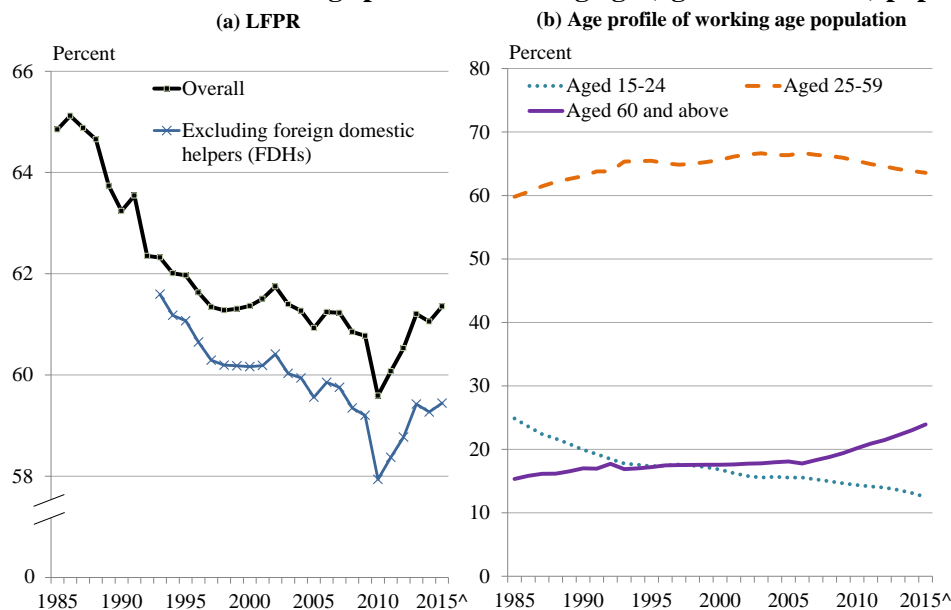


## Box 6.1

## Salient observations on the trends of labour force participation rate

The labour force participation rate (LFPR), measuring the proportion of working age population participating in the labour market either by working or looking for work<sup>(1)</sup>, is a crucial indicator of the size of workforce available to engage in economic activities. While short-term changes in LFPR may be affected by cyclical factors like job availability, longer-term trends hinge more substantially on structural factors, such as demographics and labour market institutions. *Chart 1a* showed that the overall LFPR in Hong Kong over the past three decades exhibited a general downtrend from 64.8% in 1985 to its trough at 59.6% in 2010, before rising back moderately to 61.4% in 2015. Intuitively, one may suspect that the general downtrend was the direct result of ageing population, as the increasing share of older-aged population and their generally lower LFPR posed a drag on the overall figure.

**Chart 1 : Trend of LFPR and age profile of working age (aged 15 and over) population**



Notes: General Household Survey (GHS) has started collecting statistics pertaining to FDHs since 1993.

(^) Figures for 2015 are provisional.

Source: GHS, Census and Statistics Department (C&SD).

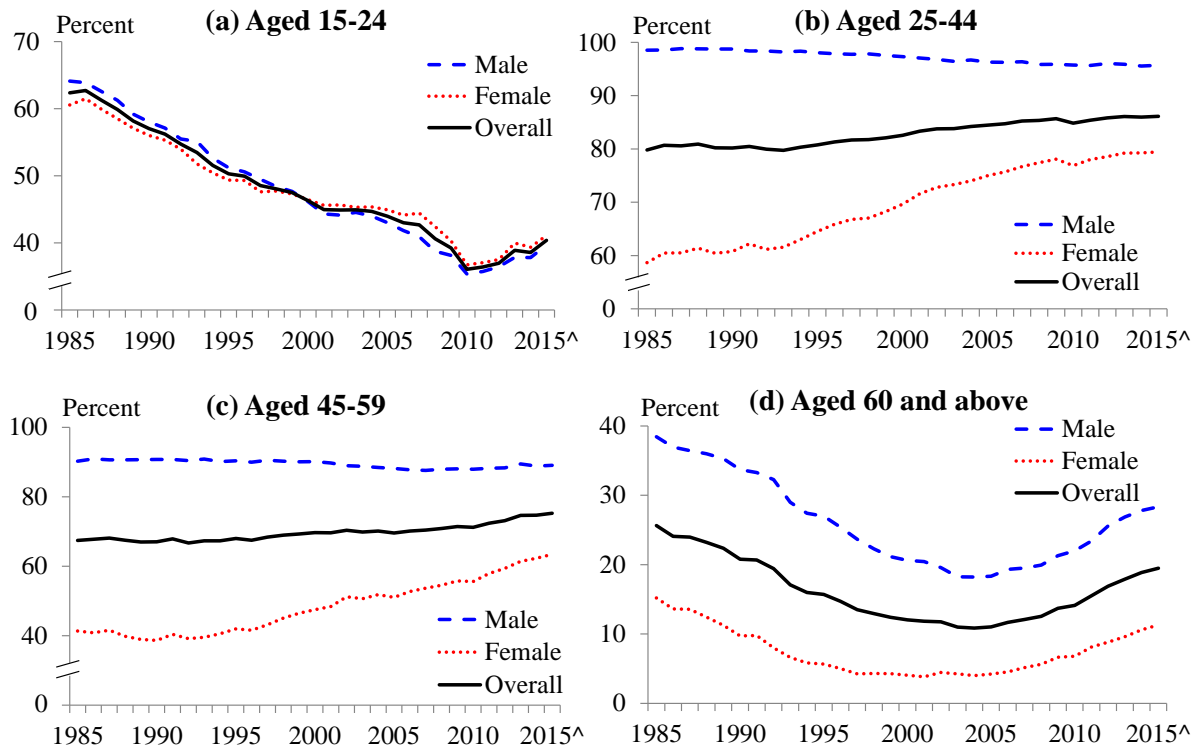
### Changing age profile of working age population

Undeniably, our population showed a continuing dejuvenation and ageing trend (*Chart 1b*), but it is worth noting that the proportion of prime age population (i.e. persons aged 25-59, who typically had higher LFPRs than other age groups) was actually on an uptrend during 1986-2005. In fact, the prime age labour force grew rapidly at an average of 2.9% per annum during 1986-1995 and at around 2.1% in the next decade, before slowing to a modest pace of 0.9% from 2006 onwards. Even after netting out the impact of FDHs, the prime age labour force still grew rapidly at an average rate of 2.2% per annum from 1994-2005, yet decelerated markedly to 0.5% afterwards. The rapid growth of prime age workforce in the 1980-90s was largely the combined impacts of post-War baby boomers (i.e. those who were born between 1945 and 1965) being in their prime age, an influx of young entrants from the Mainland during 1970-80s and the return of many Hong Kong emigrants in the mid-1990s.

(1) In this article, LFPR refers to the proportion of labour force in the total land-based non-institutional population aged 15 and over. The figures from 1985 to 1995 were compiled based on the “extended de facto” method and those from 1996 onwards were compiled based on the “resident population” method. As a result, these two series of figures may not be strictly comparable. Figures for 2015 are provisional.

**Box 6.1 (Cont'd)****Changing LFPRs by age group**

Apart from the age profile of population, the downward trajectory of the overall LFPR was also attributable to the fact that LFPRs of various age groups, better understood by examining the trends for males and females separately, changed dramatically in Hong Kong in tandem with our economic and social development.

**Chart 2 : LFPR by gender and age group**

Note: (^) Figures for 2015 are provisional.  
Source: GHS, C&SD.

Over the past three decades or so, the LFPR of the youth (i.e. persons aged 15-24), for both genders, was on a sustained downtrend from 1986 to its low in 2010 (*Chart 2a*), translating into a cumulative drop of over 20 percentage points. Conceivably, enhanced educational pathways inevitably postponed the timing of the youths' entry into the labour force. Noteworthy though, their LFPRs rose back slightly in the past few years amidst the largely favourable labour market. The implementation of the Statutory Minimum Wage (SMW) in 2011, rendering an immediate boost to the pay of lower-paid jobs, also to some extent enticed more people to take part in work at the lower-end of the skill spectrum. In particular, youth employment (excluding FDHs) grew by 6.8% during the period of 2011-2015, with those engaged as service and sales workers up even more notably by 9.5%.

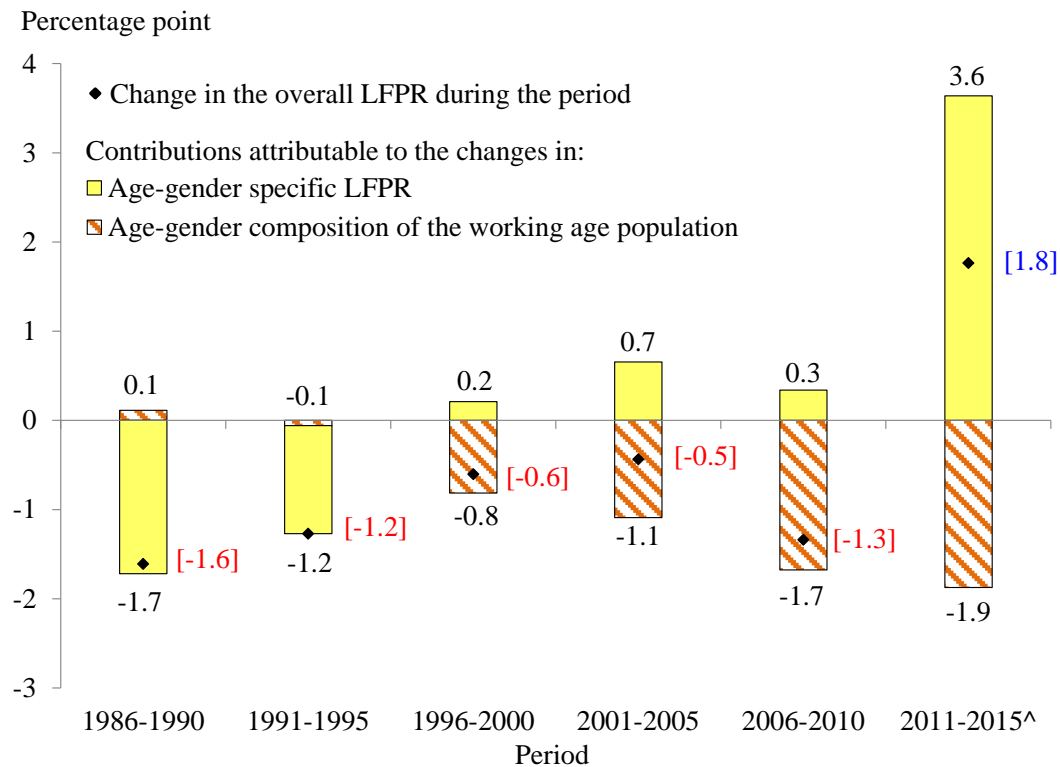
As for the prime age workforce (*Chart 2b-c*), LFPRs of prime age females saw a dramatic uptrend, while those of their male counterparts stayed high at over 90% throughout the period. The former observation reflected improved access to education for most women and the changing social perception on female employment, marriage and childrearing decisions in the past decades. In addition, the increased prevalence of FDHs in Hong Kong also contributed significantly towards unleashing the local women workforce.

**Box 6.1 (Cont'd)**

As regards the older age group (aged 60 and above), its LFPR bottomed out from its dwindling path in around 2004-05 (*Chart 2d*), a period when the first batch of baby boomers reached 60. The gradual pickup in the LFPR thereafter might suggest that this group had chosen to stay longer in the workforce. It could be partly attributable to their improved educational profile as compared to the previous generations, which conceivably had enabled them to remain engaged in some higher-skilled jobs for which knowledge and experience, instead of physical strength, matter more. To illustrate, over 60% of the older-aged workforce (excluding FDHs) had attained secondary school or above in 2015, more than double as compared to 28% in 1995. In a similar vein, around 30% of the older-aged employed persons (excluding FDHs) were engaged in the higher-skilled occupations in 2015, as compared to only some 16% in 1995.

**Decomposition of changes in overall LFPR<sup>(2)</sup>**

**Chart 3 : Decomposition of changes in overall LFPR - Contributions of age-gender compositional changes in the working age population vs. changes in age-gender specific LFPR**



Notes: The contributions of the individual items were computed based on unrounded figures. The sum of the individual items may not be equal to the totals due to rounding. Bracketed figures were computed based on rounded figures. (^) Figures for 2015 are provisional.  
 Source: GHS, C&SD.

(2) The following decomposition method was adopted:

$$LFPR^{t_1} - LFPR^{t_2} = \sum_i \sum_j \overline{LFPR}_{ij} (S_{ij}^{t_1} - S_{ij}^{t_2}) + \sum_i \sum_j \bar{S}_{ij} (LFPR_{ij}^{t_1} - LFPR_{ij}^{t_2})$$

where  $LFPR^t$  denotes the overall LFPR in year  $t$ ,  $LFPR_{ij}^t$  denotes the LFPR of gender  $i$  and age group  $j$  in year  $t$ ,  $S_{ij}^t$  denotes the percentage share of gender  $i$  and age group  $j$  in the working age population in year  $t$ , and a bar over a variable denotes the average of the variable during year  $t_1$  to year  $t_2$ . Hence, on the right hand side of the equation, the first term captures the contributions of age-gender compositional changes in the working age population to the change in the overall LFPR, while the second term captures the contributions of the changes in the age-gender specific LFPR. The same decomposition method was also applied to LFPR data (excluding FDHs) between 1993 and 2015, and the general observations remained largely similar.

**Box 6.1 (Cont'd)**

To better examine the aforesaid underlying driving forces that affected the changes in the overall LFPR over time, such changes were decomposed into two components (viz. the demographic composition of the population and the LFPRs of individual age-gender group) (*Chart 3*). As shown, the declines in the overall LFPR during both the periods of 1986-1990 and 1991-1995 were predominantly contributed by the falls in age-gender specific LFPRs, especially among the youth and older-aged, whereas the effect of demographic compositional changes in the working age population was minimal.

In the next three consecutive 5-year periods (1996-2010), however, the ageing population became an overwhelming source of the decline in the overall LFPR. Although the appreciable boost in LFPR of the prime age females, coupled with the visible pick-up seen among the older age group since 2006, provided some upward impetus to the overall LFPR, it was outweighed by the negative impacts brought by the ageing population and the declines in LFPR among other age groups.

Over the period of 2011-2015, the LFPR had seen broad increases across almost all age groups, most notably among older age group and females aged 45 and above, conceivably boosted by the implementation of SMW in 2011. As a result, the overall LFPR went up by 1.8 percentage points during the period. It is, however, noteworthy that the drag from population ageing had remained notable and continued to enlarge over the period.

**Concluding remarks**

The above decomposition purports to analyse into the driving forces behind the movements of the overall LFPR over the past three decades. Looking ahead, the drag arising from ageing population on the overall LFPR looks set to turn even more apparent. In view of this, the Government has adopted a multi-pronged approach to boost labour force participation as set out in the latest Policy Address, such as attracting global talents to work in Hong Kong, encouraging employers to build an age-friendly working environment and other targeted supportive measures to address the needs and aspirations of the locals with different attributes. All these initiatives will take time to bear fruit and hopefully bring far-reaching structural changes to the benefit of Hong Kong's long term economic development and well-being of the community.