

JULY 20, 2018
ISSUE NO: 29, FY19**PAYROLL ESTIMATES FOR MAY 18**

Data from EPFO records indicates that new payroll generated during Sep'17-May'18 was around 44.7 lakh. During May 2018, EPFO payroll registrations jumped by 7.44 lakh, the highest in any month since inception. The new payroll (excluding formalisation) during Sep'17-May'18 is however 36.6 lakh (44.7 lakh net of estimated 8.1 lakh formalisation).

However, EPFO data from Sep'17 to Apr'18 has been revised downward (by 3.95 lakh) in the latest release. It may be noted that the numbers are provisional. The EPFO is releasing enrolment numbers on a net basis, so it might be the case that companies are reporting leaving of employees with a lag, while the joining of employees is being reported immediately.

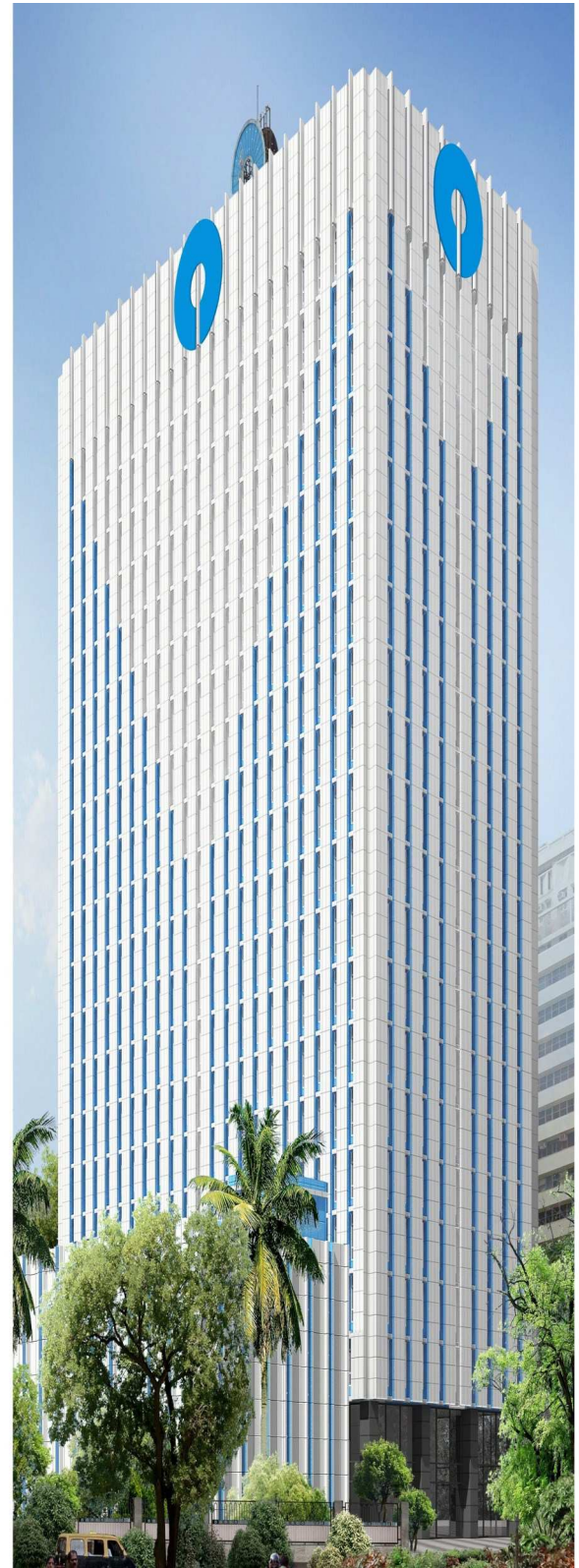
Additionally, given that retirees are also netted out, this may imply a downward bias to net EPFO numbers as retirees mean a new vacancy and hence a new hire. We believe the data about retirees during the month whose account has been settled should also be disclosed by EPFO as a separate line item. This can be revised in later disclosures, but this is a suggestion that EPFO might well consider.

We also estimated the month wise and age-band wise attrition rate and found that overall attrition rate for Sep'17 to Apr'18 was 10%, with the attrition rate highest during the month of March at 23%.

Interestingly, Ghosh & Ghosh Report had estimated that total 61.6 lakh new payroll generated in FY18 and as per the EPFO and NPS annualized numbers (on published data) the total payroll in India is around 60.4 lakh in FY18.

Even though the data revision in EPFO now seems to be a recurring feature, we must keep in mind that these are not seasonally adjusted like in US. Over a point in time, as we gather sufficient data, seasonal adjustments will make the data more stable and less volatile.

Data revision in any indicator is not new, as most of the initial releases are based on provisional numbers. For example, India's GDP gets revised around 5-times before the final data is released.



PAYROLL DATA FOR MAY 2018

In April 2018, Government has released the first monthly payroll data from Sep'17 to Feb'18 as per the records of EPFO, NPS and ESIC. This was based on the recommendation given by Ghosh & Ghosh study titled, "Towards a Payroll Reporting in India". Continuing the trend, all the three agencies have now released the data for the 4th month in succession for May'18.

- ◆ **EPFO:** Data from EPFO records indicates that new payroll generated during Sep'17-May'18 was around 44.7 lakh. During May 2018, EPFO payroll registrations jumped by 7.44 lakh, the highest in any month since inception. EPFO has also published industry-wise break-up and state-wise break-up of payroll data. The top 10 industries are having around 88% share in total payroll of EPFO.
- ◆ More interestingly, the ECR (Electronic Challan cum Return) data published by EPFO for the first time gives us a clear idea of the extent of such formalisation that has happening in the economy. As per the data, a total 40,468 establishments remitted their first ECR during Sep'17 to May'18 period. This number is the proxy for existing organisations that migrated from less than 20 jobs. Thus, when we multiply the number of organisations with the EPFO cut-off / 20, this gives us the total payroll due to formalisation. This comes to around 8.1 lakh. Hence, the new payroll (excluding formalisation) during Sep'17-May'18 is 36.6 lakh (44.7 lakh net of 8.1 lakh). This gives us average formalisation of around 18.1%. However, if we exclude the ECR numbers of May'18 (as the numbers are provisional) than the formalisation ratio is higher at 19%. Even for the sake of argument, we put this formalisation rate at 20%, the new payroll still counts at 35.8 lakh! This effectively puts to rest the fallacy of the continued debate of EPFO of not being an employment data, and merely a reflection of formalisation!
- ◆ **NPS:** As per the NPS data around 6.10 lakh PRAN generated (or new payroll) during Sep'17 to Jun'18 period, with an average generation of 61,057 per month. The NPS data are the final data and there is no subsequent revisions. In the data, NPS released that the Central & State Autonomous Bodies are shown under Central & State Government respectively, while "Non-Govt." refers to "Corporate sector employees". The Non-Govt. payroll data may not necessarily represent new employment as there may be some persons who were in employment earlier but have opened PRAN recently.
- ◆ **ESIC:** The ESIC data is difficult to interpret as it is still evolving and not fully Aadhaar linked. This has overlaps with EPFO. In principle, EPFO is exactly synonymous with opening of a unique bank account, and hence is easy to measure. In contrast ESIC being an insurance based scheme, is a cost on the employer and is primarily driven by risk perception and hence may still be discretionary. Thus, there are more chances of exits as well as entries. Nevertheless, we believe that the stock of active contributors in ESIC could give us an idea of new payroll created over a point in time.
- ◆ Ghosh & Ghosh Report had estimated that total 61.6 lakh new payroll generated in FY18 and as per the EPFO and NPS annualized numbers (on published data) the total payroll in India is ~ 60.4 lakh in FY18.

| Payroll in India (FY18) in Lakh | | |
|---------------------------------|----------------------|---|
| | Ghosh & Ghosh Report | Provisional Published Data (Annualized) |
| EPFO | 55.2 | 52.4 |
| NPS | 6.4 | 8.0 |
| EPFO + NPS | 61.6 | 60.4 |

Source: EPFO, PFRDA; SBI Research, Note: Numbers of Ghosh & Ghosh Report and Actual are not strictly comparable as former are based on gross payroll and actual is net payroll (net of retirements)

A NOTE ON EPFO DATA REVISION

- ◆ Data revision in any indicator is not new, as most of the initial releases are based on provisional numbers. For example, India's GDP gets revised around 5-times before the final data is released.
- ◆ EPFO data from Sep'17 to Apr'18 has been revised downward (by 3.95 lakh) in the latest release. The numbers are provisional. The EPFO is releasing enrolment numbers on a net basis, so it might be the case that companies are reporting leaving of employees with a lag, while the joining of employees is being reported immediately. This is a good sign, it indicates churn in employment cycle.
- ◆ We also calculated the month wise attrition rate and found that overall attrition rate for Sep'17 to Apr'18 was 10% with maximum attrition was recorded in Dec'17 and Mar'18 (both are the quarter-end months).

| Month-wise Data Revision in EPFO | | | | |
|----------------------------------|----------------|---------------------|----------------|----------------|
| Month | Latest data | Previous Month data | Difference | Attrition Rate |
| Sep-17 | 529432 | 543176 | -13744 | -3% |
| Oct-17 | 296410 | 327828 | -31418 | -10% |
| Nov-17 | 545331 | 582437 | -37106 | -6% |
| Dec-17 | 375655 | 464416 | -88761 | -19% |
| Jan-18 | 498068 | 542415 | -44347 | -8% |
| Feb-18 | 442085 | 499276 | -57191 | -11% |
| Mar-18 | 368123 | 480749 | -112626 | -23% |
| Apr-18 | 676147 | 685841 | -9694 | -1% |
| Total | 3731251 | 4126138 | -394887 | -10% |

Source: EPFO; SBI Research

Memo:

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|--------|--------|---|---|---|
| May-18 | 743608 | - | - | - |
|--------|--------|---|---|---|

ABOUT US

The Economic Research Department (ERD) in SBI Corporate Centre is the successor to the Economic and Statistical Research Department (E&SRD). The latter came into being in 1956, immediately after the State Bank of India was formed, with the objective of “tendering technical advice to the management on economic and financial problems in which the Bank has interest and which required expert analysis”.

After the first reorganization of the Bank, when specialized departments like Management Science, Management Information Systems, Planning and Market Segment Departments took over the statistical work of E&SRD, the Department was renamed as ERD.

However, with the ERD team now taking on multidimensional functionalities in the area of risk management, corporate analytics, strategy and so on, who knows, the time may have come to rename it again!

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CONTACT DETAILS

Dr. Soumya Kanti Ghosh
Group Chief Economic Adviser
State Bank of India
Corporate Centre
Madam Cama Road
Nariman Point
Mumbai - 400021

Email: soumya.ghosh@sbi.co.in
gcea.erd@sbi.co.in

Phone: 022-22742440

 : [@kantisoumya](https://twitter.com/kantisoumya)