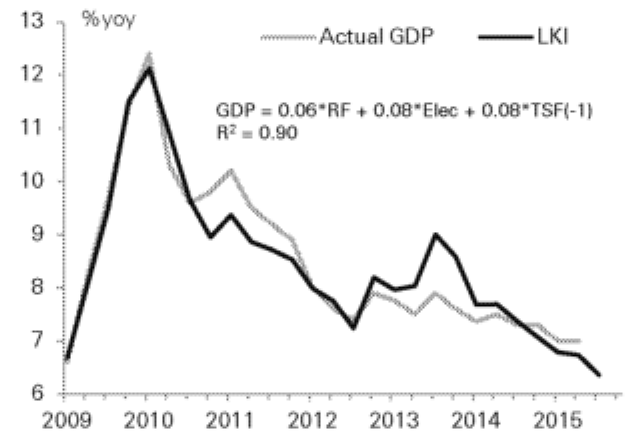
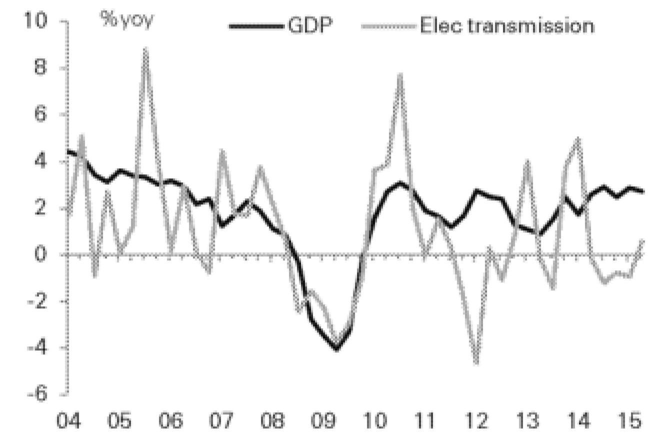
Figure 12: Li Keqiang Index and GDP growth



Sources: CEIC and Deutsche Bank Research

Figure 13: Electricity transmission and US GDP growth



Sources: CEIC and Deutsche Bank Research

These variables are surprisingly good at tracking GDP growth although it helps that rail freight and electricity consumption are highly correlated – because so much of what is shipped on trains is coal for electricity generation. These data do point to growth coming in below 7% in Q3; 6.4% would be the point forecast. In fact, GDP growth has been a little higher than the LKI in the last three quarters. But it was well below the LKI in 2013: more evidence of a tendency to smooth out the peaks and troughs?

Some commentators have argued that the fact that electricity consumption in China has grown at only about 1% over the past three quarters is evidence of gross over-statement of Chinese growth. Figure 13 plots the same relationship for the US. Electricity transmission growth has been negative for most of the last two years. We point this out not to imply that US growth is overstated, only that electricity consumption is not a good indicator of GDP growth.

Upside risks to growth

We think growth could pick up a little in Q4 as fiscal stimulus kicks in. Government spending has picked up strongly in recent months following earlier announcements about accelerating infrastructure investments and other stimulus measures. Government expenditures rose 25%yoy in July/Aug, up from 14.9% in Q2 and 7.8% in Q1. This is a choppy series, but this is the fastest growth in this source of demand since early 2012 and comparable with growth rates seen during the GFC. Fiscal stimulus is here. So is monetary stimulus. After five rate cuts, credit growth has picked up in the last couple of months.