

PAYROLL DATA REVEALS INDIA COULD CREATE AT LEAST 16 LAKH LESS PAYROLLS IN FY20: LABOUR REMITTANCES ARE DECLINING

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The Indian economy is expected to expand at 5% in FY20 (SBI:4.6%). The slow growth is now having a visible impact on payroll creation. In FY19, India had created 89.7 lakh new payrolls as per the EPFO data. In FY20, as per current projected this number could be at least 15.8 lakh lower. The EPFO data primarily covers low paid jobs as the salary is capped at Rs 15,000 per month. Government jobs, State Government jobs and Private jobs are not part of this ambit as such data have moved to NPS beginning 2004. Interestingly, even in the NPS category, State and Central Government are supposed to create close to 39,000 jobs less in FY20 as per current trends. **Hence, the number of new payroll created in FY20 could be at least 16 lakh lower than in FY19.**

There are several trends that are apparent from the payroll data. **First, the payroll creation is the sum of existing and new payroll**, with existing payroll the aggregation of extent of formalization and second job. New payroll is first payroll creation. **Second, the extent of formalization has declined steadily** and is now currently at 9.5% of the overall payroll creation (11% in FY19). The extent of formalization could decline further and this implies that GST collections are unlikely to recover significantly towards the Rs 1.1 lakh crore threshold that the Government expects in coming months. **Third, the number of second payrolls is increasing significantly** and this coupled with the projection of a lower new payroll creation in FY20 indicates the possibility that adequate new payrolls are not being created. **Fourth, the prospect of lower payroll creation in Government indicates that the Government is not recruiting new payrolls** in lieu of retiring Government employees.

Fifth, we estimate that labour productivity growth was stagnant during FY15-FY19 using the RBI KLEMS data. Such low and stagnant productivity encourages over-borrowing by corporations and households, only to deleverage later. A similar logic applies to the social and political impact of low productivity growth. The moot point is that such deleveraging will only delay consumption growth. **Sixth**, we find evidences of a decline in remittances by labourers to selected states in India in the last one year. These migrants have been making significant financial contributions to their families in their places of origin. The remittance data shows a decline in remittances in states like Assam, Bihar, Rajasthan Odisha & UP. **It is possible that the delay in resolution cases under IBC may have prompted companies to downsize their contractual labourers.** **Seventh, EPFO should take utmost care to remove the niggling problems with the EPFO data.**

INDIA IS CREATING AT LEAST 16 LAKH LESS PAYROLLS IN FY20

- In April 2018, Government 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".
- Since then EPFO has been publishing data on a regular basis every month. However, EPFO has revised its format for better representation of the data. In the revised format, the payroll data is publishing from Sep'17 onwards, and the data regarding net new subscribers is also presented in the format in which exited members shown are out of new EPF subscribers who have joined on or after Sep'17.
- The recent release indicates that net new EPF subscribers during Apr-Oct'19 was 61.9 lakh and on an annualized basis it would come to be 106.2 lakh for the full year FY20. However, this does not represent the correct picture as such data includes number of exited members who rejoined and re-subscribed. Hence, this is not purely fresh job creation.
- We subsequently estimated the actual net new payroll (first job) adjusted for rejoined/re-subscribed members and formalization (based on ECR data). As per our calculation, the actual net new payroll was 43.1 lakh during Apr-Oct'19 which annualized comes out to be 73.9 lakh for FY20. This will be at least 15.8 lakh less than the actual net new payroll generated in FY18.
- Similarly, data from NPS indicates that there would be decline of 26,490 in new subscribers, of which Non-Govt. payrolls have increased by 12,150 but a decline of 38,640 in Govt. payrolls.

NPS Payroll (New Subscribers Contributing)				
	Central Govt.	State Govt.	Non-Govt.	Total New Subscribers
Sep-17 to Mar-18	76,185	3,12,405	64,856	4,53,446
FY19	1,10,555	5,42,504	97,341	7,50,400
FY20 (Apr-Oct)	54,066	3,04,345	63,870	4,22,281
FY20 (Projected)	92,685	5,21,734	1,09,491	7,23,910
Total (Sep'17 to Oct'19)	2,40,806	11,59,254	2,26,067	16,26,127
Change (FY20 over FY19)	-17,870	-20,770	12,150	-26,490

Source: SBI Research, MOSPI

EPFO Payroll Data (in Lakh)							
Period	Number of new EPF sub-scribers	Number of new members who joined in or after Sep-2017 and exited	Number of exited members who rejoined and re-subscribed	Net New EPF Sub-scribers	Existing Payroll		First Job
					Formalisation	Second Job	
A	B	C	D	E = B+D-C or F+G+H	F	G=D	H=E-D-F
Sep-17 to Mar-18	84.6	11.6	0.8	73.8	7.7	0.8	65.3
FY19	139.4	37.5	10.6	112.5	12.2	10.6	89.7
FY20 (Apr-Oct)	69.0	20.0	13.0	61.9	5.9	13.0	43.1
FY20 (Apr-Mar Projected)	118.3	34.3	22.2	106.2	10.1	22.2	73.9
Change in Lakh (FY20 over FY19)	-21.2	-3.2	11.6	-6.3	-2.1	11.6	-15.8

Source: SBI Research; *Establishments remitting first ECR*20

STAGNANT PRODUCTIVITY AND WAGE GROWTH

- ◆ Using the KLEMS data, we also estimated productivity of various sectors during FY17-19. Our results show the overall productivity growth remains relatively stagnant (9.4% to 9.9%) in the last five years. This slow growth in productivity clearly manifests in low wage growth. Our estimates show that wage growth has witnessed significant moderation, on yearly as well as sequential basis. This moderation in wages also implies important lessons that can be deciphered from policy setting. For example, if wage growth is slow, it implies that familiar wage-price nexus is not working and this could result in moderation of inflation expectations. In the absence of commensurate productivity and wage gains, we must strive to improve the quality of jobs offered.
- ◆ We would caution the policymakers of such a slower productivity growth. For example, persistent low productivity encourages over-borrowing by corporations and households, only to deleverage later. In turn, it represents a big risk to economies and fiscal systems. A similar logic applies to the social and political impact of low productivity growth.

WE FIND EVIDENCE OF LOWER LABOUR REMITTANCES ACROSS SYSTEM SIGNIFYING LOWER PAYROLL CREATION

- ◆ Seasonal and circular migration is an integral livelihood strategy for poor people in India. In fact, over the years, migration has been an important livelihood option for both the poor and the non-poor in India. As a result of unequal growth, people from agriculturally and industrially less developed states migrate to more developed states in search of job opportunities - for example from Uttar Pradesh, Bihar, the southern part of Madhya Pradesh, Odisha, and Rajasthan to states like Punjab, Gujarat, and Maharashtra. For a large number of migrants, New Delhi is a much favoured destination due to the abundance of job opportunities.
- ◆ According to the 2011 Census, 37.5% of the total population of India (453 million) in 2011 was migrants. Among the four types of domestic migration (rural-to-rural, rural-to-urban, urban-to-rural, and urban-to-urban), rural-to-rural migration was highest, accounting for around 55% of total domestic migration. However, the share of rural-to-rural migration has declined over the past few decades, while that of rural-to-urban migration has gradually increased (from 16.5% in 1971 to more than 20% in 2011). Among the inter-state migrants, the majority (40%) migrate from rural to urban destinations. However, intra-state is more common than inter-state migration.
- ◆ These migrants have been making significant financial contributions to their families in their places of origin. There is no accurate data available on the volume of internal money transfers in India. Moreover, migrants make significant contributions to the national economy by providing human capital in sectors such as textiles, hospitality, construction, mining, brick-making and small industries. To look at such trend, we looked at a sample of data on remittances by migrant labourers to selected states in the last 1 year. The data shows a decline in remittances in states like Assam, Bihar, Rajasthan Odisha & UP. It is possible that the delay in resolution cases may have prompted companies to downsize their contractual labourers.

Trends in Labour Productivity							
Sector	Productivity Growth (%)						
	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Agriculture & Allied	15.5	15.2	12.5	10.3	15.1	9.9	6.0
Industry	7.1	1.6	3.7	4.6	3.1	4.7	7.3
Mining & quarrying	11.4	1.9	6.1	-3.0	10.5	10.1	20.3
Manufacturing	11.8	5.5	9.5	14.1	7.6	7.6	10.9
Electricity, gas & water supply	13.4	14.9	6.7	16.8	2.9	16.7	12.6
Construction	1.0	-3.1	-2.1	-6.7	-0.1	2.6	4.2
Services	14.8	9.1	12.4	9.2	9.4	10.5	10.4
Trade, hotels, transport & communication	17.4	8.7	12.2	8.8	9.5	10.0	10.6
Financing, insurance, real estate & bus. Services	9.4	6.2	7.6	4.8	3.6	4.3	5.3
Public administration, defence and Other Services	12.3	7.2	13.3	10.1	12.0	14.1	11.8
Overall	14.1	9.3	11.2	9.4	9.8	9.8	9.9

Source: SBI Research

PROBLEMS WITH EPFO DATA STILL EXIST

Apart from the various benefits, there are still some niggling doubts about the quality of EPFO payroll data that is yet to be rectified.

- ◆ The classification of the EPFO job data leaves a lot to be desired. For example, Expert Services that constitute the largest segment of payroll creation do not tell us anything at granular level.
- ◆ Another problem is regarding retiring employees. 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, apart from giving out the payroll creation across all industry groups as the US does.
- ◆ EPFO should start releasing non-farm productivity (as in the US) estimates at least for those sectors for which we have output data from CSO's GVA database. This will fill a huge lacuna in productivity estimates in India.

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