LIES, DAMNED LIES, AND CHINESE STATISTICS

23rd January 2017

After achieving GDP growth of a scientifically-precise 6.7% in each the first three quarters of 2016, China recorded 6.8% in the December quarter, making 6.7% for the calendar year. This outcome was squarely in the middle of the official target range of 6.5% to 7.0% for GDP growth under the Thirteenth Five Year Plan (covering 2016 to 2020).

There is a widely held opinion that Chinese statisticians work more magic than Harry Potter. Back in 2007, the current Premier Li Keqiang remarked that he avoided official statistics and preferred to look at underlying data such as electricity consumption and bank lending. Many researchers have also developed their own measures of the Chinese economy.

The anti-corruption crackdown has led to confirmation that provincial officials fudge the numbers that they report. In December 2016 the Director of the National Bureau of Statistics admitted that falsification of statistics was not uncommon, and this month the governor of Liaoning Province stated publicly that his predecessor (now in jail) encouraged provincial officials to overstate their reported figures between 2011 and 2014.

Part of the problem is that China's methods for collecting and verifying statistics are simply not as good as those of Western countries, who have been improving their processes for a century or more. China had no statistical service worth the name during the Maoist era, and the government is still not spending enough on data collection and analysis to generate accurate estimates for a USD 11 trillion economy of 1.3 billion people. For example, countries such as the USA and Australia produce a preliminary estimate of GDP six weeks after the end of each quarter, then they refine this estimate over the following couple of months. China, by contrast, releases a single estimate of GDP three weeks after the end of each quarter and never revises it.

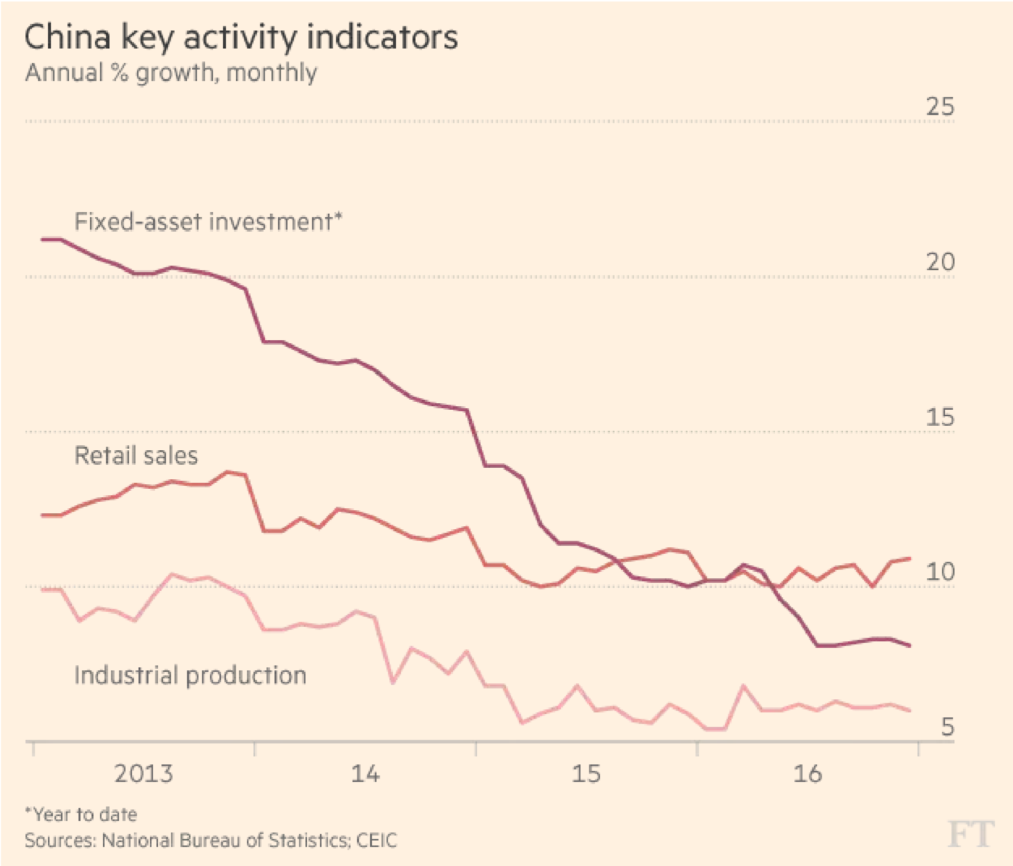
The core of the problem, however, is China's legacy as a centrally planned economy. Until recently, provincial officials were expected to meet GDP growth targets for their provinces, and their future careers depended on meeting these targets Not surprisingly, officials in every province reported statistics which showed that they had exceeded their targets. There is also an estimate for national GDP growth which the Bureau of Statistics produces from data which it collects independently. Year in, year out, the aggregate of the provinces' reported figures for GDP growth is about 10% higher than the National Bureau of Statistics estimate.

In fact, some provincial officials are so keen to show that they have met their targets that they don't bother waiting until the end of the year. For example, the provincial government of Tibet announced on 31 December 2014 that its 2014 GDP growth rate was 12.0%.

The central government's anti-corruption campaigns have brought to light many examples of falsifying statistics. For example, in 2016 all the senior officials of the city of Suzhou were punished for simply inventing 5.0 billion renminbi worth of investments and 1.8 billion renminbi of government revenue. It is possible that the threat of painful consequences may result in an improvement of the quality of Chinese statistics.

Outside China, a great deal of effort has gone into identifying the specific defects of official statistics and producing better estimates. Most researchers believe that the true figures for GDP growth are between 1 and 2 percentage points lower than the official figures. But this does not explain how each quarter's GDP figures can miraculously come in so close to the official target – 6.7% in each of the March, June and September quarters this year, then 6.8% in the December quarter! Expert opinion tends to the view that this is accomplished by fiddling with the GDP deflator, which is the variable used to adjust consumer and producer prices so as to back out the effects of inflation.

Assuming that you believe the official figures, you can rest assured that the composition of GDP growth met market expectations. The government's stimulus to residential property was the main driver of the economy, with the volume of property sales up 22.5%, confirming that the supply overhang of housing is being cleared. Chinese consumers are still keen to spend – retail sales rose 10.9% in December. The services sector continues to expand, with 2016 growth of 7.8%, compared to a lethargic 6.1% from the industrial sector. Fixed asset investment, which is China's measure of total capex, came in at 8.1%, its lowest level since 1999. Debt is still growing faster than the real economy – credit growth, known as "total social financing", rose by 11%.



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Sources:

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Financial Times

National Bureau of Statistics