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India's Demonetization Looking Good - IIP Up 5.7% For November

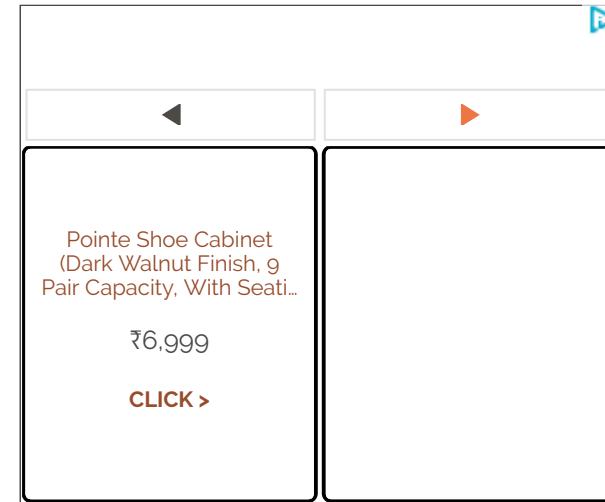
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A weaver displays ten rupees Indian banknotes for a photograph in Varanasi, Uttar Pradesh, India, on Thursday, Dec. 8, 2016. Photographer: Dhiraj Singh/Bloomberg



We should never place too much weight on just one economic statistic. But that India's industrial production rose 5.7% in November is an interesting number just the same. For this is really the first hard number we've had concerning the Indian economy to include part of the period of demonetization. And it's not a bad number — so perhaps the chaos of the process hasn't done that much short term economic harm? However, it's also true that there's a significant fault line in Indian economic statistics, one that's much larger than in most other economies that we study. That's the division between the formal and informal parts of said Indian economy. And that does make this number, as with so many others, harder to interpret.

The news [itself](#):

“ A sharp jump in the November factory output numbers comes as a pleasant positive surprise for the economy amid slowdown stories in the aftermath of demonetisation. The index of Industrial Production (IIP) rose to a 13-month high of 5.7 percent in November compared with a contraction of 1.8 percent in the month of October.

There are qualifiers that should be applied [here](#):

“ In fact, the IIP in November (175.8) was lower than October 2016 (178.1), suggesting industrial production actually dropped sequentially, as was mostly the case in earlier months as well. “Going by the production trend in some sectors such as auto, next month’s (December) IIP growth data may be more indicative of the impact of demonetization,” Crisil Research wrote after Thursday’s data release.

Year-over-year figures as against the monthly acceleration, the slight change in the date of Diwali moving the holiday from one month to another. The qualifications can all be argued about. But it’s also true that an expansion of industrial output in the month of demonetization is not evidence of some great catastrophe that accompanied the [move](#).

“ Consumer inflation fell in December 2016 to 3.41%, the lowest since November 2014, leaving room for the Reserve Bank of India to cut rates next month. CPI inflation was marginally higher at 3.63% in November 2016.

Consumer inflation falling is also a good thing.

We must be careful about all of these numbers though. Yes, it's interesting that these are the first hard ones on the Indian economy since demonetization. The most recent official figures, to be used for the coming budget, rely upon data collected up to about the end of October. Everything since then is a forecast. But in the way that time passes so we'll start getting real numbers out of the economy which include the demonetization period.

But the vast majority of India's economy is over in the informal sector which produces two problems for us. The first is that survey data like this new IIP number are obviously easier to collect from the formal than the informal economy. So the numbers are biased by sector. And we can also construct models—but then we can construct economic models to include just about anything—where the impact of demonetization is much greater upon the informal sector than formal. Even, that there could be a rise in the formal sector, one smaller than the loss in the informal, as a result. The informal sector could be entirely cash reliant, the formal one able to pick up lost business by already having access to bank accounts and electronic payments.

Thus we're still in the dark. Economic statistics just aren't good enough as yet for us to be able to work out the full effects of something we've already done. One interesting lesson of which is that we just shouldn't be trying to plan

an economy. For if we don't even know the effects of what has been done how can we predict the effects of what we might do?

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