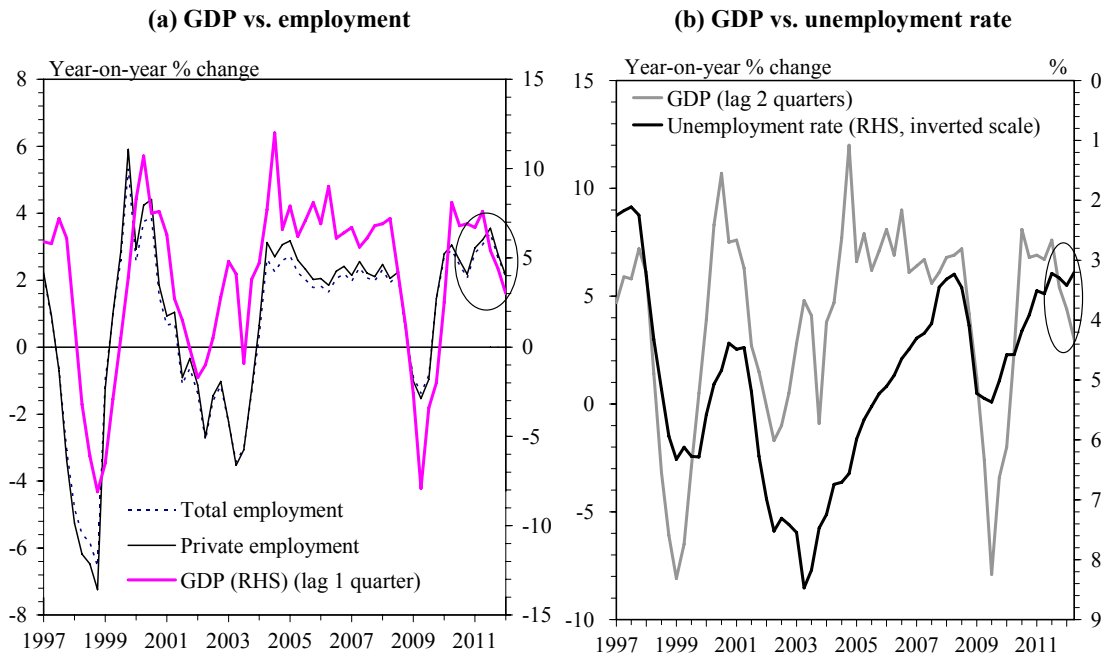


Box 5.1

A look at sectoral employment growth in relation to macroeconomic variables

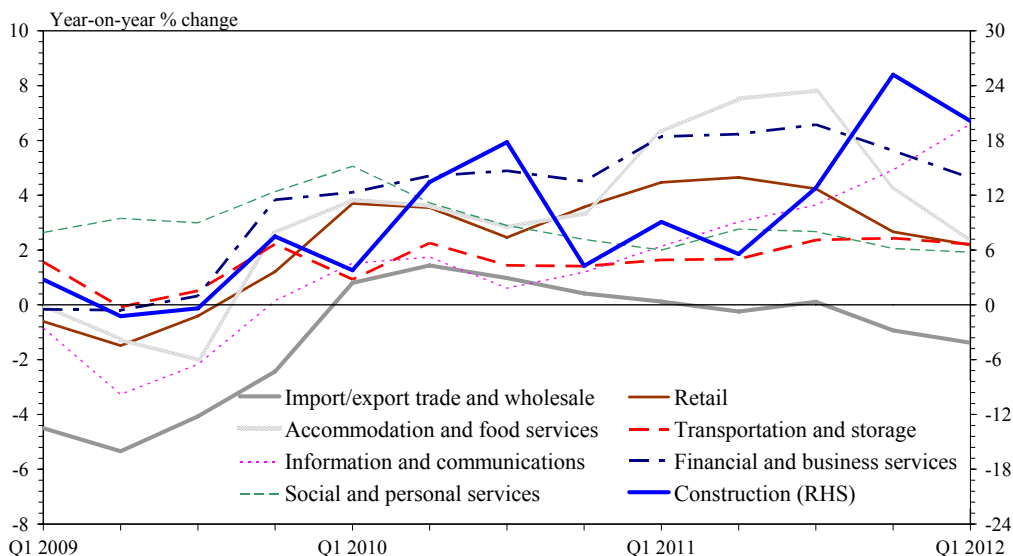
Employment is a lagging indicator which generally tends to lag behind economic growth by around one quarter in Hong Kong. But in the current episode it lagged even more, with sustained employment growth and persistently low unemployment rate despite the economic slowdown (*Chart 1*). The buoyant labour market conditions despite a slowing economy may warrant a closer look at the sectoral employment picture in relation to GDP components to discern any difference in performance of various sectors. This article looks at the sectoral employment situation in relation to some macroeconomic variables.

Chart 1: Labour market has held up extremely well despite the economic slowdown



Analysed by sector (*Chart 2*), employment growth during the current slowdown since the second quarter of 2011 is concentrated in the construction, accommodation and food services, financial and business services, retail, and information and communications sectors, while import/export trade and wholesale witnessed employment loss.

Chart 2: Recent employment growth mainly came from domestic-oriented sectors



Box 5.1 (Cont'd)

Intuitively, the former group tends to be more domestic-oriented while the latter is more trade-related, although there is no clear-cut demarcation as most service sectors cater to both local and external demand (e.g. retail trade is partly driven by tourist spending; transportation consists of both local transport and abroad). Here for the purpose of analysis, the cross correlation of different sectors' employment growth with GDP components (consumption expenditure in domestic market (CXDM), exports of goods (XG), and building and construction (B&C)) is separately compared to see if individual sector's employment is driven more by domestic or external demand (*Table 1*). The pattern of stronger correlation between sectoral employment and GDP components (shaded) largely conforms to common understanding.

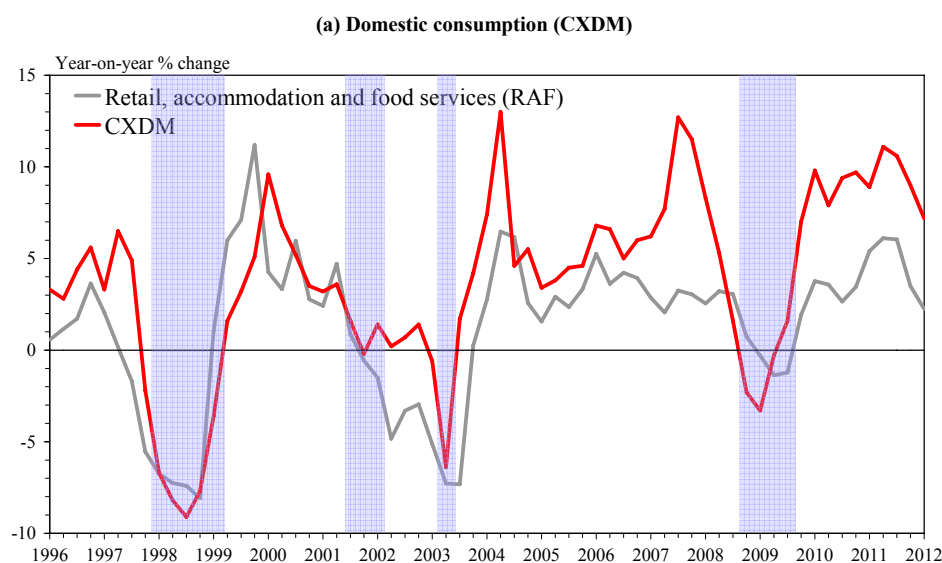
Table 1: Cross correlation between sectoral employment growth and GDP components*

year-on-year % change

<u>Employment</u>	<u>GDP</u>	<u>CXDM</u>	<u>XG</u>	<u>B&C</u>
Construction	0.49			0.50
Import/export trade and wholesale (IEW)	0.71	0.52	0.62	
Transportation and storage	0.45	0.61	0.09	
Retail	0.56	0.65	0.29	
Accommodation and food services	0.47	0.60	0.19	
Information and communications (IC)	0.36	0.57	0.08	
Financing and business services (FB)	0.43	0.50	0.34	

Note: (*) Data from the Survey of Employment and Vacancies (SEV) are used. As for construction, data from the General Household Survey are used as SEV data cover only site construction.

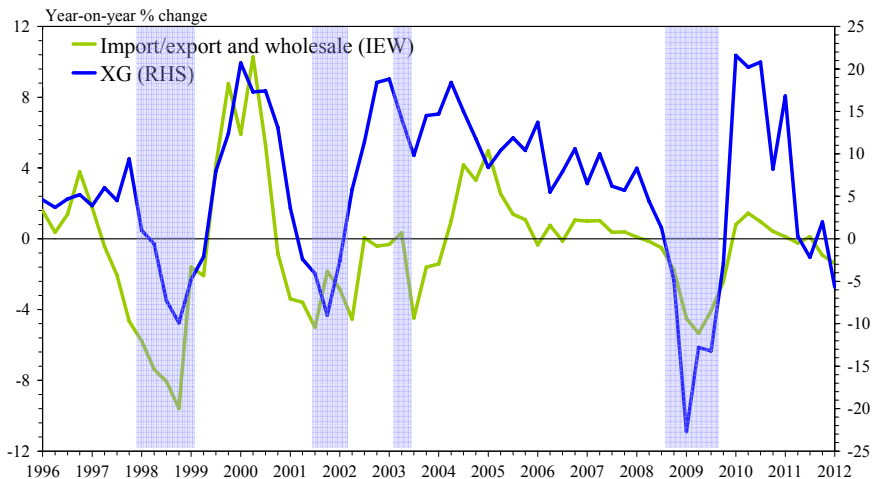
The movements of selected sectors' employment growth and their more correlated GDP components are illustrated in *Chart 3* (shaded stripes denote recessions). Information and communications (IC) and financial and business services (FB) are more derived from other activities in the economy and hence plotted against the overall GDP.

Chart 3: Movements of sectoral employment and GDP components[^]

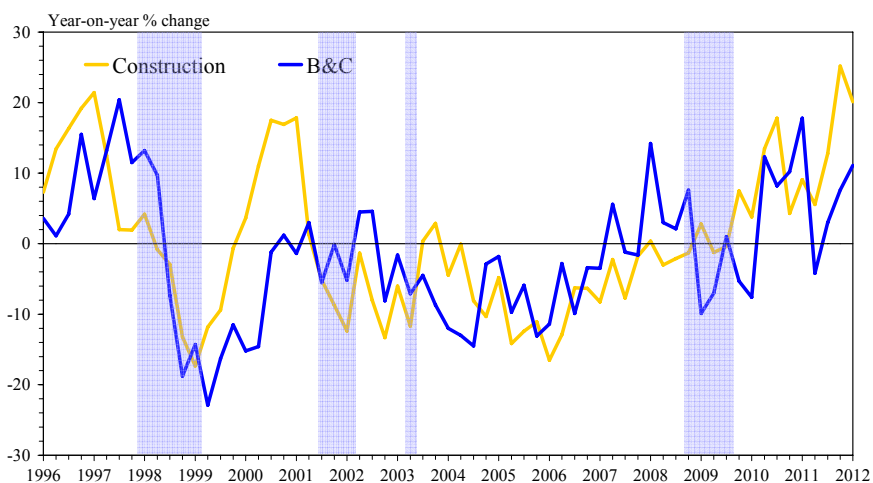
Note: ([^]) Due to adoption of the Hong Kong Standard Industrial Classification (HSIC) Version 2.0, the series from March 2000 onwards are not strictly comparable with those in earlier years, more so for the IC sector and hence the shorter backtracked series.

Box 5.1 (Cont'd)

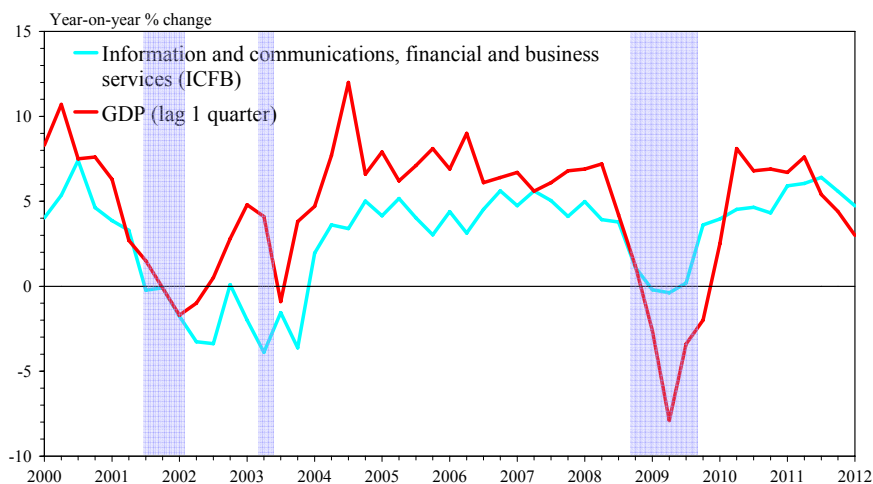
(b) Total exports of goods (XG)



(c) Building and construction (B&C)



(d) Overall GDP



From *Chart 3*, sectoral employment moves quite closely in tandem with the relevant output component, more so for the domestic-related sectors than the trade-related ones. So not surprisingly, the buoyant employment growth in the current episode which mainly came from domestic-oriented sectors ties in with the resilience of domestic demand, with an additional buffer from stable employment in the less cycle-prone social and personal services. The significant employment gains in domestic-oriented sectors actually more than offset job losses in the trade-related sectors, which in turn explains why the labour market has been able to hold up so well up till the recent period.