

## What employment data suggests?

Employment is one of the leading indicators of growth as an increase in the same is a signal that more jobs are being created which will generate income and demand. However, the concept is amorphous given the high level of informality in the economy. Various approaches have been taken to capture the job scene which is through surveys or data from the EPFO.

Company annual reports provide accurate numbers on the headcount as of the end of the year and can be used to measure the growth in employment over a period of time. Our study uses this approach to gauge how employment has moved in the last 5-6 years. We have taken a sample of 2,019 companies and looked at the employment trend since Mar'16. The CAGR of past 5 years has been only 1.9% against CAGR of real GDP of 3.5% during the same period. Excluding the Covid induced slowdown which was visible in Mar'21 print, CAGR of employment has been 2.5%. Contact intensive sectors such as hospitality, retail, media and entertainment have been impacted the most due to Covid. Notably only 9 out of 27 industries (finance, real estate, IT, banks and healthcare, amongst others) which we evaluated posted better growth in employment numbers in CAGR terms (5 years) compared to industry as a whole. In compensation terms, per employee cost has registered a CAGR growth (5 years) of 5.7%, higher than average CPI of 4.5% during the same period.

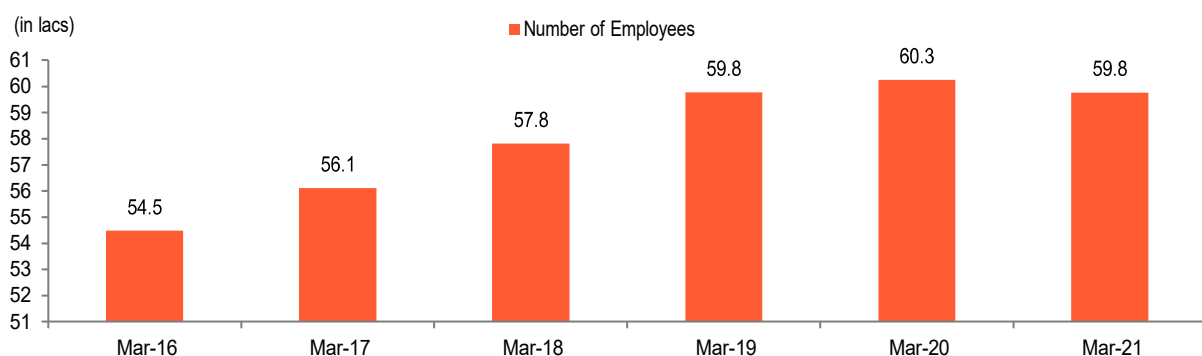
Admittedly this approach looks at the organized sector only and using yearend data which can have limitations. Attrition is common but it is assumed that in the overall scheme workers move from one industry to another or within the same industry and the numbers would be subsumed in the aggregate numbers. The sample evens out data by removing the impact of mergers as this can skew the picture.

### How employment has fared in past 6 years?

In absolute terms, number of employees increased only marginally from 54.5 lacs in March 2016 to 59.8 lacs in March 2021. The past 5-year CAGR in employment has been just 1.9% against real GDP CAGR growth of 3.5% during this same period.

There is a clear pinch in employment seen due to Covid induced slowdown which is reflected especially in the Mar'21 which went down from 60.3 lacs in Mar'20 to 59.8 lacs in Mar'21. Thus Mar'21 is the only period where actual employment number has fallen in these past 6 years. If we exclude Mar'21, the CAGR growth of employment increases slightly to 2.5%.

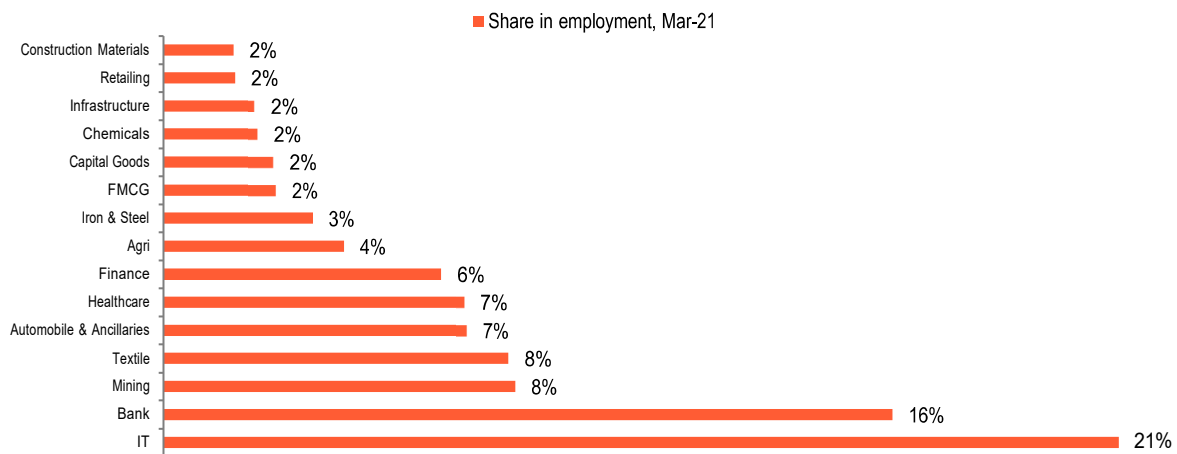
**Fig 1. Mar'21 print was impacted due to Covid:**



## Which sectors have performed better and which were left behind?

- In the past 6-years, share of employment in IT, Finance, Bank, Healthcare and automobile sectors has increased the most, whereas in sectors such as crude oil, telecom and capital goods, the share has moderated, on account of falling production.
- Crude oil production on an average has fallen by (-) 3.4% between Mar'16-21 and (-) 2.6% in FYTD22. Capital goods production has declined by (-) 3.3% and 18.8% in FYTD22. Telecom sector have grappled with payment of AGR dues. However, sectors such as FMCG (growth of 3.8% and 4% in FYTD22) and consumer durables (-1.8% in the past 5 years and 14.4% growth in FYTD22) have noted stable employment print as production also improved.

**Fig 2. IT, Bank, Mining, Textiles and Auto have high shares in total employment:**



Source: Ace Equity, Bank of Baroda Research

Interestingly, only 9 out of 27 industries which we evaluated posted growth in employment numbers in CAGR terms which is better than industry total of 1.9%. Even excluding Mar'21, results are more or less similar.

Sectors such as IT, finance and banking have been the fast growing sectors which provide support to other business either through funding or meeting operational requirements. These sectors continued to remain fully operational even during the lockdown period and hence added to the employment stream. Concerns that had employment linked with production/operations had to go in for downsizing especially when it was not possible to pay salaries due to plants being closed down or services being banned. In FY21 healthcare and FMCG witnessed growth in employment as turnover growth was high.

## Covid induced drop in employment:

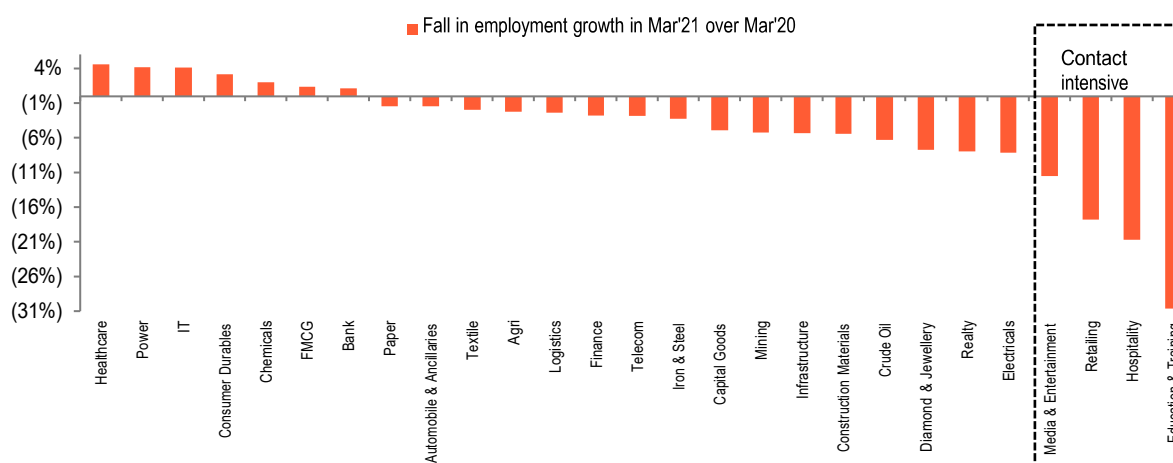
- In Mar'21 there has been a sharp slowdown in employment due to slowdown of overall economic activity surrounding lockdown measures. Decline in employment print for contact intensive services have been the sharpest.
- For sectors such as education and training (-31% drop in number of employees), hospitality (-21% decline), retailing (-18%), media and entertainment (-12%), the drop in employment figures were the sharpest. Sectors such as healthcare, IT and consumer durables however maintained its pace of hiring.

**Table 1. Sector wise performance of employment:**

Sectors	Trend in employment, CAGR, 5Y (Mar-16-21)	Trend in employment, CAGR, 4Y (Mar-16-20)
Finance	11.2%	15.0%
Realty	5.5%	9.2%
IT	5.1%	5.3%
Bank	4.7%	5.6%
Healthcare	3.6%	3.3%
Automobile & Ancillaries	3.3%	4.5%
Textile	2.3%	3.3%
Chemicals	2.2%	2.3%
Electricals	2.0%	4.7%
Consumer Durables	1.6%	1.2%
FMCG	1.5%	1.5%
Retailing	0.4%	5.6%
Infrastructure	0.2%	1.6%
Paper	-0.8%	-0.7%
Logistics	-1.5%	-1.2%
Construction Materials	-1.6%	-0.7%
Iron & Steel	-1.8%	-1.5%
Capital Goods	-2.1%	-1.4%
Power	-2.2%	-3.7%
Diamond & Jewellery	-2.2%	-0.8%
Crude Oil	-2.7%	-1.8%
Agri	-3.5%	-3.9%
Mining	-4.4%	-4.2%
Media & Entertainment	-6.0%	-4.5%
Hospitality	-8.0%	-4.5%
Telecom	-11.1%	-13.0%
Education & Training	-29.3%	-29.0%

Source: Ace Equity, Bank of Baroda Research Note: Green shaded areas where the trend in employment is better than industry total and red shaded areas are the sectors whose trend is lower than the industry average for period FY16-FY21.

**Fig 3. Covid has impacted employment growth in contact intensive sectors the most:**



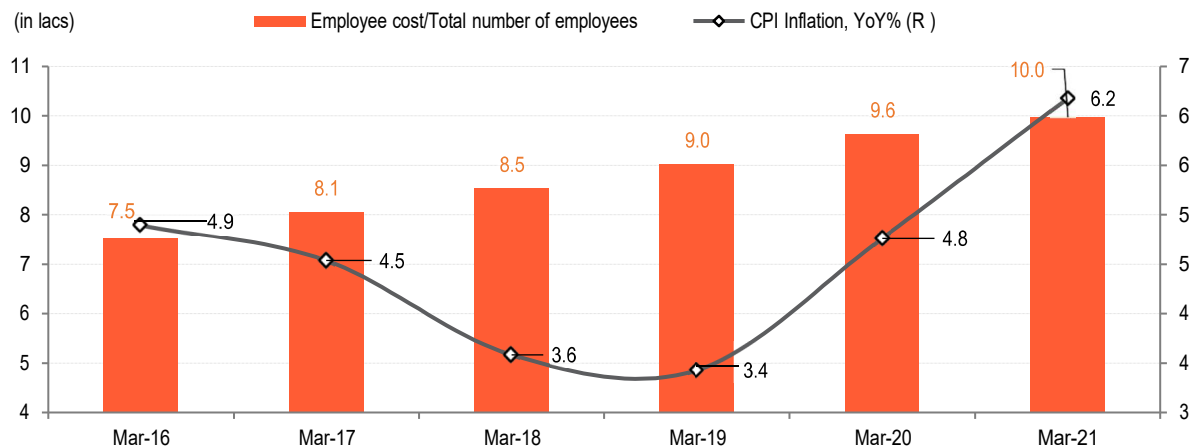
Source: Ace Equity, Bank of Baroda Research

## How has average compensation per employee moved over the years?

Employee cost/ total number of employees which shows the average compensation per employee have registered a CAGR growth of 5.7% in the past five years. This has been better than the average CPI growth of 4.5% in the past 5 years. Between Mar-16-Mar-21, CPI has been in the range of 3.4-6.2%. Excluding Mar'21 as well, average compensation per employee has increased by 6.3%.

The average compensation has increased from Rs 7.5 lacs in FY16 to Rs 10 lacs in FT21 though there was significant variation across various industries.

**Fig 4. Average compensation/employee has increased over the years**

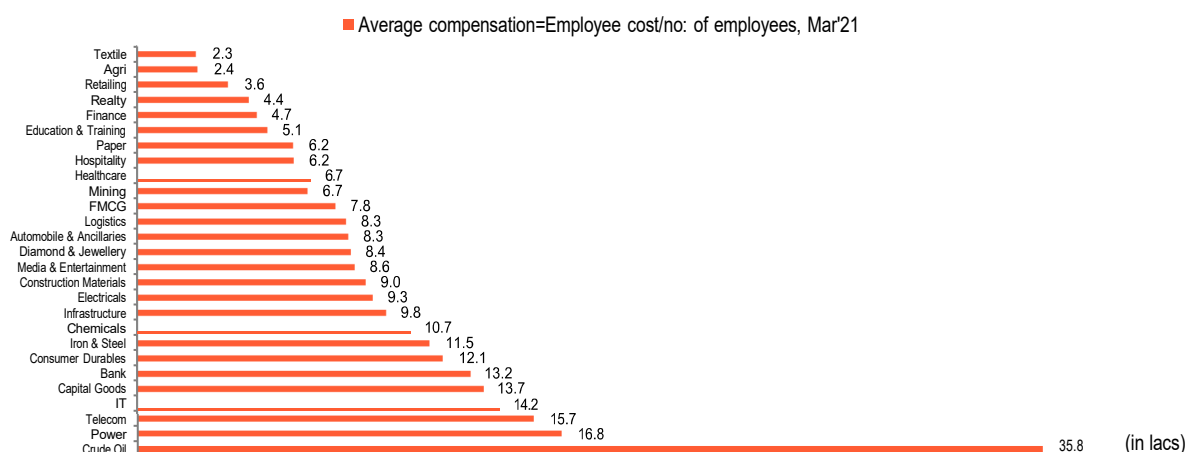


Source: Ace Equity, Bank of Baroda Research

## Which sectors performed better in terms of compensation?

In terms of average compensation per employee, sectors such as crude oil, power, telecom, IT, capital goods and banks dominated the space in Mar'21.

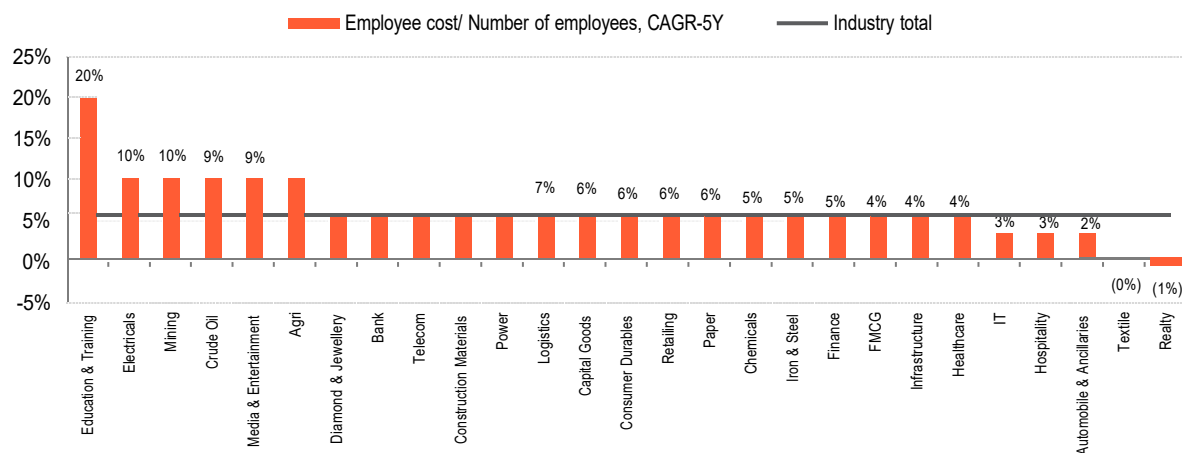
**Fig 5. Average compensation/employee in FY21**



Source: Ace Equity, Bank of Baroda Research

- If we look at the average compensation growth (CAGR-5 year), interestingly major sectors' compensation have remained in line with the industry figures. However IT stands out as compensation remains below industry counterparts.

**Fig 6. Average compensation/employee has increased over the years**



Source: Ace Equity, Bank of Baroda Research

**Conclusions:**

- We have taken a sample of 2019 companies and evaluated the employment trend of these companies based on data presented in annual reports. This is in contrast to the household survey response of CMIE and Periodic Labour Force Survey of MoSPI and hence the numbers are not comparable.
- CAGR growth in employment for the past 5 years has been just 1.9% against real GDP CAGR growth of 3.5% during this same period. Interestingly major sectors’ compensation have remained in line with the industry figures.
- Covid induced slowdown was reflected in Mar’21 print and for contact intensive sectors such as education and training, hospitality, retailing, media and entertainment.
- Sectors which have performed better than the industry total in terms of employment includes finance, real estate, IT, banks and healthcare.
- Employee cost/ total number of employees which shows the average compensation per employee have registered a CAGR growth of 5.7% in the past five years.
- Sector specific slowdown seen for capital goods production, iron and steel, and telecom was reflected in the weaker employment print.

## Appendix

**Table 2. Sector wise performance in terms of numbers of employees (in lacs):**

Sectors	Number of companies	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Agri	99	2.9	2.8	2.8	2.5	2.4	2.4
<b>Automobile &amp; Anc</b>	<b>136</b>	<b>3.4</b>	<b>3.5</b>	<b>3.9</b>	<b>4.1</b>	<b>4.1</b>	<b>4.0</b>
<b>Bank</b>	<b>31</b>	<b>7.7</b>	<b>8.0</b>	<b>8.7</b>	<b>9.0</b>	<b>9.5</b>	<b>9.7</b>
Capital Goods	152	1.6	1.6	1.6	1.6	1.5	1.5
Chemicals	159	1.1	1.1	1.2	1.2	1.2	1.2
Construction Materials	67	1.0	1.0	1.0	1.0	1.0	0.9
Consumer Durables	27	0.3	0.3	0.3	0.3	0.3	0.3
Crude Oil	5	1.0	1.0	0.9	0.9	0.9	0.9
Diamond & Jewellery	17	0.2	0.2	0.2	0.1	0.1	0.1
Education & Training	8	0.1	0.0	0.0	0.0	0.0	0.0
Electricals	27	0.1	0.1	0.1	0.1	0.1	0.1
Finance	273	2.2	2.9	3.2	3.6	3.8	3.7
FMCG	92	1.4	1.4	1.4	1.4	1.5	1.5
Healthcare	124	3.3	3.6	3.7	3.8	3.8	4.0
Hospitality	48	0.5	0.5	0.6	0.5	0.4	0.4
Infrastructure	61	1.2	1.1	1.2	1.3	1.3	1.2
Iron & Steel	88	2.2	2.1	2.1	2.1	2.0	2.0
<b>IT</b>	<b>109</b>	<b>9.9</b>	<b>10.4</b>	<b>10.4</b>	<b>11.6</b>	<b>12.1</b>	<b>12.6</b>
Logistics	33	0.5	0.5	0.5	0.5	0.5	0.5
Media & Entertainment	56	0.8	0.7	0.6	0.6	0.6	0.6
<b>Mining</b>	<b>15</b>	<b>5.8</b>	<b>5.6</b>	<b>5.4</b>	<b>5.2</b>	<b>4.9</b>	<b>4.7</b>
Paper	32	0.3	0.3	0.3	0.3	0.3	0.3
Power	29	1.0	0.9	0.9	0.9	0.8	0.9
Realty	95	0.5	0.5	0.6	0.6	0.7	0.6
Retailing	15	0.9	1.0	1.1	1.3	1.1	0.9
Telecom	19	0.7	0.7	0.6	0.6	0.4	0.4
<b>Textile</b>	<b>202</b>	<b>4.1</b>	<b>4.5</b>	<b>4.7</b>	<b>4.7</b>	<b>4.7</b>	<b>4.6</b>
<b>Total</b>	<b>2019</b>	<b>54.5</b>	<b>56.1</b>	<b>57.8</b>	<b>59.8</b>	<b>60.3</b>	<b>59.8</b>

Source: Ace Equity, Bank of Baroda Research Note: Top 5 sectors with maximum share in employment have been marked in bold

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