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Misleading economic statistics not restricted to China and Russia

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Since the turn of the millennium, it has not only been international economic measurements from China, Russia or elsewhere that have been questioned and doubted by Australian ultra high net worth investors, but also those published by Australia's official institutions.

This week's exceptionally strong Australian GDP growth measurements (running at an annualised rate of more than 3 per cent) were met by a muted market response from domestic and international ASX200 participants.

As the US researcher Zachary Karabell argued in his 2014 book, *The Leading Indicators,* economic numbers have come to define our world and statistics such as GDP, official unemployment or CPI have become synonymous with definitions of "leading indicators", which travel as gospel in financial circles.

This argument subscribes to the belief that these figures accurately reflect reality and provide unique insights into the health of economies, and that taken collectively, leading indicators create a data-map that people must use to navigate through their lives.

But as Karabell and others have been arguing, that map is showing signs of age, and Australian UHNW investors in particular know this.

It must be remembered that none of today's leading indicators existed a century ago, and that the statistics of the 20th century were not designed for realities of today's economies.

"GDP" had its origins in the 1930s, when economists and policymakers in the US and Britain struggled to understand and respond to the Great Depression. The onset of World War II solidified the metric's standing, as the Allies tried to keep tabs on the war's effect on their economies.

It is not terribly surprising that economists and policymakers came to favour a statistical technique that helped the US survive a depression and win a war.

But not even the economists who invented this metric imagined that GDP would become so central to every state in the world within a few short decades.

This isn't a conspiracy; this is the reality of antiquated metrics being employed to gauge the robustness of any developed economy in 2016.

But as a domestic and global investor, one needs to remain savvy and identify what gauge is representative of real dynamics, and also at what times.

On this, Richard Coppleson of Bell Potter believes that "the transition from mining boom has been impressive since we did not go into recession — in fact it has been 25 years since there was last a recession in Australia. What makes this more impressive is that our closest rival, in terms of population and economy, is Canada. Canada has interest rates at 0.5 per cent and GDP is anaemic there at 1.1 per cent, and unlike Australia they had a recession last year: two negative quarters in March (-0.2 per cent) and June (-0.1 per cent).

"The market's recent rally was built on the firm expectations that the RBA will do two or three more rate cuts — but now, after the GDP, this will cause plenty of concern that maybe the GDP strength, at least for the next few months, possibly makes it impossible for the RBA to cut. The next big number that will shake markets is the CPI that comes out on Wednesday 27th July."

Australian economic growth showed remarkably strong growth in the first quarter, rising 1.1 per cent quarter-over-quarter to 3.1 per cent annualised. However:

• Private sector demand remains unchanged from the levels of mid-2015, as large declines in business investment offset contributions from consumption and dwelling construction.

• Worse still, government public sector demand contributed 0.7 per cent towards this.

• Private sector demand (ex-mining), which represents two-thirds of the Australian economy and three-quarters of total employment, rose at its slowest pace since the end of 2014.

• The annual pace of household services and business services are slowing while non-mining goods production remains in contraction.

Australian global investors need to remain vigilant and work out what reflects reality, and next time cynics question China's official statistics, they may take pause to remember that our statistics are no more bona fide, in perception or reality.

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