

Lockdown 2.0: Unemployment rate touches 26% amid Covid-19 outbreak

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In the third week of April that ended on the 19th, labour market conditions worsened. This was the fourth week of the lockdown.

During the last week of March and in the first two weeks of April, the unemployment rate hovered around 23-24 per cent. In the first week, it was 23.8 per cent; in the second week it dropped a bit to 23.4 per cent but in the third week it bounced back to 24 per cent. The variations were minor and collectively they confirmed that the unemployment rate had indeed risen to around 24 per cent following the lockdown. This is much higher than the 7-8 per cent rates seen before.

This confirmation of such a sharp increase in the unemployment rate was important because weekly estimates can be volatile. It may be recalled that we held back our first finding of a rise in the unemployment rate in the last week of March because of the fear of this volatility. The large sample of CPHS does provide considerable comfort against such volatility.

Yet, it is a deep fallacy to accept an outcome just because it meets our a priori expectation. And so, although the sharp increase in the unemployment rate did look plausible, we were not willing to accept it without a further confirmation — a second opinion, so to say. The second opinion was in the next week's results.

Only a good confirmation of the second week's finding of a similar outcome gave us confidence that the unemployment rate had indeed shot up to such a high level. The third week's estimates cemented our confidence in the deterioration in the estimates of not only the unemployment rate but also the other important ratios — the labour participation rate and the employment rate.

Now, the third week of April shows a further deterioration. The unemployment rate has inched up a good 219 basis points over the earlier week's 24 per cent to 26.2 per cent. This is plausible. A prolonged lockdown can only worsen labour market conditions.

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The employment rate has fallen from 40 per cent in February to 26 per cent now. This is steep fall of 14 percentage points. This implies that 14 per cent of the working age population has lost employment. The working age population is of the order of a billion. This implies that of the order of 140 million or 14 crore people have lost employment in the lockdown.

This is unprecedented.

Labour markets have been stressed equally in rural and urban areas. Unemployment has risen in both areas and, labour participation rate and employment rate have declined in both. Yet, there are some surprises.

The unemployment rate in rural India is higher at 26.7 per cent compared to urban India's 25.1 per cent. It is not common to see a higher unemployment rate in rural India compared to urban India. Usually, the urban unemployment rate is nearly 2 percentage points higher than rural unemployment rate. But, during the weeks ended April 12 and April 19, the rural unemployment rate has remained 1.4 percentage points higher than the urban unemployment rate. Even in the few instances in the past when the unemployment rate in rural India exceeded urban rates, the difference was never this big.

The higher unemployment rate in rural India around this time could be because this is the rabi harvest time and people are keen to undertake this work but are unable to do so.

The second surprise was in the volatility of the unemployment rate in urban India. During the first and second weeks of the lockdown, the unemployment rate in urban India shot up to 30 and 31 per cent respectively. Then, in the following two weeks it fell rather sharply to 23 and 25 per cent. This is a rather sharp fall in the unemployment rate in urban India although it remains quite elevated.

In rural India, the unemployment rate in the first two weeks was 21 and 20 per cent respectively. Then it rose to 24 and 27 per cent. The direction is opposite of the one seen in urban India. Nevertheless, these movements have led to a convergence in the unemployment rate in rural and urban regions in the last two weeks to around 25 per cent.

Both rural and urban regions have seen a steep fall in labour participation and employment rates. The fall in labour participation rate in urban India is steeper than in rural India. This is particularly true in the last two weeks.

Volatility of estimates will increase as we get to more granular estimates. There are limits to granularity of estimates in both, time and space. It is prudent for us to stick to the inference that in the weeks immediately following the lockdown, labour participation rates and employment rates, both fell very sharply and unemployment rates rose equally sharply in both rural and urban areas.