

ASPECTS

Unemployment Rate : A Crucial Metric



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Unemployment Rate: A Crucial Metric

“Work is Worship” is a common adage and unemployment is often considered a scourge.

Imagine the excitement of young graduates embarking on their first career role, and looking forward to employing their years of education and learning at their workplace. More broadly, it’s probably fair to say that individuals pursuing their careers and performing their duties - professional, familial, social and otherwise, contribute to their societies, earn a living, hone their own skills and form meaningful relationships that become the cornerstone of their lives.

Conversely, prolonged unemployment or non engagement in relevant activities¹ may lead to financial distress, atrophy of faculties, degenerate behaviours, and familial and social stress.

From a macroeconomic standpoint, it can be said that the income and output of a nation is a function of the nature of employment of it’s workforce, and economic growth and stability of society depend on it. Consequently, government policy makers and central banks closely track employment statistics to gauge the strength and stability of the economy. They expect employment trends to stay within a certain range and upon meaningful deviations may design and implement policies that address underlying causes.

Unemployment Trends in India

Although employment statistics are tracked along several dimensions, probably the most commonly used metric is unemployment rate or UR, expressed as a percentage.

$UR\% = \text{Number of individuals} > 15 \text{ years of age and not employed} / \text{Labor Force.}$

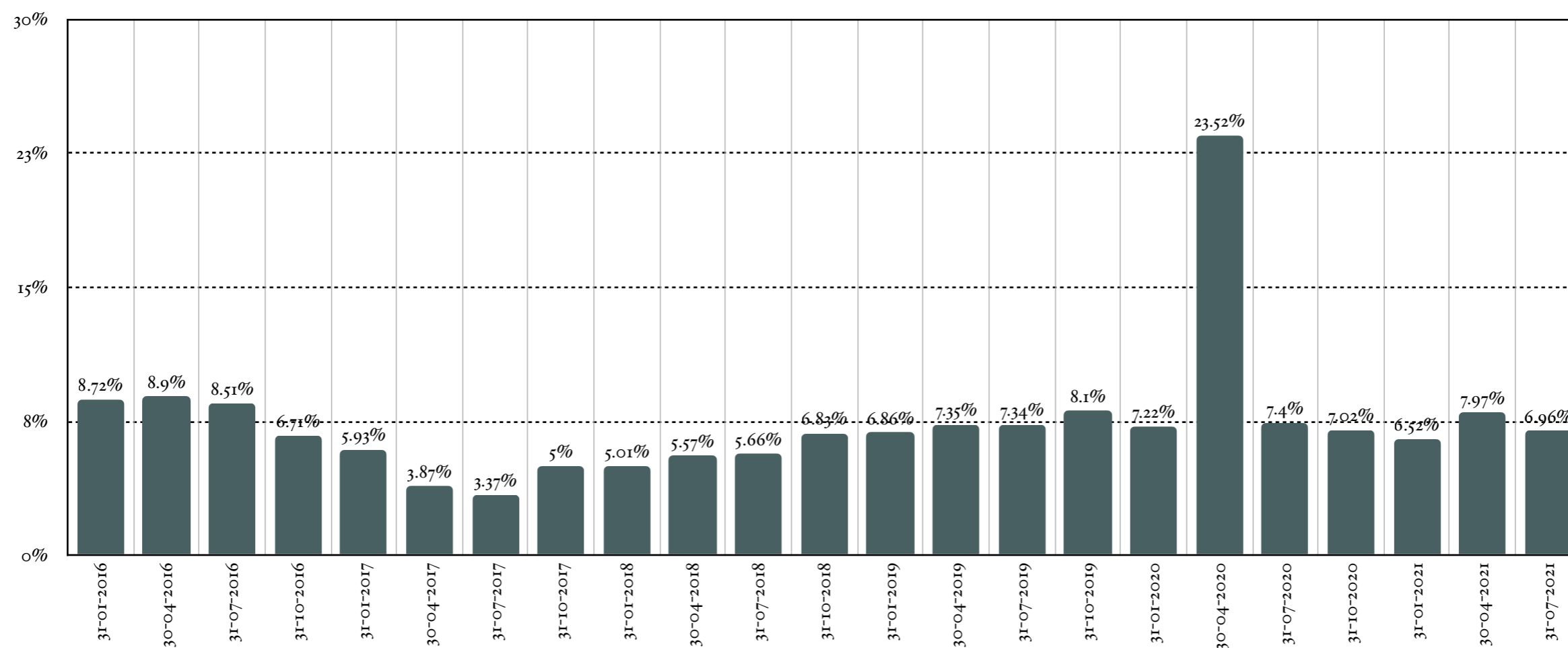
¹ Traditional measures of employment may not consider students, homemakers and retired individuals who are not engaged in typical “paid work”, as employed. However, such individuals may be productively engaged in chosen activities appropriate for their context.

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In other words, the UR% tells us what proportion of the population wanting to work, is unemployed. There are several possible reasons for unemployment including reduced aggregate demand, skill mismatches, suboptimal allocation, workforce health and individual choices.

Data from the Centre for Monitoring Indian Economy², Exhibit 1, shows that over the last 6 years, the UR% dropped from 2016 to 2017, increased gradually till late 2019, and then was greatly influenced by COVID 19 and associated mitigation measures.

Exhibit 1 : All India Monthly Unemployment Rate % - Quarterly Intervals

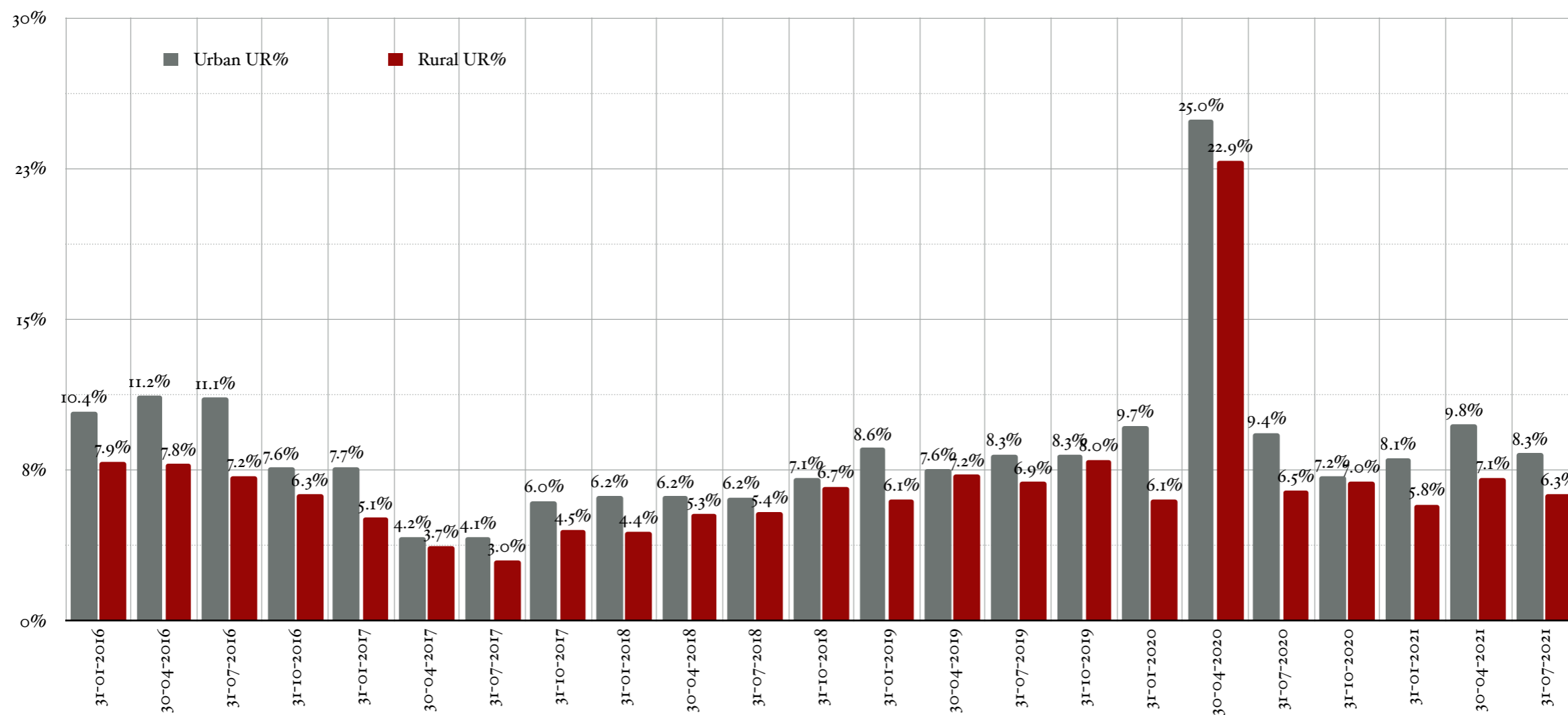


² Per CMIE methodology, Unemployment rates are estimated from data collected from a stratified sample of 178, 677 households from all over the country over defined time periods. For a detailed description of the methodology, refer to www.unemploymentindia.cmie.org.

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A large percentage of the Indian population resides in rural areas, where the main source of employment is agriculture and allied activities vis a vis employment in the organised sector, unorganised labor force and small businesses in urban areas. UR% in rural India has been lower than that in urban India and this has consistently held true over the last 6 years, notwithstanding policy measures and external factors.

Exhibit 2 : Urban vis a vis Rural Monthly Unemployment Rate % - Quarterly Intervals

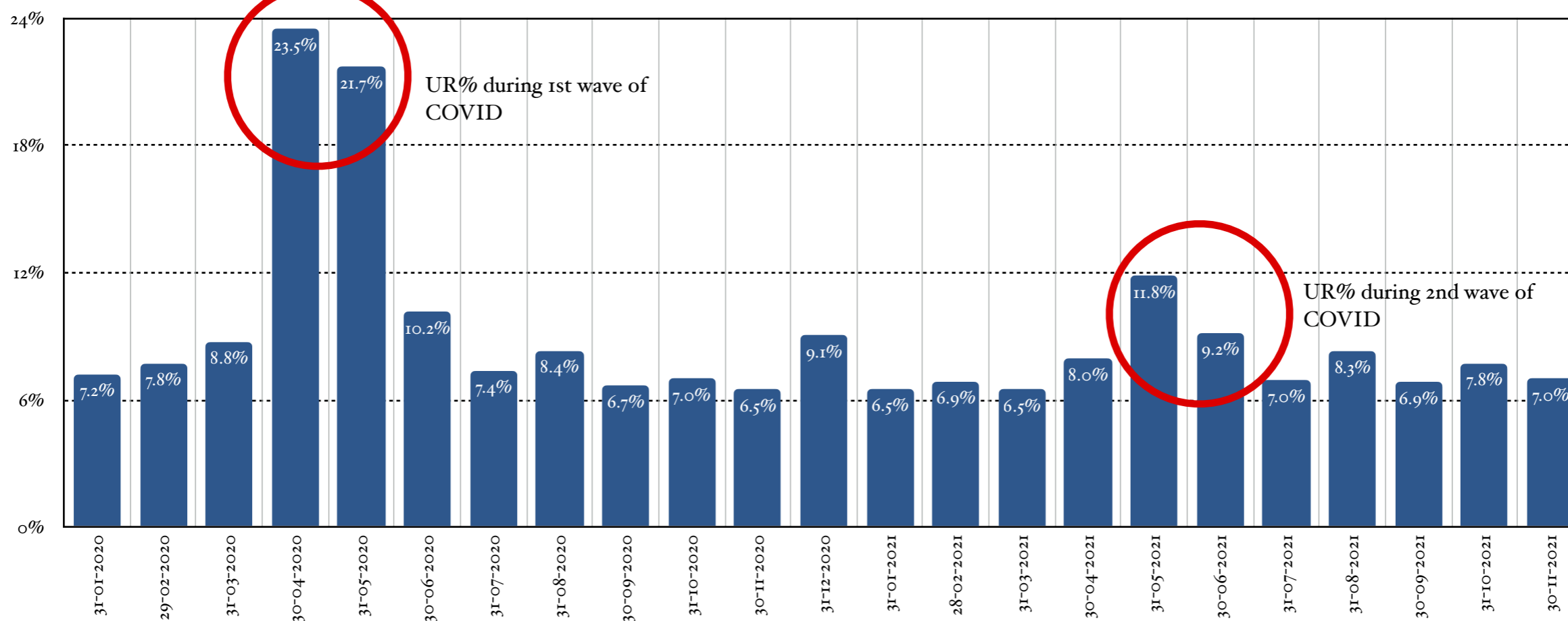


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COVID 19 IMPACT

The COVID 19 pandemic has severely impacted the health of populations across nations and disrupted economic activity over the past 24 months. Many nations are now facing off against the 3rd wave of the pandemic, and continuing to respond with pathbreaking measures to mitigate its impact. The UR% in India during the pandemic is graphed in Exhibit 3 below.

Exhibit 3 : All India Monthly Unemployment Rate % - Monthly Intervals



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After the first wave hit in March 2020, the UR% shot up to a historically high 23.5% in April 2020. This spike subsided to a large extent as mitigatory measures, including work from home and financial relief to businesses and individuals were implemented. Vaccinations began in January 2021, and with less strict restrictions on businesses and mobility, the 2nd wave had a lesser impact on unemployment rates as seen in the reduced uptick in May 2021. The third wave, with the Omicron variant has started to pick up over the last week or so and its repercussions will only be known over the next several weeks.

Beyond the discrete impact of a given COVID wave, there are questions on the health and productivity of the workforce coming out of a long period of COVID induced behaviours.

Critics have pointed out that measuring employment statistics for the Indian economy may have room for improvement enabled by, amongst others, better tracking and understanding of a large proportion of the workforce in the unorganised sector, seasonal employment and migration trends.

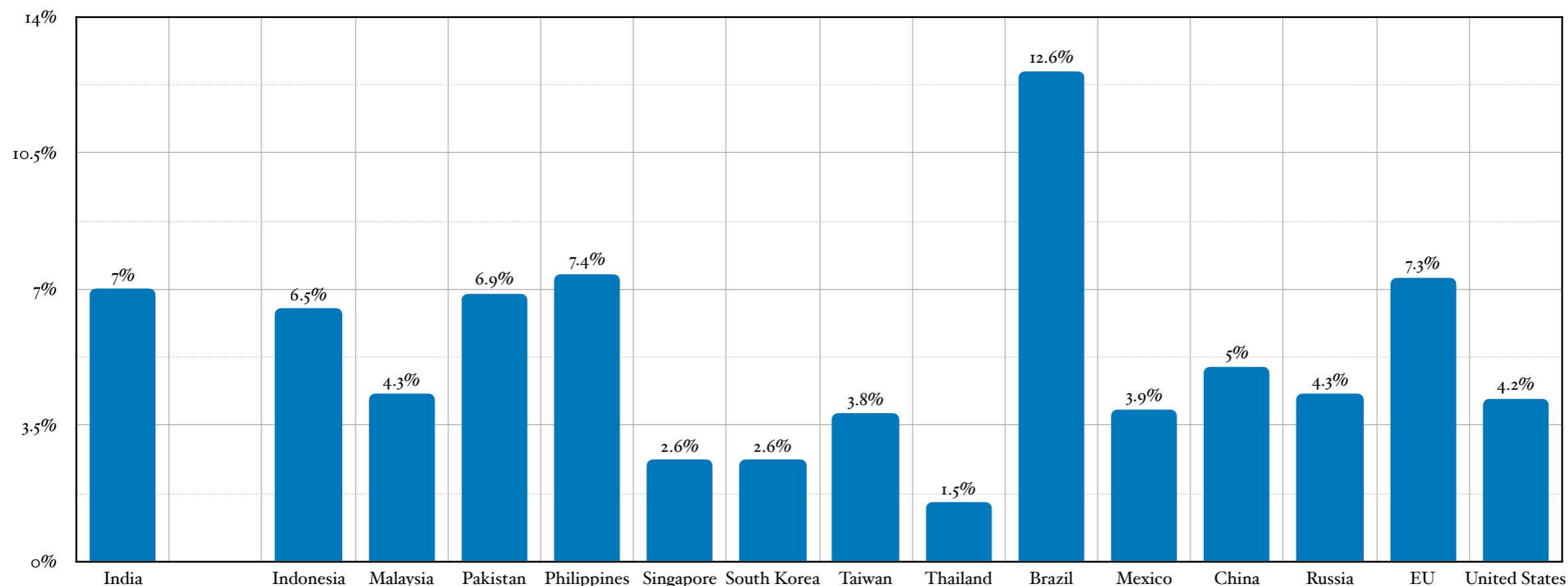
Relative Unemployment Trends

While India's Unemployment rate has largely corrected to pre COVID levels, relative to its geographic neighbours and other large economies, country stats are on the higher side³, Exhibit 4.

³ Data Source: The Economist Magazine. December 18-31st 2021 Issue.

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Exhibit 4 : Unemployment Rate %, Nov'21 or most recent - Countries & Regions



India's employment profile has undergone significant shifts over time aided by increasing literacy rates, migration trends and diverse economic growth. This in turn has likely had a corresponding impact on individual lives and on the output and growth of our country.

And while there are several reasons as to why people face unemployment, it may be said that every well-employed person should count his blessings twice, once for his own sake and once for his country's.

Appendix

Sources

www.unemploymentindia.cmie.com

www.databank.worldbank.org

www.bls.gov

www.economist.com

www.ilo.org

www.economicstimes.com

www.hindustantimes.com

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Northplains Research

Disclosures

1. Research is presented on an informational basis. Suggestions or conclusions arrived at, may not be applicable in all situations and all contexts.
2. Past performance does not necessarily predict future outcomes.
3. Unemployment rates are usually measured by collecting large representative samples over different time periods. The methodology, definitions and representation may vary for estimates from different sources and over time.
4. Information from Internet based sources is not additionally verified.
5. Investors should consider their financial objectives, risk appetite and return expectations and perform their own due diligence or consult their advisors before coming to conclusions or making investment decisions.

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