Eyes of IIMA   Institute for International Monetary Affairs

iima

2016.12.26

## The Importance of Financial Statistics

Koji Sakuma, General Manager and Chief Economist
Institute for International Monetary Affairs

In the U.S. as Donald Trump, who has spoken out about tax cuts and aggressive fiscal spending, was elected President, afterwards in December there was the second interest rate hike. Although this rate hike was planned in no relation to Trump being elected in the first place, the market took it that this fiscal and financial movement were strongly related.   U.S. long term interest rates rose and the dollar rate proceeded higher.   The monetary easing policy is really coming to an end and the effects of this will come out in all kinds of forms in 2017.

In the first place it is right to say that the U.S. household debt income ratio problem, which was the reason for monetary easing, has become sound (See left chart below).   As far as one looks at the graph, it is not an excessive standard and there no upward signs.   As the debt income ratio problem die down, on the other hand, looking at the number of new house construction starts, the housing market has come back half way from what is was before (See middle chart below).   Housing prices have recovered to its peak of before the crisis (See right chart below).   Without the need of finance like before, the housing market moves energetically by itself.   What was it that was necessary that made debt grow by so much, looking back it is a mystery.

Charts: U.S. Household Debt and other Housing Statistics
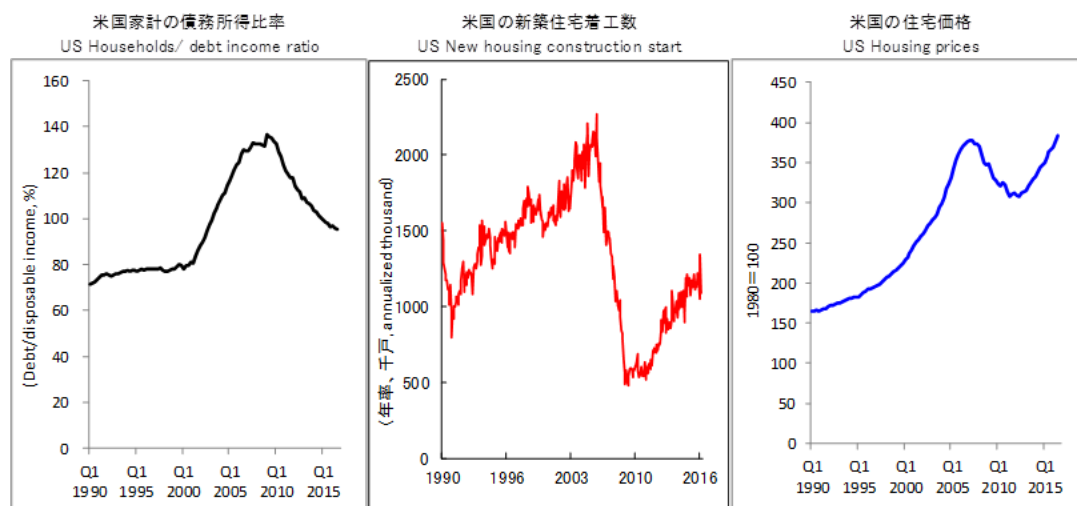
(Source) Datastream

Though said, after the U.S. Sub-prime Shock because statistics were well developed, what happened with the flow of funds was well comprehended in a relatively early time. The picture of flow of funds was as large as a 150 page book. It was a sea chart that shown where the money flowed in the economy, like the blood running through the human body. Without these statistics the turmoil caused would have been unimaginable. In the financial industry where fragmentation is progressing, without overall statistic integrity, it would have taken a long time to find out where the problem was.

In today's financial industry where the segmentation of financial products progresses, institution creates more departments of specialists and outsourcing increases, in comprehending the whole the importance of statistics becomes higher and higher. In this sense it is needed to progress with international co-operation. After the Asian Currency Crisis, gathering of statistics within the ASEAN countries improved. ASEAN+3 Macroeconomic Research Office (AMRO) inherited this trend and took leadership in the improvement of statistics across Asia. Although it is not noticeable, it is a very important regional co-operation to prevent or lessen the damage minimal in the next crisis. Even on a global level, lately international institution, such as BIS, IMF and OECD statistic's coverage is expanding and its integrity is improving a lot

When talking about what is happening in the financial world and how statistics are related, what really is a concern is China. In 2017 the largest concern in the international finance is probably China. As the adjustment of excessive debt progresses in the U.S. and Europe the bulk of the largest excessive debt is in China. When talking to researchers and government related officials of China, at least these people, who know, know the importance of financial statistics and are putting a lot of efforts towards its improvement. In fact, it has made great improvement compared to before. But its creditability is said to be low still. As China has now become the second largest economy, as the uncertainty of China's financial market increases the adverse effects to the whole world caused by its turmoil can be immeasurable. Uncertainty can be convenient for gaining small profits from things like tax evasion but can led to cause of concerns for the whole of the nation and bounce back to China itself in ways such as a credit crunch or drop of Yuan rate. The adjusting of excessive debt is unavoidable but in order to make the negative effects small as possible, China has to try to put more efforts and resources in the improvement of statistics accuracy.