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22 March 2006

Clerk to the Panel on Financial Affairs
Legislative Council
Hong Kong
(Attn. : Miss Salumi Chan)

Dear Miss Chan,

Panel on Financial Affairs

Analysis of Low-income Households

I refer to the request by the Hon Emily Lau at the meeting of the Panel on 5 December 2005, asking the Administration to provide, in future briefings on Hong Kong's overall economic situation, information about changes in average monthly household income and the number of families with an average monthly household income of less than $4,000.

A paper analyzing changes in household income and the households with monthly household income of less than $4,000 has been prepared. Please send this Paper to the Hon Emily Lau and other Panel Members for reference.

We will provide an update of the situation in our future briefings on the Hong Kong economy.

Yours sincerely,

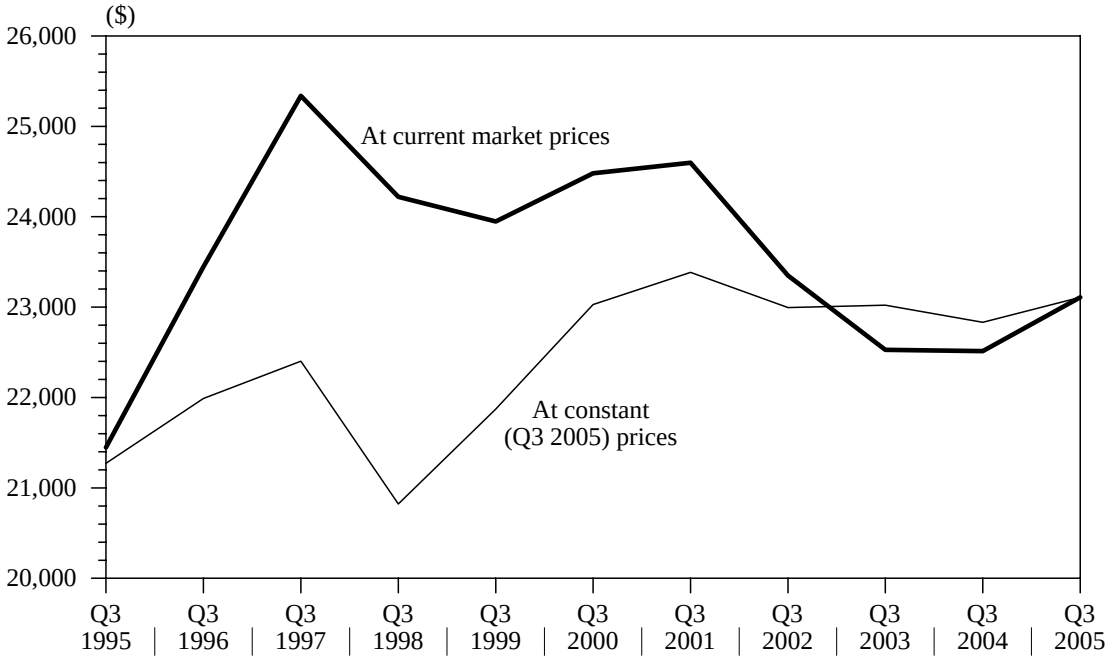
(K C Kwok)
Government Economist

An analysis of low-income households[1]

Background

Over the past decade, the overall average monthly household income increased from $21,400 in Q3 1995 to $23,100 in Q3 2005, representing an increase of 7.7% in money terms[2]. The sustained economic growth since the recovery from SARS has also lifted the average household income, by 2.6% in money terms or 0.4% in real terms in Q3 2005 from the trough in Q3 2003 (Chart 1).

Chart 1 : Average monthly household income



2. There is however concern that despite the improvement in household income in overall terms, the number of households with monthly household income below $4,000 was more than doubled in ten years' time, from 89 100 in

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(1) Foreign domestic helpers are excluded from this analysis, as the income paid by an employer to a foreign domestic helper represents only transfer among members within the same household. It should not be allowed to lift the household income unnecessarily in detailed analysis about household income.

(2) In terms of the Composite Consumer Price Index, the difference in the price level between Q3 1995 and Q3 2005 is less than 1%, and hence comparison of household income between these two periods in money terms would be sufficient.

Q3 1995 to 192 900 in Q3 2005. The purpose of this note is to analyse the changes associated with domestic households over the past decade, with particular focus on the low-income households and how they have fared in the current economic upturn.

An overview of the change in the composition of domestic households during 1995 - 2005

3. The total number of domestic households stood at 2.29 million in Q3 2005, 504 300 more than a decade ago. Analysed by household income, there was a faster growth in the number of households at the two ends of the distribution. Hence their shares in the total number of households expanded over time. While economic growth has raised the proportion of high-income households, other socio-economic factors have been at work to cause also a rise in the number of households at the lower end. Charts 2 and 3 depict the change in the profile of household income between Q3 1995 and Q3 2005.

Chart 2 : Number of domestic households by monthly household income

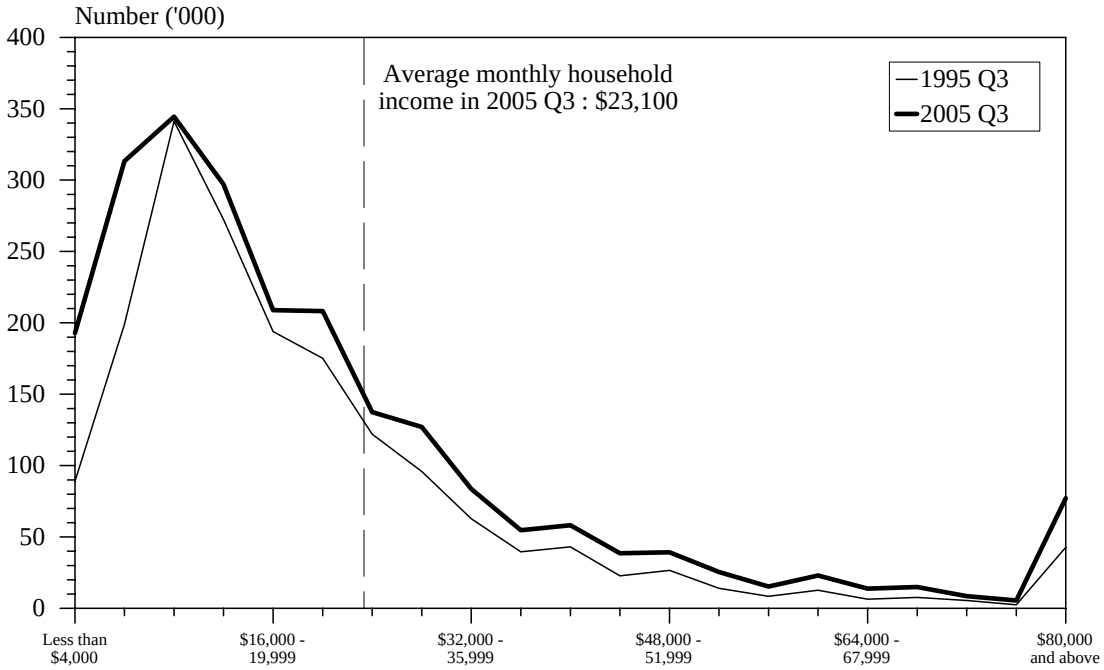
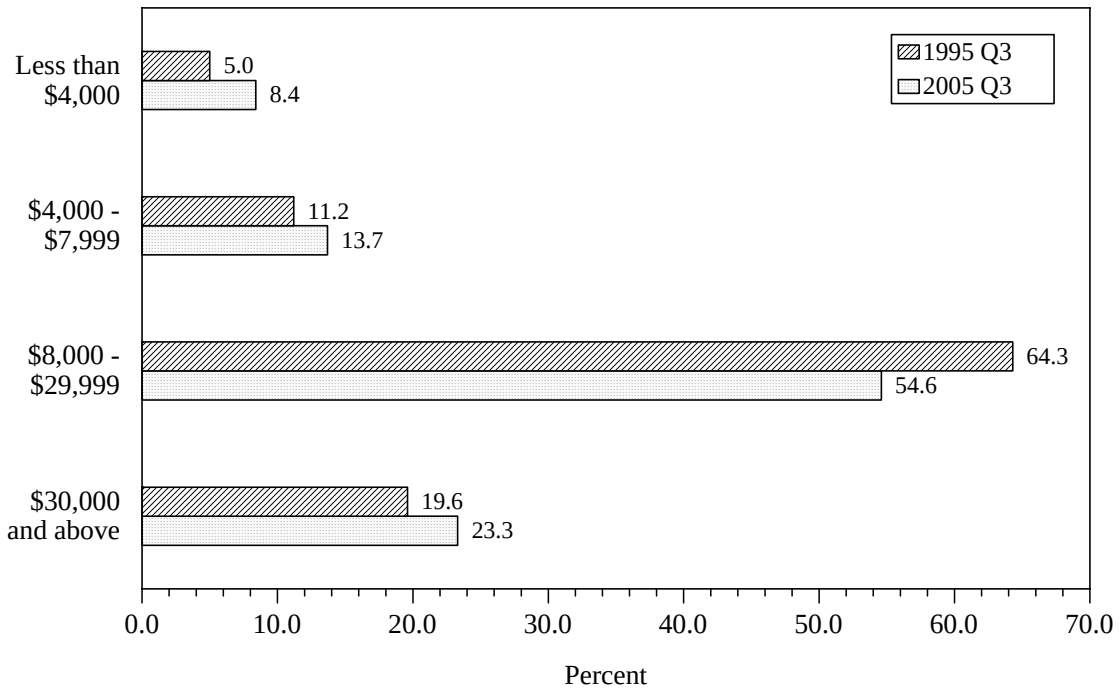
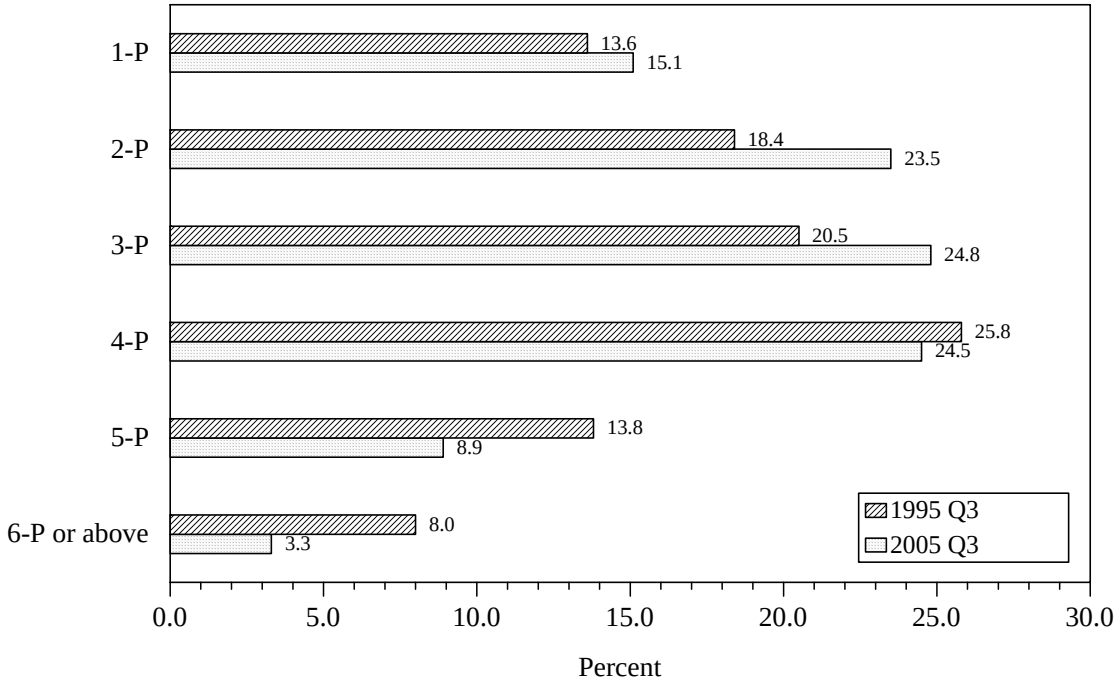


Chart 3 : Share of domestic households by monthly household income



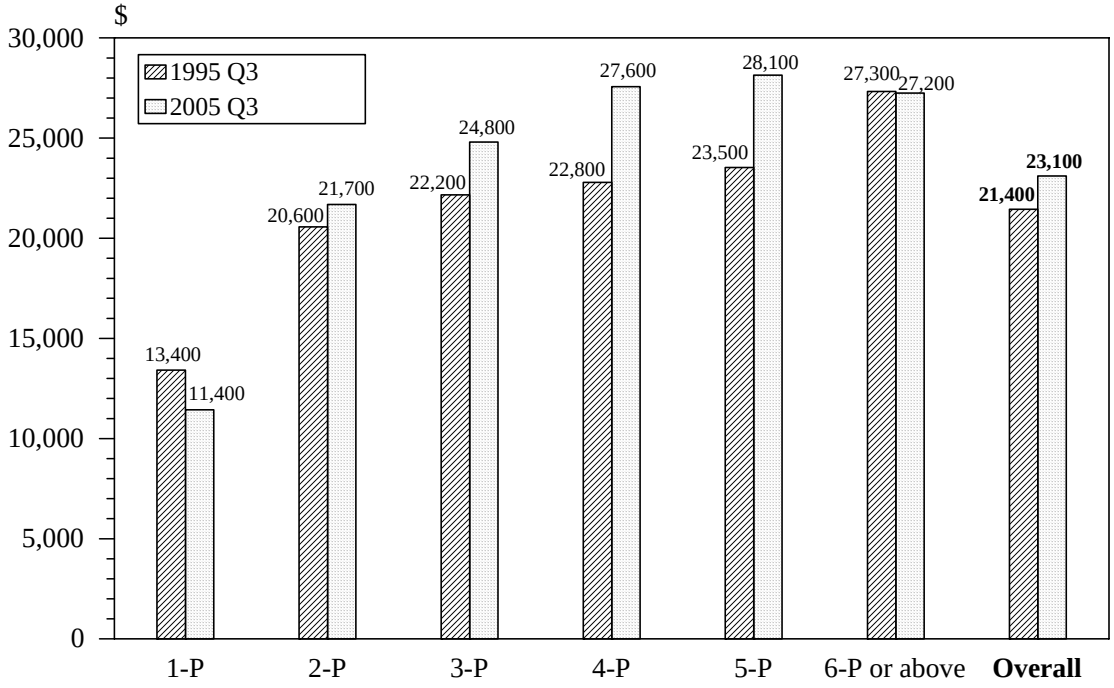
4. One factor affecting household income is the number of people in the household. There has been a long-term decline in the size of households in Hong Kong. From Q3 1995 to Q3 2005, the average household size fell from 3.4 to 3.0. Chart 4 gives the percentage shares of domestic households by household size. It is clear that the rises in the share of 1-person to 3-person households were at the expense of those larger-sized households.

Chart 4 : Share of domestic households by household size



5. The larger the household size, the greater the probability that it will have more than one economically active member and hence a higher level of household income, even though there is also the possibility that a larger number of headcounts might lower the average household income. Chart 5 shows the average monthly household income by household size in Q3 1995 and Q3 2005. The average monthly household income of the 3-person, 4-person and 5-person households went up by 12 - 21% in money terms during this period, considerably faster than the overall average growth of 8%. Charts 4 and 5 together show that the continuous decline in household size had the effect of dragging down the rise in the overall level of household income over time.

Chart 5 : Average monthly household income by household size

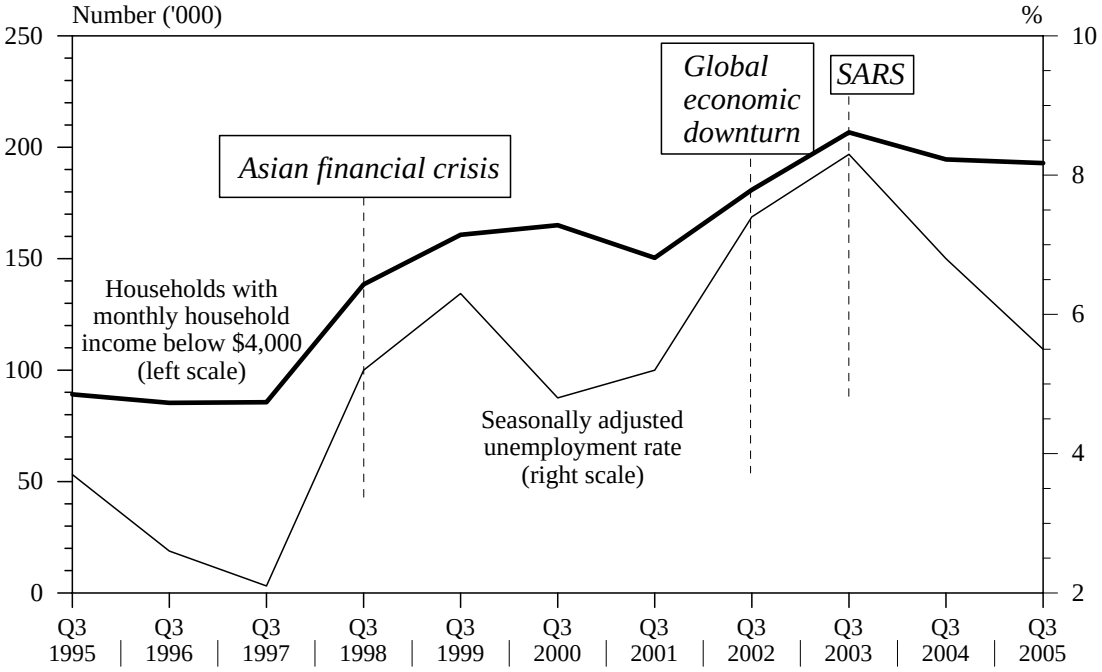


Households with monthly household income below $4,000

6. This sections addresses the concern about the increase in the number of households with monthly household income below $4,000 (hereafter refer to as "low-income households") over the past decade. Such households increased by 103 800 from 89 100 in Q3 1995 to 192 900 in Q3 2005, accounting for 21% of the growth in overall household number during this period. As a result, the share of low-income households went up from 5.0% in Q3 1995 to 8.4% in Q3 2005.

7. Economic performance and the labour market conditions are the key factors explaining the short-term movements in the number of low-income households. The number of low-income households shot up in 1998 amid the Asian financial crisis, and also in 2002 following the global economic downturn. The outbreak of SARS in 2003 then pushed the number to a record high of 206 700 (Chart 6). Nevertheless, the ensuing economic recovery has brought the number down again to 185 400 at end-2005.

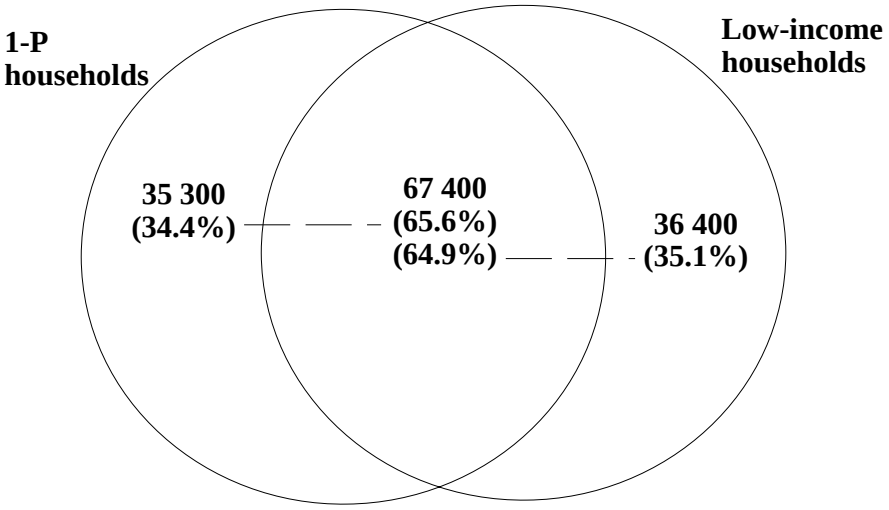
Chart 6 : Domestic households with monthly household income below $4,000 and the unemployment rate



8. However, changes in the labour market conditions alone were not sufficient to explain the general uptrend of low-income households over the long term. Even when the unemployment rate came down significantly in 2000 and 2005, the decline in the number of low-income households, if any, had been rather limited. In fact, the following two social factors are believed to have accounted for a sizeable proportion of the rise in the number of low-income households over the past decade.

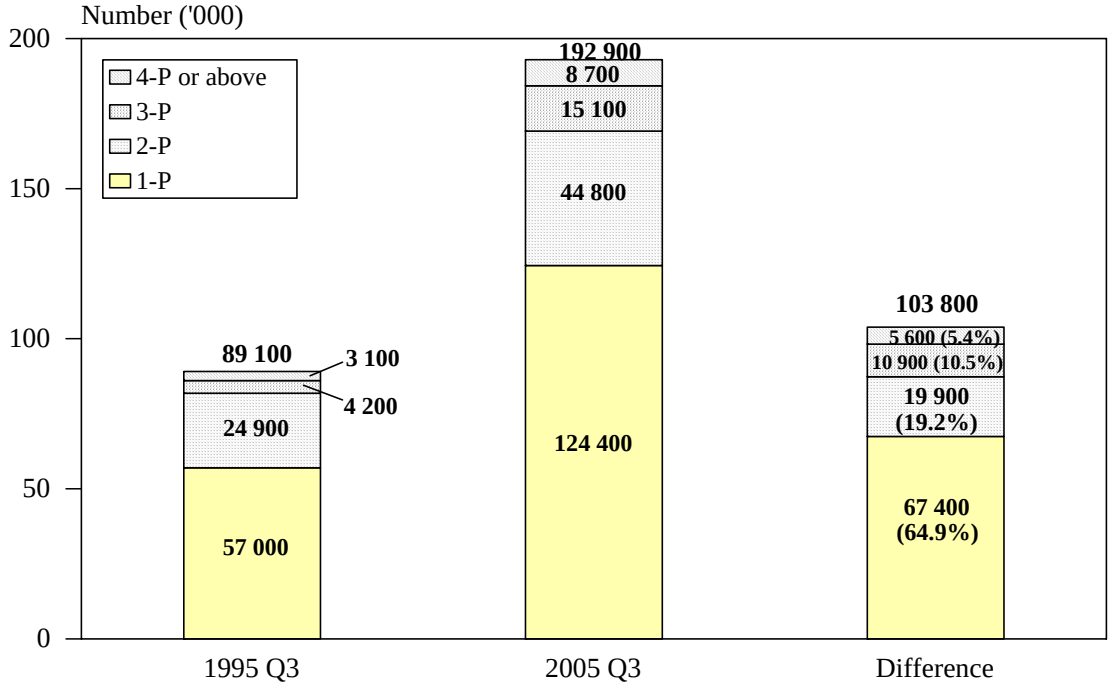
9. First, as the analysis in paragraph 5 indicates, household size is an important factor in determining household income. In Q3 2005, the average monthly household income for the 1-person households was $11,400 (51% below the overall average), and the corresponding figures for those in the lowest four decile groups were all below $4,000. Over the past decade, the number of 1-person households increased by 102 700 and 66% of them were low-income households (Chart 7). From the perspective of the rise in the number of low-income households, 67 400 or 65% of the additional low-income households were 1-persons households (Chart 8). Thus the growth of singleton households is one of the major factors contributing to the rise in the number of low-income households.

Chart 7 : Increase in household numbers between Q3 1995 and Q3 2005



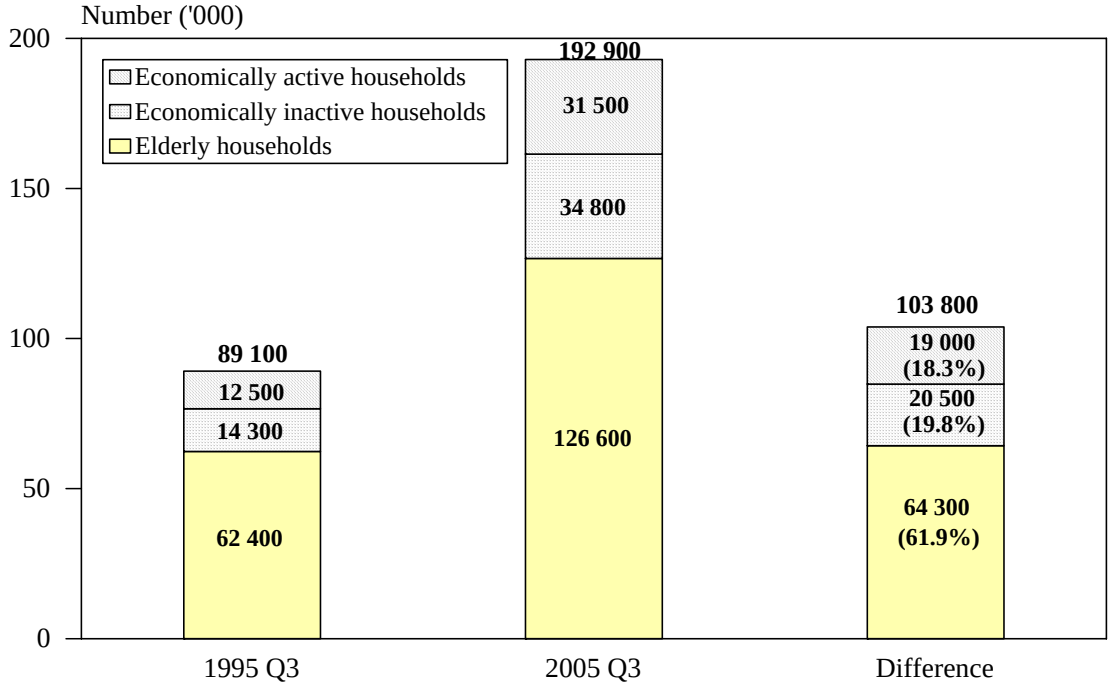
Note : ( ) % Shares in the respective groups.

Chart 8 : Domestic households with monthly household income below $4,000 by household size



10. Second, the ageing of the population resulted in a rise in the number of households with all members aged 60 or above (i.e. the elderly households). Among the 103 800 additional low-income households between Q3 1995 and Q3 2005, 64 300 or 62% were elderly households (Chart 9). And within these additional elderly low-income households, 86% of them were 1-person households.

Chart 9 : Composition of domestic households with monthly household income below $4,000



11. In analysing the income position of elderly households, it has to be cautioned that they could be classified as low-income households, even though their living might have been adequately supported by family members not living together or by savings of their own. This is due to the fact that elderly people normally do not have income from employment as the younger people do. So they are more likely to report that they have zero or a very low income[(3)]. Thus it is worth looking also at the other characteristics of these elderly low-income households.

12. In Q3 2005, there were 126 600 elderly households with monthly household income below $4,000, with 78% of them being 1-person households. Of the low-income elderly households, 37% were found to be assisted under the

(3) It is for this reason that the focus of the Commission on Poverty in defining elderly poor is not on the level of income reported by the elderly households.

Comprehensive Social Security Assistance Scheme (CSSA) according to the General Household Survey[4] (GHS), and 46% lived in public rental housing.

13. Apart from elderly households, one-fifth of the growth in the number of low-income households over the past decade was related to households having all members being economically inactive (i.e. economically inactive households). They include persons such as home-makers, retirees and those persons aged below 15. In a way, this is also a social phenomenon, as they are the group who are either too young to work or without intention to seek employment. It is relevant to note that they do not include those who do not seek work because they believe that work is not available (i.e. the discouraged workers), as this latter group is still classified as unemployed in GHS.

14. In Q3 2005, there were 34 800 low-income households with all of their 68 100 members being economically inactive. Among these household members, 18% aged below 20 and almost all of them were students, and 22% aged 60 or above and a predominant proportion of them were retirees. The remaining 60% or 40 800 working age persons were outside the labour force for various reasons, consisting of 29% home-makers, 18% who were permanently sick, and 13% who claimed to have retired. Within this group of low-income households, 25% of them were CSSA households as reported under GHS. Besides, single-parent households accounted for another 3%.

15. The remaining 18% of the increase in the number of low-income households between Q3 1995 and Q3 2005 were related to those with at least one economically active household members (i.e. economically active households). In Q3 2005, there were 31 500 such low-income households, consisting of 35 800 economically active persons. They were mostly persons aged 40 or above (66%), and with lower secondary education or below (52%).

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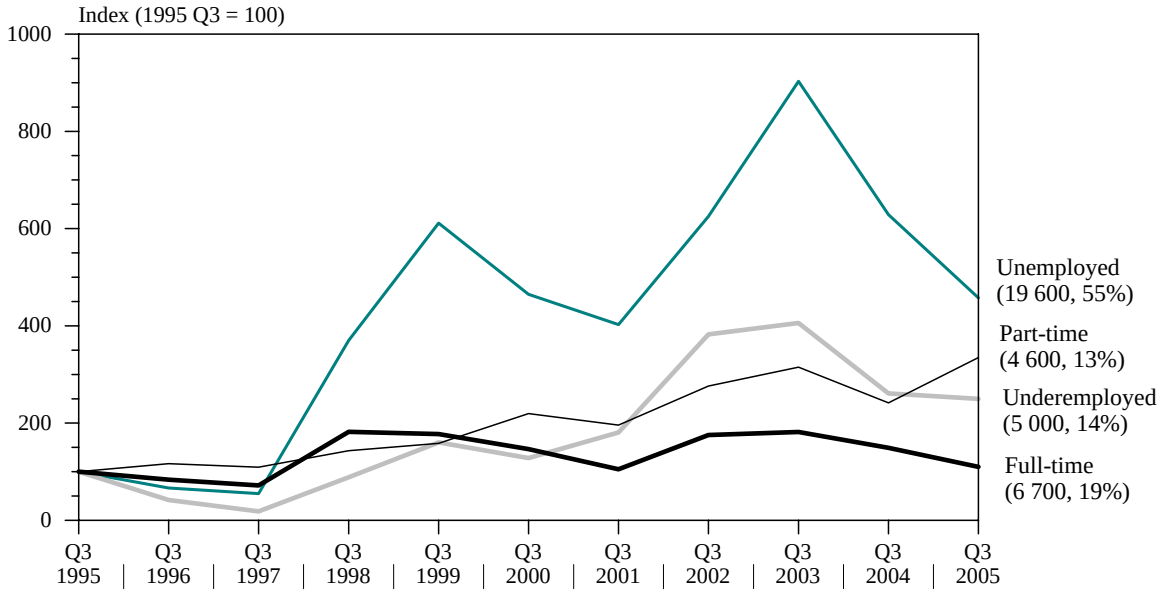
(4) According to the results of the General Household Survey conducted by the Census and Statistics Department, there were around 180 000 CSSA households in 2005, which was almost 40% less than the number of CSSA cases as recorded by the Social Welfare Department. Apart from the difference in definitions adopted by the two departments in respect of CSSA households and CSSA cases, a large part of the discrepancy could be attributable to the surveyed households themselves being reluctant in revealing their CSSA status.

16. Among these 35 800 economically active persons, only 6 700 or 19% were full-time workers. Meanwhile, 55% of them were unemployed, 14% underemployed, and 13% were part-time workers (i.e. voluntarily working less than 35 hours per week) (Chart 10). This composition of employment status explained in part why the monthly household income of such households were still below $4,000, even though they had at least one economically active households members, as most of them were either without a job, underemployed, or working part-time voluntarily.

Chart 10 : Composition of the economically active persons in the low-income households*



Note : (*) This does not include economically active persons in the low-income households with elderly members only, but the numbers involved were insignificant.

Figures in brackets represent the number of economically active persons in Q3 2005, and the percentage shares refer to the proportion of economically active persons of the respective employment status.

17. As to the 16 200 employed persons in the low-income households, 34% of them were engaged in elementary occupations, 22% as service workers and shop sales workers, and 12% as associate professionals. They were mostly employed in the wholesale, retail and import/export trades, restaurants and hotels sector (29%) and the community, social and personal services sector (28%), and to a lesser extent in the transport, storage and communications and the financing, insurance, real estate and business services sectors (12% each).

18. Over the past decade, the group of unemployed among the economically active low-income households had increased at the fastest pace, followed by the part-time and underemployed workers, as indicated by the

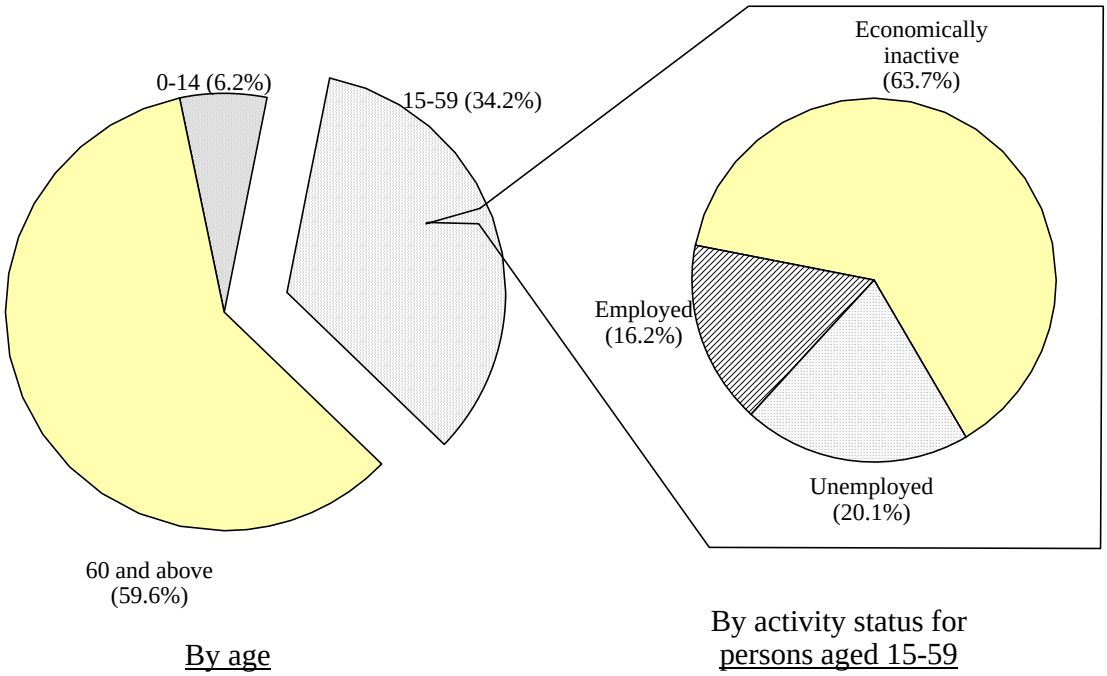
position of the lines in Chart 10. Hence the relatively higher unemployment rate (seasonally adjusted) and underemployment rate[5] in Q3 2005 (5.5% and 2.6% respectively) as compared to Q3 1995 (3.7% and 2.5%) were relevant in explaining the rise in the number of economically active low-income households over the years.

19. Nevertheless, the current economic upturn has contributed to a marked decline of 42% in the number of economically active persons in the low-income households, from a peak of 62 000 in Q3 2003 to 35 800 in Q3 2005. Apparently, they had moved upward to the group of households with monthly household income above $4,000. As shown by the lines in Chart 10, the number of full-time, underemployed and unemployed workers within these low-income households all came down from the levels in Q3 2003. Yet the sustained economic growth had created more jobs for the part-time workers.

20. Taking the above three types of low-income households (i.e. elderly, economically inactive and economically active) together, there were 281 000 persons living in such households in Q3 2005. Among them, nearly two-thirds were either elderly persons aged 60 or above, or young persons aged below 15 (Chart 11). Of the remaining one-third aged between 15 and 59, a predominant proportion of them were either economically inactive or unemployed persons. Compared to the average for all persons aged 15-59, those in the low-income households had a much lower labour force participation rate (36.3% vs. 70.7%), but a much higher unemployment rate (55.4% vs. 6.1%).

(5) For consistency with the figures widely published, no adjustment has been made to the unemployment and underemployment rates to exclude foreign domestic helpers.

Chart 11 : Persons living in low income households by age and activity status, Q3 2005



Concluding remarks

21. The above analysis shows that changes in the number of households at various income levels over time could be brought about by various demographic, social and economic factors. While economic ups and downs and labour market conditions are relevant in explaining the short-term movements in these numbers, the increase in singleton households and population ageing are key factors leading to a rise in the number of low-income households over the long term.

Economic Analysis and Business Facilitation Unit
Financial Secretary's Office
March 2006