Impact of Economy recession on Indian Job

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Abstract: This paper is an attempt to look into the Impact of global crisis on Indian Job Hubs. The United States housing market correction (a consequence of United States housing bubbles) and subprime mortgage crisis has significantly contributed to a recession. The 2008/2009 recession is seeing private consumption fall for the first time in nearly 20 years. Worst affected because of US recession will be the service industry of India. Under service industries come BPO, KPO, IT, ITeS etc. Service industry contributes about 52% to India's GDP growth. Now if that is going to get hurt then it will also hurt India's overall growth but very slightly. India is not going to face a major impact due to US recession No sector has a dominant pressure on earnings growth and risks to our estimate are limited. Corporate India is also learning to master the art of efficient capital management, reduction in costs and delivery of value-added services to sustain profit margins.

Key words: Impact, capital management, sustain, subprime

Introduction

There is no usually accepted definition of a global recession, IMF regards periods when global growth is less than 3% to be global recessions. The IMF estimates that global recessions seem to occur over a cycle lasting amid 8 and 10 years. During what the IMF terms the long-ago three global recessions of the last three decades, global per capita output growth was zero or negative.

Economists at the International Monetary Fund (IMF) state that a global recession would take a slowdown in global growth to three percent or less. By this measure, three periods since 1985 qualify: 1990-1993, 1998 and 2001-2002.According to economists, since 1854, the U.S. has encountered 32 cycles of expansions and contractions, with an average of 17 months of narrowing and 38 months of expansion. However, since 1980 there have been only eight periods of negative economic growth over one fiscal quarter or more, and four periods considered recessions:

- January-July 1980 and July 1981-November 1982: 2 years total
- July 1990-March 1991: 8 months
- March 2001-November 2001: 8 months
- December 2007-current: 15 months as of March 2009

From 1991 to 2000, the U.S. experienced 37 quarters of economic expansion, the longest period of expansion on record.

For the past three recessions, the NBER decision has approximately conformed to the definition involving two consecutive quarters of decline. However the 2001 recession did not involve two consecutive quarters of decline, it was preceded by two quarters of alternating decline and weak growth.

Recession in the Global context

Official economic data shows that a large number of nations are in recession as of early 2009. The US entered a recession at the end of 2007, and 2008 saw many other nations follow suit. United States

The United States housing market correction (a consequence of United States housing bubbles) and subprime mortgage crisis has significantly contributed to a recession. The 2008/2009 recession is seeing private consumption fall for the first time in nearly 20 years. This indicates the depth and severity of the current recession. With consumer confidence so low, recovery will take a long time. Consumers in the U.S. have been hard hit by the current recession, with the value of their houses dropping and their pension savings decimated on the stock market. Not only have consumers watched their wealth being eroded – they are now fearing for their jobs as joblessness rises.

U.S. employers shed 63,000 jobs in February 2008, the most in five years. Former Federal Reserve chairman Alan Greenspan said on April 6, 2008 that "There is more than a 50 percent chance the United States could go into downturn." On October 1, the Bureau of Economic Analysis reports that an additional 156,000 jobs had been lost in September. On April 29, 2008, nine US states were declared by Moody's to be in a depression. In November 2008 Employers eliminated 533,000 jobs, the major single month loss in 34 years. For 2008, an estimated 2.6 million U.S. jobs were eliminate.

Although the US Economy grew in the first quarter by 1%, by June 2008 some analysts stated that due to a protracted credit crisis and "rampant inflation in commodities such as oil, food and steel", the country was nonetheless in a recession. The third quarter of 2008 brought on a GDP retraction of 0.5% the biggest decline since 2001. The 6.4% decline in spending during Q3 on non-durable goods, like clothing and food, was the largest since 1950. A Nov 17, 2008 report from the Federal Reserve Bank of Philadelphia based on the survey of 51 forecasters suggested that the recession started in April 2008 and will last 14 months. They project real GDP declining at an annual rate of 2.9% in the fourth quarter and 1.1% in the first quarter of 2009. These forecasts represent significant downward revisions from the forecasts of three months ago. A December 1, 2008, report from the National Bureau of Economic Research stated that the U.S. has been in a recession since December 2007 (when economic activity peaked), based on a number of measures including job losses, declines in personal income, and declines in real GDP.

Sub-prime mortgages

The defaults on sub-prime mortgages (home loan defaults) have led to a major crisis in the US. Sub-prime is a high risk debt offered to people with poor credit worthiness or unstable incomes. Major Banks have landed in trouble after people could not pay back loans. The housing market soared on the back of easy availability of loans. The realty sector boomed but could not sustain the momentum for long, and it collapsed under the gargantuan weight of crippling loan defaults. Foreclosures spread like wildfire putting the US economy on shaky ground. This, coupled with rising oil prices at $100 a barrel, slowed down the growth of the economy.

Collision of recession on Indian Job Hubs

Worst affected because of US recession will be the service industry of India. Under service industries come BPO, KPO, IT, ITeS etc. Service industry contributes about 52% to India's GDP growth. Now if that is going to get hurt then it will also hurt India's overall growth but very slightly. India is not going to face a major impact due to US recession. People may say that there is going to be a huge job loss due to recession. and will cite the example of TCS firing about 500 employees but these were employees who didn’t perform and for cost cutting one have to reduce Non performing asset (NPA) and that exactly what has been done. There is no threat to the skilled people. According to NASSCOM India will have a shortage of about 5 million skilled people in IT/ITeS. So there are lots of opportunities.

Apart from this India's travel, tourism and power industry is going to grow at a better rate. This is again a good sign. India has a huge population so a huge consumer base so we don’t have to always depend on US for our growth. India's GDP is expected to grow at the rate of 8.5-8.9 % which is again way above the growth rate of US and only second highest in the world after China.

This recession gives us opportunity to be innovative and to think out of box so that the US directly doesn’t affect our robust growth. Due to increasing Rupee exporters are having a hard time but it has been noted that our exporters are not that efficient and in past they got the benefit of depreciating rupee. So now it’s time to be innovative and more effective and increase the overall efficiency and go for systematic cost cutting to balance the rupee effect. In fact there are lots of scopes for improvement. In West Africa goods at departmental stores are sold at the rate 5 times than Indian price and Indian goods are not exported to several countries in West Africa. It's an excellent opportunity for our exporters.

Conclusion

Over the past couple of months, fears of a slowdown in the United States of America have increased. The impact of the subprime crisis along with a slowdown in mortgages has led to a significant lowering of growth estimates. Since the United States dominates the global economy, any slowdown there would have an impact on most of the global economic variables.

For India, it could mean a further positive reception in the rupee Vis--Vis the US dollar and a darkening of business outlook for sectors dependent on US companies. The overall impact of a US slowdown on India would, however, be minimum as the factors driving growth here are more local in nature. Unlike the rest of Asia, India is a strong domestic demand story, so any slowing in the US is likely to have a more muted impact on India. Strong growth in domestic expenditure and significant spending on infrastructure are the two pillars of India's growth story. No sector has a dominant pressure on earnings growth and risks to our estimate are limited. Corporate India is also learning to master the art of efficient capital management, reduction in costs and delivery of value-added services to sustain profit margins. Further, interest rates are expected to be stable primarily due to control over inflation and proactive measures undertaken by the RBI.

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