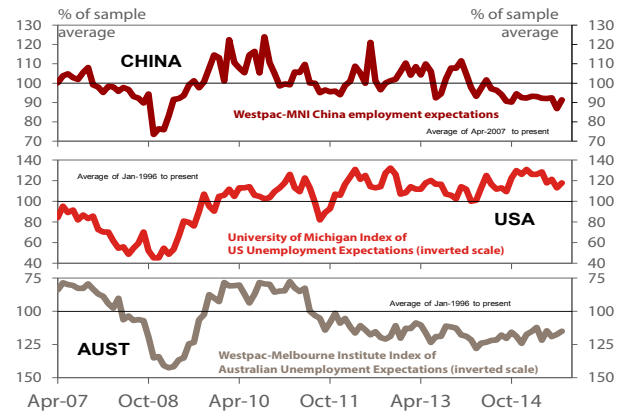


Figure 13: Uses of household income

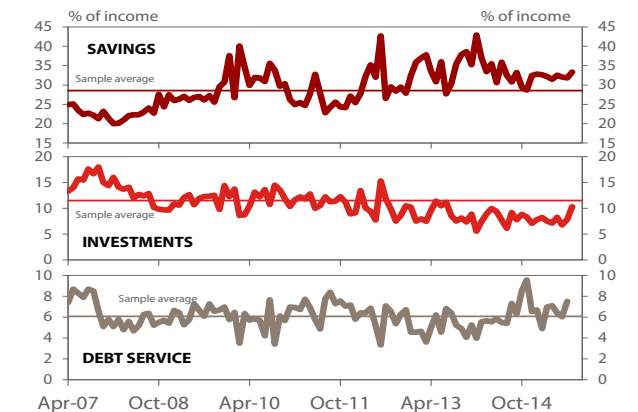


Table 2: Westpac MNI China CSI & other economic surveys, % of long run average

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Westpac MNI CSI	93.2	93.1	95.3	92.3	92.3	93.3	95.2	96.8
Westpac MNI business conditions vs a year ago	92.6	90.8	92.2	92.8	90.9	93.8	92.2	94.4
Caixin Manufacturing PMI	96.7	98.5	96.5	95.1	95.7	96.1	92.9	91.8
Caixin Services PMI	94.3	94.6	95.1	96.3	97.4	94.2	97.8	na
NBS Manufacturing PMI	93.8	94.0	94.4	94.4	94.6	94.6	94.2	na
NBS Services PMI	94.6	94.9	94.6	94.0	93.7	94.8	94.9	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

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
House price expectations : % of average	104.4	107.4	109.0	106.3	106.7	104.5	108.6	109.4
House price expectations: % net	118.5	121.8	123.6	120.6	121.1	118.5	123.2	124.1
% nominating <i>Go Up Dramatically</i> ^	6.5	9.9	9.2	6.8	8.3	8.9	9.6	8.9
% nominating <i>Go Up Slightly</i> ^	36.7	33.6	38.9	36.2	36.0	31.8	38.4	41.5
% nominating <i>Stay the Same</i> ^	31.5	30.8	29.7	32.5	31.2	30.8	27.3	26.7
% nominating <i>Go Down Slightly</i> ^	8.5	7.7	7.3	7.1	8.3	9.8	6.5	7.7
% nominating <i>Go Down Sharply</i> ^	2.1	1.0	1.4	0.8	1.1	1.4	2.3	1.7
Don't Know/No Answer^	14.7	16.9	13.7	16.7	15.2	17.2	16.0	13.5
House price expectations by region: % net								
East	121.5	123.0	123.0	121.7	121.6	120.0	122.5	123.6
North East (incl. Beijing)	120.8	121.7	126.2	123.9	120.1	120.3	121.7	120.7
Centre East (incl. Shanghai)	120.7	121.7	118.4	121.4	121.6	118.8	121.2	126.0
South East (incl. Guangzhou)	123.4	126.4	124.0	118.9	123.3	121.1	124.9	124.9
Central & Western	112.6	119.5	124.8	118.3	120.1	115.7	124.5	124.9
Good time to buy a house? % of average	96.6	97.2	97.0	99.6	100.7	97.6	98.9	98.7
Good time to buy a house? % net	93.2	93.8	93.6	96.0	97.1	94.2	95.4	95.2
% of responses due to* income	0.5	25.5	31.5	14.3	9.7	14.6	16.3	5.9
% of responses due to* policy	5.6	2.9	7.5	4.7	17.6	12.8	10.8	9.4
% of responses due to* prices	93.9	71.6	61.0	81.0	72.6	72.6	72.9	84.7
Bad time to buy a house due to ...								
% nominating* income	38.5	20.3	32.5	29.9	39.2	30.5	28.5	22.1
% nominating* policy	1.0	9.5	10.5	6.8	3.0	8.8	11.7	9.6
% nominating* prices	60.6	70.2	57.0	63.4	57.8	60.7	59.8	68.3
Primary motivation for saving – housing purchase or downpayment^#	6.3	6.4	6.8	5.0	8.9	6.6	6.5	8.4
Wisest place for savings: domestic real estate^#	19.3	19.7	14.6	16.6	16.8	15.7	16.2	10.4
Wisest place for savings: foreign real estate^#	0.4	0.7	1.0	0.7	0.7	0.3	0.1	1.1
Does your family currently have a housing loan?								
% nominating yes	20.0	16.3	19.5	21.8	21.1	19.3	23.2	18.4
% nominating no	79.7	83.5	80.1	78.0	78.1	80.6	76.6	81.6
What sectors will perform well in the stock market? % nominating^ ...								
steel	1.5	2.1	1.3	1.7	4.3	6.6	2.1	1.1
construction and building materials	3.8	3.2	3.1	3.1	5.1	6.4	3.2	2.2
real estate	2.6	10.4	3.0	9.3	7.8	5.7	0.6	2.0

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 in August, on balance, building on cumulative gains dating back to November 2014. This is consistent with the notable improvement in **dwelling prices** and **sales turnover** seen in the official data in the year to date.
- 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'**, two increased, one fell markedly & the other was flat. Interestingly, it was 'wisest place for savings' that fell away, despite price expectations firming and a genuine 'risk seeking' move evident in households' overall portfolio construction. Interest in **foreign real estate** increased in August, particularly so in North China, but it remains off the radar for the vast majority of Chinese consumers.

- Price expectations in the **Central & Western (C&W)** region edged higher still in August following a sharp increase in July, while the Centre East (including Shanghai) saw the strongest move in the month. These two regions also saw the largest increase in the housing element of **'motivation for saving'**. The lift in the C&W housing responses over July-August presumably reflects the fact that the market consolidation (in terms of sales) has now broadened away from Tier-1 to a much larger sample of cities. 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 building, the month of August represents a further incremental movement towards the healing of this recently bed-ridden asset class.

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

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Loss of income or employment	23.3	22.4	22.4	22.7	22.7	22.1	24.2	26.7	23.0
Housing purchase or downpayment	4.7	6.3	6.4	6.8	5.0	8.9	6.6	6.5	8.4
Car purchase or downpayment	2.3	2.1	1.6	2.4	3.3	2.1	3.0	3.4	4.1
Household good purchase	3.5	2.9	2.7	3.2	4.9	3.4	3.1	3.5	3.8
Children's education	15.8	16.7	18.4	17.7	16.1	17.5	17.5	17.5	17.9
Own health expenses	24.2	24.1	24.4	25.2	24.0	22.3	24.6	22.5	18.4
Own retirement	18.1	17.0	19.3	15.3	18.4	15.4	16.8	14.8	15.1
Saving to start own business	2.8	2.3	1.1	1.4	1.8	1.3	1.0	2.2	2.4
Other*	5.2	6.3	3.8	5.3	3.8	6.9	3.2	2.9	7.0

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

	Dec-14	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Bank Deposits	37.9	35.3	38.3	39.7	34.9	33.4	37.4	38.0	34.6
Fund	3.9	4.9	5.3	6.2	4.9	6.3	8.5	6.7	7.2
Bonds	1.2	1.8	2.6	3.8	3.6	2.2	4.7	3.0	5.7
Local Shares	5.7	4.4	3.9	4.7	6.5	7.8	5.9	6.2	6.7
Foreign Shares	0.4	0.3	0.0	0.9	0.3	0.4	0.0	0.4	0.2
China Real Estate	16.8	19.3	19.7	14.6	16.6	16.8	15.7	16.2	10.4
Foreign Real Estate	0.2	0.4	0.7	1.0	0.7	0.7	0.3	0.1	1.1
Wealth management products^	23.7	22.6	19.0	20.5	22.0	20.4	18.0	18.8	20.5
Micro Finance Loan Own Region	0.8	0.2	0.4	0.6	0.8	0.6	0.2	1.2	1.9
Pay Down Debt	0.0	0.1	0.5	0.6	0.3	0.3	1.2	1.5	1.5
Other*	9.3	10.8	9.7	7.2	9.4	11.1	8.1	8.1	10.3
Risk averse share#	52.1	49.0	50.2	52.6	48.3	46.0	49.4	50.7	48.4
Risk seeking share	47.9	51.0	49.8	47.4	51.7	54.0	50.6	49.3	51.6

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

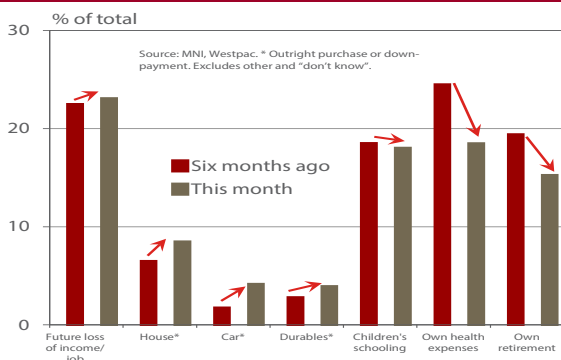
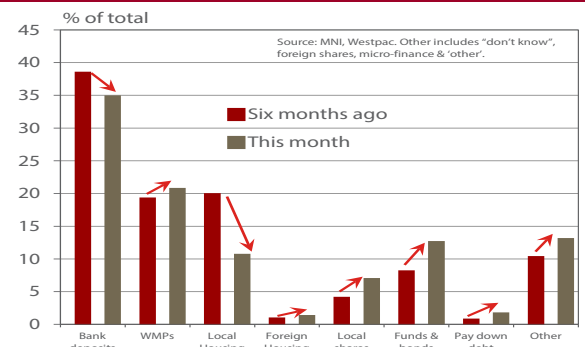


Figure 15: Wisest place for savings



- On **savings motivations** (table 4, figure 14), in July 23.0% of respondents nominated **future loss of income or employment** as their primary saving motivation, consistent with the rebound in the job indicator. Healthcare, education and retirement costs tend to loom large in the budget calculus of households, although they collectively fell back for a second straight month in August. **Housing purchases and downpayments** were cited by 8.4% of respondents as their primary savings motive in August, which is well up from both the lows & the July reading, consistent with the clear rebound in sales turnover & prices in a range of coastal cities.

- Regarding **savings/investment preferences** (table 5, figure 15), our categorization of risk averse vs risk seeking asset classes resulted in an approximate ratio of 48½/51½ in August from 51/49 in July: a switch from net risk averse to net risk seeking over the month. Bonds, WMPs, foreign real estate, micro finance, local shares (!) and managed funds all attracted more adherents in August, while bank deposits fell back.
- 64.8% of respondents prudently chose "don't know" when asked to nominate a sector that would perform well in the stock market. For more on equities, see page 8.

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Figure 16: Shopping indicator & retail sales

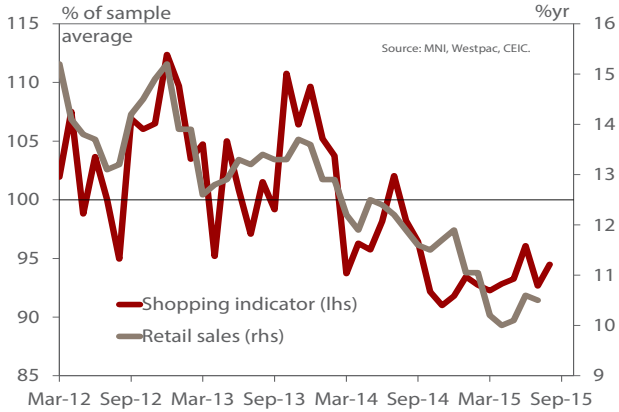


Figure 17: 'Dining out' & retail sales

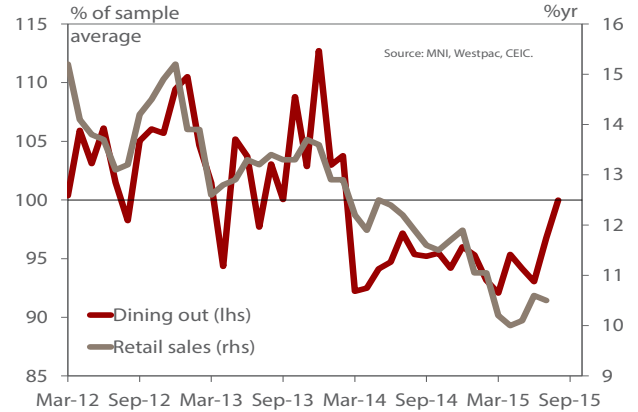


Figure 18: Entertainment spending & retail sales

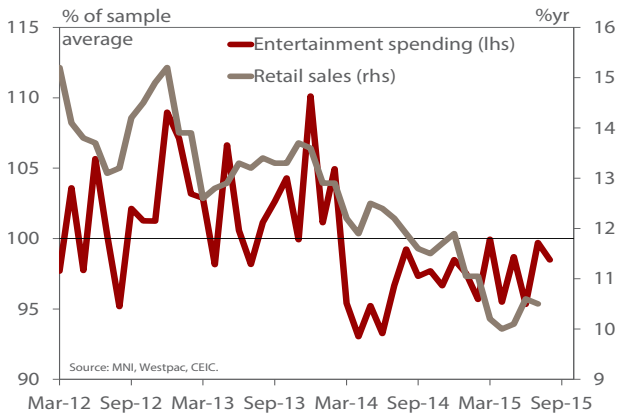


Figure 19: Western style fast food & 'dining out'

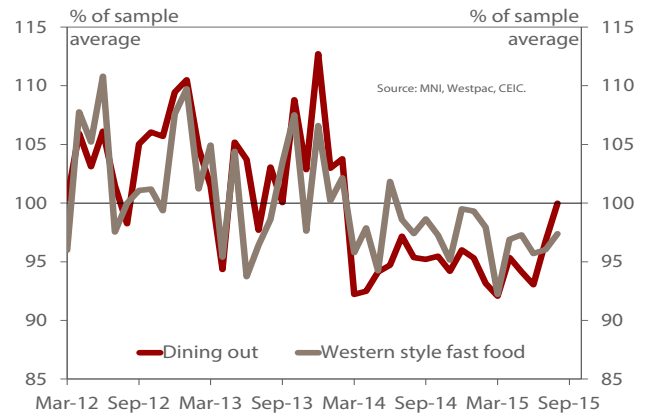


Table 6: Selected indicators of spending plans & buying conditions

	long run average	one year ago	six months ago	Apr-15	May-15	Jun-15	Jul-15	Aug-15
Expected change in spending on ... (net bal %)								
Expected spending on <i>shopping</i>	102.0	100.2	94.6	94.7	95.1	98.0	94.5	96.4
Expected spending on <i>entertainment</i>	102.0	101.2	97.6	97.4	100.6	97.2	101.7	100.4
Expected spending on <i>dining out</i>	104.0	99.1	96.9	99.1	97.9	96.7	100.6	103.9
Expected spending on <i>Western style fast food</i>	91.5	89.1	89.6	88.6	89.0	87.6	87.8	89.1
Buying conditions for ... (net bal %)								
Buying conditions for <i>houses</i>	96.5	95.0	93.8	96.0	97.1	94.2	95.4	95.2
Buying conditions for <i>cars</i>	101.9	102.6	97.4	97.6	96.9	100.1	101.1	100.2
Buying conditions for <i>major household items</i>	107.6	103.4	103.2	100.1	102.6	100.8	103.3	102.9
Buying conditions for <i>IT products</i>	105.9	103.3	102.3	101.6	103.7	103.4	103.7	106.0
Buying conditions for <i>communication devices</i>	106.2	101.2	102.2	100.9	102.2	100.3	102.1	101.9
Buying conditions for <i>all other appliances</i>	105.7	102.1	101.7	101.5	103.4	101.0	101.8	101.9
% nominating yes								
Does your family <i>plan to buy a car</i> in the next 12 months?	13.3	12.6	14.5	17.3	19.4	14.6	18.3	13.2
Have you done any <i>online shopping</i> in the last 3 months?	59.8	54.4	50.2	50.0	56.7	52.4	53.0	55.6

Source: MNI, Westpac.

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Figure 20: Sentiment by age group (smoothed)

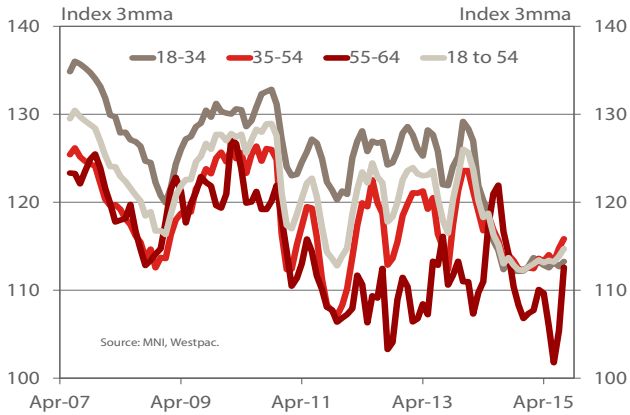


Figure 21: Expected inflation & family finances

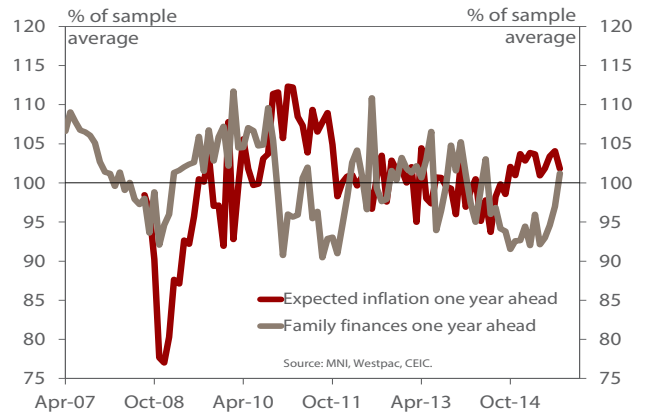


Figure 22: Westpac MNI & "Policy Uncertainty"

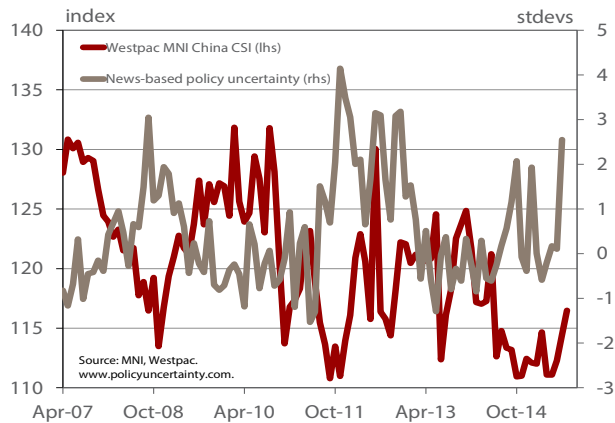


Figure 23: House price cycle by region

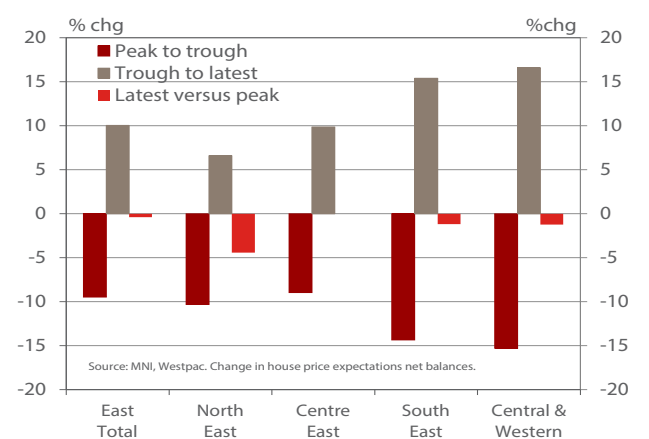


Figure 24: House price expectations breakdown

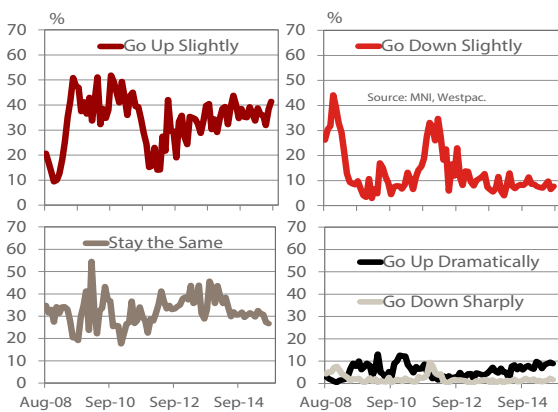
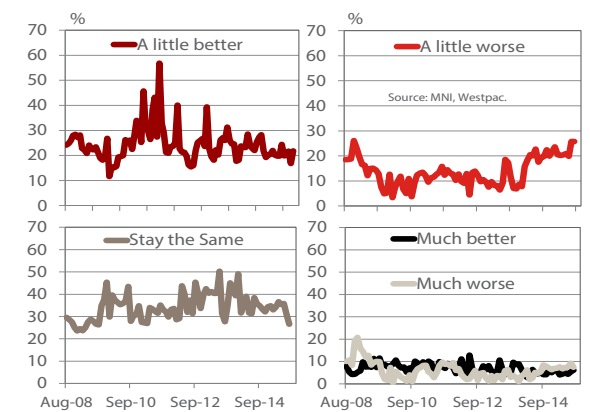


Figure 25: Employment expectations breakdown



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.

26 August 2015

Figure 26: Perception of equity market value

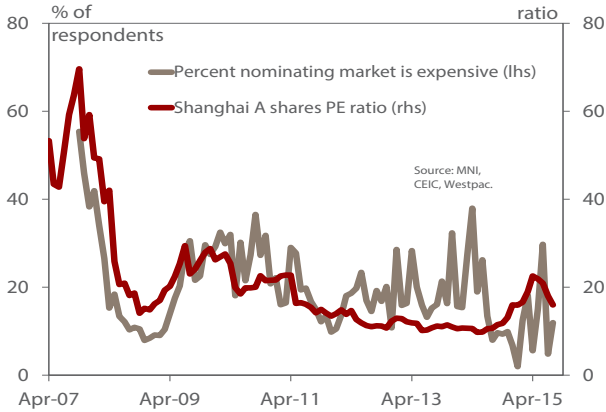


Figure 27: Equity price expectations: next 3mths

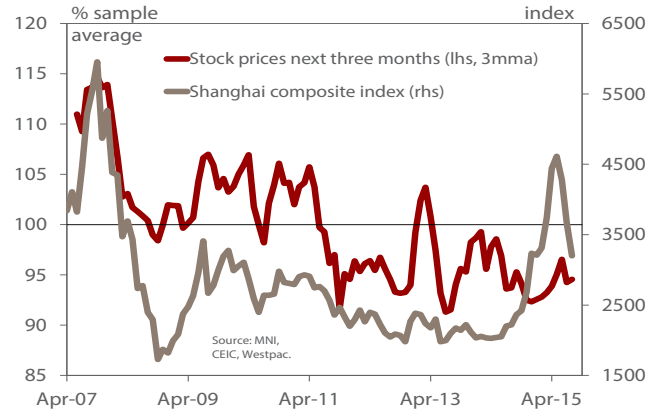


Figure 28: Equity market valuation breakdown

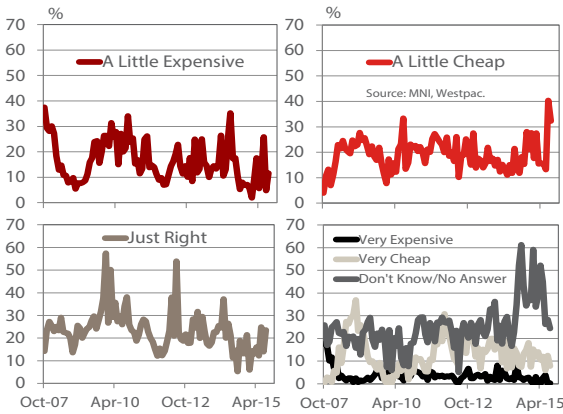


Figure 29: Trailing annual profit or loss

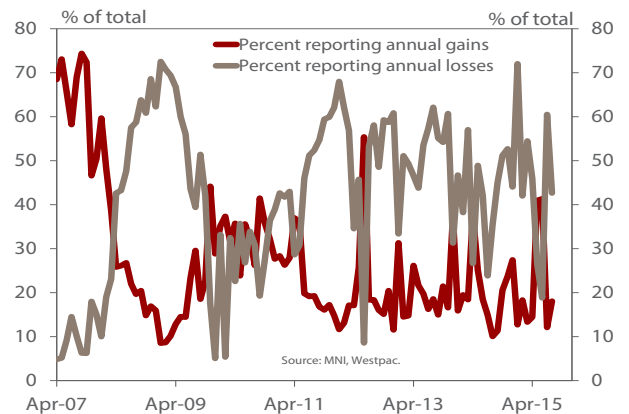


Figure 30: Equity price expectations: regional

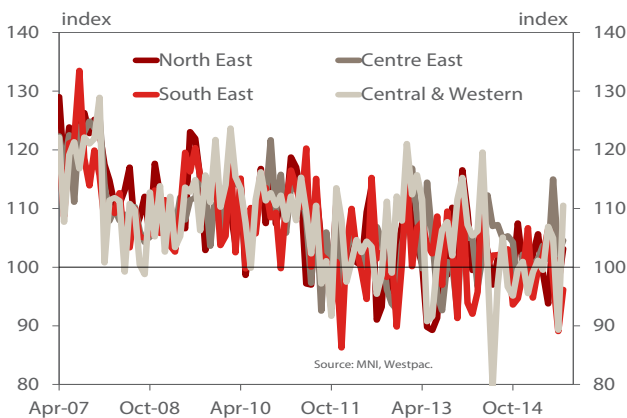
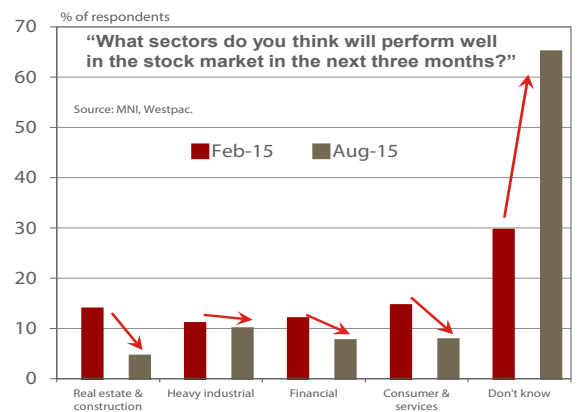


Figure 31: Expected relative sector performance



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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>

Enquiries regarding subscription packages

MNI Indicators

Westferry House

11 Westferry Circus

London E14 4HE, United Kingdom

Email: info@mni-indicators.com

Telephone: +44 (0) 20 7862 7444

To receive a copy of the Analytical User Guide

Westpac Economic Research

Level 2, 275 Kent St

Sydney, New South Wales, 2000, Australia

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Email: economics@westpac.com.au

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