Box 6.1

Latest labour market conditions after the outbreak of financial tsunami

The Hong Kong economy has been buffeted severely by the global financial tsunami since September 2008. Consequent to the slackened labour demand, the unemployment rate jumped by 0.9 of a percentage point in the aftermath of the turmoil to end the year at 4.1%, the highest level in 16 months. In response to this trying period, the Task Force on Economic Challenges (TFEC) has been established and chaired by the Chief Executive to continually monitor and assess the impact of the financial tsunami on the local and global markets. Four major sectors hard hit by the global financial turmoil were identified by TFEC, namely, trading and logistics, tourism and consumption-related services, real estate and construction, and financial services. This article analyses the labour market conditions of these four sectors.

Trading and logistics sector

The sector covers two major economic activities viz. trading and logistics. The former consists of the import/export and wholesale trades, while the latter includes freight transport, storage, postal and courier services. Taken together, trading and logistics account for as high as 24% (around 835 700) of the total workforce and 27% of GDP, reflecting Hong Kong’s important position as a trading hub in the region.

With external demand sagging after the outbreak of the global financial turmoil, Hong Kong's total merchandise exports suffered a steeper decline of 11.4% in value terms in December 2008 over a year earlier, following a decline of 5.3% in November 2008. This led to a contraction of labour demand in the trading and logistics sector, as manifested by a reduction in employment of 12 100 or 1.4% between June - August and October - December. Concurrently, the respective unemployment rate soared from 2.5% to 3.6%, with a larger jump in that for lower-skilled workers from 3.4% to 4.9%.

Tourism and consumption-related sector

The tourism and consumption-related services sector comprises the retail trade, restaurants and hotels. It is a relatively labour-intensive sector, accounting for 16% (around 564 900) of the total employment but a mere 3.2% of GDP. Moreover, the sector has been rather sensitive to the cyclical ups and downs of the economy.

In 2008, the inbound tourism industry suffered a major setback towards the year-end, reflecting largely the negative effects of the global financial tsunami. On a year-on-year comparison, the number of visitor arrivals in November and December 2008 declined by 1.1% and 0.2% respectively, representing a sharp slowdown from the 11.6% leap in the year 2007. Coupled with weaker consumer spending, this led to a contraction in the volume of retail sales by 2.4% year-on-year in the fourth quarter 2008, reversing the uptrend seen during most of the preceding four years. Meanwhile, business receipts of the restaurants sector grew by only 2.6% in volume terms in the fourth quarter of 2008, markedly slower than the 6.6% in the third quarter. Consequently, the unemployment rate for the tourism and consumption-related services sector as a whole jumped from 4.5% in June - August to 5.8% in October - December. The increase was particularly noticeable among the lower-skilled workers, with the respective unemployment rate surging from 5.0% to 6.3%.

According to the Quarterly Business Tendency Survey for the first quarter of 2009, 80% of respondents in the accommodation and food services sector (mainly referring to restaurants and hotels) were found to have anticipated a further deterioration of business in the coming quarter. So, the prospects for the sector do not look promising in the near term.
Real estate and construction sector

The real estate and construction sector accounts for 12% (around 413,600) of the overall employment and 7% of GDP. For construction alone, performance has been sluggish throughout the past decade, apparently irrespective of the economic cycles. This was mainly due to the lack of sizeable infrastructure and property development projects during the period. Nevertheless, with the series of public sector infrastructure projects progressively coming on stream, this is expected to provide some boost to construction employment shortly.

As for real estate, the market quieted down considerably since mid-2008. Both property prices and transactions plummeted amid mounting concerns about the gloomy economic outlook and tightened bank mortgage policy. Residential prices went down by 12.1% in December 2008 over a year earlier, as did residential rentals by 10.5%. Employment in the real estate sector was reduced due to increased layoffs and downsizing among the real estate agents.

For the real estate and construction sector as a whole, the unemployment rate moved up to 5.1% in October - December 2008. Whereas a much higher rate was still observed for the lower-skilled workers at 6.1%, it was the higher-skilled workers (especially those engaged as property agents) that faced the sharpest rise in unemployment rate from 1.9% in June - August to 2.4% in October - December.

Financial services sector

By comparison, the financial services sector is far less labour-intensive. This sector accounts for only 6% (around 199,400) of the total workforce but 16% of GDP, reflecting its high value-added contribution to the economy as well as the importance of Hong Kong as an international financial centre. The unemployment rate in the financial services sector declined slightly from 1.6% in June - August to 1.4% in October - December, but the unemployment rate for the higher-skilled workers actually rose from 1.3% to 1.6%. In absolute terms, there was a decrease in the sectoral employment by 11,400 or 5.4% since August. This was partly due to the staff retrenchment by some financial institutions in more recent months.
Near term outlook

The general feedback from various business surveys and the statistics obtained thus far suggest that the aforementioned sectors are likely to face a difficult year ahead. It is however difficult to assess precisely at this juncture the impact of the global financial tsunami on employment in these sectors. Much will depend on the severity and duration of downward adjustment in the global and local economies. In any event, it is the Government’s priority to preserve employment and prevent job loss by supporting enterprises to withstand the economic challenges ahead. Thus, additional measures have been introduced recently to enhance the support for small and medium enterprises (SMEs) as well as to stimulate the general economy. Also, increased public sector resources have been put into the community to create more job opportunities. Specifically, the Chief Executive announced a package of measures in December 2008, which aimed to provide over 60 000 new jobs in 2009-10. In January 2009, the Chief Executive further announced a series of measures to cope with the expected wave of staff layoffs and company closures after the Lunar New Year, and to assist school-leavers who will be entering the labour market in the middle of 2009. These measures should help ease the negative impact of the economic recession on the labour market.