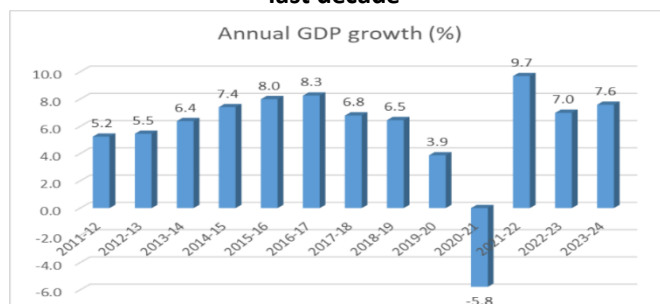


The Employment-Unemployment Story of India: Evidence from CMIE-CPHS Database

RUDRANI BHATTACHARYA, Associate Professor, National Institute of Public Finance and Policy, New Delhi, India, Email: rudrani.bhattacharya@nipfp.org.in
C. Prasanth, Research Fellow, National Institute of Public Finance and Policy, New Delhi, India, Email: cprash15@gmail.com

The Indian economy experienced several domestic and global shocks in the past one decade: The Indian economy had undergone several macroeconomic policy shocks in the decade of 2011-2019, before hit by the unprecedented and unforeseen Covid-19 pandemic shock in the beginning of the current decade. There was a secular rise in growth rate from 5.2% in 2011-12 to 8.3% in 2016-17, followed by a secular deceleration in the real growth rate during 2017-18 to 2019-20 (Figure 1). The economy experienced a number of domestic policy shocks and external shocks in this period. The domestic policy shocks included adoption of Inflation Targeting (IT) monetary policy regime in 2015-16, Demonetisation of 2016-17, and implementation of Goods and Services Tax (GST) system in 2017-18. Domestic policy shocks such as demonetisation and GST rollout, and global factors such as increasing trade barriers and uncertainties due to tensions between U.S. and China caused growth slowdown in this period.

Figure 1: Structural and Policy shocks, both domestic and global, hit economic performance of India in the last decade



Source: CSO, MOSPI

The year 2019-20 was marked by a sharp decline in growth rate to 3.9%. The sluggish growth in this year was mainly driven by poor performance of the manufacturing sector and significant slowdown in growth of goods and services exports (Gupta and Tyagi, 2022). While global factors such as rising trade barriers and increasing geopolitical tensions adversely affected Indian export growth in this period, negative productivity growth caused a severe slowdown in domestic manufacturing

performance (Goldar, 2022; Goldar and Aggarwal, 2023). The economic slowdown of 2019-20 was also a consequence of the accumulated and lagged impacts of domestic and global macroeconomic shocks such as Demonetisation, rolling of GST and capital outflow from India. The Covid-19 pandemic led great contraction of economic activities (by -5.8%) in 2020-21, followed by high growth of 9.7% in 2021-22 due to strong base effects. As the base effect faded away, the growth rate declined to 7% in 2021-22, however recorded a rebound to 7.6% in 2022-23 primarily due to government's thrust on capex based macroeconomic policies.

Labour market indicators also reflected negative impacts of the shocks:

During the period of growth deceleration and the pandemic years, labour market indicators also reflected the weakening of the economy. All labour market indicators deteriorated during this period (Table 1). Labour Force Participation Rate (LFPR) and Employment Rate (ER) was declining since 2016-17. ER sharply declined from 39.5% in 2019-20 to 36.5% during the pandemic year of 2020-21 and remained volatile afterwards. Finally it showed improvement in 2023-24. LFPR stagnated at 40% from the time of the pandemic. Unemployment rate (UR) increased steadily till the pandemic, moderated in the subsequent years. However it further increased in 2023-24, exceeding the pre-pandemic rate.

Increase in growth of unemployed persons mitigated positive effect from rising employment growth on LFPR:

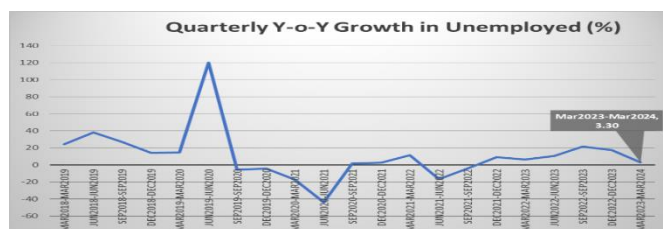
While total employment steadily grew since Q3, 2022-23, the growth rate in the number of unemployed persons also increased till Q2 2023-24, before moderating significantly in Q4 2023-24 (Figure 2). Growth in unemployed persons increased from 2% in Q4 2022-23 to 17.5-21.5% in Q2-Q3 2023-24, before declining to 3.3% in Q4 2023-24. Consequently, the labour force participation rate remained stagnant in the post-pandemic years.

Table 1: ER and LFPR improved in 2023-24, compared to covid and subsequent years, however yet to catch up to pre-covid level; UR deteriorated in 2023-24

Year	LFPR (All India, %)	ER (All India, %)	UR (All India, %)
2016-17	46.22	42.79	7.42
2017-18	43.71	41.66	4.69
2018-19	42.85	40.17	6.25
2019-20	42.68	39.5	7.45
2020-21	40.03	36.53	8.75
2021-22	40.09	37.02	7.65
2022-23	39.47	36.49	7.55
2023-24	40.42	37.18	8.03

Source: CMIE-CPHS ¹ (Employment indicators for population above 15 years of age)

Figure 2: LFPR did not improve in post covid years as number of both employed and unemployed persons grew



Source: CMIE-CPHS (Employment indicators for population above 15 years of age)

¹ The Consumer Pyramid Household Survey (CPHS) by Centre for Monitoring Indian Economy (CMIE) comprises surveys of households living in about 174,405 sample houses (110,975 urban and 63,430 rural) on various household level parameters such as Income, Expenditure, Employment status, Assets possession etc. In CMIE-CPHS, the employment status are provided for all India as well as urban and rural India across age groups, education level, economic activities,

During the pandemic, agricultural employment share surged, while industry and services shares declined: In terms of sectoral shares of employment, during the pandemic years of 2020-21 to 2021-22, there was a surge of agricultural employment (39.5%) compared to the pre-pandemic share of 36.8% due to reverse migration from cities to the rural areas during various phases of lockdown (Table 2). At the same time, easy credit policies announced for farmers in the Stimulus package also boosted agricultural activities, absorbing the migrants in this sector. The employment share in industry and services on the other hand declined in this period. The trend reversed in 2022-23 continuing in 2023-24, with services having the largest share, followed by agriculture and industry respectively. Within the industrial sector, real estate (15.1) and manufacturing (9.8) constitute the highest employment share in 2023-24.

Table 2: Trends in sectoral shares of employment

Year	Agriculture	Industry	Services
2017-18	36.05	27.59	36.22
2018-19	36.25	25.88	37.7
2019-20	36.77	25.69	37.48
2020-21	39.71	23.34	36.92
2021-22	39.38	24.42	36.18
2022-23	36.4	26.97	36.6
2023-24	35.39	25.63	38.87

Source: CMIE-CPHS (Employment indicators for population above 15 years of age)

Within the informal sector represented by occupational groups of Small Traders and Wage Labourers, and Farmers, a transition from non-farm to farm activities was observed since 2016-17: The informal employment on average, constitutes the largest (61%) share in the total employment (Table 3). Within this informal sector,

and occupational categories. In this database, an **Employed person** is defined as a person engaged in any economic activity either on the day of the survey or on the day preceding the survey or is generally regularly engaged in an economic activity. The status of **Unemployed** is categorised as (a) Unemployed, willing to do work and actively looking for a job; (b) Unemployed and willing to do work but not actively looking for a job.

there was a shift to farm based occupation from non-farm occupation till the pandemic year, followed by a mild reversion of the trend in the subsequent years. In the formal employment category, the share of salaried employees remained fixed throughout, while the share of large businesses increased by 7% in 2023-24 from 2016-17.

Table 3: Trends in occupational shares of employment

Year	Business (%)	Salaried Employees (%)	Small Trades & Wage labourers (%)	Farmers (%)
2016-17	13	21	42	23
2017-18	15	22	38	25
2018-19	17	22	35	26
2019-20	19	21	32	28
2020-21	20	19	30	31
2021-22	19	20	31	30
2022-23	20	21	31	28
2023-24	20	22	30	28

Source: CMIE-CPHS (Employment indicators for population above 15 years of age).

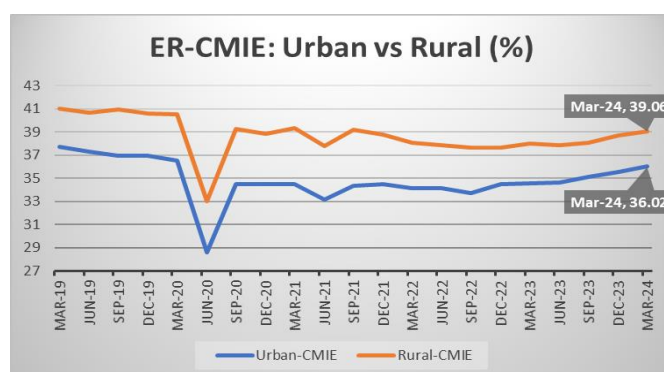
Note: The table represents employment share across occupation groups net of categories namely Retired/Aged, Students, Home Makers and Unoccupied that constitutes only 0.1% of total occupation during the sample period.

Significant gender disparity observed in employment indicators: While the LFPR and employment rate are respectively as high as 69.2% and 65.1% for males, these rates are only at 10.1% and 8.7% respectively for females in India during 2017-2023. During this period, average female unemployment rate remained at 14.6%, more than double the unemployment rate for males (6.1%).

Employment rate remained consistently higher in rural areas (39.7%), compared to urban areas (36.3%) during 2017-2023 (Figure 3). One possible reason for such rural-urban disparity in employment is that wages are generally set institutionally at a higher level than the market clearing rate, causing lower employment outcome in urban areas. Again, disguised unemployment cannot be separately identified from rural employment

status, causing over-estimation of rural employment numbers. Due to same reasons, unemployment rates in rural areas found to be significantly lower (at 6.7%) compared to that in the urban areas (at 7.8%).

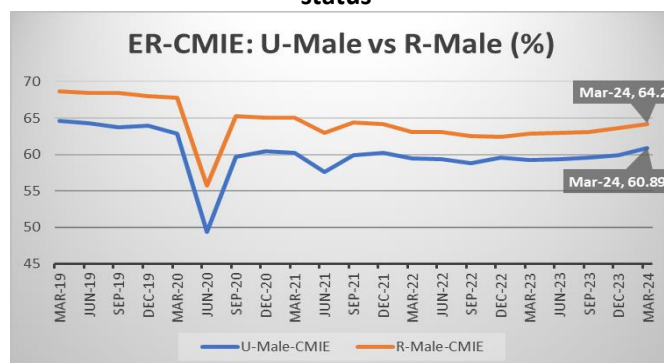
Figure 3: Urban vs. Rural employment rates

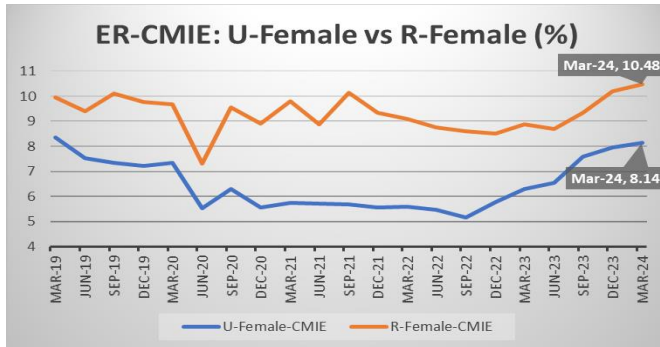


Source: CMIE-CPHS (Employment indicators for population above 15 years of age)

Though employment rate in rural areas were consistently higher than in the urban areas for both male and female, their response to the macroeconomic shocks varied significantly: While male employment across rural and urban areas responded in similar ways during pre-pandemic slow down, and pandemic and the subsequent years, female employment across rural and urban areas moved in opposite direction from 2019-20, except during the nation-wide lockdown period and in the recent year of 2023-24 (Figure 4). The urban female employment rate was declining during Q3, 2020 to Q2, 2022 before showing improvement from Q3 2022-23. On the other hand, rural female employment rate, although volatile, was increasing till September 2021 (Figure 4).

Figure 4: Regional and gender disparity in employment status





Source: CMIE-CPHS (Employment indicators for population above 15 years of age)

To conclude, labour market indicators show mixed performance in the recent year of 2023-24. Employment rate improved in 2023-24, after continuous decline during the years of growth deceleration, followed by great contraction due to the pandemic, however yet to catch up the pre-pandemic level. Unemployment rate deteriorated in 2023-24 compared to 2021-22 and 2022-23, while Labour Force Participation rate stagnated during the pandemic and subsequent years. Growing numbers of both employed and unemployed persons in 2023-24 explained the mixed performance of the labour market indicators.

During the pandemic years, share of agricultural employment surged, while industry and services shares declined. Government's financial support to farmers via fiscal stimulus packages during the pandemic stimulated agricultural activities and labour demand, while reverse migration from cities to rural areas increased supply of agricultural labour. This trend reversed since 2022-23 in favour of employment share in services, followed by the retail estate sector within industries. An occupational transition was observed within the informal sector from non-farm to farm activities, except in the last couple of years. Within the formal category, share of salaried employees remained fixed, while the share of large businesses increased significantly.

Significant gender disparity and regional disparity in employment status were observed in favour of male employment and rural employment respectively. Interestingly, though employment rate in rural areas were consistently higher than in the urban areas for both male and female, their response to the macroeconomic shocks varied significantly. While male employment

across rural and urban areas responded in similar ways to the pre-pandemic slow down, and the pandemic shock, female employment across rural and urban areas moved in opposite direction several times. The urban female employment rate deteriorated continuously from 2019-20 to mid of 2022-23, while rural female employment rate improved in 2019-20 and the pandemic year of 2020-21. Both showed a rising trend in 2023-24, with rural female employment far ahead of its urban counterpart.