

Recession & Impact

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Abstract—this document gives holistic view of recession including its reason and impact. The topic becomes relevant with regard to recent ongoing crisis in Greece and last recession which world has seen from 2007 to 2009. This would help to plan and act proactively in the future ahead to minimize its impact. Intent is also to offer tips to professionals across functions in a company on how to leverage what is typically perceived to be a tough time, and turn it to personal as well as corporate advantage. Subject becomes more appropriate in view of dynamic economic pattern across globe and to understand the indicators of future recession if any.

I. INTRODUCTION

The fear of a recession looms over the United States. And as the cliché goes, whenever the US sneezes, the world catches a cold. This is evident from the way the Indian markets crashed taking a cue from a probable recession in the US and a global economic slowdown. Weakening of the American economy is bad news, not just for India, but for the rest of the world too.

So what is a recession?

A recession is a decline in a country's gross domestic product (GDP) growth for two or more consecutive quarters of a year. A recession is also preceded by several quarters of slowing down.

The Business Cycle Dating Committee at the National Bureau of Economic Research (NBER) provides a better way to find out if there is a recession taking place. This committee determines the amount of business activity in the economy by looking at things like employment, industrial production, real income and wholesale-retail sales. They define a recession as the time when business activity has reached its peak and starts to fall until the time when business activity bottoms out. When the business activity starts to rise again it is called an expansionary period. By this definition, the average recession lasts about a year.

Recession is not to be confused with depression. Recession means a slow down or slump or temporary collapse of a business activity. In its early stage it can be controlled in a methodical manner. Experience helps to avert total collapse. Unchecked, it leads to severe depression. Depression is a dead end. It is time to close shop completely. It is a total state of irrevocable economic failure. When a country is doing well all round its Gross Domestic Product (GDP) is on the rise.

Before the Great Depression of the 1930s any downturn in economic activity was referred to as a depression. The term recession was developed in this period to differentiate periods like the 1930s from smaller economic declines that occurred

in 1910 and 1913. This leads to the simple definition of a depression as a recession that lasts longer and has a larger decline in business activity.

So how can we tell the difference between a recession and a depression? A good rule of thumb for determining the difference between a recession and a depression is to look at the changes in GNP. A depression is any economic downturn where real GDP declines by more than 10 percent. A recession is an economic downturn that is less severe.

By this yardstick, the last depression in the United States was from May 1937 to June 1938, where real GDP declined by 18.2 percent. If we use this method then the Great Depression of the 1930s can be seen as two separate events: an incredibly severe depression lasting from August 1929 to March 1933 where real GDP declined by almost 33 percent, a period of recovery, then another less severe depression of 1937-38. The United States hasn't had anything even close to a depression in the post-war period. The worst recession in the last 60 years was from November 1973 to March 1975, where real GDP fell by 4.9 percent. Countries such as Finland and Indonesia have suffered depressions in recent memory using this definition.

Overall economy is bullish; it is not only the stock exchanges that tell riches to rags stories but even small businesses. It all adds to the national exchequer. An economist is likely to give a detailed, comprehensive definition of recession. But for the layman who has been affected knows it only one way-when he loses his job and has no money to pay his credit and loans. Recession is when the consumer faces foreclosure and the banker comes knocking for his pound (or dollar) of flesh. Many companies and whole countries go bankrupt for want of liquid funds and cash flow for even daily requirements.

If you look at it from the point of view of a businessman, recession is a transitory phase. The Business Cycle Dating Committee of the National Bureau of Economic Research has another definition. It profiles the businesses that have peaked with their activity in one season and it falls naturally in the next season. It regains its original position with new products or sales and continues to expand. This revival makes the recession a mild phase that large companies tolerate. As the fiscal position rises, there is no reason to worry. Recession can last up to a year. When it happens year after year then it is serious.

Firms face closures when they go through recession and are not able to recover from losses. If, at this time, they are not able to sustain their prices and stocks then there is more trouble. Even when the recession period gets over, they will not be able to do well. If a business survives a recession period they should be able to survive a depression. But how

many recession proof businesses are there? Who will eventually survive the recession?

- Those that have been able to save their funds.
- Those who have not invested in fly-by-night companies.
- Those who remain calm till the storm passes.
- Those that take stock immediately and decide to reinvest in a recession proof business.

What causes it?

An economy which grows over a period of time tends to slow down the growth as a part of the normal economic cycle. An economy typically expands for 6-10 years and tends to go into a recession for about six months to 2 years.

A recession normally takes place when consumers lose confidence in the growth of the economy and spend less. This leads to a decreased demand for goods and services, which in turn leads to a decrease in production, lay-offs and a sharp rise in unemployment. Investors spend less as they fear stocks values will fall and thus stock markets fall on negative sentiment.

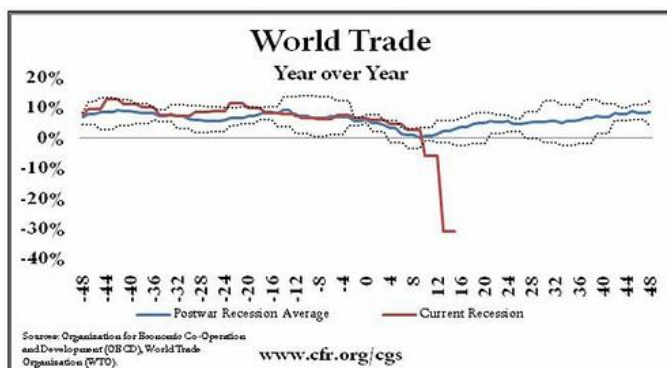
II. OBJECTIVE AND SCOPE

The objective is to understand the impact of recession and driving towards the rebound. This gives very vast scope of area to analyze which is applicable across the industry.

Theoretical Perspective

Identifying

In a 1975 New York Times article, economic statistician Julius Shiskin suggested several rules of thumb to identify a recession; these included the rule of 'two successive quarterly declines in GDP. Over time, the other rules have been largely forgotten, and a recession is now often identified as the reduction of a country's GDP (or negative real economic growth) for at least two quarters. Some economists prefer a more robust definition of a 1.5% rise in unemployment within 12 months



In the United States the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) is generally seen as the authority for dating US recessions. The NBER defines an economic recession as: "a significant

decline in [the] economic activity spread across the country, lasting more than a few months, normally visible in real GDP growth, real personal income, employment (non-farm payrolls), industrial production, and wholesale-retail sales." Almost universally, academic economists, policy makers, and businesses defer to the determination by the NBER for the precise dating of a recession's onset and end.

Attributes

A recession has many attributes that can occur simultaneously and can include declines in coincident measures of activity such as employment, investment, and corporate profits.

A severe (GDP down by 10%) or prolonged (three or four years) recession is referred to as an economic depression, although some argue that their causes and cures can be different.

Causes of recessions

- Currency crisis
- Energy crisis
- War
- Under consumption
- Overproduction
- Financial crisis (This covers growth of credit card/loan defaulters and bankruptcy)
- Price of Fuels

Global recession affected the economies of the BRIC countries differently. To take a somewhat contrarian viewpoint, perhaps the idea of the BRIC bloc should now be laid to rest-MilindPhadke/Kline & Company

THE RECESSION of 2009 had many casualties. One that will likely not be lamented is the BRIC group of countries. This odd combination of large, fast-growing economies was a great buzz-word, but never made any sense.

The four **BRIC economies** - Brazil, Russia, India and China - could not be more different from one another. Clubbing them together clouds one's thinking on these economies and is in fact dangerous, if taken seriously.

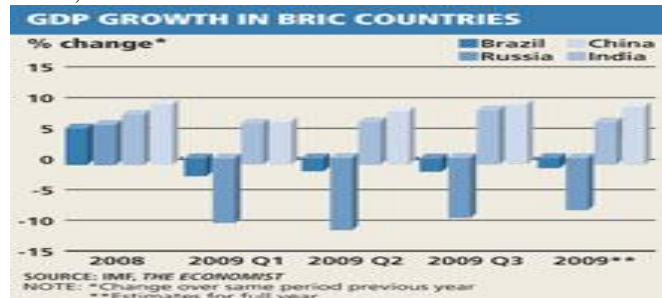
The BRIC countries have experienced the global recession to varying degrees of severity. The impact on the lubricant and lubricant base stock markets in these countries has also been varied.

III. EFFECT OF THE DOWNTURN

The impact of the recession on the BRIC countries has varied in both magnitude and duration, as shown in the figure below

left. While Russia essentially collapsed, China and India barely slowed down. Brazil, like Russia, went into a recession, but the contraction was much milder in comparison with the latter. Even with these data it would be wrong to assume that India is like China, or that Brazil is a milder version of Russia.

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Russia is an export-oriented economy. Its health and growth depend on exports of oil, metals and other commodities. Prior to the recession, the Russian economy had overheated as a result of high oil prices.

To finance growth, large state firms and private companies chalked up nearly \$500bn (€355bn) in external debt - a phenomenon supported by the easy monetary conditions in North America and Europe. With crude oil prices coming down and foreign credit drying up, the economy collapsed.

Over the past few decades, Brazil has developed from being an agricultural economy to an industrial one. However, agriculture and natural resource exports are still an important driver for growth. Brazil escaped the worst impact of the recession on account of two factors.

First, the banking sector in Brazil is largely government controlled and as a result more conservative. It had limited exposure to the US sub-prime loan market. Second, China has replaced the US as Brazil's largest export market. The Brazilian economy is recovering on the back of the Chinese upturn. As indicated in [The Economist](#), industrial production in Brazil tracks Chinese exports with a three month lag.

India is a "[Goldilocks](#)" economy - neither too dependent on export-driven growth (as are China and the East Asian tigers), nor too reliant on foreign money for investment-driven growth (such as Russia and a few other countries in Eastern Europe). As a result, the impact of the recession on India has been neither severe nor sustained. In the short term, India did suffer from a lack of business confidence. Foreign investors exited the Indian stock market, leading to a drop in the share market. However, business confidence has returned and along with it foreign money. In fact, the flow of foreign money is creating excessive liquidity, leading to fears that a housing bubble might be created.

The Chinese economy is export-driven, supported by an undervalued currency. With its chief export markets contracting, Chinese growth slowed down. The economy has recovered thanks to monetary and fiscal stimulus. However, it is at crossroads. With Western consumers cutting spending, at least in the immediate future, the country will have to find another engine for growth.

DEMAND DROPPING

Lubricant consumption in BRIC countries dropped by between 12% and 18% as a result of the recession. Consumption is projected to recover to 2008 levels by around 2011, as shown in the figure above (right). However, the impact by country has varied significantly from a 25-30% drop in Russia to a 10-15% drop in China and India.

Russia was one of the country most severely affected by the recession. Growth in the country has been driven by energy exports as well as investment growth, in turn fuelled by foreign money. As a result, the country was doubly hit by the recession. Industrial production, construction, mining, and automotive production were all severely affected. Consequently, consumption of industrial and commercial lubricants declined by nearly 30% in the first half of 2009. Consumption of consumer lubricants was also affected because of reduced car use - a result of high unemployment and the prevailing economic pessimism.

The Russian economy will take the longest among the BRIC countries to recover as a result of its significant economic problems and the overall business pessimism.

As a result, consumption of industrial and commercial lubricants was down by 15-20% in the first half of 2009, but it rebounded to close to prerecession levels by the end of the year. The impact on consumer lubricants (which declined by around 8%) was much milder because of a government subsidy on car sales, as well as the fact that [ethanol](#) prices did not rise as much as gasoline. Hence, there was no major impact of high fuel prices on car driving.

India experienced a mere slowing down in growth rates because of the recession. Of course, there was a period of panic when the extent of the financial crisis and India's exposure to it was not clear. However, this was short-lived. Growth in industrial production was never negative, even at the height of the recession. In the short term, the automotive and construction industries were affected.

Finally, China experienced a rather severe shock in the first half of 2009 mainly as a result of the contraction in its export markets. All industrial sectors suffered and at one point, the impact was more severe than in India. With the help of a \$600bn (€425bn) stimulus package, the country has clawed its way out of recession. However, lubricant consumption for

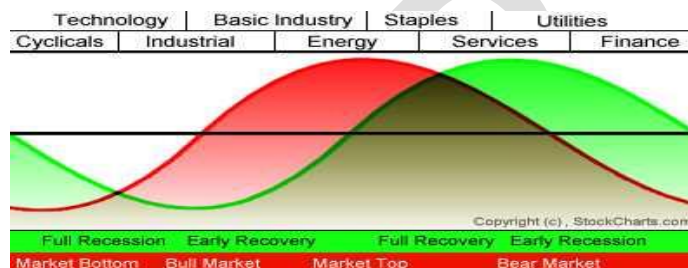
2009 will be 12% lower compared with 2008 - with the industrial and commercial lubricant markets experiencing the worst declines, followed closely by the consumer segment. The big challenge facing the country is to replace exports with domestic

It is clear that the BRIC countries are all very different from each other. Hence considering them as a bloc does not make sense. Russia is the weakest growth prospect and the country really does not belong to any high growth club. Its growth in the past five years has been driven mainly by energy exports. Its recovery is linked to the recovery in Europe, as well as other non-economic factors. The outlook for Russia is the foggiest of all BRIC countries.

Both Brazil and India escaped the worst impact of the recession, not because of any virtue on their part, but because the financial sector in these economies is partially closed. India has managed to get back on the growth track by virtue of strong domestic demand. Brazil, on the other hand is trying to export its way to growth, focusing this time on China and India, rather than the US.

China's growth needs a new sponsor, now that Western consumers will take a long time to recover consumption levels. Growth in domestic consumption can be the new driver for the Chinese economy. It remains to be seen if Chinese consumers are up to the challenge.

IV. OVERALL IMPACT OF RECESSION



The impact of the recession can be summarized as the following:

- **Rising Government Borrowing.** A recession is bad news for the government budget. A recession leads to lower tax revenues (lower income tax and corporation tax revenues) and higher government spending on unemployment benefits. The UK is forecast to borrow £60 billion; a recession could make this borrowing even worse in 2009. This borrowing means higher taxes and higher interest payments in the future.
- **Falling Share Prices.** Generally a recession leads to lower profitability and lower dividends. Therefore, shares are less attractive. Note share prices often fall in anticipation of a recession. e.g. the recent falls in share prices are largely because the market expects a recession soon. During the actual recession, share prices often increase in anticipation of the economy recovering. Note also, falling share prices don't

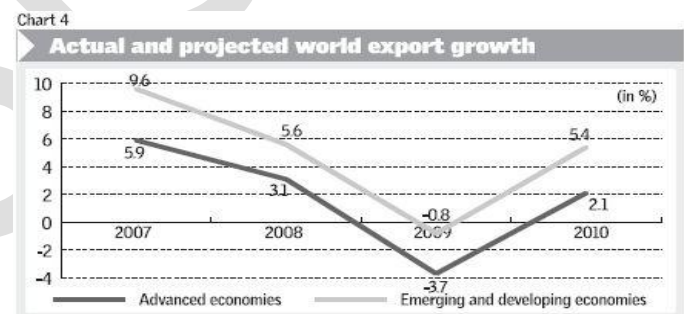
always mean a recession, falling share prices can occur for many other reasons.

- **Lower Inflation.** Typically a recession reduces demand and wage inflation. This should result in a lower inflation rate. However, this recession is complicated because of rising oil prices. Therefore, the forthcoming recession may actually occur simultaneously with higher inflation - a term known as stagflation. But, a recession will definitely reduce demand pull inflation pressures and encourages price wars on the high street as firms seek to retain consumers.

- **Falling investment.** Investment is much more volatile than economic growth. Even a slowdown in the growth rate (economy expanding at a slower rate) can lead to a significant fall in investment.

- **Rising unemployment.** This is the main concern over a recession. If output does fall, there is likely to be a fall in demand for labor. This problem is often concentrated in those sectors most affected by the recession. For example, in the current climate, jobs related to finance and the housing market are more at risk than say the manufacturing sector. Often unemployment is a delayed factor) i.e. it takes time for unemployment to rise, but, even when the economy is recovering, it takes time for unemployment to fall.

The Impact of Recession on Businesses



- **A recession will make it difficult for new firms who have just entered the market.** Most new firms have high set up costs; therefore, a downturn in the economy could make them close down. However, this does not mean that they are inefficient. It just means they are new and struggling to get established..
- **Increased Monopoly Power.** If a recession causes the smaller and newer firms to go out of business then the larger dominant firms will gain more monopoly power. In the long run this will lead to less choice and higher prices. This is a definite disadvantage of a recession. When the Chairman of Ryanair argued recessions would be a good thing, maybe he meant - a good thing for Ryan air, as it may involve new firms going out of business leaving him more market power.
- **Hysteresis.** This is the argument that the past is a predictor for the future. Basically, if you have high unemployment, then it is more likely to have high

unemployment in the future. If people are made unemployed in a recession, it may take a long time for them to find work again. When they are unemployed they lose skills, become de-motivated and become less attractive to employers. Note after the recession of 1981, Unemployment remained stubbornly high in the UK, even into the boom years of the late 1980s

- *Fall in Productive Capacity.* A recession can damage the productive capacity of an economy. Firms can go out of business and therefore shut down their resources. Furthermore in a recession, there will be a significant fall in investment; this can harm the long term development of an economy.

You don't need a recession to weed out inefficient firms. If markets are reasonably competitive, inefficient firms will be forced out of the market anyway

An economic decline in the United States is pretty much guaranteed to reduce the income of the business sector. The recent falls in the US stock markets are largely due to expectations of a future downturn in the economy. Lower growth leads to lower profits, therefore dividends decline and shares become less attractive. If the US enters into recession, firms will experience a decline in profitability. This is because:

- Tendency for price wars to develop in a recession. Low sales encourage firms to cut prices
- Falling sales will lead to lower revenues.

Some firms will be affected more by the downturn. Firms producing luxury goods (Income elasticity of demand >1) will experience the biggest % fall in demand. This is likely to include manufacturers of luxury cars, 5 star hotels. Firms producing basic necessities will be more insulated from the effects of a recession.

A Recession's Impact on Small Businesses - The impact of a recession on small businesses that have annual sales substantially less than the Fortune 1000 and that are not public companies is similar to large businesses. Without major cash reserves and large capital assets as collateral, however, and with more difficulty securing additional financing in trying economic times, smaller businesses may have a harder time surviving a recession. Bankruptcies among smaller businesses may therefore occur at a higher rate than among larger firms. The bankruptcy or dissolution of a small business that serves a community - a franchised convenience store, for example - can create hardships not only for the small business owners, but for residents of the neighborhood. In the wake of such bankruptcies or dissolutions, the entrepreneurial spirit which inspired someone to go into such a business may take a hit, discouraging, at least for a while, any risky business ventures. Too many bankruptcies may also discourage banks, venture capitalists and other lenders from making loans for startups until the economy turns around.

Stock market and recession

Some recessions have been anticipated by stock market declines. In *Stocks for the Long Run*, Siegel mentions that since 1948, ten recessions were preceded by a stock market decline, by a lead time of 0 to 13 months (average 5.7 months), while ten stock market declines of greater than 10% in the DJIA were not followed by a recession.

The real-estate market also usually weakens before a recession. However real-estate declines can last much longer than recessions.

Since the business cycle is very hard to predict, Siegel argues that it is not possible to take advantage of economic cycles for timing investments. Even the National Bureau of Economic Research (NBER) takes a few months to determine if a peak or trough has occurred in the US.

During an economic decline, high yield stocks such as fast moving consumer goods, pharmaceuticals, and tobacco tend to hold up better. However when the economy starts to recover and the bottom of the market has passed (sometimes identified on charts as a MACD), growth stocks tend to recover faster. There is significant disagreement about how health care and utilities tend to recover. Diversifying one's portfolio into international stocks may provide some safety; however, economies that are closely correlated with that of the U.S. may also be affected by a recession in the U.S.

There is a view termed the halfway rule according to which investors start discounting an economic recovery about halfway through a recession. In the 16 U.S. recessions since 1919, the average length has been 13 months, although the recent recessions have been shorter. Thus if the 2008 recession followed the average, the downturn in the stock market would have bottomed around November 2008.

Recession and Politics

The 1981 recession is thought to have been caused by the tight-money policy adopted by Paul Volcker, chairman of the Federal Reserve Board, before Ronald Reagan took office. Reagan supported that policy. Economist Walter Heller, chairman of the Council of Economic Advisers in the 1960s, said that "I call it a Reagan-Volcker-Carter recession. The resulting taming of inflation did, however, set the stage for a robust growth period during Reagan's administration.

It is generally assumed that government activity has some influence over the presence or degree of a recession. Economists usually teach that to some degree recession is unavoidable, and its causes are not well understood. Consequently, modern government administrations attempt to take steps, also not agreed upon, to soften a recession. They are often unsuccessful, at least at preventing a recession, and it is difficult to establish whether they actually made it less severe or longer lasting.

V. HISTORY OF RECESSION

Global recession

There is no commonly 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 between 8 and 10 years. During what the IMF terms the past 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 contraction 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.

Recent Recession in some countries

Greek appears to be most recent country facing recession. Reason is well known of financial crisis because of growth of credit card/loan defaulters and bankruptcy. Primarily this came up because economic reforms did not go in line with global practice.

Official economic data showed that a substantial number of nations were 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 sub-prime mortgage crisis had significantly contributed to a recession.*

Crisis in US

Turmoil in housing, credit and financial markets plunged the U.S. economy into a recession that has taken a heavy toll on the labor market. The weakness that began during the second half of 2007 gravely worsened during a period of extreme financial stress in 2008, and the labor market has yet to recover.

The unemployment rate surged to 10.1 percent in October 2009, the first double-digit reading in 26 years, and it held at 10 percent in November and December. The rate has increased 5 percentage points since the recession's start in December 2007, according to the Bureau of Labor Statistics (BLS). Nonfarm payrolls declined by 85,000 jobs in December, exceeding analyst expectations, though November figures were revised to a gain of 4,000 jobs. Thus far, nonfarm employment losses during this recession total 7.2 million.

To put the recession's labor-market impact into perspective, we compare the past two years to previous downturns, including the Great Depression. We also examine the data commonly used to assess labor market conditions. While unemployment rates and nonfarm payroll losses are widely reported, a firm grasp of what they measure is critical to understanding what they tell us about the current state of the labor market

Unemployment Scenarios

The National Bureau of Economic Research (NBER) determines when U.S. recessions officially start and end. Its business-cycle dating work shows that the nation has been through 10 recessions since the one in 1948, not counting the current episode. These slumps went from peak to trough in 10 months on average, while employment declines lasted an average of 12 months.

The past episodes, however, are anything but uniform. The longest recessions started in November 1973 and July 1981, each lasting 16 months. By contrast, recessions that began in July 1990 and March 2001 lasted only eight months but were followed by so-called jobless recoveries—prolonged periods of slow employment growth after gross domestic product starts to rebound.

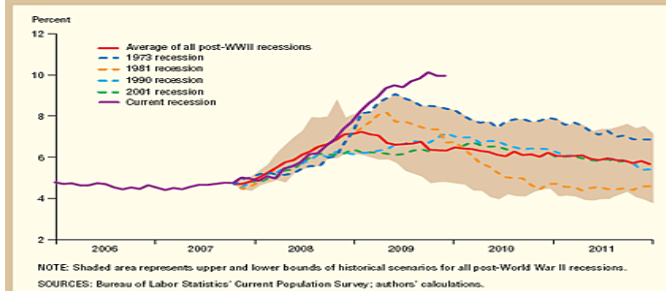
The 2007-2009 recession will almost surely be the longest of the -post-World War II era, although the official end date has yet to be determined. The only way it would not exceed the 16-month duration of the 1973 and 1981 recessions is if the NBER concludes that the current recession ended in April 2009 or earlier. To compare current and past recessions, we created scenarios by plotting the recent evolution of the unemployment rate against all post-World War II downturns. We used the rate prior to the current episode—4.7 percent in November 2007—as the common starting point.

We find that the current recession's unemployment rate rose swiftly by historical standards (*Chart 1*). By December 2008,

it had already surpassed the average of all post-World War II recessions—and it continued climbing through 2009.

Looking at the evolution of the unemployment rate in depth

Chart 1
Unemployment Rate Rising Faster than in Any Post-World War II Recession



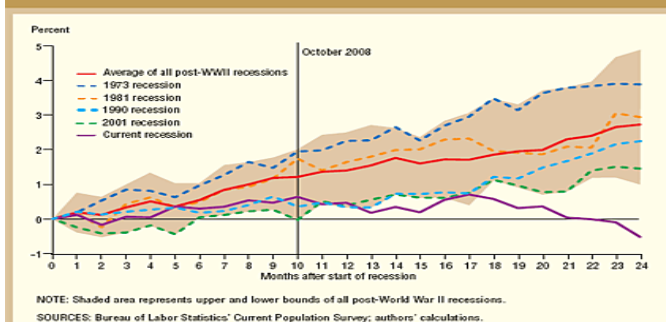
and length, the 1973 and 1981 recessions are most similar to the current recession. The 1973 scenario warns us that unemployment could remain elevated for a long time. The 1981 scenario offers a more optimistic outlook, with a rather quick employment recovery and return to prerecession unemployment levels less than three years after the start of the recession.

Total civilian employment during the 2007-09 recession also showed the stresses under which the labor market has operated. The percent decline in civilian employment wasn't much different from previous recessions until October 2008, when it began to deteriorate rapidly, falling outside the historical range within a few months (*Chart 2*). This coincided with the onset of financial market turmoil, which shook the economy and led employment to weaken further.

The acceleration in employment losses after October 2008 isn't matched by a rise in the unemployment rate. This discrepancy can be partly attributed to workers leaving the labor force.

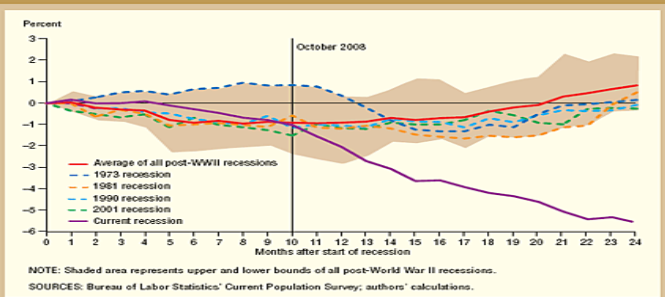
The recession of 2008-2009, in fact, differs from previous episodes in the evolution of the civilian labor force. While the

Chart 3
Civilian Labor Force Growth Slowing in Current Recession



1973 and 1981 recessions saw significant labor force growth, the 1990 and 2001 episodes had meager increases. In the current recession, the civilian labor force moved between

Chart 2
Civilian Employment Falling Steeply in Current Recession



those experiences until October 2008 (*Chart 3*). From then on, the labor force continued on a somewhat unusual path of minimal growth that dipped below the historical range two months later and stayed there every month except May 2009.

In the last few months of 2009, the civilian labor force fell noticeably below its level at the start of the recession in December 2007.

Nonfarm Payroll Losses

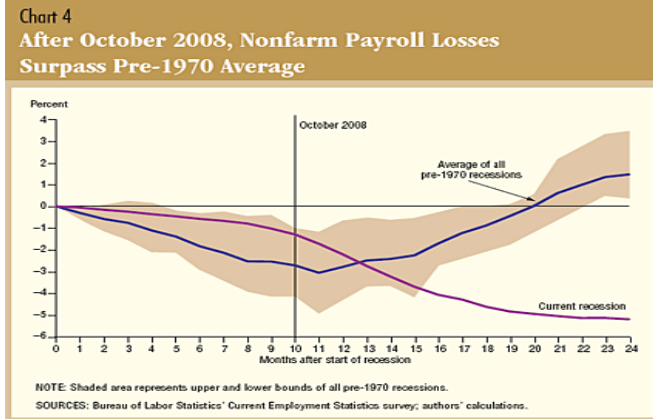
To assess aggregate labor market conditions, analysts and policymakers often look beyond the unemployment rate, civilian employment and labor force numbers, all of which come from the BLS' Current Population Survey (CPS).

The BLS produces another monthly employment series with different definitions of employment and different survey and estimation methodologies. The Current Employment Statistics (CES) survey is derived from a sampling of business establishments and is the source of the widely reported nonfarm payroll numbers. The CES survey counts jobs—the number of workers on payrolls—while the CPS counts individuals working.

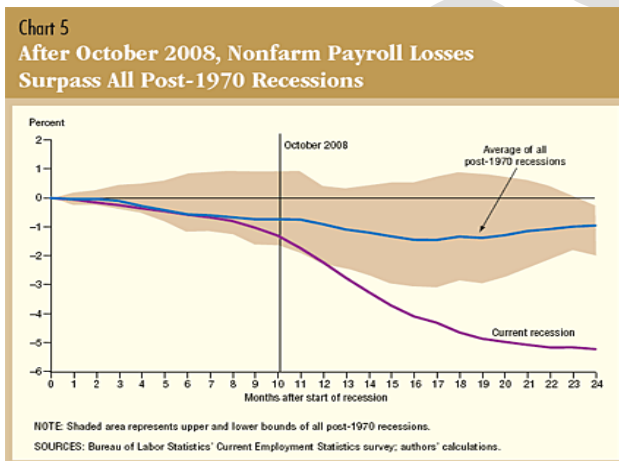
Both surveys have their strengths and weaknesses. The CPS provides a broader picture of nonfarm employment because it includes the unincorporated self-employed, unpaid family workers, private household employees and workers absent without pay. It may even partly capture off-the-books employment not reported in the CES. However, the CPS employment classification is based on interviewees' descriptions of their jobs and doesn't always agree with employers' reporting in the CES.

Analysts often view the CES as a better gauge of cyclical movements in employment by sector because of its higher sampling ratio. However, it's subject to double counting because it may include persons with more than one job or those who change jobs in a given payroll period. In the end, the CES nonfarm payroll numbers aren't always easy to reconcile with the CPS household data.

U.S. nonfarm payrolls often experienced abrupt changes prior to the 1970s. Examined through this historical lens, the current recession's nonfarm job losses weren't out of the ordinary at the beginning. While less than average in the early months of the downturn, nonfarm employment losses exceeded the pre-1970 norm only after October 2008 (*Chart 4*). Unlike in the pre-1970 experience, the recovery of nonfarm employment hasn't taken hold yet.



In the post-1970 period, total civilian employment and nonfarm payroll employment behaved more similarly, due in part to the decline in agriculture's employment share. Nonfarm payroll losses under the post-1970 norm were somewhat milder than they were pre-1970, but recovery took longer as well—closer to 17 months on average (*Chart 5*).



In the first eight months of the current recession, nonfarm payroll losses were similar to the post-1970 average. After October 2008, however, we see a significant divergence. The current recession's acceleration of losses is unusual compared with both the pre- and post-1970 periods. Only in the last few months has the rate of nonfarm payroll employment decline started to appreciably slow.

Nonfarm payroll losses show the same deterioration after October 2008 that we observe in total civilian employment in

Chart 2, which isn't apparent from the evolution of the unemployment rate, as seen in Chart 1.

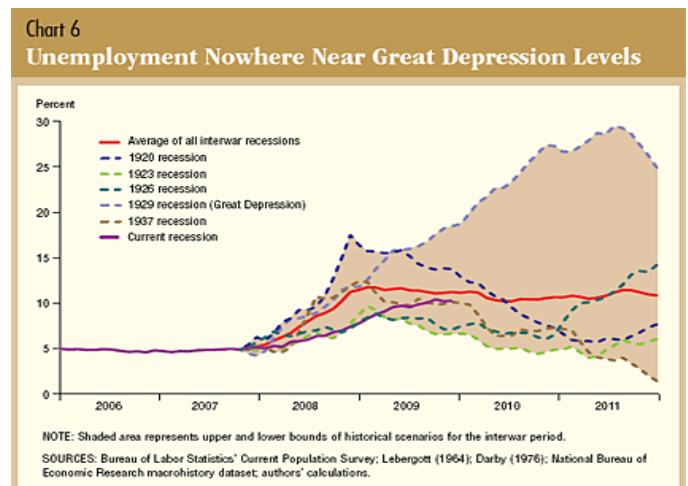
Unemployment Scenarios Redux

The rapid deterioration of the labor market after October 2008 led to fears the economy might sink into a second Great Depression, a nightmarish period when unemployment rose from 3.2 percent in 1929 to 20.9 percent in 1933. A look back at the 1930s tells us just how close the current recession has come to the greatest economic calamity in the past century.

Employment data for the interwar years comes from the influential work of Stanley Lebergott, amended by the addition of emergency workers as suggested by Michael R. Darby. Lebergott worked with the decennial censuses and other sources to create census-year labor force and employment estimates that would be consistent with the CPS definitions.

For the years between censuses, Lebergott relied on CES employment data by sector, subjecting them to a variety of refinements to reach his final numbers. He also used the CES data because of their fairly complete coverage back to 1929. The CPS household sample didn't start until 1940. However, due to a lack of complete CES survey data prior to 1929—with the notable exception of manufacturing—he had to use more heterogeneous sources to extend his employment series further back in time.

There are many differences between the Great Depression—as characterized by the Lebergott–Darby employment numbers—and the last recession. Looking at the interwar period between 1919 and 1941, it becomes clear that unemployment-rate effects are significantly smaller in the current recession than they were in the interwar period (*Chart 6*).



The current recession has been longer and deeper than the 1923 and 1926 recessions but not the 1937 relapse in the Great Depression decade. The major differences that emerge from the data are due to the order of magnitude and duration of the Great Depression—although we can't fully appreciate how the current episode will compare until we turn the corner on the current slump and move from job losses to steady job creation.

Not Created Equal

A historical look shows that the labor market impact hasn't been as severe in the current recession as it was in the Great Depression. While the latest episode has a lot in common with the post-World War II experience, it's unusual in the length and depth of its labor market reach. It was the acceleration of employment losses after October 2008 that transformed an otherwise average recession into the worst episode since World War II.

Different labor market data sources use different conceptual definitions and methodologies. Measurement issues can complicate the interpretation of aggregate data, and sometimes aggregation itself can mask important structural changes.

While data limitations hinder comparisons across recessions, this historical analysis helps us better understand the relative severity of the current episode. Notably, this recession is unusual in the depth and breadth of employment losses. The reasons for this will continue to be examined by analysts and the public for years to come.

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.

Past recessions in the US

The US economy has suffered 10 recessions since the end of World War II. The Great Depression in the United States was an economic slowdown, from 1930 to 1939. It was a decade of high unemployment, low profits, low prices of goods, and high poverty.

The trade market was brought to a standstill, which consequently affected the world markets in the 1930s. Industries that suffered the most included agriculture, mining, and logging.

In 1937, the American economy unexpectedly fell, lasting through most of 1938. Production declined sharply, as did profits and employment. Unemployment jumped from 14.3 per cent in 1937 to 19.0 per cent in 1938.

The US saw a recession during 1982-83 due to a tight monetary policy to control inflation and sharp correction to overproduction of the previous decade. This was followed by Black Monday in October 1987, when a stock market collapse saw the Dow Jones Industrial Average plunge by 22.6 per cent affecting the lives of millions of Americans.

The early 1990s saw a collapse of junk bonds and a financial crisis.

The US saw one of its biggest recessions in 2001, ending ten years of growth, the longest expansion on record.

From March to November 2001, employment dropped by almost 1.7 million. In the 1990-91 recessions, the GDP fell 1.5 per cent from its peak in the second quarter of 1990. The 2001 recession saw a 0.6 per cent decline from the peak in the fourth quarter of 2000.

The dot-com burst hit the US economy and many developing countries as well. The economy also suffered after the 9/11 attacks. In 2001, investors' wealth dwindled as technology stock prices crashed.

Impact of an American Recession on India

Recession in the West, especially the United States, is a very bad news for our country. Our companies in India have most outsourcing deals from the US. Even our exports to US have increased over the years. Exports for January have declined by 22 per cent. There is a decline in the employment market due to the recession in the West. There has been a significant drop in the new hiring which is a cause of great concern for us. Some companies have laid off their employees and there have been cut in promotions, compensation and perks of the employees. Companies in the private sector and government sector are hesitant to take up new projects. And they are working on existing projects only. Projections indicate that up to one crore persons could lose their jobs in the current fiscal ending March. The one crore figure has been compiled by Federation of Indian Export Organizations (FIEO), which says that it has carried out an intensive survey. The textile, garment and handicraft industry are worse affected. Together, they are going to lose four million jobs by April 2009, according to the FIEO survey. There has also been a decline in the tourist inflow lately. The real estate has also a problem of tight liquidity situations, where the developers are finding it hard to raise finances.

IT industries, financial sectors, real estate owners, car industry, investment banking and other industries as well are confronting heavy loss due to the fall down of global economy. Federation of Indian chambers of Commerce and Industry (FICCI) found that faced with the global recession,

inventories industries like garment, gems, textiles, chemicals and jewellery had cut production by 10 per cent to 50 per cent.

Indian companies have major outsourcing deals from the US. India's exports to the US have also grown substantially over the years. The India economy is likely to lose between 1 to 2 percentage points in GDP growth in the next fiscal year. Indian companies with big tickets deals in the US would see their profit margins shrinking.

The worries for exporters will grow as rupee strengthens further against the dollar. But experts note that the long-term prospects for India are stable. A weak dollar could bring more foreign money to Indian markets. Oil may get cheaper bringing down inflation. A recession could bring down oil prices to \$70.

The whole of Asia would be hit by a recession as it depends on the US economy. Even though domestic demand and diversification of trade in the Asian region will partly counter any drop in the US demand, one simply can't escape a downturn in the world's largest economy. The US economy accounts for 30 per cent of the world's GDP.

Manish Sonthalia, head, equity, MotilalOswal Securities, says if the US economy contracts much more than anticipated, the whole world's GDP growth-which is estimated at 3.7 per cent by the IMF-will contract, and India would be no exception.

The IT sector will be the worst hit as 75 per cent of its revenues come from the US. Low demand for services may force most Indian Fortune 500 companies to slash their IT budgets. Zinnov Consulting, a research and offshore advisory, says that besides companies from ITeS and BPO, automotive components will be affected.

During a full recession, US companies in health care, financial services and all consumers demand driven firms are likely to cut down on their spending. Among other sectors, manufacturing and financial institutions are moderately vulnerable. If the service sector takes a serious hit, India may have to revise its GDP to about 8 to 8.5 per cent or even less.

According to Dharmakirti Joshi, director and principal economist of CRISIL, along and severe recession will seriously affect the portfolio and fixed investment flows. Corporates will also suffer from volatility in foreign exchange rates. The export sector will have to devise new strategies to enhance productivity.

The Data

The British Household Panel Survey (BHPS) began in 1991 and is a multi-purpose study that follows the same representative sample of individuals (the panel) over a period of years. It is household-based, interviewing every adult member of sampled households. The wave 1 panel consists of some 5,500 households and 10,300 individuals drawn from 250 areas of Great Britain. The sample was increased in 1999 and 2001 to accommodate extra samples from Wales and

Scotland, and Northern Ireland, respectively. The latest data available from the BHPS is for 2008 - interviewing for which took place between September and December corresponding with the start of the current recession. Exactly when the BHPS interviews take place, and the timing of the interview in relation to the economic circumstances of the individual and the wider economy, may have a significant impact on our findings.

The BHPS provides information on household organization, employment, accommodation, tenancy, income and wealth, housing, health, socio-economic values, residential mobility, marital and relationship history, social support, and individual and household demographics. Many of the questions in the survey are repeated in subsequent waves. Some are repeated in all waves; these are the 'Core' questions (including current employment, current finances, neighborhood and health). Some variables appear in alternating waves or on a cyclical basis; these are known as the 'Rotating Core' questions (including attitudes to morality and religion, life satisfaction, government roles and responsibilities, the environment).

The analytical model

The analysis is comprised of a number of stages, illustrated by a conceptual framework. At each stage, the analysis looks at the two recession years (1991 and 2008) and a year outside of recession (2001). This allows for a comparison of the two recession years and of each with a year in better economic times.

The first stage of analysis categorizes people who experienced employment difficulties that are who either lost their job that year or who felt insecure in their job. Each group is profiled to illustrate the type of people that underwent such experiences. Comparisons will be made across the three years to see whether different types of people were affected in the recession years.

The second stage illustrates the social disadvantages for people who experienced employment difficulties. Short-term outcomes will be measured in the year of the economic event, and longer-term outcomes will be measured across a period following the economic event (taking advantage of the panel element of the BHPS, which re-interviews the same people on an annual basis).

The final stage will use multivariate analysis to explore which factors are associated with each of the negative outcomes. Part of this analysis is to investigate the range of capabilities and resilience factors that can help people avoid experiencing negative social outcomes. We use two types of multivariate analysis in this study; logistic regression and ordinal logistic regression. These are both explained in the methods section below.

Main measures to be used in the analysis

The main measures to be used in the analysis are illustrated below.

We now go on to describe the key measures used in the analysis; that is, measures of employment difficulties, social outcomes and capabilities and resilience factors. We also list the socio-demographic variables and their categories, which are mainly used as controls in the analysis.

Job loss

To measure job loss we identify people who were working last year but who lost their job and were unemployed (i.e. actively looking for work) this year. There are two questions in the BHPS that respectively enquire about labor force status, one about their current position and another about their employment status on September 1st in the year prior to the year of current interview.

Which best describes your current situation?

And which best describes your situation on 1st September last year?

- Self employed
- In paid employment
- Unemployed
- Retired
- Family care
- Full-time student
- Long term sick/disabled
- On maternity leave
- Govt training scheme
- Something else

These questions allow us to identify people's employment status at two snapshots roughly 12 months apart. From this we are able to identify people whose employment status has

Economic events/groups

- Job loss
- Insecure in job

Socio-demographics

- Sex; Age; ethnic group; family type; marital status; physical health; income; tenure; regional unemployment rate

Capabilities and resilience

- Social support
- Education
- Savings

- Mental health

Social outcomes

- Depression
- Financial stress
- Evictions and repossessions
- Relationship breakdown

There are a number of caveats to this way of measuring job loss. First, by looking at employment status we miss any changes that happen in between these time points. Here we are in danger of grouping together people who are recurrently in and out of work, and those who have experienced unemployment from a more permanent job. There is also the issue of the timing of the BHPS interview and the subsequent length of time between the interview and September 1st of the previous year. Not all respondents are interviewed in September, meaning the gap between current and previous status is not 12 months for all respondents. However, the vast majority of respondents are interviewed between September and November, meaning the gap between current and previous employment status is 12-14 months. Finally, the propensity for people to report a negative social outcome may depend on the time since job loss occurred. However, we do not take into account when the job loss occurred during this time frame just that it happened.

Insecure in job

To measure job insecurity we use a question that asks respondents of their level of satisfaction with job security in their current employment. People respond to this question using a 7-point scale from 1 'Not satisfied at all' to 7 'Completely satisfied'. We categorize those who give answers 1 to 3 as being dissatisfied with their job security, i.e. insecure in their job. This was based on the distribution of responses across all workers, which clearly showed a clustering of responses below and above the middle category.

Which best describes how satisfied or dissatisfied you are with that particular aspect of your own present job - Your job security?

1. Not satisfied at all
2. Neither satisfied or dissatisfied
3. Completely satisfied

Clearly this is a subjective question – one person's dissatisfaction with their job security may not equate with another's. However, tapping into individual feelings of insecurity is what the question is trying to do and our research then seeks to explore how these feelings relate to other social outcomes.

Also, this type of question does not specifically link insecurity to unemployment expectations, which may lead to respondents considering the wider implications of insecurity, such as the stability of their employment conditions⁷, though clearly there may be some overlap. In the 1997 and 1998 waves of the BHPS, workers were asked to assess their level of job security in terms of the probability of becoming unemployed within the next year. However, these questions were only asked in these two waves and hence are not useful for this study.

Depression

This is measured using the General Health Questionnaire (GHQ), a 12-question battery originally developed as a screening instrument for psychiatric illness, but often used as an indicator of subjective well-being. The twelve items that make up the General Health Questionnaire are. *Have you recently:*

- *Been able to concentrate on whatever you are doing?*
- *Lost much sleep over worry?*
- *Felt that you are playing a useful part in things?*
- *Felt capable of making decisions about things?*
- *Felt constantly under strain?*
- *Felt you could not overcome your difficulties?*
- *Been able to enjoy your normal day-to-day activities?*
- *Been able to face up to your problems?*
- *Been feeling unhappy and depressed?*
- *Been losing confidence in yourself?*
- *Been thinking of yourself as a worthless person?*
- *Been feeling reasonably happy all things considered?*

This measure converts valid answers to the 12 GHQ questions into a single scale by recoding so that the response to each question is deemed positive if it is greater than one and the number of positives provides the score⁸. This results in a score between 0 and 12 for each individual. We then choose a cut-off point of 4 to define a case of mental disorder, which we call depression.

A GHQ measure that uses a threshold of 4 identifies 18 per cent of the working age population as 'depressed', according to the 1991 wave of the BHPS. This definition, and threshold, has been used in a number of studies (e.g. Blekesaune, 2009 and Lampard, 1994) to identify people with poor mental health.

We create two measures of depression, one short term - which measures depression at the same interview as the respondent was asked about job loss and job insecurity, and one longer-term - which counts the subsequent number of interviews a respondent was defined as depressed. The longer-term measure has three categories: '0 years', '1-2 years' and '3-6 years' with a GHQ measure of 4 or more.

Financial situation

This is measured using a question that asks '*How well would you say you yourself are managing financially these days? Would you say you are ...?*'

1. Living comfortably
2. Doing alright
3. Just about getting by
4. Finding it quite difficult
5. Finding it very difficult

We group people into two categories: those finding it quite or very difficult to manage, and the rest. We create two measures of financial situation, one short term - which measures\

In the report we sometimes refer to the longer-term social outcomes as measuring 'duration'. The term duration may imply a continuous period, whereas in this research we simply count the number of interviews after the employment difficulty that the respondent experienced the negative social outcome. So, for example, a 'duration' of 4-6 years does not necessarily mean someone experienced depression in the four years immediately after the employment difficulty, it could have been during any 4 of the 6 years.

Financial situation at the same interview as the respondent was asked about job loss and job insecurity, and one longer-term - which counts the subsequent number of interviews a respondent was finding it quite or very difficult to manage. The longer-term measure has three categories: '0 years', '1-2 years' and '3-6 years'.

Evictions

Measured using a question from a suite of questions that enquires about why a respondent moved house.

What were your (other) main reasons for moving? (the previous question asked whether the respondent moved house for reasons that were wholly or partly to do with your own job, or employment opportunities). One of a number of possible responses is:

'Moved house because of eviction or repossession'

Because these events do not occur that frequently across the population, we define an eviction or repossession event if it happened within five years of the time in which we measure employment difficulties, for example when looking at job loss in 2001, we look to see whether an eviction or repossession occurred across the period from 2001 to 2006¹⁰¹¹.

Relationship breakdown

Measured according to the respondent experiencing a change in relationship status from 'married' or 'living as a couple (i.e. cohabitating)' to either 'divorced' or 'separated' or 'never married' (the last one being applicable in the case of cohabitating couples). Widowed is not classified as a relationship breakdown. It is worth noting here that

relationship status is measured at the point of interview, so using annual measures to detect change in status will clearly miss any additional changes during the year. Again, as these events are relatively infrequent from one year to the next, relationship breakdown is measured within five years of the employment difficulties, in the same way as evictions¹².

Capabilities and resilience

One of the aims of the research is to investigate the extent to which different forms of capabilities and resilience can help protect people against negative social outcomes. We consider the following factors in this study:

Social support

Having someone to turn to in times of need may protect people from negative social outcomes. Social support is measured by creating an index from responses to five questions about having people to turn to at particular times. For each question, the respondent answers: 'Yes, more than one person', 'Yes, one person' or 'No one'. To measure low levels of social support we categorize people who have 'no one' to turn to in any one of the scenarios listed below.

- *Is there anyone who you can really count on to listen to you when you need to talk?*
- *Is there anyone who you can really count on to help you out in a crisis?*
- *Is there anyone who you can totally be yourself with?*

Note that the reason for moving house question was not asked in the 1991 wave of the BHPS. Hence for analysis of the 1990s recession we measured evictions or repossession across the period from 1992-1996.

Again, we cannot create this measure for people who faced employment difficulties in 2008.

Again, we cannot create this measure for people who faced employment difficulties in 2008.

- *Is there anyone who you feel really appreciates you as a person?*
- *Is there anyone who you can really count on to comfort you when you are very upset?*

Education

Having higher levels of education may be a resource people draw on in poor economic times, either to help them to find work, or more suitable work, or to reassure themselves that economic opportunities are within their grasp. The BHPS contains a measure of respondent's highest educational qualification attained and we compare the social outcomes of people with the following levels:

1. Degree/equiv or higher ; 2. A-level/equiv;
3. O-level/equiv;4. CSE/equiv;5. None

Savings

Having financial resources in the form of savings can provide income for people to draw on in hard economic times, particular if they experience a drop in income from losing their job. Although the BHPS does not ask how many savings a household has, it collects information on income received from savings and investments. We use this income as a proxy for the amount of savings a household can draw on (although we do not know how easy it is for people to access these resources). We categorize people into five groups, in based on the amount of savings and investment income they receive each year.

- 1 'Nothing'
- 2 '£1-100'
- 3 '£101-500'
- 4 '£501-1000'
- 5 '£1001+'.

Mental health

Although we measure depression and financial stress as a social outcome, to try to understand the social impact of employment difficulties, they can also be treated as protective factors against other social outcomes – such as relationship breakdown. Therefore we include mental health and financial stress as protective factors in our analysis of the other social outcomes used in this study.

Socio-demographics

Sex: Male / Female

Age: 16-24 years / 25-44 years / 45-64 years

Ethnic Group: White / Black / Asian / Other

Family type: Single Non-Elderly / Couple No Children / Couple with dependent children only / Couple with non-dependent children / Lone parent with dependent children only / Lone parent with non-dependent children / Households with two or more unrelated adults / Other Households

Tenure: Owned outright / Owned with mortgage / Social rented / Private rented /other rented

Regional unemployment rate: 0-<4.5% / 4.5-<6% / 6-<7.5% / 7.5-<9% / 9+%

Health (self-reported): Fair, good or excellent health / Poor or very poor general health

Analysis methods

Much of the analysis in this report uses descriptive statistics to show the percentage of people in employment difficulty who also experienced social disadvantage. Comparisons are made with people who did not face such employment difficulties and also across years, to see if there were differences in the recession years. Because the numbers of people in the BHPS data who experienced employment difficulties was relatively low, some of these findings should be treated with caution.

We also use regression analysis to explore relationships between employment difficulties and social outcomes when taking other, potentially confounding factors, into account. These analyses also help to illustrate the factors that can protect people from social disadvantage. Regression analysis aims to summarize the relationship between a 'dependent' variable (a social outcome in our analysis) and one or more 'independent' variables (in our analysis these include one of our economic difficulties, such as job loss, the protective factors and the range of background characteristics). All regression analysis assumes that the relationship between the dependent and each of the independent variables takes a particular form.

We use *logistic regression* for the shorter-term social outcomes that is where the outcome is measured at the same interview as when people are asked about their job loss or job insecurity. These outcomes have two values, either the person has the negative social outcome, such as depression, or not. Results of logistic regression analysis are usually presented in the form of odds ratios. An odds ratio is a relative measure of risk, telling us how much more likely it is that someone who is exposed to the factor under study (for example job loss) will develop the outcome as compared to someone who is not exposed.

When we look at longer-term outcomes, our dependent variable has more than two categories - for example the number of years a respondent experienced the social outcome, such as depression, over a period after the economic event. Here we categorize the 'duration' of the social outcome into categories such as 'none', '1-2 years' and '3-6 years'. Because these categories can be ordered in terms of duration, *ordinal logistic regression* is applicable. The odds ratios in ordinal logistic regression have a similar interpretation to those in binary logistic regression, except in this case there are two transitions estimated instead of one. An odds ratio higher than 1 indicates an increased chance that a subject with a higher score on the independent variable will be observed in a higher category of the outcome (e.g. higher number of years experiencing depression).

Exploring the groups at risk

This chapter focuses on the two risk groups that are of interest to this study: people who lost their job and people who were not satisfied with the security of their job. We first assess the prevalence of both groups in the years of recessions (1991 and 2008) and a year outside of recession (2001). We also present the size of the groups in the BHPS sample and discuss its consequences for further analysis. Then, the chapter moves on to present the profiles of both risk groups in terms of a range of socio-demographic characteristics, paying particular attention to the differences between the years of recession and the non-recession year.

Prevalence - Table below presents the proportions of people who lost their job and those insecure in their job in the years under investigation. All analysis is carried out on people of

working age only. We also focus only on employees, thereby excluding self-employed people from our analysis.

Percentage of people who lost their job and those insecure in their job

People who lost job	1991
Of all working age people:	
Lost job (became unemployed)	3
Remained in job	56
Other status	41
100	100
Of people in work last year (employees only):	
Lost job (became unemployed)	5
Remained in job	90
Lost job (not looking for work)	5
100	100
People insecure in job	1991
Of people in work (employees only):	
Insecure in job	18
Secure in job	82
All working age	100

VI. CONSEQUENCES OF US RECESSION ON INDIAN JOB MARKET

Five lakh people were rendered jobless between October to December 2008 due to the recession, according to the latest government study (by Labour Bureau of ministry of Labour and Employment – sample size of 2,581 units covering 20 centres across 11 states, and 8 sectors). Gems & jewellery sector again witnessed the maximum decline in employment

Heavy fall			
	Jan '08	Jan'09	% change
Light Commercial Vehicle (5-7.5 t)	2,603	1,746	-32
Intermediate Comm. Vehicle (8-12 t)	3,766	1,373	-63
Medium Commercial Vehicle (15-16.2 t)	5,818*	3,026*	-48
Multi Axle Vehicle (25.2-31 t)	12057*	2,814*	-77
Multi Axle Traile/Vehicle (30-49 t)	2,320	279	-88

* MCV and MAV include tipper truck sales as well.
with 11.9% of their work force losing jobs.

Tata Motors owes more than Rs 1,200 crore in unpaid dues to its suppliers accumulated over the past few months.

India Inc's capital mobilization through initial public offering has hit rock bottom as the total amount raised via this route in 2008 aggregated to \$4,509 million, the lowest in the last three years, says a report.

The total fund mopped up through IPO in 2008 was \$4.51 billion, 18.34 per cent lower than the amount raised in 2005.

Compared with 2007, fund raising has dipped by 54.55 per cent. Fund raising activity through IPO reached its peak in 2007, when a whopping \$9,920.65 million was garnered.

NASSCOM said software and service exports will grow 16-17% in 2008-09 to \$47 billion, lower than earlier estimates of \$50 billion as the global economic slowdown dampened demand.

Truck sales plunged 65% to 9,258 units against 26,564 units in the same period last year, as truckers were unable to expand their fleet due to deepening economic slowdown.

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 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.

The economic meltdown in the United States and other developed countries is likely to benefit the Indian BPO industry as it would compel more companies in these markets to look at outsourcing as a way to cut costs and enhance efficiencies.

These were the views expressed by Samir Chopra, President of the Business Process Industry Association of India (BPIAI), who believes that in the first quarter of 2009 the Indian BPO companies could see job losses too.

Chopra sought urgent government measures to boost the domestic BPO industry and said that fiscal and administrative measures like extending tax relief for the IT sector for another five to ten years besides steps to promote exports.

Meanwhile a report in the Economic Times quoted Anand Pillai of HCL Technologies to state that the recession cycle this time round could be shortened by a positive response from the industry towards retaining and expanding its client base.

The newspaper quoted Praveen Sengar of IDC India to say that the last recession had taken six quarters to reverse and this

time a turnaround can be expected only by the first quarter of 2010. He also believes that the BPO industry would face a period of stunted growth while there could be a greater consolidation and diversification too.

Software and BPO industry body Nasscom said the business process outsourcing sector is not in the danger of losing jobs due to the ongoing economic downturn rather a net hirer in the current fiscal.

No one is hiring so what better than a BPO, people join BPO and they don't think of leaving the job as its recession. The earlier practice being six month in one call center and six month in another seems to be gone.

The attrition rate for this industry has come down by an average of 300 – 500 basis points (bps).

Before the recession actually started the reasons for high attrition rate were-

- Low salary
- Bad Boss
- Bad Company
- Rival is giving me a much higher package.
- Bad working conditions and many more.

But now hell with the pay and hell with the boss, I want money (that's the sole mantra during recession).

Quarterly attrition

Genpact was down by 5 percentage points to 21%

EXL reported a record 12.8 percentage-point dip

WNS fell to 22%, down from 29% last quarter

Wipro BPO has come down to 13% from 18%

Recent trends of Indian outsourcing industry suggests a strategic shift from low cost services to higher valued KPO like services. This kind of trend will continue and Indian outsourcing industry will add new dimensions to the outsourcing market.

Mumbai/New Delhi, May 11 Fewer employees are jumping jobs in the BPO industry, courtesy the ongoing global recession. As a result, attrition rates (the number of people quitting per 100 employees) for several listed BPO firms have come down by 5-13 percentage points on a sequential basis.

Genpact's employee attrition rate for the quarter, measured from day one of employment was down by 5 percentage points to 21 per cent from 26 per cent in the preceding quarter and 24 per cent for January-March 2008. If the attrition rate, were to be measured after employees completing six months of employment (as many of its competitors do), Genpact's attrition rate would be 18 per cent.

EXL reported a record 12.8 percentage points dip in attrition for billable employees at 21 per cent from 33.8 per cent reported in the previous sequential quarter. "Operationally, our attrition management and employee engagement programme, in combination with the weaker economy, has

resulted in record low attrition levels,” the company said in its earnings statement.

- WNS too posted a reduction in its attrition numbers this quarter. Attrition declined by 7 percentage points to 22 per cent, down from 29 per cent last quarter and 38 per cent in quarter ended March 2008. “The employment market in India is softer compared with this time last year,” WNS said.
- For Firstsource, the offshore attrition (India, Argentina and the Philippines) remained unchanged at 35.8 per cent during the just ended quarter. The onshore (the US and the UK) attrition was 38.4 per cent compared with 38.8 per cent in third quarter.

For Wipro BPO, the quarterly attrition has come down by 500 basis points to 13 per cent from 18 per cent in the previous sequential quarter.

An HR head of a large BPO player pointed out that while the industry was hiring fewer numbers, companies were also cleaning up their bench. “Companies are not retaining non-performers. Also, one has to see the employee count in the backdrop of growth of these companies,” the official said.

Mumbai-based Firstsource saw a net reduction of 950 employees in the just-ended quarter compared with net addition of 2,944 employees in the preceding quarter (October-December), and a net addition of 279 in the year-ago period.

“Reduction in headcount in the fourth quarter is due to large ramp up in previous quarter getting in to production mode and headcount stabilizing,” its CEO, MrAnandaMukerji, said in a recent interaction with analysts.

The quarterly gross hiring numbers for both WNS and Firstsource for the fourth quarter were not available. The sole exception to this pack was Genpact, where growth remained more or less intact on a sequential basis. The company’s net addition stood at 300 employees against 200 employees in the last quarter.

However, the gross addition for January-March quarter stood at 2,200 employees, with hiring largely focused on BFSI and India-to-India business, sources said.

In fact its gross hiring in the first quarter of 2009 is a tad higher than the gross hiring in the fourth quarter of 2008 at 2,100 employees.

Genpact had about 36,500 employees globally, as on March 31, 2009.

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 its time to be innovative and more effective and increase the over all efficiency and go for systematic cost cutting to balance the rupee effect. In fact there are lots of scope 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.

10 Indian industries to do well during recession

In the current global economic slowdown, every sector of business is being affected and is witnessing a hard time. But IKON Marketing Consultants reports that in India there are few sectors which will grow in this adverse situation.

AS EVERY business sector is affected by present global crisis and everybody is talking of slowdown in business, still in India there are few sectors which will grow in this adverse situation. Let's have a look.

• *Food*

No one can survive without basic food material like milk, vegetables and drinking water. Food processing companies will not be affected much and rather will earn profits by increasing the prices. These are the basic needs which we as a common man can not produce by our self.

According to Ministry of Food Processing Industry (MFPI), the food processing industry in India was seeing growth even as the world was facing economic recession. According to the minister, the industry is presently growing at 14 per cent against six to seven per cent growth in 2003-04. The Indian food market is estimated at over US\$ 182 billion and accounts for about two thirds of the total Indian retail market. Further, the retail food sector in India is likely to grow from around US\$ 70 billion in 2008 to US\$ 150 billion by 2025.

• *Railway*

As the aviation sector has been affect much badly and resulting in sharp rise in the air ticket rates the frequent travelers' will prefer railways to cut the cost of traveling and this will result in increased traffic in railways and long queues at railway booking counters. The freight traffic of Indian Railways has continued to grow in the last few months, albeit at slow pace, indicating only marginal impact of the global recession on the Indian economy.

The railways registered 13.87 per cent growth in revenue to Rs 57,863.90 crore in the first nine months ended December 31, 2008. While total earnings from freight increased by 14.53 per cent at Rs 39,085.22 crore during the period, passenger revenue earnings were up 11.81 per cent at Rs 16,242.44 crore. The railways have enhanced freight revenue by increasing its axle loading, improving customer services and adopting an innovative pricing strategy.

- *PSU Banks*

As seen in the private sector much of the job cuts due to global slowdown, it's the public sector undertaking (PSU) banks which gained much confidence due to job safety and security. More and more people are likely to turn towards government institutions, particularly banks in the quest for safety and security.

A report "Opportunities in Indian Banking Sector", by market research company, RNCOS, forecasts that the Indian banking sector will grow at a healthy compound annual growth rate (CAGR) of around 23.3 per cent till 2011.

- *Education*

As education is considered as the basic necessity and in India it is seen as a long term investment by parents and with respect to the demand still there is a huge supply gap. The craze to study in foreign university among the Indian youth still alive which will prompt foreign education institute to target India provided vast young population willing to join. We will see more and more foreign educational institutions coming up in India in recent coming years.

Huge government as well as private investment is likely to flow into the Indian educational system. D E Shaw, a US\$ 36 billion, global private equity firm is planning to invest around US\$ 200 million in the Indian education sector.

- *Telecom*

People will not stop to communicate with each other due to global crises rather it has been seen that it will increase much particularly with mobile communication. With cheap cell phones available in the Indian market and cheaper call rates, the sector has become the necessity and primary need of everyday life.

Telecom sector, according to industry estimates, year 2008 started with a subscriber base of 228 million and will likely to end with a subscriber base of 332 million – a full century. The telecom industry expects to add at least another 90 million subscribers in 2009 despite of recession. The Indian telecommunications industry is one of the fastest growing in the world and India is projected to become the second largest telecom market globally by 2010.

- *IT*

Recent news shown that Indian IT sector will grow 30 to 40 per cent next year. And on the other side to survive in current slowdown, industries have to decrease the cost and for that they will resort to customized IT solutions which will further boost up the software solution demand.

India is fast becoming a hot destination for outsourced e-publishing work. As per a Confederation of Indian Industry (CII) report, the industry is growing at an annual rate of 35 per cent and India's outsourcing opportunities in the value-added and core services such as copy editing, project management, indexing, media services and content deployment will help

make the publishing BPO industry worth US\$ 1.46 billion by 2010.

- *Health care*

India in case of health care facilities still lacks the adequate supply. In health care sector also there is huge gap between demand and supply at all the levels of society. Still there are so many urban areas where you could hardly find any multi specialty hospital. And in case of metros the market sentiments itself created a need of psychological consultation.

Healthcare, which is a US\$ 35 billion industry in India, is expected to reach over US\$ 75 billion by 2012 and US\$ 150 billion by 2017. The healthcare industry is interestingly poised as it strives to emerge as a global hub due to the distinct advantages it enjoys in clinical excellence and low costs.

- *Luxury products*

The high and affluent class of society will not be affected much by this global crises even if their worth is reduced significantly. They will not change their lifestyle and will not stop spending on luxurious goods. So luxurious product market will not be affected and in fact to maintain the lifestyle those affluent will spend more for it. Luxury car makers are pouring in to woo the nouveau riche (Audi, BMW are the most recent entrants).

- *M&A & Marketing Consultants*

As in the current business slow down survival will be the main focus, the marketing and management consultants will be called for to reduce the costs and to show the ways to survive and stay in market. Others may join hands to fight with this situation together will call for the Marketing & M&A consultants. In a booming market there are growth strategies and M&A opportunities to advise on. When businesses are cutting back, consultancies will be right there to help clients decide where to wield the axe.

According to Ministry of Commerce and Industry's estimation, the current size of consulting industry in India is about Rs 10000 crores including exports and is expected to grow further at a CAGR of approximately 25 per cent in next few years.

- *Media and Entertainment*

In current bad times, where people are losing jobs and getting enough time to watch TV, they will seek entertainment at home and hence advertising revenues will increase for the commercial channels. Also businesses like production of religious texts and religious materials, religious channels will do well. The TRP of religious channels will increase compare to the other entertaining/commercial channels.

According to a report published by the Federation of Indian Chambers of Commerce and Industry (FICCI), the Indian M&E industry is expected to grow at a compound annual growth rate (CAGR) of 18 per cent to reach US\$ 23.81 billion by 2012. According to the PWC report, the television industry

was worth US\$ 5.48 billion in 2007, recording a growth of 18 per cent over 2006. It is further likely to grow by 22 per cent over the next five years and be worth US\$ 12.34 billion by 2012.

How to Survive in a Recession

More difficult To Borrow. In a recession banks are less willing to lend. This is particularly a problem at the moment, because of the concurrent credit crises which is reducing the availability of loans.

- **Solution:** Avoid taking on any unnecessary debts. The debts you have tried to reduce and consolidate into a lower interest rates bearing account.
- On the positive side, in a recession interest rates are likely to be lower, meaning lower interest payments for mortgage holders.

Un-employment. This is the main concern over a recession. If output does fall, there is likely to be a fall in demand for labour. This problem is often concentrated in those sectors most affected by the recession. For example, in the current climate, jobs related to finance and the housing market are more at risk than say the manufacturing sector.

- **Solution:** If you fear unemployment, start thinking what you might do as an alternative. Is it viable to consider working on a second income, such as online business?
- Do you have unemployment insurance to cover mortgage payments? If not, it would be worth taking insurance out now.
- Don't panic. Firstly, the unemployment may not occur; there is nothing to be gained by worrying over what we have no control over.
- If one becomes unemployed, the best solution is to be flexible in looking for work. Consider new avenues and skills that you could learn. Also recessions will be short lived; a period of temporary unemployment does not have to become permanent.
- **Falling profitability of Business.** If you are a small business owner the effects of a recession can be keenly felt. Lower profits could even threaten the survival of the business.

Solution: Look for ways to minimize costs without compromising the business. There are always ways to cut costs and increase inefficiency. Some economists even go so far as to say that recessions are a good thing because they force the economy to become more efficient.

- If your business is particularly affected by the downturn, look to see whether you can diversify to reflect the changing economic environment. For example, if you specialize in selling luxury goods with a high margin try including some new product lines which appeal to people's desire for frugality.
- A fall in profits is likely to be cyclical. Therefore try to plan a financial plan to borrow at a low cost for the difficult years.

Falling Stock Market

In a recession, stock markets are likely to fall as lower profits reduce dividend payments. Try to diversify your investment portfolio. In a recession, commodities such as gold often do well. Even in a recession, there can be good investment opportunities.

Also bear in mind that stock markets can often be forward looking. For example, stock markets have fallen sharply since the start of the year in anticipation of a recession. When a recession comes, stock market often doesn't fall any more.

Consumer Confidence

Often the worst aspect of a recession is the affect on consumer confidence and people's fear about the future. Bear in mind, the media often exaggerate the extent of a downturn in the economy. The media like to highlight sensationalist stories. However, it is often not as bad as it is made out to be. Keep a calm and detached attitude and just make the best of the

Current situation.

Any other benefit Benefits of a recession?

- Lower interest rates. Good for borrowers
- Lower inflation rates. Good for savers

Sometimes difficult times can force us to reevaluate our financial situation. It can make us look for new business avenues and new ways to cut costs and spending. Although it may be temporarily unpleasant, the important thing is not to panic but try to make the best of any situation we find ourselves in.

Good Investment during recession

With the problems in the credit markets and prospects of recession, a reader recently asked what would make a good investment in the current economic climate. I don't know whether a penniless economist is the best person to advise about investing, however, these are some of the basic principles behind the different options for investment at the present moment.

Housing Market

The housing market has outperformed most other types of investment in recent years. I still remain to believe in the long term prospects of the housing market. However, for the next 1-2 years, I expect house prices to fall slightly. If you are thinking of investing for the next 10-20 years in the future, the shortage of supply relative to demand is likely to keep pushing prices higher. However, there is no harm in waiting for 12-18 months to see how much house prices fall. It may also become cheaper to borrow when the credit crunch ends.

Share Prices

In a recession, firms make less profit, pay lower dividends and so share prices fall. The stock market may seem like a good

place to avoid, especially given recent turbulence. However, it is my belief that the impact of a recession is already built into share prices. Sometimes share prices can actually rise in the period of a recession, because analysts are already looking forward to the recovery. Investing in the stock market has given pretty poor returns in the past few years, but, I think many shares now offer good value.

Mineral Prices

In a recession, people often resort to investing in solid products like silver and gold. It is seen as a safe alternative to market based share prices. The price of metals and other commodities are also being pushed higher by:

- *Depreciating dollar.* Because of the dollar's weakness, gold is becoming seen as an attractive alternative. As long as the US economy is suffering falling house prices a declining economy and low interest rates, the dollar will remain weak. This will make Gold attractive as an alternative
- *Rising Demand.* Global growth, especially amongst the big two of China and India is causing rising demand for raw materials such as metals, gold and energy. There seems no letup in economic growth in India and China, however, the rising inflation rate indicates chance of boom and bust in China. Nevertheless mineral prices still offer chance for growth because of rising demand.

Government Bonds

Government bonds offer the chance to make a secure investment and stable interest rate. However, on long term bonds, the market price is inversely related to the market interest rate. If interest rates fall by more than market expectations then the price of bonds will rise. In the UK, this is a possibility, but there is a little prospect of dramatic changes in prices, it is most likely that bonds will just offer secure but steady investment.

Any Currency worth buying?

Some are touting the Euro as an alternative to the dollar as the world's most important currency. But, I would be wary of investing in the Euro as the Euro economy is doing pretty poorly. It could follow the US into recession and this would make the Euro look overvalued. If you fancy a gamble look for a currency like the Brazilian Real, which has done very well in the past 12 months (helped by G.Soros's speculation).

VII. FEW MEASURES AND POLICIES TO SURVIVE RECESSION

Governments around the world especially the US government are seeking to introduce new policies and regulation in order to survive such recession and economy down turn in the present and the future. Some examples are mentioning below

- *Cutting Interest Rates.* Recently, the Fed cut interest rates by 0.75% a big stimulus for consumer spending. Amongst other things, lower interest rates reduce mortgage interest payments, giving consumers more disposable income.

- Fed Cut Interest rates by 0.75%

- *Freeze on Sub-prime Mortgage Rates.* There is a 5 year scheme to freeze sub prime rates, preventing house repossession. Effects of Freezing sub prime rates.
- *Tax Cuts.* Cutting taxes increases consumer disposable income. But, will people spend if they are nervous about the future? Can tax cuts avoid a recession?

Increase in Government Spending. Higher government spending is another way to stimulate the economy. The US has not announced much in this area. They are hampered by budget deficit and preference for tax cuts.

Devaluation. The devaluation of the dollar is not particularly a policy, it is something that is just happening. However, the weaker dollar is boosting the US export sector and could help avoid recession. Effects of devaluing dollar.

Future of BPO in India – post recession

Though the margins have relatively dropped from the pre-crisis period, the recent revival in the world outsourcing market is a sign that the Indian BPO industry is poised for broad based growth across industry and service lines.

The global outsourcing industry, on the back of global recovery since last one year, will move on to reaffirm India's leadership position as the primary outsourcing location for business process related services. The global technology spending forecasts remain strong, supported by a spurt in recovery in emerging markets including the Asia Pacific countries.

The research firm Gartner says that there is a growing demand for multi-country shared services and BPO services within Asia Pacific.

VIII. CONCLUSION

The impact of the sub-prime crisis along with a slowdown in mortgages 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 appreciation 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 minimal 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 consumption and significant spending on infrastructure are the two pillars of India's growth story. No sector has a dominant influence 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.

A case in point is how to look at the drop in attrition numbers gives a clue to HR professionals that they can, and should, negotiate harder with prospective as well as present employees when it comes to compensation, benefits and perks.

For large scale operations, a recession offers a great opportunity to cut slack, and to achieve benchmark cost efficiencies without the usual resistance one would expect from employee groups or unions. For an organization that has a strong competitive advantage built on cost leadership, a recession is actually boom time. This is because luxury goods, or super-quality goods start losing market share to value for money products as people substitute high cost items on their wish-lists with lower cost, but acceptable alternatives. This also means that people are not likely to switch to Chinese wines during a recession. They are more likely to go for South African/Indian or American wines and ditch Scotch and French products.

For luxury/premium goods and service providers, an easy workaround is to reduce the ticket size of the purchase by reducing the SKU size. Rural India can be said to have been in a recession for most of the latter half of last century as economic activity kept shrinking and people kept migrating to the new urban centers. However, a company like Hindustan Unilever (then HLL) still made a majority of its revenue, if not profits from the same region by putting shampoos, hair oil, soap, toothpaste and detergents in sachets.

Above all, the study seeks to bust the myth that recessions are necessarily bad times. It really depends on the positioning and strategy of a company. So while Lehmann Brothers goes bankrupt, Apple shares continue to climb north, as do Google's, all through the recession. The fact is that a recession reduces the size of the pie, but there is still no limit on how big a share a business can capture.

Other Important Information: A conscious effort has been made to keep the findings at a higher level than would typically be presented given that I am still associated with HP and cannot disclose details about the company or express opinions about its competitors or business partners. This is a fairly challenging proposition as HP does business with

practically every business entity out there about which significant information is available in the public domain.

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