

**Table 1: Key economic and labour market indicators**

| Macro   | 2012-13          | 2013-14          | 2014-15          |
|---|------------------|------------------|------------------|
| Real GDP (% change y-o-y) <sup>i</sup>                      | 5.1 <sup>a</sup> | 6.9 <sup>a</sup> | 7.3 <sup>a</sup> |
| Investment (% of GDP)                                       | 31.4             | 29.7             | 28.7             |
| Labour market   | 2004-05          | 2009-10          | 2011-12          |
| Employment (million) <sup>ii, b, c</sup>                    | 457.9            | 459.0            | 472.9            |
| Unemployment (million) <sup>c</sup>                         | 11.3             | 9.8              | 10.8             |
| Labour force participation rate (%) <sup>c</sup>            | 43.0             | 40.0             | 39.5             |
| Male  | 55.9             | 55.7             | 55.6             |
| Female  | 29.4             | 23.3             | 22.5             |
| Unemployment rate (%) <sup>c</sup>                          | 2.3              | 2.0              | 2.2              |
| Male  | 2.2              | 2.0              | 2.1              |
| Female  | 2.6              | 2.3              | 2.4              |
| Share of employment in manufacturing (%) <sup>c</sup>       | 11.7             | 11.0             | 12.6             |
| Male  | 12.0             | 11.1             | 12.3             |
| Female  | 11.2             | 10.8             | 13.4             |
| Share of regular wage and salaried workers (%) <sup>c</sup> | 14.3             | 15.6             | 17.9             |
| Male  | 17.2             | 17.7             | 19.8             |
| Female  | 8.3              | 10.1             | 12.7             |
| Working poverty rate (%) <sup>iii</sup>                     |                  |                  |                  |
| US\$1.25 per day  | 39.2             | 29.3             | n.a.             |
| US\$2 per day   | 74.5             | 66.3             | n.a.             |
| Average real daily wage index, 2004-05=100 <sup>d</sup>     |                  |                  |                  |
| Rural   | 100.0            | 111.7            | 122.8            |
| Urban   | 100.0            | 129.4            | n.a.             |

**Note:** a) at 2011-12 prices; 2014-15 – provisional estimate; b) all ages; c) usual status; d) average real daily wage index for regular wage/salaried employees aged 15-59 years.

**Source:** i) Ministry of Finance Monthly Economic Report, May 2015; ii) National Sample Survey, Employment and Unemployment Schedule, 61st, 66th and 68th rounds; iii) ILO: Key Indicators of the Labour Market, 7th Edition (Geneva, 2011).

## Overview

For much of the 2000s, India experienced rapid growth, averaging 8 per cent or more per annum. At the end of 2011, the economy slowed down considerably, before returning to stronger growth in 2013-14.

Overall, outcomes in the labour market have lagged economic trends as reflected by the period of 'jobless growth' from 2004-05 to 2009-10, though this was followed by stronger employment creation in the subsequent period up to 2011-12.

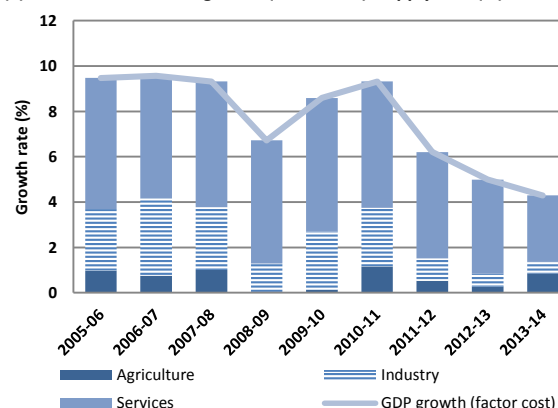
Although structural transformation has taken place, as reflected by the movement of people out of agriculture, the vast majority of workers continue to be engaged in informal jobs, particularly in the construction sector. More disconcerting is the fact that, while new jobs are being created in the formal sector, most of them are informal since workers do not have access to employment benefits or social security.

In addition, notable gender disparities persist, which is captured in part by the large gap between the participation rates of men and women.

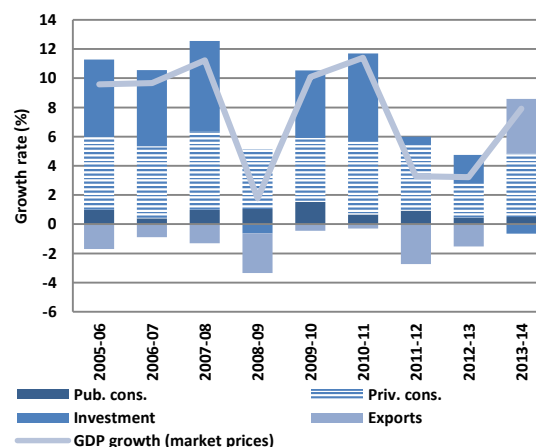
## Has growth recovered?

Following a sustained period of growth, India's economy slowed down in 2011-12. The GDP growth rate touched a low of 4.5 per cent in 2012-13 (fiscal year) (see figure 1a). However, new estimates of gross domestic product (based on 2011-12 prices), which are not captured in Figure 1, have indicated a stronger recovery in recent years than revealed by the previous series: the GDP growth rate reached 7.3 per cent in 2014-15 (provisional estimate), up from 5.1 per cent in 2012-13.<sup>1</sup>

**Figure 1: High growth in India is driven by investment and industry**  
(a) Contribution to GDP growth (factor cost): supply-side (%)



(b) Contribution to GDP growth (market prices): demand-side (%)



**Source:** Ministry of Finance, Government of India; author's calculations.

Reflecting global trends, inflation has fallen in recent times (CPI stood at 5.0 per cent in May 2015). However, the investment rate decreased to 28.7 per cent of GDP in 2014-15, down from 31.4 per cent in 2012-13.

## Employment growth picks up pace from 2009-10 to 2011-12

The most recent data from the National Sample Survey (NSS) (68th Round) reveals that employment grew strongly from 2009-10 to 2011-12 in comparison to the previous period.<sup>2</sup> The total workforce (based on the usual status definition; see box 1) in the country increased from 459 million in 2009-10 to 472.9 million in 2011-12. In comparison, the increase in employment from 2004-05 to 2009-10 was just 1.1 million (see table 1).

### Box 1: Definitions used in India's National Sample Survey

Three reference periods are used in the National Sample Survey (NSS) Employment and Unemployment Schedule: (i) one year; (ii) one week; and (iii) each day of the reference week. This yields three different measures of activity status of an individual: (i) usual activity status (US); (ii) current weekly status (CWS); and (iii) current daily status (CDS). In addition, the usual status is further distinguished between persons who are: (a) engaged in the activity for a relatively long part of the 365 days preceding the date of survey; or (b) remaining persons who were engaged in that activity for at least 30 days during the reference period of 365 days. These are referred to as usual principal status and usual subsidiary status, respectively. Finally, the usual principal and subsidiary status (UPSS) consists of both categories of persons ((a) and (b)). The analysis in this note primarily focuses on the usual principal and subsidiary status (UPSS) definition, which is the most relevant for a country like India.

Source: Ministry of Statistics and Programme Implementation, Government of India.

Taking a longer-term perspective, employment has grown faster for men and in urban areas. In this regard, male employment grew by 1.9 per cent per annum from 1999-2000 to 2011-12, while female employment increased by just 0.3 per cent on an annual basis.<sup>3</sup> Over this period, urban areas accounted for 57.2 per cent of the growth in employment, though only 31 per cent of the population live in urban areas (as per the 2011 Population Census).

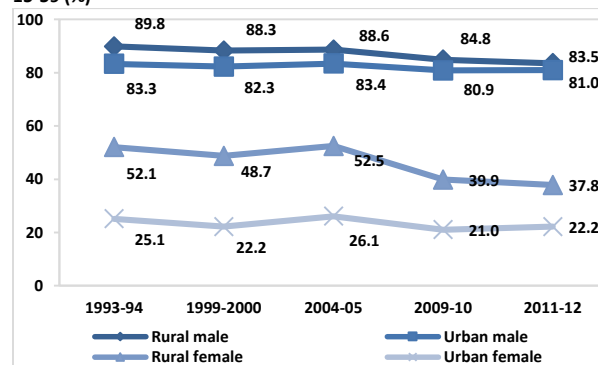
Though measuring wages is inherently difficult in a country where the majority of workers are self-employed and based in agriculture, most trends show that wage growth has been robust, especially during the period of high economic growth in the 2000s. NSS figures indicate that average real daily wages (for regular wage/salaried workers only) increased strongly from 2004-05 to 2009-10, most notably for urban workers (29.4 per cent) in comparison to rural workers (11.7 per cent).

### But female labour force participation continues to fall in rural areas

One of the most intense debates in recent years has centred on the decline in the labour force participation rate (LFPR) of women in India revealed by, in particular, the 66th Round of the NSS (2009-10). Evidence from the 68th Round (2011-12) indicates no overall reversal in the female LFPR, which is estimated to be 22.5 per cent (for

all ages), a further decline from the 23.3 per cent reported in 2009-10. However, this aggregate trend masks a decline in the LFPR for rural women in contrast to a slight increase in urban areas (see figure 2).

Figure 2: Falling labour force participation rate among women, aged 15-59 (%)



Note: Usual principal and subsidiary status definition.

Source: National Sample Survey, various rounds.

From 2004-05 to 2009-10, the number of women workers in India dropped by 21.3 million, of which 19.5 million were in rural areas. Based on ILO's research, explanations for this surprising trend include increasing educational enrolment, shift to domestic duties, and the lack of employment opportunities at certain levels of skills and qualifications, discouraging women to seek work (especially in rural areas).

The employment figures for 2011-12 reveal that there were 9.1 million fewer women working in rural areas in India in 2011-12 (according to the usual principal status (UPS) definition), whereby the number of urban women workers increased by 3.5 million from 2009-10 to 2011-12. According to the usual principal and subsidiary status (UPSS) definition, which includes individuals working in a more marginal capacity, there was a weaker decline in the number of female workers in rural areas (2.7 million) and a stronger increase of 4.5 million urban women workers since 2009-10.

Thus, fewer women in rural areas are working; however, if they are working, they are more likely to be in subsidiary or more marginal employment in comparison to 2009-10.

### Quality of employment remains the main challenge

Beyond aggregate figures, the key labour market challenges in India are best captured by indicators that reflect the quality of employment.

The majority of workers in India are in informal employment, though there are two diverging underlying trends behind this phenomenon. Firstly, the share of workers in the unorganized sector fell from 86.3 per cent in 2004-05 to 84.3 per cent in 2009-10, and further to 82.2 per cent in 2011-12.<sup>4</sup> On the other hand, the share of informal workers in the organized sector (i.e. workers without access to social security) has increased significantly through the greater utilization of contract and other forms of casual labour.

As a consequence of these countervailing trends, the overall share of informal workers in total employment (unorganized sector workers plus informal workers in the organized sector) has remained relatively stable (at around 92%).

A more positive labour market trend is the increasing share of regular wage/salaried workers, who now constitute 17.9 per cent of total employment. Interestingly, in urban areas, the gender gap has narrowed considerably: by 2011-12, the share of urban women workers in regular employment increased to 42.9 per cent (albeit still representing only 11.7 million working women) compared to a share of 43.4 per cent for men. By comparison, in 1993-94, the female and male shares in urban areas stood at 28.5 per cent and 42.0 per cent, respectively.

### Slow structural transformation of the Indian labour market

Related to changes in employment status is the process of structural transformation as resources (capital and workers) are reallocated from low-productivity to high-productivity sectors. Though this has been a defining feature of the development experiences of East and South-East Asia, the shift from agriculture to manufacturing has not yet taken place to the same extent in India (and South Asia in general).

In India, the agricultural sector represented just 17.6 per cent of GDP in 2011-12 (see figure 3a), while the share in employment in the primary sector accounted for 48.9 per cent (the first time it dropped below one-half).

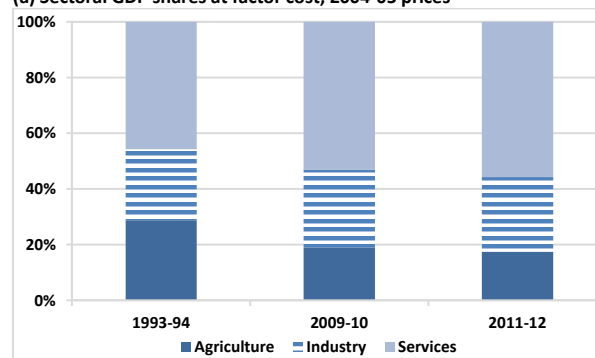
As noted above, the Indian economy is dominated by the services sector, which amounted to 55.7 per cent of GDP in 2011-12. However, in terms of employment, the share of the services sector is only at a similar level in urban areas (58.7 per cent in 2011-12), compared to just 16.1 per cent in rural regions. In contrast, if urban areas are excluded from these figures, the agricultural sector still accounts for 62.7 per cent of employment, though this share has come down considerably, from 77.6 per cent in 1993-94 (see figure 3b).

The share of industry, which consists of both manufacturing and construction, stood at 26.7 per cent of GDP and 24.3 per cent of employment in 2011-12. However, the manufacturing segment has been more stagnant. In fact, the share of manufacturing in GDP

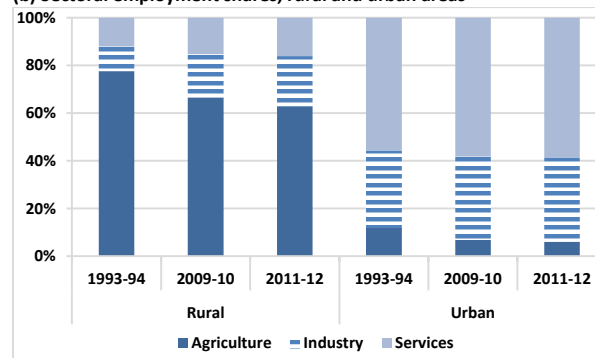
dropped from 15.3 per cent in 1993-94 to 14.4 per cent in 2011-12<sup>5</sup>, which is a major challenge given the Government of India's goal to increase this share to 25 per cent by 2022 (as per the National Manufacturing Policy). In terms of employment, the manufacturing share fluctuated around 11 per cent for some time, before increasing quite strongly to 12.6 per cent in 2011-12, which took place before the impact of the economic slowdown in 2012. Moreover, despite the increase, the share of workers in manufacturing employment in India remains relatively low compared to other East and South-East Asian countries.

Figure 3: Different dimensions to structural transformation, sectoral GDP and employment shares (%), 1993-94 – 2011-12

(a) Sectoral GDP shares at factor cost, 2004-05 prices



(b) Sectoral employment shares, rural and urban areas



Source: Central Statistical Organisation; National Sample Survey, various rounds.

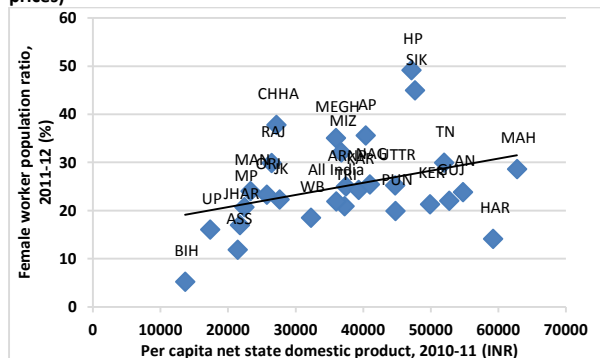
### Great variation across states in the participation of women in work

As a large and diverse country, there is great variation in economic and social outcomes across the 28 states and 7 union territories of India. In 2010-11, the per capita net state domestic product ranged from INR 13,632 in Bihar to over INR 100,000 in Goa and Delhi (National Capital Territory). Similarly, the poverty rate at the state-level varied from 7.1 per cent in Kerala to 39.9 per cent in Chhattisgarh.<sup>6</sup>

Turning to heterogeneity in the labour market, there are considerable differences in the percentage of women in the labour force, despite the overall low rate for India indicated above. In 2011-12, the female employment-to-population ratio ranged from just 5.2 per cent in Bihar to 49.2 per cent in Himachal Pradesh.

As shown in figure 4, there is a positive relationship between the per capita net state domestic product and the female worker population ratio. However, this only holds if the outliers of Goa, Delhi, Puducherry and Chandigarh are excluded.

Figure 4: State variation in participation of women in the labour force (%) versus per capita net state domestic product (constant 2004-05 prices)



Note: AN: Andaman & Nicobar Islands; AP: Andhra Pradesh; ARNP: Arunachal Pradesh; ASS: Assam; BIH: Bihar; CHHA: Chhattisgarh; GUJ: Gujarat; HAR: Haryana; HP: Himachal Pradesh; JK: Jammu & Kashmir; JHAR: Jharkhand; KAR: Karnataka; KER: Kerala; MP: Madhya Pradesh; MAH: Maharashtra; MAN: Manipur; MEGH: Meghalaya; MIZ: Mizoram; NAG: Nagaland; ORI: Odisha; PUN: Punjab; RAJ: Rajasthan; SIK: Sikkim; TN: Tamil Nadu; TRI: Tripura; UTTR: Uttarakhand; UP: Uttar Pradesh; WB: West Bengal.

Source: Central Statistical Office; National Sample Survey.

### Youth unemployment remains high in urban areas

The unemployment rate for the population as a whole stood at just 2.2 per cent in 2011-12, which shows that being jobless is not the best indicator of decent work deficits in the Indian labour market. However, as witnessed in all countries, youth are far more vulnerable to being unemployed in India, especially in urban areas.

Figure 5: Youth unemployment rate, ages 15-29, 2011-12 (%)



Note: Usual principal and subsidiary status (UPSS) definition.

Source: National Sample Survey, 68th Round, 2011-12.

In this context, the youth unemployment rate in 2011-12 reached a maximum of 18.8 per cent for urban women aged 20-24 and 12.8 per cent for young urban men aged 15-19 (see figure 5). In comparison, the unemployment rate for rural youth touched a peak of 8.9 per cent for young men aged 15-19 and 6.3 per cent for young women aged 20-24.

### Return to stronger growth should improve labour market outcomes but uncertainty remains

Though employment growth has strengthened from 2009-10 to 2011-12, fewer women are working in rural areas. The transformation of the labour market continues, albeit slowly, with a rise in regular work (mostly in urban areas), a fall in the share of workers in agriculture and finally, an increase in the share of manufacturing employment. However, most of the new jobs created in the organized sector are informal because they do not provide access to employment benefits and social security.

The fundamentals to sustain high rates of growth over the longer term are in place in India: demographics, high savings/investment rates, and increased resources for infrastructure and skills development. The challenge is to ensure that these drivers of growth are associated with the creation of more decent jobs that are accessible to youth, women and disadvantaged social groups across the country, particularly in rural areas.

### For further information please contact

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<sup>1</sup> Source: Ministry of Finance Monthly Economic Report, May 2015, [http://finmin.nic.in/stats\\_data/monthly\\_economic\\_report/2015/inmdm\\_ay15.pdf](http://finmin.nic.in/stats_data/monthly_economic_report/2015/inmdm_ay15.pdf)

<sup>2</sup> There is no more recent data available from the NSS.

<sup>3</sup> Employment growth figures are based on compounded annual growth rates.

<sup>4</sup> In the Indian context, the National Commission for Enterprises in Unorganised Sector (NCEUS) defines unorganized/informal sector as consisting "all unincorporated private enterprises owned by individuals or households engaged in the sale and production of goods and services operated on a proprietary or partnership basis with less than ten workers". Whereas informal workers cover a broader category: "consist of those working in the unorganised sector or households, excluding regular workers with social security benefit provided by the employers, and the workers in the formal sector without any employment and social security benefits provided by the employers". See: NCEUS: *Definitional and statistical issues relating to informal economy* (New Delhi, 2008), chapter 2.

<sup>5</sup> However, the new GDP series (2011-12 prices) reveals a share in gross value added of 18.1 per cent (2014-15 provisional estimate).

<sup>6</sup> 2011-12 figures based on the Tendulkar methodology. Source: Planning Commission, Government of India (2013); Data for use of Deputy Chairman, Planning Commission.