Chinese steel industry and economic data: Varying reliability

In addition to the spurious steel industry data, there are major discrepancies in the Chinese reported monthly economic data. For sure, the country’s macro-economic data series have a severe upward bias — that’s well demonstrated when comparing the results of WSD’s weighted four-component Chinese Macro Index of Steel Consumption to its weighted 11-component Micro Index of Activity in Steel-Consuming Industries.

**Figure 1**

WSD China Macro-Economic Steel Index (moving average basis) vs. Apparent Steel Consumption (ASC). Source: WSD estimates.

**Figure 2**

WSD China Macro-Economic Steel Index (non-moving average basis) vs. Apparent Steel Consumption (ASC). Source: WSD estimates.
• The Macro Index (Figs. 1 and 2) since 2015 is up about 35%; or about 10% per year. Its four components — entered on a 6-month or 12-month moving average basis — include fixed asset investment (FAI), M2 money supply, retail sales and value added by industry.

• The Micro Index (Figs. 3 and 4) since 2015 is down about 6%; or roughly 2% per year. Its components, often analyzed on a 6-month moving average basis, include electricity production, cement production, industrial boilers, internal combustion engines, metal-cutting tools, large- and mid-sized tractors, locomotives, auto production, power generators, air conditioners, and square meters of buildings under construction. The last item has a 25% weighting, and the others a 5–10% weighting in each case.

Perhaps WSD’s Micro Index has not sufficiently picked up the surge in housing construction that accounts for about 22% of the country’s FAI. Also, note that the reported monthly FAI figures include land sales and the value of M&A transactions — that, at times, may account for 40% of the reported total. Perhaps, in 2018, land sales and M&A transactions declined as a share of reported FAI. If so, construction activity and capital spending rose as a share of FAI.

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