

## **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

1. [Economic Times | Decoding the impact of a global recession on booming Indian economy](#)
2. [The Hindu | Impact of Global Layoffs on India](#)
3. [The Indian Express | India is the best place to work at during recession](#)

