

How Much Is China's Economy Really Slowing?

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It is now an accepted fact that China's economy is slowing. It has been well publicized that the country's annual GDP growth rate has fallen to a level unseen since 1990 and that the world's second largest economy has finally slowed — to say otherwise is blasphemy.

But how much is China's economy *really* slowing?

The metric that is most commonly used in the media to gauge China's macroeconomic movement is year-on-year GDP growth rate — meaning the percent deviation that the economy has grown this year over the same point last year. While certainly this is metric that can help provide a picture of what is happening in China's economy, its importance has been severely overrated. Matthews Asia investment strategist Andy Rothman even referred to it as “the least important Chinese statistic.”

While China's year-on-year GDP growth rate has stagnated over the past few years, the sample size that this metric measures deviation from gets larger every year. So one percentage point of GDP growth in 2016 requires more economic output than one percentage point of GDP growth did in 2015 — and one percent growth ten or fifteen years ago is but a fraction of what one percent growth requires today.

As Rothman put it:

The base effect is also worth noting: the size of the incremental expansion of the Chinese economy in 1H16, when the growth rate was 6.7%, was roughly the same as the addition to the economy five years ago, when the GDP growth rate was 10.1% (in local currency terms, at constant 2010 prices). In other words, the opportunity for selling goods and services to Chinese at the slower growth rate this year was just as big as the opportunity five years ago, at the faster growth rate.