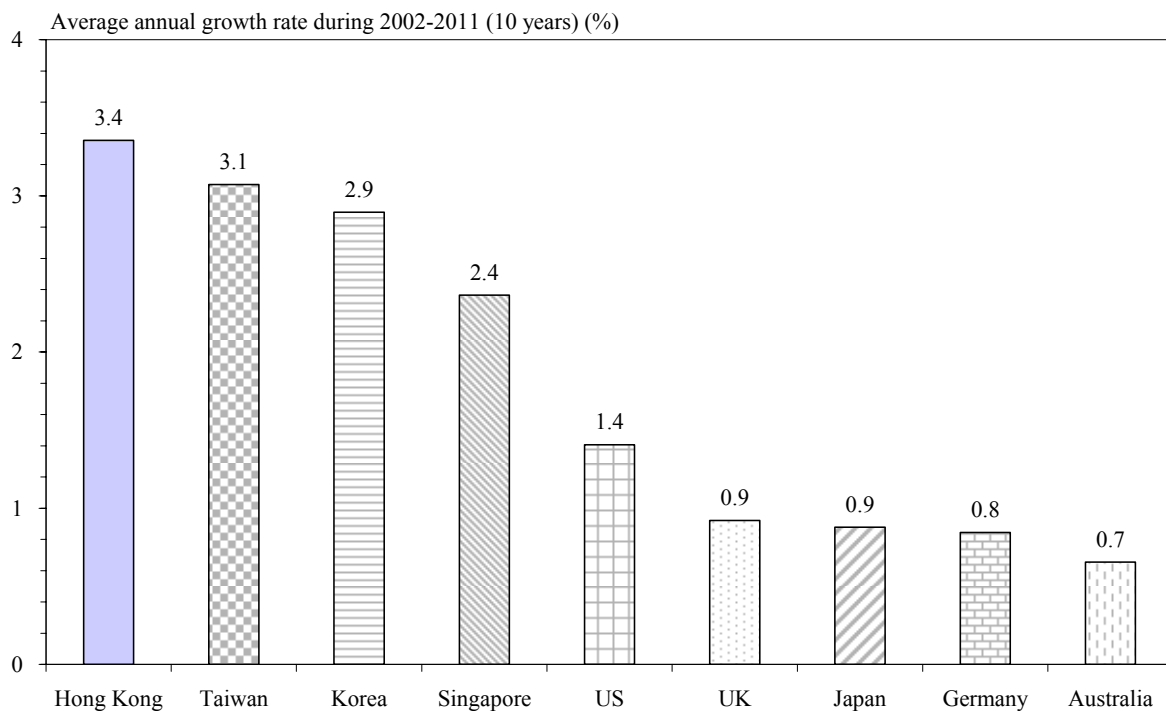


Box 1.2**Labour productivity growth in Hong Kong**

Although short-term economic performance is mainly governed by vicissitudes in demand conditions and other cyclical factors, growth momentum of an economy over the medium to longer run is more determined by supply factors, including the growth in employed population and labour productivity. In particular, labour productivity growth increases the capacity of the economy as more outputs could be generated from any given amount of labour inputs, thereby enabling the economy to expand at a faster pace than otherwise possible while containing the pressure on local costs and hence prices. In the case of Hong Kong, a city economy with limited land and natural resources as well as modest population growth, the continued enhancement in labour productivity is particularly vital for rendering growth impetus to support a sustainable and healthy economic development. Moreover, productivity growth is crucial to the continued improvement in the living standards of an economy over the longer term.

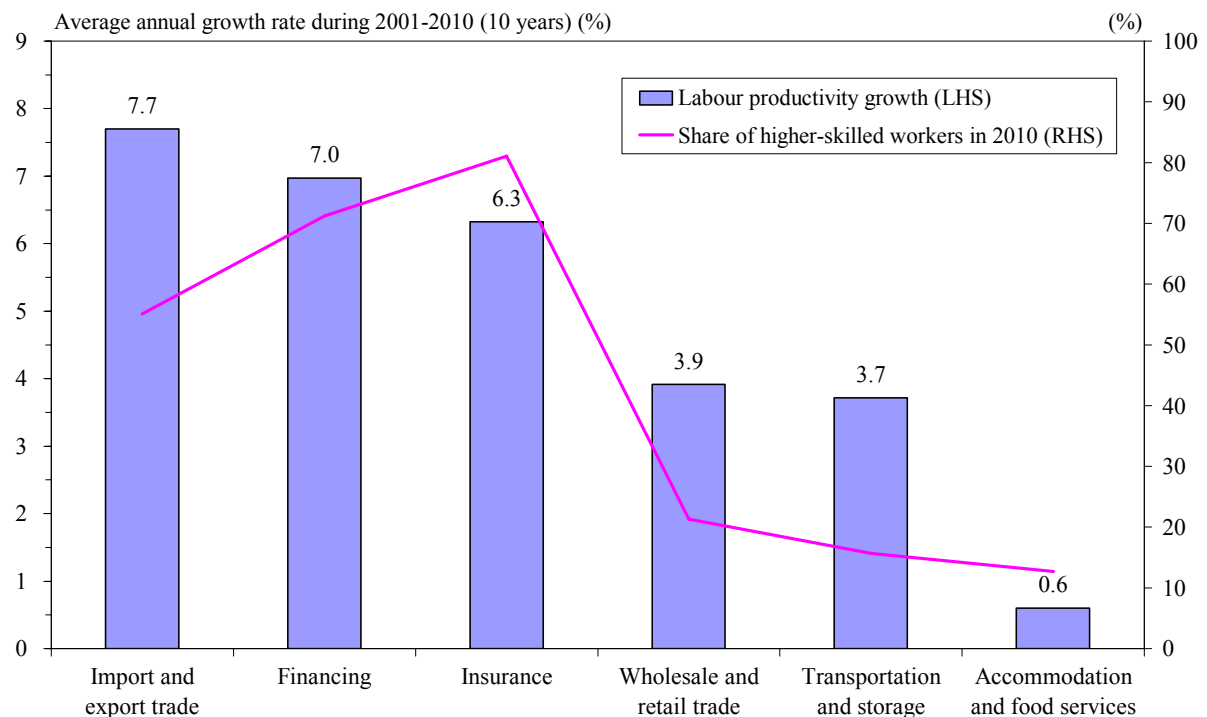
Labour productivity growth hinges on a basket of factors, such as technological advancements, capital deepening and widening, as well as quality of labour. *Chart 1* provides an overview of the average annual growth rates of overall labour productivity during 2002–2011 (as measured by an economy's real GDP per employed person⁽¹⁾) in Hong Kong and other selected economies. Notwithstanding a number of severe shocks, including the spread of SARS in 2003 and the 2008-09 global financial tsunami over the past decade, Hong Kong's labour productivity growth averaged at a remarkable 3.4% per annum, faster than its Asian peers and actually far outperforming the other major advanced economies.

Chart 1 : Hong Kong's labour productivity growth outperformed many other economies

(1) Due to limited data availability for other economies, the estimation of labour productivity growth for comparison purpose does not adjust for changes in working hours.

Box 1.2 (Cont'd)

The Census and Statistics Department compiled the Labour Productivity Indices of selected economic sectors in Hong Kong to enable more in-depth investigation into the sources of labour productivity growth⁽²⁾. During 2001–2010, all major sectors experienced labour productivity improvements, with those having a larger share of higher-skilled workers generally seeing more visible productivity growth (*Chart 2*). Analysed by service sector, “import and export trade”, “financing”, and “insurance” saw the fastest productivity growth, with average annual growth rates of 7.7%, 7.0%, and 6.3% respectively, plausibly reflecting their high requirement of skill and professional knowledge for the persons engaged. On the other hand, the more labour-intensive sectors, namely “wholesale and retail trade”, “transportation and storage”, and “accommodation and food services” had relatively slower productivity growth, at 3.9%, 3.7% and 0.6% per annum respectively, as capital accumulation and technological advancements could only benefit these sectors to a lesser extent. In sum, these sectoral developments reflect Hong Kong’s continued effort to go up the value chain and move towards a knowledge-based service economy, while also signifying Hong Kong’s renowned competitiveness as a regional trading hub and international financial centre.

Chart 2 : Hong Kong’s labour productivity growth in selected service sectors

Going forward, the further deepening economic ties with the Mainland as well as closer links with other emerging economies would generate ample business opportunities and help broaden Hong Kong’s economic base. Also, the successive completion of mass-scale infrastructure projects over the coming decade or so will strengthen the capacity and efficiency of the Hong Kong economy. Recognising an adaptable and efficient workforce is Hong Kong’s most treasured asset, the Government will continue to invest heavily in human capital and attract more talents into Hong Kong. All these should boost productivity growth and bode well for Hong Kong’s economic growth and development in a sustainable way.

(2) For details, please refer to the feature article in Hong Kong Monthly Digest of Statistics, November 2011. Changes in working hours had been taken into account in compiling these indices.