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China's True Growth Is a Mystery; Economists Weigh the Clues

Official first-quarter GDP growth of 7% is overstated, experts agree, but pinning down the real number is a head-scratcher



<http://www.wsj.com/articles/chinas-true-growth-is-a-mysteryeconomists-weigh-the-clues-1430071125>

A woman working at a textile factory in Hebei province this month. *PHOTO: ZHU XUDONG/XINHUA/ZUMA PRESS*

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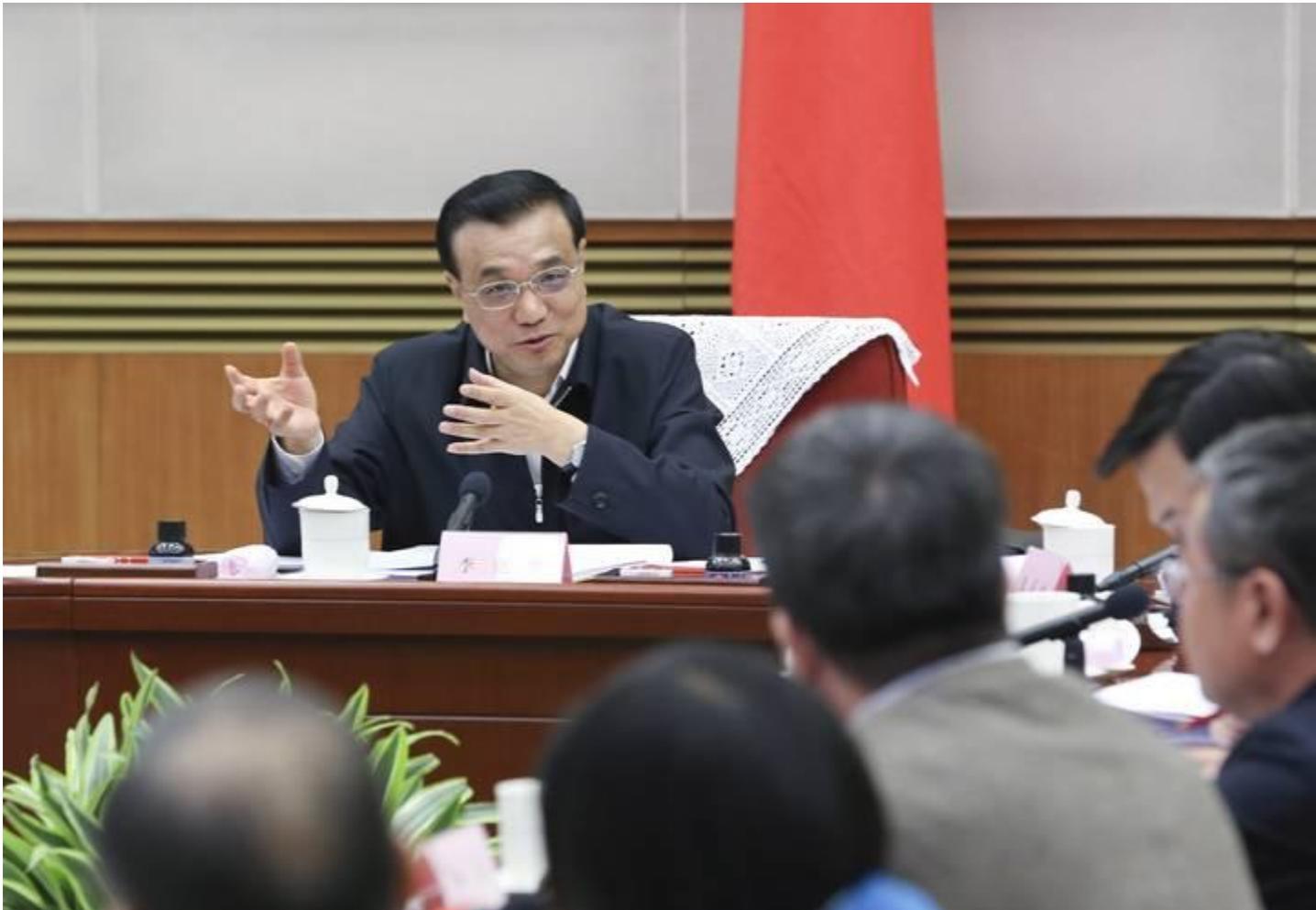
When China released its [tabulation of first-quarter growth](#) earlier this month, the 7% figure—the worst in six years—stirred fears of a deepening slowdown.

It also raised fresh doubt about the trustworthiness of China's own statistics.

"Growth Likely Overstated," said a Citibank report, concluding that actual quarterly growth could be below 6% year to year, depending on the factors weighed. Other research firms put their numbers far lower, with Capital Economics pegging the quarter at 4.9%, the Conference Board's China Center at 4% and Lombard Street Research at 3.8%.

Efforts to discern China's actual growth rate have kept economists pinned to their calculators for years, and for good reason.

For one, the figures are suspiciously smooth, with none of the sharp gyrations seen in the U.S. or other economies. The methodology often appears inconsistent or contradictory. Also, no one knows how China accounts for inflation when tabulating its gross domestic product.



ENLARGE

Premier Li Keqiang at a symposium on China's economic situation earlier this month. *PHOTO:DING LIN/XINHUA/ZUMA PRESS*

Then there are the many ways China's GDP figures appear to clash with other data points considered more difficult to manipulate. Economists point to the discrepancy between headline GDP growth and industrial production, often seen as a proxy for growth, which grew by 5.6% year to year in March—its lowest level since late 2008.

This came amid weaker recent readings for electricity consumption, investment, industrial profits, manufacturing output and real-estate investment, among others.

This dissecting of the official growth numbers received the roundabout backing of Premier [Li Keqiang](#), who in 2007 as Communist Party chief of northeastern Liaoning province criticized China's GDP numbers as “man-made and therefore unreliable,” according to a memo by the U.S. ambassador at the time, later released by WikiLeaks.

Mr. Li said he found electricity output, rail cargo and bank loans more trustworthy, according to the memo, which has since inspired financial institutions to create their own versions.

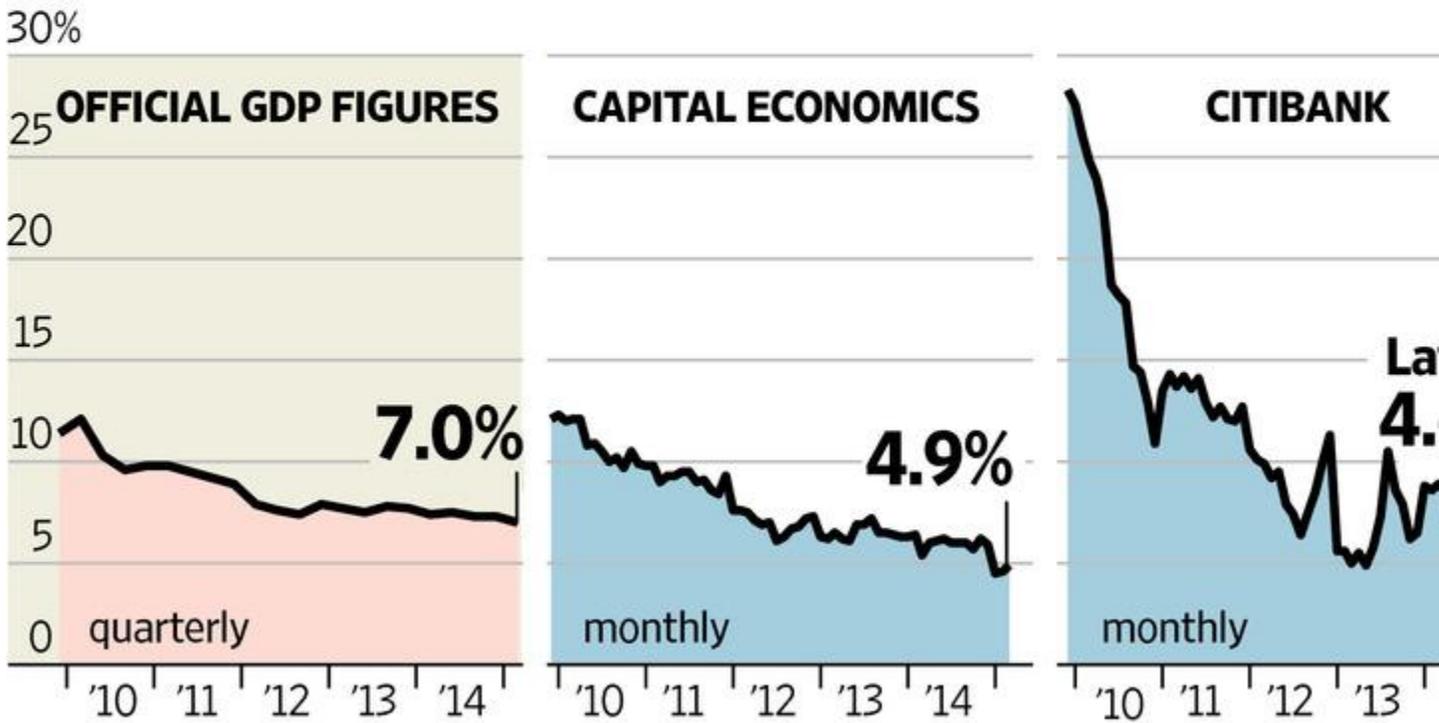
China is hardly alone among emerging countries in releasing questionable statistics. But Beijing has come under particular scrutiny because of the size and importance of its economy and the hunger that a growth-starved world has for genuine output.

There also is suspicion the shortcomings involve willful doctoring rather than data-collection problems common to India and other developing countries.

Guessing Game

Statistical irregularities leave economists pondering China's actual growth

China's GDP growth, change from a year earlier



*Preliminary Sources: China's National Bureau of Statistics (official GDP); economist estimates

Most economists say China's National Bureau of Statistics has become more professional in recent years, considering its limited bureaucratic clout and skimpy budget.

As China's economy pivots away from heavy manufacturing, the bureau has struggled to better reflect the growth contribution from services and consumption over production, the traditional focus, economists say. And it has tried to rely less on data from local officials with an interest in inflating growth to secure promotions.

"Local exaggeration is not the problem it once was, though I assume it is not eradicated," said Nicholas Lardy, a senior fellow at the Peterson Institute for International Economics.

The statistics agency hasn't helped its case. It doesn't explain its methodology or inflation assumptions, and many of its calculations are difficult to reproduce, economists contend.

The statistics agency and the National Development and Reform Commission, China's top economic planning agency, declined to respond to questions.

How the agency obtains GDP figures is "anybody's guess," said Hong Kong University of Science and Technology economics professor Carsten Holz, author of [a paper on the quality of China's GDP statistics](#), citing what he calls an "atrocious lack of transparency."

Suspicion centers on two major issues: How willful is the fudging, and does China have a second set of books so leaders know what's "really" going on?

China has an incentive on both counts. Because it is a one-party state, economic growth takes on oversized importance as a way to prevent social instability that could loosen the party's grip on power. At the same time, it needs accurate information to plan and even route subsidies to groups that could fuel dissent.

There is no evidence that the Communist Party has a separate set of books, said Harry X. Wu, professor at Japan's Hitotsubashi University and special adviser to the Conference Board.

The fudging question is more difficult to assess, economists say. The Federal Reserve Bank of San Francisco in [a 2013 study](#) that compared China's GDP figures with a range of domestic and foreign data concluded that actual growth was broadly in line with the official numbers.

Ultimately, said Mr. Holz, China's statistic agency is headed by party cadres and not above adding a touch to its growth figures to reach the politically desirable 7% figure.

"I wouldn't take the 7% figure too seriously," Mr. Holz said.

Others believe the number is much further off.

"I have to laugh at the official estimates of 7% first-quarter GDP growth. I think that's completely out of line," Mr. Wu said.

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