

## Effect of Economic Recession on Employment in India: A Critical Analysis

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**Abstract**

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### Introduction

The US subprime market crisis has been already resulted in US economy recession. The banks were facing huge loss due to subprime crisis. The big banks like Lehman brothers, Merrill Lynch etc. have gone bankrupt. India is facing recession not due to indigenou reasons but because of USA and European countries since Indian economy is more dependant on these countries. The countries like Britain, Spain, Japan, Singapore are going to bear the negative effects of US economy recession. Emerging economies like India, China are not directly affected by the factors which were responsible for crises in developed economies. East Asian like Japan have been hit hard due to collapse in demand for manufactured product.

Due to recessionary trends in the international market, Indian companies export orders were either cancelled or the export amount was reduced to a significant limit due to which some of the companies who cannot meet the situation have suffered from loss. The situation was similar in almost all the industries whether they were exporting or non-exporting.

The fear of recession looms over the United State and as the clich goes "whenever the US sneezes the whole world catches a cold". This is evident from the way the Indian markets crashed taking a cue from probable recession in the US and global economic slow down. Weakening of an American economy is bad news not just for India but for the rest of the world too.

### Meaning of Recession

As per dictionary the recession means,

1. The act or action of receding or
2. A departing procession or
3. A period of reduced economic activity

In economics, economic recession is defined as a business cycle contraction, a general slow down in economic activity over a period of time. During recession, many macro economic indicators vary in a similar way. During economic recession, production as measured by the Gross Development Product (GDP), Employment, Investment, spending capacity utilization, house hold incomes, business profits and inflation all fall, while bankruptcies and the unemployment rate rises.

According to **BBC** "The total amount of goods and services produced by a country - known as gross domestic product (GDP) - would have to contract on a quarter by quarter basis for a total period of six months".

National Bureau of Economic Research (NBER) defines a recession even more specifically as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP growth, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales."

### Basically a recession is About

1. decreased economic activity
2. over a substantial period of time
3. leading to GDP deduction

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## And usually recession leads to

1. massive profit reduction
2. unemployment growth
3. overall inflation

## Recession for an individual means:

1. high unemployment risks (and longer hours in the office as a result!)
2. higher bills
3. less savings

## Recession and Depression

There is an old joke among economists that states: A recession is when your neighbour loses his job. A depression is when you lose your job.

A good rule of thumb for determining the difference between a recession and a depression is to look at the changes in GNP. A depression is any economic downturn where real GDP declines by more than 10 percent. A recession is an economic downturn that is less severe.

## Objectives of the Study

The objective of research paper is to study the effect of economic recession on the employment scenario in India and its critical analysis.

## Effect of Economic Recession on Employment in India

The subprime crisis which started in USA in August 2007 later on gripped many other nations including India. The impact of global slowdown on India's economy is affecting the employment scenario in India.

Labour Bureau is conducting a series of quarterly quick employment surveys since January, 2009 to study the impact of global economic slowdown on employment in Indian economy. These surveys are being conducted in selected sectors of the economy likely to be badly affected by the global economic slowdown. Although, the scope of this survey is limited; the trends of the employment scenario in the specific sectors covered under the study facilitate policy making and taking corrective measures based on the survey results.

## Analysis of Employment Trends in the Year 2008 (Oct – Dec 2008)

1. The first quarterly survey was conducted in the month of January, 2009 to study the impact of slowdown on employment during the quarter Oct-Dec, 2008.
2. Based on the data collected from 20 centres scattered over 11 States/UT's through the sample survey, estimates of employment, average earnings and capacity utilization have been derived for the Manufacturing (Textiles, Automobiles, Gems & Jewellery and Metals), Mining, Construction, Transport and BPO/IT sectors. As per the GDP data for the year 2007-08 released by Central Statistical Organisation, these sectors contribute more than 65% in the Gross Domestic Product.

**Table 1**  
**Centres and States Covered**

Sr. NO.	Centres	State / UT
1	Chandigarh	Chandigarh
2	Ludhiana	Punjab
3	Jalandhar	
4	Delhi and NCR Region	Delhi
5	Kanpur	Uttar Pradesh
6	Lucknow	
7	Kolkata	West Bengal
8	Howrah	
9	Ahmedabad	Gujrat
10	Surat	
11	Chennai	Tamil Nadu
12	Tirupur / Coimbatore	
13	Banglore	Karnataka
14	Bellary	
15	Hyderabad	Andhra Pradesh
16	Ranchi	Jharkhand
17	Jamshedpur	
18	Mumbai	Maharashtra
19	Pune	

\*source: Report on "Effect of economic slowdown on Employment in India (January 2009), Govt. of India, Ministry of Labour & Employment, Labour Bureau, Chandigarh

1. Employment data collected during the survey is defined as the number of total workers, both manual & non manual, on roll on the last working day of the respective month.
2. It may be observed from Table 2 that the total estimated employment in all the sectors covered by the survey went down from 16.2 million during September, 2008 to 15.7 million during December, 2008 resulting in job loss of about half a million. It is seen that the employment declined every month during this period. It has also been observed that the employment in all the sectors/industries studied went up significantly over the period from March, 08 to September, 2008. Beyond September, 2008, it has however, decelerated at all industries/sectors level at an average rate of 1.01 per cent per month.

**Table 2**  
**Trends in Average Employment**

Period	Average Employment (in Millions)	Percentage Change
Sept 2008	16.2	
Oct 2008	16.0	-1.21
Nov 2008	15.9	-0.74
Dec 2008	15.7	-1.12
Average Monthly Change		-1.01

\*source: Report on "Effect of economic slowdown on Employment in India (January 2009), Govt. of India, Ministry of Labour & Employment, Labour Bureau, Chandigarh

1. In a globalised economy, recession in the developed countries would invariably impact the export sector of the emerging economies. Though our export sector accounts for less than 20 percent of the country's GDP, decline in exports would

affect the employment in this sector. In order to assess the impact of recession on export sector resulting in decline in employment, separate data for the export and non-export units was collected. A comparison of employment data of export and non-export units indicates that employment declined at an average monthly rate of 1.13 per cent in case of former where as in case of later, it declined by 0.81 per cent (Table 3).

**Table 3**  
**Percentage change in Employment of Exporting and Non-Exporting units**

Periods	Exporting Units	Non-Exporting Units	Overall
Oct 2008	-1.3	-1.05	-1.21
Nov 2008	-0.45	-1.24	-0.74
Dec 2008	-1.66	-0.15	-1.12
Average Monthly Change	-1.13	-0.81	-1.01

\*source: Report on "Effect of economic slowdown on Employment in India (January 2009), Govt. of India, Ministry of Labour & Employment, Labour Bureau, Chandigarh

1. This finding of the survey is in line with the field observations that the export units have experienced higher decline in employment. For instance, the reason for decline in employment in export units of textile sector at Chennai was that the workers left these units due to declining wages and insecurity and seeking better employment avenues in other sectors. In Tiruppur (Tamil Nadu), many of the units informed that the orders from foreign buyers were either not coming or their value had declined. The employers were skeptical about future and felt that in case the situation doesn't improve, they would be compelled to go for either laying off their workers during the forthcoming months or would shift to production for the domestic market.
2. In addition to assess the loss in employment, information on the regular earnings of workers was collected with a view to see whether these have been affected by the economic slowdown in the economy. The regular earnings include regular wages or salaries, payment of allowances like dearness, overtime, compensatory, house rent and production bonus, which are paid more or less regularly for each pay period. Trends in average earnings have been presented in Table-4 given below.

**Table 4**  
**Trends in Average Earnings**

Period	Average Earnings (Rs)	Percentage Change
Sept 2008	16934	
Oct 2008	17228	1.74
Nov 2008	15259	-11.43
Dec 2008	15182	-0.5
Average Monthly change		-3.45

\*source: Report on "Effect of economic slowdown on Employment in India (January 2009), Govt. of India, Ministry of Labour & Employment, Labour Bureau, Chandigarh

1. It has been observed that the average monthly earnings at all workers level went up during October, 2008 probably due to inclusion of festival/year-end bonuses. Thereafter earnings show a declining trend during November and December, 2008. The average earnings have declined at the rate of 3.45 per cent per month during the period of study.
2. Global recession may not immediately show its full impact on the employment due to existing labour laws preventing factory sector to lay off its regular workers in the short run. This may however, result in lower capacity utilization, thus resulting in disguised unemployment. With this in view information was also collected on capacity utilization in the manufacturing and mining sector units. Sector wise information on average monthly change in the capacity utilization during the period of study is presented in Table 5

**Table 5**  
**Percentage change in capacity utilization**

Industries	Average Monthly change
Mining	-0.32
Textiles	-0.09
Metals	-5.68
Gems & Jewellery	-1.03
Automobiles	-7.05
Overall	-1.32

\*source: Report on "Effect of economic slowdown on Employment in India (January 2009), Govt. of India, Ministry of Labour & Employment, Labour Bureau, Chandigarh

1. The table shows that the utilization of production capacity has gone down but not very significantly over the period of the study. It appears that the capacity utilization estimated is on the lower side. The most affected sector is the Automobile where, on an average, the capacity utilization has declined by 7.05 per cent per month, followed by 5.68 per cent in the Metal sector. At overall level capacity utilization has decreased at the rate of 1.32 per cent per month during the period of study.

### Analysis of Employment Trends in the Year 2011 (July-Sept 2011)

The last one is the twelfth quarterly quick employment survey in the series. The survey is conducted during the month of October & November, 2011 and it covers the period of July-September, 2011. All the units covered in the previous survey are revisited to see the direction and rate of change in the employment trends. However, information is collected from 2215 units only. The sector-wise number of units covered in the present and the previous survey are given in the table below

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**Table 6**  
**Sector-Wise unit covered**

Sr No.	Industry Group/State	No. of units covered during the survey for the quarter	
		Oct-Dec 2008	July-Sept 2011
1	Textile including Apparels	1168	688
2	Leather	---	153
3	Metals	752	772
4	Automobiles	132	115
5	Gems & Jewellery	104	171
6	Transport	103	57
7	IT / BPO	242	168
8	Handloom /	---	91

	Powerloom		
9	Mining	19	---
10	Construction	61	---
<b>Overall</b>		<b>2581</b>	<b>2215</b>

\*source: Report on "Effect of economic slowdown on Employment in India (July-Sept 2011), Govt. of India, Ministry of Labour & Employment, Labour Bureau, Chandigarh

\* The findings of the current survey indicate an increase in employment in the selected sectors under study at overall level. Analysis of the current survey data indicates that employment in all the sectors under study has increased except a marginal decline in leather and transport sectors during September, 2011 over June, 2011. The sectors wise changes in the employment during the latest four quarters are presented below in Table 7

**Table 7**  
**Changes in estimated employment based on various quarterly survey results (in Lakh)**

Sr No.	Industry / Group	Changes in employment during				
		Dec, 10 over Sep,10	Mar, 11 over Dec, 10	June, over March 11	Sep, 11 over Jun, 11	Sept, 11 over Sept, 10
1	Textile including Apparels	0.40	-1.21	-0.33	0.42	-0.72
2	Leather	0.16	-0.08	0.01	-0.02	0.07
3	Metals	0.00	0.16	0.53	0.38	1.07
4	Automobiles	0.18	0.13	0.18	0.22	0.71
5	Gems & Jewellery	-0.10	-0.02	0.13	0.07	0.08
6	Transport	-0.01	0.06	-0.02	-0.05	-0.02
7	IT / BPO	1.41	2.87	1.64	2.04	7.96
8	Handloom / Powerloom	0.03	-0.18	0.01	0.09	-0.05
<b>Overall</b>		<b>2.07</b>	<b>1.74</b>	<b>2.15</b>	<b>3.15</b>	<b>9.11</b>

\*source: Report on "Effect of economic slowdown on Employment in India (July-Sept 2011), Govt. of India, Ministry of Labour & Employment, Labour Bureau, Chandigarh

It may be seen from the above table that the employment at overall level has increased by 3.15 lakhs in September, 2011 over June, 2011. During the current survey, the main contributor to the increase in employment is IT/BPO sector where in the employment has increased by 2.04 lakhs during September, 2011 over June, 2011. Other sectors which contributed to the increase in employment during the reference period are textiles (0.42 lakh), metals (0.38 lakh), automobiles (0.22 lakh), gems & jewellery (0.07 lakh) and handloom/powerloom (0.09 lakh).

On the other hand, as was the case in the previous quarterly survey, the employment in the transport sector has further declined marginally by 0.05 lakh during the reference period.

While analyzing the results for the last four quarters (September, 2010-September, 2011), it may be seen from the above table that employment in the selected sectors has increased by 9.11 lakh during this period. About 87per cent of the increase in employment during the period is in IT/BPO sector, where the employment has increased by 7.96 lakh. The second highest contributor to the employment increase during the period is seen in metals sector where it has increased by 1.07 lakh followed by 0.71 lakh in automobile sector during the period September, 2010 to September, 2011.

1. The average monthly percentage changes in the employment of selected sectors are also derived based on the survey results. Such changes in the employment of selected sectors during the latest four quarters are presented in Table 8

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Table 8

Average Monthly Percentage changes in Employment based on various quarterly survey results (per cent)

Sr No.	Industry / Group	Changes in employment during			
		Dec, 10 over Sep,10	Mar, 11 over Dec, 10	June, over March 11	Sep, 11 over Jun, 11
1	Textile including Apparels	0.22	-0.64	-0.17	0.23
2	Leather	1.40	-0.65	0.08	-0.17
3	Metals	0.00	0.30	1.00	0.68
4	Automobiles	0.75	0.55	0.71	0.87
5	Gems & Jewellery	-0.91	-0.17	1.20	0.58
6	Transport	-0.12	0.52	-0.23	-0.66
7	IT / BPO	1.13	2.30	1.13	1.28
8	Handloom / Powerloom	0.17	-1.28	0.08	0.67
<b>Overall</b>		<b>0.48</b>	<b>0.39</b>	<b>0.47</b>	<b>0.68</b>

\*source: Report on "Effect of economic slowdown on Employment in India (July-Sept 2011), Govt. of India, Ministry of Labour & Employment, Labour Bureau, Chandigarh

Based on the survey findings, the average monthly percentage increase in the employment during the period September, 2011 over June, 2011 is registered at 0.68 per cent at the overall level. The maximum average monthly increase in employment during the reference period is seen in IT/BPO sector where it has registered a growth of 1.28 per cent followed by 0.87 per cent in automobiles sector and 0.68 per cent in metals sector during September, 2011 over June, 2011.

Leather & transport sectors, show an average monthly percentage decline in employment by 0.17 and 0.66 per cent respectively during the period September, 2011 over June, 2011.

- The survey results have also been analyzed separately for exporting and non-exporting units. As per previous quarterly survey (April-June, 2011) results, employment in the non exporting units had increased at higher rate as compared to the increase in exporting units. However, in the current survey period, reverse trend is observed wherein employment in exporting units has increased at a higher rate as compared to the increase in non-exporting units.

Table 9

Industry wise change in employment of export and non-export units (in percentage)

Sr No.	Industry / Group	Exporting Units		Non-exporting Units	
		June, over March 11	Sep, 11 over Jun, 11	June, over March 11	Sep, 11 over Jun, 11
1	Textile including Apparels	-0.92	-0.45	0.82	1.03
2	Leather	-0.42	-0.20	2.55	-0.54
3	Metals	3.58	1.06	0.11	0.58
4	Automobiles	1.16	0.36	0.59	0.96
5	Gems & Jewellery	4.10	0.50	-1.23	0.66
6	Transport	---	---	-0.23	-0.66
7	IT / BPO	1.03	1.67	1.30	-0.03
8	Handloom / Powerloom	-1.01	10.42	0.22	-0.67
<b>Overall</b>		<b>0.28</b>	<b>0.75</b>	<b>0.67</b>	<b>0.56</b>

\*source: Report on "Effect of economic slowdown on Employment in India (July-Sept 2011), Govt. of India, Ministry of Labour & Employment, Labour Bureau, Chandigarh

An average monthly percentage changes in the employment of exporting units reveal a growth of 0.75 per cent in September, 2011 over June, 2011 at overall level. In the handloom/powerloom sector, a maximum of 10.42 per cent average monthly percentage growth is registered in employment during the period September, 2011 over June, 2011.

An average monthly percentage changes in the employment of non-exporting units reveal a increase of 0.56 per cent in the employment of non-exporting units at overall level during the period September, 2011 over June, 2011. The maximum average monthly percentage increase in the employment of non-exporting units is seen in the textiles sector (1.03 per cent) followed by

0.96 per cent in automobiles sector during the period September 2011 over June, 2011.

The results of the 12<sup>th</sup> quarterly survey reveal that there has been a sustained and consecutive increase in employment in the sectors covered at overall level during the last nine quarters in a row. The total creation of employment during this recovery period is more than 27 lakh at the overall level.

### Conclusion

The critical analysis of tables itself says that due to economic recession there is a huge loss of employment in Oct-Dec 2008 in all the industry sectors like mining, textiles, metals, gems & jewellery, automobiles, transport, IT/BPO etc. But the upward trend in employment has been continuously maintained since July 2009. During the quarter July-Sept. 2011, employment has increased in respect of all the sectors

except leather and transport, where there was a marginal fall. The overall employment has increased by 3.15 lakh during the quarter, due to shift in business strategies of corporate India. Large IT and BPO firms have started looking at other markets like Europe and domestic market to spread risk and reduce the impact of rising rupee. Overall estimated employment in all the selected sectors has experienced a net addition of 23.58 lakh during the period Oct. 2008 (First Survey) to Sept 2011 (Twelfth Survey)

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