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China – The wisdom of China's online crowds

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- Analysis of Google searches in China signals rising interest in buying a home
- Searches for 'buying a car' are down from their peak, but still high
- Interest in stocks has stabilised, suggesting some support for the market
- Search activity shows no clear line on the CNY and no interest in gold

What are the people of China thinking and feeling? How interested are they in buying a home or equities or a TV? Few things matter more to China's economy right now, as hopes for sustained growth rest partly upon private consumption holding its own as exports collapse. Economists have long recognised the importance of confidence (or, as Keynes put it, 'animal spirits') to consumer and corporate activity. China's leaders have made instilling public confidence a top priority, a decision that is evident in the local press and TV each day. But how do you measure it?

Discovering what China's public are actually thinking and feeling is tricky. But the ever-imaginative and solidly geeky folk at Google Labs have provided a new tool called Google Trends (<http://www.google.com/insights/search>) that allows you to view the number of Google searches for a particular search term over time. What people are Googling is probably a pretty good indication of what they are thinking about – and the more China's crowds search for information on fridges, cars, apartments, and stocks, the more likely they might be to buy them. With the right search terms, we should be able to track consumer sentiment over time. We lay out our eight findings below.

Before presenting our findings, though, some caveats. First, China's online population now numbers some 300mn. This is only 23% of the total population, and it is an urban-biased sample – only about 28% of Internet users live in the countryside, much less than the 56% share of the official population. The online population is undoubtedly younger and richer than the overall population. But that purchasing power is what retailers (and we, too) are interested in.

Second caveat: Google had only a 27% share of the China search market in the first three quarters of 2008, according to Analysys International, a consultancy. Baidu is still more popular, but it does not have these search analysis tools. And Google users are still substantial in number – 27% of 300mn is a sizeable population.

Caveats out of the way, we now need to explain how to read the numbers and graphs below. We did all of our searches for this report in simplified Chinese characters and limited them to China, unless otherwise indicated. We were able to measure searches for multiple items over time, and to measure searches by the locations in which they were made. So we could track the number of searches for Standard Chartered Bank by Internet users in Guangxi province (where we just opened a new branch), or we could measure searches



for Standard Chartered countrywide and see where the biggest interest is (the answer is Shanghai, followed by Shenzhen, by the way).

The Google Trends tool does not simply generate the number of searches made for a particular item. That would make little sense, as the number would increase as more households went online and as Google gained market share. Instead, the results show the number of searches for a particular term relative to the total number of Google searches done during that period. So all of our charts show the relative popularity of a particular search term over time. The numbers are then normalised and presented on a scale of 0-100. Thus, the peak shows the point at which the number of searches for a particular term was the highest relative to all other searches. To smooth out some of the volatility, we have averaged the data over four weeks, so the peaks in our charts do not total 100. But they still show where the peaks of interest are. Most of the numbers run to the end of February 2009 or to the first week of March.

So what does Google Trends have to tell us about China's economy? We have eight findings:

1. Interest in buying a home is rising, especially in Shanghai.
2. Interest in buying a car is off its peak of mid-2008, but is still respectably high.
3. Searches for foreign travel also peaked in mid-2008, and interest has since slumped.
4. People are increasingly searching for ways to save money, especially on phone calls.
5. Interest in buying a TV and fridge is still growing; it is declining for air conditioners.
6. Interest in stocks has stabilised after a brief run-up earlier in the year, suggesting some stability for stock prices.
7. There is no sign of a pickup in interest in gold.
8. Interest in CNY appreciation is concentrated on China's east coast; some people in Beijing are searching for CNY depreciation.

Homes: rising interest, especially in Shanghai

Google Trends suggests that nationwide interest in buying a property peaked in October, but that it recently approached those peaks again in many places, as Chart 1 shows. (We tracked searches for 'buy a home', '买房'). This supports the view that there is fundamental demand out there, but that buyers are waiting for prices to drop further, as reflected in low transaction volumes. Searches for 'home prices' (房价) remain at the same high levels they reached in mid-2007.

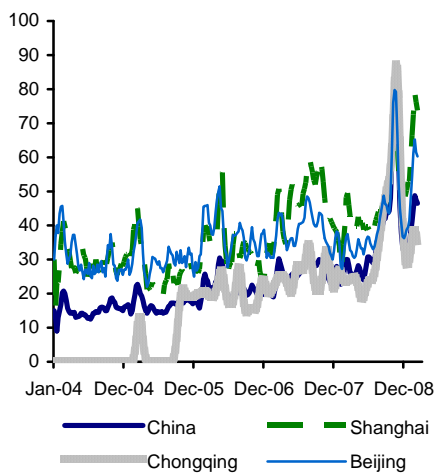
What about searches for 'buying a Shanghai home' ('上海买房')? Interest has never been higher, as Chart 2 shows. Most searchers for this term are in Shanghai. Over the past year, however, Taiyuan in Shanxi province had the second-biggest (relative) number of searches for 'buying a Shanghai home', and folk in north eastern Heilongjiang and Jilin were also been active. The coal barons of the north west are now considerably less cash-rich given the fall in coal prices, and re-running the geographical search for February 2009 alone shows only Shanghai-based searchers interested in buying a Shanghai property. That interest is running high, as Chart 2 shows. Interest in buying a home in Beijing and Tianjin is also high. Chongqing, in contrast, looks sluggish.

Of course, growing online interest does necessarily not mean an imminent wave of transactions. Nor does it mean prices will rise. But at least it suggests that buying a home is still very much on people's minds.

As an aside, searches for 'buying a home in the United States' ('在美国买房') were high last year. But after interest peaked in September 2008 (when it looked like US home prices had fallen enough and like everything was still OK in China), the number of searches has collapsed to basically zero since January 2009.

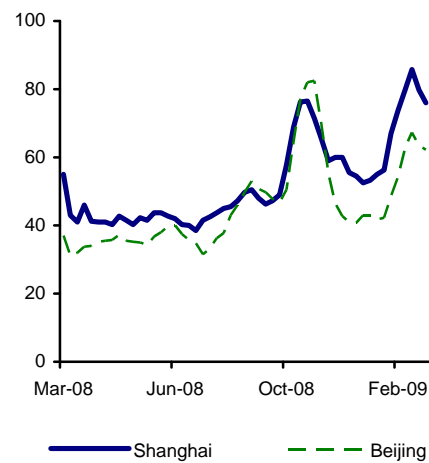


Chart 1: Searches for 'buy a home'
2004-present



Sources: Google, SCB Global Research

Chart 2: Searches for 'buy a home'
Last 12 months

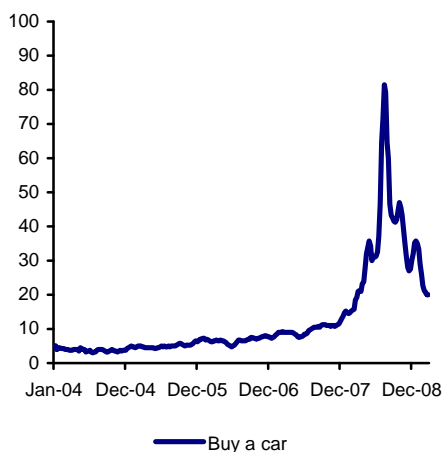


Sources: Google, SCB Global Research

Cars: interest is down from its peak, but still significant

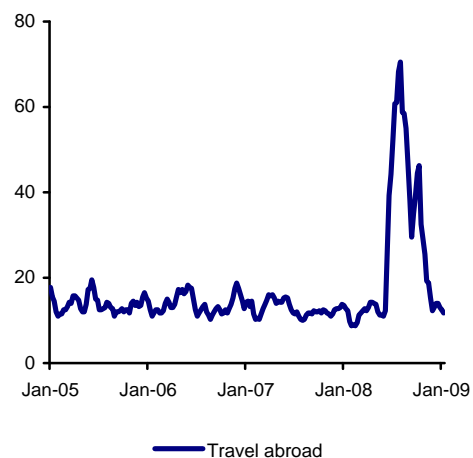
Searches for 'buying a car' ('买车') peaked in July-August 2008 after a tipping point was reached in January-February 2008, when there was an explosion of interest. Interest has declined since but remains above pre-March 2008 levels. In the last three months, searches for 'buying a car' have been concentrated mostly in northern China. The top five cities were Beijing, Harbin, Suzhou (the odd man out, since it is in the south, near Shanghai), Tianjin, and Jinan. Southern cities make up the majority of those ranked 6th to 10th. Passenger car sales have weakened since August 2008, falling in year-on-year terms during most months since then. This corresponds with the search data. However, February sales grew 24% y/y, partly thanks to tax cuts on smaller cars. This uptick was not caught in the search data.

Chart 3: Searches for 'buy a car'
2004-present



Sources: Google, SCB Global Research

Chart 4: Searches for 'travel abroad'
2004-present



Sources: Google, SCB Global Research



Searches for 'travel abroad' ('国外旅游') also peaked around mid-July 2008. These were the halcyon days of consumer confidence. Interest has since returned to normal levels, paralleling the drop in international air travel (which has fallen pretty consistently at rates of 18-20% y/y since August 2008). Looking at Charts 3 and 4, I would prefer to be selling cars than package holidays to Europe today.

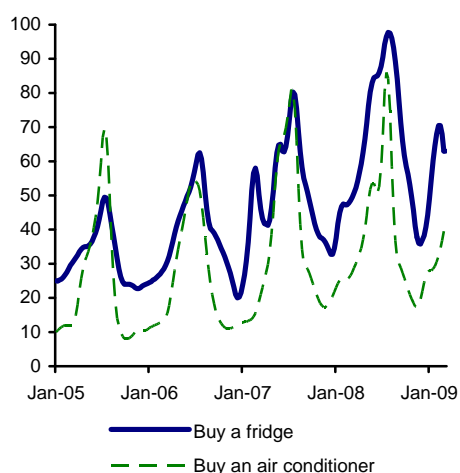
Consumables

Purchases of some white goods are evidently highly seasonal. Searches for 'buying a fridge' and 'buying an air conditioner' ('买冰箱', '买空调') rise during the summer, as Chart 5 shows. Both peaked in July 2008. For air conditioners, there was not much more interest in summer 2008 than in summer 2007 (which probably suggests sluggish sales growth), whereas interest in fridges continued to rise. Air conditioner manufacturers have indeed been having a hard time of it.

Searches for 'buying a TV' peaked in the second week of January 2009, as Chart 6 shows. This makes sense, since TVs are the kind of thing you take home for the family at Chinese New Year (which fell at the end of January). However, interest has been building quite steadily since 2008. The same goes for motorbikes.

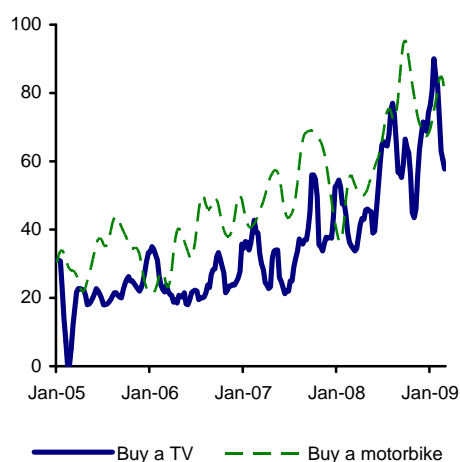
In short, the charts below paint a pretty positive picture for sales of these big-ticket items. As we have observed in previous notes, China's consumption today defies easy categorisation. Some products seem to be selling fine, others less so; some parts of China are still doing very well, others less so (the coastal region seems to be bearing the brunt of the current slowdown). It is worth keeping an eye on these charts. A downward turn would probably signal falling interest and therefore sales.

Chart 5: Searches for 'buy a fridge' and 'buy an air conditioner'
2005-present



Sources: Google, SCB Global Research

Chart 6: Searches for 'buy a TV' and 'buy a motorbike'
2005-present



Sources: Google, SCB Global Research

Finally, perhaps a leading indicator of consumer sentiment: searches for 'saving money' ('省钱') are on the rise. Folk are searching especially actively for 'saving money on phone calls'.



The stock market

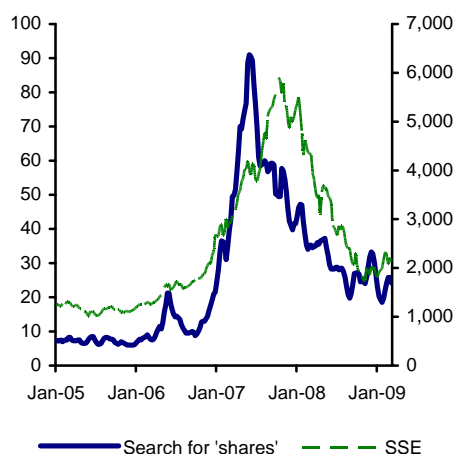
Does the wisdom of the online crowds extend to the stock market? Given that the Internet is a huge source of market commentary and stock information for millions of retail stock pickers, we think so. We tracked searches for 'stocks' ('股票') and plotted the results against the Shanghai Composite Index in Chart 7. The results are pretty cool, we think. The bull market which began in H2-2006 was preceded by a sharp uptick in searches. The peak in searches during the week of 25 May 2007 was a strong and early 'sell' signal. After that, interest collapsed. Some 20 weeks later (on 12 October), the SSE composite hit its peak, and then collapsed too. We guess all that search activity may have been indicating more and more people and money coming into the market, fuelling a speculative bubble. Once search activity peaked, only momentum was carrying the index higher. That momentum was able to sustain the rally for 20 weeks; when prices fell, there was little to support them. The lack of searches since May has shown a lack of support for equities... until recent weeks.

What has happened recently is interesting. The number of searches on stocks stabilised at the end of August 2008, which came ahead of stock prices finding a floor – two months later, in October-November 2008, the SSE stabilised. The number of searches then bounced back up in December. And lo and behold, we have experienced a mild (17%) rally off the low. Recent search activity suggests some stability at these levels.

The search function also allows us to identify which parts of China are the most stock-crazy. No prizes for guessing the winner. Since 2004, Shanghai has been home to the highest number of searches for 'stocks' relative to other search items. Beijing has the second-biggest interest. Shenyang in the north east and Lanzhou in the north west also rank in the top five, suggesting that this is not just a coastal obsession.

Chart 7: Buy and sell signals

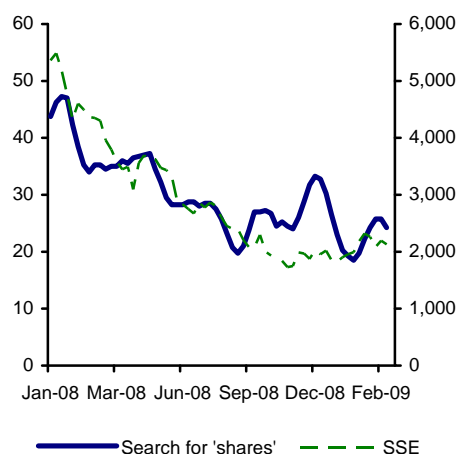
2005-present



Sources: Google, SCB Global Research

Chart 8: A closer look

Jan-08-present



Sources: Google, SCB Global Research

Gold

Are the online masses gold bugs to boot? It does not appear so. As Chart 9 shows, searches for 'gold' are not high or showing signs of growing, either nationwide or in Shanghai.

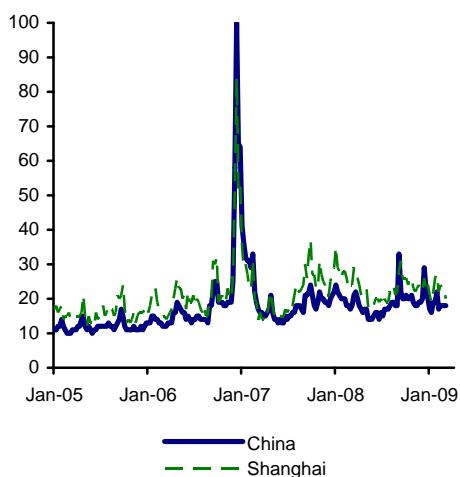


The currency

The online crowds have little to say about the currency. As Chart 10 shows, searches for 'CNY appreciation' ('人民币升值') peaked in July 2005, and have been at a low level since. As for 'CNY depreciation' ('人民币贬值'), search activity has been muted (the chart shows searches for this term relative to 'CNY appreciation'). Interest picked up briefly in mid-December 2008 and then died down.

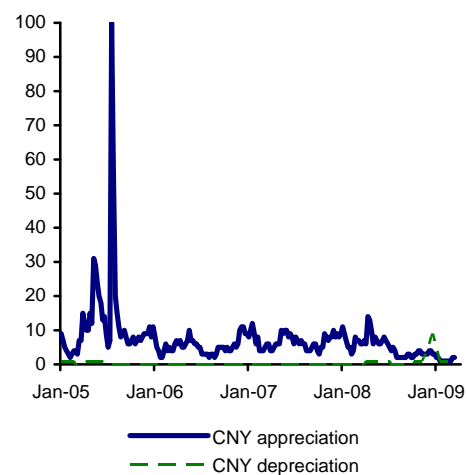
Exporters on the east coast (and their employees) have apparently been the most preoccupied with CNY appreciation – search levels have been highest in Ningbo, Shanghai, Xiamen, Hangzhou, and Shenzhen. However, Beijing came first in searches for 'CNY depreciation'. We are not sure why. Might it suggest that sometime in mid-December 2008, depreciation gained relevance as a policy idea? Unfortunately, we cannot narrow the search data to the government headquarters of Zhongnanhai.

Chart 9: Searches for 'gold'
2005-present



Sources: Google, SCB Global Research

Chart 10: The CNY
2005-present



Sources: Google, SCB Global Research



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