

Box 5.1

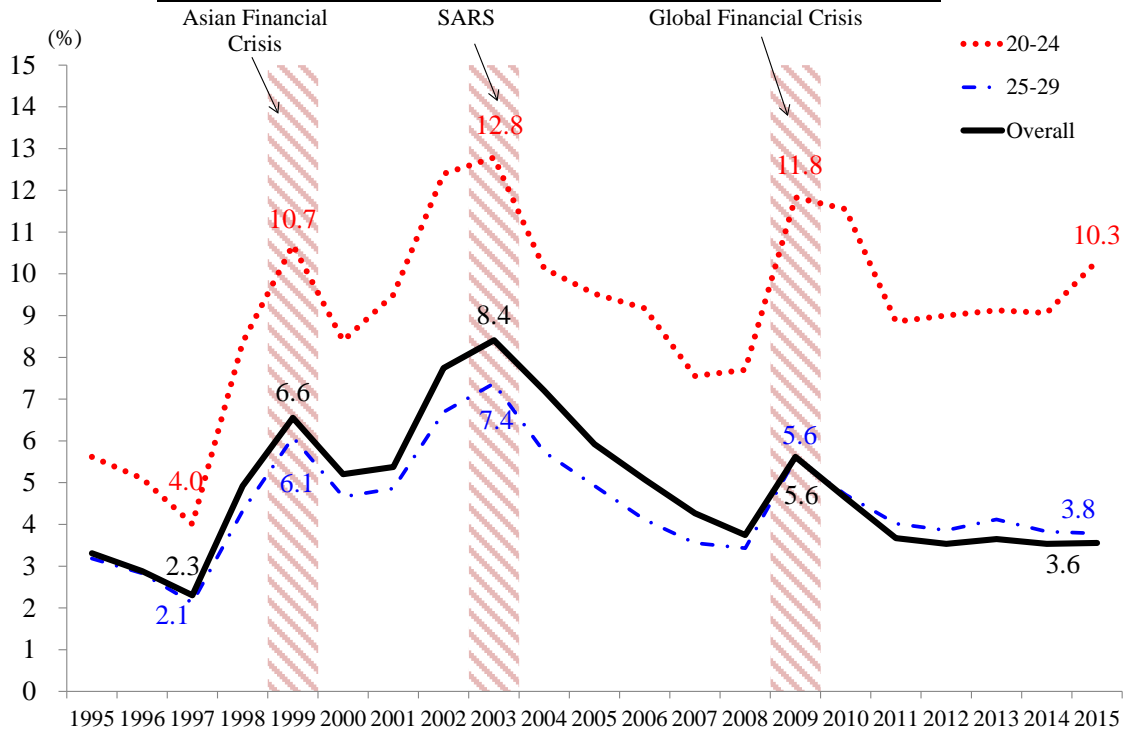
Earnings of youths in Hong Kong

The employment situation of youths and recent graduates is often of prime concern. This is understandable as young people are usually more affected by the changes in economic situation, with higher risks of being dismissed and more difficulties in finding jobs in times of economic downturn. Employment opportunities and job stability in turn also affect their earnings potential over a longer period of time. In this article, we examine how different factors interplayed to determine the earnings profile of youths (i.e. those aged 20-24 and 25-29)⁽¹⁾ in Hong Kong over time.

Economic Cycles and Earnings

Statistics showed that youth unemployment rate in Hong Kong⁽²⁾ was more sensitive to economic vicissitudes than that of other age groups over the past two decades (*Chart 1*). This was particularly apparent for the group aged 20-24, understandably most of them being new graduates. The unemployment rate for those aged 25-29, who possibly had more education and better experience, was notably lower and also weathered better in economic downturns, viz. Asian Financial Crisis in 1998-1999, outbreak of Severe Acute Respiratory Syndrome (SARS) in 2003 and Global Financial Crisis (GFC) in 2008-2009.

Chart 1: Unemployment rates of persons aged 20-24 and 25-29



Source: General Household Survey (GHS), Census and Statistics Department (C&SD).

As for those who secured employment, their earnings likewise depended crucially on the prevailing macroeconomic conditions. Comparing the average monthly employment earnings of full-time young employees across different birth cohorts (*Table 1*), it is apparent that real earnings of recent cohorts, namely those born after 1980 generally compared a bit less favourably at the start of their career than those born in the 1970s irrespective of

(1) People aged 15-19 only constituted around 1% of the labour force as against 7.1% and 11.2% for those aged 20-24 and 25-29 respectively (Q2 2016 figures). Given such a small proportion of the youngest group, this particular group will not be discussed in detail in this article.

(2) Unless otherwise specified, the data quoted in this article exclude foreign domestic helpers.

Box 5.1 (Cont'd)

educational attainment. In particular, for those born in the early to mid-1980s and with upper secondary education, their average employment earnings in real terms were notably lower than the earlier cohorts of similar educational attainment, due in part to the less favourable macroeconomic environment in 2004 and 2009.

Table 1: Average monthly employment earnings (at constant 2014 dollars) of different cohorts by selected educational attainment

(i) Upper secondary educated

Cohorts born in	Year in which the cohort aged 20-24	Earnings of the cohort concerned when their ages reached		
		20-24	25-29	30-34
1970 - 1974	1994	\$10,700	\$12,500 (+16.5%)	\$15,100 (+20.6%)
1975 - 1979	1999	\$10,200	\$12,100 (+19.0%)	\$13,000 (+7.8%)
1980 - 1984	2004	\$9,100	\$10,400 (+14.4%)	\$11,500 (+10.7%)
1985 - 1989	2009	\$9,200	\$10,600 (+14.3%)	--
1990 - 1994	2014	\$10,200	--	--

(ii) Post-secondary non-degree educated

Cohorts born in	Year in which the cohort aged 20-24	Earnings of the cohort concerned when their ages reached		
		20-24	25-29	30-34
1970 - 1974	1994	\$13,300	\$17,600 (+32.9%)	\$22,000 (+24.5%)
1975 - 1979	1999	\$12,800	\$16,200 (+26.7%)	\$19,500 (+19.8%)
1980 - 1984	2004	\$10,500	\$14,100 (+34.2%)	\$17,200 (+21.7%)
1985 - 1989	2009	\$10,500	\$13,700 (+30.0%)	--
1990 - 1994	2014	\$11,100	--	--

(iii) Degree educated

Cohorts born in	Year in which the cohort aged 20-24	Earnings of the cohort concerned when their ages reached		
		20-24	25-29	30-34
1970 - 1974	1994	\$17,000	\$24,000 (+41.2%)	\$35,000 (+45.5%)
1975 - 1979	1999	\$15,200	\$22,200 (+46.0%)	\$35,000 (+57.3%)
1980 - 1984	2004	\$13,000	\$22,100 (+69.8%)	\$29,600 (+33.8%)
1985 - 1989	2009	\$15,500	\$20,300 (+31.1%)	--
1990 - 1994	2014	\$14,900	--	--

Note: () Figures refer to average monthly earnings of full-time employees and figures in brackets denote the percentage increases over the preceding five-year period. The percentages are calculated based on full figures.

Source: GHS, C&SD.

Education, Working Experience and Earnings

As pointed out in the literature, education and years of experience have significant effect on one's earnings⁽³⁾. Indeed, across all birth cohorts in *Table 1*, better educated youths earned more than their less educated counterparts. For the 1990-94 cohort, for instance, youngsters with degree education earned around 46% and 34% more than their counterparts with upper secondary education and post-secondary non-degree education only. Meanwhile, for all young people shifting from the early 20s to the late 20s, irrespective of the educational attainment, their real average employment earnings improved notably, conceivably benefiting in part from the accumulation of working experience.

(3) For example, in Mincer (1974), the author argued that years of schoolings and accumulated labour market experiences would affect one's wages. See "The Human Capital Earnings Function", cited in "Schooling, Experience, and Earnings" (pp. 83-96), National Bureau of Economic Research, United States. Available from: <http://www.nber.org/chapters/c1767.pdf>.

Box 5.1 (Cont'd)

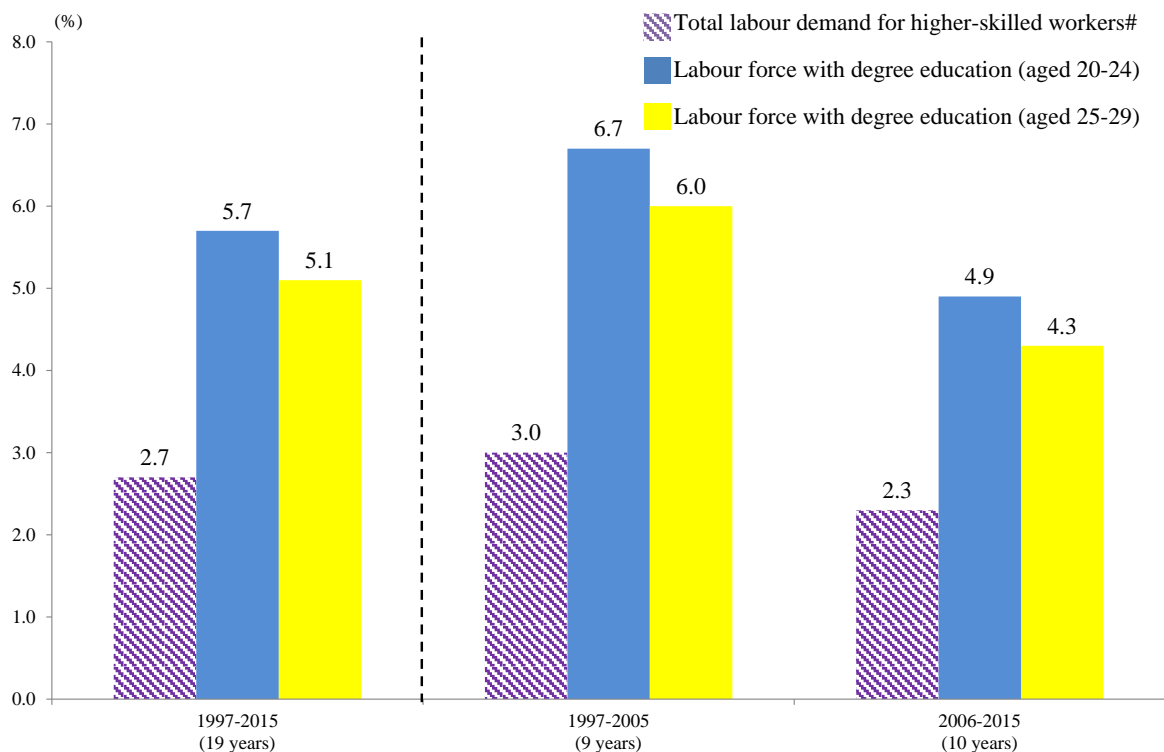
It is worth noting that, in general, real earnings of youths with better education also grew faster over time than the less educated ones. For example, for the 1980-1984 and 1985-1989 cohorts, the real average employment earnings of those with first degree or above increased, on average, by around 70% and 31% respectively from their early 20s to late 20s, as compared to 34% and 30% respectively of their counterparts with post-secondary non-degree education only.

Manpower Balance and Earnings

That the real earnings of the youngest working cohort (i.e. cohort born in 1990-1994) did not compare very favourably with their previous generations does cause some concern, especially when viewed together with the fact that this cohort is generally better educated. By way of comparison, of youths aged 20-29 in our workforce in 1995, only 12.9% had first degree or above, and the respective proportion had risen considerably to 45.9% in 2015.

One possible reason for such cohort income differences is the evolving balance between the demand for higher-skilled workers and the supply of better educated youths in the labour force. As illustrated by *Chart 2*, the labour supply of youths aged 20-24 with degree or above rose rapidly by 6.7% per annum during 1997-2005 and 4.9% during 2006-2015, while total labour demand for higher-skilled jobs (as proxied by total higher-skilled employment and vacancies) increased by 3.0% and 2.3% per annum respectively during that two periods. The picture for the well-educated youths aged 25-29 is largely similar.

Chart 2: Average annual growth of total labour demand for higher-skilled workers and labour supply with degree education by age groups



Note: (#) Total labour demand for higher-skilled workers is proxied by the sum of the higher-skilled employment and the vacancy statistics, of which the latter were only collected since 1996.

Sources: GHS and Survey of Employment and Vacancies, C&SD.

Box 5.1 (Cont'd)

With the rapid increase in the supply of better educated youths over the past two decades, it is perhaps not surprising to see that the starting salary of fresh graduates in the more recent cohorts compare somewhat less favourably with those born in the 1970s and 1980s. Indeed, when graduates of the latter cohorts just started their career, the prevailing manpower resource balance at the higher-skilled level was extremely acute amid the rapid economic transformation towards service-based activities.

Nevertheless, a more important question is whether the prevailing younger generations can still enjoy substantial upward mobility over time alongside the accumulation of working experience. The key results of “the 2015 Study on Earnings Mobility” released in May 2016 appear to point to the brighter side. Taking the 2001/02 cohort as an example, 91% of graduates were in a higher earnings decile in 2013/14 than they were in 2003/04, regardless of degree level. Over 80% of graduates in the 2006/07 cohort had also experienced upward earnings mobility during their first five working years. The study also indicates that the more educated graduates enjoyed better chances to reach the top 20% of the income distribution, though the pace of upward earnings mobility still hinges crucially on the prevailing macroeconomic environment. For instance, until 2004, Hong Kong was still experiencing deflation brought about by the Asian financial crisis, the subsequent economic downturn, followed by another major shock from the SARS outbreak. As a result, the starting salary of many graduates in the 2001/02 cohort was disappointingly low. Nonetheless, with the strong economic recovery during 2004-2007, earnings of these 2001/2002 graduates were able to catch up promptly and ultimately did not fare worse than the graduates in 2006/07 cohort.

Final remarks

Past data suggest that as long as the economy keeps growing, the majority of youngsters will be able to enjoy substantial upward earnings mobility over time alongside the accumulation of working experience, more so for those better educated graduates. In the near term, to what extent the weaker pace of job creation amid a slow-growing local economy would affect the job prospects of youths and recent graduates warrants close monitoring.

Hong Kong has been moving towards a knowledge-based, higher value-added economy. The proportion of higher-skilled workers in total employment increased markedly from 27.9% in 1995 to 36.9% in 2005 and further to 41.8% in 2015. Still, given the rapid increase in the number of youths with higher educational attainment, it is of utmost importance that the Hong Kong economy could continue to go up the value chain with new growth areas, in order to provide more development opportunities to meet the aspirations of our younger generation.