

ANZ-ROY MORGAN CHINA CONSUMER CONFIDENCE MEDIA RELEASE

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CHINA CONSUMER CONFIDENCE REMAINS STABLE DESPITE SLOWING GROWTH AND HOUSING MARKET UNCERTAINTY

HIGHLIGHTS

- ANZ-Roy Morgan China Consumer Confidence Index remained stable at 152.5 in May, compared with 152.6 in April.
- Consumer confidence varies in different cities. While Shanghai and Guangzhou remained upbeat, the sentiment in Beijing continued to trend lower. In China's small and medium cities, consumer confidence generally saw an improvement.
- The survey sees a clear declining trend of inflation expectation. In May, the respondents projected China's price level will rise by 4.0% in the longer term, compared with 5.2% in January and 4.5% in April.
- Short term confidence also eroded. The respective sub-index has declined 3.9 percentage points in May to 58.5, compared with 62.4 in April.

ANZ GREATER CHINA CHIEF ECONOMIST LI-GANG LIU SAID:

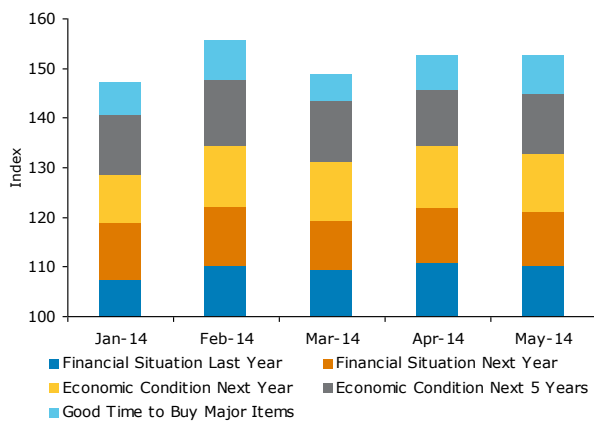
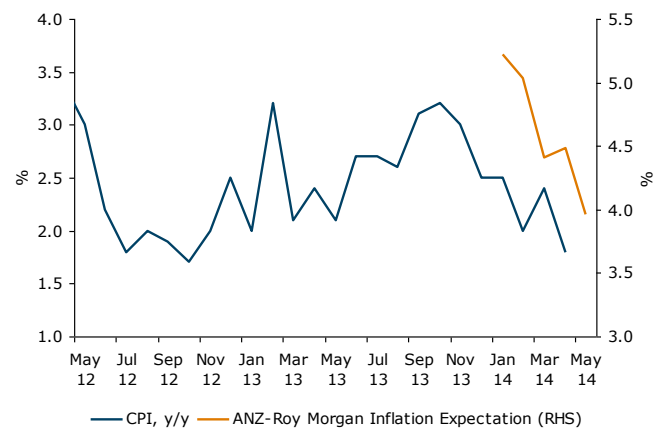
"The May consumer confidence has shown signs of stabilisation, which could foretell a possible pick up in China's retail sales. However, a further decline in inflation expectation suggests that domestic demand remains lukewarm. This suggests that the retail sales figure in May will not see a significant boost, either.

As Chinese enterprises are still facing very high funding costs with a falling profit margin, this implies that the monetary policy condition may have become too tight. We maintain our call that a cut of reserve requirement ratio is necessary. This will provide a strong policy signal to prevent negative sentiment from deteriorating further. By relaxing monetary policy, the government can send a strong signal that it will not sacrifice growth while engaging economic reform.

Today¹ is the launch of the ANZ-Roy Morgan China Consumer Confidence survey, which compliments the surveys in Australia, New Zealand, and Indonesia. More consumer confidence surveys for other Asia Pacific economies will be forthcoming."

		Jan 14	Feb 14	Mar 14	Apr 14	May 14
ANZ-Roy Morgan Consumer Confidence Index		147.1	155.5	148.9	152.6	152.5
Sub-Index						
Economic conditions next year	Balance	49.7	62.1	59.2	62.4	58.5
	Good, %	58.3	66.7	66.7	69.6	66.8
	Bad, %	8.6	4.6	7.5	7.2	8.3
Economic conditions next 5 years	Balance	59.9	65.6	61.2	56.4	60.4
	Good, %	68.5	71.8	71.9	69.1	70.0
	Bad, %	8.6	6.2	10.7	12.7	9.6
Inflation expectation	%	5.22	5.03	4.41	4.48	3.96

¹ Please see the special report on China consumption – Tapping the impending consumption boom in China.

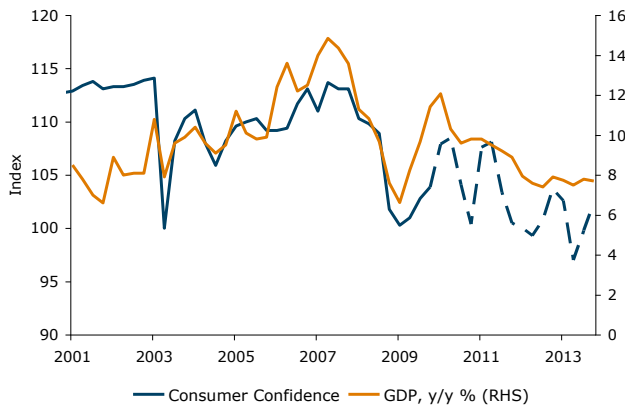
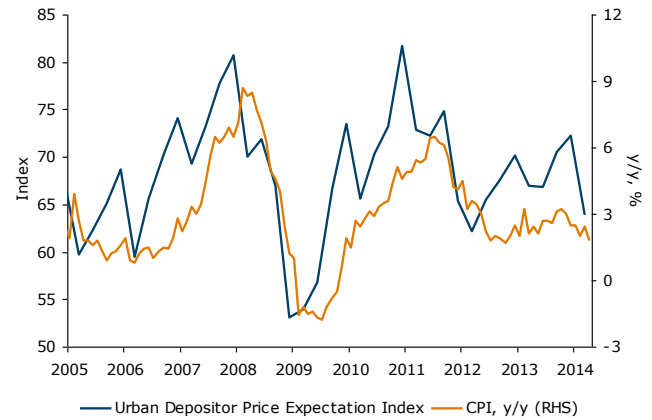
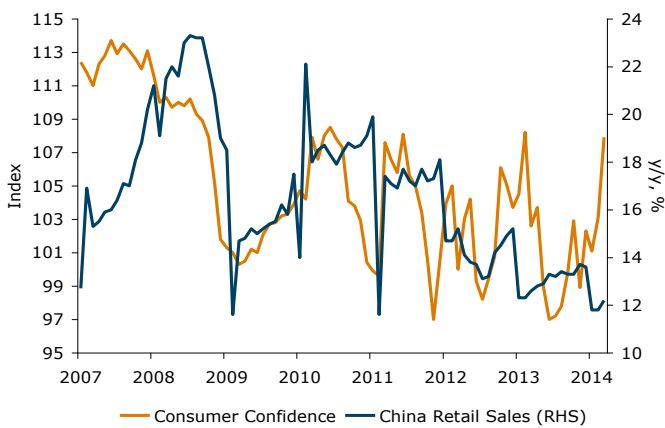
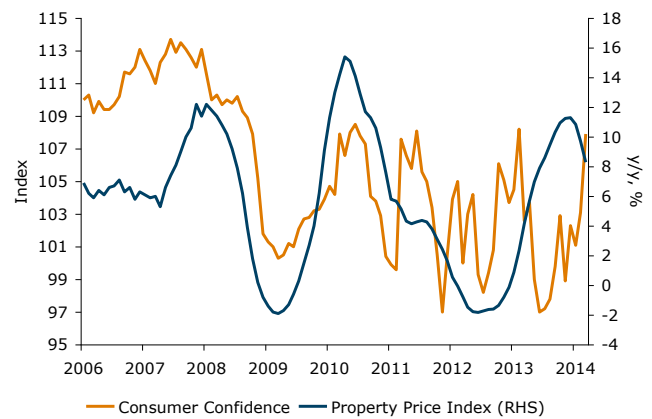
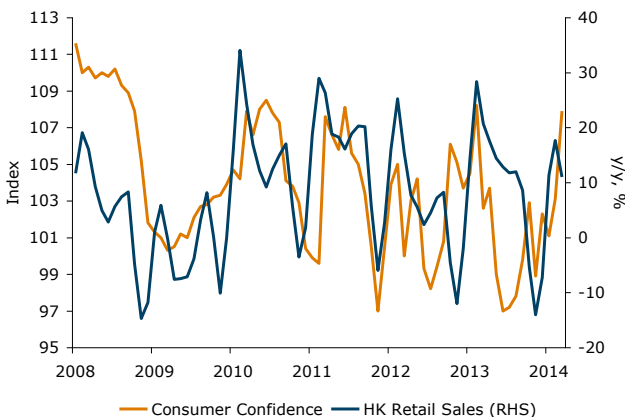
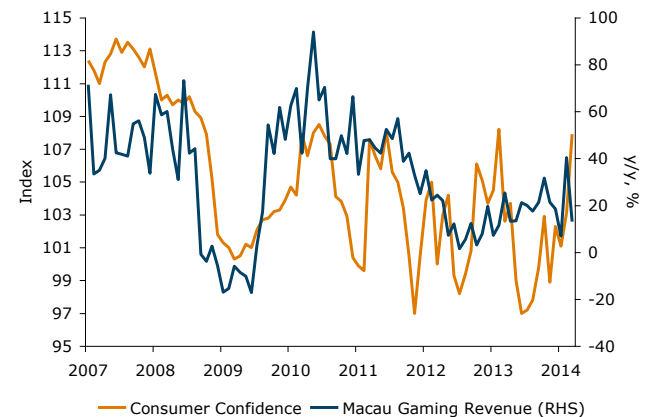
FIGURE 1. ANZ-ROY MORGAN CHINA CONSUMER CONFIDENCE INDEX**FIGURE 2. ANZ-ROY MORGAN CHINA INFLATION EXPECTATION**

Source: Roy Morgan, ANZ Research

FIGURE 3. ANZ-ROY MORGAN CHINA CONSUMER CONFIDENCE

		Jan 14	Feb 14	Mar 14	Apr 14	May 14
ANZ-Roy Morgan Consumer Confidence Index		147.1	155.5	148.9	152.6	152.5
Sub-Index						
1. Financial situation compared with a year ago	Balance	36.3	50.4	46.4	53.4	50.8
	Better off, %	45.6	54.8	52.3	59.5	57.2
	Worse off, %	9.3	4.4	5.9	6.1	6.4
2. Financial situation next year	Balance	57.0	60.2	50.2	55.0	54.5
	Better off, %	62.0	62.3	55.4	59.1	58.3
	Worse off, %	5.0	2.1	5.2	4.1	3.8
3. Economic conditions next year	Balance	49.7	62.1	59.2	62.4	58.5
	Good, %	58.3	66.7	66.7	69.6	66.8
	Bad, %	8.6	4.6	7.5	7.2	8.3
4. Economic conditions next 5 years	Balance	59.9	65.6	61.2	56.4	60.4
	Good, %	68.5	71.8	71.9	69.1	70.0
	Bad, %	8.6	6.2	10.7	12.7	9.6
5. Now a good time/bad time to buy major items	Balance	32.5	39.4	27.3	35.6	38.0
	Good, %	39.5	42.7	36.5	46.6	41.7
	Bad, %	7.0	3.3	9.2	11.0	3.7
Inflation expectation	%	5.2	5.0	4.4	4.5	4.0

Source: Roy Morgan, ANZ Research

FIGURE 4. NBS CONSUMER CONFIDENCE AND GDP**FIGURE 5. PBOC'S INFLATION EXPECTATION AND CPI****FIGURE 6. NBS CONSUMER CONFIDENCE AND CHINA'S RETAIL SALES****FIGURE 7. NBS CONSUMER CONFIDENCE AND PROPERTY PRICE****FIGURE 8. NBS CONSUMER CONFIDENCE AND HONG KONG RETAIL SALES****FIGURE 9. NBS CONSUMER CONFIDENCE AND MACAU GAMING REVENUE**

Source: NBS, PBOC, CEIC, ANZ Research

Note: Figures 4-9 show the association of historical consumer confidence of China released by National Bureau of Statistics (NBS) and their association with other economic variables. The NBS series has undergone some changes of methodologies since its launch in 1990s so an inter-temporal comparison of the same series requires caution.

SURVEY METHODOLOGY

OBJECTIVE

The ANZ-Roy Morgan Consumer Confidence Survey is a survey of China's consumer sentiment and expectations. The results are presented in the form of a headline Consumer Confidence Index and China's Inflation Expectation. As China is moving from an investment-led to consumer-led economy, consumer confidence has become increasingly important to the Chinese economy. Conventionally, economists rely on 'hard' economic data, such as retail sales, in assessing the sentiment of households. However, there are often time lags between the collection and release of data by the national statistical authorities. Therefore, ANZ and Roy Morgan have developed this consumer confidence survey and will release the results in the same month as the survey is conducted.

DATA COLLECTION

The survey elicits respondents' expectations of inflation and prices. Data is collected from samples of at least 1,000 people per month (12,000 per annum) by telephone. The survey is conducted in metropolitan and outer urban areas - not only are 1st, 2nd and 3rd Tier cities included, but Tier 4 cities are also surveyed every month. The robust, representative sample is stratified geographically, with quotas controlled by gender and age. Disaggregation is available by age, gender, household income, occupation, education, employment status and area. Data is projected to the Chinese population aged 14 or above.

SURVEY QUESTIONS

As opposed to other consumer confidence surveys, one distinctive feature of the ANZ-Roy Morgan survey is its elicitation technique. The questions ask about confidence in economic and financial situations – not about feelings. In the core consumer confidence survey, five categories of core questions relating to economic wellbeing, financial conditions, price level, and inflation expectations are asked.

CONSUMER CONFIDENCE INDEX

The ANZ-Roy Morgan Consumer Confidence Index is a diffusion index. The index indicates the relative strength of "good" versus "bad" or "better off" versus "worse off". The index is computed by taking the arithmetic mean of the net balances (% saying good minus % saying bad) of the five core questions and adding 100. It is a very transparent methodology. As the study is conducted consistently in every data collection, the change of the index can provide a good gauge of consumer confidence over time.

ANZ'S PARTNERSHIP WITH ROY MORGAN

Roy Morgan Research is one of the best known and oldest market research companies in Asia Pacific, with an unparalleled reputation for reliable, accurate, meaningful, and revealing market research. With more than 70 years' experience tracking most social trends in the region and the global recognition they have received for pioneering numerous new research methodologies makes Roy Morgan the perfect partner for ANZ in the Asia Pacific region. They offer a unique combination of rigorous and robust systems, which have been tested, refined and proven over almost three quarters of a century to ensure an absolute commitment to accuracy, truth and transparency meaning that Roy Morgan matters.

DISCUSSION BOX

TAPPING THE IMPENDING CONSUMPTION BOOM IN CHINA

ANZ has studied the trend of China's consumption intensively. The key findings are:

- China's private consumption was around USD3.3trn in 2013, almost as large as the German GDP. However, there is huge room for China's consumption to grow at a fast pace. China's private consumption represents only 36% of GDP, compared to the world average of 60%.
- As the nation strives to rebalance its economy, consumption will be boosted by a set of ongoing and expected structural reforms. The establishment of a universal medical insurance scheme and a minimum pension in the rural sector will substantially reduce precautionary savings and promote consumption. The rural land reforms will also transfer wealth from the state to village residents, creating an enormous wealth effect. Household earnings will be lifted by rising wages and labour productivity. Finally, e-commerce and the enhanced logistics network will entice consumers to spend more.
- A rebalancing in China means that consumption growth will soon outstrip GDP growth. By 2020, China's private consumption will represent 44% of China's GDP and will be around 70% of the size of the US consumer market, compared with today's 40%.
- China's rising middle class will help drive the consumption growth. Over the next few years, 100 million more middle-income households will enter the market, and their spending will make up two-thirds of total urban consumption, compared with just one-third in 2012.

FIGURE 1. CHINA'S CONSUMPTION IS ALREADY 40% OF THE US LEVEL

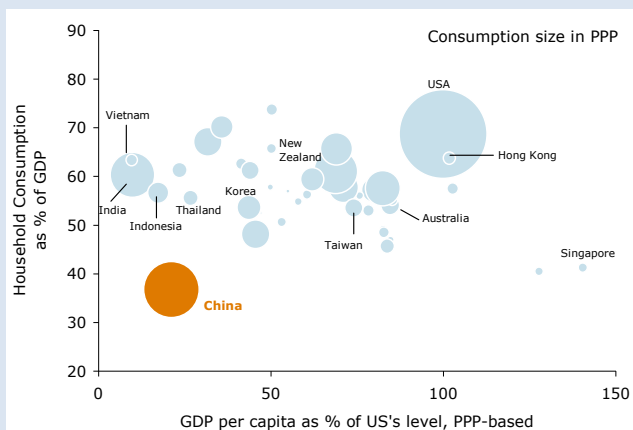


FIGURE 2. RETAIL SALES OF DURABLES VS NON-DURABLES

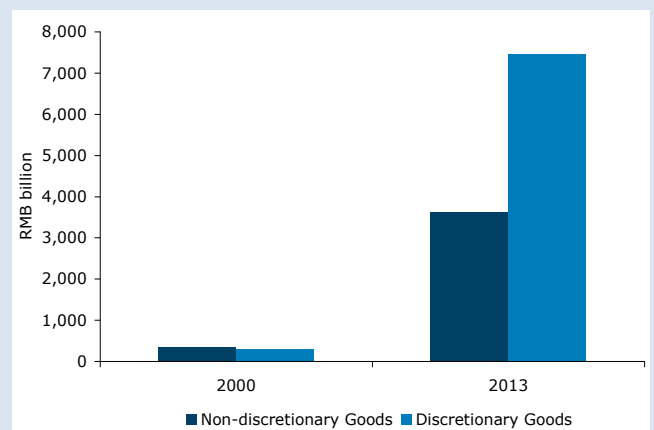


FIGURE 3. URBAN HOUSEHOLD SPENDING BY INCOME GROUP

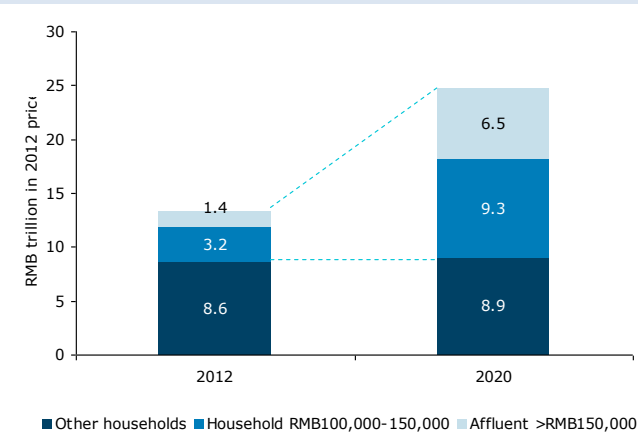
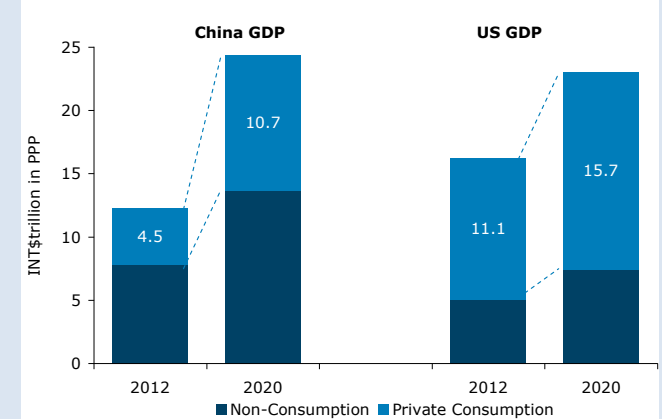


FIGURE 4. CHINA'S CONSUMPTION TO COME CLOSE TO US LEVELS



Source: CEIC, National Bureau of Statistics, World Bank, ANZ Research

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