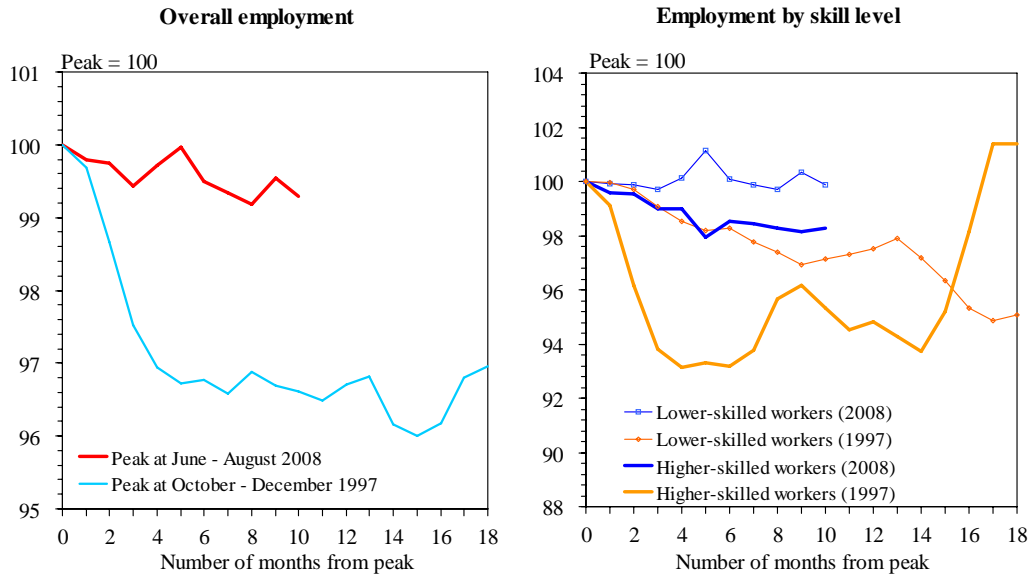


Box 5.1

Comparison of labour market conditions by skill segment in the aftermath of Asian Financial Crisis and after the onset of the current global financial crisis

This box article aims to compare the adjustments in the labour market in the current global financial crisis (GFC) with the Asian Financial Crisis (AFC) in 1997.

Chart 1: Labour market is more resilient with fewer job losses in GFC



Note: Seasonality is involved throughout the analysis.

Contraction in employment is less severe in GFC than AFC

Although the real economy contracted more severely in the early phase of GFC than that after AFC, the labour market as a whole has exhibited greater resilience in the current crisis (Chart 1). Ten months after the pre-crisis employment peaked at June – August 2008, total employment declined by a cumulative of 24 800 in the second quarter of 2009. This was much smaller than the job loss of 109 200 during the first ten months of AFC. The increase in unemployed persons was also smaller in GFC than in AFC, at 74 100 as against 109 100 (Table 1).

Table 1: Snapshot on employment contraction in ten months after financial crises

	10 months after 1997 AFC (Change between Q4 97 & Aug-Oct 98)			10 months after 2008 GFC (Change between Jun-Aug 08 & Q2 09)		
	Employment	Labour force	Unemployment (rate)	Employment	Labour force	Unemployment (rate)
Overall	-109 200 (-3.4%)	-100 (#)	+109 100 (+3.2% points*)	-24 800 (-0.7%)	+49 300 (+1.3%)	+74 100 (+2.1% points*)
Of which:						
<i>Higher-skilled</i>	-44 800 (-4.7%)	-31 600 (-3.3%)	+13 300 (+1.4% points)	-22 400 (-1.7%)	-400 (#)	+22 000 (+1.7% points)
<i>Lower-skilled</i>	-64 400 (-2.8%)	+11 000 (+0.5%)	+75 400 (+3.2% points)	-2 400 (-0.1%)	+56 700 (+2.4%)	+59 100 (+2.4% points)

Notes: (*) Seasonally adjusted figures.
(#) Less than 0.05%.

It is worthy to note that the labour force participation rate (LFPR) and hence the labour force had moved in different directions during the two crises. During the first ten months of AFC,

Box 5.1 (Cont'd)

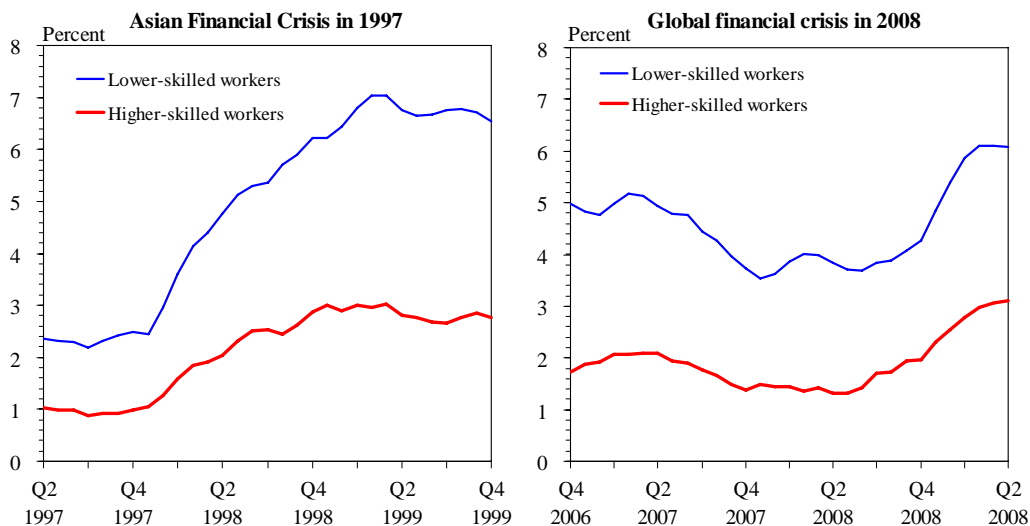
LFPR decreased by 0.7 percentage point for the economy as a whole and across most age groups, reflecting the drop-outs from the workforce amid the gloomy employment outlook at that time. On the contrary, the overall LFPR increased by 0.3 percentage point under the current crisis, in which more significant increase was seen among females aged 35-54. As such, the increase in unemployment rate could have been even more notable if not for the drop-outs in the labour force in AFC.

Higher-skilled workers suffered from a larger percentage decline in employment in the initial phase of both crises while unemployment rate of lower-skilled workers rose more

Analysed by skill segment, higher-skilled workers suffered from a larger percentage decline in employment in the first ten months after AFC (Table 1). A similar pattern is also observed during the early stage of GFC, with the decline in employment for higher-skilled segment also larger than lower-skilled segment, by 1.7% as against 0.1%. Over the whole period of AFC, total employment declined for five consecutive quarters, but most of the job-shedding took place in the first two quarters, particularly in the higher-skilled segment. In contrast, job-shedding for lower-skilled workers lasted over a longer period of six consecutive quarters.

In both crises, the increase in unemployment was across-the-board, but it was the lower-skilled segment that bore more of the brunt of the economic downturn. The unemployment rate for higher-skilled workers rose by 2.1 percentage points from a pre-crisis low of 0.9% in the third quarter of 1997 to 3.0% in March – May 1999 (Chart 2). Meanwhile, the unemployment rate for lower-skilled workers jumped by a larger extent of 4.8 percentage points from a pre-crisis low of 2.2% in the third quarter of 1997 to a peak of 7.0% in March – May 1999. A similar observation is found in the current crisis that lower-skilled workers have also experienced a larger rise in unemployment than higher-skilled workers. The unemployment rate for lower-skilled workers increased by 2.4 percentage points from 3.7% in June – August 2008 to 6.1% in the second quarter of 2009. In comparison, the unemployment rate for higher-skilled workers rose by 1.7 percentage points from 1.4% to 3.1% over the same period.

Chart 2: Unemployment rate* by skill segment in both crises



Note : (*) Not seasonally adjusted, and not including first-time job seekers and re-entrants into the labour force.

More moderate layoffs during GFC than AFC

As most companies did not have the experience to cope with an economic shock with scale similar to AFC, panic downsizing was not an uncommon response (Table 2). After experiencing different crises over the decade, employers appeared to have exercised greater restraint in laying off workers, despite the much weaker business environment during GFC.

Box 5.1 (Cont'd)

At the same time, workers also appeared to be more willing to accommodate wage reductions, shorter working hours and fewer working days. As a result, the increase in layoffs has been more moderate for both skill segments (Table 3). Mirroring this fact, the rise in unemployment rates for both skill segments is smaller this time round.

Table 2: Upsurge in layoffs during Asian Financial Crisis

	Change within one quarter after AFC (i.e. Q4 97-Q1 98)		Change within two quarters after AFC (i.e. Q4 97-Q2 98)		Change within three quarters after AFC (i.e. Q4 97-Q3 98)	
	No.	%	No.	%	No.	%
Overall	+27 600	+73.1%	+53 300	+141.0%	+71 100	+188.1%
Of which:						
<i>Higher-skilled</i>	+3 700	+81.2%	+6 500	+142.2%	+12 300	+268.4%
<i>Lower-skilled</i>	+23 900	+72.0%	+46 800	+140.9%	+58 800	+177.0%

Table 3: The current situation of layoffs was more moderate

	Change within one quarter after GFC (i.e. Q3 08-Q4 08)		Change within two quarters after GFC (i.e. Q3 08-Q1 09)		Change within three quarters after GFC (i.e. Q3 08-Q2 09)	
	No.	%	No.	%	No.	%
Overall	+16 900	+28.0%	+65 900	+109.3%	+70 800	+117.4%
Of which:						
<i>Higher-skilled</i>	+5 100	+59.2%	+15 200	+176.3%	+19 700	+228.2%
<i>Lower-skilled</i>	+11 800	+22.8%	+50 700	+98.1%	+51 100	+98.9%

Counter-cyclical measures have been introduced by the Government in GFC

Complementing the experience gained in the private sector, the Government also responds faster and more proactively to deal with the global financial crisis, especially in the direction of creating employment opportunities and providing assistance to companies in financial difficulties. Apart from the measures to preserve employment, the Government has also introduced several rounds of fiscal stimulus measures to mitigate the impact of the global recession. For 2008 and 2009 taken together, the total value of discretionary fiscal measures introduced by the Hong Kong Government has amounted to \$87.6 billion or 5.2% of GDP, which would lift Hong Kong's GDP in 2009 by around 2 percentage points after taking into account import leakage and spillover effects. Clearly, in the absence of discretionary measures, the extent of recession in Hong Kong and correspondingly the extent of job loss, would have been more severe. Also, as part of the three-pronged strategy of 'Stabilise the financial system, Support enterprises and Preserve jobs', the Government has extended the existing SME Loan Guarantee Scheme and introduced a Special Loan Guarantee Scheme to help business firms during this difficult period. By end-July 2009, some 11 000 companies, employing over 190 000 people, have benefited from these loan schemes. These loan schemes have rendered the assistance at a time when credit is restrained, thereby contributing towards the goal of preserving employment both directly in the companies that applied for the loans and indirectly in other companies that provide goods and services to them.

Further analysis

In order to more completely understand the labour market conditions between AFC and GFC, another box article focuses on sectoral analysis, will be provided in the next economic report.