



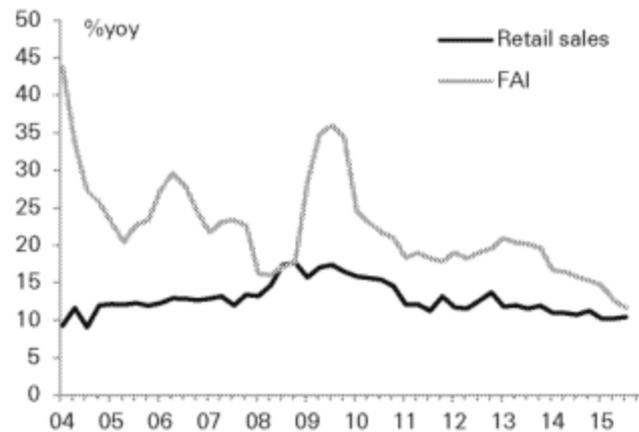
The evolution of GDP growth as reported by the government is well-known: a sharp slowdown in the early 1990s after a tightening of monetary policy to combat high double-digit inflation followed by a re-acceleration of (less inflationary) growth in the 2000s driven by the opening up of the economy and the explosive growth in exports and investment. The economy was clearly overheating in the immediate pre-GFC years but that external crisis drove growth sharply lower in 2008 until the very aggressive monetary policy expansion took effect late in that year and through the first half of 2009. That stimulus limited the downside in growth to 9.4% in 2008 and 9.2% in 2009 and took growth up to 10.6% in 2010 before the stimulus was reversed – broad credit growth peaked in 2010Q4 and slowed back to pre-crisis growth rates within a year. That negative credit impulse followed immediately by a return to recession in the US and Europe saw Chinese growth fall to 7.7% in 2012 – the slowest growth since 1999. That growth rate was repeated in 2013 and last year saw growth ebb further to 7.4%. During the first half of this year, the government has reported 7.0% GDP growth, exactly in line with its target for this year.

Figure 1: Real GDP growth China



Sources: CEIC and Deutsche Bank Research

Figure 2: Real retail sales and fixed assets investment



Sources: CEIC and Deutsche Bank Research. Note: We construct an FAI price index from the level of the corporate goods price index in 2013 (a year of relative stability in prices) and the yoy change in the FAI price index published by the authorities. That index is then used to calculate a ytd yoy change in prices to deflate the nominal FAI ytd growth rate.

That narrative is reflected in the evolution of monthly retail sales and fixed assets investment data, which we report in Figure 2 adjusted for price changes. Consumption growth was generally rising in pre-crisis years but surged during the stimulus period. Growth dropped sharply in 2010-11 and has slowed a little over the past couple of years. The FAI data show the dramatic surge in investment during the GFC and the quite considerable slowdown over the past two years. Not shown are exports which by common acknowledgement grew exceptionally quickly in the pre-GFC years and very slowly, if at all, over the past year or two.

The lighter coloured line in Figure 1 is a measure of China's potential growth rate obtained from the Hodrick-Prescott filtered seasonally adjusted GDP series. This suggests that potential growth today is just under 7% and slowing at a rate of about 0.5% per year. As Maliszewski and Zhang (2015) observe, a

rising importance of services, for example, in the economy. See Harry X. Wu, "China's Growth and Productivity Performance Debate Revisited – Accounting for China's Sources of Growth with a New Data Set," The Conference Board EPWP #14-01, January 2014. An even more exhaustive reconstruction of GDP data by Rosen and Bao (2015) concludes instead that GDP growth as reported by the authorities seems about right. Rosen and Bao's main interest, though was in measuring the size of the economy, which they estimate is at least 10% larger than the government currently reports. See Daniel H. Rosen and Beibei Bao, "Broken Abacus" A More Accurate Gauge of China's Economy," Center for Strategic International Studies, September 2015.