Shobhana's edit

Not all data odd with fake sales, new base & govt-spend

Official data in India has been called statistically bewildering, but never before have economists been as stumped as they were by the GDP numbers for the December 2016 quarter. The economy must have felt the pain of demonetisation, most said, so the GDP data just doesn't add up. With December GDP clocking 7% y-o-y growth versus 7.4% in September, and with GVA at 6.6% versus September's 6.7%, it would appear there has been little loss of momentum. The headline numbers suggest it is only services that have been bruised—GVA growth has moderated to 6.8% from 8.2%—pulled down by financial, real estate and professional services. This flies in the face of the data for sales of cars, two-wheelers and CVs—which contracted both in November and December—or even sales of consumer staples, cement and steel.

The 10% jump in the private final consumption in December is particularly baffling even though it was festive time, or the Pay Commission bonanza ensured government employees shopped like it was going out of style and Indian weddings were still big and fat—after all, if a major part of cash was rendered unavailable, how was the expenditure funded?

But if you leave aside expenditure-side data which is notoriously unreliable on a quarterly basis, there are somewhat plausible explanations. For one, as compared to the R28.5 lakh crore GDP in the first estimate for the December 2015 quarter, the latest data gives a number of R28.3 lakh crore for the same quarter—once this new, and lower base is used, this boosts the December 2016 growth significantly, from 6.2% to 7%. Some of better performance in the December 2016 quarter can also be explained by the strong showing in the agriculture sector which grew at a bumper 6% against expectations of 5%, leaving a lot more in the hands of rural households. Also, the near-20% jump in government consumption would boost demand for a host of goods and services—this looks odd given the Centre's conservative fiscal stance, but state government spending is rising rapidly.

Though it can be argued GDP data doesn't capture the informal sector as well, financial results of 2,570 companies makes it clear the formal sector didn't do too badly in the December quarter. Net sales rose at their highest levels in several quarters while operating margins expanded by 150 basis points as the benefits of softer input costs helped lower the raw-materials-to-sales ratio by 100 basis points. In fact, ebitda-plus-employee-expenses, a proxy for GVA, rose close to 12%, higher than in the two previous quarters. Some of this blends in with the performance of the core sector which was relatively strong in the December quarter.

It is also possible that, to beat the impact of demonetisation, firms showed fake sales to legitimise black money stashed away in the past, and also that some sales moved from the cash segment to the cheque one after demonetisation, and so got captured better. Since these transient factors, as well as the base-rate impact, won’t be repeated in the March 2017 quarter, perhaps that will give a better sense of the demonetisation impact. It may also turn out that, thanks to the monsoon-driven agriculture boom and higher government spending—no one is doubting this data—the demonetisation impact might not be as bad as feared. Especially if tax collections rise in the amnesty scheme and significantly more people start paying their dues.