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ONE US\$ DEQUALS

▼ RMB 6.3684

▼ HKD 7.7537

▲ JPY 78.11

▲ EUR 0.8122

▼ GBP 0.6392

▲ AUD 0.9492

▲ INR 55.52

▲ CAD 1.0005

▲ KRW 1126.66

■ THB 31.45

▼ BRL 2.0558

New evidence of price rises

Government
vows firm stance
on cooling the
property market

By ZHENG YANGPENG
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China's new-home prices exhibited their biggest gain last month since June 2011, according to a report released on Wednesday by SouFun.com, a real estate website.

Responding to the news, many experts said the increases are likely to continue in the coming months but proceed at a slower pace.

The prices of new homes increased by 0.3 percent from June to July, rising to 8,717 yuan (\$1,370) for each square meter of space. The month before, the increase rate had been 0.05 percent.

The increase in June ended consecutive drops seen in the nine previous months. Those decreases were the result of policies adopted by the central government to control the real estate market, including a restriction that prevented people from buying more than one house.

Of the 100 cities SouFun looked at, the home prices in 70 were up from the month before. In 10 large cities, the prices of new homes registered a slightly milder increase of 0.27 percent.

Prices in Chongqing showed an increase of 1.57 percent, and those in Beijing and Shanghai saw a 0.03 percent increase.

"It is very clear that China's property market is coming back," Vincent Mo, chairman of SouFun, was quoted by Bloomberg Television as saying. The back-to-back monthly increases "showed a turning point in China's property prices," he said.

Not everyone thinks the trend will last. Hu Jinghui, vice-president of the housing agent 5i5j Real Estate Agent Co Ltd, said the value of housing transactions could tumble in the second half of the third quarter. He said the boom in sales may have met the genuine demand



Potential homebuyers learn about a real estate project in Qingdao, Shandong province. New-home prices rose 0.3 percent in July in 100 cities to an average of 8,717 yuan (\$1,370) per square meter, according to a report.

for housing that had existed, adding that the current sales momentum will be difficult to sustain.

But Gu Yunchang, vice-president of the China Real Estate Association, said a large amount of unsatisfied demand still exists. "Property markets in China vary from place to place," Gu said. "Sales in large cities heat up quickly and then cool off just as quickly. But even as markets cool in large cities, the void that creates will quickly be filled by sales in medium-sized and small cities, which respond slower to market changes."

The increase in prices, as well as faster sales, have alarmed the central government, which fears some of its recent macroeconomic easing may have given markets the wrong message.

To spur China's economy, the central bank cut the country's interest rates twice in a month. Meanwhile, various local governments have adopted "fine-tuning" policies, decisions that have also given rise to speculation that property markets will soon be subjected to looser rules.

Central authorities have responded to the speculation with repeated pledges to keep the government's property policies firmly in place. Late last month, the State Council sent eight teams to 16 municipalities and provinces to determine how well the policies are being enforced.

"The government will prevent housing prices from rebounding, increase the supply of affordable residential houses and put more toward the construction of low-price houses," according to an official announcement released after a meeting on Tuesday chaired by President Hu Jintao.

Gu said the chances are slim that property prices will increase rapidly in the second half of the year, especially since the government's property policies continue to be in place and a large number of houses remain unsold.

"I think this mild price increase is acceptable to the central government," Gu said.

Yiwu's predicament Despite the recent rebound in sales and prices, the current property restrictions have already led to plunges in some

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VICE-PRESIDENT OF THE CHINA
REAL ESTATE ASSOCIATION

local governments' incomes, much of which come from fees charged on land sales.

In some cases, officials have responded by relaxing the restrictions, often doing so in secret. On Tuesday, the media reported that the government of Yiwu, a city in Zhejiang province, ceased imposing purchase limits on houses at the beginning of the year.

In March 2011, the Yiwu government stipulated that city residents could buy no more than a single new house from March 21 to the end of the year.

Yiwu is among 46 Chinese

cities that set limits on housing purchases in 2011.

In Yiwu, the limit was not extended after 2011, although the central government has asked local governments that have adopted the restrictions to keep them into 2012.

A day after the reports about Yiwu emerged, a local official said the city's restrictions had not been "canceled." Rather than that, he explained, no new policy has been adopted to replace the old one. Asked why it took seven months to devise something new, the official said the process of crafting such a policy was "sinuous."

Gu said Yiwu's tardiness should be considered in the light of its fiscal situation. In the first half of the year, the number of house sales that took place in Yiwu decreased by 20 percent year-on-year.

The sharp decline could seriously reduce the amount of revenue the Yiwu government collects. A report by the Chinese Academy of Social Sciences estimated that local governments obtain between 40 and 60 percent of their income from the fees they charge on land sales.

Rural consumer confidence beats big city levels

By WEI TIAN
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Consumer confidence in China's biggest cities rallied in the second quarter of the year, reaching its highest level in nearly three years, spurred by improving job prospects, better personal finances and a greater willingness to spend, according to a survey.

But it was rural consumers who remained the most optimistic, said Nielsen, the global information and measurement company which carried out the analysis.

The results for China were contained in a world survey that polled more than 28,000 consumers in 56 countries. The findings showed that China's consumer confidence was significantly ahead of global sentiment.

Consumer confidence levels above and below a baseline of 100 indicate degrees of optimism and pessimism.

The Chinese findings showed the consumer confidence index for first-tier cities was the only regional sub-index to rise quarterly — but the bounce to 107 from 101 in the first three months of the year still left China's biggest cities lagging behind their rural cousins, which remained the most optimistic with a confidence index of 113, 8 index points above the national average of 105.

Job optimism

Year-on-year, rural confidence increased 3 index points.

Chinese consumer confidence decreased 5 index points during the quarter, yet was still a clear 14 points above the global average of 91.

"After a few consecutive quarters of increases in consumer confidence, it is reasonable to see some pullback," said Yan Xuan, president of Nielsen Greater China.

"Confidence cannot increase indefinitely, especially in light of the current global economy and the ongoing European debt woes as well as their impact on China's export growth.

"But over time, the Chinese government's efforts to transform China into a consumption-led economy will pay off for the country."

Consumers in rural Chinese areas indicated the greatest confidence about their employment prospects (92 percent) followed by consumers in first-tier cities, where 52 percent of consumers were bullish about their job prospects in the next six months, 7 points up from the previous quarter.

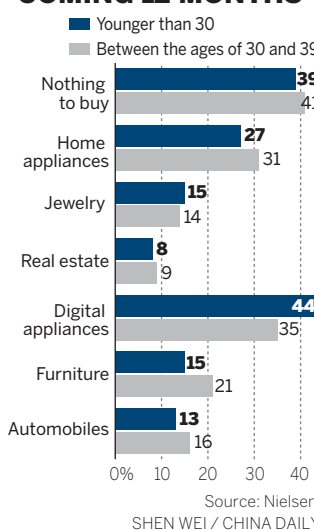
In contrast, consumers in second-tier cities were the least optimistic and exhibited below average confidence about their employment prospects.

"Affected by the global economic downturn, the weak manufacturing and export sectors led to poor job prospects for consumers in lower-tier cities, especially in second-tier cities," Yan said.

"In first-tier cities, job growth in the service industry boosted consumer confidence in their job expectations."

Consumers in first-tier cities remained the most optimistic about their personal income,

WHAT CONSUMERS PLAN TO BUY IN THE COMING 12 MONTHS



showing a 7 point increase to 71 percent compared with 64 percent last quarter, followed by consumers in rural areas, who posted 70 percent.

Slower economic and job growth led to lower income expectations in lower tiers, said Yan, who explained that the rise in first-tier income expectations was probably the result of better employment prospects, combined with a lower consumer price index.

Consumers in first-tier cities were the most willing to spend (48 percent) compared with 40 percent a year ago, followed by consumers in third- and fourth-tier cities (37 percent).

Lian Ping, chief economist with Bank of Communications, said the warming of the property and car markets helped restore consumption increase in July.

"As prices continue to retreat in the third quarter, together with more incentives introduced by local authorities and the gradual advancement of income distribution reforms, social consumption growth will pick up in the second half," Lian said.

According to the survey, consumers between 30 to 39 years old were more confident in the economy than younger consumers for the first time since the fourth quarter of 2011.

Digital wish lists

Digital and home appliances, and furniture were at the top of consumers' shopping lists, for both the younger demographic and the 30-39 age group.

Forty-four percent of Chinese consumers younger than 30 are planning to buy digital appliances, while 35 percent between 30 and 39 had them on their lists.

Dale Preston, senior vice-president of Nielsen Greater China, added that total sales of fast-moving consumer goods in the second quarter increased by 17 percent year-on-year.

"We see sales in categories like chocolate and confectionaries both increasing at above 23 percent year-on-year — showing that despite the decline in confidence, consumers in China still like to indulge themselves.

"Lower-tier cities also continue to be an important area of interest. Even though the pace of sales has slowed in lower tiers and rural areas, they still represent significant current business. Continued investment is essential for long-term success."

New bank rate rules change saving habits

By WANG XIAOTIAN
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Liu Yuqi, 58, a retired teacher, has moved part of her deposits from a major State-owned lender to the Bank of Nanjing for the better interest rate, although her son sneered at her enthusiasm about finding a "tiny" difference.

FOCUS

Like Liu, 1.3 billion Chinese, well known for their saving habits, got different rates to choose from after the central bank in June allowed lenders to price deposits higher than benchmark rates for the first time.

They don't have many alternatives, as prices were divided into two camps — 1.1 times the benchmark offered by joint-stock and smaller lenders, and 1.08 times the benchmark priced by major State-

owned banks — but "it can be a good start", Liu said.

A senior executive surnamed Li at the Beijing branch of Bank of China Ltd. acknowledged that the difference in rates is minuscule.

"Most of the depositors are still waiting to see what will happen next because the current difference in rates is too small. For now, we haven't seen a lot of deposit draining," Li said.

The People's Bank of China in June gave lenders permission to set deposit rates up to 1.1 times the benchmark rates.

Thirsty for capital, small and medium-sized lenders set their rates for deposits to the ceiling immediately after the formal announcement went into effect, while major State-owned banks were more conservative, setting the deposit rates at 1.08 times the benchmark rates.

Savings started to drain from banks as wealth management products, funds and trust businesses grew in popularity with depositors. This year, two of the first five months have witnessed year-on-year declines of deposit increases among commercial lenders.

In the first half, outstanding yuan deposits stood at 88 trillion yuan (\$13.82 trillion), up by 12.3 percent year-on-year. The pace was 1.2 percentage points lower than six months earlier.

While money paid for deposits increased, banks' interest rates for loans are facing downside pressure as lower limit of lending rates was reduced twice.

Banks were also allowed to set the interest rates charged on their loans at or above 80 percent of the government's benchmark rates, down from

the previous 90 percent.

Later in July, the central bank further reduced the lower limit of lending rates to 70 percent of the benchmark rate, but leaving the upper limit of deposit rates untouched.

Li Daokui, a former adviser to the central bank's Monetary Policy Committee and a professor at Tsinghua University, said earlier that more expansion of the allowed range around the benchmark rates will follow.

Morris Li, president of China Guangfa Bank Co Ltd, said the timing of such moves was "very smart", although the liberalization came earlier than expected.

"Freeing rates while cutting them grants a buffer to the lenders as well as clients so that they could have more time to get adjusted," Li said.

Most Chinese banks are scrambling for deposits to

meet the China Banking Regulatory Commission rules that require they keep loans to a certain proportion of their respective deposits.

Banks' profits will show "obvious" declines this year as economic growth slows, credit demand softens and net interest margins narrow, said the China Banking Association earlier in July.

The pressure generated from more liberalized interest rates will mainly go to the corporate banking sector. "And surely the spread will continue to fall in the future," Li said.

The banking association said regional small and medium-sized lenders probably cannot stand the crush of a much-narrowed spread, and will become a "short board" for interest-rate liberalization.

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