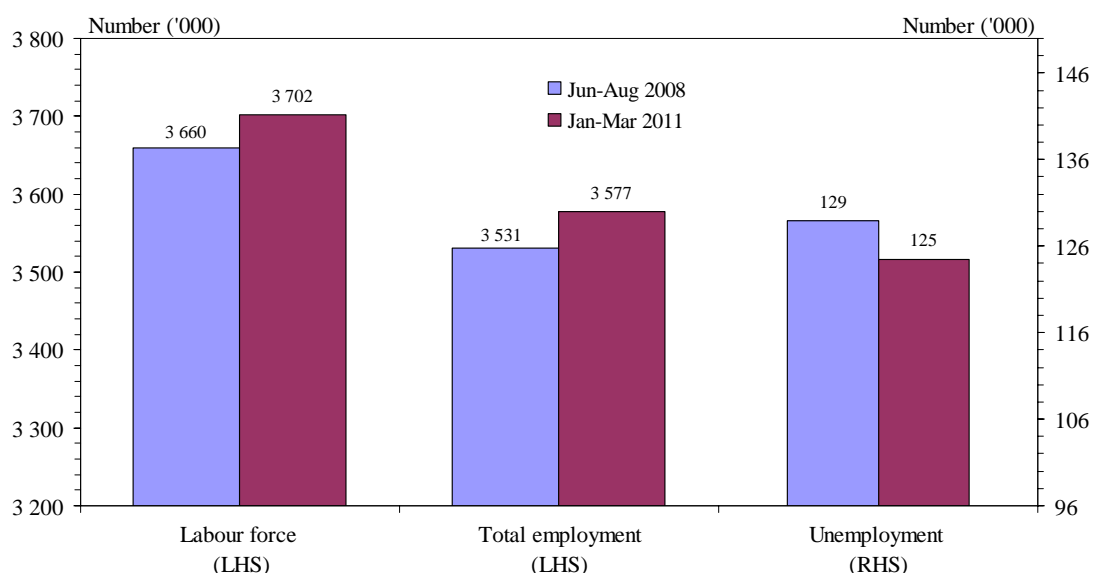


**Box 5.1****How well the labour market has weathered the global financial tsunami?**

The outbreak of the global financial tsunami in late 2008 has dealt a severe blow to most of the economies worldwide in 2009. Hong Kong was no exception. Reflecting this, Hong Kong's real GDP contracted visibly by 6% year-on-year in the first half of 2009, with total employment decreasing by 1%. Meanwhile, both the unemployment numbers and rate hit high levels of 217 000 and 5.5% respectively. In response to this crisis, the Government has decisively implemented a package of economic stimulus and job creation measures, which led to a subsequent revival in the economic and employment situation. This article aims to assess how well the labour market has regained its strength alongside this economic upturn.

While the recovery in labour market conditions was manifested in many ways, the first and foremost was a strong rebound in labour demand over the past year or so. As an indicator, job vacancies in private sector establishments posted an upsurge of 43.5% in 2010, reversing the reduction of 29.4% in 2009. At end-2010, the number of private sector vacancies stood at 48 100, 0.8% more than that in June – August 2008 (i.e. just before the global financial crisis). In a similar vein, total employment, which staged a rebound in the latter half of 2009, showed a notable pick-up in the recovery pace in more recent months. By March this year, the overall employment size expanded to 3 577 300, surpassing the pre-crisis level by 1.3% (or 46 300). What is more, this increase was attributable entirely to the creation of full-time jobs (at 81 500), to replace part-time jobs, which fell by 35 200 over the same period. The employment situation thus improved not only in quantity terms but also in quality terms. Also worth noting was that workers at the lower segment tended to benefit more from this employment growth, as the new jobs created were mainly found in the labour-intensive and lower-skilled sectors, including retail, construction, and repair, laundry, domestic and other personal service activities. An estimate put the number of job gains for lower-skilled workers at 35 100, with an increase of 57 800 full-time jobs more than offsetting the reduction of 22 700 part-time jobs. By comparison, the number of job gains for higher-skilled workers was smaller at 11 200, with an increase of 23 700 full-time jobs outweighing the decrease of 12 500 part-time jobs (*Chart 1*).

**Chart 1 : Labour force, total employment and unemployment**

**Box 5.1 (Cont'd)**

Thanks to the increasingly entrenched economic recovery, the seasonally adjusted unemployment rate by the first quarter of 2011 has come down to 3.4%, only a mere 0.1 percentage point higher than the pre-crisis low of 3.3% in June – August 2008. Analysed by skill level, lower-skilled workers generally fared better than their higher-skilled counterpart. The unemployment rate (not seasonally adjusted) for lower-skilled workers rose only slightly from 3.7% to 3.8% over this period, whereas that for higher-skilled workers went up more from 1.4% to 1.8%.

Along with the progressive tightening of the labour market, incomes also improved across all segments of the workforce. Comparing 2010 with 2008, labour earnings registered an increase of 3.0% in nominal terms, largely on par with the cumulative inflation over the two-year period. The pay rise, whilst occurring almost across the board, was most apparent in the financial and insurance activities, transportation, storage, postal and courier services, and professional and business services sectors.

A closer examination of the data series on employment earnings revealed that the average income of full-time employees in the workforce were likewise improving. In particular, comparing the average income of full-time employees in 2010 with that in 2008, the lowest three decile groups were higher by 5.5%, 4.4% and 3.1% respectively. After netting out inflation, the corresponding increases for the first and the second deciles were 2.4% and 1.3% in real terms, whilst that for the third decile held broadly stable. More recent figures indicated that such earnings growth in the first quarter of 2011 continued to be impressive, ranging from 3.7% to 6.2% year-on-year in nominal terms. After netting out inflation, the first two lowest decile groups had real income growth of 2.0% and 0.3%, while the third group showed a marginal income dip of 0.4% in real terms (*Table 1*).

**Table 1: Rate of change in earnings for employees\* in nominal and real terms#**

<u>Decile group</u>	<u>2010 as compared to 2008 (%)</u>		<u>Q1 2011 as compared to Q1 2010 (%)</u>	
	<u>Nominal</u>	<u>Real</u>	<u>Nominal</u>	<u>Real</u>
Lowest decile	5.5	2.4	6.2	2.0
2nd lowest decile	4.4	1.3	4.4	0.3
3rd lowest decile	3.1	^^	3.7	-0.4
Overall employees	2.1	-0.8	6.9	3.0

Notes: (\*) Average employment earnings of full-time employees, excluding foreign domestic helpers.

(#) Discounted by Consumer Price Index (A) for the lowest three decile groups and by Composite Consumer Price Index for the overall employees.

(^^) Magnitude of less than 0.05%.

Source: General Household Survey, Census and Statistics Department.

**Box 5.1 (Cont'd)****Conclusion:**

The above analysis indicates that most, if not all, of the selected labour market indicators have recouped the ground lost since the global financial crisis in late 2008. Of particular note was that employees in the lowest segment are among the major beneficiaries of this improved labour market situation, in terms of both employment growth and pay rises. Looking ahead, in view of the still strong economic performance and positive hiring sentiment in the corporate sector, most of these indicators can be expected to improve further in the near term. Despite this, the Government will remain vigilant in monitoring the economic and employment implications arising from the domestic and external developments, including the implementation of the statutory minimum wage in Hong Kong, as well as the lingering sovereign debt crisis in Euro-zone and the recent earthquake and nuclear crisis in Japan.