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Unemployment, Inflation Continue To Worry Urban Indians

Abhishek Sharma Sep 05, 2024

In urban India, the top concerns remain unchanged, with unemployment (33 per cent), inflation (31 per cent), corruption (21 per cent), crime and violence (20 per cent), and poverty and social inequality (19 per cent) continuing to dominate the worry list, according to a survey report by Ipsos.

The report titled 'what worries the world global survey found that urban Indians reported a slight decrease in concerns about unemployment, inflation, financial and political corruption, and crime and violence, with percentage changes of -6 per cent, -7 per cent, -1 per cent and -1 per cent, respectively.

Notably, global worries largely hovered around inflation (32 per cent), poverty and social inequality (31 per cent), crime and violence (29 per cent), unemployment (27 per cent) and financial and political inflation (24 per cent). In India, unemployment has created major issues especially for its youth and opposition parties have slammed the government several times on the same issue.

In March this year, the International Labour Organisation (ILO) in a report stated that the unemployment rate of Indian youths is higher than for adults. The youth unemployment rate has been rising over the past several decades— from 5.6 per cent in 2000 to 6.2 per cent in 2012 and then increasing threefold, to nearly 18 per cent in 2018 and reaching around 15.1 per cent in 2020

Earlier, an ILO report had revealed that the youth unemployment rate has been rising over the past several decades and noted that unemployment among educated youth was particularly high and had exceeded global averages by 2018 to create more jobs by investing in infrastructure development, promoting entrepreneurship and by providing skill development programmes.

After expressing its concerns about a report of the ILO, the Modi government has questioned a Citigroup report, which revealed that India “will struggle to create sufficient employment opportunities” even with a 7 per cent economic growth rate. The Union Ministry of Labour and Employment said that the report fails to consider the positive trends and comprehensive data from official sources, such as the Periodic Labour Force Survey, the Reserve Bank of India and the Employees Provident Fund Organisation, which show consistent improvements in key labour market indicators.

However, as per the quarterly bulletin of the period labour force survey, the rate of unemployment in the urban areas declined to 6.6 per cent in Q1FY25. On the back of a fall in the unemployment rate among males aged 15 or above, the overall unemployment rate improved from the four-quarter high of 6.7 per cent in the January to March 2024 period.

Indicating an improvement in the job opportunities for the urban youth, the unemployment rate in CWS among the urban population aged 15 years to 29 years declined from 17 per cent in Q4FY24 to 16.8 per cent in the April to June 2024 period. The urban unemployment among males aged between 15 years and 29 years improved from 15.1 per cent in the January to March 2024 period to 14.8 per cent in Q1FY25. However, the same rate among females of the same age groups increased to 23 per cent during the quarter from 22.7 per cent in Q4FY24.

"It is good to see the government addressing these macro issues to mitigate its impact on the common man and we see worries around key issues receding among the citizens. The yo-yo impact however continues as these macro issues do not act in isolation but are interdependent on different factors like the global economy, war, job cuts, monsoons etc," said Amit Adarkar, Chief Executive Officer (CEO) Ipsos India.

Inflation Monster

India's retail inflation fell in July to a near five-year low, as food prices eased from previous highs due to a base effect, government data showed on Monday. Annual retail inflation was 3.54 per cent in July, down from 5.08 per cent in June. The latest print is the lowest since August 2019. Retail inflation fell below the Reserve Bank of India's (RBI) target of 4 per cent largely due to the high-base effect, suggesting the slower pace of price rises was temporary. The inflation rate was last recorded below 4 per cent in September 2019.

As the debate regarding removing food prices from the inflation-targeting framework has picked up pace in recent months, a study has suggested that the country should not alter the framework, as doing so would have negative consequences. A paper by the National Council of Applied Economics Research (NCAER) has advised that food-price inflation should not be disregarded.

The paper stated that in India, food is a much more important component of the consumption basket and the approach of looking through fluctuations in food and fuel price inflation without consequences for core inflation might not work as far as India is concerned.

India's Economy

The survey which tracks public opinion on social and political issues stated that at least two in three urban Indians (67 per cent) are of the view that India is headed in the right direction. Showing a moderation in India's economic growth momentum, the

real gross domestic product (GDP) rose 6.7 per cent in the April to June 2024 quarter, the slowest in five quarters, and well below the Reserve Bank of India's (RBI's) expectation of a 7.1 per cent uptick.

Crisil Ratings in a report stated that the decline in government consumption spending was a drag on GDP growth. Reducing growth in net taxes limited the rise in GDP over gross value added (GVA) growth. Also, despite healthy growth of 7 per cent, manufacturing was slower than in the last quarter of fiscal 2024, while agriculture and services improved.

However, the improvement in agriculture was relatively modest, which capped the rise in GDP, according to Crisil. "India is like a beacon of hope for most markets as despite being the world's most populous country and beset with natural calamities in August at different fronts, we have trudged forward. Even with tough global crises and macro-economic conditions, the citizens have confidence in how the country is being steered and the positive direction in which it is headed," added Adarkar.

Commentary:

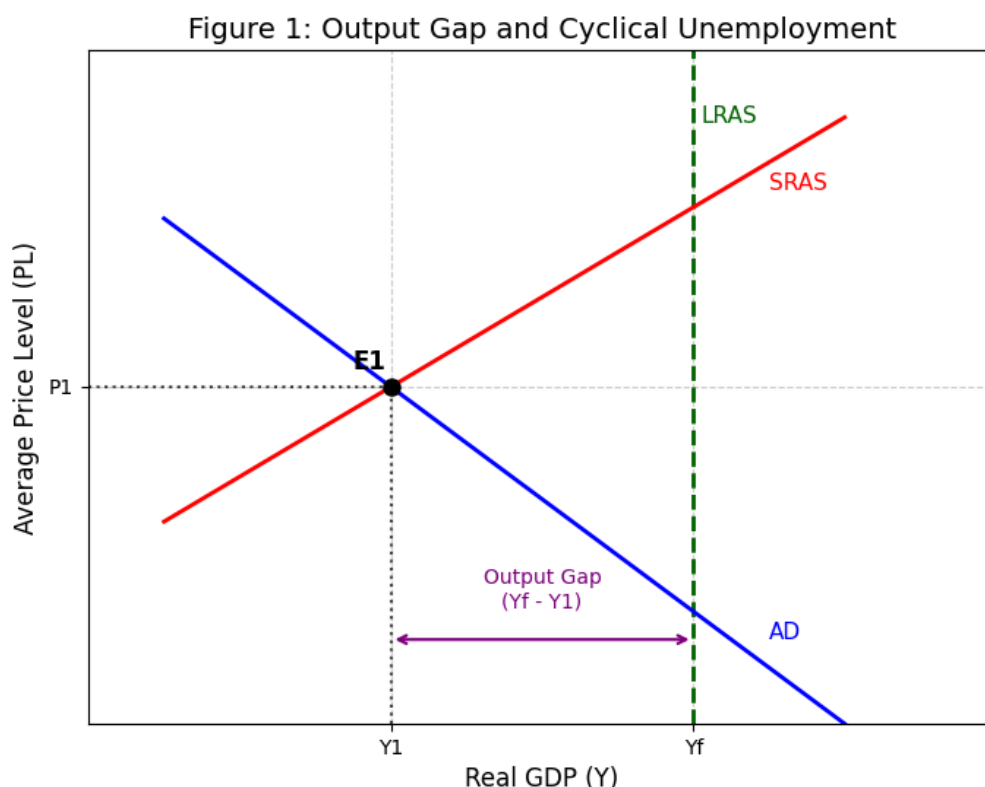
The economic health of a nation is often gauged by macroeconomic indicators, but the true measure lies in the **economic well-being** of its citizens – their prosperity, living standards, and financial security. The provided article highlights persistent concerns among urban Indians regarding unemployment and inflation, despite some recent statistical improvements. These concerns directly threaten **economic well-being**. This commentary will analyse the dual challenges of unemployment (particularly youth unemployment) and inflation volatility in urban India, using the concepts of supply-side shocks and the Phillips curve to understand their interplay and impact on overall **economic well-being**.

Unemployment and its Impact on Economic Well-being

Per the Ipsos survey, unemployment is a top concern (33%) in urban India, driven largely by high, persistent youth unemployment (ILO data shows a rise to ~15.1% by 2020, especially among the educated). Although recent PLFS figures suggest slight overall (6.6%) and youth (16.8%) declines, unemployment among young urban females rose significantly (23%). This disparity indicates underlying structural unemployment—skills gaps or inadequate job creation despite GDP growth (as questioned by Citigroup)—remains a major challenge.

High unemployment severely diminishes **economic well-being**. It leads to lost income for individuals and families, reduced aggregate demand, lower potential GDP for the economy, increased poverty and inequality (mentioned as a concern in the article), and social costs. The persistent nature of youth unemployment can lead to discouragement and a loss of human capital over the long term. This situation represents an inefficient allocation of labour resources, placing the economy inside its Production Possibilities Curve (PPC). The recent slowdown in GDP growth (6.7%, below RBI expectation) mentioned in the article could also contribute to **cyclical unemployment**, where jobs are lost due to downturns in the business cycle.

Figure 1: AD/AS Diagram illustrating Output Gap and Cyclical Unemployment



Inflation, Supply-Side Shocks, and Economic Well-being

Inflation is the second major worry (31%) for urban Indians. Although the article reports a significant recent drop in retail inflation (to 3.54%, below RBI's 4% target) due to easing food prices and base effects, persistent concerns remain. This highlights food price inflation's volatility and importance (NCAER study) in India, where food is a large part of the consumption basket. These food price fluctuations, driven by factors like monsoons or global prices, act as significant supply-side shocks to the economy.

Inflation erodes **economic well-being** by reducing real incomes (purchasing power), creating uncertainty for consumers and businesses which can deter investment, distorting price signals leading to misallocation of resources, and disproportionately harming those on fixed incomes or with low savings. Volatile inflation, especially driven by necessities like food, makes it difficult for households to budget and plan, increasing financial insecurity.

Figure 2: AD/AS Diagrams illustrating the Impact of Supply-Side Shocks on Inflation

Figure 2a: Negative Supply Shock (e.g., Higher Food Prices)

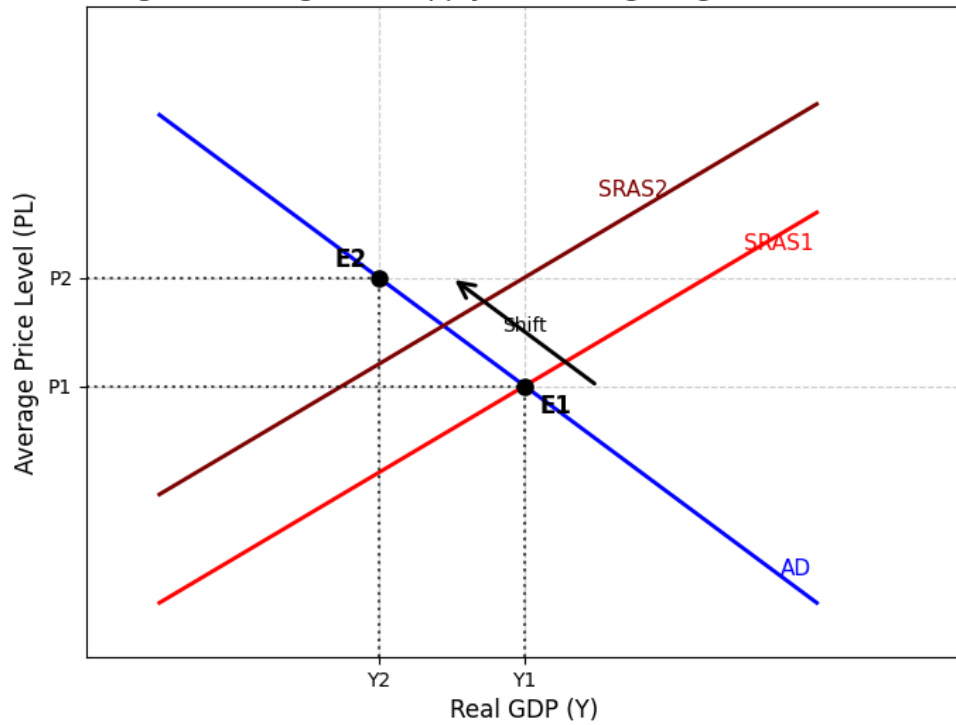
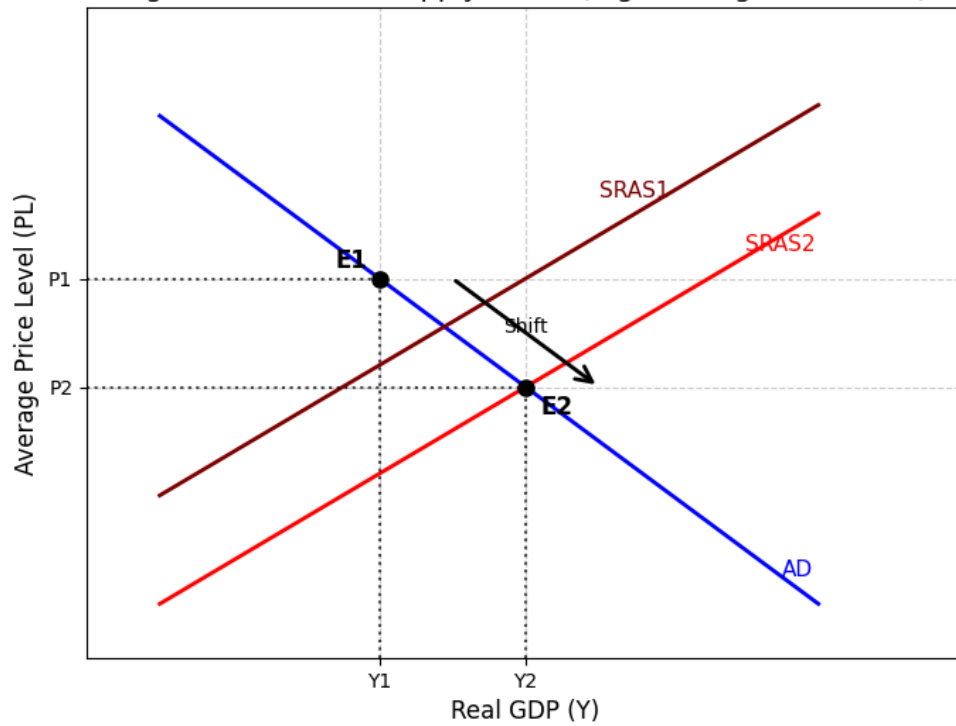


Figure 2b: Positive Supply Shock (e.g., Easing Food Prices)

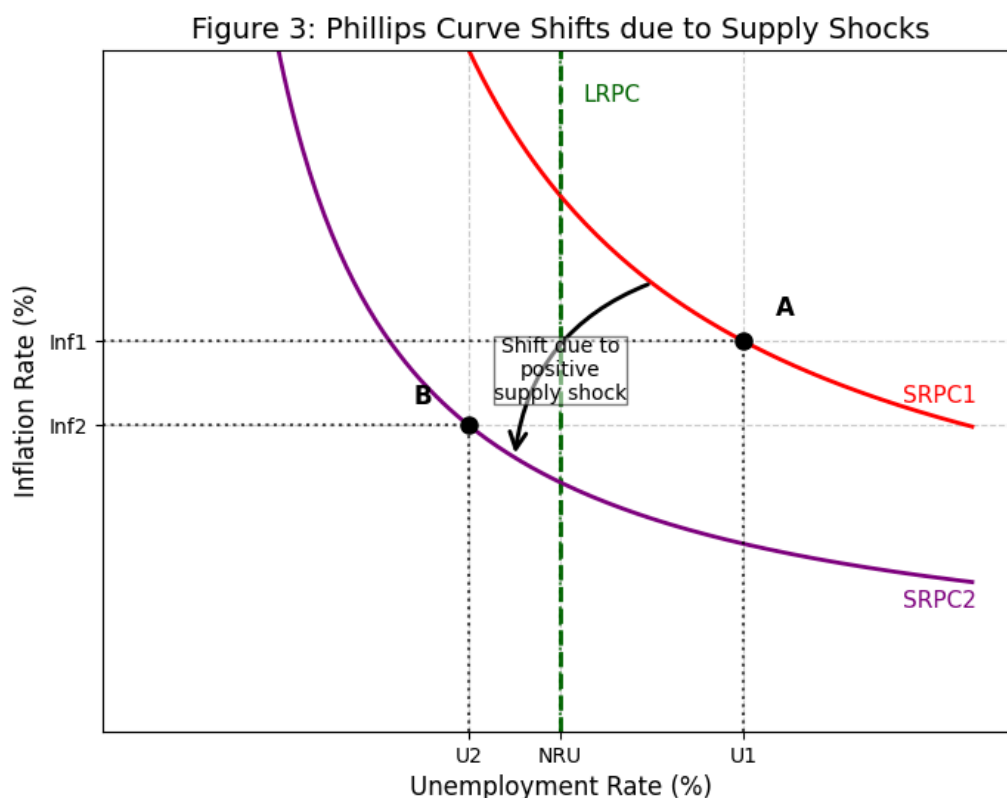


The Phillips Curve: Interplay of Unemployment and Inflation

The **Phillips Curve** traditionally suggests a short-run inverse relationship or trade-off between the rate of inflation and the rate of unemployment. However, the Indian scenario presented in the article is complex. While concerns about both unemployment and inflation remain high (33% and 31% respectively), recent PLFS data shows *falling* inflation (3.54%) and slightly *falling* overall urban unemployment (6.6%). This simultaneous improvement contradicts a simple movement *along* a stable Short-Run Phillips Curve (SRPC).

An inward SRPC shift, driven by positive supply shocks (easing food prices/base effect), explains the recent simultaneous fall in inflation and unemployment. However, persistent high youth unemployment (16.8%/23% female) indicates a high structural NRU (vertical LRPC). Thus, lowering inflation cannot resolve the underlying structural unemployment undermining long-term economic well-being.

Figure 3: Phillips Curve Diagram illustrating Shifts due to Supply Shocks



Evaluation and Policy Considerations

The article reveals a complex scenario where high public worry persists despite some positive data, likely due to severe underlying structural problems and concerns that improvements (e.g., base effects) are temporary.

- **Policy Effectiveness:** Conventional demand-side policies (monetary/fiscal) face limitations. While potentially easing cyclical unemployment, they risk fueling inflation (the SRPC trade-off) and are largely ineffective against the core issues of **structural unemployment** and **supply-driven inflation shocks**.
- **Supply-Side Policies:** Consequently, **supply-side policies** are crucial. Initiatives mentioned (infrastructure, skills, entrepreneurship) directly target **structural youth unemployment** (aiming to lower the NRU/shift LRPC left). Managing **food price volatility** through agricultural or supply chain policies is also vital for mitigating supply shocks, stabilizing inflation, and protecting **economic well-being**.
- **Limitations:** This analysis faces constraints: conflicting data sources noted in the article (ILO vs. PLFS, Citigroup vs. Govt), reliance on perception ("worry") data, an **urban India** focus, the inherent simplification of macroeconomic models (AD/AS, Phillips Curve), and the omission of global **interdependencies**.

Conclusion

Urban India faces significant unemployment and inflation harming **economic well-being**. Although recent data improved, persistent worry reflects volatile supply-driven inflation (food) and structural unemployment (youth). The Phillips curve, accounting for supply shocks, explains trends but shows sustainable well-being requires long-term solutions. Paramount are robust supply-side policies addressing structural unemployment and inflation volatility, alongside demand management, to enhance well-being and foster inclusive growth.