

Economic recovery has finally begun, but India needs to watch out for global headwinds

September saw 85 lakh jobs added, the highest since the Covid shock in March 2020. Inflation has fallen, exports are rising, and 1 billion vaccinations is an important milestone.

ILA PATNAIK and RADHIKA PANDEY 22 October, 2021 7:30 am IST



Illustration by Ramandeep Kaur | ThePrint

The Indian economy is seen to be recovering steadily after the second wave of the Covid-19 pandemic. While over the last few months, economic recovery has been gaining momentum, as seen through the various macroeconomic indicators, employment had remained subdued. The bright spot in economic recovery has been the recent sharp pick-up in employment and consumer sentiments.

Many surveys indicate that job creation in the economy has picked up pace. According to the Centre for Monitoring Indian Economy's (CMIE) [Consumer Pyramids Household Survey](#), September saw 85 lakh additions to employment. This took employment in September 2021 to the highest mark since the Covid-19 shock in March 2020.

The increase in employment was seen both in urban and rural areas, and was not primarily driven by agricultural employment. The most promising part of the jobs number was that of all the major occupation groups, salaried jobs saw the biggest increase.

The recent weekly employment numbers suggest that the uptick in employment seen in September is likely to continue in October. While the week ending 3 October saw a decline in employment rate, the last two weeks have seen a consistent increase — from 36.8 per cent in the week ended 10 October to 38.5 per cent in the week ended 17 October. An employment rate of **38.5 per cent** is impressive as such a level has not been seen since March 2020. It is likely that employment may breach pre-Covid levels in October.

Formal sector job creation, as measured by the Employees Provident Fund Organisation's (EPFO) [payroll data](#), jumped by 48 per cent in August. The EPFO added 14.8 lakh net subscribers in August. The payroll data shows that many **first-time job seekers** (in the age-group of 18-21 and 22-25) are joining the organised sector work-force. They have contributed roughly half of the net addition to the subscriber base in August.

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Higher salaries, rising consumer confidence

In addition to a spurt in hiring, employers are likely to give **better salary hikes**. Better-than-expected pace of vaccination is boosting economic recovery. Swift recovery coupled with pent-up demand is likely to help firms augment their business activity and offer higher salary hikes.

The services sector was the hardest hit due to the Covid-19 pandemic. However, the sector is seeing a rebound amid the easing of restrictions as Covid recedes. September saw the services sector recording the second fastest pace of expansion since the Covid-induced

lockdown. Along with a rebound in services sectors, an uptick in hiring was also seen in September after nine months of consecutive job shedding.



With the improvement in salaries, consumers are getting more optimistic about their incomes. The RBI's [Consumer Confidence Survey](#) suggests that their perception about the current economic situation and expectation about future economic conditions improved in September from the earlier rounds.

The CMIE's Consumer Sentiment Indices, reflecting both the current economic conditions and expectations about future economic conditions, reflect a sharp improvement in September. [Weekly data](#) shows that consumer sentiments recorded an improvement in October so far. For a while, even though employment was showing a pickup, consumer sentiment had remained low. The sharp improvement in sentiment suggests an improvement in wages.

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Inflation falling, exports growing, vaccine numbers a boost

The retail inflation fell sharply to 4.35 per cent in September. This was the [third consecutive month](#) when inflation stayed below the upper threshold of 6 per cent. The fall in inflation was driven by a drop in food prices, which came down to below one per cent from 3.11 per cent seen in August. Going forward, inflation is likely to remain below 6 per cent. The recent increase in Kharif sowing and adequate buffer stock would keep cereal prices in check. Vegetable prices are also likely to remain soft if there are no supply side disruptions due to unseasonal rains.

Exports have registered a sustained growth since March this year. Sectors such as engineering goods, textiles, chemical products have witnessed a steady growth amid a recovery in global trade. Combined exports (merchandise and services) grew roughly 22 per cent in September over the same period last year. Exports have also surpassed the levels seen in the pre-pandemic period.

India crossed the 100 crore vaccine dose milestone on 21 October. Over 75 per cent of India's adult population has received at least one dose and more than 31 per cent have been administered both doses. The government plans to vaccinate the entire adult population by year-end. The expanded coverage of vaccination and slump in new cases and mortality will give a further boost to domestic demand and economic activity.

While the economy is witnessing a rebound, resurgence in global inflationary pressures amid a rise in demand could pose a risk to growth in India and could cause prices to surge. Volatile international crude oil prices, rise in prices of edible oils and input cost pressures emerging from shortage of metals could pose a risk to the economic recovery. While some steps have been taken to address supply bottlenecks, policymakers need to remain alert to inflationary pressures arising from rising global demand.

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Views are personal.

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