

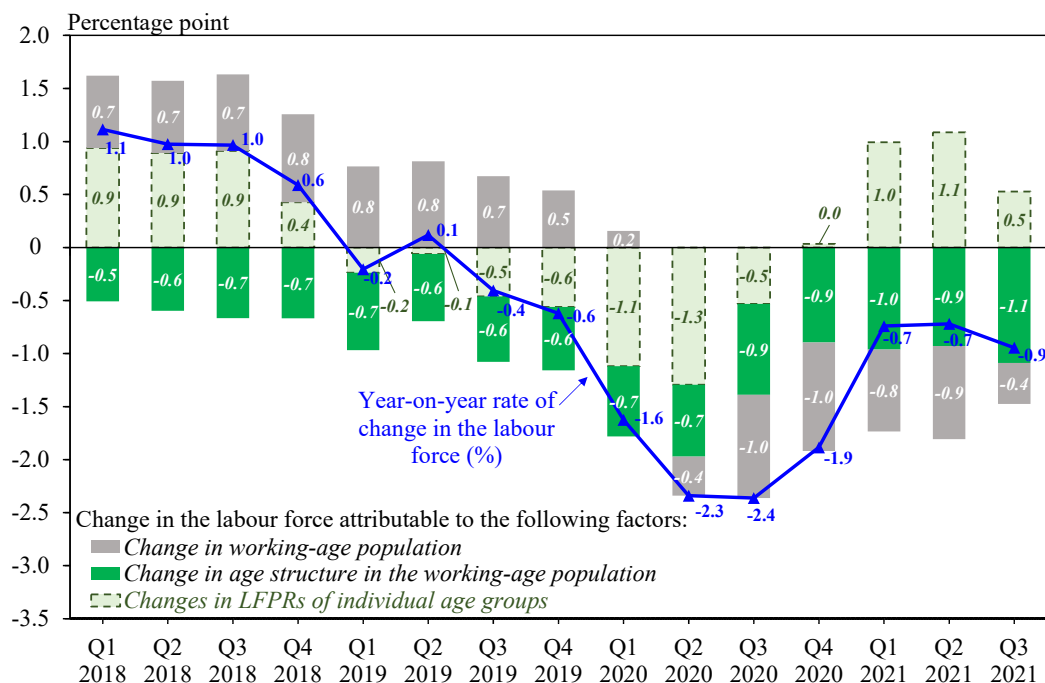
Box 5.1

Decomposition of the year-on-year declines in labour force in the recent quarters (an update)⁽¹⁾

In *Box 5.1* in the *First Quarter Economic Report 2020*, the year-on-year rate of change in labour force in each quarter from the first quarter of 2018 to the first quarter of 2020 was decomposed into three factors: (1) Change in working-age population⁽²⁾; (2) Change in age structure in the working-age population amid population ageing, through its effect on lowering the overall labour force participation rate (LFPR); and (3) Changes in LFPRs of individual age groups. By applying the same methodology, this article gives an updated analysis, with the study period extended to the third quarter of 2021⁽³⁾.

As seen in *Chart 1*, the labour force registered consecutive quarters of year-on-year decreases since the third quarter of 2019, when the economy dipped into recession. The year-on-year decline widened visibly from 0.4% in the third quarter of 2019 to 2.3% in the second quarter of 2020, largely due to two factors. *First*, the drag arising from changes in LFPRs of individual age groups enlarged from 0.5 percentage point in the third quarter of 2019 to 1.3 percentage points in the second quarter of 2020, as the LFPRs across many age groups showed wider year-on-year declines. This partly reflected that more workers chose to leave the labour force when they lost their jobs amid the sharp deterioration in the labour market at that time. *Second*, the working-age population showed decelerated year-on-year growth during the period from the third quarter of 2019 (+0.7%) to the first quarter of 2020 (+0.2%), and switched to a decline (-0.4%) in the second quarter of 2020. The decline in labour force then widened slightly further to 2.4% in the third quarter of 2020, mainly because the decrease in working-age population widened to 1.0%.

Chart 1: Decomposition of the year-on-year rates of change in labour force



- (1) All figures are compiled from the General Household Survey conducted by the Census and Statistics Department and include foreign domestic helpers. Individual figures may not add up to total due to rounding.
- (2) Working-age population refers to land-based non-institutional population aged 15 and above.
- (3) Due to data revision, the decomposition results for some of the earlier quarters in this article are slightly different from those in *Box 5.1* in the *First Quarter Economic Report 2020*.

Box 5.1 (Cont'd)

The labour force showed a narrower year-on-year decline of 1.9% in the fourth quarter of 2020. The decline in labour force was even narrower in the first three quarters of 2021, being below 1.0% in each quarter. The narrower declines in these four quarters were mainly because the drag arisen from changes in LFPRs of individual age groups reduced to negligible in the fourth quarter of 2020, and the effect from this factor switched to become a boost that contributed a lift of 0.5 to 1.1 percentage points to the labour force in each of the first three quarters of 2021. A closer look showed that the LFPR of many individual age groups in the first three quarters of 2021, in particular for those aged 25-29 and 50-59, rose back to close to or even higher than the levels before the recession. This suggested that some of those people who left the labour force earlier on may have re-entered the labour market as the economic recovery became more entrenched.

Meanwhile, the change in age structure in the working-age population amid population ageing persistently posed a drag on the labour force in the past 15 quarters. Its effect was more pronounced in recent quarters as the share of older persons (e.g. those aged 60 and above) in the population showed faster increases. Specifically, the drag arising from this factor on the year-on-year change in labour force was 0.9 to 1.1 percentage points in each quarter from the third quarter of 2020 to the third quarter of 2021, larger than that of 0.5 to 0.7 percentage point in each quarter from the first quarter of 2018 to the second quarter of 2020.

Considering that population ageing is a secular trend, it will continue to pose a drag on the labour force. On the other hand, as the economic recovery continues, the improved job and income prospects should help attract more people to join or re-enter the labour market. Meanwhile, the LFPRs of some specific age groups (such as those aged 15-24) remained well below their pre-recession levels, and those of some older age groups (such as those aged 60 and above) were yet to catch up with the uptrend shown in the last decade before the recent recession. There is room for improvement in the LFPRs of these age groups going forward when the economic recovery broadens further.