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CHINA

Importance of services sector growing further

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By and large, the Q3 2015 growth figures published today by China's National Bureau of Statistics popped few surprises. In the past quarter, the world's second largest economy expanded by 6.9% on a year earlier, only marginally down on first-half growth. Economic growth of "around 7%", the official full-year figure targeted by the government, is thus largely ensured.

Far more interesting than the raw GDP growth numbers were the statements on China's economic structure contained in the report unveiled today. This puts the share of the services sector in the overall economy at 51.4% in the first nine months of this year. That is an increase of more than two percentage points on a year earlier. The share of the services sector had also been rising steadily in the preceding years. Back in 2001 it had stood at only around 41%.

Without wishing to downplay the well-known problems with the transparency of Chinese economic figures, we see the growing importance of the services sector – and the related decline in the significance of industry – as one of the main reasons behind the growing discrepancy between the quarterly GDP numbers and the monthly economic data such as, for instance, industrial production. At present, China's national accounts do not yet match international standards. For this reason, in order to gauge economic growth the focus has to date been mainly on monthly economic indicators from the manufacturing sector. However, the structural change embarked upon, away from industry towards services, influences the connection between economic growth and the variables observed to date. A look at the Chinese purchasing managers' index highlights the difference in sentiment between the industrial and the services sector. Whereas the index for industry has been languishing well below the 50-point expansion threshold for months, the index for the services sector is comfortably above this level.

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