

Reading China's palm

A new leading indicator for China's economy

IN THE back lanes of old Beijing, a fortune-teller inspects his customer's palm under a magnifying glass, consults his I Ching tables, then scribbles the formulae of fate with a blunt pencil. His customers include many businessmen, he says, anxious to know more about their economic prospects.



China's fortune-tellers now have fresh competition. On May 17th, after four years of research, the Conference Board, a research group, unveiled a new monthly index of leading indicators, which aims to foretell China's immediate economic future. After sifting through the country's notoriously patchy statistics, the Board compiled its index from six: the expectations of consumers; lending by banks; the supply of raw materials to industry, as measured by a central-bank survey of firms; the amount of floorspace developers have started to build; and the export orders received and supplies delivered to manufacturers, as measured by a survey of purchasing managers.

Because China's economic present is almost as murky as its future, the Board also released a monthly "coincident" index, which provides a gauge of current activity. This index, based on indicators from electricity generation to passenger traffic, is more timely than the official GDP figure. It is also more volatile, perhaps because China's official data tend to smooth things out (unlike its fortune-tellers, who can be brutally frank).

The Board has retrospectively calculated its new indices for every month back to 1986. The leading index would have successfully predicted the Chinese recession in 1988-89, as well as the sharp slowdown in 2008. As the Beijing fortune-teller says, "If I can tell you correctly about your past, I can tell you correctly about your future too."

So what are China's prospects? According to official figures, China's economy grew by 11.9% in the year to the first quarter, raising fears of overheating. The Board's leading economic index increased a little in March, thanks to the 153m square metres of floorspace started that month. But China-watchers should not read too much into a single month, the Board cautions. In April the authorities clamped down on property speculation. And judged over a six-month period (see chart), Chinese growth is not getting much stronger. As for your correspondent, according to the fortune-teller he will do well financially. But unlike China, he will spend money too liberally to accumulate much wealth.

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