

Box 5.1**A brief review on the declines in employment in Hong Kong's economic downturns⁽¹⁾**

Employment falls during an economic downturn. Depending on the nature and cause of the downturn, different economic sectors or occupations would be affected differently in different stages of the downturn. This box article analyses the decline in employment in the current economic downturn by economic sector and by occupation, and compares the situation with past episodes of economic contraction in the past two decades or so.

Downturns caused by spread of diseases

The Hong Kong economy entered into recession in the second half of 2019 largely due to the local social incidents, and the recession deepened in the first half of 2020 by the threat of COVID-19. Reflecting the severe impact on the labour market, total employment declined by a near-record of 237 900 or 6.7% in the second quarter of 2020 from a year earlier (*Table 1*).

COVID-19 has posed very high health risks to people engaging in face-to-face activities, thereby disrupting a wide range of economic activities. As the consumption- and tourism-related sectors (viz. retail, accommodation and food services sectors) were particularly hard hit, employment in these sectors combined plunged in the second quarter of 2020, by 118 000 from a year earlier. Employment in the import / export trade and wholesale sector also fell sharply (-67 500) as the pandemic disrupted regional trade flows, while that in the construction sector saw visible decline (-35 000) along with slowing construction activities.

Table 1: Declines in employment during the current downturn and the SARS episode of 2003

Time frame of comparison	Decline in overall employment ^(*)	Economic sectors that suffered the more visible declines in employment ^(^)	Major occupations that suffered more visibly ^(^)
Current downturn			
Q2 2020 vs Q2 2019	-237 900 [-6.7%]	<ul style="list-style-type: none"> • Consumption- and tourism-related sectors (-118 000) • Import / export trade and wholesale (-67 500) • Construction (-35 000) 	<ul style="list-style-type: none"> • Lower-skilled workers (-193 900) <ul style="list-style-type: none"> - <i>Service and sales workers</i> (-94 600) - <i>Elementary occupations</i> (-54 500) - <i>Clerical support workers</i> (-39 400) • Higher-skilled workers (-44 000)
2003 Severe Acute Respiratory Syndrome (SARS)			
Q2 2003 vs Q1 2003	-32 100 [-1.1%]	<ul style="list-style-type: none"> • Consumption- and tourism-related sectors (-24 900) • Construction (-13 400) 	<ul style="list-style-type: none"> • Lower-skilled workers (-21 200) <ul style="list-style-type: none"> - <i>Service and sales workers</i> (-25 900) - <i>Elementary occupations</i> (-8 500) • Higher-skilled workers (-10 900)

Notes: (*) Figures in square brackets refer to the rates of change in employment during the time frame of comparison.

(^) Figures in parentheses refer to the changes in employment in the respective sector / occupational category during the time frame of comparison.

Analysed by occupation, the decline in employment during the current downturn was concentrated in the lower-skilled segment (-193 900), particularly in service and sales workers (-94 600), elementary occupations (-54 500) and clerical support workers (-39 400), as these occupations took up proportionately larger shares in the employment of the hard-hit sectors.

(1) All figures are compiled from the General Household Survey conducted by the Census and Statistics Department and exclude foreign domestic helpers. Individual figures may not add up to total due to rounding.

Box 5.1 (Cont'd)

The downturn in 2003 was caused by the spread of SARS, which was a regional epidemic that had relatively limited impact worldwide and lasted for a much shorter period of time. Overall employment declined by 32 100 or 1.1% in the second quarter of 2003 from the preceding quarter⁽²⁾, much smaller than that of the current downturn. Analysed by sector, the fall in employment in the consumption- and tourism-related sectors was the largest (-24 900) as the disease deterred tourists and disrupted local economic activities, followed by that in the construction sector (-13 400). Analysed by occupation, the lower-skilled segment as a whole (-21 200) accounted for the majority of job losses, especially service and sales workers (-25 900) and elementary occupations (-8 500)⁽³⁾, which were mainly from the aforementioned sectors (*Table 1*).

Downturns originated from financial crises in other places

In the episode of the 1997-98 Asian financial crisis (AFC), the shock was originated from regional financial activity and hence the economy felt the impact initially through the financial channel. At the early stage of the downturn, the decline in total employment was mainly concentrated in the higher-skilled segment, as the financing, insurance, real estate and business services sector was among the first to feel the pinch. In the first quarter of 1998, the decline in higher-skilled employment was 59 200 as compared to the fourth quarter of 1997, accounting for most of the decline in total employment (-66 700) over the same period (*Table 2*).

As the downturn dragged on, the impact spread to other sectors, and the decline in total employment enlarged. In the first quarter of 1999, total employment declined by 132 800 or 4.3% as compared to the fourth quarter of 1997. The pattern of economic sectors in which employment declined visibly was different from the early stage. The decline in employment was most notable in the manufacturing sector (-79 200), conceivably reflecting a secular downtrend that was exacerbated by the economic downturn. The construction sector (-25 900), the consumption- and tourism-related sectors (-21 700) and the trade-related sectors (-20 500) also saw visible declines in employment. Analysed by occupation, the majority of the decline in employment was in the lower-skilled segment (-87 000), notably in craft and related workers (-30 600) and clerical support workers (-26 700) (*Table 2*).

As regard the episode of the 2008-09 global financial crisis (GFC), the initial impact on the Hong Kong economy was also most evident in the financial sector. At the early stage of the downturn in the fourth quarter of 2008, total employment declined by 7 000 from the preceding quarter, with job losses concentrated in the higher-skilled segment (-8 600)⁽⁴⁾. Analysed by sector, visible declines in employment were only seen in financing, insurance, real estate, professional and business services (-11 900) and information and communications (-10 600)⁽⁵⁾. As the impact spread to other sectors, the decline in overall employment in the second quarter of 2009 widened to 60 100 or 1.8% as compared to the third quarter of 2008. Analysed by sector, the declines in employment were more notable in the trade-related sectors (-38 300), the construction sector (-17 400), and the consumption- and tourism-related sectors (-14 500).

(2) Before the SARS outbreak in 2003, the Hong Kong economy had shown mild year-on-year contraction for two consecutive quarters from the fourth quarter of 2001. Total employment declined by 64 100 or 2.1% in the second quarter of 2002 as compared to the third quarter of 2001.

(3) The sum of job losses of these two occupations exceeded the job losses in the lower-skilled segment as a whole as some lower-skilled occupations, such as clerical support workers, actually saw job gains.

(4) The lower-skilled segment saw an increase in employment. Hence, the number of job losses in the higher-skilled segment was larger than the decline in overall employment.

(5) The decline in employment in these two sectors were larger than the decline in overall employment as many other sectors, notably public administration, social and personal services, manufacturing, and transportation storage, postal and courier services, recorded increases in employment.

Box 5.1 (Cont'd)

The decline in employment in the trade-related sectors was particularly sharp, as trade flows plunged in early 2009. Against this backdrop, the decline in employment was concentrated in the lower-skilled segment (-43 800), notably in clerical support workers (-17 800) (*Table 2*).

Table 2: Declines in employment during the episodes of the 1997-98 AFC and the 2008-09 GFC

Time frame of comparison	Decline in overall employment ^(*)	Economic sectors that suffered the more visible declines in employment ^(^)	Major occupations that suffered more visibly ^(^)
1997-98 Asian Financial Crisis (AFC)			
Q1 1998 vs Q4 1997 (early stage)	-66 700 [-2.2%]	<ul style="list-style-type: none"> • Manufacturing (-30 500) • Financing, insurance, real estate and business services (-20 200) 	<ul style="list-style-type: none"> • Higher-skilled workers (-59 200) - Associate professionals (-36 800) - Managers and professionals (-22 300) • Lower-skilled workers (-7 500)
Q1 1999 vs Q4 1997	-132 800 [-4.3%]	<ul style="list-style-type: none"> • Manufacturing (-79 200) • Construction (-25 900) • Consumption- and tourism-related sectors (-21 700) • Import / export trade and wholesale (-20 500) 	<ul style="list-style-type: none"> • Lower-skilled workers (-87 000) - Craft and related workers (-30 600) - Clerical support workers (-26 700) • Higher-skilled workers (-45 800)
2008-09 Global Financial Crisis (GFC)			
Q4 2008 vs Q3 2008 (early stage)	-7 000 [-0.2%]	<ul style="list-style-type: none"> • Financing, insurance, real estate, professional and business services (-11 900) • Information and communications (-10 600) 	<ul style="list-style-type: none"> • Higher-skilled workers (-8 600) - Managers and professionals (-16 200)
Q2 2009 vs Q3 2008	-60 100 [-1.8%]	<ul style="list-style-type: none"> • Import / export trade and wholesale (-38 300) • Construction (-17 400) • Consumption- and tourism-related sectors (-14 500) 	<ul style="list-style-type: none"> • Lower-skilled workers (-43 800) - Clerical support workers (-17 800) • Higher-skilled workers (-16 300)

Notes: (*) Figures in square brackets refer to the rates of change in employment during the time frame of comparison.

(^) Figures in parentheses refer to the changes in employment in the respective sector / occupational category during the time frame of comparison.

Conclusion

The pattern of decline in employment during an economic downturn hinges largely on the causes of the crisis. Similar to the SARS episode of 2003, the current threat of COVID-19 has severely disrupted inbound tourism and consumption-related activities, which are the main sources of employment for lower-skilled workers. Meanwhile, the financial services sector, with the support of an efficient digital infrastructure, is more resilient to a public health crisis. The declines in employment in both crises were thus more pronounced in lower-skilled occupations. It is also noteworthy that even the pattern of decline in employment by sector and occupation was similar among the downturns of apparently similar nature, there were some differences in specific aspects. For instance, the trade-related sectors were much less affected in the SARS episode as compared to the current downturn, as SARS was a regional epidemic and did not affect the global economy. Unlike public health crises, both the 1997-98 AFC and 2008-09 GFC started as a financial crisis, which took a heavy toll on the financial services and related sectors at the early stage, resulting in noticeable job losses in the higher-skilled segment. Nevertheless in all episodes, even for those started as a financial crisis, the direct impact and its spillovers in the end led to visible declines in lower-skilled employment.