Impact of Global Layoffs in India

Why in news?

Over the past two months, a slew of U.S. multinational companies announced massive layoffs.

Why are layoffs becoming common?

- A potential economic recession is a big red flag.
- With inflation soaring in most parts of the world, central banks have been scrambling since March this year.
- In order to improve this condition banks have been increasing rates so as to make it more costly to borrow and consume.
- This eventually affects economic growth and jobs.
- The International Monetary Fund (IMF) has cited forecasts for global GDP growth in both 2022 and 2023 as gloomy, given the pandemic and ongoing Russia-Ukraine war.
- Setting aside the 2008 financial crisis numbers, estimates for this calendar and the next by the IMF are the weakest since 2001.

What do U.S. CEOs feel about the coming months?

- The Conference Board measure of CEO confidence showed top honchos in the West haven't been this downbeat since the 2007-2009 recession.
- The survey asked 136 CEOs what economic conditions they are preparing to face over the next 12-18 months.
- An overwhelming majority, 98%, said they were preparing for a U.S. recession; while 99% said they were preparing for an EU recession.

What is the outlook for the Indian IT industry?

- The Indian IT services firms are among the largest employers in the organised sector and any global economic trend is bound to have an impact on their growth projections.
- Managements look at headcount numbers critically when they want to cut costs and protect profit margins as they are accountable to investors.
- Though there isn't a discernible trend yet, there are a few signs which may signal what is to be expected in the next few months.
- All top companies except Wipro saw a rise in revenue and net profit.
- Wipro's net profit slid 9% from a year earlier for the quarter ended September.
- The attrition rates is the number of employees per 100 quitting on their own.
- TCS and Infosys, attrition rates are high, which means that there is enough business for the sector for competitors to draw away employees with promise of higher salaries.
- At Infosys, the attrition rate declined marginally in July-September 2022 from previous April to June quarter.

- At TCS, the attrition rate crept up in the July-September quarter from April and June.
- As for operating profit margins (OPM), Infosys saw its OPM improve to 21.5% in July-September from 20% in April-June.
- TCS saw its OPM rates rise to 24% in the three months ended September compared to the last quarter.
- Infosys aims to pay out 65% of the variable pay to employees for the July-September quarter, compared with 70% in the April-June quarter, because of 'pressure on margins'.

Margin pressure is the risk of negative effects from internal or external forces on a company's profitability margins.

What about start-ups?

- News of layoffs in the Indian start-up front is predominantly in EDtech, or the educational technology front.
- A lesser share of internet users visiting educational websites since the decline of the pandemic is cited as one reason.
- The Indian start-up layoff tracker by Inc42 showed that more than 15,700 employees had been laid off in 2022 given tightening funding conditions.
- Byju's, Chargebee, Cars24, Ola, Innovaccer, Udaan, Unacademy and Vedantu are names that have been in the news for layoffs, according to Inc42.
- The tracker showed that the edtech sector has laid off the most employees, 14 start-ups had laid off 6,900 employees in 2022.

Are jobs being added in the U.S.?

- When layoffs take place in some parts of the U.S. economy, job additions also take place simultaneously in other parts.
- In the U.S., as per the Bureau of Labour Statistics data, employment in healthcare saw the healthiest increase at 53,000.
- Manufacturing added 32,000 jobs.
- For Indian IT firms, roughly about one-third of revenue comes from financial services, over the past six months, this sector has seen little change in terms of job additions in the U.S. economy.

What happened in India during earlier global recessions?

- During earlier global recessions, while companies seldom publicly announced layoffs, they would all look to ease out staff who were lower down the performance ladder.
- Companies that were in a particularly bad patch cut bench strength.
- Then again, if a person was about a month old on the bench (i.e., without projects), he or she may have been asked to sign up for some training courses etc.
- If the professional spent more than three months on the bench and had not landed a project, the system itself would ease him or her out.
- What happened in the aftermath of the 2008 recession that stretched well beyond 2-3 years is that companies would start slowing down headcount addition.

- Planned additions from campus would decline or offers would be made but absorption into the company could well take 9-12 months from the time of offer.

What are the reasons for India's inherent strength to overcome the recession?

- **A rich demographic dividend powering consumption and growth –** With an ever-increasing labour force participation rate, more Indians are entering the job market and contributing to the formal economy.
- This is reflected in India's net direct tax collections comprising of income and corporate tax reaching a record high of Rs 14.09 lakh crore in 2021-22.
- The GST collections too are rising month-on-month due to strong domestic consumption.
- The Reserve Bank of India's (RBI's) efforts in stemming inflation by increasing repo rates judiciously have helped businesses in adapting to the changing market environment.
- The RBI's initiatives has been carried out without paralysing the domestic sector like it is currently being done in countries like China.
- **Favourable business climate enticing investments from across the globe –** India has been successfully attracting foreign investments into the local economy.
- The Indian government has an infrastructure push through the $1.4 trillion National Infrastructure Pipeline (NIP) project or the Pradhan Mantri Gati Shakti scheme.
- Ease of doing business has been a high priority and the government's efforts are visible in the fact that India jumped 79 positions from 2014 to the 63rd position in 2020.

What is the way forward for India?

- Countries like the USA and those across Europe overheat due to inflation and structural problems plaguing their economies.
- However, the Indian economy remains insulated from global headwinds as it continues to power on the back of domestic demand and the services industry.
- The central government's push on making India a global manufacturing hub has been paying off, with the 'Make In India' program.
- The program has been slated to facilitate the creation of 100 million new jobs and establish India as a formidable alternative to countries like China.
- This will bolster the Indian economy further and should help in tiding over any slowdown in demand or investments from international markets and firms.
- In fact, the focus on other sectors such as renewable energy, defence development, logistics and warehousing augurs well for the future growth prospects of the Indian economy.
- A steadfast ruling dispensation, a rising middle class powering domestic consumption, and determination to shore up local industries are few factors that are softening the impact of an inevitable global recession.
- All these factors are making the Indian economy the brightest spot on the global landscape.

References

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