

25 November 2015

Chinese consumer sentiment lifts off low

Westpac MNI China CSI: 113.1, 3.0%m/m, 1.9%y/y

Rate cut boost but continued concerns about economy & jobs

- The **Westpac MNI China Consumer Sentiment Indicator** (hereafter the **CSI**) rose 3.3pts from 109.7 in October to 113.1 in November. The CSI is now up 1.9% on a year ago but still 6% below its long run average. The Index is in line with the average recorded over the last 18mths.
- This follows what was a steep correction in October. The intervening month has seen a further interest rate cut.
- All of the five components of the **CSI** rose in November. The biggest rises were in 'business conditions next 5yrs' and 'business conditions next 12mths' – these two components were also the biggest movers in October's sharp decline. Clearly the broader economy remains a key swing factor for confidence. 'Family finances vs a year ago' and 'family finances next 12mths' rose by 2.7pts and 3.1pts respectively. 'Time to buy a major household item' continued to be the most resilient component, rising 1.3pts after a milder 4pt fall in October. 'Current business conditions' (not part of the headline, but highly correlated with the PMIs & official IP) also posted a solid, though only partial, recovery from October's heavy fall.
- The **employment indicator** posted a robust 5.9m/m gain but was still down 4.7%y/y. The picture around jobs is consistent with continued weakness in the labour-intensive export sector as well as the downward pressure operating on a range of blue collar domestic activities. Household **inflation expectations** lifted after a sharp fall last month but are still down 3.6%y/y.
- Consumer attitudes towards **real estate** showed mixed results in November but remain notably less pessimistic than other aspects of the survey. Across the four key indicators, there was a further moderation in **house price expectations** and fewer consumers nominated real estate as the '**wisest place for savings**' but assessments of '**time to buy**' improved, as did the proportion nominating house purchase as a '**motivation for saving**'. The mix suggests investor demand continues to soften but owner occupier attitudes may be starting to improve.
- Attitudes towards **real estate** continue to show a wide geographic divergence but with some notable shifts in recent months. Price expectations weakened sharply in the North East but posted a solid rise in the Central & West (C&W). Assessments of '**time to buy**' have also shown a better rally in the hinterland. These shifts are notable given the greater demand-supply mismatch in the interior cities and may be a tentative sign that the sales rebound evident elsewhere may be starting to spread to these areas.
- Overall, the November lift in sentiment is a welcome development. Although we viewed last month's sharp drop as mainly an overdue correction bringing Chinese consumer confidence more in line with the softer tone coming from other economic data, there was a risk that sentiment could have gone on to register a deeper shock. A timely easing in policy appears to have helped spur this month's rally. Despite this, Chinese consumers are clearly still anxious about the outlook for the economy and jobs. Sentiment around housing remains a notable positive but even here we are wary of recent slippage and what this may mean for a recovery that has yet to show convincing signs of broadening and strengthening.

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Figure 1: Westpac MNI China CSI: the headline



Figure 2: Family finances: current & expected

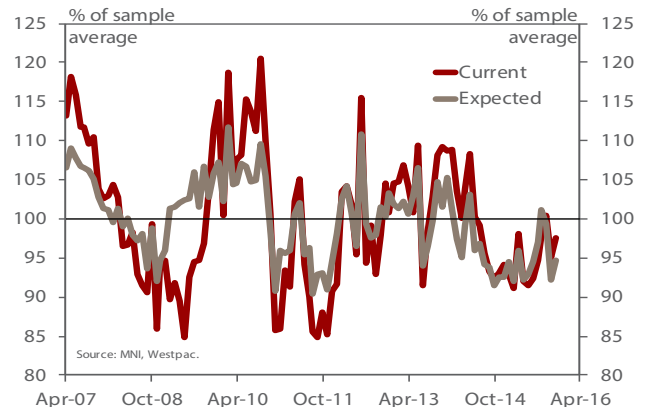
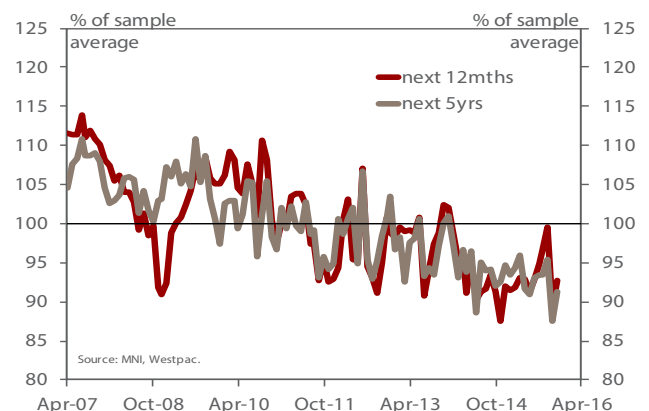


Figure 3: Business conditions: expected



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Figure 4: Business conditions & industrial output

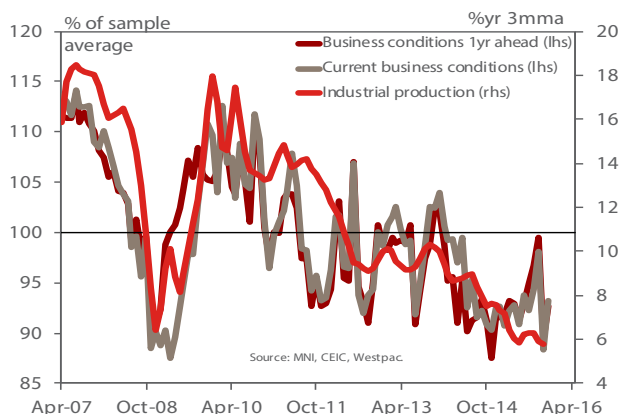


Figure 5: Expected house prices & land prices

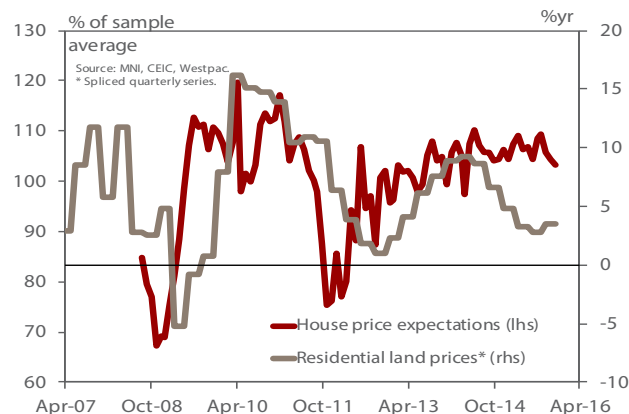


Figure 6: Employment outlook & export growth

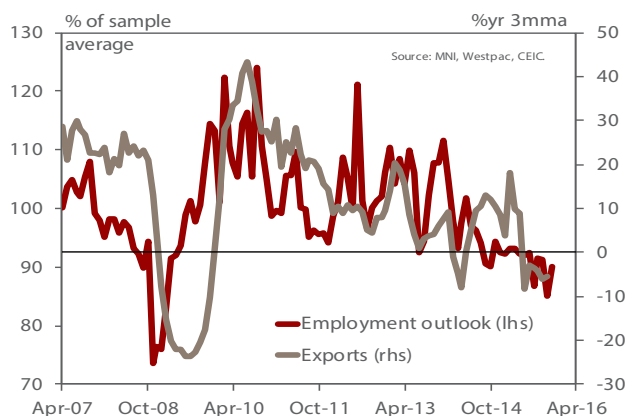


Figure 7: House prices & 'good time to buy'

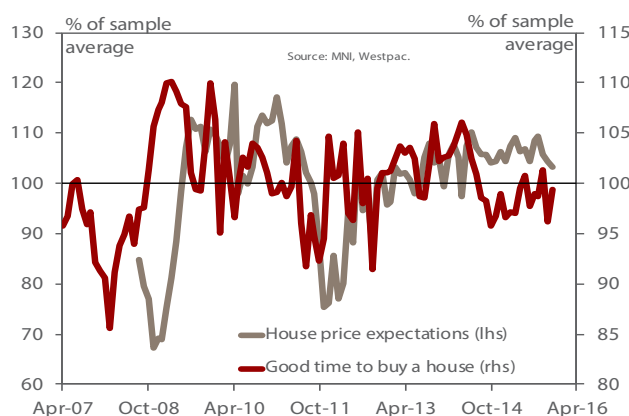


Table 1: The Westpac MNI China Consumer Sentiment Survey

	long run average ¹	one year ago	six months ago	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Consumer Sentiment Indicator	120.3	111.0	111.1	114.5	116.5	118.2	109.7	113.1
Current Indicator	108.5	102.5	101.4	103.4	104.9	107.2	102.2	104.2
Expectations Indicator	128.2	116.6	117.6	121.8	124.2	125.5	114.8	118.9
Personal finances vs a year ago	109.4	101.8	100.1	103.6	106.8	109.8	103.9	106.6
Personal finances next 12 months	120.9	112.0	112.4	117.3	122.4	120.2	111.4	114.5
Business conditions next 12 months	121.0	105.9	110.5	114.8	117.0	120.5	108.1	112.2
Business conditions next 5 years	142.6	132.1	129.7	133.4	133.2	136.0	124.8	130.1
Time to buy a major household item ²	107.5	103.1	102.6	103.3	102.9	104.6	100.5	101.8
Housing composite	113.4	118.3	121.1	123.2	124.1	119.9	118.4	117.1
Auto composite	87.4	87.4	86.7	87.1	86.9	88.8	88.5	87.1
Business conditions vs a year ago	113.2	102.2	102.9	104.4	106.8	111.0	100.1	105.4
Employment expectations	105.7	99.9	97.3	91.8	96.6	96.4	89.9	95.2
House Price expectations	113.4	118.3	121.1	123.2	124.1	119.9	118.4	117.1
Inflation expectations	136.7	138.0	139.2	142.3	139.2	135.5	131.6	133.1
Interest rate expectations	114.7	112.9	107.5	114.7	116.2	114.4	112.8	110.1
Stock market expectations	107.3	98.5	103.0	93.5	104.1	97.6	104.7	104.0

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

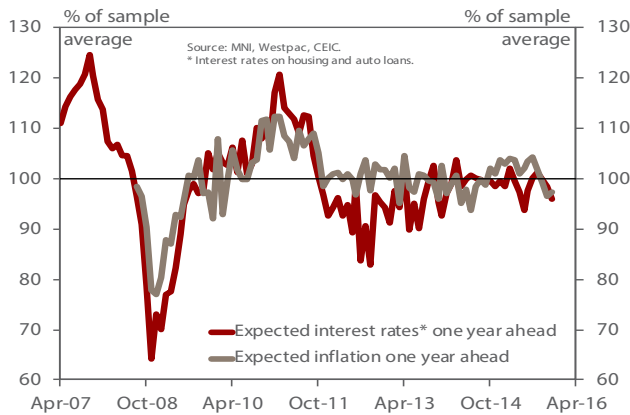


Figure 9: Inflation expectations & the CPI

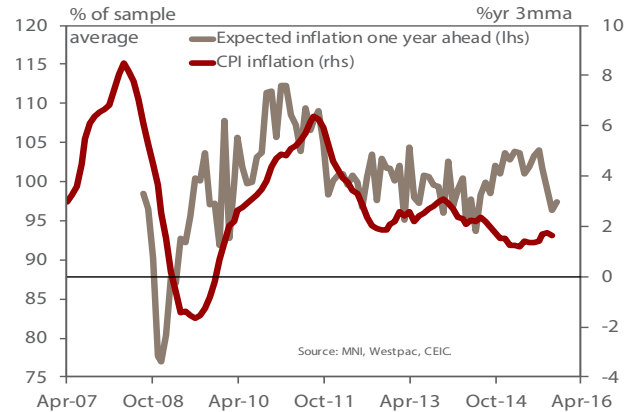


Figure 10: Sentiment by region

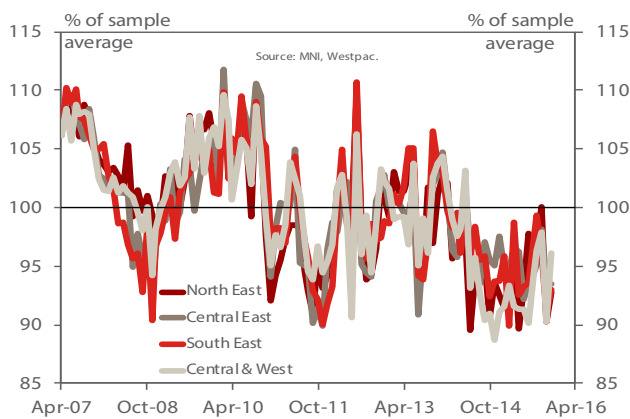


Figure 11: Auto composite & auto sales

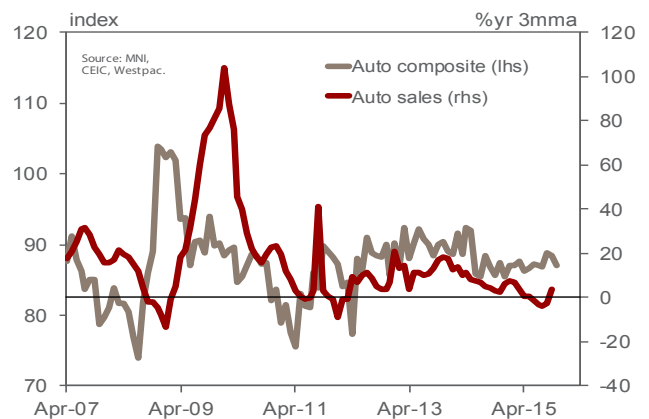


Figure 12: International comparison: jobs

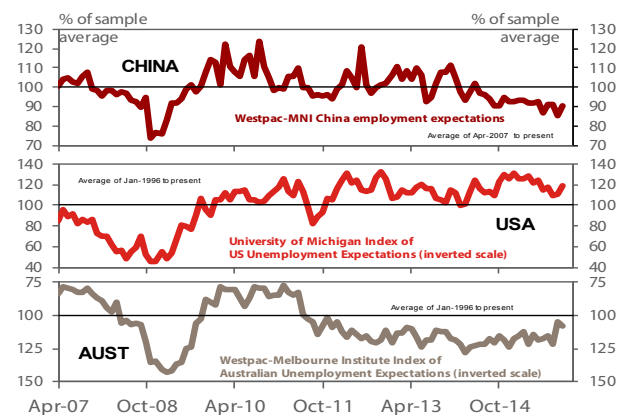


Figure 13: Uses of household income

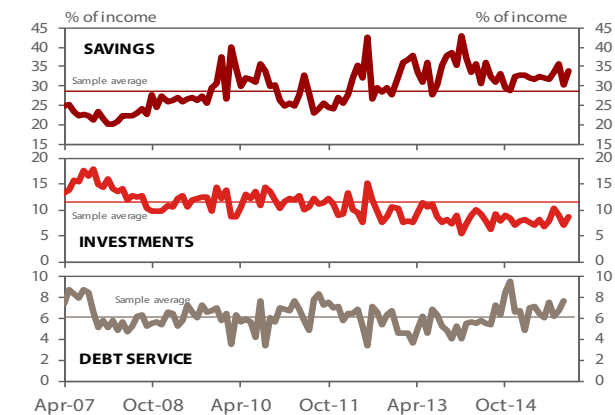


Table 2: Westpac MNI China CSI & other economic surveys, % of long run average

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Westpac MNI CSI	92.3	92.3	93.3	95.2	96.8	98.3	91.2	94.0
Westpac MNI business conditions vs a year ago	92.8	90.9	93.8	92.2	94.4	98.1	88.4	93.2
Caixin Manufacturing PMI	95.1	95.7	96.1	93.0	91.9	91.7	93.9	n.a.
Caixin Services PMI	96.3	97.4	94.2	97.8	93.8	91.8	94.6	n.a.
NBS Manufacturing PMI	94.4	94.6	94.6	94.2	93.6	93.8	93.8	n.a.
NBS Services PMI	94.0	93.7	94.8	94.9	94.0	94.0	93.5	n.a.

Sources: MNI, Westpac, Markit, Chinese National Bureau of Statistics, CEIC. Caixin (previously HSBC). Note the flash Caixin survey has been discontinued.

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Table 3: Consumer attitudes towards real estate

	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
House price expectations : % of average	106.3	106.7	104.5	108.6	109.4	105.7	104.4	103.3
House price expectations: % net	120.6	121.1	118.5	123.2	124.1	119.9	118.4	117.1
% nominating <i>Go Up Dramatically</i> ^	6.8	8.3	8.9	9.6	8.9	7.1	10.1	7.3
% nominating <i>Go Up Slightly</i> ^	36.2	36.0	31.8	38.4	41.5	40.0	32.3	35.4
% nominating <i>Stay the Same</i> ^	32.5	31.2	30.8	27.3	26.7	28.6	29.0	30.7
% nominating <i>Go Down Slightly</i> ^	7.1	8.3	9.8	6.5	7.7	9.0	10.4	10.7
% nominating <i>Go Down Sharply</i> ^	0.8	1.1	1.4	2.3	1.7	2.7	2.6	2.5
Don't Know/No Answer^	16.7	15.2	17.2	16.0	13.5	12.5	15.5	13.4
House price expectations by region: % net								
East	121.7	121.6	120.0	122.5	123.6	119.0	119.7	114.2
North East (incl. Beijing)	123.9	120.1	120.3	121.7	120.7	117.9	116.7	109.6
Centre East (incl. Shanghai)	121.4	121.6	118.8	121.2	126.0	118.5	118.4	114.1
South East (incl. Guangzhou)	118.9	123.3	121.1	124.9	124.9	121.0	125.7	119.8
Central & Western	118.3	120.1	115.7	124.5	124.9	121.6	115.9	124.0
Good time to buy a house? % of average	99.6	100.7	97.6	98.9	98.7	101.3	96.2	99.4
Good time to buy a house? % net	96.0	97.1	94.2	95.4	95.2	97.7	92.7	95.9
% of responses due to* income	14.3	9.7	14.6	16.3	5.9	20.1	12.3	8.0
% of responses due to* policy	4.7	17.6	12.8	10.8	9.4	6.5	1.7	22.0
% of responses due to* prices	81.0	72.6	72.6	72.9	84.7	73.4	86.0	70.0
Bad time to buy a house due to ...								
% nominating* income	29.9	39.2	30.5	28.5	22.1	27.9	26.6	21.7
% nominating* policy	6.8	3.0	8.8	11.7	9.6	6.9	18.3	28.7
% nominating* prices	63.4	57.8	60.7	59.8	68.3	65.2	55.1	49.6
Primary motivation for saving – housing purchase or downpayment^#	5.0	8.9	6.6	6.5	8.4	9.2	5.9	6.9
Wisest place for savings: domestic real estate^#	16.6	16.8	15.7	16.2	10.4	13.2	14.3	10.4
Wisest place for savings: foreign real estate^#	0.7	0.7	0.3	0.1	1.1	0.5	1.1	0.0
Does your family currently have a housing loan?								
% nominating yes	21.8	21.1	19.3	23.2	18.4	22.6	16.9	18.0
% nominating no	78.0	78.1	80.6	76.6	81.6	77.1	83.1	81.6
What sectors will perform well in the stock market? % nominating^ ...								
steel	1.7	4.3	6.6	2.1	1.1	1.6	0.4	0.6
construction and building materials	3.1	5.1	6.4	3.2	2.2	4.5	0.8	0.4
real estate	9.3	7.8	5.7	0.6	2.0	2.1	0.9	2.5

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.

- Consumer attitudes towards **real estate** saw mixed results in November. **House price expectations** showed a further moderation while there were also fewer consumers favouring real estate as the '**wisest place for savings**' – these shifts indicative perhaps of some softening in investor demand. However assessments of '**time to buy**' lifted back towards long term average levels while more consumers nominated house purchase as a prime '**motivation for saving**'. This in turn may be a sign of firming owner-occupier demand.
- Responses also showed notable variations by region. Consumers in the North East were more downbeat with real estate sentiment weaker across all metrics. **House price expectations** recorded a particularly sharp fall, the 6.1% drop taking the regional index to a 2½yr low.

- In contrast, consumers in the Central West posted strong gains across all metrics except the proportion nominating real estate as the '**wisest place for savings**'. **House price expectations** recorded a particularly strong rise in the region, running against the broader weakening trend elsewhere.
- The regional variation is notable given the bigger demand-supply mismatch in the interior cities and the much stronger price resurgence in 'tier 1' cities to date. The mix may be a tentative sign that the sales rebound evident elsewhere may be starting to spread to the hinterland. We continue to view housing as being at a critical 'inflection point'. Assuming a complete pass through from last month's official interest rate cut, average housing loan rates have likely reached 6yr lows. We expect further policy easing in the first half of 2016.

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

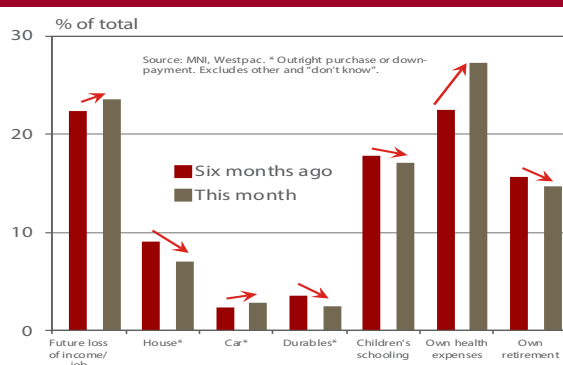
	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Loss of income or employment	22.7	22.7	22.1	24.2	26.7	23.0	23.4	19.5	23.3
Housing purchase or downpayment	6.8	5.0	8.9	6.6	6.5	8.4	9.2	5.9	6.9
Car purchase or downpayment	2.4	3.3	2.1	3.0	3.4	4.1	2.5	3.4	2.6
Household good purchase	3.2	4.9	3.4	3.1	3.5	3.8	3.2	2.8	2.3
Children's education	17.7	16.1	17.5	17.5	17.5	17.9	16.8	17.4	16.8
Own health expenses	25.2	24.0	22.3	24.6	22.5	18.4	20.9	28.6	27.0
Own retirement	15.3	18.4	15.4	16.8	14.8	15.1	16.1	17.2	14.4
Saving to start own business	1.4	1.8	1.3	1.0	2.2	2.4	1.3	1.4	1.6
Other*	5.3	3.8	6.9	3.2	2.9	7.0	6.5	3.9	5.0

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

	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Bank Deposits	39.7	34.9	33.4	37.4	38.0	34.6	30.8	34.5	35.6
Fund	6.2	4.9	6.3	8.5	6.7	7.2	5.4	2.7	5.6
Bonds	3.8	3.6	2.2	4.7	3.0	5.7	5.3	2.7	2.8
Local Shares	4.7	6.5	7.8	5.9	6.2	6.7	7.9	6.1	7.5
Foreign Shares	0.9	0.3	0.4	0.0	0.4	0.2	0.0	0.3	0.1
China Real Estate	14.6	16.6	16.8	15.7	16.2	10.4	13.2	14.3	10.4
Foreign Real Estate	1.0	0.7	0.7	0.3	0.1	1.1	0.5	1.1	0.0
Wealth management products^	20.5	22.0	20.4	18.0	18.8	20.5	24.0	21.2	24.8
Micro Finance Loan Own Region	0.6	0.8	0.6	0.2	1.2	1.9	1.2	3.4	1.3
Pay Down Debt	0.6	0.3	0.3	1.2	1.5	1.5	0.8	2.7	0.5
Other*	7.2	9.4	11.1	8.1	8.1	10.3	10.8	11.1	11.2
Risk averse share#	52.6	48.3	46.0	49.4	50.7	48.4	46.0	49.9	51.0
Risk seeking share	47.4	51.7	54.0	50.6	49.3	51.6	54.0	50.1	49.0

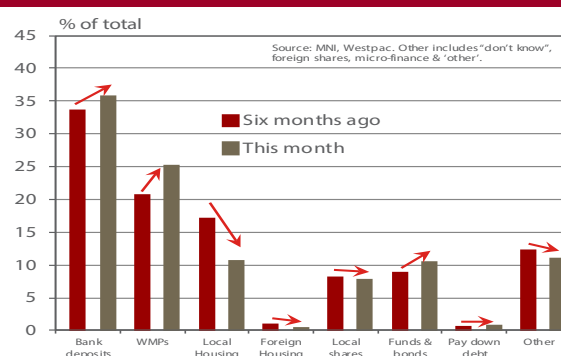
Source to tables 4 and 5: MNI, Westpac. ^ Issued by either banks or trust companies. * Includes both "Other" and "Don't know/refuse to answer". "Don't know" is generally zero with respect to savings motivations, but tends to be the dominant element of "other" in savings preferences. # Deposits, 'pay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

Figure 14: Motivations for savings



- Responses on **savings motivations** show a continued focus on 'self-insuring' for healthcare (27%) although the proportion looking to ensure against **future loss of income or employment** rose again (23%) after a brief dip in October. Education (17%), and retirement (14%) remain notable 'secondary' motivations with raising funds for purchasing a house still not viewed by many as a high priority (7%). This subdued 'acquisitive' saving motivation is consistent with the risk averse tone of consumer sentiment more generally. The 'other' category, which captures saving for overseas holidays, improved but remained subdued at 5%.

Figure 15: Wisest place for savings



- Responses on **savings/investment preferences** also point to a slight rise in risk aversion. The proportion of respondents nominating 'risk averse' vs 'risk seeking' asset classes shifted from 46/54 in September to 50/50 in October and 51:49 in November. Bank deposits remain heavily favoured (36%) despite further falls in most deposit rates in recent months (in many cases to record historical lows as well). Just under 25% nominate 'wealth management products' while the proportion favouring local real estate (10%) was below that favouring 'other' assets (11%). 'Pay down debt', 'foreign shares' and 'foreign real estate' barely rated a mention.

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Figure 16: Shopping indicator & retail sales

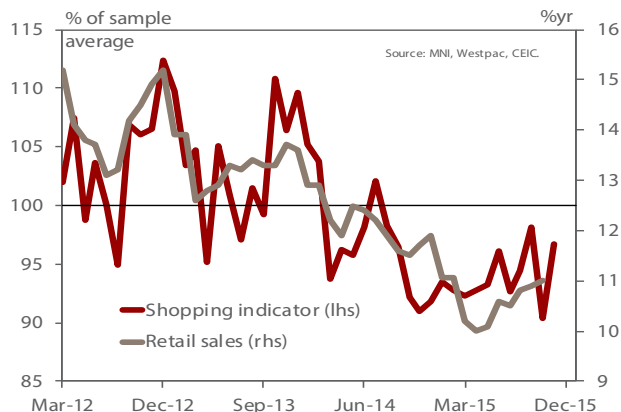


Figure 17: 'Dining out' & retail sales

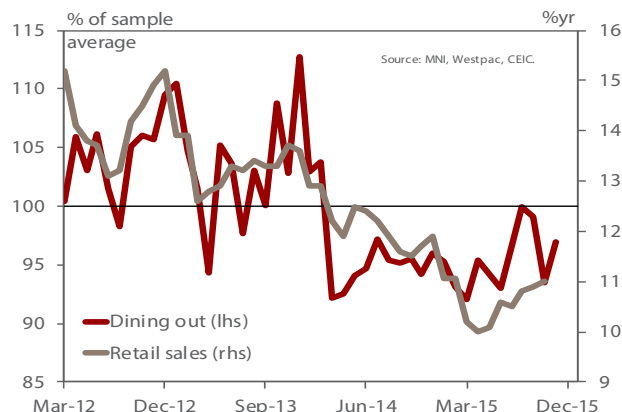


Figure 18: Entertainment spending & retail sales

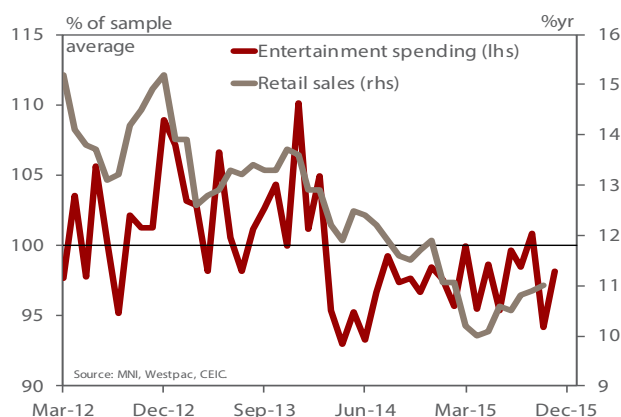


Figure 19: Western style fast food & 'dining out'

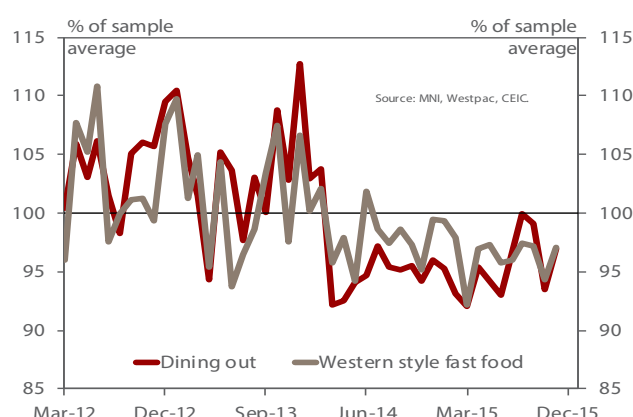


Table 6: Selected indicators of spending plans & buying conditions

	long run	one year ago	six months ago	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15
Expected change in spending on ... (net bal %)								
Expected spending on <i>shopping</i>	102.0	92.8	95.1	94.5	96.4	100.1	92.2	98.7
Expected spending on <i>entertainment</i>	102.0	98.5	100.6	101.7	100.4	102.8	96.0	100.1
Expected spending on <i>dining out</i>	104.0	97.9	97.9	100.6	103.9	103.0	97.2	100.8
Expected spending on <i>Western style fast food</i>	91.5	87.0	89.0	87.8	89.1	88.9	86.3	88.8
Buying conditions for ... (net bal %)								
Buying conditions for <i>houses</i>	96.5	93.3	97.1	95.4	95.2	97.7	92.7	95.9
Buying conditions for <i>cars</i>	101.9	97.5	96.9	101.1	100.2	101.8	97.3	98.5
Buying conditions for <i>major household items</i>	107.6	103.1	102.6	103.3	102.9	104.6	100.5	101.8
Buying conditions for <i>IT products</i>	105.9	101.8	103.7	103.7	106.0	105.0	102.7	104.1
Buying conditions for <i>communication devices</i>	106.2	100.3	102.2	102.1	101.9	104.2	99.0	105.0
Buying conditions for <i>all other appliances</i>	105.7	102.4	103.4	101.8	101.9	104.4	100.1	105.6
% nominating yes								
Does your family <i>plan to buy a car</i> in the next 12 months?	13.3	12.9	19.4	18.3	13.2	14.4	17.3	18.6
Have you done any <i>online shopping</i> in the last 3 months?	59.8	55.9	56.7	53.0	55.6	62.8	53.1	56.6

Source: MNI, Westpac.

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Figure 20: Expected inflation & family finances

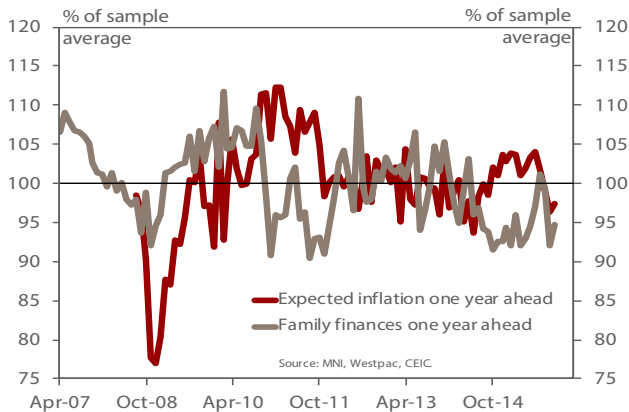


Figure 21: Westpac MNI & "Policy Uncertainty"

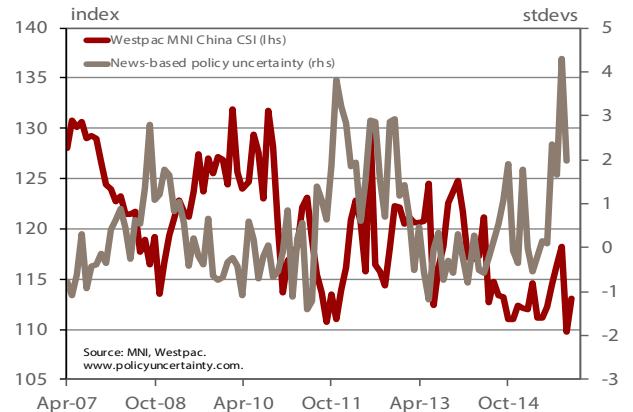


Figure 22: Regional house price cycles

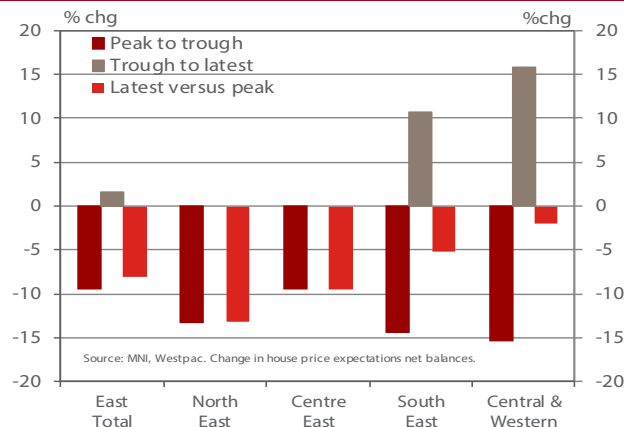


Figure 23: House price expectations by region

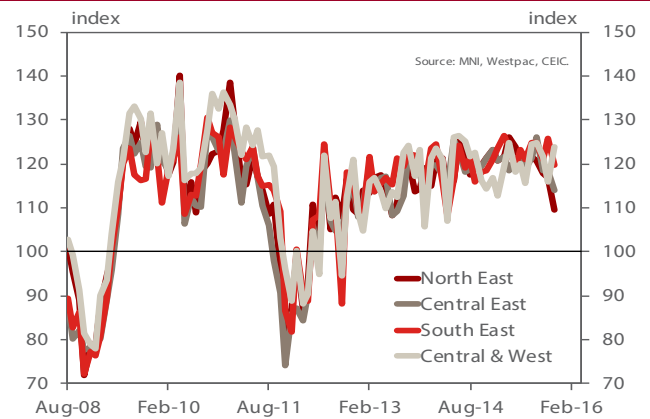


Figure 24: House price expectations breakdown

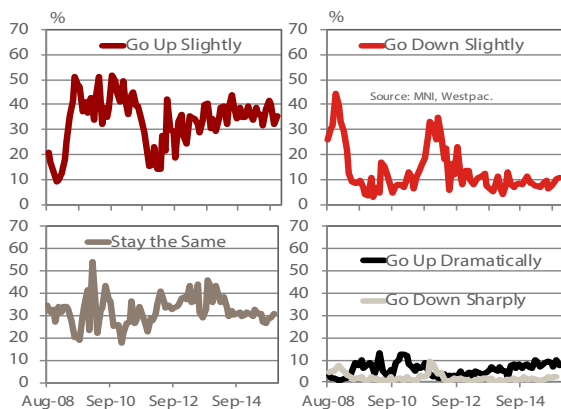
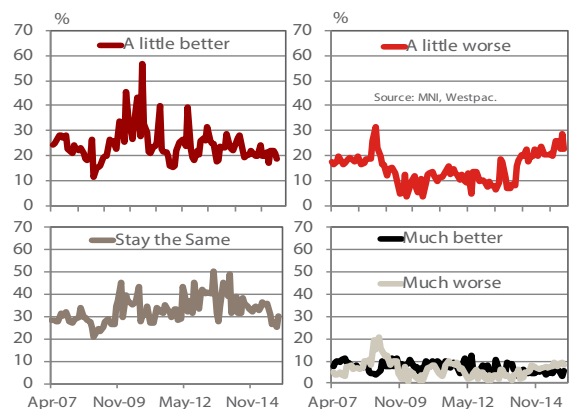


Figure 25: Employment expectations breakdown



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.

25 November 2015

Figure 26: Perception of equity market value

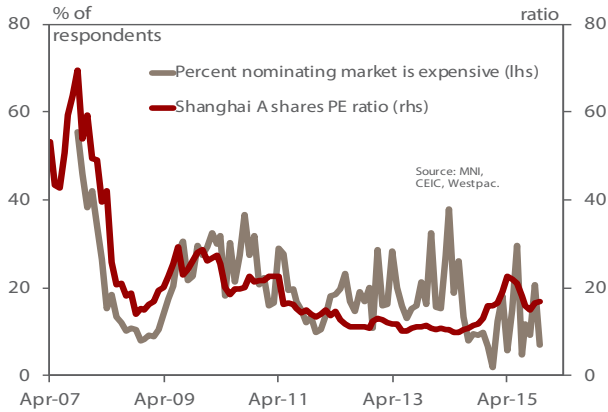


Figure 27: Equity price expectations: next 3mths

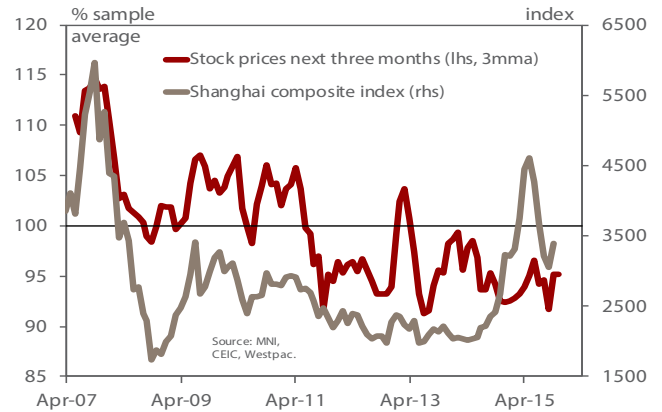


Figure 28: Equity market valuation breakdown

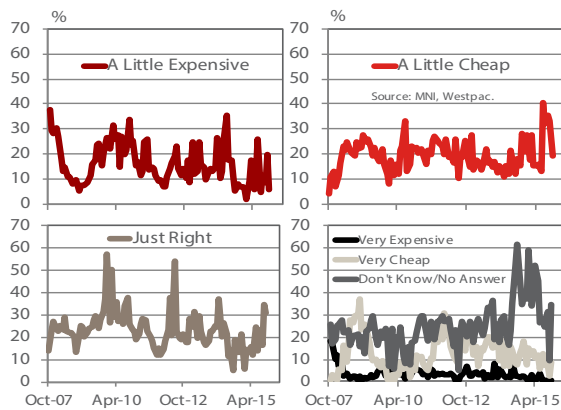


Figure 29: Trailing annual profit or loss

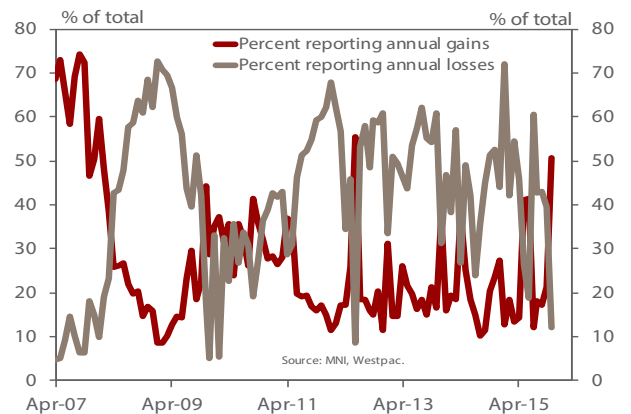


Figure 30: Equity price expectations: regional

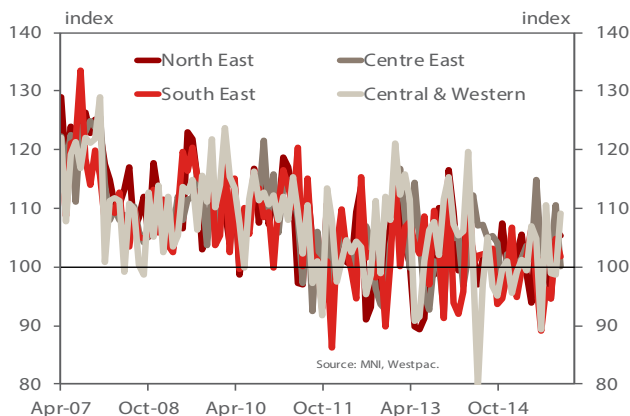
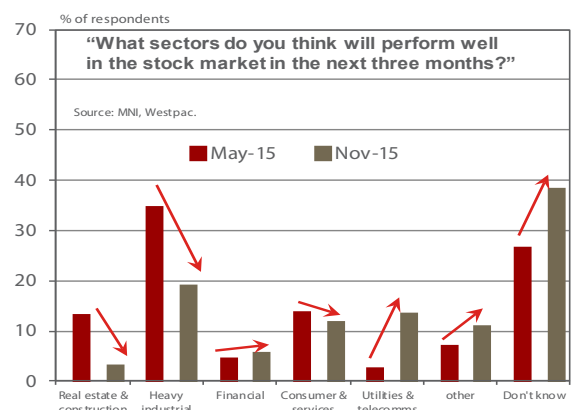


Figure 31: Expected relative sector performance



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

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