Box 5.2

Business performance and operating situation of low-paying sectors[(1)] in 2017

The objective of the Statutory Minimum Wage (SMW) implemented since May 2011 is to forestall excessively low wages, while ensuring that the labour market flexibility, economic growth and competitiveness of Hong Kong are not unduly jeopardised, and at the same time minimising the loss of low-paid jobs. Though setting and raising a wage floor would be conducive to improving the earnings of grassroots employees, labour costs borne by enterprises would also be inevitably pushed up. If enterprises opt to mitigate the additional operating expenses by downsizing, the stability of the employment market may be compromised, with particularly serious impacts on grassroots employees that have lower skills and weaker bargaining power.

How enterprises will cope with the additional operating expenses hinges crucially on the macroeconomic environment. Fortunately, labour demand has remained solid amid sustained expansion of the Hong Kong economy since 2011. This has relieved to a large extent the pressure that might have been brought about by SMW on the labour market. In view of the potential impact of the business performance of enterprises on the labour market, this article seeks to analyse, based on the results of the 2017 Annual Survey of Economic Activities[(2)] released by the Census and Statistics Department (C&SD), the business performance and operating situation of low-paying sectors (LPS) which hire more low-paid employees and the small and medium-sized enterprises (SMEs) in these sectors[(3)].

In 2017, the Hong Kong economy picked up to a notable growth of 3.8% amid a favourable external environment. As the overall business environment turned better during the year, the overall business receipts of enterprises improved visibly. Among them, the business receipts of LPS rebounded by 4.1%, similar to the growth in business receipts of all sectors taken together. Thanks to the revival in inbound tourism and the strengthened local consumption demand, the business receipts of the retail sector, which accounted for nearly 70% of the business receipts of LPS, reverted to an increase. Business receipts of the restaurants sector also registered an accelerated growth (***Chart 1***).

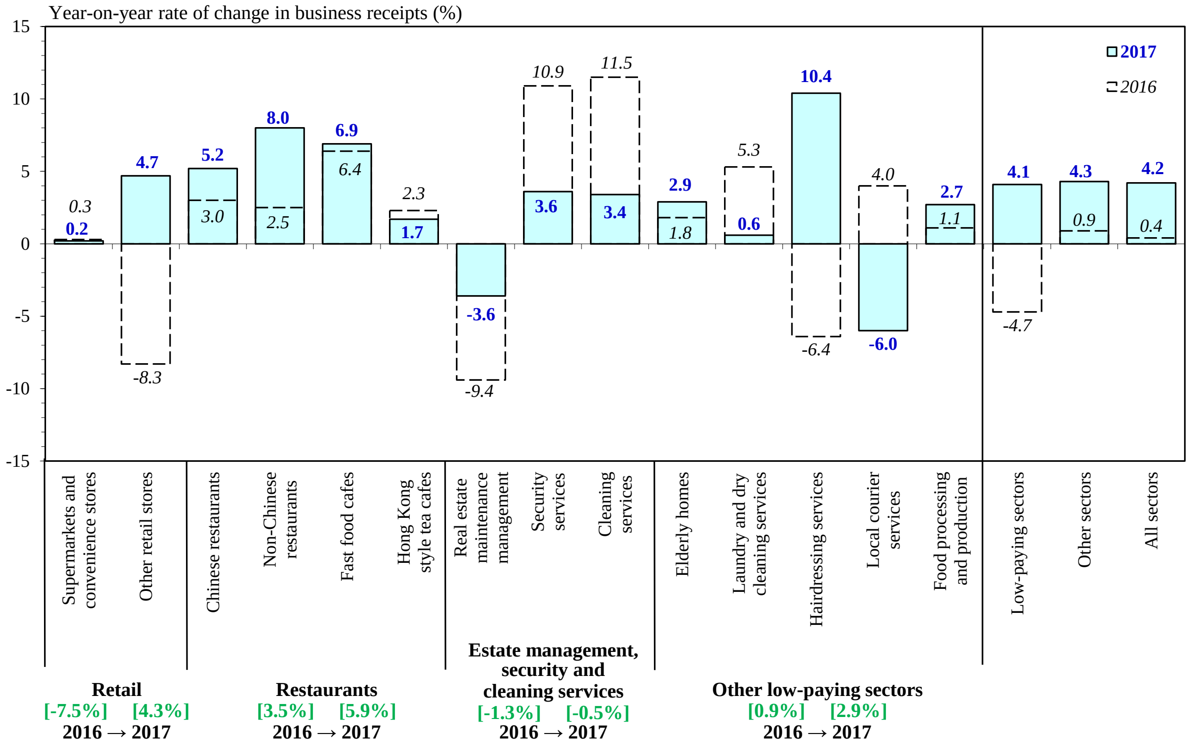
(1) The low-paying sectors referred to in this article are the same as those identified by the Minimum Wage Commission. Details can be found in the 2018 Report of the Minimum Wage Commission.

(2) The statistics of the Annual Survey of Economic Activities cited in this article are in value terms and only pertain to enterprises with employees. SMEs refer to enterprises with fewer than 50 persons engaged.

(3) For the business performance of enterprises in LPS in previous years, please see Box 6.1 in the 2012 Economic Background and 2013 Prospects, and Boxes 5.1 in the First Quarter Economic Reports from 2014 onwards.

Box 5.2 (Cont'd)

Chart 1: Business receipts of LPS as a whole rebounded amid a notable expansion of the Hong Kong economy in 2017



Note: [ ] Figures in brackets denote the year-on-year rate of change in business receipts of all enterprises in that sector in the specified year.

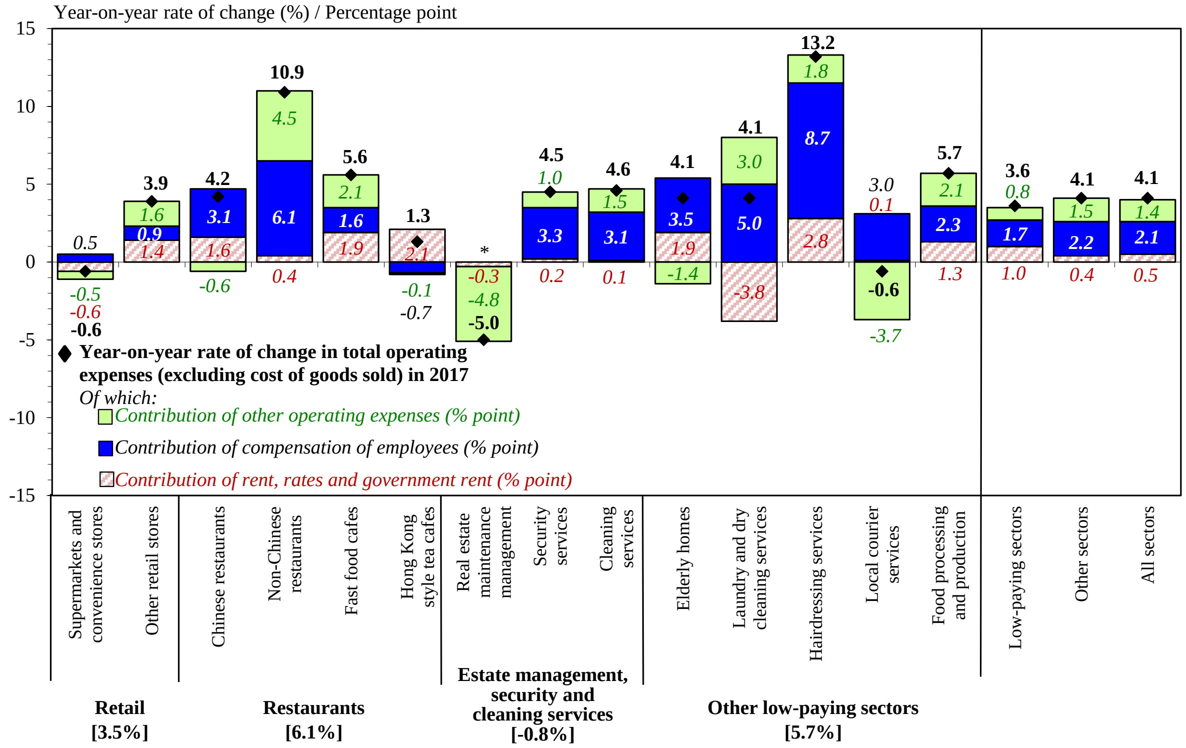
Source: Annual Survey of Economic Activities, C&SD.

Operating costs

In 2017, due to the steady rise in labour earnings amid the progressively tightened labour market, labour costs of enterprises generally went up. The total operating expenses of all sectors increased by 4.1% and those of the LPS by 3.6%, of which about half (2.1 percentage points and 1.7 percentage points respectively) were attributable to staff costs. Among the LPS, save for the retail sector which was more affected by rentals and other operating expenses, the increases in total operating expenses of labour-intensive LPS, such as restaurants, security services, cleaning services, elderly homes, laundry and dry cleaning services as well as hairdressing services, were noticeably more affected by staff costs. Meanwhile, operating expenses of real estate maintenance management and local courier services decreased along with business contraction. Apart from staff costs, the rebound in rentals of retail space and commercial premises in 2017 added to the rental burden of the retail and restaurants sectors. Furthermore, the generally faster growth in business activities in various sectors compared with 2016 also led to increases in other operating expenses (***Chart 2***).

Box 5.2 (Cont'd)

Chart 2: In 2017, about half of the increases in total operating expenses of all sectors and the LPS were attributable to staff costs



Notes: The sum of the individual items may not add up to the totals due to rounding.
[ ] Figures in brackets denote the year-on-year rate of change in total operating expenses of all enterprises in that sector in 2017.
(*) Within ±0.05 percentage point.

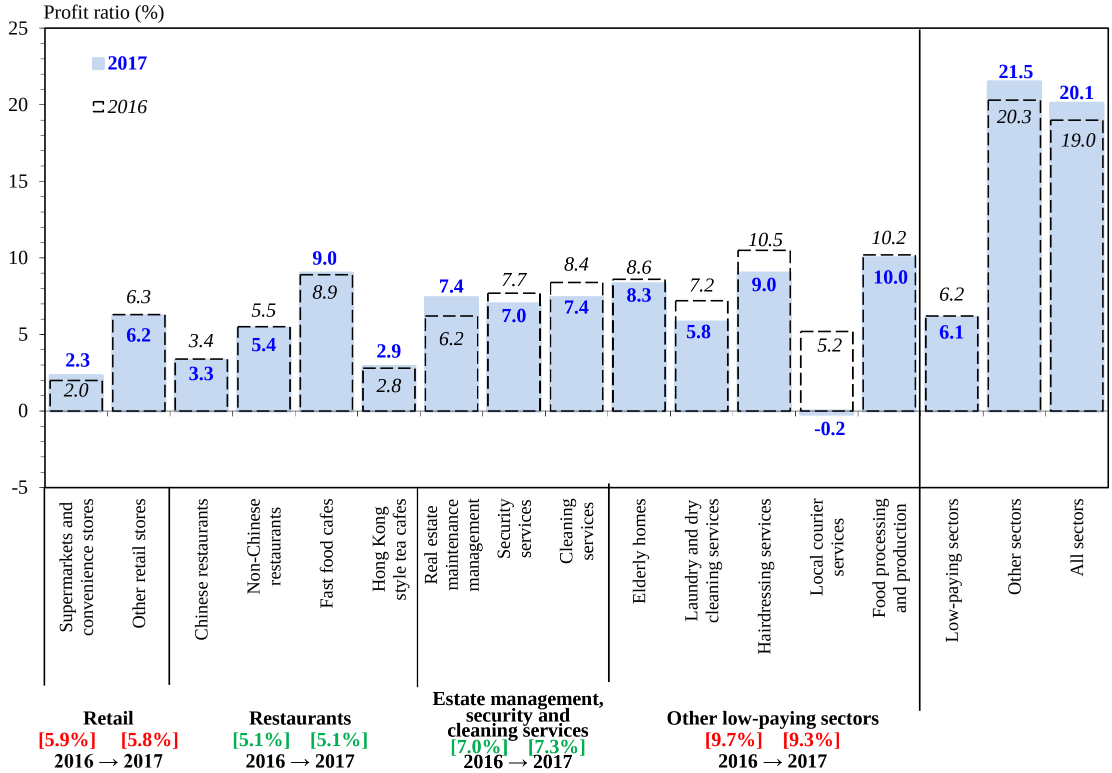
Source: Annual Survey of Economic Activities, C&SD.

Profitability

Although business receipts of LPS as a whole improved in 2017, with operating expenses rising correspondingly, the profit ratio held steady at 6.1%. Within LPS, the profit ratios of most sub-sectors were similar to those in the previous year (***Chart 3***). As to non-LPS, the financing, insurance, real estate, professional and business services sector saw improved profitability in 2017 compared with 2016, whereas the profit ratios of other sub-sectors remained broadly the same.

Box 5.2 (Cont'd)

Chart 3: The overall profitability of LPS in 2017 was similar to that in 2016



Note: [ ] Figures in brackets denote the profit ratio of all enterprises in that sector in the specified year.

Source: Annual Survey of Economic Activities, C&SD.

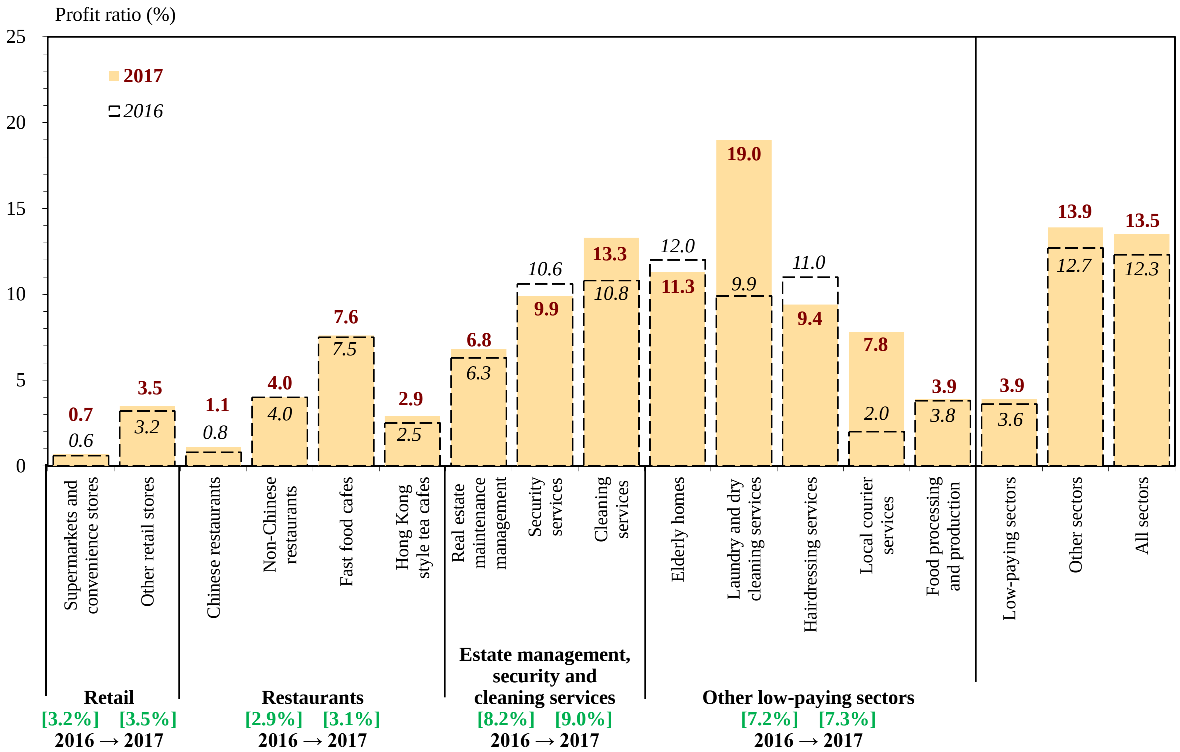
SMEs

The business receipts of SMEs in LPS rebounded by 4.6% in 2017, which was slightly higher than that of LPS as a whole. Yet, the increase in the total operating expenses of these SMEs (4.9%) was also higher than that of LPS as a whole. Besides the retail sector which was more affected by rentals and other operating expenses, the increases in total operating expenses of SMEs in many LPS were mainly driven by staff costs. The overall profit ratio of SMEs in LPS was 3.9% in 2017, slightly up by 0.3 percentage point from that in 2016 (***Chart 4***). That said, profits of SMEs in individual sub-sectors of LPS (such as supermarkets and convenience stores as well as Chinese restaurants) remained meagre, with profit ratios of only 0.7% and 1.1% respectively.

Although the overall profitability of SMEs in LPS fared slightly better in 2017, their profitability was still mostly weaker than that of their respective sectors. Compared with large enterprises, SMEs are constrained by resources and may not be able to benefit from economies of scale and more effective management. They are also generally less capable of passing on and coping with increases in operating costs, and have less flexibility in deploying their resources. For instance, the overall profit ratio of SMEs in the restaurants sector remained low at 3.1% in 2017, which was also lower than the profit ratio of the restaurants sector as a whole (5.1%). Among these SMEs in the restaurants sector, Chinese restaurants recorded even thinner profits in overall terms. Given the above, SMEs have less room for manoeuvre than large enterprises when facing adverse changes in the business environment and may need to resort to downsizing, which will in turn affect the labour market to a certain extent.

Box 5.2 (Cont'd)

Chart 4: SMEs remained relatively weak in overall profitability



Note: [ ] Figures in brackets denote the profit ratio of SMEs in that sector in the specified year.

Source: Annual Survey of Economic Activities, C&SD.

Concluding remarks

The Hong Kong economy has witnessed sustained expansion since the implementation of SMW despite the volatile external environment. This has to a large extent alleviated the potential impact brought about by SMW on the employment situation and operation of enterprises.

While the current low-unemployment environment should continue to lend support to local consumption, the business landscapes for different sectors are still facing challenges amid the various external uncertainties, more so for SMEs whose profitability is generally weaker. With the SMW uprated to $37.5 per hour starting from 1 May 2019, how different sectors will fare down the road warrants continued close monitoring.