

**Box 5.1****Latest labour market conditions after the implementation of statutory minimum wage**

The implementation of statutory minimum wage (SMW) on 1 May this year signifies a major milestone in the development of Hong Kong's labour policy. At the same time, there are also concerns about whether it would cause significant job losses among those lower-skilled and low-paid workers who may stand to benefit. In this article, we analyse the dynamics of the employment and unemployment situations of these workers after the implementation of SMW, focusing on the sectors and groups that are most likely to be affected.

Thanks to the sustained robust economic growth, the labour market remained tight with total employment growing apace so far this year. In the third quarter, employment increased further over the previous quarter by 31 800 (0.6% on a seasonally adjusted basis) to 3 642 400. Analysed by skill segment, almost 90% of the expansion was attributable to the higher-skilled occupations. As for the lower-skilled segment, job gains went up modestly by 3 900 (0.2%), not enough to cover the loss of some 14 700 jobs in the second quarter. After netting out government employees and live-in domestic workers who are not covered by the SMW regime, the job losses between the first quarter and the third quarter were higher at 15 300 (loss of 21 600 jobs during the second quarter followed by a gain of 6 200 jobs during the third quarter) in this segment. The resumption of job creation in the third quarter therefore had only partially offset this previous loss. Amongst the major sectors, the restaurants sector was notably more vulnerable than the others to job cuts at the time of SMW implementation given its relatively high wage bill and low profit margin. As many as 17 700 (7.6%) job losses were seen in this sector during the second quarter of 2011, as against 4 600 (2.1%) job losses registered in the same period a year earlier (*Table 1*).

**Table 1 : Recent employment gains were mainly from the higher-skilled segment**

	Q3 2011 (No.)	Quarter-to-quarter change				Change in Q3 over Q1 2011			
		Q1 2011 (No.)	(%)	Q2 2011 (No.)	(%)	Q3 2011 (No.)	(%)	(No.)	(%)
<b>Total employment</b>	<b>3 642 400</b>	<b>34 400</b>	<b>1.3</b>	<b>33 300</b>	<b>1.2</b>	<b>31 800</b>	<b>0.6</b>	<b>65 100</b>	<b>1.8</b>
<b>Occupation</b>									
Higher-skilled	1 384 000	25 000	1.9	48 100	3.7	27 800	2.1	75 900	5.8
Lower-skilled	2 258 300	9 500	0.4	-14 700	-0.6	3 900	0.2	-10 800	-0.5
<i>Lower-skilled (excl. government employees and live-in domestic workers)</i>	<i>1 881 800</i>	<i>-10 400</i>	<i>-0.5</i>	<i>-21 600</i>	<i>-1.1</i>	<i>6 200</i>	<i>0.3</i>	<i>-15 300</i>	<i>-0.8</i>
<b>Sector</b>									
Low-paying sectors (LPS)	1 192 700	29 700	2.6	-8 800	-0.7	17 800	1.5	9 000	0.8
<i>Retail</i>	<i>316 800</i>	<i>1 000</i>	<i>0.3</i>	<i>8 500</i>	<i>2.8</i>	<i>5 200</i>	<i>1.7</i>	<i>13 700</i>	<i>4.5</i>
<i>Restaurants</i>	<i>224 500</i>	<i>10 400</i>	<i>4.7</i>	<i>-17 700</i>	<i>-7.6</i>	<i>8 100</i>	<i>3.7</i>	<i>-9 600</i>	<i>-4.1</i>
<i>Estate management, security and cleaning services</i>	<i>237 600</i>	<i>4 900</i>	<i>2.1</i>	<i>-1 300</i>	<i>-0.5</i>	<i>600</i>	<i>0.3</i>	<i>-700</i>	<i>-0.3</i>
<i>Other low-paying sectors</i>	<i>413 900</i>	<i>13 400</i>	<i>3.4</i>	<i>1 800</i>	<i>0.4</i>	<i>3 800</i>	<i>0.9</i>	<i>5 600</i>	<i>1.4</i>
Non-low-paying sectors (Non-LPS)	2 449 600	4 800	0.2	42 100	1.8	14 000	0.6	56 100	2.3

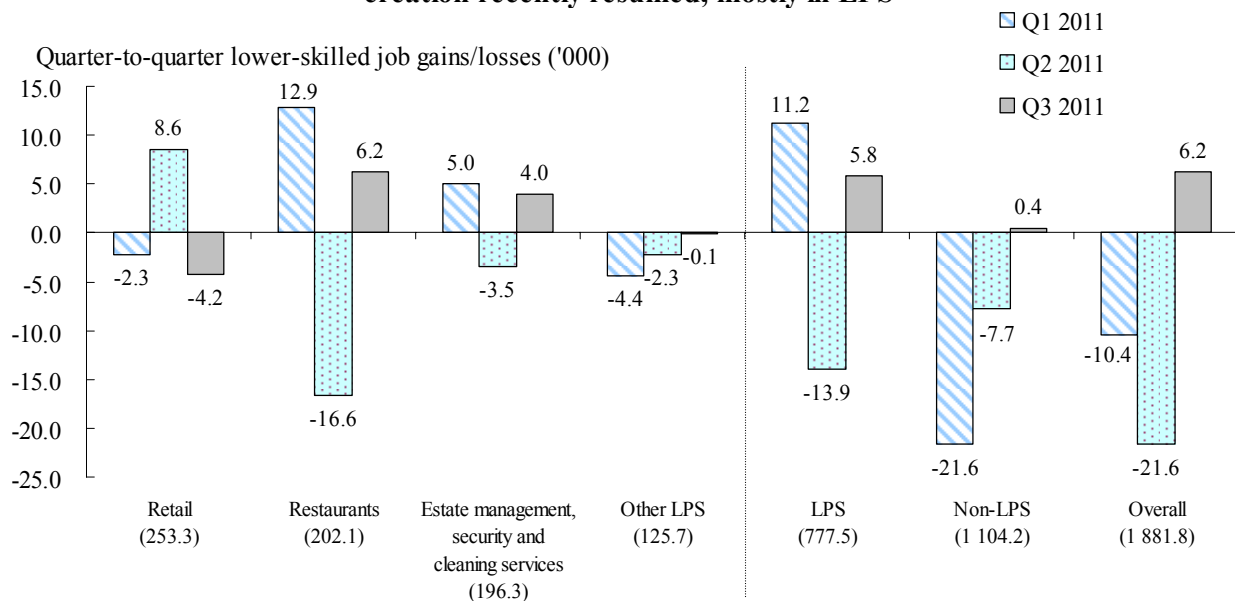
Note: Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total.

Source: General Household Survey, Census and Statistics Department.

**Box 5.1 (Cont'd)**

Sectoral analysis of job creation in the lower-skilled segment suggests a mixed performance amongst individual LPS and non-LPS, with these two broad sectors both registering some lower-skilled job loss in the second quarter of 2011 over the preceding quarter (i.e. before SMW implementation). Among LPS, restaurants, estate management, security and cleaning services, and other LPS appeared to be more affected by SMW. In aggregate terms, there were 22 400 lower-skilled jobs lost in these sectors. This however was partially offset by the job gains in retail by 8 600 amidst the buoyant local consumption (*Chart 1*).

**Chart 1 : Some lower-skilled job losses were seen at the time SMW first launched, but job creation recently resumed, mostly in LPS**



Note: Numbers in brackets represent the number of employed persons ('000) in the third quarter of 2011. Government employees and live-in domestic workers are excluded.

Source: General Household Survey, Census and Statistics Department.

More recent indications nevertheless suggest that job creation has resumed moderately in the lower-skilled segment, with job gains amounting to 6 200 between the second and the third quarters of 2011. This was particularly notable in restaurants where job creation regained the momentum, thereby narrowing the earlier loss. In contrast, lower-skilled employment in retail fell back somewhat, and recent job gains were mainly found in the higher-skilled segment. For LPS as a whole, 5 800 lower-skilled jobs were gained during the third quarter.

On the supply side, labour force continued to grow strongly by 67 600 (1.8%) in the third quarter over the first quarter, attributable partly to an increased number of job-seekers induced by more employment opportunities alongside the economic growth, and better income prospects following SMW implementation. This phenomenon was also evident from the rise in labour force participation rate, most notably amongst those aged 20-24 and 50-59 (*Table 2*).

**Box 5.1 (Cont'd)****Table 2 : Labour force participation rates of selected groups**

	Q1 2011 (%)	Q2 2011 (%)	Q3 2011 (%)	Change in Q3 over Q1 2011 (% point)
<b>Overall</b>	<b>59.9</b>	<b>60.5</b>	<b>60.7</b>	<b>0.8</b>
<b><u>Age</u></b>				
15-19	8.8	9.5	10.4	1.6
20-24	61.1	60.4	64.6	3.5
50-59	66.9	68.4	68.7	1.8
60 or above	15.2	15.5	15.7	0.5
<b><u>Gender</u></b>				
Men	68.2	68.9	69.0	0.8
Women	52.9	53.3	53.6	0.7

Source: General Household Survey, Census and Statistics Department.

Analysed by sector, the movements of unemployment rate during the first three quarters of 2011 largely mirrored the dynamics of the employment situation across sectors. Specifically, with the resumption of job creation in the latest period, the unemployment situations of the groups that were expected to be more affected by SMW improved somewhat in the third quarter over the second quarter, again thanks to the vibrant consumption and general business upturn. Even so, the unemployment rate for LPS as a whole in the third quarter remained slightly higher than the level before SMW implementation (*Table 3*).

**Table 3 : Unemployment rates<sup>(1)</sup> of selected groups**

	Q1 2011 (%)	Q2 2011 (%)	Q3 2011 (%)	Change in Q3 over Q1 2011 (% point)
<b>Overall (seasonally adjusted)</b>	<b>3.4</b>	<b>3.5</b>	<b>3.2</b>	<b>-0.2</b>
<b><u>Age</u></b>				
15-19	18.3	18.6	16.6	-1.7
20-24	7.5	9.2	9.4	1.9
50-59	3.0	3.6	2.9	-0.1
60 or above	2.2	1.9	1.9	-0.3
<b><u>Occupation</u></b>				
Higher-skilled	1.8	1.7	1.6	-0.2
Lower-skilled	3.8	4.2	3.7	-0.1
<b><u>Sector</u></b>				
Non-LPS	3.0	3.1	2.6	-0.4
LPS	3.2	3.5	3.4	0.2
<i>Retail</i>	4.4	4.3	4.7	0.3
<i>Restaurants</i>	5.0	6.6	5.3	0.3
<i>Estate management, security     and cleaning services</i>	2.8	3.1	3.0	0.2
<i>Other LPS</i>	1.4	1.5	1.4	0.0

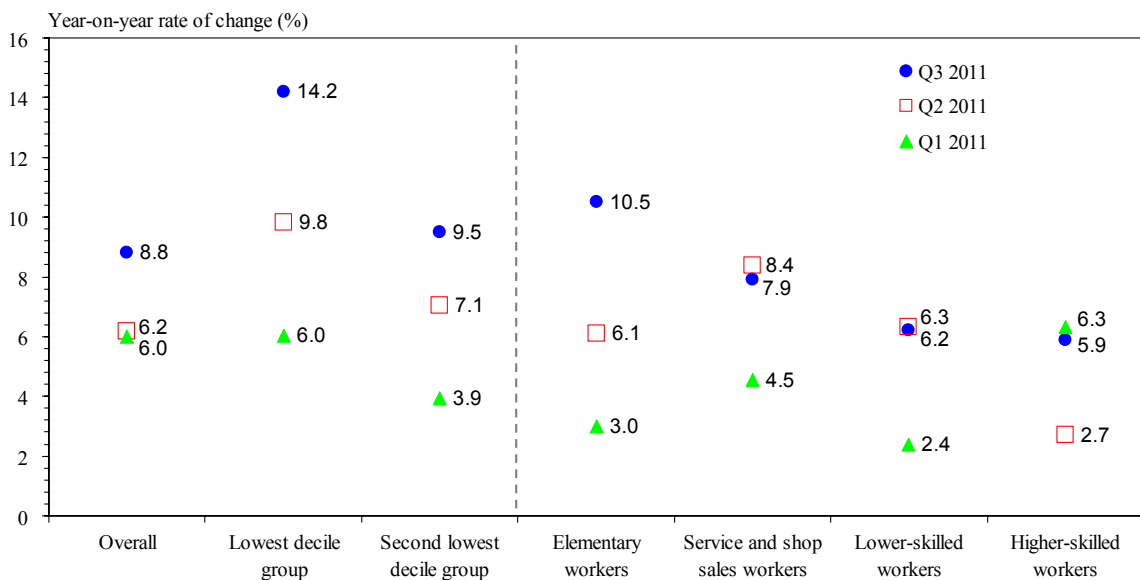
Note: (1) Not seasonally adjusted unless otherwise specified.

Source: General Household Survey, Census and Statistics Department.

**Box 5.1 (Cont'd)**

Given the relatively tight labour market and with the additional boost from the implementation of SMW, pay hikes of low-paid workers continued to accelerate in the third quarter. After excluding government employees and live-in domestic workers, monthly employment earnings of full-time employees in the lowest decile group surged by 14.2% year-on-year in the third quarter of 2011, well above the overall average growth of 8.8% (*Chart 2*).

**Chart 2 : Average monthly employment earnings of full-time employees<sup>(\*)</sup>**



Note: (\*) Full-time employees include employees having worked 35 hours or longer and those worked less than 35 hours due to vacation, excluding government employees and live-in domestic workers.

Source: General Household Survey, Census and Statistics Department.

In summary, the potential negative impact on the labour market brought about by SMW implementation has been largely cushioned by the sustained economic growth so far. The overall labour market has fared well, with employment growing, unemployment falling and participation in the labour market increasing. Although some labour market adjustments were observed at the time of SMW implementation, job creation has resumed in some LPS recently. Amidst the economic upturn over the past year or so, SMW also appeared to have brought positive impact on work incentive. As a result, most of the low-paid workers enjoyed quite a handsome rise of earnings under these positive developments.

Looking ahead, the dynamics of the labour market will continue to hinge on the macroeconomic outlook. Whether the employment situation for the lower-skilled workers can continue to hold up depends on the pace of job creation going forward, and on whether the response of the corporate sector in coping with the increase in staff costs will change when the economy slows. We will continue to be vigilant and closely monitor how the rapidly evolving global economic environment will impact on Hong Kong and hence the employment in related sectors.