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An analysis of India's labour market  
March 2022

# The elephant in the room: creating jobs and skills of the future

One of the biggest economic fallout of the pandemic has been the deteriorating labour market conditions. A weak labour market has been the Achilles's heel of our country for decades. Despite strong economic growth of CAGR 7.0 percent between 2003-04 and 2017-18, the total employment growth remained low and grew at a CAGR of 5.0 percent.<sup>i</sup> The pandemic further accentuated the labour market situation.

In the years ahead when the health crisis subsides and the economy witnesses a rebound, the healing of the labour market may take some more time. This is because the impact of a recovery on this market is always felt with a lag. Given the ebb and flow of the pandemic, the growth recovery is likely to be fragmented and will weigh on the number and types of jobs available. For instance, the recovery of a few sectors, such as contact-intensive services, which are labour intensive and employs low-to-semiskilled workers, is likely to be gradual. Besides, intermittent mobility restrictions are likely to disrupt the logistics and supply chain, thereby prompting restructuring of investments and digitisation. These factors are likely to result in structural shifts redefining the nature of work that will exist and the people required to do those jobs.

India has to deal with this mammoth challenge soon as the pandemic leaves behind a legacy of elevated joblessness and unequal opportunities.

## **Unemployment: Half the picture**

One of the prominent labour market indicators has been the unemployment rate, which declined to 6.57 percent during January 2022 after touching an all-time high of 23.52 percent during April 2020 (peak of the pandemic).<sup>ii</sup> After the historic recession in FY2020-21 and a devastating second wave in April-June 2021, high-frequency data suggests that the economy has maintained a steady recovery momentum in the October-December quarter of 2021. However, this has neither improved the employment situation in India nor encouraged workers to search for jobs.

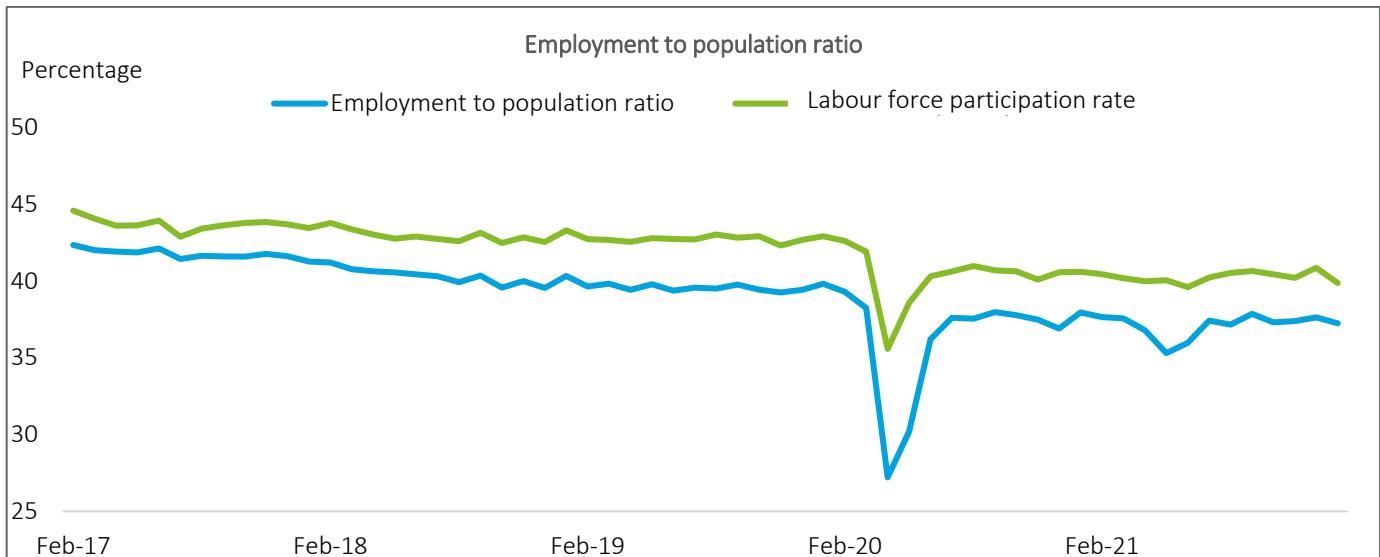
According to an employment survey by the Centre for Monitoring the Indian Economy (CMIE), the total employment remains below the pre-pandemic levels by 7.8 million (between January 2020 and January 2022).<sup>iii</sup> Moreover, the labour force participation rate declined by close to 3.0 percentage points in the past two years. A labour force participation rate is defined as the section of the working population in the age group of 16-64 years in the economy currently employed and unemployed but active in the job market.

A bigger concern is that a larger section of the people has lost jobs because of the pandemic and dropped out from actively looking for jobs. These are the discouraged or marginally attached workers who are overly pessimistic about job conditions, do not have the necessary schooling or training for jobs, or are being refused by employers over their inability to take a job and for other types of discrimination. This section of the population is not getting captured as they are out of the labour-force participation rate.

To get a better assessment, we estimated the total employment to the population ratio (in the age group of 16-64 years). The employment to population ratio has remained below the labour force participation rate and consistently declined over the years (Figure 1). Additionally, this ratio declined much sharper than the participation rate during the pandemic, suggesting that the share of discouraged and marginally attached workers in the population was much more than what was recorded in the participation rate.

The CMIE survey suggests a large proportion of this population belong to the age group of 20-35 years. While the ratio of unemployed persons not actively looking for employment to the total population ratio rose to 1.4 percent in January 2022 as against 0.9 percent in January 2020, this ratio went up to 2.6 percent from 1.7 percent for the age group of 20-35 years during this period.

**Figure 1. The employment to population ratio has remained below the labour force participation rate.**



Source: Centre for Monitoring the Indian Economy, January 2022

### Quality of jobs on the decline

What we observed is the quality of jobs along with the numbers (that provide more stability, have mechanisms for savings, and primarily belong to the formal sector) has also declined. For instance, according to the survey, salaried employees witnessed the biggest fall in employment. India is yet to see the return of 11.7 million salaried jobs lost since January 2020. At the same time, employment has increased primarily amongst small traders, wage labourers, and farmers (Figure 2).

According to a report by the CMIE, lack of jobs has also resulted in a rise of self-employment in the economy. People unable to find acceptable jobs are falling back on meagre sources of livelihoods, which explains a sharp rise in self-run businesses of taxi operators, barbers, gyms, beauticians, estate agents, brokers, religious professionals, and trainers amongst others.<sup>iv</sup>

**Figure 2. Salaried jobs have dropped sharply since the onset of the pandemic**

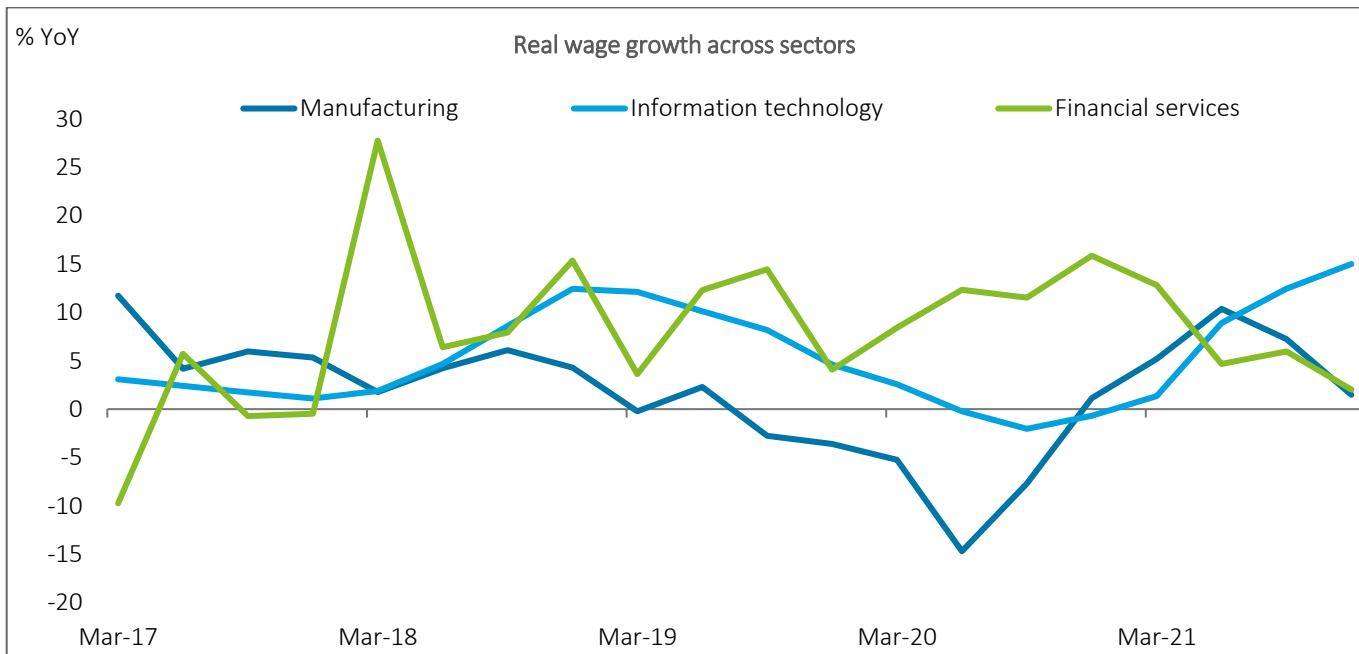


Note: January data has not been considered to exclude the impact of the third wave, which was temporary.

Source: Centre for Monitoring the Indian Economy, January 2022

The labour market recovery is gradual, and has also been quite fragmented across industries and sectors. Similar to the experiences in the rest of the world, a few sectors within the services industry have done well consistently. Jobs in the Information Technology (IT) and IT-enabled services (ITES) services have rebounded with improved mobility and strong services export on the back of digitisation initiatives by companies worldwide. This sector has also seen a demand-supply mismatch that has led to a disproportionate rise in wages. According to a report by CMIE, rising demand for the IT&ITES professionals from larger companies has resulted in double-digit growth in wages in this sector.<sup>v</sup> Wages have gone up as high as 20 percent in the recent months (Figure 3). However, this segment of the working population accounts for only 0.5 percent of the total employment.

**Figure 3: Real wages have been declining in the manufacturing and financial services sectors but rising in the IT services sector.**



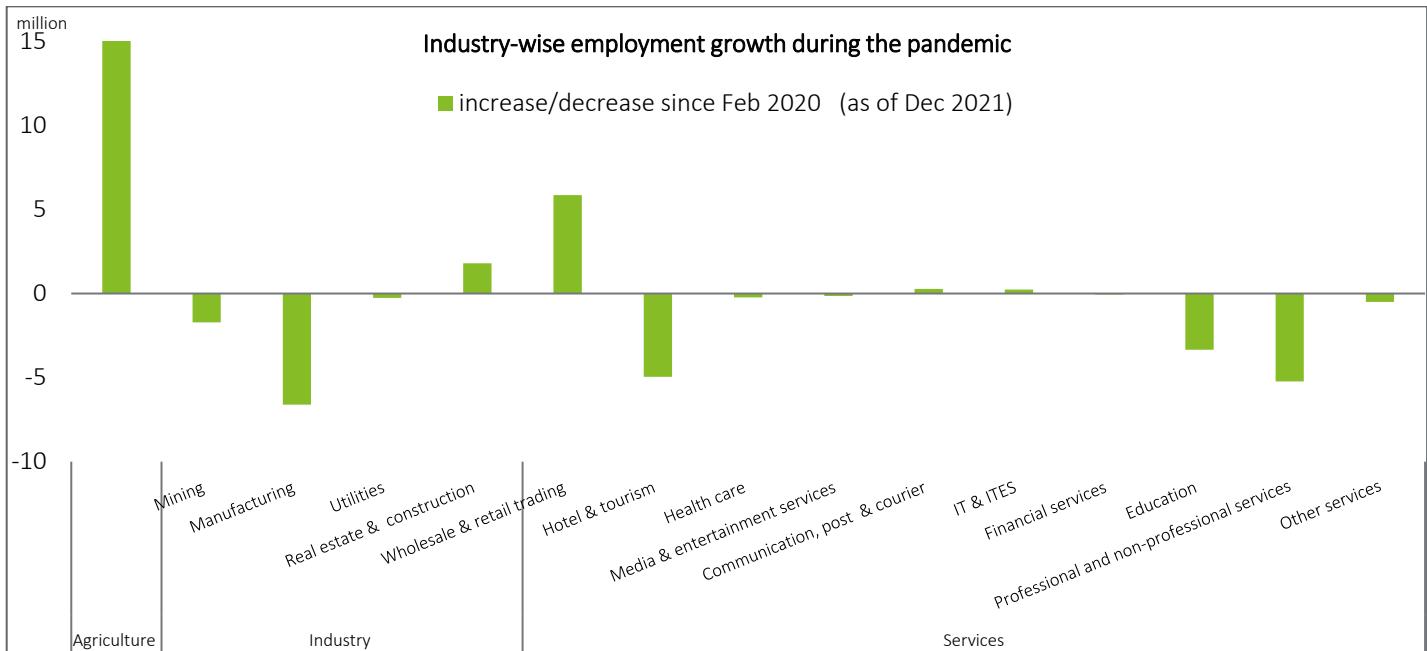
**Source:** Centre for Monitoring the Indian Economy, January 2022

On the other hand, the total employment in the manufacturing sector is almost 6.5 million lesser than the level in February 2020, while the services industry has to create over 8 million jobs to reach the pre-pandemic levels (Figure 4). Lack of employment opportunities, a slow rebound in the hospitality sector (hotel and tourism sectors), and the lack of social security benefits have resulted in reverse migration and pushed the unemployed towards the agriculture and trade sectors.

**Since January** 2020, agriculture has been the largest employer followed by the ‘wholesale and retail trading’ and ‘real estate and construction’ sectors. Within agriculture, reverse migration has seen the biggest increase in employment of farm labourers, which are a part of daily wage labourers. The mismatch between the work demand under the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) and person-days generated data suggests stress on rural employment (Figure 5).

However, these three sectors have a predominant informal sector. For instance, 97 percent of the employees in the agriculture sector belong to the informal sector as of FY2017-18. The trade, repair, accommodation, and food services sectors are the next biggest employers of informal employees (above 85 percent).<sup>vi</sup>

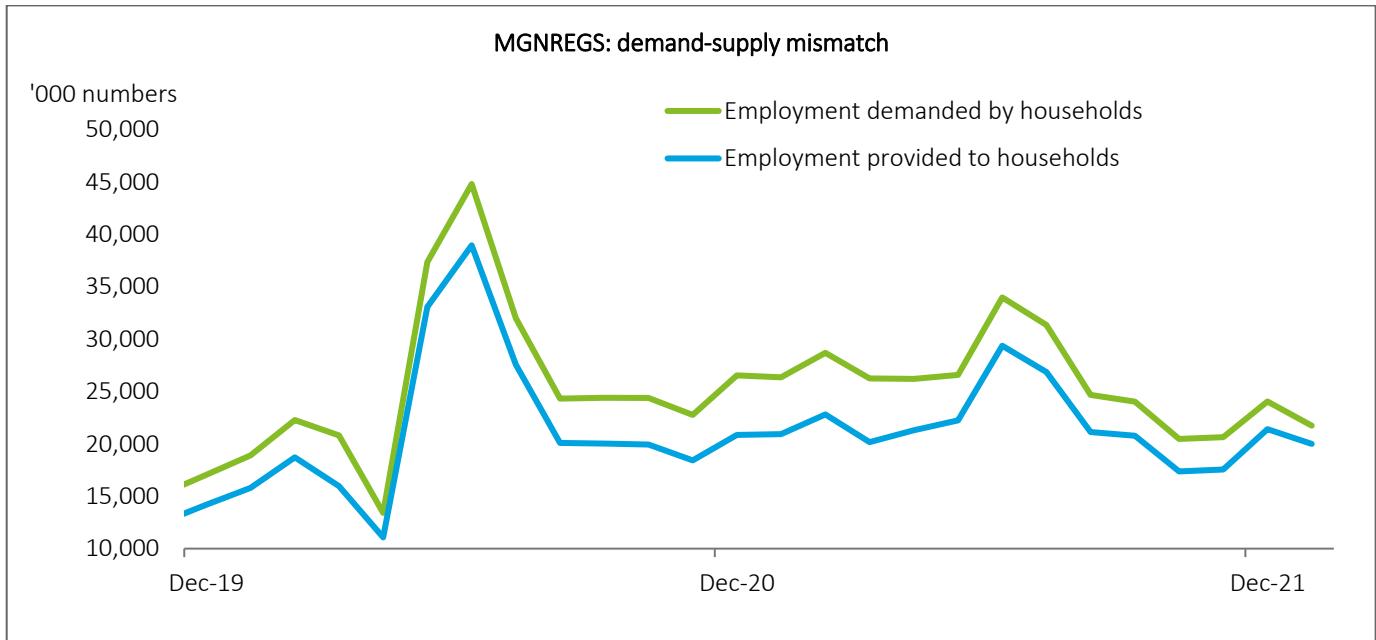
Figure 4: The impact on the labour market has not been uniform across different industries.



Note: January data has not been considered to exclude the impact of the third wave which was temporary.

Source: Centre for Monitoring the Indian Economy, January 2022

Figure 5. Higher jobs were in demand than being supplied since the pandemic



Source: Centre for Monitoring the Indian Economy, January 2022

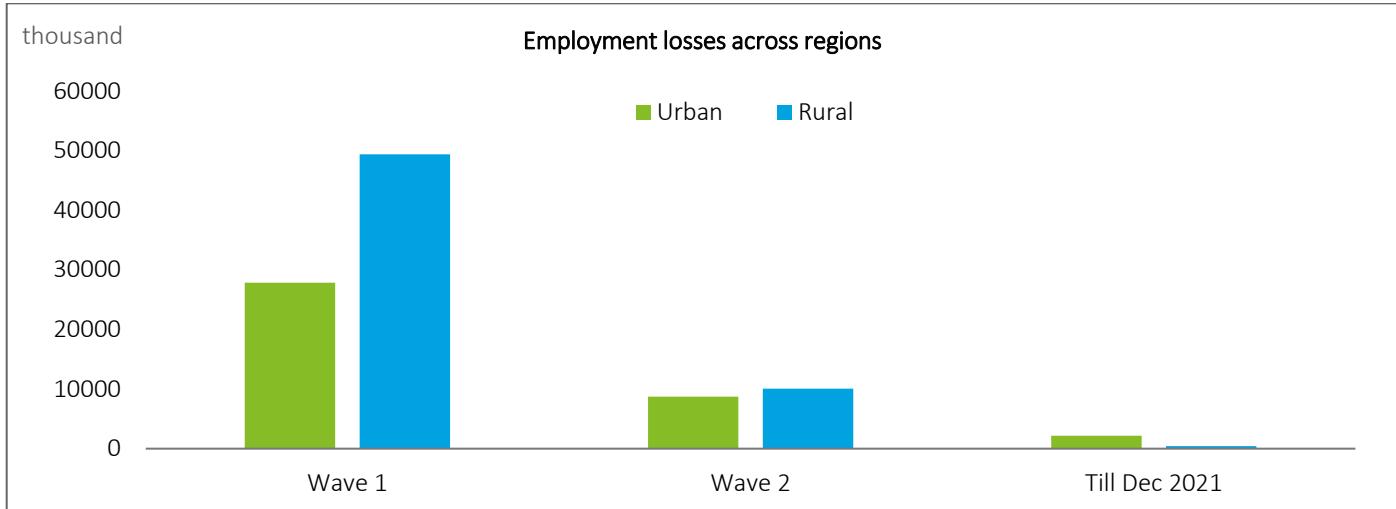
While the pandemic can be held responsible for the weak labour market, the slowdown in the labour market started much before the pandemic. The latest Periodic Labour Force Survey (PLFS) report in FY2019-20 shows that while unemployment dropped to 4.8 percent, this was along with a sharp increase in employment in agriculture to 45.6 percent, up from 42.5 percent in FY2018-19. The PLFS data also indicates a falling share of manufacturing, construction, and 'transport, storage and communication' in total employment. These industries have a fairly large presence of the unorganised sector. In other words, a large proportion of the population had access to limited job opportunities even before the pandemic.<sup>vii</sup>

In short, there has been a significant prevalence of disguised unemployment in certain sectors where people are probably working below their potential. The pandemic has only made the situation worse.

### Rising discrepancies in opportunities

**Regional:** Employment dipped sharply across the urban and rural regions, but recovery in job losses has been relatively slower in the former. Urban employment is yet to reach the pre-pandemic levels. On the other hand, the availability of informal jobs in the agrarian and rural sector, fewer lockdowns, and job support from the MGNREGA scheme have aided in a quicker rebound in rural employment since the pandemic (Figure 6). This might delay the return of migrated workers who returned to their hometown during the lockdowns.

Figure 6. Rebound in job opportunities in urban areas remained gradual.

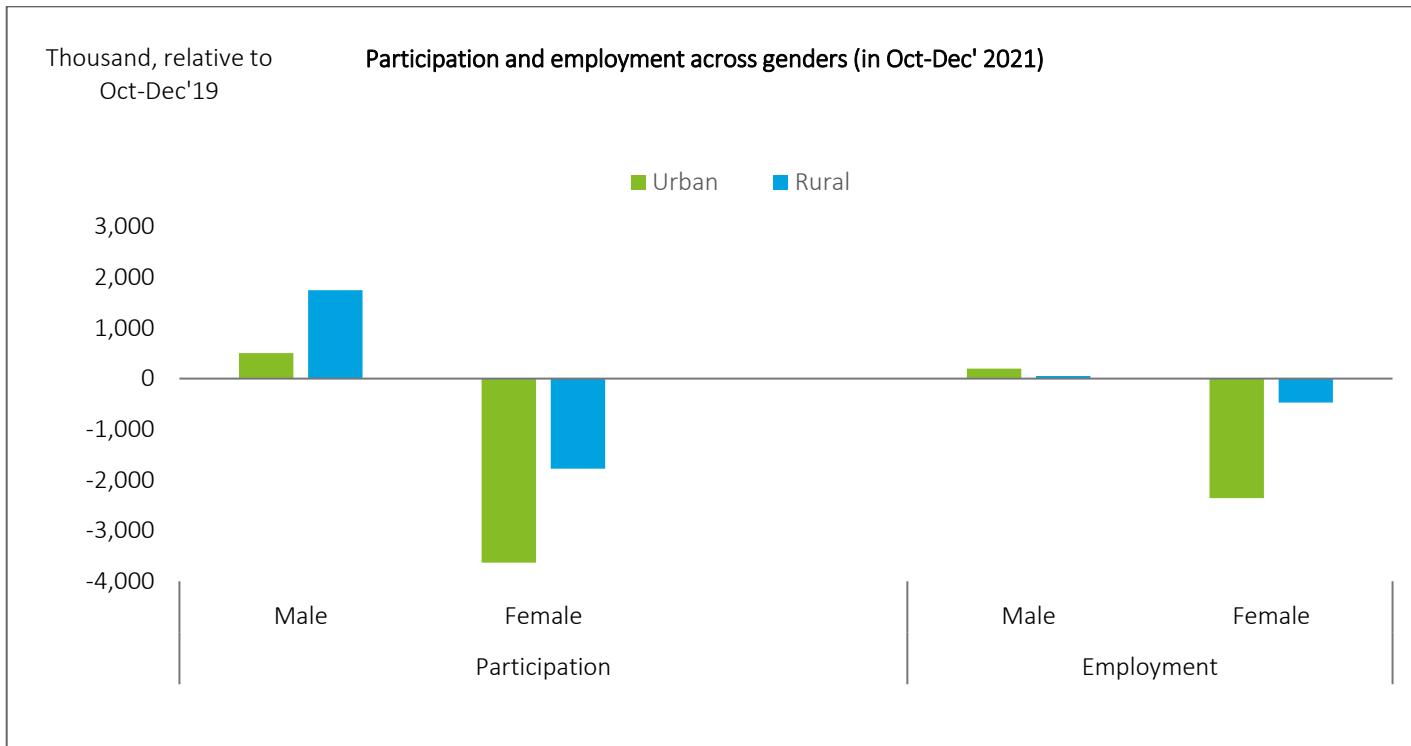


Source: Centre for Monitoring the Indian Economy, January 2022

**Gender:** The pandemic has widened the gender inequality issue, undoing years of the government's efforts to bridge the gender divide in the workforce. The impact on gender opportunities has been relatively higher in India than the other emerging nations. The International Labour Organisation (ILO) estimates show that India's female labour force participation is not only lower than the world average but has declined by 6.9 percentage points between 1990 and 2016.<sup>viii</sup> The female labour force has declined by 10.3 percent since Oct-Dec 2019, while the male labour force has crossed pre-COVID levels by 1.4 percent<sup>x</sup> during the same period.

At the same time, employment amongst females declined by 7.9 percent from FY2019-20, with men taking over their jobs and also claiming incremental job gains in the past two years.<sup>ix</sup> A study investigating the differential impact of the pandemic shock on labour market outcomes for male and female workers suggests that more women lost jobs, especially those who did have a higher probability of not returning to work subsequently, compared to men (Figure 7).<sup>x</sup>

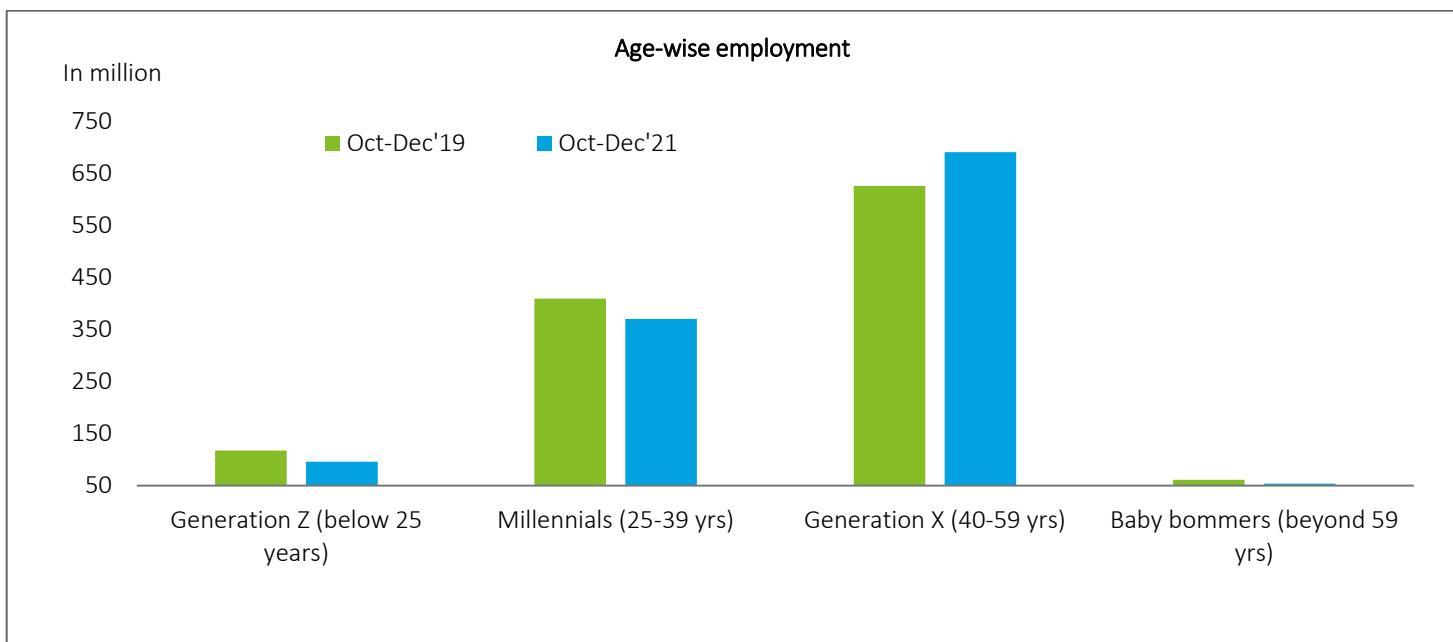
**Figure 7. Women have been disproportionately hit during the pandemic.**



**Source:** Centre for Monitoring the Indian Economy, January 2022

**Youth:** The other daunting challenge is that of the rising youth employment. During the pandemic, a large proportion of millennials and Gen Z struggled for jobs (Figure 8). The age-wise distribution shows that employment for people between the ages of 20 and 44 years declined since the onset of the pandemic. The pandemic has had a disproportionate impact on youth employment and India needs close to 20 million jobs to employ the young population (between 20 and 44 years) to reach the pre-pandemic levels. Also, people beyond 60 years opted to retire during this period.

**Figure 8. Youth employment is a concern that India will need to address.**



**Source:** Centre for Monitoring the Indian Economy, January 2022

India faces the daunting challenge of creating jobs that are broad-based (for youth as well as across sectors). Due to the pandemic, several children have fallen out of the education grid during school closures. While learning losses might be a short-term challenge, this disruption may have a long-term impact on students' aspirations and result in a hysteresis effect on education. At the same time, adopting a labour-intensive path to absorb India's massive low-skilled population will be difficult given the increased adoption of labour-saving technologies by businesses during the pandemic. The world on the other side of the pandemic will demand more efficiency and knowledge-intensive skills, further skewing opportunities between the haves and have nots.

Currently, India needs policies that can create jobs and prepare the workforce for the future. The government will have to focus on building both physical as well as digital infrastructure to create opportunities for the youth. Lately, the government has stepped up its effort to boost investment to effectively implement such infrastructure projects because of the strong income and employment multiplier effects with tangible public benefits. Besides, the government's PLI scheme covering 14 sectors is not only expected to generate over 6 million jobs in the next 5 years (as announced during the Union Budget 2022), a significant concentration in outlays on manufacturing sectors such as electronics, auto, solar panel manufacturing will also require significant number of workers with specific skills. Therefore, the government's efforts to create jobs must be complemented with training and skill development programmes. India must tap into the opportunity of rising global demand for technical skills by improving its ability to deliver/export such services.

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i CMIE database

ii CMIE database

iii Available in the CMIE database

iv CMIE database, consumer pyramid survey.

v Mahesh Vyas, An IT & ITES labour conundrum, CMIE, 25 October, 2021

vi S V Ramana Murthy, Measuring Informal Economy in India – Indian Experience, IMF forum, 2019,

vii <https://economicoutlook.cmie.com/kommon/bin/sr.php?kall=wshreport&nvd=20210809122441850&nvtype=INSIGHTS> and

[http://mospi.nic.in/sites/default/files/publication\\_reports/Annual\\_Report\\_PLFS\\_2019\\_20.pdf](http://mospi.nic.in/sites/default/files/publication_reports/Annual_Report_PLFS_2019_20.pdf)

viii Li, C. (March 28, 2019). Falling Female Labor Force Participation in China and India. Pacific Exchange Blog, Federal Reserve Bank of San Francisco.

ix CMIE database

x <https://cse.azimpromjiuniversity.edu.in/publications/down-and-out-the-gendered-impact-of-the-covid-19-pandemic-on-indias-labour-market/>

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