

## **Hong Kong's long-term unemployment conditions since the recent economic downturn and compared with those in past downturns**

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### **Abstract**

This article surveys Hong Kong's long-term unemployment situation since the beginning of the recent economic downturn and compares the patterns with those in previous economic contractions in the past two decades or so. The long-term unemployment rate of Hong Kong surged from 0.6% in the second quarter of 2019 (the quarter before the recent recession) to a record high of 2.8% in Dec 2020 – Feb 2021. The sharp deterioration of the long-term unemployment situation during the recent economic downturn was even more drastic than those experienced in past economic downturns. This reflects the fact that COVID-19 seriously disrupted a wide range of economic activities, causing many persons to become unemployed within a short period of time and increasing the difficulty of finding a new job. As the local labour market improved more recently amid the gradual recovery of Hong Kong's economy and receding local epidemic, the long-term unemployment situation began to show some signs of improvement. The phenomenon was similar to past experiences that the improvement in the latter generally lagged that in the former by several months.

### **自近期經濟下行以來香港的長期失業情況，並與過去經濟下行相比**

#### **摘要**

本文檢視香港自近期經濟下行以來的長期失業情況，並與過去二十多年的經濟收縮時期的情況作比較。香港長期失業率由 2019 年第二季(近期經濟衰退前的季度)的 0.6%急升至 2020 年 12 月至 2021 年 2 月的 2.8%，為有紀錄以來的高位。長期失業情況在近期經濟下行當中急劇惡化的程度，甚至較過去經濟下行時期所見到的更為劇烈。這反映新冠病毒疫情嚴重干擾廣泛的經濟活動，令不少人士在短時間內失去工作，並增加找到新工作的難度。由於最近勞工市場隨着經濟復蘇及本地疫情減退而改善，長期失業情況開始有改善的跡象。這現象與過往的經驗相似，即後者的改善一般較前者滯後數個月。

The views and analysis expressed in this article are those of the author and do not necessarily represent the views of the Office of the Government Economist.

## I. INTRODUCTION

1. The labour market in Hong Kong slackened in the second half of 2019 amid worsened economic conditions and deteriorated drastically after entering 2020 given that the COVID-19 pandemic disrupted a wide range of economic activities. As the overall seasonally adjusted unemployment rate surged from a low level of 2.8% in the second quarter of 2019 (the quarter right before the recession) to 7.2% in Dec 2020 – Feb 2021, the long-term unemployment rate (the proportion of persons unemployed for six months or longer in the labour force) also climbed up successively from a low level of 0.6% to a record high of 2.8% in Dec 2020 – Feb 2021. This letter reviews the causes and possible consequences of long-term unemployment based on overseas experience, analyses the long-term unemployment situation in Hong Kong since the second quarter of 2019, and then briefly compares the situation with past economic contractions in the past two decades or so.

2. The structure of this letter is as follows. **Part II** introduces the definition of long-term unemployment and its possible causes and drawbacks based on overseas experience. **Part III** analyses Hong Kong's long-term unemployment situation since the beginning of the recent downturn as compared with the past three episodes. **Part IV** concludes.

## II. POSSIBLE CAUSES AND IMPACTS OF LONG-TERM UNEMPLOYMENT – OVERSEAS EXPERIENCE

3. According to the International Labour Organization (ILO)<sup>1</sup>, long-term unemployment is unemployment that exceeds a specific length of time. In other words, a person is classified as long-term unemployed if he or she becomes unemployed continuously over a certain time period, e.g. for one year or longer<sup>2</sup>. One of its main indicators is the long-term unemployment rate, that is, the proportion of long-term unemployed persons in the total labour force. Another major indicator is the distribution of lengths of unemployment at different durations.

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<sup>1</sup> International Labour Organization. (2015). *KILM 11. Long-term unemployment*. [https://www.ilo.org/global/statistics-and-databases/research-and-databases/kilm/WCMS\\_422451/lang--en/index.htm](https://www.ilo.org/global/statistics-and-databases/research-and-databases/kilm/WCMS_422451/lang--en/index.htm)

<sup>2</sup> Several international organisations and overseas economies choose one year as the threshold for defining long-term unemployment, including the ILO, the OECD, the EU, Australia, etc. Some other economies adopt around half a year as the threshold, for example, 27 weeks for Canada and the US; six months for Hong Kong; and 25 weeks for Singapore.

General causes of long-term unemployment

4. Since long-term unemployment is a type of unemployment, it is conceivable that the causes of long-term unemployment can also be classified into cyclical and structural factors. Cyclical unemployment is brought about by economic downturns, and may become a self-fuelling downward spiral<sup>3</sup>. On the other hand, structural unemployment occurs when workers' skills no longer meet the needs demanded by employers in the labour market. Sometimes, cyclical unemployment may become structural unemployment. Some people may start out being cyclically unemployed, but then are unable to find a new job for a long time, especially if other industries lead the recovery. As their skills become outdated, they have to develop new skills required by the market in order to increase their employment opportunities. For instance, the OECD<sup>4</sup> found that the construction sector was particularly hard hit during the global financial crisis in a number of OECD economies, and afterward the construction sector remained weak and was unable to re-employ laid-off workers, even though these economies saw some recovery later.

Specific causes of the duration dependency of unemployment

5. It is common to observe that it becomes more difficult for individuals to find a job the longer they remain unemployed. This is referred to as unemployment duration dependence, or hysteresis<sup>5</sup>, and the literature provides several explanations as to why this is the case.

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<sup>3</sup> During economic downturns, firms cut their production and lower their demand for workers, then people's consumption sentiment is weakened further given a higher risk of job loss. This in turn lowers the aggregate demand for goods and services and causes more companies to lay off staff so as to lower production and operating costs.

<sup>4</sup> OECD. (2011). Persistence of high unemployment: What risks? What policies? *OECD Economic Outlook*, 2011/1, 253-285. <http://www.oecd.org/economy/labour/47656668.pdf>

<sup>5</sup> Blanchard, O. J., & Summers, L. H. (1986). Hysteresis and the European unemployment problem. *NBER Macroeconomics Annual*, 1, 15-78. <https://www.journals.uchicago.edu/doi/pdf/10.1086/654013>

6. One is human capital depreciation during unemployment, that is, the loss of job-related skills and knowledge or experience<sup>6</sup>. Another is negative signalling to employers. Employers may use the duration of unemployment to distinguish “good” and “bad” candidates, which becomes more important during a recession given the limited number of job vacancies available<sup>7</sup>.

7. As for the impact of COVID-19, some recent studies predicted that a considerable proportion of current unemployment will become longer-term structural unemployment as the demand for some jobs or occupations is not likely to recover to its previous level. For example, Glassdoor, a job-search engine in the US, compiled a list of occupations which saw visible declines in job openings during the period from October 2019 to October 2020. Occupations in the list included event coordinator, product demonstrator, executive assistant, beauty consultant, etc.<sup>8</sup>. Glassdoor’s chief economist commented that some occupations are at a higher risk of slow recovery or might even fail to recover as workplace preferences and consumption habits have changed during the pandemic<sup>9</sup>. Conceivably, some companies will maintain work from home arrangements or continue to adopt a hybrid approach, and more consumers will be more inclined to shop online. This will pose challenges to some traditional sectors and occupations. An IMF paper in 2020<sup>10</sup> reckoned that digital skills (such as information and communication technologies) have become increasingly essential at work, yet many lower-skilled workers who were hit harder by the COVID-19 lack such skills, resulting in more severe skills mismatches and protracted unemployment.

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<sup>6</sup> According to human capital theory, losing a job causes the loss of firm-specific human capital, precludes the accumulation of work experience and allows general skills to deteriorate. This in turn lowers the possibility of finding a new job.

<sup>7</sup> Tumino, A. (2015). The scarring effect of unemployment from the early ‘90s to the Great Recession (ISER Working Paper Series No. 2015-05). <https://www.iser.essex.ac.uk/research/publications/working-papers/iser/2015-05.pdf>

<sup>8</sup> Connley, C. (2020, November 19). 22 jobs at high risk of slow recovery after the coronavirus pandemic. *CNBC*. <https://www.cnn.com/2020/11/19/22-jobs-at-high-risk-of-slow-recovery-after-the-coronavirus-pandemic.html>

<sup>9</sup> Chamberlain, A. (2020, November 19). *Glassdoor Workplace Trends 2021*. Glassdoor Economic Research. [https://www.glassdoor.com/research/app/uploads/sites/2/2020/11/Workplace\\_Trends\\_2021\\_Glassdoor\\_Final.pdf](https://www.glassdoor.com/research/app/uploads/sites/2/2020/11/Workplace_Trends_2021_Glassdoor_Final.pdf)

<sup>10</sup> Miyamoto, H., & Suphaphiphat, N. (2020). *Mitigating long-term unemployment in Europe* (IMF Working Paper No. 20/168). <https://www.imf.org/en/Publications/WP/Issues/2020/08/21/Mitigating-Long-term-Unemployment-in-Europe-49678>

8. Separately, instead of attributing long-term unemployment to the spell of unemployment itself, some scholars are of the view that the long-term unemployed have a lower chance of finding a job due to their own characteristics. For instance, some unemployed persons are reluctant to adjust their reservation wage downward even as their unemployment spells lengthen<sup>11</sup>. Conceivably, these individuals will stay longer in the unemployment pool, resulting in an apparent negative relationship between the length of being unemployed and the likelihood of finding a new job.

*Impacts of long-term unemployment on individuals and the economy*

9. Prior studies based on overseas data find that long-term unemployment could adversely affect individuals' future labour market outcomes and the potential output of the whole economy. After reviewing prior empirical work on displaced workers, Nichols et al. (2010)<sup>12</sup> concluded that long-term unemployed persons would earn less than in their previous jobs even after finding a new job later. A Eurofound study in 2017<sup>13</sup> stated that long-term unemployment would bring about long-lasting effects on youths' employment outcomes due to less working experience and deterioration of skills. Gregg and Tominey (2004)<sup>14</sup>, using a UK panel dataset, estimated that long-term unemployment in one's youth would lead to a 12%-15% wage penalty by age 42. For the whole economy, the OECD (2010)<sup>15</sup> estimated that long-term unemployment from the global financial crisis and its associated hysteresis effects would entail more serious structural unemployment, which in turn would lower potential employment and potential GDP growth<sup>16</sup>.

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<sup>11</sup> Lindbeck, A. (1995). Welfare state disincentives with endogenous habits and norms. *The Scandinavian Journal of Economics*, 97(4), 477-494.

<sup>12</sup> Nichols, A., Mitchell, J., & Lindner, S. (2013). *Consequences of long-term unemployment*. The Urban Institute. <https://www.urban.org/sites/default/files/publication/23921/412887-Consequences-of-Long-Term-Unemployment.PDF>

<sup>13</sup> Eurofound. (2017). *Long-term unemployed youth: Characteristics and policy responses*. Publications Office of the European Union, Luxembourg. [https://www.eurofound.europa.eu/sites/default/files/ef\\_publication/field\\_ef\\_document/ef1729en.pdf](https://www.eurofound.europa.eu/sites/default/files/ef_publication/field_ef_document/ef1729en.pdf)

<sup>14</sup> Gregg, P., & Tominey, E. (2004). *The wage scar from youth unemployment* (CMPO Working Paper Series No. 04/097). <https://www.bristol.ac.uk/media-library/sites/cmpo/migrated/documents/wp97.pdf>

<sup>15</sup> OECD (2010). Responding to the crisis while protecting long-term growth. In *Economic Policy Reforms: Going for Growth*, pp. 17-47. <http://www.oecd.org/economy/labour/44680877.pdf>

<sup>16</sup> Based on data from 20 OECD member economies, it was estimated that the fall in potential employment (mainly attributable to an increase in structural unemployment as a result of hysteresis-type effects) due to the global financial crisis would drag potential output down by about 1.1% as compared with levels that would have prevailed if the crisis had not occurred. As structural unemployment was not all long-term unemployment, only part of the estimated impact on potential output through employment was attributable to long-term unemployment.

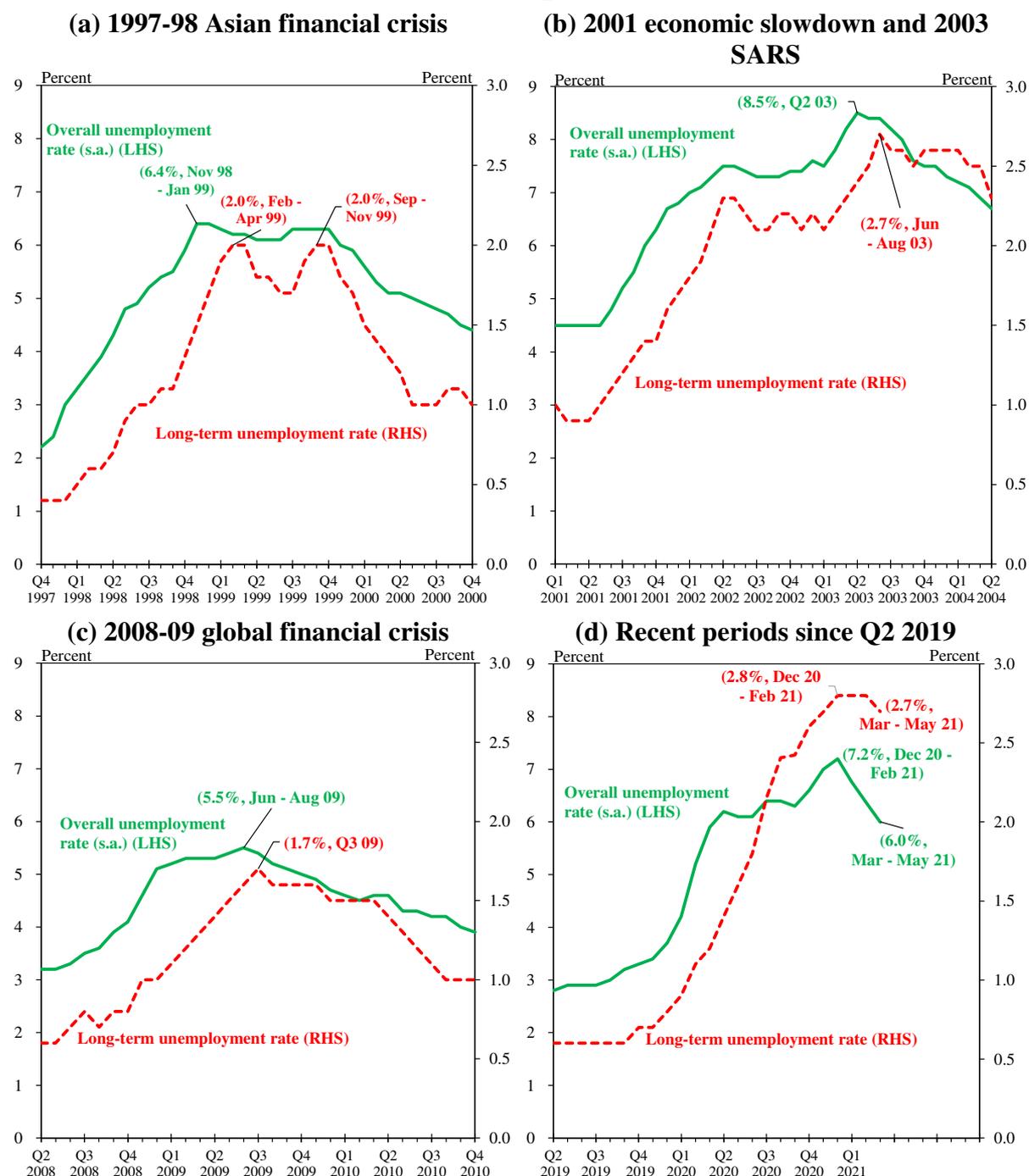
### III. OVERALL LONG-TERM UNEMPLOYMENT IN HONG KONG: RECENT PERIODS SINCE MID-2019 VERSUS THE PAST THREE EPISODES

10. As discussed in the previous section, long-term unemployment tends to be more serious during economic downturns and it would have long-lasting impacts on individual workers' career paths as well as the growth potential of the whole economy. In this connection, this section analyses Hong Kong's long-term unemployment situation since the period right before the recent recession and compares the situation with past economic contractions.

#### III.A Long-term unemployment rate

11. The long-term unemployment rate in Hong Kong (i.e. the proportion of persons unemployed **for six months or longer** in the labour force) was at a low level of 0.6% in the second and third quarters of 2019, but then climbed up successively to a record high of 2.8% in Dec 2020 – Feb 2021, exceeding the respective highs of 2.0%, 2.7% and 1.7% reached during the 1997-98 Asian financial crisis, the 2003 SARS and the 2008-09 global financial crisis. In the past three economic downturns and the periods since the beginning of the recent downturn (**Charts 1(a) – 1(d)**), when the overall unemployment rate increased, the long-term unemployment rate also rose, indicating that more people became unemployed for longer periods as the overall situation deteriorated. In particular, past economic contractions show that even when the overall unemployment rate began to stabilise or even edge down, the long-term unemployment rate tended to increase further or stay elevated for several months before starting to ease. Recently, the overall unemployment rate went down to 6.8% in the first quarter of 2021, 6.4% in Feb – Apr 2021 and 6.0% in Mar – May 2021, yet the long-term unemployment rate continued to stay high at 2.8% in the first quarter of 2021 and Feb – Apr 2021, only beginning to show some signs of improvement in Mar – May 2021 when it edged down by 0.1 percentage point to 2.7% (**Chart 1(d)**). As explained in the preceding section, this is likely because those who have been unemployed for relatively long periods would tend to stay unemployed even when the overall situation begins to improve, as they tend to be less employable due to hysteresis, especially when the recovery is uneven across industries.

**Chart 1: Overall unemployment rate and long-term unemployment rate in past economic downturns and recent periods since Q2 2019**



Note: "s.a." denotes seasonal adjustment.

Source: General Household Survey, Census and Statistics Department.

12. Specifically, the time lag was about 9 months during the 2003 SARS and 2008-09 global financial crises<sup>17</sup>. During the SARS episode, the seasonally adjusted unemployment rate fell continuously after reaching a record high of 8.5% in the second quarter of 2003. Yet, the long-term unemployment rate went up further to reach to a local high of 2.7% in Jun – Aug 2003 and stayed elevated at 2.5-2.6% up to the first quarter of 2004 before trending downwards (**Chart 1(b)**). Similarly, during the global financial crisis, while the seasonally adjusted unemployment rate trended downwards in general after reaching a local high of 5.5% in Jun – Aug 2009, the long-term unemployment rate rose further to 1.7% in the third quarter of 2009 and stayed high at 1.5%-1.6% up to Mar – May 2010 before trending downwards (**Chart 1(c)**).

13. Comparatively, the long-term unemployment rate increased much faster in periods since the recent downturn than in the previous downturns<sup>18</sup>. **The 2.0-percentage-point increase** in the long-term unemployment rate in Dec 2020 – Feb 2021 over a year earlier was larger than the year-on-year increases seen in past three downturns. This was **steeper than that experienced during the Asian financial crisis (up 1.4 percentage points to reach 2.0% in Feb – Apr 1999)**, the **slowdown in 2001-02** and the 2003 SARS crisis (**up 1.4 percentage points to reach 2.3% in the second quarter of 2002; and further reaching the local peak of 2.7% in Jun – Aug 2003, up 0.5 percentage point from a year ago**), and the **2008-09 global financial crisis** (at 1.7% in the third quarter of 2009, **0.9 percentage point higher** than a year earlier) (**Table 1**).

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<sup>17</sup> The time lag was not so clear in the episode of the 1997-98 Asian financial crisis. The seasonally adjusted unemployment rate reached a local high of 6.4% in Nov 1998 – Jan 1999 and Dec 1998 – Feb 1999 and then fell somewhat in the subsequent periods. But the rate rose again to 6.3% in Q3 1999 and stayed unchanged up to Q4 1999, before trending downwards. With a similar pattern, the long-term unemployment rate reached a local peak of 2.0% in Feb – Apr 1999 and Mar – May 1999, then declined somewhat in ensuing periods, but rose again to 2.0% in Sep – Nov 1999 and Q4 1999, before trending downwards (**Chart 1(a)**).

<sup>18</sup> The pace of increase in the long-term unemployment rate eased somewhat at the junction of the third and fourth quarters of 2020 when the seasonally adjusted unemployment rate showed signs of stabilisation during that period (**Chart 1(d)**), with the latter rate remaining unchanged at 6.4% in Aug – Oct 2020 and edging down to 6.3% in Sep – Nov 2020 given that the third wave of the local epidemic had abated.

**Table 1: The long-term unemployment rate (%) during downturns**

Recent periods since Q2 2019		1997-98 Asian financial crisis		2001-02 economic slowdown & 2003 SARS		2008-09 Global financial crisis	
2019 Q2	0.6	1997 Q4	0.4	2001 Q1	1.0	2008 Q2	0.6
Q3	0.6	1998 Q1	0.5	<b>Q2</b>	<b>0.9</b>	<b>Q3</b>	<b>0.8</b>
Q4	0.7	<b>Feb-Apr</b>	<b>0.6</b>	Q3	1.2	Q4	0.8
<b>19 Dec-20 Feb</b>	<b>0.8</b>	Q2	0.7	Q4	1.4	2009 Q1	1.1
2020 Q1	0.9	Q3	1.0	2002 Q1	1.8	Q2	1.4
Q2	1.4	Q4	1.3	<b>Q2</b>	<b>2.3</b>	<b>Q3</b>	<b>1.7</b>
Q3	2.2	1999 Q1	1.9	<b>Jun-Aug</b>	<b>2.2</b>	Q4	1.6
Q4	2.6	<b>Feb-Apr</b>	<b>2.0</b>	Q3	2.1	<i>Highest: 1.7 (Q3 2009)</i>	
<b>20 Dec-21 Feb</b>	<b>2.8</b>	Q2	1.8	Q4	2.2		
2021 Q1	2.8	Q3	1.7	2003 Q1	2.1		
Feb - Apr	2.8	Q4	2.0	Q2	2.4		
Mar - May	2.7	<i>Highest: 2.0 (Feb-Apr, Mar-May, Sep-Nov &amp; Q4 1999)</i>		<b>Jun-Aug</b>	<b>2.7</b>		
<i>Highest: 2.8 (Dec 20-Feb 21, Q1 &amp; Feb-Apr 2021 )</i>					Q3		2.6
					<i>Highest: 2.7 (Jun-Aug 2003)</i>		

Source: General Household Survey, Census and Statistics Department.

14. The sharp rise in long-term unemployment rate since early 2020 (**Table 1**) was likely a result of the rapid deterioration in the labour market as the economy experienced its most severe annual recession on record this year amid the outbreak of COVID-19. In particular, more severe job losses appeared, and total employment shrank by an annual record of 4.9% to 3 661 600 in 2020. Conceivably, the sharp deterioration in unemployment implied keener competition among job seekers and made it more difficult for them to find jobs, resulting in an increasing number of persons who were unemployed for a longer period of time.

### III.B Unemployment by duration in the latest situation vs that before the recent recession

15. **Table 2** provides a further analysis on the duration of unemployment in selected periods since the second quarter of 2019. The number of unemployed persons has more than doubled from 114 100 in the second quarter of 2019 to 233 300 in Mar – May 2021. Moreover, the number of unemployed persons across all selected duration groups increased. The increase in those unemployed for 6 months or longer but shorter than 12 months, which would include those who lost their jobs around the start of the pandemic, was drastic, more than four-fold (or 33 300) from 10 100 to 43 500. Amid this more difficult environment, the number of those unemployed for 12 months or longer but shorter than 18 months also increased markedly, more than six-fold (or

25 600) from 5 000 to 30 600. The period that these persons become unemployed was almost the time when the seasonally adjusted unemployment rate surged, reflecting the fact that many of those who lost their jobs during this time have not been able to return to employment so far.

**Table 2: Distribution of unemployment duration**

	<b>Q2 2019</b>	<b>Dec 2020 – Feb 2021</b>	<b>Mar – May 2021</b>
<b>Median duration of all unemployed</b>	<b>65 days</b>	<b>130 days</b>	<b>153 days</b>
<b>No. of unemployed persons by duration</b>			
Less than 3 months	69 500	109 000	87 700
3 months or longer but shorter than 6 months	20 700	44 500	43 200
6 months or longer (i.e. long-term unemployment)	23 900	108 100	102 400
<i>6 months or longer but shorter than 12</i>	<i>10 100</i>	<i>58 100</i>	<i>43 500</i>
<i>12 months or longer but shorter than 18</i>	<i>5 000</i>	<i>25 600</i>	<i>30 600</i>
<i>18 months or longer</i>	<i>8 700</i>	<i>24 400</i>	<i>28 400</i>
<b>Total</b>	<b>114 100</b>	<b>261 600</b>	<b>233 300</b>
<b>Proportion of unemployed persons by duration<sup>(*)</sup></b>			
Less than 3 months	60.9%	41.7%	37.6%
3 months or longer but shorter than 6 months	18.2%	17.0%	18.5%
6 months or longer (i.e. long-term unemployment)	20.9%	41.3%	43.9%
<i>6 months or longer but shorter than 12</i>	<i>8.9%</i>	<i>22.2%</i>	<i>18.6%</i>
<i>12 months or longer but shorter than 18</i>	<i>4.4%</i>	<i>9.8%</i>	<i>13.1%</i>
<i>18 months or longer</i>	<i>7.6%</i>	<i>9.3%</i>	<i>12.2%</i>
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Notes: (\*) Calculated based on unrounded figures.

Individual figures may not add up to total due to rounding.

Source: General Household Survey, Census and Statistics Department.

16. Furthermore, from the second quarter of 2019, the share of long-term unemployment in total unemployment surged by 23.0 percentage points to a record high of 43.9% in Mar – May 2021 (**Table 2**), surpassing the previous high of 37.2% in Dec 2003 – Feb 2004 in the aftermath of the 2003 SARS crisis. As the proportions of those unemployed for longer periods increased, the median duration of unemployment lengthened visibly from 65 days in the second quarter of 2019 to 154 days in Feb – Apr 2021, the longest on record, and stayed largely the same at 153 days in Mar – May 2021. The median durations in recent periods were notably longer than the previous highs recorded in the past downturns, including the 103 days reached during the Asian financial crisis (Mar – May 1999), the 108 days reached during the global financial crisis (Nov 2009 – Jan 2010), and the 114 days registered in the aftermath of SARS in Nov 2003 – Jan 2004. The above indicators also showed that the latest long-term unemployment situation was more severe than in the past economic contractions.

#### **IV. CONCLUDING REMARKS**

17. The job market in Hong Kong was hit hard in 2020 as the economy experienced its most severe annual contraction on record due to the COVID-19 pandemic. Total employment showed the largest annual decline on record, and the unemployment rate increased sharply. The seasonally adjusted unemployment rate reached a 17-year high of 7.2% in Dec 2020 – Feb 2021, and the long-term unemployment rate surged to a record high of 2.8% in the same period. While the seasonally adjusted unemployment rate then fell successively in the following moving three-month periods to 6.0% in Mar – May 2021, the long-term unemployment rate stayed at the record high in the first quarter of 2021 and Feb – Apr 2021, and only edged down by 0.1 percentage point to 2.7% in Mar – May 2021. Meanwhile, its share in total unemployment soared to a record high of 43.9% in Mar – May 2021. The phenomenon that the long-term unemployment situation only showed some signs of improvement several months after the labour market began to improve was similar to past experiences.

18. Looking ahead, as the economy continues to recover, the pressure on the labour market should gradually ease, especially if the local epidemic remains well contained. This should bode well for an improvement in the long-term unemployment situation. Yet, considering the uneven nature of the economic recovery, it may be particularly challenging for those unemployed who were previously employed in industries (such as consumption- and tourism-related sectors) that have been severely disrupted by the pandemic, and some of them might need to undergo re-skilling or up-skilling in the period ahead in order to find jobs. Against this backdrop, the Government has implemented various measures to create jobs, and enhanced the training and retraining programmes to help unemployed persons acquire new skills or upgrade their existing skills, so as to meet the changing needs of the labour market.