

## **LEGISLATIVE COUNCIL BRIEF**

Minimum Wage Ordinance  
(Chapter 608)

Employment Ordinance  
(Chapter 57)

### **MINIMUM WAGE ORDINANCE (AMENDMENT OF SCHEDULE 3) NOTICE 2019**

### **EMPLOYMENT ORDINANCE (AMENDMENT OF NINTH SCHEDULE) NOTICE 2019**

#### **INTRODUCTION**

At the meeting of the Executive Council on 8 January 2019, the Council ADVISED and the Chief Executive (CE) ORDERED that –

- (a) the recommendation of the Minimum Wage Commission (MWC) on the revised Statutory Minimum Wage (SMW) rate of \$37.5 per hour should be accepted and the effective date should be set at 1 May 2019; and
- (b) the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2019 at Annex A should be made under section 16(1) of the Minimum Wage Ordinance (Cap. 608) (MWO) to implement the decisions at (a) above.

A

- 2. Consequential to the implementation of the revised SMW rate, the Commissioner for Labour has made the Employment Ordinance (Amendment of Ninth Schedule) Notice 2019 at Annex B under section 49A(6) of the Employment Ordinance (Cap. 57) (EO).

B

#### **JUSTIFICATIONS**

##### **(A) The Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2019**

- 3. SMW provides a wage floor to protect grassroots employees against excessively low wages, without unduly jeopardising our labour market flexibility, economic growth and competitiveness or causing significant loss in low-paid jobs. SMW is not intended to be a living wage. Under section 16(1)

of MWO, the CE in Council may, by notice published in the Gazette, amend Schedule 3 to specify the SMW rate with its effective date. The statutory MWC is chaired by a non-official, comprising three members each from the labour sector, business community, academia and the Government. According to MWO, CE must require that a report by MWC of its recommendation about the SMW rate be made to CE in Council at least once in every two years. The current SMW rate at \$34.5 per hour as specified in Schedule 3 to MWO has been in effect since 1 May 2017.

4. On 31 October 2018, the Chairperson of MWC submitted the MWC report to CE in Council upon completing a comprehensive review of the SMW rate. The report is at Annex C. MWC, by unanimous consensus, recommended that the current SMW rate of \$34.5 per hour be adjusted to \$37.5 per hour, i.e. an increase of \$3.0 or 8.7%.

5. MWC has adopted an evidence-based approach to review the SMW rate in an objective and balanced manner. Apart from conducting comprehensive analyses of relevant data and information of various sources, including the Annual Earnings and Hours Survey (AEHS) and the Annual Survey of Economic Activities conducted by the Census and Statistics Department (C&SD), MWC also made reference to the Array of Indicators<sup>1</sup> to grasp the socio-economic and employment conditions and the impact of SMW since its implementation. In parallel, MWC took into consideration the views of the community on the review of the SMW rate, relevant factors which were pertinent to the review of the SMW rate but could not be fully quantified and the experience of reviewing minimum wage rates in selected places. In view of the time gap between the review of the SMW rate and the implementation of the recommended rate, MWC also conducted stress tests under four economic scenarios to assess the potential impact of different SMW test levels on employees, enterprises, unemployment rate and inflation.

6. Based on the data from C&SD and assuming the Hong Kong economy would grow by 2.5% to 3.5% in real terms over the year earlier for the first half of 2019, MWC crudely estimated that the number of employees with an hourly wage less than \$37.5 in the first half of 2019 before the implementation of the recommended SMW rate (i.e. pre-adjustment employees involved) would be around 61 500 to 75 500, representing 2.0% to 2.5% of all employees in Hong Kong. As set out by MWC in its report submitted on 31 October 2018, since the labour market would keep adjusting before and after the implementation of the recommended SMW rate, the assumptions underlying the above crude estimates on the number of pre-adjustment employees involved might differ from the actual outcomes. Taking into account the impact of knock-on effect on pay hierarchies (knock-on effect) and drawing on the experience gained from previous SMW upratings, MWC envisaged that, barring any abrupt economic downturn, the number of

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<sup>1</sup> The Array of Indicators covered four areas of consideration, namely general economic conditions, labour market conditions, competitiveness and social inclusion. They included a large number of indicators which were released more frequently and more up-to-date.

employees benefiting from pay rises owing to the uprating of SMW would eventually be greater than the number of pre-adjustment employees involved, as well as the number of employees earning the SMW rate after the adjustment.

7. For enterprises, taking into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement, MWC estimated that the total wage bill would increase by about \$800 million to \$930 million or approximately 0.1%<sup>2</sup>. MWC envisaged that the impact of the recommended SMW rate would be manageable for most enterprises, while the overall business environment and incentives for business start-ups should not be significantly affected.

8. Regarding the impact on the unemployment rate, MWC estimated that the recommended SMW rate would lift the overall unemployment rate by about 0.1 to 0.3 percentage point. With the prevailing low unemployment rate in Hong Kong, barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in labour market conditions. As for the impact on inflation, assuming a full pass-on of additional wage bills to prices of products and services and taking into account the first round of wage-price spiral effect<sup>3</sup>, MWC estimated that the Composite Consumer Price Index (CPI) inflation and CPI(A) inflation (the latter being a better measure for the impact on the grassroots) would both go up by about 0.1 percentage point. Nevertheless, as it would be unlikely for all enterprises to fully pass on the additional wage bills to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the above estimates.

9. The Government has carefully considered the report of MWC and is of the view that MWC has ably discharged its statutory function of reviewing the SMW rate with thorough and balanced deliberation. MWC has adopted an evidence-based approach by conducting comprehensive analyses and assessment of various socio-economic data, and undertaken extensive and intensive consultation to take full account of the views of various sectors (in

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<sup>2</sup> Owing to data limitations, the estimated additional wage bills have not taken into account all labour costs (such as premium for employees' compensation insurance) arising from the uprating of SMW. Additional wage bills were estimated with reference to the results of AEHS and the review results on the additional wage bills stemming from the previous SMW upratings.

<sup>3</sup> The first round of wage-price spiral effect referred to price hikes of other items which were directly or indirectly linked to wages and inflation.

particular the low-paying sectors (LPS)<sup>4</sup>), and small and medium enterprises. The recommended SMW rate of \$37.5 per hour fulfils the objective of forestalling excessively low wages. The likely mild impact on enterprises and unemployment as assessed by MWC also satisfies the objectives of minimising the loss of low-paid jobs and sustaining the economic growth and competitiveness of Hong Kong. The analyses of MWC show that the recommended SMW rate strikes an optimum balance between the interests of employees and the affordability of employers. CE in Council has accepted and adopted MWC's recommended rate of \$37.5 per hour as the revised SMW rate.

10. The Government proposes that the revised SMW rate should take effect on 1 May 2019, with reference to past review exercises. Counting from the gazettal of the new rate which is scheduled for 18 January 2019 (see paragraph 15 below), this will allow sufficient time for completing the legislative process (which will take at least 49 days) and for employers and various sectors of the community to prepare for the SMW uprating. Prior to implementation, the Labour Department (LD) will launch territory-wide promotional activities to enhance public awareness of the new SMW rate.

11. The Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2019 amends Schedule 3 to MWO to add the revised SMW rate with its effective date.

### **(B) The Employment Ordinance (Amendment of Ninth Schedule) Notice 2019**

12. Under EO, an employer is obliged to record the total number of hours worked by an employee in a wage period if the latter is an employee within the meaning of MWO. The employer is exempted from this requirement if wages payable to the employee in a wage period are not less than the monthly monetary cap as set out in the Ninth Schedule to EO, or a proportionate amount when the wage period is not a month. This serves the dual purposes of meeting the need to enforce MWO on the one hand and the need to minimise the administrative burden of employers on the other.

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<sup>4</sup> The past three terms (i.e. 2011-13, 2013-15 and 2015-17) of MWC defined LPS as sectors employing a relatively large number of low-paid employees (i.e. employees with hourly wage rates below the 10<sup>th</sup> percentile of the overall hourly wage distribution) or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. Based on the above criteria and the findings of 2017 AEHS, MWC considered it appropriate to continue to adopt the four LPS (covering 15 sub-sectors) identified by the past three terms of MWC. These included: (a) retail (including supermarkets and convenience stores, and other retail stores); (b) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes); (c) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (d) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

13. The present monthly monetary cap in the Ninth Schedule to EO is set at \$14,100, based on the current SMW rate of \$34.5 per hour. In accordance with the established practice, when the revised SMW rate of \$37.5 per hour is implemented on 1 May 2019, the monthly cap will be increased to \$15,300 after rounding, in proportion to the percentage increase (i.e. 8.7%) of the SMW rate adjustment. In tandem with the commencement of the revised SMW rate, the revised monetary cap will come into force on the same day on which the new rate comes into effect, i.e. 1 May 2019.

14. The Employment Ordinance (Amendment of Ninth Schedule) Notice 2019 amends the Ninth Schedule to EO to revise the monetary cap on recording hours worked. The revised monetary cap will come into force on the same day on which the new SMW rate comes into effect.

**LEGISLATIVE TIMETABLE**

15. The legislative timetable is –
- |                                    |                 |
|------------------------------------|-----------------|
| Publication in the Gazette         | 18 January 2019 |
| Tabling at the Legislative Council | 23 January 2019 |

**IMPLICATIONS OF THE PROPOSALS**

16. The proposals are in conformity with the Basic Law, including the provisions concerning human rights, and do not affect the current binding effect of MWO and EO. There are no productivity, environmental or civil service implications. The economic, sustainability, family, gender and financial implications are set out at Annex D.

D

**PUBLIC CONSULTATION**

17. MWC, in accordance with its statutory function, conducted extensive and intensive consultation, including focused consultation meetings with stakeholders of LPS, a six-week public consultation and a series of consultation meetings with stakeholders to collect written and oral submissions to gauge the views of stakeholders and members of the public on the review of the SMW rate. MWC met with 97 stakeholders of LPS in the focused consultation meetings and 103 stakeholders in consultation meetings, and received 299 written submissions through public consultation. The revision of the monetary cap on recording hours worked is consequential to the adoption of the revised SMW rate of \$37.5 per hour, and no separate public consultation is required.

**PUBLICITY**

18. MWC’s report (at Annex C) will be uploaded onto the websites of MWC and LD on 11 January 2019. A press release will be issued and a

spokesperson from LD will be made available to handle press enquiries.

**ENQUIRIES**

19. Enquiries on this brief may be addressed to Ms Betty NG, Chief Labour Officer (Statutory Minimum Wage) of LD, at 2852 3842.

Labour and Welfare Bureau  
Labour Department  
January 2019

**Minimum Wage Ordinance (Amendment of Schedule 3)  
Notice 2019**

(Made by the Chief Executive in Council under section 16(1) of the  
Minimum Wage Ordinance (Cap. 608))

1. **Commencement**  
This Notice comes into operation on 1 May 2019.
2. **Minimum Wage Ordinance amended**  
The Minimum Wage Ordinance (Cap. 608) is amended as set out in section 3.
3. **Schedule 3 amended (prescribed minimum hourly wage rate)**  
At the end of Schedule 3—  
**Add**  
“\$37.5            1 May 2019”.

Clerk to the Executive Council

COUNCIL CHAMBER

2019

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**Explanatory Note**

Schedule 3 to the Minimum Wage Ordinance (Cap. 608) specifies the minimum hourly wage rate for an employee and its effective date.

2. This Notice amends the Schedule to increase the minimum hourly wage rate from \$34.5 to \$37.5, with effect from 1 May 2019.

**Employment Ordinance (Amendment of Ninth Schedule) Notice 2019**

(Made by the Commissioner for Labour under section 49A(6) of the Employment Ordinance (Cap. 57))

**1. Commencement**

This Notice comes into operation on the day on which the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2019 comes into operation.

**2. Employment Ordinance amended**

The Employment Ordinance (Cap. 57) is amended as set out in section 3.

**3. Ninth Schedule amended (monetary cap on keeping records of hours worked)**

Ninth Schedule—

**Repeal**

“\$14,100”

**Substitute**

“\$15,300”.

Commissioner for Labour

2019

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### **Explanatory Note**

Section 49A of the Employment Ordinance (Cap. 57) (*Employment Ordinance*) requires an employer to record the total number of hours worked by an employee in a wage period if—

- (a) the employee is an employee within the meaning of the Minimum Wage Ordinance (Cap. 608); and
  - (b) the wages payable to the employee for the wage period are less than the monetary cap specified in the Ninth Schedule to the Employment Ordinance (or a proportionate amount if the wage period is not a month).
2. As the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2019 increases the minimum hourly wage rate from \$34.5 to \$37.5, this Notice amends the Ninth Schedule to the Employment Ordinance to increase the monetary cap from \$14,100 per month to \$15,300 per month.

# 2018 Report of the Minimum Wage Commission





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## **Chairperson's Foreword**

- 1 I am honoured to assume the chairpersonship of the Minimum Wage Commission (MWC) which is tasked with the important function of reporting to the Chief Executive (CE) in Council its recommendation about the Statutory Minimum Wage (SMW) rate in accordance with the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong). While fully appreciating the complexity and controversy of this mission, I uphold the belief that the SMW rate, if set properly, will be instrumental to safeguarding the wage level of grassroots employees without compromising the economic growth and competitiveness of Hong Kong.
- 2 Since the implementation of SMW in 2011 and the three upratings of SMW in 2013, 2015 and 2017, the macroeconomic conditions and the overall labour market of Hong Kong have been largely stable; the income of lower-paid employees has improved in real terms; and more people have been attracted to enter or re-enter the employment market. These achievements squarely reaffirmed the contribution and positive value of SMW.
- 3 MWC fully recognised the possible impacts of SMW on such aspects as the labour market, society and economy. To ensure effective and proper completion of its statutory function, MWC conducted comprehensive analyses of data and information from statistical surveys and studies and also took account of other considerations that could not be fully quantified.
- 4 Furthermore, MWC in the past year or so made extra efforts to listen to the views from the community. We conducted rounds of consultation meetings with stakeholders in particular those of the low paying sectors, and invited submissions from the community during a six-week wide and extensive public consultation. The views received provided useful reference for MWC. On behalf of MWC, I would like to express my heartfelt gratitude to stakeholders and members of the public participating in MWC's consultation activities or giving submissions on the review of the SMW rate.
- 5 Underpinning the evidence-based approach in reviewing the SMW rate, MWC would like to express appreciation to the Secretariat of its thorough analyses of various data and information coupled with ample back-up and technical support. MWC would

also like to thank the Labour and Welfare Bureau, the Labour Department, the Office of the Government Economist of the Financial Secretary's Office and the Census and Statistics Department for their professional and all-out assistance.

6 Above all, I am grateful to all MWC Members. Albeit from different sectors, all Members put the common good of the community at heart and forged a consensus on the recommended SMW rate through rational, candid and balanced discussions. Throughout the review process, every Member conscientiously and objectively examined the voluminous data and information, and meticulously considered different views with an open mind. Thanks to their ample experience, professional knowledge and pragmatic attitude, MWC has accomplished the mission of reviewing the SMW rate.

7 The SMW rate recommended in this report is based on the unanimous consensus and support of all MWC Members. MWC considers that the recommended SMW rate maintains an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness. I have the pleasure to submit to the CE in Council this *2018 Report of the Minimum Wage Commission*, and appeal for acceptance of and support for the recommendation unanimously reached by MWC.



Priscilla WONG Pui Sze

October 2018

## Membership List

### Chairperson



**Ms Priscilla WONG Pui Sze, B.B.S., J.P.**

### Non-official Members (\*)



**Mr Bankee KWAN Pak Hoo, J.P.**




**Mr LAU Chin Shek, J.P.**



**Professor LAU Sau Him**



**Professor LEUNG Siu Fai**



**Ms LI Fung Ying, S.B.S., J.P.**



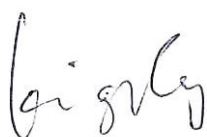
**Professor Terry LUM Yat Sang**



**Mrs Katherine NGAN NG Yu Ying, M.H., J.P.**



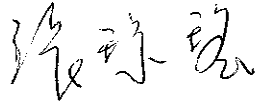
**Mr Simon WONG Kit Lung, J.P.**



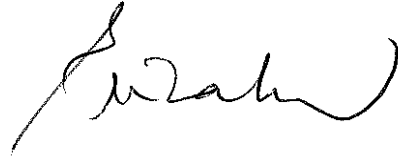
**Mr Kingsley WONG Kwok, J.P.**

(\*) listed in alphabetical order of the surname

**Official Members**



**Ms CHANG King Yiu, J.P.**  
*Permanent Secretary for Labour and Welfare*



**Miss Eliza LEE Man Ching, J.P.**  
*Permanent Secretary for Commerce and  
Economic Development  
(Commerce, Industry and Tourism)*



**Mr Andrew AU Sik Hung, J.P.**  
*Government Economist*

## Executive Summary

- I Assuming that the recommended Statutory Minimum Wage (SMW) rate will be implemented in the first half of 2019, the Minimum Wage Commission (MWC) recommended adjusting the SMW rate from \$34.5 per hour to \$37.5 per hour, up \$3.0 (or 8.7%).

### Chapter 1: Introduction

- II MWC is an independent statutory body established under the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong) with the main function to, when required by the Chief Executive (CE) to do so, report its recommendation about the SMW rate to CE in Council. In performing its function, MWC must have regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and the need to sustain Hong Kong's economic growth and competitiveness.

### Chapter 2: Work of the Minimum Wage Commission

- III To fulfil its statutory function and maintain an appropriate balance among its various objectives mentioned in paragraph II above, MWC adopted an evidence-based approach when reviewing the SMW rate. MWC not only made reference to the latest data of the Array of Indicators reflecting the socio-economic and employment conditions after the implementation of SMW in May 2011 and the three upratings (in May 2013, May 2015 and May 2017 respectively), but also studied the findings of other surveys and fully considered the views on the review of the SMW rate from the community so as to recommend an appropriate SMW rate.
- IV MWC unanimously agreed to adopt a consensus-building approach as its *modus operandi*, with due regard to the overall interest of the community for achieving the objective of reaching consensus through rational and objective discussions. To ensure objective and balanced discussions among MWC members without external influence, members unanimously agreed to keep the deliberations and discussions confidential. Noting the community's interest in the review of the SMW rate, MWC strived to keep members of the public and stakeholders abreast of its work.

MWC released the latest news and information (including press releases) on its webpage, and met the media to report its work progress to the public. When conducting public consultation, MWC also uploaded onto its webpage the relevant reference data and information so as to facilitate members of the public and stakeholders to provide their views to MWC on the review of the SMW rate.

### **Chapter 3: The Socio-economic Conditions since the Implementation of Statutory Minimum Wage and its Impact**

- V The impact of the implementation of SMW on Hong Kong's socio-economic conditions hinges, to a large extent, on the macroeconomic environment. Favourable macroeconomic conditions would help cushion the pressure on employment and corporate profits brought about by the implementation and upratings of SMW. On the contrary, if the economy is trending down or even facing a huge external shock to the extent of putting significant pressure on corporate profits, an uprating of SMW would further jeopardise the business environment and employment situation. At the same time, apart from bringing about direct impact on lower-paid employees and enterprises, the implementation and upratings of SMW would also, to a certain extent, interact with various aspects of the Hong Kong economy (including the labour market, prices, and competitiveness, etc.).
- VI By adopting an evidence-based approach, MWC conducted comprehensive analyses and assessments on relevant data and information from various aspects in order to monitor the socio-economic and employment conditions after the implementation and upratings of SMW. Drawing from the observations on various aspects, MWC concluded that the positive impact of the implementation of SMW has outweighed the negative impact.
- VII Since the implementation of SMW in 2011, the sustained economic expansion in Hong Kong had helped cushion the possible negative impact of the implementation and upratings of SMW. With the global economy regaining its growth momentum in 2017, Hong Kong's total exports of goods picked up in growth while exports of services also revived amidst the recovery in inbound tourism. At the same time, domestic demand was resilient, thanks to the sustained increases in wages and

earnings on the back of a tightened labour market. With these positive developments, the local economy grew markedly in 2017 and the first half of 2018, representing the strongest growth since 2011. However, the continued escalation of trade friction between major economies recently could weigh on global economic sentiment as well as trade and investment activities which could affect the outlook of the Hong Kong economy.

- VIII The implementation and upratings of SMW had pushed up labour costs which, coupled with the rise in other operating costs, posed certain pressure on the operations of enterprises. Many small and medium enterprises (SMEs) which already had weaker profitability or were even making losses probably had less room for manoeuvre as they were constrained by their own resources. Thanks to the sustained expansion of the Hong Kong economy over the past few years, the business growth of enterprises could largely absorb the additional costs arising from SMW. More recent data reflected that business sentiment remained positive. Overall inflation was generally moderate since the implementation of SMW. The upratings of SMW had not posed any significant pressure on overall inflation.
- IX As for labour market and employees, on the back of the positive macroeconomic environment since the implementation of SMW, the labour market had remained largely in a state of full employment with the unemployment rate staying at its 20-year low in recent months. On top of the appreciable growth in the earnings of grassroots workers, there were also signs of improvement in their remuneration structure and fringe benefits. Besides, data reflected that in overall terms, enterprises did not choose to cut labour costs by means of adjusting employees' remuneration package, employing workers on a part-time or self-employed basis and reducing working hours. As the improved income prospect upon the implementation and upratings of SMW had helped enhance the incentive to work, total labour force stayed on the rise, particularly so for older persons.
- X As for competitiveness and business environment, Hong Kong continued to rank high in economic freedom and overall competitiveness among the rankings compiled by various international organisations, and remained competitive in attracting foreign investment. Nonetheless, Hong Kong's performance in other quantifiable indicators of competitiveness such as unit labour cost fared less well. MWC still

has to closely monitor how SMW would affect Hong Kong's competitiveness and long-term economic development down the road.

#### **Chapter 4: Considerations Underlying the Recommendation of the Statutory Minimum Wage Rate**

- XI MWC adopted an evidence-based approach in reviewing the SMW rate. During the review, MWC analysed and considered the four main areas, viz. the Array of Indicators, views of stakeholders and members of the public, other relevant considerations and impact assessment.
- XII The Array of Indicators covered indicators in four areas, viz. general economic conditions, labour market conditions, competitiveness and social inclusion. These data facilitated MWC to monitor the socio-economic and employment conditions after the implementation and upratings of SMW; as well as analyse the economic and labour market outlook. Thanks to the sustained expansion in the Hong Kong economy since the implementation of SMW, the potential pressure induced by SMW on the labour market and enterprises, etc. had been cushioned, while the earnings of grassroots workers also saw a significant improvement. When reviewing and recommending the SMW rate in the current round, the Hong Kong economy sustained a strong momentum. Yet the downside risks to the global economy have increased recently amidst the escalating trade friction between major economies. As Hong Kong is a small and highly externally-oriented economy, apart from domestic factors, the fluctuations in business cycle are also closely tied to external economic factors. If local business environment is affected by any unfavourable development on the external front, enterprises might consider downsizing to cut costs and some of which might choose to reduce headcount, thereby affecting the labour market to a certain extent. MWC has taken into account all of the above factors when reviewing the SMW rate in the current round.
- XIII MWC conducted extensive and intensive consultation, including focused consultation meetings with stakeholders of the low paying sectors (LPS) (including trade unions, trade associations/professional institutes and employers) to understand the impact of the implementation and the past three upratings of SMW on employers and employees of LPS; and public consultation and consultation meetings with



stakeholders to collect written and oral submissions on the review of the SMW rate. These views facilitated MWC to gain a more comprehensive understanding of the impact of SMW on Hong Kong's economy, society, employment conditions, various sectors (in particular LPS) and SMEs; and provided MWC with important reference in formulating the impact assessment framework for the review of the SMW rate.

- XIV MWC also took into account other relevant considerations that could not be fully quantified. These included enhancing employees' quality of life, enhancing work incentive, impact on workers with relatively lower bargaining power and less working experience, impact on wage differentials across sectors or positions, preserving the market's capacity to adjust, impact on social harmony, additional costs induced by wage increase, impact on quality of products and services, as well as other impact of SMW yet to fully emerge.
- XV MWC recognised that SMW would have profound and far-reaching impact on employees, enterprises, labour market and the whole economy. Hence, MWC drew reference from the results of impact assessment of different SMW test levels before recommending the new SMW rate. In view of the time gap between the review of the SMW rate and the implementation of the recommended rate, MWC conducted scenario analysis of the economic conditions at the time when the recommended rate is implemented, so as to have a forward-looking analysis of the impact that might be brought about by different SMW test levels on various aspects as far as possible.

## Chapter 5: The Recommended Statutory Minimum Wage Rate

- XVI During the process of reviewing the SMW rate, MWC conducted detailed analyses and in-depth assessment. Having thoroughly considered the different aspects and undertaken iterative deliberations, MWC unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$37.5 per hour.
- XVII Based on the crude estimates under Economic Scenarios 1 and 2 (i.e. assuming a year-on-year economic growth of 2.5% to 3.5% in real terms for the first half of 2019), the number of employees with an hourly wage less than \$37.5 in the first half of 2019 **before** the implementation of the recommended SMW rate would be around 61 500 to 75 500, representing 2.0% to 2.5% of all employees in Hong Kong. While MWC had already endeavoured to conduct a forward-looking estimation, the

labour market would keep adjusting before and after the implementation of the recommended SMW rate. Coupled with the fact that the assumptions behind the above estimates might differ from the actual outcomes, these estimates should be used for reference only.

- XVIII It should be noted that the aforesaid MWC's crude estimate of employees involved **before** the implementation of the recommended SMW rate is conceptually different from the number of employees earning the SMW rate **after** the implementation of the recommended SMW rate. These two figures should not be mixed up and cannot be directly compared with each other. Drawing on the experience gained upon the implementation of SMW, it was observed that under favourable economic conditions with faster wage growth, and with employers' potential need to maintain the wage differentials among employees at different ranks, some of the pre-adjustment employees involved would get pay rises to levels above the new SMW rate. As such, the number of employees actually earning the SMW rate after uprating of SMW would usually be smaller than the estimated number of pre-adjustment employees involved. Furthermore, according to the experience in the past few years, uprating of SMW not only benefited the pre-adjustment employees involved, but also led to pay rises for some employees originally earning hourly wages above the new SMW rate due to the knock-on effect on pay hierarchies (knock-on effect) amidst a relatively tight overall manpower demand and supply condition.
- XIX For enterprises, the most direct impact of uprating of SMW would be increase in staff costs. As regards the recommended SMW rate of \$37.5, based on the impact assessment under Economic Scenarios 1 and 2, it was estimated that the total wage bill would increase by about \$800 million to \$930 million respectively or approximately 0.1% after taking into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement. As enterprises can adopt various mitigating strategies (including raising prices) to cope with increases in labour costs, MWC envisaged that the impact of the recommended SMW rate would be manageable for most enterprises, while the overall business environment and incentives for business start-ups should not be significantly affected.

- XX As regards the impact assessment on the unemployment rate, it was estimated that under Economic Scenario 1, the uprating of SMW to the recommended rate would lead to an increase of around 2 100 unemployed grassroots workers and lift the overall unemployment rate by about 0.1 percentage point. If the Hong Kong economy grows at a slower pace in the first half of 2019 (i.e. Economic Scenario 2), the number of unemployed grassroots workers was estimated to rise by around 10 300 and the overall unemployment rate by about 0.3 percentage point. As the prevailing unemployment rate in Hong Kong is still low, barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in labour market conditions.
- XXI For the impact assessment on inflation, MWC assumed a full pass-on of additional wage bills to prices of products and services and took into account the first round of wage-price spiral effect (i.e. prices of other items which were directly or indirectly linked to wages and inflation would also go up). Based on MWC's impact assessment, it was estimated that the uprating of SMW to the recommended rate would push up the Composite Consumer Price Index (CPI) inflation by about 0.1 percentage point. When using CPI(A) inflation to measure the impact on the grassroots, the corresponding rise would also be about 0.1 percentage point. Generally speaking, since enterprises are unlikely to fully pass on the additional wage bills to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the estimates.
- XXII Although the Hong Kong economy sustained strong momentum in the first half of 2018, with the uncertainties in external environment having increased markedly of late, a precise forecast of the impact of the recommended SMW rate would not be possible. Nonetheless, adopting an evidence-based approach in recommending the SMW rate, MWC had conducted comprehensive analyses of information and data obtained from various statistical surveys, examined in detail the possible impact brought about by various SMW test levels under different economic scenarios, and given thorough consideration to the views from the community on the review of the SMW rate so as to take into account and balance different factors of consideration. MWC considered that the recommended rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's

economic growth and competitiveness.

## **Chapter 6: Recommendation**

XXIII The statutory function of MWC is, when required by CE to do so, to report its recommendation about the SMW rate to CE in Council. After conducting detailed analyses and in-depth assessment, and having thoroughly considered the different aspects and undertaken iterative deliberations, MWC unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$37.5 per hour (by \$3.0 or 8.7%). The recommended SMW rate was the unanimous consensus of all MWC members based on an evidence-based approach and rational discussions. It was considered that the recommended rate would be conducive to the overall interest and development of Hong Kong.

## **1 Introduction**

### **1.I Background and Statutory Function**

1.1 The Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong) establishes a Statutory Minimum Wage (SMW) regime and sets the wage floor. The initial SMW rate was set at \$28.0 per hour, and it took effect on 1 May 2011.

1.2 The Minimum Wage Commission (MWC) is an independent statutory body established under MWO with the main function to, when required by the Chief Executive (CE) to do so, report its recommendation about the SMW rate to CE in Council. MWO stipulates that in performing its function, MWC must have regard to the need:

- (1) to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs; and
- (2) to sustain Hong Kong's economic growth and competitiveness.

1.3 The past three terms (i.e. 2011-13, 2013-15 and 2015-17) of MWC adopted an evidence-based approach in reviewing the SMW rate. After conducting extensive consultation and considering the views from the community, as well as undergoing prudent and objective deliberations and iterative discussions, MWC reached consensus and reported to CE in Council in October 2012, October 2014 and October 2016 respectively, with the recommendations about the SMW rate subsequently endorsed by CE in Council. After the relevant subsidiary legislation was passed by the Legislative Council, the SMW rate was adjusted upwards to \$30.0, \$32.5 and \$34.5 on 1 May 2013, 1 May 2015 and 1 May 2017 respectively.

### **1.II Composition and Membership List**

1.4 Members of the current term (2017-19) of MWC were appointed by CE with a two-year tenure starting from 1 March 2017. MWC comprises three members each from the labour sector, the business sector, the academia and the Government. The Chairperson and the nine non-official members were appointed on an ad personam basis. The Labour Department and the Office of the Government Economist of the Financial Secretary's Office provide secretariat support to MWC.

## 1.5 Membership of the current term of MWC is as follows:



<b>Chairperson</b>	Ms Priscilla WONG Pui Sze, B.B.S., J.P. (front row: middle)
<b>Non-official Members</b> (*)	Mr Bankee KWAN Pak Hoo, J.P. (back row: 3 <sup>rd</sup> from right)
	Mr LAU Chin Shek, J.P. (back row: 4 <sup>th</sup> from right)
	Professor LAU Sau Him (back row: 2 <sup>nd</sup> from right) (from 8 December 2017)
	Professor LEUNG Siu Fai (back row: 5 <sup>th</sup> from right)
	Ms LI Fung Ying, S.B.S., J.P. (front row: 2 <sup>nd</sup> from right)
	Professor Terry LUM Yat Sang (back row: 2 <sup>nd</sup> from left)
	Mrs Katherine NGAN NG Yu Ying, M.H., J.P. (front row: 2 <sup>nd</sup> from left)
	Dr Raymond SO Wai Man, B.B.S., J.P. (up to 20 September 2017)

	Mr Simon WONG Kit Lung, J.P. (back row: 4 <sup>th</sup> from left)
	Mr Kingsley WONG Kwok, J.P. (back row: 3 <sup>rd</sup> from left)
<b>Official Members</b>	Permanent Secretary for Labour and Welfare Miss Annie TAM Kam Lan, G.B.S., J.P. <i>(up to 11 April 2017)</i> Ms CHANG King Yiu, J.P. (front row: 1 <sup>st</sup> from right) <i>(from 26 July 2017)</i>
	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) Mr Philip YUNG Wai Hung, J.P. <i>(up to 22 April 2018)</i> Miss Eliza LEE Man Ching, J.P. (front row: 1 <sup>st</sup> from left) <i>(from 12 June 2018)</i>
	Government Economist Mrs Helen CHAN, S.B.S., J.P. <i>(up to 16 April 2018)</i> Mr Andrew AU Sik Hung, J.P. (back row: 1 <sup>st</sup> from left) <i>(from 17 April 2018)</i>
<b>Secretary</b>	Chief Labour Officer (Statutory Minimum Wage) Ms Betty NG Shuk Fong (back row: 1 <sup>st</sup> from right)

(\*) listed in alphabetical order of the surname

## **2 Work of the Minimum Wage Commission**

### **2.I Underlying Principles in Discharging the Function**

#### **2.I.1 In conformity with the statutory function**

2.1 According to the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong), the main function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to report to CE in Council its recommendation about the amount of the prescribed minimum hourly wage rate (the Statutory Minimum Wage (SMW) rate). In accordance with the provisions of MWO, CE has required MWC to submit the recommendation report about the SMW rate on or before 31 October 2018.

2.2 MWO also stipulates that in performing its function, MWC must have regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and the need to sustain Hong Kong's economic growth and competitiveness. Before making a recommendation about the SMW rate, MWC may consult the community including organisations representing employers and employees, consider the views received in the course of consultations, and analyse and consider data and information from researches and/or surveys.

2.3 To fulfil its statutory function, when reviewing the SMW rate, MWC not only made reference to the latest data of the Array of Indicators reflecting the socio-economic and employment conditions after the implementation of SMW in May 2011 and the three upratings (in May 2013, May 2015 and May 2017 respectively), but also studied the findings of other surveys and fully considered the views on the review of the SMW rate from the community so as to recommend an appropriate SMW rate.

#### **2.I.2 Evidence-based approach**

2.4 SMW impacts on various aspects including the society, economy, labour market and inflation in Hong Kong. The community also has diverse views and concerns about the review of the SMW rate. To deliberate on the SMW rate in an objective and balanced manner, MWC adopted an evidence-based approach by conducting



comprehensive analyses of relevant data and information of various aspects, including (1) statistical surveys and thematic studies, such as the Annual Earnings and Hours Survey (AEHS) and the Annual Survey of Economic Activities (ASEA) conducted by the Census and Statistics Department (C&SD), consultancy studies on the impact of the SMW rate on pay hierarchies in the retail and restaurant sectors commissioned by the Government in the past, and a large number of other relevant data covered by the Array of Indicators which were released more frequently and more up-to-date (please refer to paragraph 2.12); (2) data, views and information provided by members of the public and stakeholders during the consultation activities conducted by MWC; (3) information on the experience of selected places in reviewing the minimum wage rates; and (4) relevant academic journals. After making reference to the above data and survey findings, MWC also conducted impact assessment at different hourly wage test levels and considered other relevant factors that could not be fully quantified so as to recommend an appropriate SMW rate.

### **2.1.3 Dissemination of information and principle of confidentiality**

2.5 Noting the community's interest in the review of the SMW rate, MWC strived to keep members of the public and stakeholders abreast of its work. MWC released the latest news and information (including press releases) on its webpage, and met the media to report its work progress to the public. When conducting public consultation, MWC also uploaded onto its webpage the relevant reference data and information so as to facilitate members of the public and stakeholders to provide their views to MWC on the review of the SMW rate.

2.6 To ensure objective and balanced discussions among MWC members without external influence, members unanimously agreed to keep the deliberations and discussions confidential so as not to affect the effective operation of MWC and cause inconvenience to MWC members. This also avoided misunderstanding by members of the public and stakeholders about the work of MWC arising from incomplete information.

#### **2.I.4 Consensus-building approach**

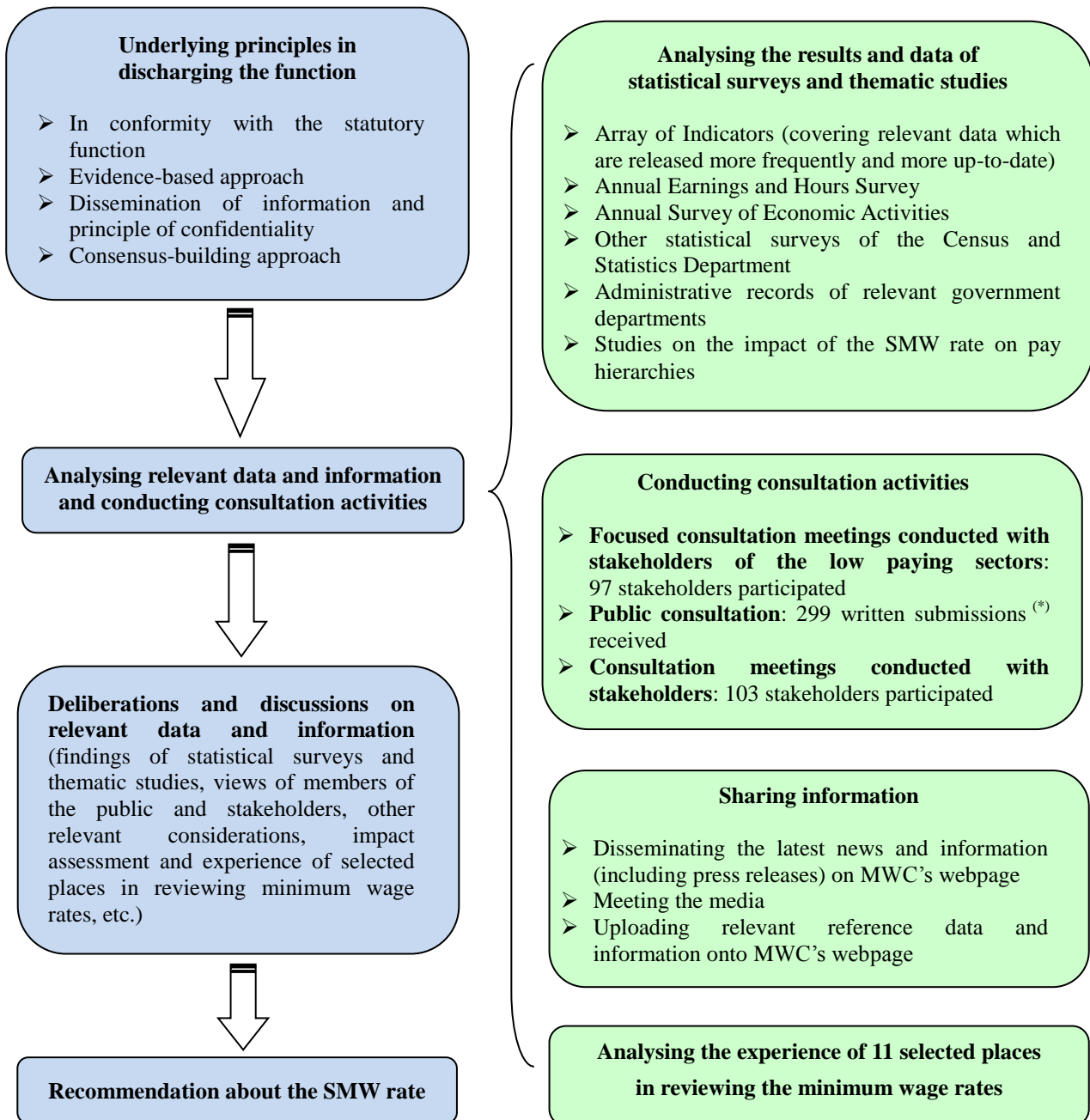
2.7 Drawing reference from the experience of the past three terms of MWC in reviewing the SMW rate, MWC unanimously agreed to adopt a consensus-building approach as its modus operandi, with due regard to the overall interest of the community, for achieving the objective of reaching consensus through rational and objective discussions. Consensus building encompasses understanding of and respect for different viewpoints. It avoids focusing on a narrower perspective, and the result would receive a higher degree of recognition and wider support.

### **2.II Details of the Work of the Minimum Wage Commission**

#### **2.II.1 Process in reviewing the Statutory Minimum Wage rate**

2.8 The process of MWC in reviewing the SMW rate is summarised as follows:

**Figure 2.1: Process of the Minimum Wage Commission (MWC) in reviewing the Statutory Minimum Wage (SMW) rate**



Note: (\*) 352 signed letters with identical content were attached to one of the submissions.

2.9 In gist, in reviewing the SMW rate, MWC conducted comprehensive analyses of data and information of various aspects, and shared these relevant data and information with members of the public and stakeholders for conducting extensive and intensive consultation. MWC also reported to members of the public and the media on the updates on MWC's major work progress when appropriate. Major activities and work of MWC are summarised in Table 2.1.

**Table 2.1: Major activities and work of the Minimum Wage Commission (MWC)**

Date	Events	Details
<b>Year 2017</b>		
17 March	MWC meeting	<ul style="list-style-type: none"> <li>To convene the first meeting of MWC (2017-19).</li> <li>To receive the major results of the 2016 Annual Earnings and Hours Survey (AEHS) and the 2015 Annual Survey of Economic Activities (ASEA), and agree on the housekeeping arrangements of MWC.</li> </ul>
19 June	MWC meeting	<ul style="list-style-type: none"> <li>To convene the second meeting.</li> <li>To discuss MWC's work plan for 2017, and review the Array of Indicators to be considered in monitoring Hong Kong's socio-economic and employment conditions after the implementation and upratings of Statutory Minimum Wage (SMW) and the latest conditions of the various indicators.</li> </ul>
7 and 8 September	Consultation activities	<ul style="list-style-type: none"> <li>To conduct focused consultation meetings with stakeholders of the low paying sectors (LPS) (Please refer to paragraph 2.17).</li> </ul>
11 September	Dissemination of information	<ul style="list-style-type: none"> <li>To upload onto MWC's webpage the list of stakeholders that attended the focused consultation meetings with LPS held in September 2017.</li> </ul>
6 October	Dissemination of information	<ul style="list-style-type: none"> <li>To meet and brief the media on the work of MWC.</li> </ul>
	MWC meeting	<ul style="list-style-type: none"> <li>To convene the third meeting.</li> <li>To examine Hong Kong's latest socio-economic and employment conditions, discuss the views collected at the focused consultation meetings with stakeholders of LPS held on 7 and 8 September 2017, and note the experience of selected places in reviewing the minimum wage rates.</li> </ul>
8 December	MWC meeting	<ul style="list-style-type: none"> <li>To convene the fourth meeting.</li> <li>To examine Hong Kong's latest socio-economic and employment conditions, and discuss the impact assessment framework and methodology to be adopted when reviewing the SMW rate.</li> </ul>
<b>Year 2018</b>		
16 March	MWC meeting	<ul style="list-style-type: none"> <li>To convene the fifth meeting.</li> <li>To receive the major results of 2017 AEHS and 2016 ASEA, examine Hong Kong's latest socio-economic and employment conditions, and deliberate on MWC's work plan for 2018 and the consultation arrangements for the review of the SMW rate.</li> </ul>
9 April	Dissemination of information	<ul style="list-style-type: none"> <li>To upload relevant reference data and information onto MWC's webpage.</li> <li>To issue a press release to announce that MWC launched a six-week public consultation from 9 April 2018 and invited views from the community on the review of the SMW rate.</li> </ul>
9 April to 20 May	Consultation activities	<ul style="list-style-type: none"> <li>To conduct public consultation on the review of the SMW rate (Please refer to paragraphs 2.18 to 2.21).</li> </ul>
13 April	Dissemination of information	<ul style="list-style-type: none"> <li>To issue a press release to report that the Chief Executive (CE) had, in accordance with the Minimum Wage Ordinance, required MWC to submit the recommendation report about the SMW rate on or before 31 October 2018.</li> </ul>
8 May	Dissemination of information	<ul style="list-style-type: none"> <li>To issue a press release to appeal to members of the public and stakeholders for submissions to MWC on the review of the SMW rate before the end of public consultation.</li> </ul>
21 May	Dissemination of information	<ul style="list-style-type: none"> <li>To report on the consultation work that had been undertaken/was being planned by MWC in conducting the review of the SMW rate.</li> </ul>
20 to 22 and 26 June	Consultation activities	<ul style="list-style-type: none"> <li>To conduct consultation meetings with stakeholders (Please refer to paragraphs 2.22 to 2.24).</li> </ul>

Date	Events	Details
27 June	Dissemination of information	<ul style="list-style-type: none"> <li>To upload onto MWC's webpage the list of stakeholders that attended the consultation meetings held in June 2018.</li> </ul>
27 July	MWC meeting	<ul style="list-style-type: none"> <li>To convene the sixth meeting.</li> <li>To examine Hong Kong's latest socio-economic and employment conditions, discuss the views collected during public consultation and consultation meetings with stakeholders, as well as the impact assessment results of different SMW test levels.</li> </ul>
10 August	MWC meeting	<ul style="list-style-type: none"> <li>To convene the seventh meeting.</li> <li>To examine Hong Kong's latest socio-economic and employment conditions, and deliberate on the SMW rate to be recommended to CE in Council.</li> </ul>
24 August	MWC meeting	<ul style="list-style-type: none"> <li>To convene the eighth meeting.</li> <li>To examine Hong Kong's latest socio-economic and employment conditions, and deliberate on the SMW rate to be recommended to CE in Council.</li> </ul>
5 October	MWC meeting	<ul style="list-style-type: none"> <li>To convene the ninth meeting.</li> </ul>

## 2.II.2 Statistical surveys and thematic studies

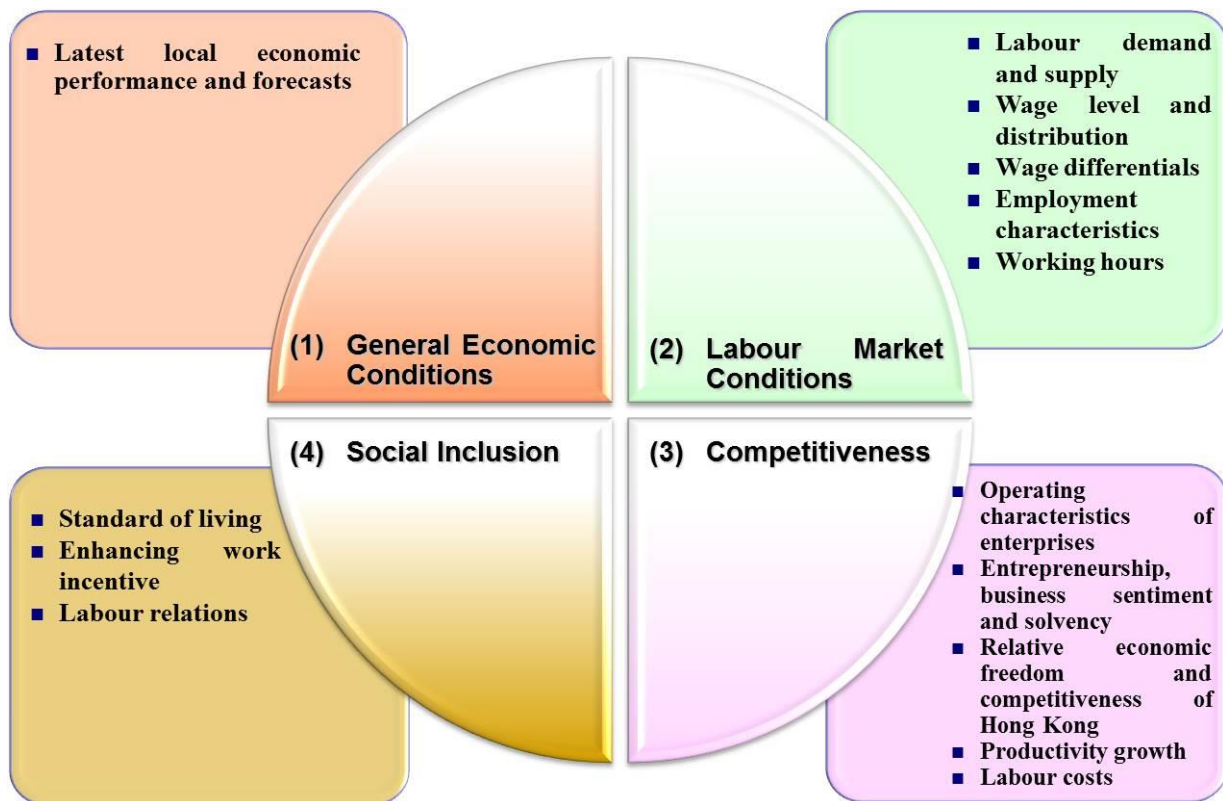
2.10 MWC adopted an evidence-based approach in reviewing the SMW rate. During the review, MWC conducted detailed and in-depth study and analyses of the relevant statistical data.

### (a) Array of Indicators

2.11 In setting minimum wage rates, different places would generally make reference to a number of relevant indicators so as to grasp detailed information on socio-economic and employment conditions. Drawing reference from the experience of the past three terms of MWC, MWC considered that examining and monitoring such information regularly through analysing and studying relevant quantitative indicators would be useful for the deliberation of the SMW rate.

2.12 Based on the relevant indicators adopted in the past reviews of the SMW rate, MWC examined the feasibility and appropriateness of adding more indicators. MWC considered that it should continue to adopt the Array of Indicators in Figure 2.2, to cover the four areas of consideration, namely general economic conditions, labour market conditions, competitiveness and social inclusion. The Array of Indicators not only covered the essential considerations as stipulated in the statutory function of MWC, but also drew on the experience and factors of consideration in selected places in reviewing the minimum wage rates. The relevant indicators (including data sources) are listed in **Appendix I**.

Figure 2.2: Summary of the Array of Indicators considered by the Minimum Wage Commission



**(b) Annual Earnings and Hours Survey and Annual Survey of Economic Activities**

2.13 Among the various indicators, AEHS and ASEA conducted by C&SD provided highly useful and important information for MWC's review of the SMW rate. AEHS provided comprehensive data on the level and distribution of wages, as well as the employment and demographic characteristics of employees in Hong Kong. These data enabled MWC to conduct detailed analyses so as to understand the socio-economic characteristics of employees of different wage levels. ASEA provided statistical data on the business performance and operating characteristics of enterprises in various sectors, which facilitated analyses of business receipts, operating expenses, compensation of employees and gross surplus of different sectors. These data provided important reference for assessing the impact of the SMW rate on enterprises, in particular small and medium enterprises (SMEs)<sup>(1)</sup>.

(1) To support MWC in reviewing the SMW rate more effectively, the survey methodologies of AEHS and ASEA have been enhanced. For instance, the reference period of AEHS, which was the second quarter for 2009 AEHS and 2010 AEHS, has changed to May to June since 2011 AEHS so as to more accurately reflect the wage distribution after the implementation and the upratings of SMW in the relevant years. At the same time, starting from 2011 ASEA, C&SD has collected from sectors data on amortisation alongside depreciation data.

**(c) Other statistical surveys conducted by the Census and Statistics Department and administrative records of relevant government departments**

2.14 Apart from the annual data of AEHS and ASEA, MWC also made reference to a large number of other more up-to-date relevant data which were released more frequently to closely monitor the latest situation and trend of socio-economic and employment conditions. These data mainly came from other statistical surveys conducted by C&SD (such as monthly General Household Survey, Monthly Retail Price Survey as well as quarterly Labour Earnings Survey and Quarterly Survey of Employment and Vacancies) and administrative records of other government departments (such as the Inland Revenue Department and Official Receiver's Office). MWC also uploaded these data and relevant links onto its webpage (see paragraph 2.19) to invite views from members of the public and stakeholders on the review of the SMW rate.

**(d) Studies on the impact of the Statutory Minimum Wage rate on the pay hierarchies**

2.15 Past experience indicated that in response to SMW upratings, enterprises not only raised the wages of grassroots workers to that level, but also increased the wages of employees of other ranks to suitably maintain pay differentials among ranks, preserve staff morale and reduce turnover. MWC has taken due consideration of the above impact of knock-on effect on pay hierarchies (knock-on effect)<sup>(2)</sup> in the review of the SMW rate.

**2.II.3 Consultation activities**

2.16 Apart from studying statistical data and information from other surveys, MWC also fully considered the views from the community. To solicit and gauge views of members of the public and stakeholders on the review of the SMW rate, MWC conducted focused consultation meetings with stakeholders of the low paying sectors (LPS)<sup>(3)</sup> in September 2017, and conducted public consultation and consultation meetings with stakeholders in April to May 2018 and June 2018 respectively. A

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(2) When estimating the knock-on effect, MWC made reference to the findings of the thematic studies on the impact of knock-on effect conducted by consultants as commissioned by the Government in 2011 and 2013, and based on the experience of the implementation and the three upratings of SMW, reviewed and enhanced the estimation of the knock-on effect.

(3) According to the *2016 Report of the Minimum Wage Commission*, LPS included (a) retail (including supermarkets and convenience stores, and other retail stores); (b) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes and Hong Kong style tea cafes); (c) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (d) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

summary of the views collected by MWC through its consultation activities is in Section 4.II of Chapter 4.

**(a) Focused consultation meetings conducted with stakeholders of the low paying sectors**

2.17 MWC conducted focused consultation meetings with stakeholders of LPS (including trade unions, trade associations/professional institutes and employers) on 7 and 8 September 2017 in order to understand the impact of the implementation and the past three upratings of SMW on employers and employees of LPS. MWC conducted a total of eight sessions of focused consultation meetings. Among the 304 stakeholders of LPS invited (including stakeholders which had been invited by MWC to attend consultation meetings before, those which had expressed views on the SMW rate and related issues or had requested meetings with MWC, and other stakeholders), 97<sup>(4)</sup> of them participated in the meetings. A list of stakeholders that attended the focused consultation meetings is in **Appendix II**.

**(b) Public consultation**

2.18 Upon the release of the findings of 2017 AEHS by C&SD on 16 March 2018, MWC launched a six-week public consultation from 9 April to 20 May 2018 to invite members of the public and stakeholders to provide views on the review of the SMW rate to MWC.

2.19 To launch the public consultation, relevant reference data and information were uploaded onto MWC's webpage, including the latest data on the Array of Indicators reflecting the socio-economic and employment conditions after the implementation of SMW in May 2011 and its three upratings; supplementary statistical data<sup>(5)</sup>; other relevant considerations relating to the review of the SMW rate; and impact assessment considered by MWC to be adopted in reviewing the SMW rate.

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(4) Including 37 stakeholders of estate management, security and cleaning services, 22 stakeholders of the restaurant sector, 22 stakeholders of other LPS, and 16 stakeholders of the retail sector.

(5) Supplementary statistical data included (a) number and proportion of employees involved earning less than different SMW test levels, and number and proportion of employees earning the prevailing SMW rate analysed by sector; (b) estimated extent of increase in wages of employees involved analysed by sector and different SMW test levels; (c) estimated increase in wage bill of all enterprises and SMEs analysed by sector and different SMW test levels; and (d) operating characteristics of all enterprises and SMEs analysed by sector.



2.20 Besides, MWC newly introduced an electronic form on its webpage to facilitate members of the public and stakeholders to provide their views. MWC also invited submissions from members of the public and stakeholders through various media and channels, including issuing press releases; broadcasting radio announcements; posting advertisements on various newspapers; disseminating consultation messages on different modes of public transport; broadcasting promotional messages at the Home Affairs Enquiry Centres in various districts; sending appeal letters to stakeholders and about 11 100 incorporated owners, mutual aid committees and owners' committees, etc.; and providing hyperlinks to MWC's webpage on Government's webpages (such as the webpages of the GovHK, Labour Department and Labour Department's Interactive Employment Service), E-newsletter of the Support and Consultation Centre for SMEs, and newspapers mobile apps so as to publicise the public consultation of MWC more widely.

2.21 Through the public consultation, MWC received a total of 299 written submissions, with one of these submissions attaching 352 signed letters with identical content. These submissions came from members of the public and organisations in different sectors including trade unions, trade/employers' associations, SME associations, associations of LPS, other trade associations, labour policy concern groups, think tanks/policy research institutes, as well as owners' committees, etc.

**(c) Consultation meetings conducted with stakeholders**

2.22 On 20 to 22 June 2018 and 26 June 2018 evening, MWC conducted consultation meetings with stakeholders including major trade unions, major trade/employers' associations, SME associations, stakeholders of LPS (including trade unions, trade associations/professional institutes and employers), other trade/professional/employers' associations, labour policy concern groups and think tanks/policy research institutes. MWC conducted a total of 19 sessions of consultation meetings. Among the 405 stakeholders invited (including stakeholders which had been invited by MWC to attend consultation meetings before, those which had expressed views on the SMW rate and related issues or had requested meetings with MWC, and other stakeholders), 103<sup>(6)</sup> of them participated in the meetings. A list of stakeholders that attended the consultation

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(6) Including 4 major trade unions, 6 major trade/employers' associations, 4 SME associations, 25 stakeholders of estate management, security and cleaning services, 16 stakeholders of other LPS, 15 stakeholders of the retail sector, 15 stakeholders of the restaurant sector, 6 other trade associations, 5 labour policy concern groups, 5 think tanks/policy research institutes and 2 other professional/employers' associations.

meetings is in **Appendix II**.

- 2.23 During the consultation meetings, stakeholders provided views on the specific impact of the implementation of SMW in May 2011 and its three upratings (in May 2013, May 2015 and May 2017 respectively) on society, economy, labour market, SMEs and the concerned sectors. They also provided valuable views on the factors that should be taken into account by MWC in reviewing the SMW rate. The consultation meetings served to gauge the views of stakeholders or enable them to supplement on their written submissions provided during the public consultation, so as to facilitate MWC to conduct comprehensive and objective analyses.
- 2.24 Through the above consultation activities, MWC gained a more comprehensive understanding of the impact of SMW on Hong Kong's economy, society, employment conditions, various sectors (in particular LPS) and SMEs, as well as collected views from members of the public and stakeholders on the review of the SMW rate. These provided MWC with a solid foundation and reference in discharging its duties.

#### **2.II.4 Experience in selected places in reviewing the minimum wage rates**

- 2.25 During the review of the SMW rate, MWC analysed the experience of reviewing the minimum wage rates in 11 selected places (i.e. the Mainland, Taiwan, South Korea, the United Kingdom, France, Ireland, Germany, Australia, New Zealand, the United States and Canada). Relevant information is in **Appendix III**.

### **3. The Socio-economic Conditions since the Implementation of Statutory Minimum Wage and its Impact**

- 3.1 The main function of the Minimum Wage Commission (MWC) is to report its recommendation about the Statutory Minimum Wage (SMW) rate to the Chief Executive in Council. In performing its statutory function, MWC must have regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and the need to sustain Hong Kong's economic growth and competitiveness. By adopting an evidence-based approach, MWC conducted comprehensive analyses of relevant data and information of various aspects in order to monitor the socio-economic and employment conditions after the implementation of SMW in May 2011 and its three upratings. The data analysed by MWC were mainly drawn from a number of statistical surveys of the Census and Statistics Department (C&SD) and the administrative records of other relevant government departments (please refer to Chapter 2).
- 3.2 This chapter summarises MWC's observations on the changes in various aspects of socio-economic conditions in Hong Kong since the implementation of SMW, and elaborates on SMW's impact on enterprises, inflation, employees<sup>(1)</sup> and the local labour market by analysing the relevant data. As SMW has only been uprated three times so far, we still need to monitor and study the relevant impact of SMW on a continual basis.

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(1) Unless otherwise specified, the term "employees" excludes government employees and live-in domestic workers.

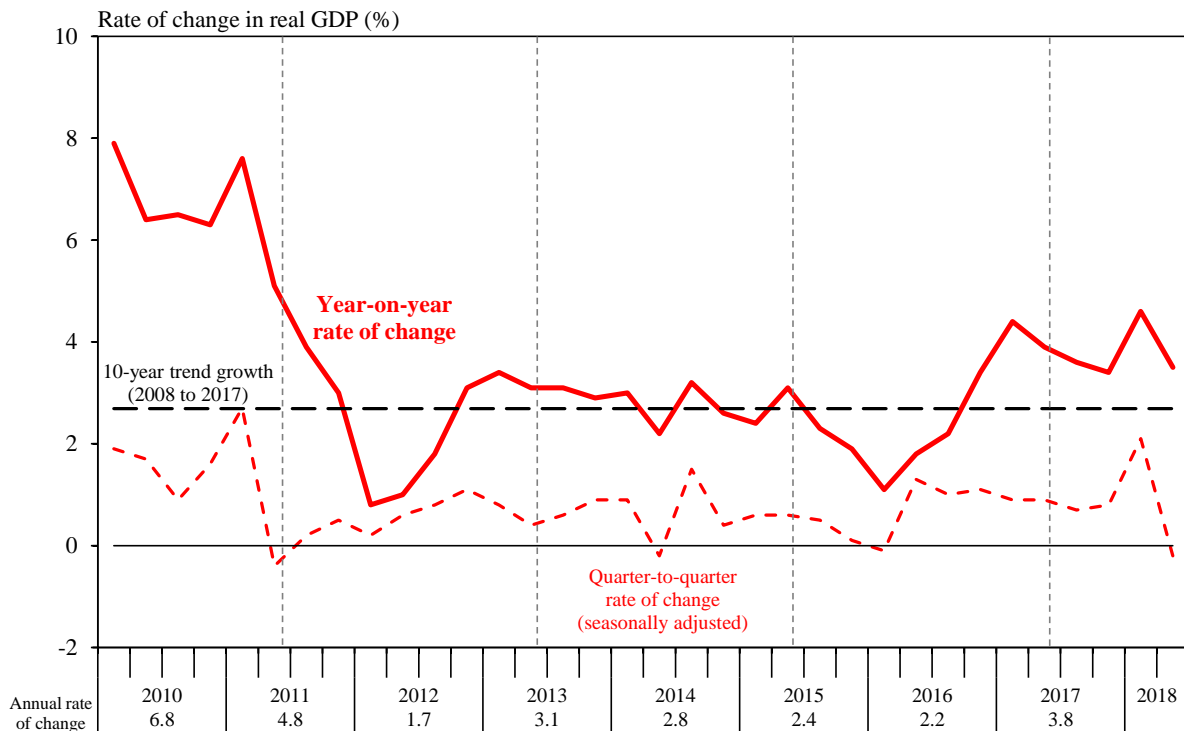
### **3.I The Macroeconomic Conditions since the Implementation of Statutory Minimum Wage**

3.3 MWC recognises that the impact of the implementation of SMW on Hong Kong's socio-economic conditions hinges, to a large extent, on the macroeconomic environment. Favourable macroeconomic conditions would help cushion the pressure on employment and corporate profits brought about by the implementation and upratings of SMW. On the contrary, if the economy is trending down or even facing a huge external shock to the extent of putting significant pressure on corporate profits, an uprating of SMW would further jeopardise the business environment and employment situation. At the same time, apart from bringing about direct impact on lower-paid employees and enterprises, the implementation and upratings of SMW would also, to a certain extent, interact with various aspects of the Hong Kong economy (including the labour market, prices, and competitiveness, etc.).

#### **3.I.1 Macroeconomic conditions have been largely stable since 2011, yet external uncertainties have increased markedly in recent period**

3.4 Since the implementation of SMW in 2011, the macroeconomic conditions in Hong Kong have been largely stable. During 2011 to 2016, despite the bumpy recovery of the global economy, Hong Kong was able to sustain moderate economic expansion for most of the period. With the global economy regaining its growth momentum in 2017, Hong Kong's economic performance improved visibly. In particular, Hong Kong's total exports of goods picked up in growth in 2017, while exports of services also revived amidst the recovery in inbound tourism. At the same time, domestic demand was resilient, thanks to the sustained increases in wages and earnings on the back of a tightened labour market. The local economy grew markedly by 3.8% in real terms for 2017 as a whole and continued to expand notably by 4.0% year-on-year in the first half of 2018, representing the strongest growth performance since 2011. These positive developments had helped cushion the possible negative impact of the third uprating of the SMW in May 2017 (Figure 3.1). However, the continued escalation of trade friction between major economies since mid-2018 could weigh on global economic sentiment as well as trade and investment activities. These external headwinds could affect the outlook of the Hong Kong economy.

**Figure 3.1: The Hong Kong economy grew strongly in the first half of 2018, yet external headwinds have increased somewhat recently**



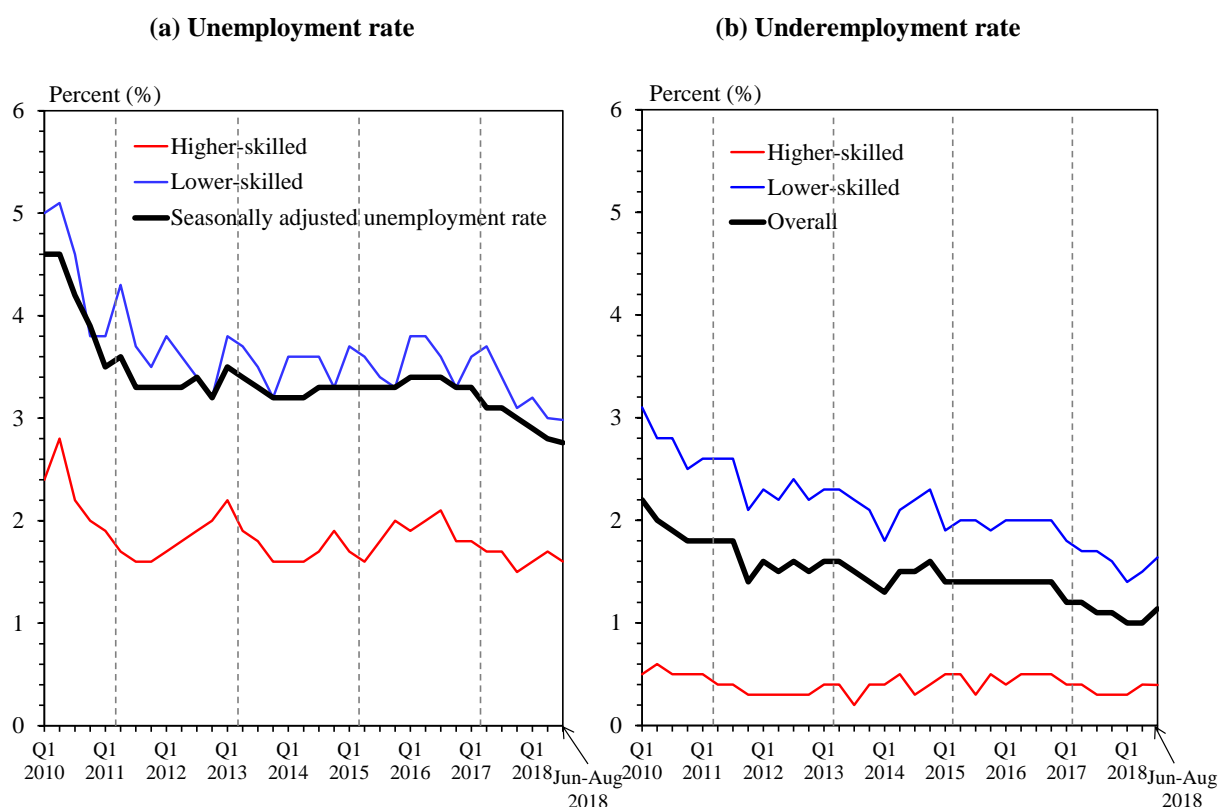
Notes: Figures are subject to revision by the Census and Statistics Department when more data become available.  
The black vertical dotted lines denote the implementation/revision of SMW.  
Source: National Income Statistics, Census and Statistics Department.

### 3.1.2 Local labour market tightened gradually in the past year or so

3.5 On the back of the largely favourable macroeconomic conditions, labour demand held sturdy in Hong Kong, thereby driving a persistent growth in total employment. According to the General Household Survey (GHS), total employment grew solidly by 1.6% year-on-year to 3 882 400 in June to August 2018, broadly similar to the average annual growth of 1.4% over the seven-year period from 2011 to 2017. Meanwhile, the labour force had grown visibly since 2011, as the improved income prospect upon the implementation of SMW helped enhance the incentive to work.

3.6 The labour market was resilient throughout the past seven years and largely remained in a state of full employment. Amidst the strengthened economic performance in Hong Kong in 2017, labour demand was persistently strong, resulting in a further tightening of the overall labour market. The annual average unemployment rates stayed at low levels of 3.3% to 3.4% during 2011 to 2016, and fell further to 3.1% in 2017. More recent data indicated that the seasonally adjusted unemployment rate dropped further to a 20-year low of 2.8% in June to August 2018, while the underemployment rate was likewise at a low level of 1.1% (Figure 3.2).

**Figure 3.2: Unemployment and underemployment rates declined in the past year or so**



Note: The black vertical dotted lines denote the implementation/revision of SMW.  
Source: General Household Survey, Census and Statistics Department.

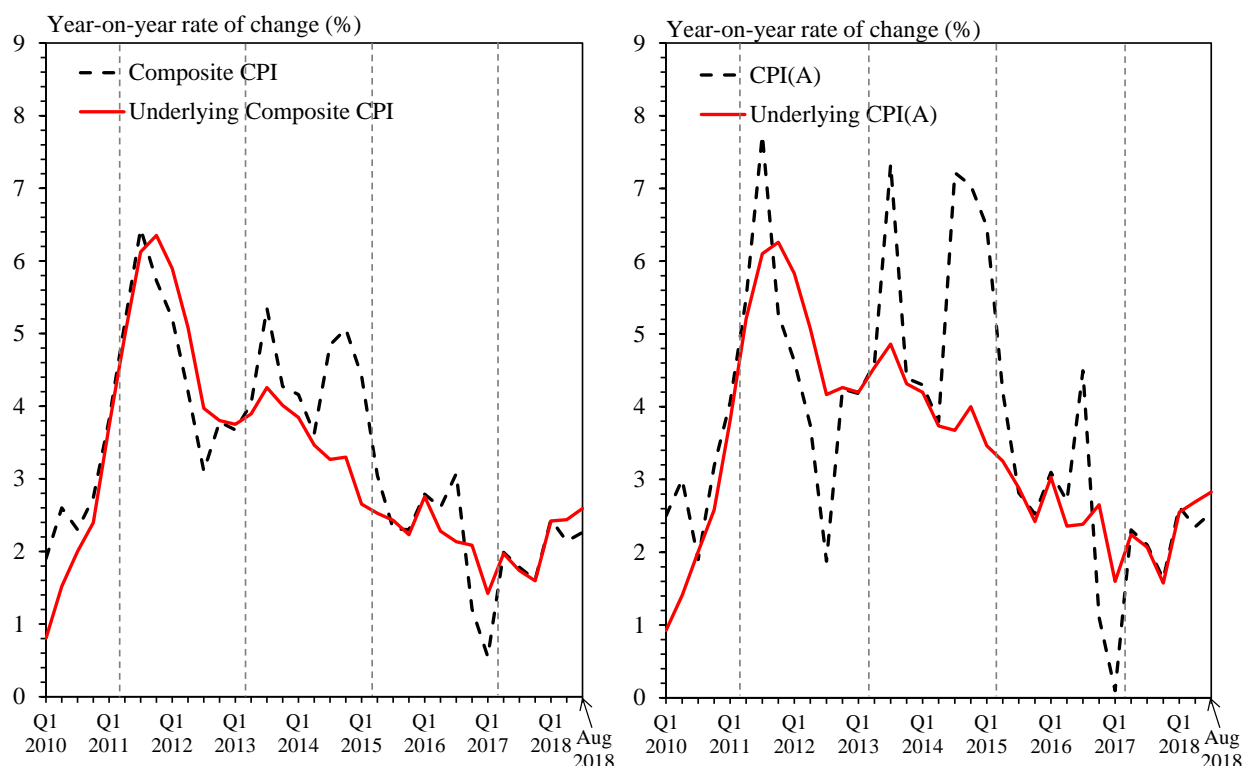
### 3.I.3 Overall inflation remained largely moderate

3.7 Shortly upon the implementation of SMW, the underlying Composite Consumer Price Index (CPI) rose by 5.3% for 2011 as a whole, driven by higher domestic cost pressure, surging international food and commodity prices, as well as rise in private housing rentals. Nevertheless, during 2012 to 2017, the uptrend in private housing rentals tapered and the external price pressure was largely contained, hence the underlying Composite CPI inflation witnessed a receding trend within this period (Figure 3.3). As the local economy registered an above-trend growth over the past year or so, and private housing rentals saw an accelerated year-on-year increase, inflation picked up somewhat after entering 2018, albeit at a still-moderate level. For the first eight months of 2018, the underlying Composite CPI inflation was 2.5%. The underlying CPI(A), which is more relevant to the livelihood of the grassroots, showed a similar trend.

**Figure 3.3: Inflation picked up somewhat after entering 2018, albeit at a still-moderate level, after having receded for six consecutive years<sup>(\*)</sup>**

**(a) Composite Consumer Price Index (CPI)**

**(b) Consumer Price Index (A)**



Notes: (\*) The Composite CPI and CPI(A) were more volatile, mainly because the Government introduced different one-off relief measures in different years, which resulted in a relatively low/high base of comparison in certain months. The black vertical dotted lines denote the implementation/revision of SMW.

Source: Monthly Retail Price Survey, Census and Statistics Department.

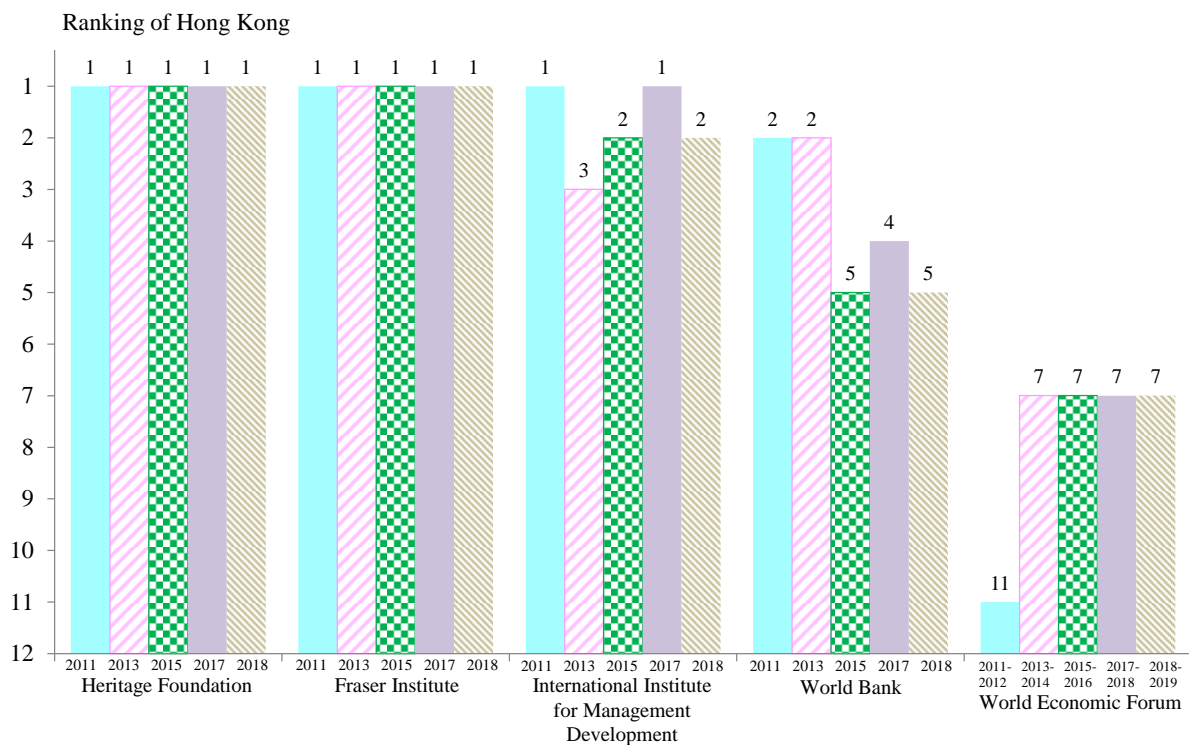
### 3.1.4 Overall competitiveness

3.8 Considering that SMW has only been updated three times and the period is still short for data analysis, MWC still needs to keep monitoring the specific impact of SMW on Hong Kong's overall competitiveness in the medium- to long-term. If some enterprises fail to effectively adopt mitigation strategies (such as increasing capital investment, streamlining production processes and enhancing staff productivity) to offset additional labour costs, upratings of SMW might affect their competitiveness in the long run.

3.9 As shown in the global rankings compiled by various internationally acclaimed organisations, Hong Kong's rankings in economic freedom and competitiveness remained high (Figure 3.4). Among these rankings, Hong Kong continued to rank top globally in terms of economic freedom by The Heritage Foundation and the Fraser Institute in 2018. As for overall competitiveness, according to the *World Competitiveness Yearbook* published by the Lausanne, Switzerland-based International

Institute for Management Development, Hong Kong ranked 2<sup>nd</sup> globally in 2018, only after the United States; Hong Kong ranked 5<sup>th</sup> and 7<sup>th</sup> respectively in the world in the *2018 Doing Business Report* published by the World Bank in 2017 and the *Global Competitiveness Report* released by the World Economic Forum in 2018. According to the *World Investment Report 2018* of the United Nations Conference on Trade and Development, Hong Kong's foreign direct investment inflows totalled US\$104 billion in 2017, ranking 3<sup>rd</sup> in the world.

**Figure 3.4: Hong Kong's global rankings in many economic freedom and competitiveness indices<sup>(^)</sup> remained high**



Note: (^) Some organisations revised the previous years' ranking. Information in the above diagram shows the revised rankings.

Sources: Various ranking organisations.



3.10 As for Hong Kong’s unit labour cost (i.e. the average labour cost per unit of output), although the impact of wage increases was partly offset by continued productivity gains of their employees via increasing capital investment, improving production processes, installing automatic or electronic systems, and enhancing operational efficiency by enterprises, unit labour cost still grew by 3.5% per annum on average in 2011 to 2017, much faster than the increases seen in other selected economies (Figure 3.5). MWC will closely monitor the trend of unit labour cost and changes in Hong Kong’s long-term competitiveness.

**Figure 3.5: Hong Kong’s unit labour cost grew faster than those of other selected economies in 2011 to 2017**



Sources: Hong Kong – National Income Statistics, General Household Survey and Labour Earnings Survey, Census and Statistics Department.  
Other places – Official statistics authorities, CEIC and Datastream databases.

## 3.II Socio-economic Characteristics of Employees Earning the Statutory Minimum Wage Rate

3.11 As the labour market has remained resilient since the implementation of SMW, wages of grassroots workers continued to see appreciable growth. According to the findings of the Annual Earnings and Hours Survey (AEHS)<sup>(2)</sup>, 26 700 employees were earning the SMW rate in the reference period of May to June 2017 (with the SMW rate at \$34.5 per hour), representing 0.9% of all employees. These figures were below their corresponding levels of 41 900 and 1.4% in May to June 2015 (with the SMW rate at \$32.5 per hour) as well as 180 600 and 6.4% when SMW was just implemented (i.e. in May to June 2011 with the SMW rate at \$28 per hour). After three upratings of SMW, the 10<sup>th</sup> percentile hourly wage increased notably by 36.7% from \$29.3 in May to June 2011 to \$40.0 in May to June 2017, with an average annual growth of 5.3% (Table 3.1).

3.12 The above showed that the implementation of SMW and its upratings did not impede upward wage adjustments of grassroots workers. Coupled with the tight labour market in recent years, wages of the majority of lower-paid employees sustained notable improvements.

**Table 3.1: Number and share of employees earning the Statutory Minimum Wage rate and the 10<sup>th</sup> percentile hourly wage<sup>(3)</sup>**

	May to June 2011	May to June 2012	May to June 2013	May to June 2014	May to June 2015	May to June 2016	May to June 2017
Statutory Minimum Wage (SMW) rate	\$28.0	\$28.0	\$30.0	\$30.0	\$32.5	\$32.5	\$34.5
Number of employees earning the SMW rate (as a share among all employees)	180 600 (6.4%)	90 100 (3.1%)	98 100 (3.4%)	50 300 (1.7%)	41 900 (1.4%)	22 900 (0.8%)	26 700 (0.9%)
The 10 <sup>th</sup> percentile of hourly wage	\$29.3	\$30.6	\$33.0	\$34.5	\$36.5	\$38.1	\$40.0

Note: Number of employees was rounded to the nearest hundred. Percentage was derived from unrounded figures.

Source: Annual Earnings and Hours Survey, Census and Statistics Department.

(2) The reference period of the 2010 AEHS was April to June 2010, whereas that of the 2011 to 2017 rounds was May to June so as to reflect the wage distribution after the implementation of the initial SMW rate in May 2011 and the subsequent upratings in May 2013, May 2015 and May 2017.

(3) For detailed wage situation of “low-paid employees” (i.e. employees with hourly wage rates below the 10<sup>th</sup> percentile of the overall hourly wage distribution), please refer to Section 3.IV.

3.13 Analysed by socio-economic characteristics, employees earning the SMW rate in May to June 2017 were mainly females (59.0%), older employees (aged 45 and above) (75.1%), those with lower educational attainment (secondary 3 and below) (80.4%), elementary workers and service and sales workers (90.4%) or workers engaged in the low paying sectors (LPS)<sup>(4)</sup> (82.0%). Compared with the situation in May to June 2015, employees earning the SMW rate were more concentrated in LPS, with a relatively larger proportion being elementary workers or with lower secondary education or below (Table 3.2).

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(4) The past three terms (i.e. 2011-13, 2013-15 and 2015-17) of MWC defined LPS as sectors employing a relatively large number of low-paid employees or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. Based on the above criteria and the findings of the 2017 AEHS, MWC considered it appropriate to continue to adopt the four LPS identified by the past three terms of MWC and the 15 sub-sectors covered. These included: (a) retail (including supermarkets and convenience stores and other retail stores); (b) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes and Hong Kong style tea cafes); (c) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (d) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production). MWC will continue to monitor the employment situation of low-paid employees across different sectors and update the scope covered by LPS when necessary.

According to the findings of the 2017 AEHS, the 10<sup>th</sup> percentile hourly wage of LPS in May to June 2017 was \$36.9, which was lower than that of all sectors (\$40.0), suggesting that there were relatively more low-paid employees in LPS. Besides, the proportion of low-paid employees among all employees in LPS was 22.4%, larger than that of 9.5% for all sectors. This suggested that LPS had a relatively large proportion of low-paid employees among all employees within the sectors. For detailed statistical data, please refer to **Table A.1 in Appendix V**.

**Table 3.2: Socio-economic characteristics of employees earning the  
Statutory Minimum Wage (SMW) rate**

Socio-economic characteristic	May to June 2015			May to June 2017		
	Employees earning the SMW rate (i.e. \$32.5 per hour)			Employees earning the SMW rate (i.e. \$34.5 per hour)		
	Number of persons ('000)	Proportion among all employees earning the SMW rate (%)	Proportion among all employees in the corresponding category (%)	Number of persons ('000)	Proportion among all employees earning the SMW rate (%)	Proportion among all employees in the corresponding category (%)
<b>Total number of employees</b>	<b>41.9</b>	<b>100.0</b>	<b>1.4</b>	<b>26.7</b>	<b>100.0</b>	<b>0.9</b>
<b>I. Gender</b>						
Male	16.8	40.1	1.1	10.9	41.0	0.7
Female	25.1	59.9	1.7	15.7	59.0	1.1
<b>II. Age group</b>						
Aged 15 to 24	3.3	7.8	1.4	1.1	4.1	0.5
Aged 25 to 34	4.8	11.5	0.6	2.2	8.2	0.3
Aged 35 to 44	3.8	9.2	0.5	3.4	12.6	0.4
Aged 45 to 54	11.5	27.4	1.5	6.0	22.7	0.8
Aged 55 and above	18.5	44.1	4.0	14.0	52.4	2.9
<b>III. Educational attainment</b>						
Primary and below	18.0	42.9	5.1	15.3	57.3	4.4
Secondary 1 to 3	9.7	23.2	2.2	6.1	23.1	1.4
Secondary 4 to 7	9.8	23.3	0.8	4.3	16.3	0.4
Tertiary education	4.4	10.6	0.4	0.9	3.3	0.1
<b>IV. Occupational group</b>						
Elementary workers	27.9	66.4	6.1	20.0	75.1	4.3
Service and sales workers	6.2	14.7	1.2	4.1	15.3	0.8
Craft workers and machine operators	0.8	2.0	0.2	0.3	1.2	0.1
Clerical support workers	3.9	9.3	0.8	0.6	2.3	0.1
Managers, administrators, professionals and associate professionals	3.2	7.6	0.3	1.6	6.1	0.1
<b>V. Sector</b>						
<b>(i) Low paying sectors</b>	<b>31.1</b>	<b>74.2</b>	<b>3.7</b>	<b>21.9</b>	<b>82.0</b>	<b>2.6</b>
1. <i>Retail</i>	2.8	6.8	1.0	2.0	7.4	0.7
Supermarkets and convenience stores	1.1	2.6	2.6	§	§	§
Other retail stores	1.8	4.2	0.7	§	§	§
2. <i>Restaurants</i>	1.7	4.2	0.8	1.0	3.6	0.4
Chinese restaurants	0.6	1.4	0.8	§	§	§
Non-Chinese restaurants	§	§	§	§	§	§
Fast food cafes	0.8	1.9	1.5	0.6	2.3	1.1
Hong Kong style tea cafes	§	§	§	§	§	§
3. <i>Estate management, security and cleaning services</i>	24.3	57.9	10.2	16.8	63.0	6.9
Real estate maintenance management	10.4	24.7	9.2	4.5	17.0	4.0
Security services	5.2	12.4	12.9	3.2	11.9	7.2
Cleaning services	7.4	17.8	10.7	8.0	30.0	11.4
Membership organisations	1.3	3.1	8.3	1.1	4.1	6.9
4. <i>Other low paying sectors</i>	2.2	5.4	2.4	2.1	7.9	2.2
Elderly homes	0.9	2.0	4.3	0.5	2.0	2.6
Laundry and dry cleaning services	§	§	§	§	§	§
Hairdressing and other personal services	0.7	1.8	1.7	0.6	2.4	1.5
Local courier services	§	§	§	§	§	§
Food processing and production	0.5	1.3	2.5	0.8	3.0	3.4
<b>(ii) Other sectors</b>	<b>10.8</b>	<b>25.8</b>	<b>0.5</b>	<b>4.8</b>	<b>18.0</b>	<b>0.2</b>

Notes: § Figures are not released due to relatively large sampling error.  
Number of employees was rounded to the nearest hundred. Percentage was derived from unrounded figures.  
Owing to rounding, the sum of individual items may not be the same as the total.

Source: Annual Earnings and Hours Survey, Census and Statistics Department.

### 3.III Impact on Enterprises and Inflation since the Implementation of Statutory Minimum Wage

- 3.14 Past experience showed that SMW could effectively forestall excessively low wages, though at the same time it also increased labour costs of enterprises, among which enterprises in LPS that were labour-intensive and small and medium enterprises (SMEs) with lower profit margins were in general more affected. Specifically, the upratings of SMW not only directly pushed up the wages of employees just earning the SMW rate, but also led enterprises to raise the wages of other employees so as to maintain the pay differentials among different sectors and ranks to preserve staff morale and avoid loss of talents. Such knock-on effect on pay hierarchies (knock-on effect) indirectly led to a further increase in overall labour costs. As observed over the past few years, the extent of knock-on effect hinged on the magnitude of the uprating of SMW on one hand, and was very much affected by the macro environment on the other. For instance, amidst a tight labour market during an economic up-cycle, enterprises would need to pay higher wages to retain talents, and the knock-on effect would be more pronounced.
- 3.15 At the micro level, the magnitude of the knock-on effect in various sectors was not only determined by the unique rank and remuneration structure of the sectors, but also by their operating conditions, cost structure and manpower resource balance, etc. Upon the implementation and upratings of SMW, those sectors with more laborious work generally had to offer pay rises to employees who were already earning wages above the SMW rate so as to prevent them from switching to other sectors offering more comfortable work environment, more stable working hours or less laborious work. The presence of knock-on effect suggested that some employees earning wages above the SMW rate would also enjoy pay rises as a result of upratings of SMW, and enterprises would have to bear these additional labour costs induced by the SMW rate.
- 3.16 The changes in the operating characteristics of enterprises in different LPS <sup>(5)</sup> since the implementation of SMW and the subsequent impact on inflation are elaborated in the ensuing paragraphs.

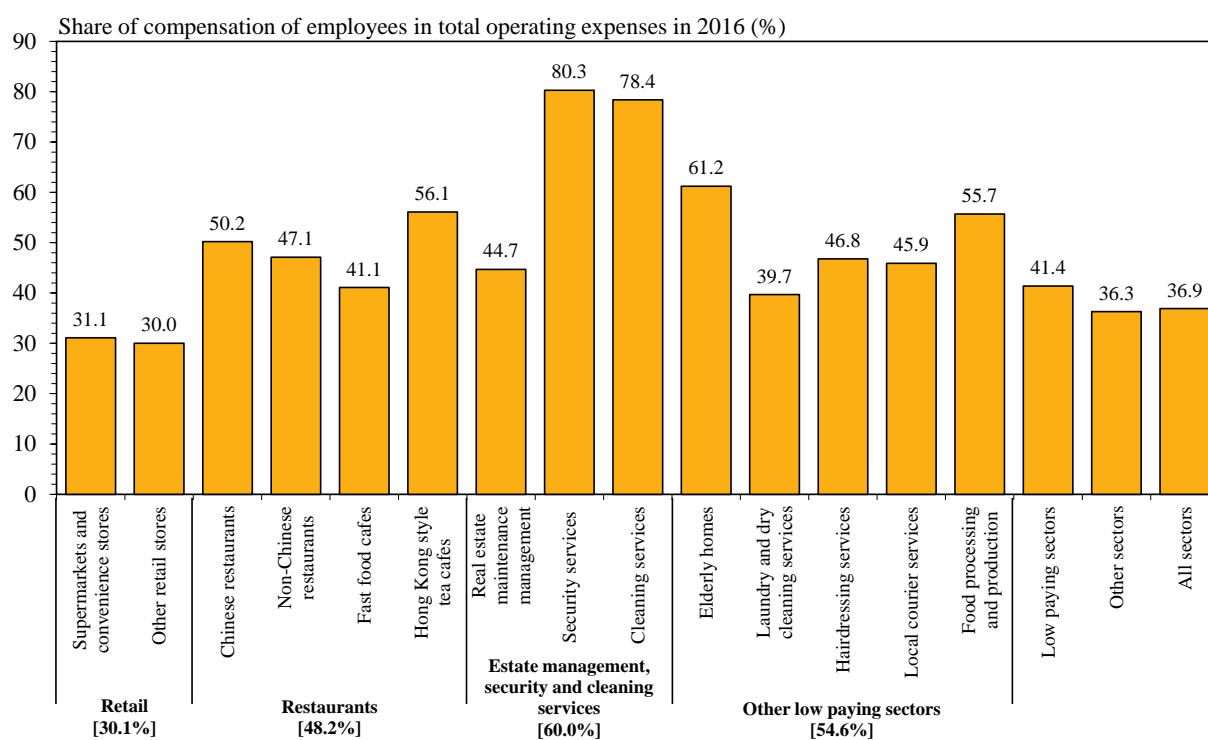
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(5) The analyses below were based on the findings of the 2016 Annual Survey of Economic Activities (ASEA) conducted by C&SD, thus it had yet to reflect the impact of the third SMW uprating in 2017. Since the preparation of detailed data of ASEA took time, the 2017 ASEA findings were not available when MWC was conducting a new round of review and recommendation of the SMW rate. The statistics from ASEA in this report only pertain to those enterprises with employees and data of certain sectors (such as membership organisations and education) are not available.

### 3.III.1 Cost pressure on enterprises

3.17 While different LPS had different cost structures<sup>(6)</sup>, the majority of LPS were labour-intensive with a rather large proportion of their total operating expenses being labour costs<sup>(7)</sup>. Specifically, compensation of employees accounted for around 40% of total operating expenses for LPS as a whole in 2016, with compensation of employees contributing more than half of the total operating expenses in security services (80.3%), cleaning services (78.4%), elderly homes (61.2%), Hong Kong style tea cafes (56.1%), food processing and production (55.7%) and Chinese restaurants (50.2%) (Figure 3.6). The increase in labour costs would pose greater pressure on the operations of these LPS which as a result would be more affected by SMW.

**Figure 3.6 : Most low paying sectors are labour-intensive**



Note: Figures in square brackets denote the shares of compensation of employees to total operating expenses in the sectors in 2016.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

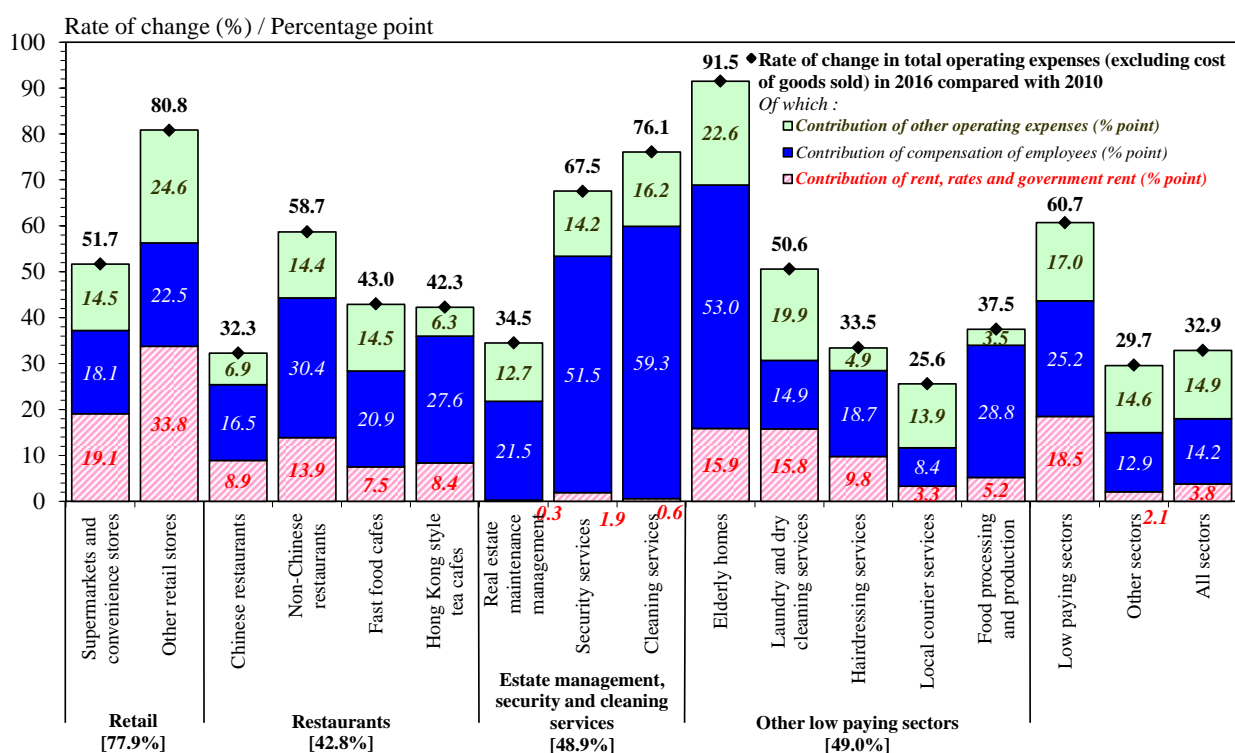
3.18 In the past few years, rising staff costs was the major factor for the increase in total operating expenses in many LPS (Figure 3.7). Comparing the situation of 2016 with that of 2010, total operating expenses for LPS as a whole saw a cumulative increase of

(6) Details of the composition of total expenses by sector are in **Table A.2 of Appendix V**.

(7) Details of the composition of total operating expenses (excluding cost of goods sold) by sector are in **Table A.3 of Appendix V**.

60.7%, of which 25.2 percentage points came from the 61.0% rise in compensation of employees during that period, representing the largest contributor to the rise in total operating expenses. For those labour-intensive sectors mentioned in paragraph 3.17, the contribution of staff costs to the increase in total operating expenses was even more apparent. As for the retail sector, in addition to increase in wage bills induced by SMW upratings, enterprises also had to face greater pressure from rentals which took up a relatively large share of their total operating expenses (around 40%).

**Figure 3.7 : Comparing 2016 with 2010, rising staff costs was the major factor behind the increase in total operating expenses in labour-intensive low paying sectors**



Notes: Figures in square brackets denote rate of change in total operating expenses (excluding cost of goods sold) in 2016 compared with 2010

Owing to rounding, individual contributions may not add up to the overall rate of change.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

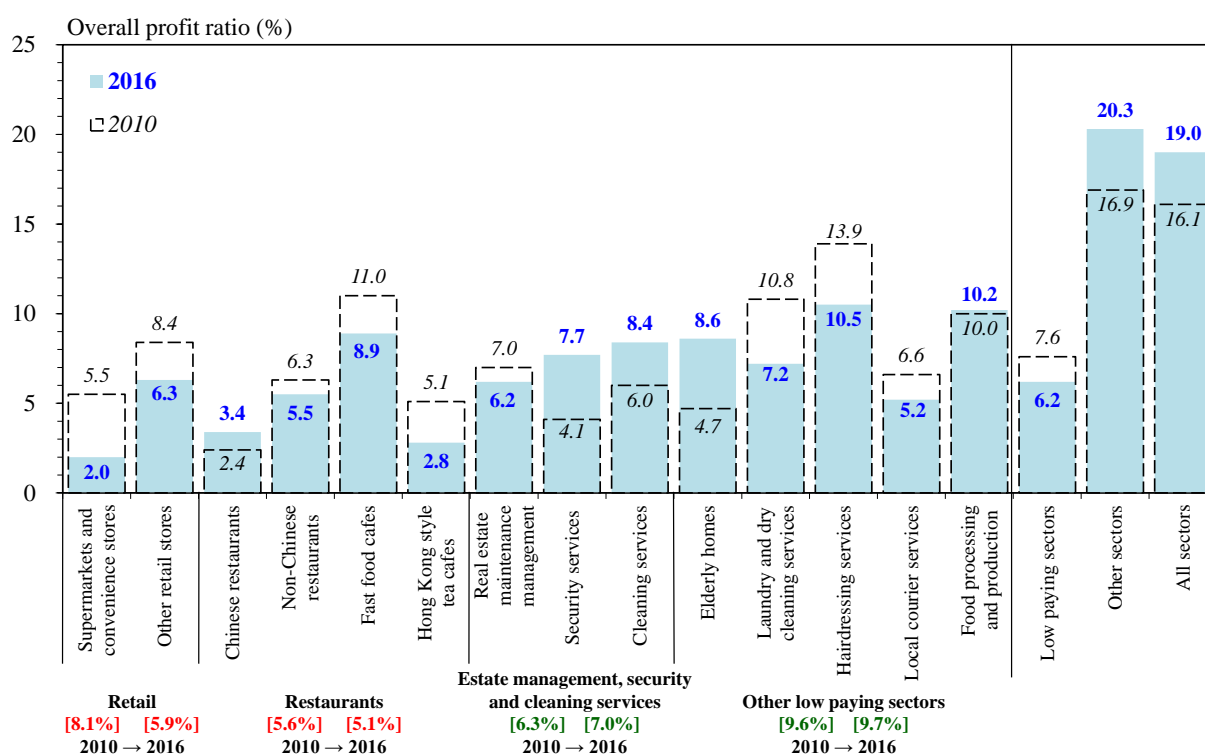
### 3.III.2 Corporate profitability

3.19 As observed from the above analyses, the implementation and upratings of SMW to some extent imposed greater labour cost pressure on LPS. Whether enterprises could maintain their profitability under additional cost pressure depended on whether they could enhance operational efficiency, compress expenses other than wage bills or pass on the increase in operating costs to their clients by raising prices. Moreover, if enterprises' business scale could keep on expanding, their ability to absorb the rising

costs would generally be better. These two conditions above hinge largely on the macroeconomic environment.

3.20 Fortunately, thanks to the sustained expansion of the Hong Kong economy over the past few years, enterprises could generally absorb the additional labour cost pressure stemming from SMW. Nonetheless, with the plunge in both visitor arrivals and per capita visitor spending between 2015 and 2016, the business environment of the retail sector was hard hit in the period. Its profit ratio (i.e. ratios of profit<sup>(8)</sup> to business receipts) was 5.9% in 2016, noticeably lower than the figure of 8.1% in 2010 (Figure 3.8). Sub-sectors such as laundry and dry cleaning services and hairdressing services also seemed to have undergone some consolidation.

**Figure 3.8 : Enterprises could generally absorb the pressure stemming from the additional labour costs induced by the Statutory Minimum Wage, though the profitability of the retail sector turned noticeably weaker amidst the downturn in inbound tourism in 2015 to 2016**



Note: Figures in square brackets denote the profit ratios of the sectors in the specified years.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

(8) In ASEAs, earnings before tax (profit) in 2010 refer to profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions, etc. Amortisation was also deducted from profit starting from 2011.



3.21 It is worth noting that the profitability of most LPS was generally weaker than that of non-LPS, where the profit ratios of Chinese restaurants, Hong Kong style tea cafes and supermarkets and convenience stores were even lower than 4%<sup>(9)</sup> in 2016.

### 3.III.3 The situation of small and medium enterprises

3.22 While there has been generally little change in the profit ratios of SMEs in LPS since the implementation of SMW, most of their profitability was weaker than that of their sector as a whole. Compared to large enterprises, SMEs were constrained by resources and might not be able to benefit from economies of scale and more effective management. They were generally less capable of passing on and coping with costs, and had less flexibility in deploying their resources. Specifically, the overall profit ratio of SMEs in LPS was 3.6%<sup>(10)</sup> in 2016, which was just around 60% of the overall profit ratio (6.2%) for LPS as a whole. SMEs in Chinese restaurants and supermarkets and convenience stores recorded even thinner profit margins in 2016, with profit ratios of 0.8% and 0.6% respectively.

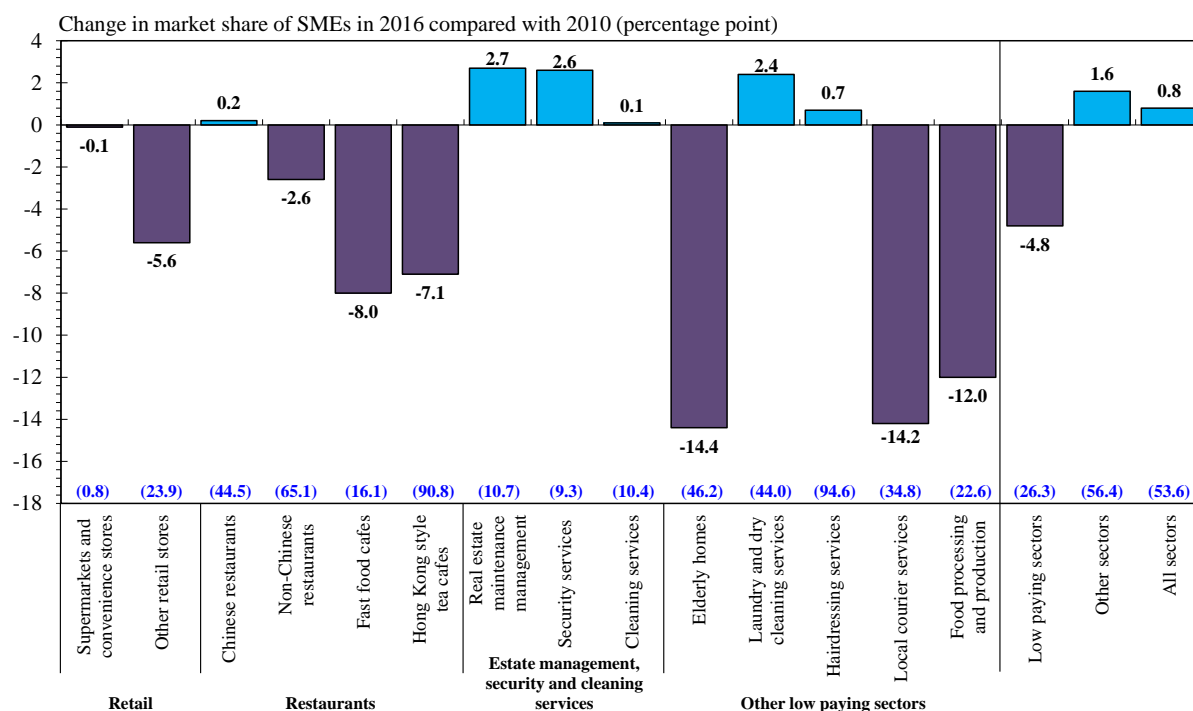
3.23 For those SMEs already running on thin profit margins, apart from having less room for manoeuvre than their larger counterparts when facing a business downturn, they were also less capable of tiding themselves over by squeezing their profits in difficult periods. Since the implementation of SMW, the market share of SMEs (i.e. proportion of business receipts of SMEs among the total in the sector) in LPS fell (Figure 3.9), with particularly noticeable decline in certain sectors. This might reflect the ongoing process of “survival of the fittest” in these sectors. If SMEs with thin profit margins have to face external headwinds amidst mounting operating costs, they might have to lay off employees, or even cease operations.

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(9) For detailed data on the distribution of profit ratio for all enterprises in different sectors, please refer to **Table A.4 in Appendix V**.

(10) For detailed data on the distribution of profit ratio of SMEs in different sectors, please refer to **Table A.5 in Appendix V**.

**Figure 3.9: Comparing 2016 with 2010, the market share of small and medium enterprises<sup>(^)</sup> (SMEs) in low paying sectors as a whole declined**

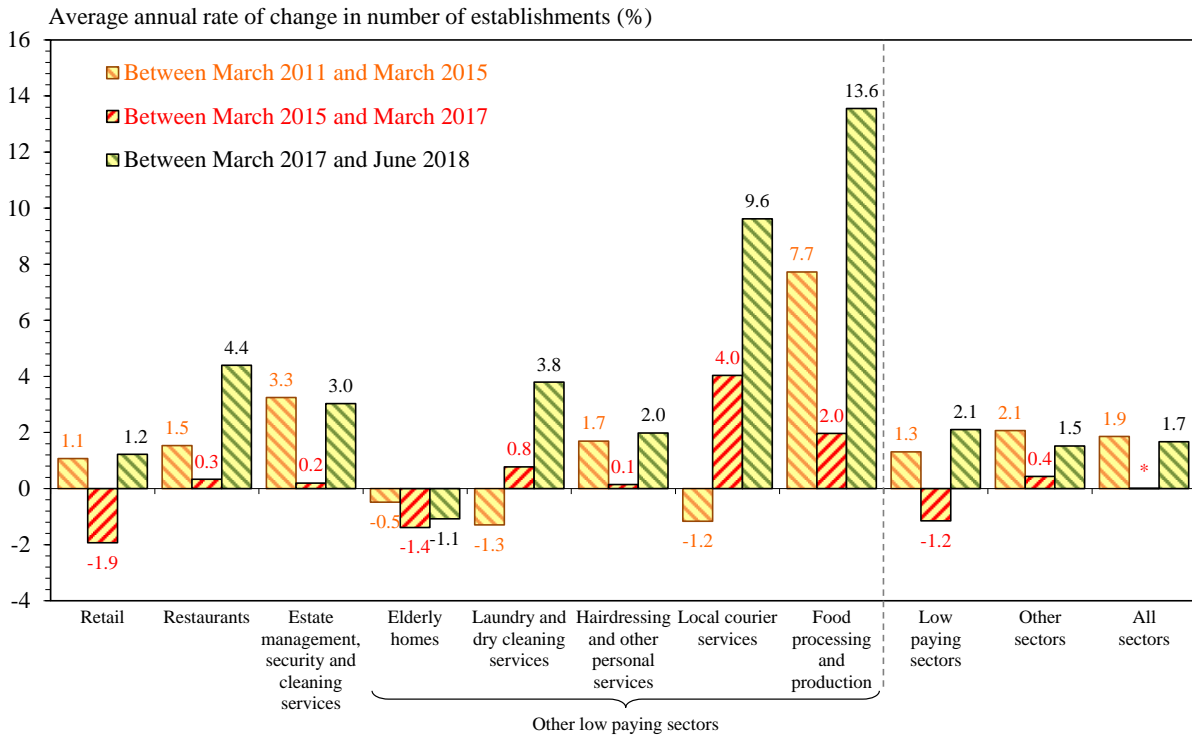


Notes: (^) Proportion of business receipts of SMEs among the total in the sector.  
 Figures in brackets denote the market share of SMEs in the sector in 2016.  
 Source: Annual Survey of Economic Activities, Census and Statistics Department.

### 3.III.4 Entrepreneurship and business sentiment

3.24 Business sentiment did not show signs of obvious deterioration since the implementation of SMW. According to the Quarterly Survey of Employment and Vacancies (SEV), the number of establishments in LPS increased by 5.6% from about 90 000 in March 2011 to about 100 000 in June 2018. Between March 2015 and March 2017, the retail sector, which accounted for about two-thirds of the establishments in LPS, was hard hit by a downturn in inbound tourism and underwent some consolidations. As a result, the number of establishments decreased, dragging down the corresponding number for LPS as a whole (Figure 3.10).

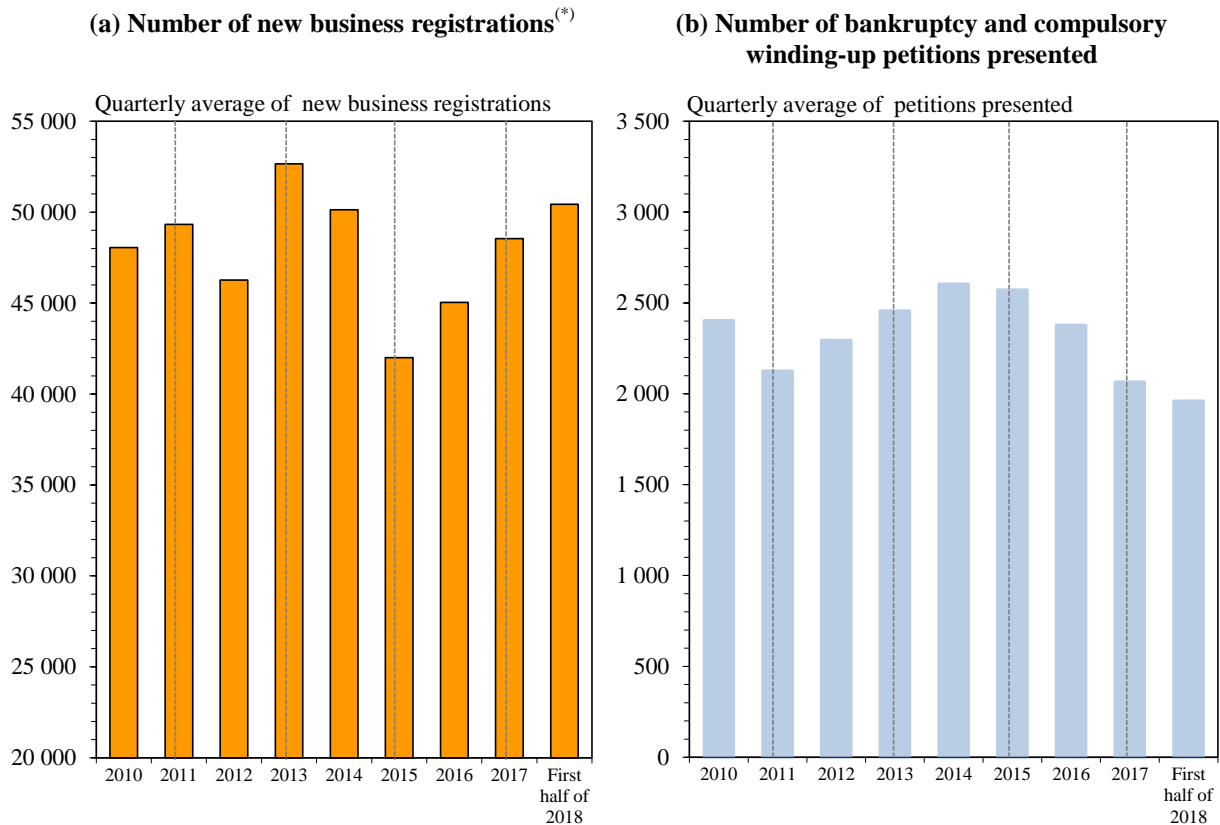
**Figure 3.10: Number of establishments in low paying sectors increased since the implementation of Statutory Minimum Wage**



Note: \* Between -0.05% and 0.05%.  
 Source: Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

3.25 More recent data reflected that business sentiment remained positive. The number of new business registrations had gradually bounced back since 2016, while the number of bankruptcy and compulsory winding-up petitions presented had been on a decline since 2015 (Figure 3.11).

Figure 3.11: Business sentiment remained positive in recent years



Notes: (\*) The figures were quite influenced by the measures of waiving the business registration fee and must be interpreted carefully.  
 The black vertical dotted lines denote the implementation/revision of SMW.  
 Sources: Inland Revenue Department and Official Receiver's Office.

3.26 In sum, as business performance of enterprises was closely related to the labour market conditions, the possible pressure brought about by SMW on the operations of enterprises should not be undermined. Since the implementation of SMW, the labour market had remained in a state of full employment, thanks to the sustained expansion of the Hong Kong economy which had helped cushion the impact of the implementation and upratings of SMW on operations of enterprises. Yet, appreciable increases in enterprises' labour costs, coupled with increases in rentals and other operating expenses over the period, had put certain pressure on the operations of most LPS. While some large enterprises might be able to adopt different strategies to cope with the rises in costs, many SMEs which already had weaker profitability or were even making losses would likely find their operating environment more challenging given their constraints on resources and scale. If operating costs were to increase drastically, these SMEs might resort to reducing headcount and other costs, or even ceasing operations.

### 3.III.5 Impact on inflation

3.27 As mentioned above, amidst increases in salaries and rentals, the profitability of some enterprises would depend on whether they had sufficient pricing power to pass on the additional costs to consumers in order to maintain a certain level of profit.

3.28 As the Hong Kong economy had sustained expansion since the implementation of SMW, enterprises could generally pass on the additional costs to consumers by raising prices. More recently, in addition to the increase in staff costs, non-residential rentals had, after turning soft in 2016, regained their growth momentum since 2017, thereby imposing upward cost pressure on enterprises. Amidst the recovery in inbound tourism and a more upbeat sentiment in the local consumption market since 2017, enterprises' output prices increased steadily, indicating that enterprises had generally been able to pass on the additional costs to clients (Table 3.3).

**Table 3.3: Business costs, receipts and output/service prices**

	Year-on-year rate of change (%)								
	2011	2012	2013	2014	2015	2016	2017	2018 Q1	2018 Q2
<b>Input Costs</b>									
Nominal wage index <sup>(*)</sup>	8.1	5.6	4.7	4.2	4.4	3.7	3.8	4.0	3.8
Rental indices <sup>(^)</sup>									
Offices rental index	15.1	10.8	8.4	4.7	6.1	2.5	4.1	4.0	4.8
Retail rental index	9.3	12.7	9.4	4.6	5.4	-2.1	2.2	2.9	3.3
Flatted factories rental index	8.9	11.2	11.7	8.7	8.9	4.0	5.1	6.1	7.5
<b>Receipts</b>									
Total retail sales value index	24.9	9.8	11.0	-0.2	-3.7	-8.1	2.2	14.4	12.4
Jewellery, watches & clocks, & valuable gifts	46.6	7.7	22.9	-13.7	-15.6	-17.2	5.2	22.0	25.4
Electrical goods and other consumer durable goods, n.e.c.	40.8	28.7	4.8	1.5	8.5	-25.0	-5.9	21.0	10.6
Others	17.1	7.5	8.2	4.4	-2.1	-2.4	2.7	11.8	9.9
Total restaurant receipts value index	6.4	5.0	3.5	3.5	3.9	2.9	5.0	10.0	6.7
<b>Output / Service Prices<sup>(#)</sup></b>									
Retail	6.5	2.8	0.0	0.0	-2.2	-1.1	0.3	1.5	1.4
Restaurants	5.4	5.4	4.3	4.4	4.3	3.1	2.6	2.8	2.9
Underlying Composite Consumer Price Index	5.3	4.7	4.0	3.5	2.5	2.3	1.7	2.4	2.4
Gross Domestic Product deflator	3.9	3.5	1.8	2.9	3.6	1.7	2.9	4.1	4.1

Notes: (\*) Nominal wage index for 2018 refers to the figures in March and June.

(^) Rental indices for 2018 are provisional figures.

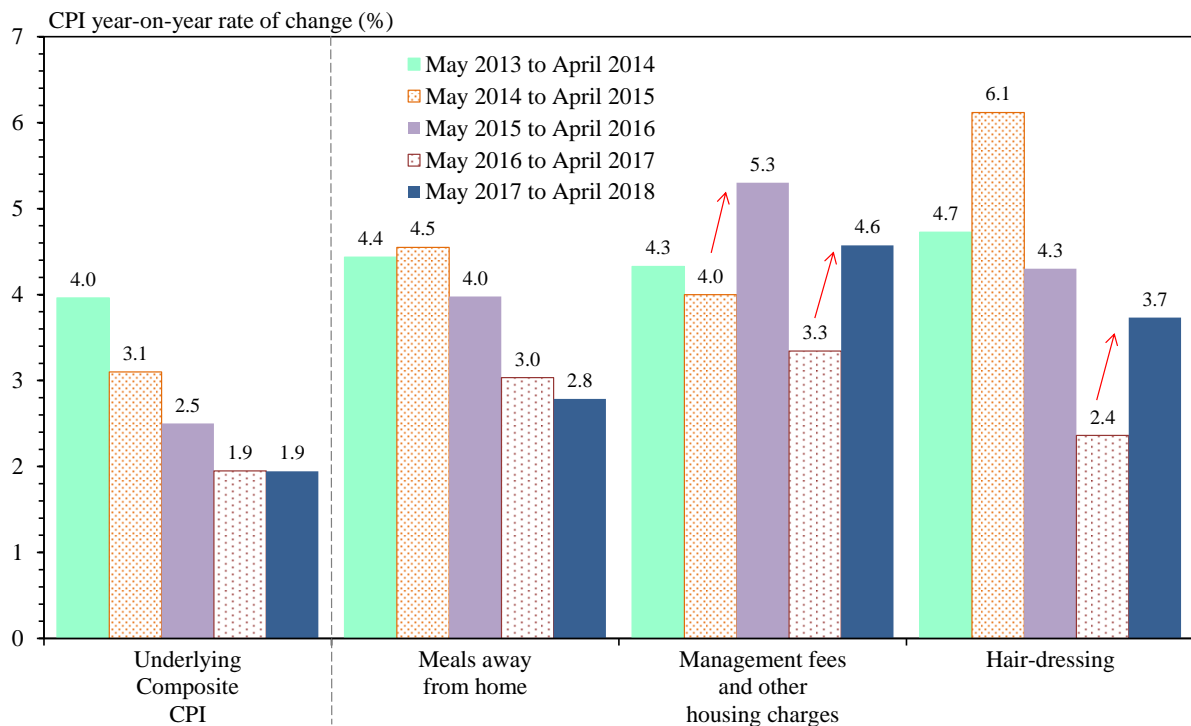
(#) The trend of output/service prices of retail and restaurants are based on changes in retail sales/restaurant receipts deflators. These deflators are obtained by dividing the current price values of retail sales/restaurant receipts by the corresponding volume measures and then multiplying by 100.

Figures for the Gross Domestic Product deflator are subject to revision by the Census and Statistics Department when more data become available.

Sources: Rating and Valuation Department; Labour Earnings Survey, National Income Statistics, Monthly Retail Price Survey, Quarterly Survey of Restaurant Receipts and Purchases, and Monthly Survey on Retail Sales, Census and Statistics Department.

3.29 Since some enterprises which were more affected by wage costs had greater pass-on ability, the price increases of some consumption items and services were relatively apparent. Specifically, estate management, security and cleaning services had greater pricing power in general, and enterprises in these sectors could pass on additional labour costs induced by SMW to their clients more easily such as by raising property management fees (Figure 3.12). Nonetheless, as the uptrend in private housing rentals tapered between 2012 and 2017, while external price pressure was also basically under control, overall inflation was generally moderate since the implementation of SMW. Hence, the upratings of SMW had not posed any significant pressure on overall inflation.

**Figure 3.12: Overall inflation was generally moderate, though price increase of some consumption items and services was relatively apparent**



Source: Monthly Retail Price Survey, Census and Statistics Department.

### **3.IV Impact on Local Labour Market and Employees since the Implementation of Statutory Minimum Wage**

#### **3.IV.1 Impact of Statutory Minimum Wage rate adjustment on low-paid employees**

3.30 With the overall labour market remaining tight over the past few years, the income of employees recorded continuous improvement. As mentioned in paragraph 3.14, the upratings of SMW not only directly benefited those employees earning wages below the new SMW rate, but also induced pay rises of employees originally earning wages above that rate due to knock-on effect. Therefore, the situation of both SMW earners and low-paid employees (i.e. employees with hourly wage rates below the 10<sup>th</sup> percentile of the overall hourly wage distribution) as a whole should be analysed in order to gain a comprehensive understanding of the stimulus effect of SMW upratings on employees' wages.

3.31 In fact, the boosting effect of the three SMW upratings on the wages of low-paid employees was rather notable. In May to June 2017 (i.e. after the third uprating of SMW), the 10<sup>th</sup> percentile hourly wage of all employees rose by a cumulative 36.7% over May to June 2011 (i.e. after the implementation of the initial SMW rate), higher than the 29.7% increase in the median hourly wage (Table 3.4) and the increase of 23.2% in the SMW rate from \$28 to \$34.5 respectively over the same period. The above rates of wage growth were all higher than the cumulative inflation over the same period, signifying real improvement in wages of the grassroots workers. More recently, the 10<sup>th</sup> percentile hourly wage recorded a year-on-year increase of 4.9% in May to June 2017, much higher than the increase of 1.9% in the underlying Composite CPI over the same period. The above indicated that amidst the tight labour market, upratings of SMW not only could forestall excessively low wages, but could also bring about real improvement in wages of low-paid employees.

**Table 3.4: Hourly wage distribution**

Percentile	May to June 2011	May to June 2017		
	Hourly wage (\$)	Hourly wage (\$)	Year-on-year rate of change <sup>(*)</sup> (%)	Cumulative increase since May to June 2011 <sup>(*)</sup> (%)
10 <sup>th</sup>	29.3	40.0	4.9	36.7
25 <sup>th</sup>	36.0	48.1	4.2	33.5
Median	52.4	68.0	4.0	29.7
75 <sup>th</sup>	82.5	107.5	3.5	30.3
90 <sup>th</sup>	143.9	178.6	3.4	24.2

Note: (\*) Rate of change/cumulative increase were calculated based on unrounded figures.

Source: Annual Earnings and Hours Survey, Census and Statistics Department.

- 3.32 As for monthly wages, the 10<sup>th</sup> percentile monthly wage of full-time employees<sup>(11)</sup> increased by 5.4% year-on-year in May to June 2017, far above the inflation rate over the same period. For LPS which employed more low-paid employees, the 10<sup>th</sup> percentile monthly wage of full-time employees increased by 4.6% year-on-year, lower than the corresponding increase for all sectors as a whole. This was conceivably due in part to unsteady recovery of inbound tourism up till mid-2017, which dragged down the wage growth in the retail sector. As a result, the 10<sup>th</sup> percentile monthly wage of full-time employees in the retail sector notched up by only 2.0% year-on-year in May to June 2017. Nevertheless, the corresponding figures for the restaurant sector and estate management, security and cleaning services (being 5.3% and 5.8% respectively) were generally similar to the overall increase for all sectors (5.4%), while that for other LPS even surged by 7.0% over the period.
- 3.33 Analysed by socio-economic characteristics, for lower-paid groups, the 10<sup>th</sup> percentile monthly wage of full-time employees with educational attainment of primary and below recorded a relatively significant year-on-year increase (6.7%) in May to June 2017, while the corresponding figures for the younger (aged 15 to 24) and older (aged 55 and above) groups and for groups of clerical support workers and elementary workers (between 4.8% and 5.3%) were similar to the overall figure for all sectors<sup>(12)</sup>.
- 3.34 Compared with the situation before the implementation of SMW, according to the data from GHS (although the data cannot be directly compared with the data from AEHS), the average monthly employment earnings of full-time employees<sup>(13)</sup> within the lowest decile group in the second quarter of 2018 registered an appreciable cumulative increase

(11) Please refer to **Glossary** for the definition on full-time employees under AEHS.

(12) For detailed data on changes in the 10<sup>th</sup> percentile and median monthly wage of full-time employees analysed by socio-economic characteristics, please refer to **Table A.6 in Appendix V**.

(13) Please refer to **Glossary** for the definition on full-time employees under GHS.



of 57.9% over the quarter before the implementation of SMW (i.e. February to April 2011), while the corresponding figure for all full-time employees was 36.3%. Both rose at a faster pace than the underlying Composite CPI (24.8%) over the same period, indicating a more notable real improvement in the earnings of grassroots workers than that of all employees when compared with the situation before the implementation of SMW (Figure 3.13).

**Figure 3.13: Average monthly employment earnings of lower-paid full-time employees saw real improvement as compared to the situation before the implementation of Statutory Minimum Wage**

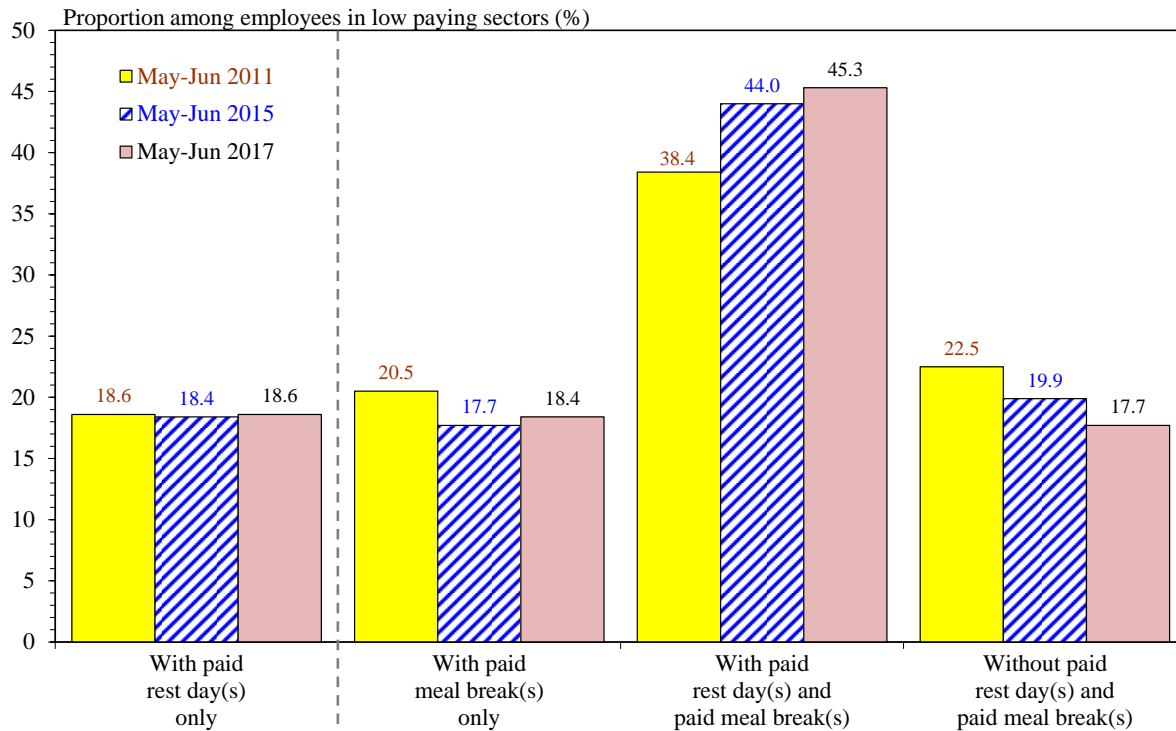


Sources: General Household Survey and Monthly Retail Price Survey, Census and Statistics Department.

### 3.IV.2 Remuneration structure and mode of employment in low paying sectors

3.35 Apart from driving the steady increase in employees' wages, the tight labour market in the past few years also induced many enterprises to enhance the remuneration structure and fringe benefits for employees to attract new recruits and reduce staff turnover. Hence, since the implementation of SMW, there had not been signs of a large number of enterprises cutting costs by adjusting employees' remuneration package. According to the findings of AEHS, between May to June 2015 and May to June 2017, the proportion of employees entitled to both paid rest day(s) and paid meal break(s) among full-time employees in LPS as a whole increased from 44.0% to 45.3%, while the proportion of those entitled to neither benefits fell from 19.9% to 17.7% (Figure 3.14).

**Figure 3.14: Remuneration structure and fringe benefits for full-time employees in low paying sectors improved**



Source: Annual Earnings and Hours Survey, Census and Statistics Department.

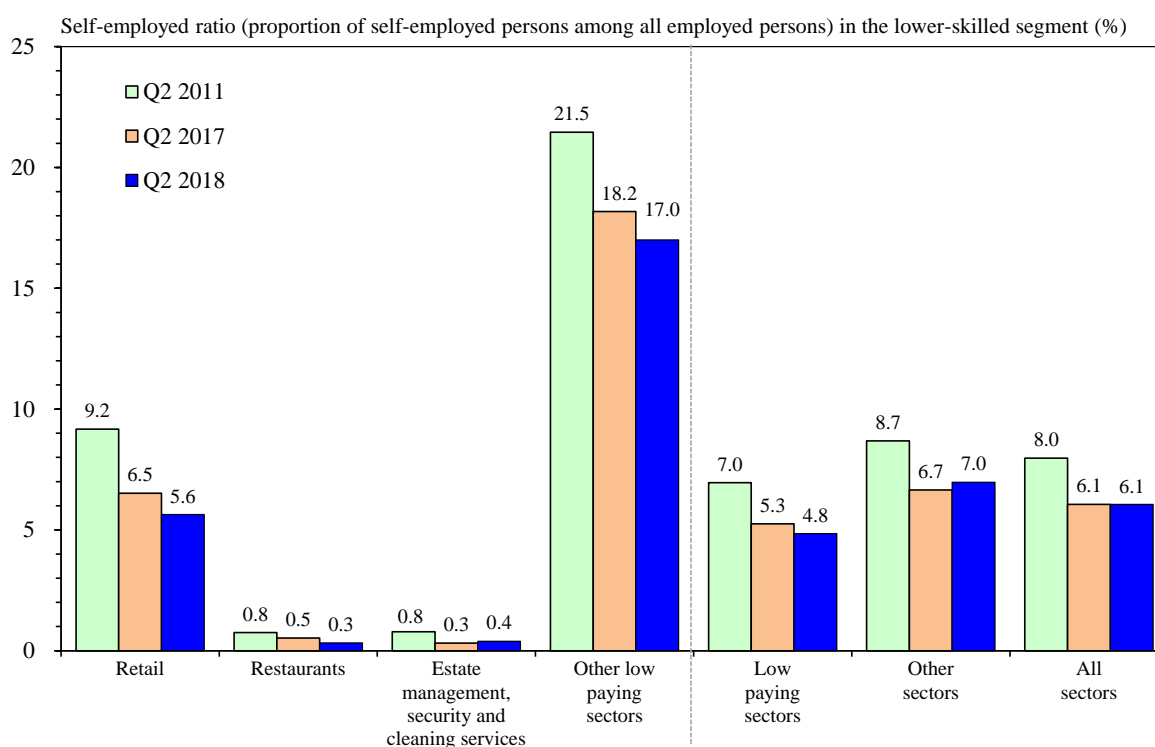
3.36 As for other fringe benefits, the proportion of full-time employees in LPS entitled to year-end payment/bonus was 15.8% in May to June 2017, similar to the figure of 15.7% in May to June 2015 and higher than the figure of 13.4% in May to June 2011.

3.37 There were views that the implementation of SMW might cause some employers to request their employees to change the mode of service provision to self-employment to mitigate wage bills, or offer to employees part-time positions with shorter working hours to replace full-time employees in order to cut costs. Hence, MWC has been closely monitoring the changes in the self-employed ratio (i.e. the proportion of self-employed persons among all employed persons<sup>(14)</sup> in the sector), the proportion of part-time employees and the proportion of underemployed employees among part-time employees.

3.38 Against the backdrop of a tightening labour market, the self-employed ratio of the lower-skilled segment in LPS stayed low. The figure for the second quarter of 2018 was 4.8%, lower than the figure of 5.3% a year ago and visibly lower than the figure of 7.0% for the second quarter of 2011 (Figure 3.15).

(14) Figures exclude government employees and live-in domestic workers.

**Figure 3.15 : Self-employed ratio in the lower-skilled segment stayed low in the second quarter of 2018**



Source: General Household Survey, Census and Statistics Department.

3.39 On the other hand, the proportion of part-time employees<sup>(15)</sup> among all employees in LPS increased from 11.0% in the second quarter of 2011 to 14.7% in the second quarter of 2018. Nevertheless, the proportion of underemployed employees (i.e. employees who have been available for additional work but can only take up part-time positions) among part-time employees for LPS as a whole plummeted from 18.5% to 5.7% over the same period (Table 3.5). This suggested that most of the part-timers were voluntary in nature. Apart from showing an increasing number of employees who preferred a more flexible mode of employment, this trend also suggested that more employers in LPS opted to hire part-time employees to fill the vacancies in their firms in times of labour shortage and recruitment difficulties.

(15) Please refer to **Glossary** for the definition on part-time employees under GHS.

**Table 3.5: Proportion of part-time employees and proportion of underemployed employees among part-time employees**

Sector	Proportion of part-time employees among all employees					Proportion of underemployed employees <sup>(^)</sup> among part-time employees				
	Q2 2011	Q2 2013	Q2 2015	Q2 2017	Q2 2018	Q2 2011	Q2 2013	Q2 2015	Q2 2017	Q2 2018
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
<b>Low paying sectors</b>	11.0	11.9	13.5	14.0	14.7	18.5	12.9	9.8	7.2	5.7
Retail	9.4	10.9	11.7	12.7	13.4	14.4	12.6	10.7	8.7	5.7
Restaurants	12.7	14.4	16.3	16.4	18.0	21.7	12.9	12.8	5.1	7.1
Estate management, security and cleaning services	8.2	8.8	9.7	10.7	10.7	18.4	14.8	7.2	7.5	4.5
Other low paying sectors	17.4	15.5	19.3	18.5	19.3	19.5	11.5	6.3	7.7	4.6
<b>Other sectors</b>	5.7	7.0	7.2	7.3	8.1	33.0	27.0	25.1	19.7	15.2
<b>All sectors</b>	7.2	8.5	9.0	9.2	10.1	26.7	21.1	18.3	14.2	11.1

Note: <sup>(^)</sup> Underemployed persons are persons who involuntarily worked less than 35 hours during the 7 days before enumeration; and (a) have sought additional work during the 30 days before enumeration; or (b) have been available for additional work during the 7 days before enumeration. Following this definition, employed persons taking no-pay leave due to slack work during the 7 days before enumeration are also classified as underemployed if they worked less than 35 hours or were even on leave for the whole 7-day period.

Source: General Household Survey, Census and Statistics Department.

### 3.IV.3 Changes in working hours of employees in low paying sectors

3.40 There were views that as SMW pushed up labour costs, enterprises might reduce the working hours and/or the number of employees to alleviate cost pressure. According to the data from AEHS, there was little change in the median weekly working hours of lower-skilled full-time employees in LPS as a whole in May to June 2017 as compared with a year earlier. Nonetheless, the median weekly working hours of lower-skilled full-time employees in certain LPS including retail, real estate maintenance management and food processing and production edged down on a year-on-year basis (Table 3.6). The corresponding figures for security services and laundry and dry cleaning services also fell markedly during the initial stage of implementation of SMW, somewhat reflecting the strategy of these sectors to cut costs by adjusting working hours to cope with the pressure arising from additional wage bills.

3.41 The implementation and upratings of SMW did not seem to have significantly impacted the overall working hours. However, SMW had only been implemented for a rather short period in Hong Kong and data indicated that enterprises in certain sectors had adjusted working hours for cost control. The relevant data have to be closely monitored in the longer run, in particular as to whether more LPS enterprises would reduce the working hours of employees in times of economic downturn to cope with weakened business conditions.

**Table 3.6: Median weekly working hours: lower-skilled full-time employees**

Sector	May to June 2011	May to June 2016	May to June 2017		
	Median weekly working hours (Hours)	Median weekly working hours (Hours)	Median weekly working hours (Hours)	Year-on-year change (Hours)	Year-on-year rate of change (%)
<b>(A) Low paying sectors</b>	<b>54.0</b>	<b>54.0</b>	<b>54.0</b>	--	@
1. Retail	51.4	51.0	50.1	-0.9	-1.8
1.1 Supermarkets and convenience stores	54.0	54.0	54.0	--	@
1.2 Other retail stores	51.0	50.4	49.7	-0.7	-1.4
2. Restaurants	56.0	54.2	54.0	-0.2	-0.4
2.1 Chinese restaurants	60.0	57.0	57.0	--	@
2.2 Non-Chinese restaurants	54.0	54.0	54.0	--	@
2.3 Fast food cafes	54.0	54.0	54.0	--	@
2.4 Hong Kong style tea cafe	60.0	57.0	57.0	--	@
3. Estate management, security and cleaning services	57.0	54.0	54.0	--	@
3.1 Real estate maintenance management	66.0	66.0	64.3	-1.7	-2.6
3.2 Security services	66.0	57.2	60.9	3.7	6.5
3.3 Cleaning services	48.0	48.0	48.0	--	@
3.4 Membership organisations	54.0	48.0	48.0	--	@
4. Other low paying sectors	49.9	48.9	48.3	-0.6	-1.2
4.1 Elderly homes	54.0	54.0	54.0	--	@
4.2 Laundry and dry cleaning services	54.0	48.0	49.5	1.5	3.1
4.3 Hairdressing and other personal services	48.5	48.0	48.0	--	@
4.4 Local courier services	44.3	44.3	45.7	1.4	3.1
4.5 Food processing and production	49.0	50.3	48.6	-1.7	-3.5
<b>(B) Other sectors</b>	<b>47.3</b>	<b>45.7</b>	<b>45.7</b>	--	@
<b>(C) All sectors</b>	<b>48.0</b>	<b>48.0</b>	<b>48.0</b>	--	@

Notes: -- Between -0.05 hour and 0.05 hour.

@ Between -0.05% and 0.05%.

Weekly working hours were rounded to one decimal place. Year-on-year rate of change was calculated based on unrounded figures.

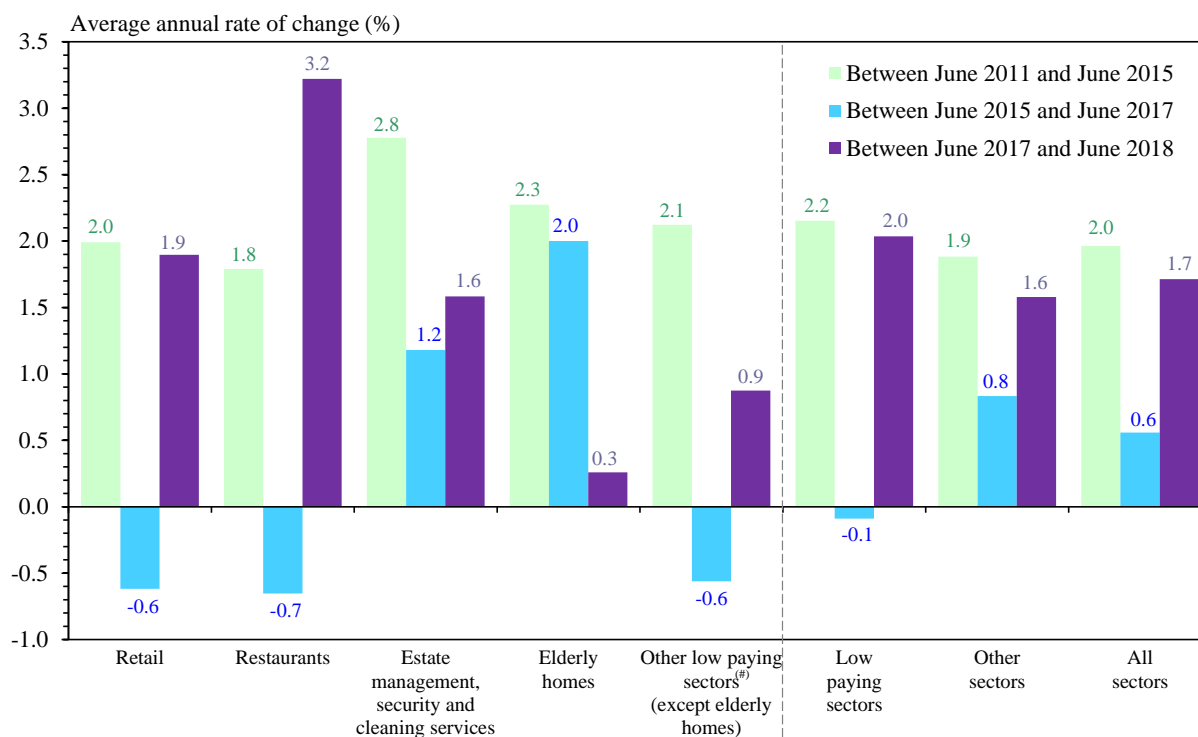
Source: Annual Earnings and Hours Survey, Census and Statistics Department.

### 3.IV.4 Impact of Statutory Minimum Wage on overall manpower resource balance

3.42 On the back of the generally favourable economic environment, overall labour demand recorded persistent increase since the implementation of SMW. While labour demand in the retail and restaurant sectors eased somewhat during 2015 to 2016 due to the consolidation of inbound tourism, it had regained growth momentum since 2017.

Based on the statistics of SEV, labour demand (estimated by the sum of the numbers of persons engaged and vacancies in private sector establishments) in various LPS registered year-on-year growth in June 2018, with particularly notable increases in the retail and restaurant sectors (Figure 3.16), partly due to the buoyant performance of inbound tourism in the first half of 2018.

**Figure 3.16: Labour demand<sup>(\*)</sup> of low paying sectors had regained growth momentum since 2017**



Notes: (\*) Labour demand was estimated by the sum of the numbers of persons engaged and vacancies in private sector establishments.

(#) Include laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production only.

Source: Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

3.43 With the sturdy labour demand coupled with the implementation and upratings of SMW, the wages of low-paid employees sustained appreciable growth, thereby attracting more people to enter or re-enter the labour market. According to GHS, the labour force<sup>(16)</sup> grew by 0.8% per annum on average between the second quarter of 2011 (the implementation of the initial SMW rate) and the second quarter of 2017 (the third SMW uprating). Of this, the increases in females and those aged 50 and above were notably faster, with their respective labour force participation rates increased visibly. The labour force participation rate for those aged between 15 and 49 was also on the rise over the past few years, partly relieving the pressure on the growth of the total labour

(16) Excluding foreign domestic helpers.

force arising from the shrinking population of this age group. The overall labour force and labour force participation rate continued their uptrends in the second quarter of 2018 (Table 3.7).

**Table 3.7: Labour force and labour force participation rate**

	Labour force <sup>(^)</sup>				Labour force participation rate <sup>(^)</sup>			
	Q2 2017		Q2 2018		Q2 2017		Q2 2018	
	(Number of persons)	Average annual change as compared to Q2 2011 (6 years) (%)	(Number of persons)	Year-on-year change (%)	(%)	Cumulative change as compared to Q2 2011 (6 years) (percentage point)	(%)	Year-on-year change (percentage point)
<b>Gender</b>								
Male	1 983 100	0.4	2 003 200	1.0	68.1	-0.4	68.4	0.3
Female	1 636 600	1.4	1 660 000	1.4	50.6	1.5	50.9	0.3
<b>Selected age group</b>								
Aged 15 to 49	2 387 400	-0.6	2 384 900	-0.1	73.3	2.2	74.1	0.8
Aged 50 and above	1 232 300	4.2	1 278 200	3.7	42.7	2.7	43.1	0.4
<b>Overall</b>	<b>3 619 700</b>	<b>0.8</b>	<b>3 663 100</b>	<b>1.2</b>	<b>58.9</b>	<b>0.5</b>	<b>59.2</b>	<b>0.3</b>

Note: (^) Figures exclude foreign domestic helpers.

Source: General Household Survey, Census and Statistics Department.

3.44 With the solid labour demand widely benefiting the employment conditions of different socio-economic groups, the overall labour market reached full employment in the past few years. Between the second quarter of 2011 and the second quarter of 2017, the total number of employees grew at an average annual rate of 1.4%, of which more notable increases were seen among females (1.6%), the older group (aged 50 and above) (5.4%) and the higher-skilled segment (2.4%). In addition, the unemployment rate of specific socio-economic groups showed marked improvement. Among the jobs for the lower-skilled segment, the unemployment rate for elementary occupations declined by a cumulative 0.9 percentage point between the second quarter of 2011 and the second quarter of 2017. These positive trends generally sustained during the first half of 2018 (Table 3.8).

**Table 3.8: Number of different groups of employees and unemployment rate**

	Number of employees				Unemployment rate <sup>(^)</sup>			
	Q2 2017		Q2 2018		Q2 2017		Q2 2018	
	(Number of persons)	Average annual change as compared to Q2 2011 (6 years) (%)	(Number of persons)	Year-on-year change (%)	(%)	Cumulative change as compared to Q2 2011 (6 years) (percentage point)	(%)	Year-on-year change (percentage point)
<b>Gender</b>								
Male	1 575 000	1.1	1 600 000	1.6	3.5	-0.9	3.2	-0.3
Female	1 417 500	1.6	1 443 200	1.8	3.4	-0.1	2.9	-0.5
<b>Selected age group</b>								
Aged 15 to 49	2 018 300	-0.2	2 020 400	0.1	3.8	-0.4	3.4	-0.4
Aged 50 and above	974 300	5.4	1 022 800	5.0	2.8	-0.6	2.4	-0.4
<b>Skill segment</b>								
Higher-skilled	1 254 900	2.4	1 281 500	2.1	1.7	@	1.7	@
Lower-skilled	1 737 600	0.7	1 761 700	1.4	4.2	-0.6	3.5	-0.7
Of which: Service and sales workers	503 800	1.5	493 000	-2.1	4.7	-0.2	3.8	-0.9
Elementary occupations	446 000	0.9	470 000	5.4	4.9	-0.9	3.7	-1.2
<b>Overall</b>	<b>2 992 600</b>	<b>1.4</b>	<b>3 043 200</b>	<b>1.7</b>	<b>3.5 (3.1)</b>	<b>-0.5 (-0.5)</b>	<b>3.1 (2.8)</b>	<b>-0.4 (-0.3)</b>

Notes: @ Between -0.05 percentage point and 0.05 percentage point.

(^) Figures exclude foreign domestic helpers.

() Figures in brackets denote seasonally adjusted unemployment rate (include live-in domestic workers).

Source: General Household Survey, Census and Statistics Department.

3.45 At the same time, the number of unemployment cases of Comprehensive Social Security Assistance declined continuously, by around 16 800 cases cumulatively or over 50% between April 2011 and June 2018. This shows that an SMW rate that was set at an appropriate level, coupled with largely stable labour market conditions, would not cause a large number of people to lose their jobs and hence live on social welfare. On the other hand, the proportion of unemployed persons who were dismissed or laid off among all unemployed persons did not show signs of worsening since the implementation of SMW.



- 3.46 The above data suggested that an SMW rate set at an appropriate level not only forestalls excessively low wages and avoids the loss of grassroots jobs, but also encourages more people to enter or re-enter the labour market, thereby unleashing more labour force to cope with the demand for labour.
- 3.47 While the short-term outlook of the overall economy and LPS should be generally positive, some enterprises might, in view of the increasing labour costs, enhance their competitiveness by increasing capital investment, improving production processes, installing automatic or electronic systems, and enhancing operational efficiency. These developments could improve the productivity of the enterprises and industries concerned and would be conducive to the economic development of Hong Kong in the long run. Yet the potential impact on grassroots workers should not be overlooked, as some enterprises might reduce or cease new job openings amidst enhanced productivity or even speed up the reduction of headcount in times of economic downturn.

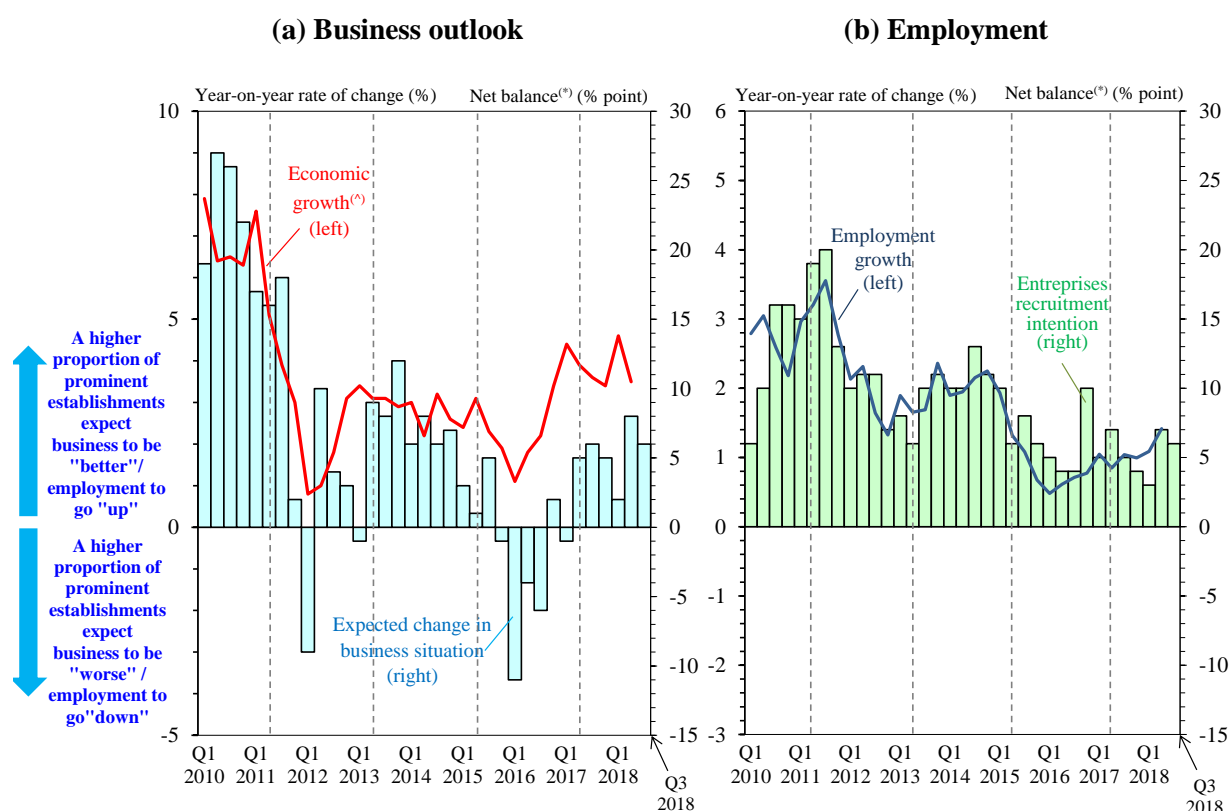
#### **3.IV.5 Labour relations**

- 3.48 Labour relations held largely stable since the implementation of SMW. Between May 2011 and June 2018, the Labour Department handled one labour dispute and 683 claim cases arising from SMW, representing 0.2% and 0.6% of the overall labour disputes and claim cases handled respectively over the period.

### 3.V Observations

- 3.49 Drawing from the above observations on various aspects, it could be concluded that the positive impact of the implementation of SMW has outweighed the negative impact. The generally favourable economic environment over the past few years largely cushioned the possible impact brought about by the implementation and upratings of SMW on employment conditions and business operations. The uprating of SMW in May 2017 also had not posed significant pressure on the overall economy and inflation.
- 3.50 As for enterprises, the implementation and upratings of SMW had pushed up labour costs which, coupled with the rise in other operating costs, posed certain pressure on the operations of enterprises. Many SMEs which already had weaker profitability or were even making losses probably had less room for manoeuvre as they were constrained by their own resources. Thanks to the sustained expansion of the Hong Kong economy over the past few years, the business growth of enterprises could largely absorb the additional costs arising from SMW. As the Hong Kong economy expanded strongly in 2017 and the first half of 2018, statistics indicated that large enterprises remained positive in both business outlook and hiring sentiment for the third quarter of 2018, though turning slightly more cautious as compared to the second quarter of 2018 (Figure 3.17).

**Figure 3.17: Large enterprises remained positive in both business outlook and hiring sentiment for the third quarter of 2018**



- Notes: The black vertical dotted lines denote the implementation/revision of SMW.
- (\*) Net balance refers to the difference between the percentage of establishments choosing “better” and that choosing “worse” in terms of expected change in business situation; and between that choosing “up” and that choosing “down” in terms of expected change in number of persons engaged.
  - (^) Figures are subject to revision by the Census and Statistics Department when more data become available.
- Source: Quarterly Business Tendency Survey, Census and Statistics Department.

3.51 On the back of the positive macroeconomic environment since the implementation of SMW, the labour market had remained largely in a state of full employment, and the latest unemployment rate (June to August 2018) also stayed at its 20-year low. Owing to the persistent tightness of the labour market and induced by the knock-on effect, the upratings of SMW also brought pay rises to the wages of low-paid employees earning slightly higher than the SMW rate. This reflected that the implementation and upratings of SMW had not constrained the room for upward wage adjustment. Moreover, the implementation and upratings of SMW helped enhance the incentive to work. Total labour force stayed on the rise, particularly so for older persons. While the labour market tightened in the past year or so, the noticeable increase in uncertainties in the external environment since mid-2018 warrants a closer watch.

3.52 On top of the appreciable growth in the earnings of grassroots workers, there were also signs of improvement in their remuneration structure and fringe benefits. In addition,

while the proportion of part-time employees in LPS rose further, the proportion of underemployed employees engaging in part-time jobs fell at the same time, suggesting that the majority of part-timers were voluntary in nature. The self-employed ratio in the lower-skilled segment in LPS also stayed at a low level. Besides, the implementation and upratings of SMW did not have significant impact on overall working hours, and the median weekly working hours of lower-skilled full-time employees in LPS as a whole in May to June 2017 saw minimal year-on-year change. These data reflected that in overall terms, enterprises did not choose to cut labour costs by means of adjusting employees' remuneration package, employing workers on a part-time or self-employed basis and reducing working hours.

- 3.53 As for competitiveness and business environment, up to 2018, Hong Kong continued to rank high in economic freedom and overall competitiveness among the rankings compiled by various international organisations, and remained competitive in attracting foreign investment. Nonetheless, Hong Kong's performance in other quantifiable indicators of competitiveness such as unit labour cost fared less well after the implementation of SMW. MWC still has to closely monitor how SMW would affect Hong Kong's competitiveness and long-term economic development down the road.
- 3.54 In sum, the analyses of the actual impact of the implementation of SMW on different socio-economic aspects provided useful reference for the review of the SMW rate. Experience in the past few years indicated that the impact of the implementation and upratings of SMW on lower-paid employees and enterprises hinged, to a large extent, on the macroeconomic environment. On the other hand, enterprises would try to adopt different mitigation measures to cope with the increase in labour costs, including passing on the additional costs to customers by raising prices, increasing capital investment, enhancing operational efficiency, adjusting manpower demand and so on. All these developments would also affect various economic aspects of Hong Kong through channels such as consumer prices, competitiveness and labour market, illustrating the interactions between the implementation and upratings of SMW and the macroeconomic conditions of Hong Kong.

## 4 Considerations Underlying the Recommendation of the Statutory Minimum Wage Rate

4.1 According to the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong), the main function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to report its recommendation about the Statutory Minimum Wage (SMW) rate to CE in Council. In performing its function, MWC must have regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and the need to sustain Hong Kong's economic growth and competitiveness. MWC adopted an evidence-based approach in reviewing the SMW rate. Apart from making reference to and analysing relevant statistical data and information, MWC also conducted extensive and intensive consultation with the community (including organisations representing employers and employees respectively) on the review of the SMW rate, and considered other factors that were pertinent to the review of the SMW rate but could not be fully quantified. Below are the four main areas analysed and considered by MWC when reviewing the SMW rate:

- (i) **Array of Indicators:** These covered various indicators reflecting socio-economic and employment conditions after the implementation of SMW in May 2011 and its three upratings (in May 2013, May 2015 and May 2017 respectively). MWC regularly made reference to the latest data of these indicators to assess the impact of SMW;
- (ii) **Views of stakeholders and members of the public:** MWC actively solicited and gauged the views of stakeholders and members of the public on the impact of SMW on Hong Kong's economy, society, employment conditions, various sectors (in particular the low paying sectors (LPS)) and small and medium enterprises (SMEs) and their views on the review of the SMW rate;
- (iii) **Other relevant considerations:** These included other factors which were pertinent to the review of the SMW rate but could not be fully quantified; and

- (iv) **Impact assessment:** In view of the time gap between the review of the SMW rate and the implementation of the recommended rate and with a view to adopting a more holistic approach in reviewing the SMW rate, MWC conducted scenario analysis with assumptions on local economic outlook to assess the additional wage bills entailed by different SMW test levels, and the potential impact on employees, enterprises, unemployment rate and inflation under different economic scenarios.

Details of the above considerations will be elaborated in the ensuing sections.

## **4.I Array of Indicators**

### **4.I.1 The Array of Indicators considered by the Minimum Wage Commission**

4.2 MWC considered it appropriate to continue to adopt the Array of Indicators referenced in the past reviews of the SMW rate to monitor the socio-economic and employment conditions after the implementation and upratings of SMW. The Array of Indicators covered the following four areas: (a) general economic conditions; (b) labour market conditions; (c) competitiveness; and (d) social inclusion. When deciding the coverage of the Array of Indicators, MWC not only considered the crucial factors that must be taken into account in performing its function as stipulated in MWO, but also made reference to the experience and considerations of selected places in reviewing minimum wage rates. Figure 2.2 in Chapter 2 summarises the Array of Indicators and **Appendix I** sets out the relevant indicators and their data sources. Details of the Array of Indicators are elaborated in the following paragraphs.

#### **(a) General economic conditions**

4.3 As Hong Kong is a small and highly externally-oriented economy, SMW can bring about very different impact when facing different external economic and political factors, or when the domestic economy is in different economic cycles or growth paths. Hence, macroeconomic environment (including the prevailing and the forecast economic conditions at the time when the recommended SMW rate is implemented) is extremely important among the Array of Indicators when examining the impact of SMW and reviewing the SMW rate.

4.4 The indicators referenced by MWC under this aspect covered the latest local economic performance (the growth rate of real Gross Domestic Product (GDP) and its major

expenditure components) and the Consumer Price Index (CPI). To better understand the changes in short-term economic conditions, MWC also made reference to forecasts of GDP and prices as well as indicators reflecting the views of enterprises on the outlook for short-term business performance and number of persons engaged, etc.

**(b) Labour market conditions**

4.5 The labour market is the first segment affected by SMW. The implementation and upratings of SMW directly increase the wage bills of enterprises and enterprises generally need to adopt mitigation measures. For instance, some enterprises might reduce headcount to cut business costs, thereby leading to the loss of some grassroots jobs. Besides, SMW has somewhat limited the flexibility of downward adjustment in wages and affected the ability of the labour market to adjust during economic downturn. Yet at the same time, it has boosted the income of grassroots workers and attracted more people to enter or re-enter the labour market which augments the labour supply. Hence, MWC needs to closely monitor the changes in the labour market after the implementation and upratings of SMW.

4.6 Indicators reflecting labour market conditions included:

- (i) *Labour demand and supply*: These included figures on employment and vacancies, labour force, labour force participation rate, unemployment, mode of leaving the last job of unemployed persons with a previous job (e.g. being dismissed or laid-off or leaving job on own accord), underemployment, etc.
- (ii) *Wage level and distribution*: These included wage distribution of employees analysed by sector and by socio-economic characteristics.
- (iii) *Wage differentials*: These included ratios of different percentiles of hourly wage and the relevant comparisons.
- (iv) *Employment characteristics*: These included the numbers of employed persons or employees analysed by employment status (employees or self-employed persons), employment nature (full-time or part-time employment), remuneration package, etc. so as to examine whether SMW had brought about any structural impact on the labour market.

- (v) *Working hours*: These included the distribution of working hours and average actual working hours, etc. so as to examine whether different sectors had mitigated the impact of SMW through reducing the working hours of employees or employing more part-time and/or temporary employees.

**(c) Competitiveness**

4.7 The implementation and upratings of SMW directly increase the wage bills of enterprises (in particular, enterprises in LPS and SMEs), thereby possibly pushing up the unit labour cost in the economy as a whole and affecting Hong Kong's competitiveness, productivity, inflation and economic growth potential in the long run. Hence, competitiveness should be considered when monitoring the impact of SMW at both micro and macro levels.

4.8 Indicators reflecting competitiveness included:

- (i) *Operating characteristics of enterprises*: The extent of impact of SMW on different sectors hinges on the proportion of employees' wage bills to the total operating costs, as well as the proportion of low-paid employees of individual sectors. Moreover, the overall competition environment and profitability of individual sectors are crucial indicators to assess whether the sectors concerned are able to cope with the pressure arising from cost increase. Hence, when analysing the operating characteristics of various sectors, MWC monitored the impact of SMW on different sectors at the micro level with a view to ensuring that the recommended SMW rate would not bring about substantial negative impact on the overall economic activities and competitiveness. The relevant indicators under this aspect included profit ratios, share of staff costs in total operating expenses, etc. Apart from examining these business performance indicators, MWC also made reference to the latest statistical data on business receipts, sales value, etc. of certain sectors, as well as rental indices of non-residential properties to understand the operating environment faced by the enterprises.



- (ii) *Entrepreneurship, business sentiment and solvency*: The numbers of new and cancelled business registrations, bankruptcy and compulsory winding-up petitions presented, the number of establishments in various sectors, etc. are indicators that could reflect the prevailing business sentiment and the business environment after the implementation and upratings of SMW.
- (iii) *Relative economic freedom and competitiveness of Hong Kong*: Examining the changes in Hong Kong's rankings at global and regional levels in the indices of economic freedom and competitiveness compiled by various international organisations could help understand whether Hong Kong's perceived competitiveness had been affected after the implementation and upratings of SMW.
- (iv) *Productivity growth*: The change in labour productivity (i.e. the amount of real output produced by one unit of labour input) of enterprises in Hong Kong after the implementation and upratings of SMW could indicate whether enterprises had made corresponding adjustments to their mode of operation to maintain competitiveness.
- (v) *Labour costs*: The unit labour cost of Hong Kong and selected economies reflected the average labour cost required to produce a unit of output. This indicator would facilitate more thorough understanding of the actual changes in labour costs after the implementation and upratings of SMW.

4.9 The two indicators under items (i) and (ii) in paragraph 4.8 above assessed the characteristics and conditions pertinent to the competitiveness of various sectors in Hong Kong at the sectoral and enterprise levels, while the three indicators under items (iii), (iv) and (v) reflected the actual and perceived competitiveness of Hong Kong at the macro level.

**(d) Social inclusion**

4.10 There were also considerable views in the community suggesting that apart from comparing and analysing the changes in employment earnings and consumer prices to gauge the overall living standard and purchasing power of grassroots workers, social inclusion should also be taken into account in monitoring the impact of SMW. For instance, SMW might enhance the incentive to work, inducing more people to enter or

re-enter the labour market; labour relations might be affected as it took time for employers and employees to adapt to the implementation and upratings of SMW; and so on.

4.11 There is no objective standard for measuring social inclusion and it is thus difficult to quantify such concept. As such, MWC made reference to the indicators below to indirectly examine the situation of social inclusion in a broad sense:

- (i) *Standard of living*: These included changes in the nominal and real employment earnings and wage indices of employees, which could facilitate the monitoring of the changes in the earnings of grassroots workers and their performance as compared with price trend after the implementation and upratings of SMW.
- (ii) *Enhancing work incentive*: These included labour force participation rate, numbers of long-term unemployed (i.e. unemployed for six months or above) and unemployment cases of Comprehensive Social Security Assistance (CSSA). As mentioned in Section 3.IV of Chapter 3, due to the sturdy labour demand and the implementation of SMW, wages of grassroots workers persistently saw higher growth, causing more people to enter or re-enter the labour market. This would not only increase the labour supply, but would also facilitate grassroots workers to integrate into the society and expand their social circles in workplaces. Yet whether the unemployed could eventually be employed successfully would depend on the overall labour market conditions and whether they possess the skills required by enterprises.
- (iii) *Labour relations*: Some stakeholders and members of the public expressed that the implementation and upratings of SMW might have impact on labour relations. As such, MWC also made reference to the data on labour disputes and claim cases since the implementation of SMW.

#### **4.I.2 Impact of Statutory Minimum Wage**

4.12 Chapter 3 summarises MWC's observations on the changes in various aspects of socio-economic conditions since the implementation of SMW and elaborates on SMW's impact on enterprises, inflation, employees and the local labour market. These evidence-based analyses not only laid an important foundation for MWC to review the SMW rate, but at the same time also facilitated rational and objective discussions. The

experience in implementing SMW so far demonstrated that as long as the SMW rate is set at an appropriate level, an appropriate balance could be maintained between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, whilst giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.

4.13 As mentioned in Chapter 3, the impact of the implementation and upratings of SMW on Hong Kong hinges, to a large extent, on the macroeconomic environment. The sustained expansion in the Hong Kong economy since the implementation of SMW had cushioned the potential pressure induced by SMW on the economy, the labour market, enterprises, etc., and had also benefited grassroots workers. However, the effect brought about by SMW could be very different if the economic environment deteriorated abruptly. In view of the time gap between the review of the SMW rate and the implementation of the recommended rate, when reviewing the SMW rate, MWC considered it necessary to fully take into account the economic and labour market outlook and conduct scenario analysis of the economic conditions at the time when the recommended rate is implemented, so as to analyse the impact that might be brought about by different SMW test levels on employees, enterprises, unemployment rate and inflation. Section 4.IV summarises the framework and scope of the impact assessment formulated by MWC.

#### **4.I.3 Economic and labour market outlook**

4.14 When reviewing and recommending the SMW rate in the current round, the Hong Kong economy sustained a strong momentum. The economy grew notably by 4.0% year-on-year in the first half of 2018, representing the strongest growth performance since 2011. Riding on the robust growth of the global economy, external demand remained sturdy, rendering firm support to Hong Kong's exports of goods and services. In particular, inbound tourism registered double-digit growth. Meanwhile, domestic demand stayed robust. The labour market remained in a state of full employment, with the unemployment rate staying at its 20-year low. Total employment continued to register solid growth, while labour earnings also saw broad-based real improvements, thereby boding well for the local consumption market. Private consumption expenditure posted a marked increase of 7.4% year-on-year in real terms in the first half of 2018, higher than the average annual growth rate of 4.0% during the five years

between 2013 and 2017. Amidst the notable economic expansion, inflation accelerated somewhat, though at a still-moderate level in overall terms. The Government announced in August that the growth forecast for the Hong Kong economy in 2018 as a whole was 3% to 4%.

4.15 However, the downside risks to the global economy have increased recently amidst the escalating trade friction between major economies. The trade friction between the United States and the Mainland, in particular, could weigh on global economic sentiment as well as trade and investment activities, with possible repercussions on Hong Kong's export outlook, economic sentiment and asset markets. Moreover, the global financial and asset markets could become more volatile upon further tightening of financial conditions across the advanced economies. The reversal of capital flow might also add pressure to emerging market economies with weak fundamentals.

4.16 In sum, Hong Kong's economic growth remained strong as of the first half of 2018. Thanks to the favourable local employment and income conditions, domestic demand should remain largely resilient in the rest of 2018. Nevertheless, the uncertainties in external environment mentioned above have increased markedly of late, which might affect Hong Kong's economic prospect. MWC was of the view that the economic environment at the time of implementing the next SMW rate would largely depend on the trade relations between the United States and its trading partners, as well as the state of local consumption market and business sentiment. As Hong Kong is a small and highly externally-oriented economy, apart from domestic factors, the fluctuations in business cycle are also closely tied to external economic factors. If local business environment is affected by any unfavourable developments on the external front, enterprises might consider downsizing to cut costs and some of which might choose to reduce headcount, thereby affecting the labour market to a certain extent. MWC has taken into account all of the above factors when reviewing the SMW rate in the current round.

## **4.II Views of Stakeholders and Members of the Public**

4.17 As mentioned in Section 2.II of Chapter 2, MWC conducted extensive and intensive consultation, including focused consultation meetings with stakeholders of LPS (including trade unions, trade associations/professional institutes and employers) to understand the impact of the implementation and the past three upratings of SMW on

employers and employees of LPS; and public consultation and consultation meetings with stakeholders to collect written and oral submissions on the review of the SMW rate. The views of stakeholders and members of the public were mainly concerned about the impact of the implementation and upratings of SMW as well as the review of the SMW rate. These views facilitated MWC to gain a more comprehensive understanding of the impact of SMW on Hong Kong's economy, society, employment conditions, various sectors (in particular LPS) and SMEs; and provided MWC with an important reference in formulating the impact assessment framework for the review of the SMW rate. The gist of these views is provided below.

#### **4.II.1 Impact of Statutory Minimum Wage**

##### **(a) General economic conditions**

4.18 An employers' association and an SME association indicated that thanks to the recovery of the global economy, the Hong Kong economy had recorded steady growth since the third uprating of SMW in May 2017, mitigating some of the pressure on enterprises due to SMW uprating. Some trade unions indicated that over the seven-year period after the implementation of SMW in 2011, SMEs had made decent profits, whereas large enterprises even recorded sizeable profits, suggesting that the implementation of SMW did not hinder Hong Kong's economic development.

4.19 Some employers' associations, professional/employers' associations, employer representatives, an SME association and some members of the public indicated that although SMW increased the wages of grassroots workers notably, the ripple effect induced kept driving up the operating costs of enterprises. Enterprises had to raise prices to offset part of the increase in labour costs, which in turn pushed up inflation. Apart from SMW, enterprises would likely have to face the impact of other policies (such as the abolition of the arrangement of offsetting severance payment and long service payment with Mandatory Provident Fund (MPF) accrued benefits (MPF "offsetting" arrangement), implementation of standard working hours and universal health insurance scheme). The total compliance costs arising from the interrelated policies would significantly increase enterprises' operating costs. A think tank/policy research institute was of the view that the long-term impact of SMW on Hong Kong had yet to fully emerge.

**(b) Labour market conditions**

- 4.20 *Labour demand and supply:* Some trade unions and labour policy concern groups indicated that the unemployment rate and underemployment rate had remained at a low level since the implementation of SMW, in a state of near full employment without causing any significant loss of low-paid jobs. A think tank/policy research institute pointed out that SMW provided motivation and heightened grassroots workers' incentive to work. As a result, some older people might opt to defer their retirement, fostering appreciable increases in both the labour force and the labour force participation rate of older people since the implementation of SMW.
- 4.21 Some employers' associations, employer representatives, a trade union, a professional institute, an SME association and some members of the public pointed out that the implementation and upratings of SMW narrowed the wage differentials among low-paid employees in different sectors. As a result, some employees switched to sectors with lighter duties, more pleasant work environment or more stable working hours, causing recruitment difficulties and exacerbating manpower shortage in those sectors with longer working hours, with more strenuous duties or of obnoxious nature.
- 4.22 Some employers' associations and employer representatives indicated that manpower shortage increased the workload of and posed work pressure on serving employees. Some employees at middle and senior ranks had to shoulder the work of grassroots workers (for instance, due to persistent shortage of dish washing workers and cleaning workers in the restaurant sector, middle to upper managerial staff often had to shoulder other work such as dish washing and cleaning), resulting in problems of lowered staff morale, lack of sense of belonging, accelerated staff turnover, decline in service standard, etc. A professional institute considered that in the face of recruitment difficulties and manpower shortage by various industries, enterprises were still unable to fill up their vacancies despite offering higher wages. Hong Kong's labour market stayed tight as a result of sustained economic growth over a period of time. Many employers expressed varying degrees of difficulties in attracting and retaining talents, yet there was no direct relationship between recruitment difficulties and implementation of SMW.
- 4.23 A trade union and a member of the public indicated that given SMW significantly raised the overall wage level, enterprises needed to reduce manpower, cut the number of permanent employees, and employ casual workers or part-timers to contain labour costs.

An employers' association and an employer representative expressed that in order to minimise manpower requirements, some enterprises deployed technology and automation (such as the use of electronic ticketing machines in fast food chains, hair-washing machines in hair salons, fried rice machines in kitchens and self-service laundries in laundry services), thereby accelerating the loss of some job types.

- 4.24 *Wage level and distribution:* An employers' association and an employer representative indicated that SMW pushed up market wages and most enterprises generally offered wages at a level higher than the SMW rate in hiring employees. Another employers' association expressed that an across-the-board SMW rate exacerbated the competition for manpower among sectors, distorting salary arrangements in sectors since enterprises had to further raise the wages for recruiting employees and increase the wages of those who were already earning wages above the SMW rate.
- 4.25 *Wage differentials:* An employer representative and a member of the public indicated that SMW upratings led to an increase in the wages of grassroots workers. To contain labour costs, enterprises were nevertheless unable to make subsequent increase of salaries of other employees at higher ranks, thus narrowing the wage differentials among employees at different ranks and with different length of service. An SME association and a member of the public expressed that the implementation and upratings of SMW raised the wages of grassroots workers, offering them wage protection and narrowing the gap between the entry salaries of grassroots workers and those of employees with higher educational attainment or skill level.
- 4.26 *Employment characteristics:* A professional institute indicated that owing to an increase in overall wages upon SMW upratings, some workers chose to engage in temporary or part-time work with greater flexibility and higher hourly wage. A think tank/policy research institute expressed that the increase in labour and administrative costs entailed by SMW rendered enterprises to offer less internship opportunities to inexperienced young people, making them more difficult to accumulate work experience and hampering their employment and training opportunities.
- 4.27 *Working hours:* Some employer representatives indicated that despite offering wages above the SMW rate, enterprises were still unable to acquire sufficient manpower. To maintain daily operations, these enterprises had to extend the working hours of serving employees. On the other hand, some trade unions expressed that in response to SMW

upratings, some employers shortened employees' working hours to lower wage bills, resulting in heavier workload for serving employees.

- 4.28 Some employers' associations, a professional institute and an employer representative reflected that with increase in grassroots workers' salaries upon the implementation of SMW, some of them were reluctant to enter the labour market, reduced their working hours, refused to work overtime or switched to temporary/part-time and short-term work to avoid having their take-home pay exceeded the income limit of applying for public housing or losing their entitlements to other government subsidies or allowances.

**(c) Competitiveness**

- 4.29 *Entrepreneurship and business sentiment:* A think tank/policy research institute indicated that the implementation and upratings of SMW increased the operating costs of business start-ups, dampening entrepreneurial activities. Some employers' associations and employer representatives expressed that owing to labour shortage upon implementation of SMW, enterprises had to raise wages to attract and retain talents. Coupled with the induced ripple effect, wage level and prices were further pushed up, raising the operating costs of enterprises and dampening business and investment sentiments. These in turn undermined Hong Kong's attractiveness to foreign investments and competitiveness vis-à-vis neighbouring places.

- 4.30 *Knock-on effect on pay hierarchies and ripple effect:* Some employers' associations and a professional institute indicated that the implementation and upratings of SMW had induced knock-on effect on pay hierarchies (knock-on effect). Apart from raising the wages of grassroots workers to meet the SMW rate, enterprises also had to increase the wages of employees of other ranks correspondingly so as to maintain reasonable pay differentials among ranks. An employers' association pointed out that the ripple effect brought about by SMW led to increases in other operating costs (such as premiums for employees' compensation insurance, contributions to MPF and property management fees), further pushing up operating costs. A professional institute indicated that the ripple effect brought about by SMW posed great impact on the restaurant sector and significantly increased the overall labour costs. Some employers' associations and employer representatives were of the view that the extent of increase in the SMW rate was perceived as an indicator of pay rise in the market. Employees at middle to senior ranks earning wages above the SMW rate also expected a comparable pay increase.



- 4.31 *Impact on SMEs:* An employers' association and an SME association indicated that the implementation and upratings of SMW, the rise in labour costs and prices induced by the ripple effect of SMW, and the impact of online trading on the business of many physical stores posed certain pressure on the operations of SMEs in Hong Kong. A political party and an SME association expressed that unlike large enterprises, SMEs were unable to adopt such measures as raising economic efficiency and bulk purchase to cut costs. Coupled with limited profit margin to offset wage increase entailed by SMW uprating, SMEs had to raise prices to pass on additional costs to customers, hence pushing up inflation. Besides, an employers' association indicated that although there had been a significant improvement in the income of vulnerable workers upon the implementation of SMW, the room for survival of SMEs and micro-enterprises was jeopardised. A member of the public expressed that owing to limited financial resources, SMEs found it more difficult to cope with the increase in cost pressure entailed by the implementation and upratings of SMW and to compete with large enterprises. A labour policy concern group expressed that rental expenses constituted a major share of the operating costs of SMEs. SMEs' difficulties in business operations should be attributed mainly to the sharp increase in rentals in recent years, instead of the implementation and upratings of SMW.
- 4.32 *Impact on different sectors:* An employers' representative from the retail sector indicated that enterprises generally offered wages above the SMW rate with other additional fringe benefits to retain talents, attract new recruits and reduce staff turnover. Notwithstanding this, owing to insufficient manpower, some enterprises had to defer the opening of branches or shorten business hours. Besides, the wages of employees in the retail sector were already delinked from the upratings of SMW. Enterprises needed to effect overtime pay above the SMW rate and in recent years, many employees who accorded priority to work life balance requested granting time-off to compensate for their overtime work. A trade union from the retail sector expressed that SMW helped raise the income of employees in the sector. Yet to reduce operating costs, enterprises cut manpower, for instance by arranging only one staff to man some shops and consignment counters, thus significantly increasing the staff's workload.
- 4.33 A professional institute from the restaurant sector indicated that the sector made only thin profits. The increase in the SMW rate was far above the increase in business receipts and profits of the sector. The ripple effect induced by SMW brought about significant impact. The overall staff costs in proportion to total operating expenses of

the restaurant sector were relatively high and had increased persistently. An employer representative from the restaurant sector expressed that the implementation and upratings of SMW exacerbated labour shortage in the sector. Employees at middle to upper ranks faced many staff management problems (such as difficulty in hiring new recruits, staff absenteeism and labour turnover). An employer representative from the restaurant sector was of the view that with the increase in the bargaining power of grassroots workers induced by SMW, some employees chose to work in large-scale wedding banquet venues with higher pay, instead of small and medium restaurants with lower pay and unpleasant working environment. The latter then had to hire temporary/part-time workers who were more volatile, adding burden to their business operations. A trade union from the restaurant sector pointed out that the business receipts of the sector had maintained a continual uptrend without causing large-scale retrenchment since the implementation of SMW, suggesting that the implementation and upratings of SMW had not brought about the anticipated negative impact. Owing to labour shortage in the restaurant sector in recent years, serving employees were required to work long hours to maintain operations. Despite surges in wages, their workload also increased correspondingly.

- 4.34 An employers' association from estate management, an owners' committee and some members of the public indicated that the implementation and upratings of SMW induced a continual increase in property management fees, adding burden on citizens (such as retirees). An employers' association from estate management expressed that as the number of servicing hours of security guards was stated explicitly in the service contracts, service contractors had to pass on the additional costs entailed by SMW to customers or shorten the working hours of cleaning workers to reduce overall staff costs. Besides, due to limited financial resources, some households requested estate management companies to adopt smart building management system (such as the installation of closed-circuit television or digital security system). Some service contractors reduced the number of property management staff or their working hours. A trade union from estate management indicated that the variation in the wage levels of employees in the sector was large. Some employees (such as those working in single private residential buildings) earned wages just at the SMW rate and were unable to maintain their basic living. To cope with the problem of manpower shortage, enterprises hired through referral agencies part-time/relief workers, who were more volatile and with diversity in service quality, easily enticing complaints from residents.

- 4.35 An employers' association from elderly homes indicated that the work of care workers in elderly homes was more strenuous and obnoxious with greater responsibility as compared with work in other sectors. SMW expedited the flow of frontline workers in the sector to other sectors (such as security services and the restaurant sector) with lighter duties, more comfortable working environment or more stable working hours. Despite offering wages far above the SMW rate and attractive fringe benefits, some elderly homes were still unable to retain workers and fill up the vacancies. Labour shortage exacerbated the problem of "the elderly taking care of the elderly" in elderly homes.
- 4.36 An employers' association and an employer representative from the laundry and dry cleaning services indicated that the employees' hourly wages in the sector were generally higher than the SMW rate, and that many employers hired persons with disabilities and ethnic minorities at the same wage level. However, the problems such as recruitment difficulties and labour shortage of the sector still could not be resolved.
- 4.37 An employers' association and an employer representative from beauty care and hairdressing services indicated that the sector was unable to attract new recruits even it had offered wages well above the SMW rate. An employer representative expressed that since the increase in service charges in hairdressing services was far below the increase in overall wages, even a slight uprating of SMW would impose burden on the operating costs of enterprises.
- 4.38 An employer representative from local courier services indicated that enterprises in the sector were unable to raise prices to offset additional labour costs entailed by SMW uprating like other sectors. As a result of the sustained increase in labour costs, some SMEs in the sector were amalgamated or taken over by large enterprises, leading to increased market concentration and a persistent decline in the number of enterprises in the sector. A trade union from transportation and courier services expressed that SMW narrowed the pay differentials among employees in different sectors. Owing to more strenuous nature of work, many transportation workers moved to work in security services instead.
- 4.39 An employers' association and an employer representative from food processing and production indicated that owing to keen demand for manpower, wages of employees in the sector were generally far above the SMW rate, yet the sector still faced the problem

of labour shortage.

- 4.40 An employers' association from logistics indicated that the sector found it more difficult to recruit and retain employees upon the implementation of SMW. A professional institute from logistics expressed that the sector faced recruitment difficulties even it had offered wages above the SMW rate. With insufficient number of workers to fill up low-paid jobs in the sector, some clients relocated the related process (such as packaging) to neighbouring places with lower wages and thus employed fewer local low-skilled workers.
- 4.41 *Service quality*: Some employers' associations, an employer representative and a member of the public indicated that the implementation and upratings of SMW exacerbated labour shortage. Some employees at middle to senior ranks had to shoulder the work of grassroots workers. Some enterprises cut the number of employees to contain costs, resulting in deterioration of service quality. An employer representative from estate management expressed that SMW had prompted enterprises to adopt an intelligent management system to ensure that the service quality would not be compromised due to manpower shortage.
- 4.42 A think tank/policy research institute and some members of the public were of the view that while providing wage protection to grassroots workers, an across-the-board SMW rate reduced work motivation and deprived the incentive of some employees to improve work performance.

**(d) Social Inclusion**

- 4.43 *Work incentive*: A trade union and a labour policy concern group indicated that the implementation and upratings of SMW boosted people's work incentive and contributed to a rise in the labour force. A think tank/policy research institute expressed that SMW attracted more older people to enter or re-enter the labour market and gave impetus to the local labour market.
- 4.44 *Standard of living*: A think tank/policy research institute considered that the income of low-paid employees had continued to improve upon the implementation of SMW. Both the number of employees earning the SMW rate and SMW coverage decreased persistently, reflecting SMW had effectively forestalled excessively low wages and protected grassroots workers from exploitation. Some trade unions, a think tank/policy

research institute and a member of the public indicated that since the current SMW rate was on the low side, grassroots workers often had to work long hours to meet their basic living expenses. Besides, some workers had to take up part-time jobs or work overtime to maintain their living, which affected their family life and health. Some trade unions, a labour policy concern group, a think tank/policy research institute, political parties, and some members of the public indicated that the implementation and upratings of SMW led to continual increase in prices and cost of living, eroding the purchasing power of workers and the livelihood of grassroots workers had not actually improved.

4.45 *Labour relations:* A trade union indicated that SMW raised the wages of grassroots workers and helped improve the labour relations of the sector. A trade union, an employers' association and a member of the public indicated that the implementation and upratings of SMW led to increase in operating costs. To control costs, enterprises resorted to the wage bills of employees at middle to upper ranks or reduced the pay increase of these employees for defraying the wages of grassroots workers, thus narrowing the wage differentials among employees at different ranks and raising conflicts among employees.

4.46 *Impact on vulnerable groups:* A professional/employers' association indicated that the current wages of employees of social enterprises were close to the SMW rate. Yet, the value of contracts signed between social enterprises and the Government did not catch up with upratings of SMW. If the SMW rate increased further, social enterprises would find it difficult to raise the proportion of employees with disabilities and some might even hire less of these employees, undermining the employment opportunities of vulnerable groups and reducing the room for survival of social enterprises. The stakeholder concerned also wished that after completing productivity assessment, employees with disabilities in need would be given wage subsidy to raise their income to the SMW level. A trade union held the view that although SMW attracted more women to enter/or re-enter the labour market, it did not help much in alleviating the problem of working poor of women since some of them needed to bear expenses of occasional child care service whilst working. A think tank/policy research institute considered that in the long run, the implementation of SMW would be detrimental to different cohorts (in particular the younger generation). There was no need to set any SMW rate before the negative impact of SMW fully emerged.

## **4.II.2 Review of the Statutory Minimum Wage rate**

### **(a) Economic forecast**

4.47 Some employers' associations and a political party indicated that Hong Kong's total exports increased and the Hong Kong economy was expected to continue to grow modestly. However, as Hong Kong is a highly open economy, its economic performance would inevitably be affected by external factors. Amidst the trade friction between the Mainland and the United States, Hong Kong's recent trend of favourable economic growth might come under pressure. The impending upcycle of Hong Kong's interest rate might affect asset value and undermine consumption, hampering economic growth. The unstable geopolitics in some places would bring uncertainties to the global and local economic outlook. Some employers' associations suggested that during the review of the SMW rate, the overall picture and outlook of global and local economic conditions and the data of prices and inflation had to be considered prudently. These stakeholders further suggested that the SMW rate should be maintained at its current level of \$34.5 per hour.

4.48 A trade union held the view that the sustained increase of inbound visitors and positive local consumer sentiment reflected a largely favourable local economy. SMW uprating should not cause difficulty to the operations of enterprises. Besides, the situation of low unemployment rate offered an opportune time for the SMW rate to increase. An employers' association indicated that if the SMW rate increased too high, it would put pressure on inflation, reduce job opportunities and undermine the attractiveness for doing business in Hong Kong. Yet given Hong Kong's prevailing strong economic performance and the positive outlook, a moderate increase in the SMW rate could still be considered.

### **(b) Wage floor**

4.49 Some trade unions held the view that as the safety line of wages, SMW provided wage protection to grassroots workers who lacked bargaining power to maintain their basic living. Some employers' associations, a think tank/policy research institute and a political party were of the view that SMW should only set a wage floor and forestall excessively low wages to protect grassroots workers, and should not be perceived as a living wage or a welfare policy. Some employers' associations, an SME association and an employer representative indicated that under the current state of low

unemployment rate, labour shortage and full employment, wages of grassroots workers were generally above the SMW rate, reflecting self-adjustment of wages based on market mechanism. These stakeholders suggested that the SMW rate should be maintained at \$34.5 per hour.

**(c) Standard of living**

4.50 Some employers' associations, an SME association and some members of the public indicated that if the SMW rate increased again, enterprises would be more inclined to pass on the additional labour costs to consumers, which would exacerbate inflation and result in a vicious cycle, adding further burden to the living of the public. Grassroots workers could not benefit from the SMW uprating. An employers' association was of the view that the remuneration and benefits of local workers continued to improve. Since inflation was anticipated to stay moderate in the coming years, it was not necessary to raise the SMW rate to alleviate the impact brought about by inflation. Some employers' associations held the view that the real intention of SMW was to forestall excessively low wages, rather than combating inflation, and hence suggested maintaining the SMW rate at \$34.5 per hour. Taking account of the level of inflation in the past two years, some employers' associations, employer representatives and an SME association suggested the SMW rate be raised to around \$36 to \$37 per hour.

4.51 Some trade unions indicated that some grassroots workers earning the SMW rate had to rely on the SMW uprating to have a pay rise. Some trade unions, labour policy concern groups and members of the public were of the view that the SMW rate should be increased to enable wages to catch up with inflation to cope with the rapid increase in prices and maintain purchasing power. Some trade unions, labour policy concern groups, a think tank/policy research institute, a political party and some members of the public indicated that in the light of the present living expenses and the situation faced by the low-income families and working poor, the SMW rate should be set at a level that could meet the basic needs of individual employees and their families, enabling employees to maintain their living and live with dignity. The think tank/policy research institute also held the view that SMW should be conceived as a living wage. A labour policy concern group suggested that when setting the SMW level, the impact of inflation pertinent to the time lag between recommending and implementing the revised SMW rate should be taken into consideration. A trade union, a labour policy concern group and a political party proposed that in reviewing the SMW level, reference should be

made to factors like the basic living needs of employees and their families as suggested in an International Labour Convention. They suggested the SMW rate be raised to around \$44 per hour.

**(d) Business environment**

4.52 Some employers' associations, professional/employers' associations and employer representatives indicated that given the high operating costs of enterprises (such as rentals, employees' remuneration and price of imported goods) and the possible changes in other policies (such as the abolition of MPF "offsetting" arrangement, implementation of standard working hours and increase in the number of days of statutory paternity leave) that they might face in the future, a further uprating of SMW would impose an additional burden on the operations of enterprises (in particular SMEs). An employers' association and some members of the public held the view that with continual increase in business costs, many SMEs with thin profit margin were under considerable pressure. If the SMW rate increased again, the room for their survival would be reduced further. In the long run, the market might be dominated by large enterprises and job opportunities for employees might be reduced.

4.53 An employers' association, a professional institute and an employer representative from the restaurant sector indicated that the staff costs in proportion to the total operating expenses was quite large and continued to increase in the sector. A further increase in the SMW rate would impose additional burden on enterprises' operations. An employers' association and an employer representative from elderly homes indicated that as a majority of the elderly residing in private elderly homes were receiving CSSA, if the SMW rate increased again, enterprises in the sector would have difficulties in passing on the relevant costs to clients. Facing the problems of high rentals, continual rise in operating costs and acute labour shortage, etc., private elderly homes had difficulties in running their business. They suggested maintaining the SMW rate at its current level, and also exploring ways to increase/unleash local workforce and setting long-term labour policy to attract more people to enter or re-enter the labour market. A member of the public held the view that the difficulties of doing business faced by enterprises were affected by many factors (such as increase in rentals), and such difficulties should not be attributed solely to the implementation and upratings of SMW.



**(e) Property management fees**

4.54 An owners' committee indicated that unlike enterprises, households could not pass on additional costs entailed by SMW to a third party and held the view that the affordability of households should be considered when reviewing the SMW rate. The SMW rate was suggested to be maintained at the current level.

4.55 An employers' association from estate management indicated that if economic downturn took place, more clients objected to an increase in property management fees, the estate management sector would be severely hampered due to persistently elevated operating costs. Some members of the public were of the view that if the SMW rate increased again, property management fees would be pushed up further, and many property owners would find it difficult to bear the increase.

**(f) Assessment of the impact and review of the Statutory Minimum Wage rate**

4.56 Some employers' associations, SME associations, a professional/employers' association and a think tank/policy research institute held the view that labour market conditions, wage growth, knock-on effect and ripple effect of SMW, operating environment and affordability of enterprises (in particular SMEs), and the impact on human resource and inflation, etc. should be thoroughly considered when reviewing the SMW rate. An employers' association was of the view that to assess the affordability of enterprises (in particular SMEs), the total compliance costs induced by different policies (such as the abolition of MPF "offsetting" arrangement) should be aggregated. Otherwise the local economy and labour market would be inflicted by the far-reaching impact.

4.57 Some trade unions suggested putting in place reference benchmarks that were scientific, reasonable and highly operational as the basis for conducting the review. A labour policy concern group expressed that when reviewing the SMW rate, apart from considering economic data, the positive impact of SMW on society and quality of living should also be assessed. An employers' association from elderly homes suggested enhancing the scientific analyses (such as the use of quantitative and qualitative research) to grasp a more holistic picture of the situation of elderly homes as well as to understand the impact of SMW on the sector.

- 4.58 Some trade unions, labour policy concern groups, think tanks/policy research institutes, political parties and members of the public held the view that the SMW rate should be reviewed annually to keep pace with changes in the market wage. Some labour policy concern groups and members of the public suggested adjusting the SMW rate annually based on inflation.
- 4.59 Some employers' associations, SME associations, employer representatives, a think tank/policy research institute and some members of the public objected to the review of the SMW rate annually. They found the current arrangement of reviewing the SMW rate at least once in every two years appropriate as it could accord protection to employees, while giving ample time for enterprises (in particular SMEs) to adapt and assess the SMW rate and its impact. Some employers' associations indicated that taking into account the operating environment of the business sector, the review cycle might be extended longer or the review frequency be reduced. Some members of the public suggested extending the review cycle of the SMW rate to every three to five years.
- 4.60 A think tank/policy research institute suggested creating a reliable and feasible formula for reviewing the SMW rate and changing to an annual review of the SMW rate after the implementation of the formula so as to keep pace with changes in the market. A labour policy concern group suggested formulating a clear and objective computation method to review the SMW rate based on the Array of Indicators.

**(g) Proposed indicators**

- 4.61 Having regard to the benefits of promoting social harmony and sharing fruits of socio-economic development, a trade union suggested the SMW rate be raised to not less than \$40 per hour and a basic living wage line be set up to enable grassroots workers to maintain their basic living.
- 4.62 Some trade unions were of the view that increases in the SMW rate could not catch up with the growth of median wage and fell behind the labour market trend. A trade union considered that the SMW rate should be increased on a par with the median wage and suggested the SMW rate be raised to \$38 per hour. According to the relevant reference data and information provided by MWC for the review of the SMW rate, the proposed uprating should be manageable for enterprises (including SMEs).

- 4.63 Some trade unions, a labour policy concern group and some members of the public held the view that the SMW rate should not be lower than the CSSA level to maintain and raise the incentive of lower-paid workers to work and earn reasonable wages to improve their living. A trade union suggested the SMW rate be set at 60% of the median hourly wage (viz. \$42.5 per hour) having regard to factors of living expenses, inflation, economic growth, overall wage level and social inclusion, etc.
- 4.64 Some employers' associations and an SME association indicated that the uprating of SMW should not be relied on as the sole and major measure for creating jobs and alleviating poverty. Other policies (such as the Working Family Allowance Scheme) and measures (such as vocational training) should be adopted to help people improve their living and combat inflation. A think tank/policy research institute was of the view that when reviewing the SMW rate, the protection given to grassroots workers by other measures of the Government for alleviating poverty and granting allowances should be considered as well.
- 4.65 A think tank/policy research institute and some members of the public considered that the SMW rate should be indexed to CPI or local economic growth. Some trade unions, labour policy concern groups and a think tank/policy research institute suggested making reference to CPI(A) which reflected the purchasing power of low to middle income groups in the review of the SMW rate. Some trade unions, a labour policy concern group and a political party suggested the SMW rate be adjusted in line with labour productivity.
- 4.66 A trade union, an employers' association, a professional institute, an SME association, a labour policy concern group, a think tank/policy research institute and some members of the public suggested drawing reference to the annual pay adjustment of civil servants. An employers' association and a professional/employers' association suggested the SMW rate be adjusted in line with the pay rise in the labour market. Some members of the public suggested making reference to the median wage or the SMW rate to median wage ratio when reviewing the SMW rate. Some trade unions suggested adopting the SMW rate should cover no less than 15% of the labour force as the reference basis of adjustment.

- 4.67 Some labour policy concern groups pointed out that in reviewing the SMW rate, the dependency ratio viz. the average number of dependent family members (such as elderly person or child) supported by one employed family member should be taken into account to ensure earnings at the SMW rate were sufficient to support the basic living of non-working family members. A trade union suggested making reference to the income limit and amount of allowance under the Working Family Allowance Scheme when reviewing the SMW rate. A think tank/policy research institute suggested when reviewing the SMW rate, consideration be given to the index on happiness, Gini Coefficient and the needs of vulnerable groups (including older people, people with disabilities, young people, women, ethnic minorities, etc.).
- 4.68 A trade union, a think tank/policy research institute and some members of the public suggested making reference to the minimum wage rates in the Mainland and other places and their experience of implementing minimum wage.

**(h) Other views of members of the public**

- 4.69 As regards written submissions from members of the public, some held the view that the SMW rate be increased to catch up with the increase in prices to assist grassroots workers to cope with living expenses of themselves and their families and to allow them to share the fruits of economic prosperity. They suggested that the SMW rate be raised to the range of \$35 to over \$100 per hour. Yet some members of the public suggested the SMW rate be maintained at the current level of \$34.5 per hour and some even suggested the rate be decreased or SMW be abolished. On the other hand, some members of the public indicated that the uprating of SMW would push up inflation, leading to a vicious cycle of wage-price spiral.

**4.II.3 Other views**

- 4.70 An employers' representative from the retail sector indicated that given individual policy bureaux had separately consulted the sector on their respective policy areas, they could not have a holistic view of the sector's overall operating situation. The Government should adopt an integrated approach in consulting the sector to understand the interactions of the impact of different policies.
- 4.71 A labour policy concern group expressed that many non-skilled employees engaged by government service contractors were earning wages just at the SMW rate. An

employers' representative from estate management suggested stipulating in the government outsourcing contracts the requirement of furnishing wage data by service contractors to facilitate the Government or MWC to better understand the actual situation in the labour market. A trade union from estate management held the view that while non-skilled employees of government service contractors enjoyed a pay rise after SMW uprating, due to cost concerns, the wage increase of employees at middle rank/administrative staff was comparably limited.

- 4.72 To resolve the problem of acute shortage of manpower encountered by different sectors and encourage more people to enter/re-enter the labour market, some employers' associations, employer representatives, an owner's committee and a member of the public suggested the Government to formulate a long-term labour policy, strengthen skills training, provide more subsidies to employers engaging employees with disabilities, allow those sectors in need to import labour, and review allowances for personal income tax and income limit for applying public housing.

### 4.III Other Relevant Considerations

- 4.73 Although the Array of Indicators identified by MWC already covered data in four areas, namely general economic conditions, labour market conditions, competitiveness and social inclusion, not all the impact of SMW could be quantified and reflected by changes in statistical figures. Hence, in reviewing the SMW rate, apart from drawing reference to the experience of the past reviews of the SMW rate and the views collected during consultation, MWC also took into account other relevant considerations that could not be fully quantified:

- (i) **Enhancing employees' quality of life:** Benefiting from Hong Kong's sustained economic expansion and SMW uprating, employees could enjoy pay rises which would in turn increase their consumption power and improve their quality of life;
- (ii) **Enhancing work incentive:** Wage increases induced by SMW uprating had attracted more people to enter or re-enter the labour market and provided a favourable environment for people who used to live on welfare supplements to re-enter the market and become self-reliant;
- (iii) **Impact on workers with relatively lower bargaining power and less working experience:** Benefiting from the implementation of SMW, the wages of vulnerable

groups (such as older people, people with disabilities, the less-educated and lower-skilled workers) are protected. However, in the face of increasing labour costs, employers might tend to hire employees with higher capabilities and more working experience, which might in turn undermine the employment opportunities of the vulnerable groups. Besides, some employers might reduce employment of young people with less working experience and offer them fewer training and internship opportunities, making it difficult for young people to accumulate work experience and climb up the social ladder;

- (iv) **Impact on wage differentials across sectors or positions:** With an across-the-board SMW rate, grassroots workers could choose to work in different sectors, occupations, districts and/or enterprises while still earning a comparable income. This would however aggravate staff turnover in certain sectors. To some extent, the enterprises concerned had to offer higher wage rates to retain their existing employees or attract new recruits, thereby further pushing up labour costs;
- (v) **Preserving the market's capacity to adjust:** While imposing a wage floor, SMW would also limit the flexibility of wage adjustment. If the rate was raised to an excessively high level, SMW would undermine the flexibility of different sectors and enterprises in responding to changes in their operating environment. Preserving some room for the market's wage adjustment would be conducive to the sustainable development of all sectors;
- (vi) **Impact on social harmony:** The implementation and upratings of SMW enabled low-income employees to share the fruits of economic development and thus helped promote social harmony. Nevertheless, as grassroots workers, enterprises and other people (including those not directly benefiting from SMW) held different views on the SMW rate, it would take time to narrow this divergence;
- (vii) **Additional costs induced by wage increase:** The implementation and upratings of SMW entailed additional cost implications for enterprises in terms of business risks, premium for employees' compensation insurance and contributions to MPF, etc.;

- (viii) **Impact on quality of products and services:** Employees could enjoy wage protection after the implementation and upratings of SMW. Nevertheless, this might reduce the incentive of some employees to improve their performance or take up extra work, especially when labour supply stayed tight, thereby affecting service quality. Moreover, some enterprises that failed to pass on the SMW-induced additional labour costs to customers or consumers might choose to reduce the quality of their products or services; and
- (ix) **Other impact of SMW yet to fully emerge:** The long-term impact of SMW, to various extent, might not have fully emerged. These included, for instance, the impact on profitability and long-term operating strategies of enterprises, Hong Kong's competitiveness in the long run, labour productivity and the attractiveness to foreign investment, etc.

#### **4.IV Framework and Scope of Impact Assessment**

4.74 MWC recognised that SMW would have profound and far-reaching impact on employees, enterprises, labour market and the whole economy. After considering the experience of reviewing the SMW rate in the past, relevant socio-economic indicators and views of stakeholders and members of the public, and drawing reference from the framework of impact assessment of MWC in previous rounds, MWC set different SMW test levels and economic scenario assumptions to analyse the possible impact induced by different SMW test levels on employees, enterprises (including the additional wage bills induced), unemployment rate and inflation.

4.75 MWC had no pre-conceived stance on the adjustment direction of the SMW rate. After considering the views of stakeholders and members of the public, examining the macroeconomic performance, labour market conditions, price changes and business operation conditions since the implementation of the revised SMW rate as well as the short-term economic outlook, and undertaking thorough discussion, MWC was of the view that a downward adjustment of the SMW rate was not appropriate in the current review. Nevertheless, this did not preclude the possibility that MWC might consider recommending a downward adjustment of the SMW rate in the future, as and when supported by sufficient data or information.

- 4.76 Based on the above considerations and drawing reference from the past experience of MWC in conducting impact assessment, MWC decided to set the SMW test levels from an hourly wage of \$34.5 to \$42.0 at \$0.5 per interval (16 test levels in total) in conducting the impact assessment. Setting different SMW test levels to conduct impact assessment was to facilitate MWC to make objective and prudent judgment while striking a balance among various objectives and needs. It did not suggest MWC had any pre-established stance on whether and to what extent the SMW rate should be adjusted.
- 4.77 MWC also noted that apart from the increase in wage bills for enterprises to comply with the requirements of MWO, other labour costs (such as rest day pay and meal break pay, if applicable) might also rise after the SMW rate adjustment. Some enterprises might also need to offer pay rises to employees who were already earning wages above the SMW rate because of knock-on effect in order to prevent them from switching to other sectors offering higher wages, more comfortable work environment or more stable working hours. As observed from the experience since the implementation of SMW, MWC deduced that the greater the magnitude of SMW uprating, the greater the knock-on effect that might be induced. In the light of the above, with reference to the views of stakeholders and members of the public collected during consultation, MWC considered it necessary for the current review to continue to fully consider the additional wage bills arising from knock-on effect.
- 4.78 In view of the time gap between the review of SMW rate and the implementation of the recommended rate, MWC conducted scenario testing on the economic conditions in the first half of 2019 with reference to the experience of previous rounds of SMW rate reviews. After iterative discussions, it was considered appropriate to conduct stress tests under four economic scenarios to assess the potential impact of different SMW test levels should they be implemented in the first half of 2019 under different economic environments. Table 4.1 sets out these four economic scenario assumptions.



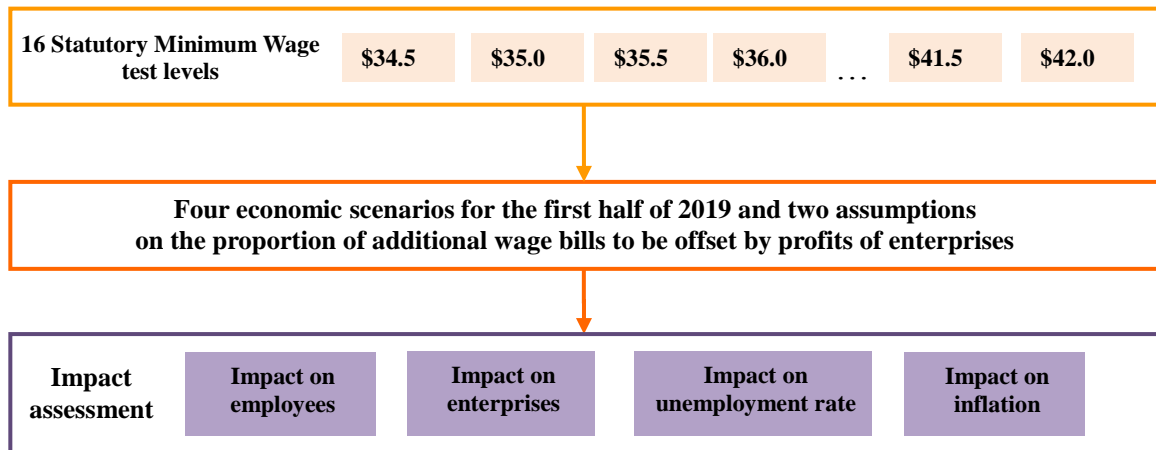
**Table 4.1: Assumptions made by the Minimum Wage Commission on the four economic scenarios**

<b>Economic Scenario</b>	<b>Assumption on real year-on-year economic growth for the first half of 2019</b>
1	+3.5%
2	+2.5%
3	+1%
4	-1%

4.79 Having considered the marked increase in external uncertainties in recent months, MWC included Economic Scenario 4 when setting different economic scenarios in order to assess the situation in times of economic downturn. MWC must stress that such assumptions are not to be taken as economic forecasts. They merely aimed to help facilitate better understanding of the vastly different impact brought about by different SMW test levels under different economic environments.

4.80 Apart from the above, MWC also adopted two assumptions on the proportion of additional wage bills to be offset by profits (viz. by assuming that the enterprises offset the additional wage bills in half or in full respectively) so as to assess the impact of SMW rate adjustment on corporate profits. In sum, the framework of impact assessment covered 16 different SMW test levels, four economic scenarios and two assumptions on the proportion of additional wage bills to be offset by profits of enterprises to conduct comprehensive assessments of the impact of SMW rate adjustment on employees, enterprises, unemployment rate and inflation. Figure 4.1 summarises the framework of impact assessment.

**Figure 4.1: Framework of impact assessment**



4.81 The methodology and major assumptions of impact assessment are detailed in **Appendix IV**. The impact assessment results for the recommended SMW rate are analysed in detail in Chapter 5.

## 5 The Recommended Statutory Minimum Wage Rate

### 5.I The Recommended Statutory Minimum Wage Rate

5.1 The Minimum Wage Commission (MWC) is an independent statutory body established under the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong), with the main function to report its recommendation about the Statutory Minimum Wage (SMW) rate to the Chief Executive (CE) in Council when required by CE to do so. MWO stipulates that in performing its function, MWC must have regard to the need:

- (1) to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs; and
- (2) to sustain Hong Kong's economic growth and competitiveness.

5.2 To review the SMW rate in an objective and balanced manner, MWC adopted an evidence-based approach by conducting comprehensive analyses of relevant data and information of various aspects, including the Annual Earnings and Hours Survey (AEHS) and the Annual Survey of Economic Activities conducted by the Census and Statistics Department (C&SD), as well as the Array of Indicators and its latest data (including labour supply and demand, unemployment rate, gross domestic product, price forecasts, etc.) to grasp the socio-economic conditions and the impact since the implementation of SMW (see Chapter 3). In parallel, MWC analysed the written and oral submissions collected from stakeholders and members of the public through extensive and intensive consultation (see Chapter 4). All these facilitated MWC to gain a more comprehensive understanding of the impact of SMW on society, economy, various sectors (in particular the low paying sectors (LPS)) and small and medium enterprises (SMEs) as well as the views of the community on the review of the SMW rate, and to formulate the impact assessment framework for reviewing the SMW rate. MWC also took into consideration factors which were pertinent to the review of the SMW rate but could not be fully quantified (see Chapter 4) and the experience of reviewing minimum wage rates in selected places (see **Appendix III**).

5.3 MWC recognises that the impact of the implementation and upratings of SMW on Hong Kong's socio-economic conditions hinges, to a large extent, on the macroeconomic environment. In view of the time gap between the review of the SMW rate and the

implementation of the recommended rate and with a view to adopting a more holistic approach in reviewing the SMW rate, scenario analysis with different assumptions on local economic outlook were included in the impact assessment (see Chapter 4).

5.4 After conducting detailed analyses and in-depth assessment, and having thoroughly considered the aforesaid different aspects and undertaken iterative deliberations, MWC unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$37.5 per hour (by \$3.0 or 8.7%). Based on the comprehensive analyses and assessment of possible impact on various aspects, MWC considered that the recommended rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness. The ensuing sections set out the quantitative analyses of the possible impact on employees, enterprises, unemployment rate and inflation brought about by the recommended SMW rate.

## **5.II Impact on Employees**

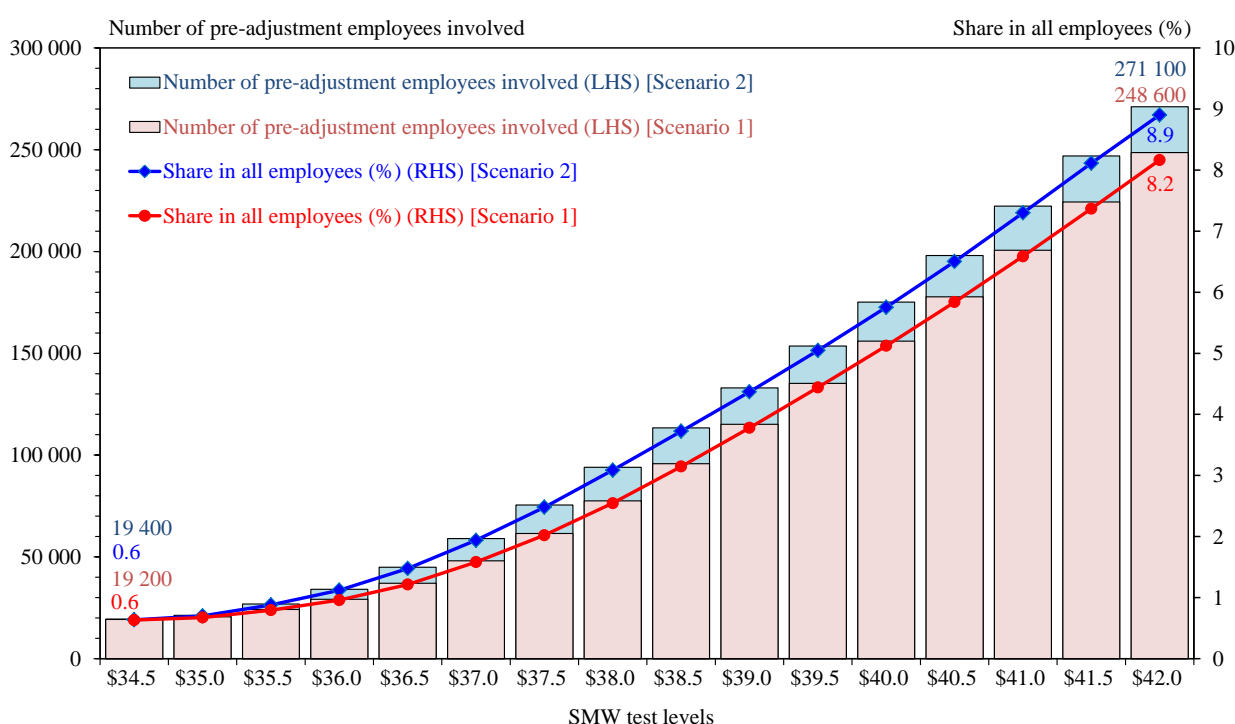
### **5.II.1 Number and proportion of employees involved before the adjustment of the Statutory Minimum Wage rate**

5.5 MWC endeavoured to conduct a forward-looking estimation so as to take into account the time gap between the review of the SMW rate and the implementation of the recommended rate. When assessing the impact of SMW rate adjustment on employees, based on the data on wage distribution from the 2017 AEHS by C&SD and with reference to other more recent wage data from C&SD, MWC crudely estimated the number and proportion of employees earning an hourly wage less than the various SMW test levels in the first half of 2019 before the adjustment of the SMW rate to the new rate (i.e. pre-adjustment employees involved) under different economic scenarios (Figure 5.1).

5.6 It is noteworthy that under scenarios with faster economic growth, employees would generally enjoy larger wage increases because of more favourable labour market conditions, and hence the estimated number of pre-adjustment employees involved under different SMW test levels would be relatively smaller, and vice versa. Specifically, under SMW test levels of \$34.5 to \$42.0 and Economic Scenario 1 (i.e.

assuming a year-on-year economic growth at 3.5% in real terms in the first half of 2019), the number of pre-adjustment employees involved was estimated to be around 19 200 to 248 600, representing 0.6% to 8.2% of all employees in Hong Kong; under Economic Scenario 2 (i.e. assuming a year-on-year economic growth at 2.5% in real terms in the first half of 2019), the number of pre-adjustment employees involved was estimated to be around 19 400 to 271 100, representing 0.6% to 8.9% of all employees in Hong Kong.

**Figure 5.1: Estimated number and proportion of pre-adjustment employees involved<sup>(^)</sup> under different Statutory Minimum Wage (SMW) test levels and Economic Scenarios 1 and 2**



Notes: (^) When the SMW test level is at \$34.5, the pre-adjustment employees involved only include those with an hourly wage of \$34.5. As for other test levels, the pre-adjustment employees involved refer to those earning an hourly wage below the respective level.

The economic scenarios with assumptions on the real economic growth for the first half of 2019 are set out in Table 4.1.

Figures shown in the chart are the estimations at the SMW test levels of \$34.5 and \$42.0.

For detailed data, please refer to **Table B.1 in Appendix V**.

“LHS” refers to the left hand side and “RHS” refers to the right hand side.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey and different wage data.

5.7 Based on the crude estimates under Economic Scenarios 1 and 2, the number of employees with an hourly wage less than \$37.5 in the first half of 2019 **before** the implementation of the recommended SMW rate (i.e. \$37.5) would be around 61 500 to 75 500, representing 2.0% to 2.5% of all employees in Hong Kong. While MWC had already endeavoured to conduct a forward-looking estimation, the labour market would keep adjusting before and after the implementation of the recommended SMW rate.

Coupled with the fact that the assumptions behind the above estimates might differ from the actual outcomes, these estimates should be used for reference only. According to the experience of reviewing minimum wage rates in other places, the number of pre-adjustment employees involved and its share among all employees are generally not meant to be the main objective and consideration in setting the rate.

5.8 Moreover, it should be noted that the aforesaid MWC's crude estimate of employees involved **before** the implementation of the recommended SMW rate is conceptually different from the number of employees earning the SMW rate **after** the implementation of the recommended SMW rate. These two figures should not be mixed up and cannot be directly compared with each other. Drawing on the experience gained upon the implementation of SMW, it was observed that under favourable economic conditions with faster wage growth, and with employers' potential need to maintain the wage differentials among employees at different ranks, some of the pre-adjustment employees involved would get pay rises to levels above the new SMW rate. As such, the number of employees actually earning the SMW rate after uprating of SMW would usually be smaller than the estimated number of pre-adjustment employees involved.

5.9 Furthermore, according to the experience in the past few years, upratings of SMW not only benefited the pre-adjustment employees involved, but also led to pay rises for some employees originally earning hourly wages above the new SMW rate due to the knock-on effect on pay hierarchies (knock-on effect) amidst a relatively tight overall manpower demand and supply condition. Taking into account the impact of such knock-on effect, MWC envisaged that, barring any abrupt economic downturn, the number of employees benefiting from pay rises owing to uprating of SMW would eventually be greater than the number of pre-adjustment employees involved, as well as the number of employees earning the SMW rate after the adjustment.

### **5.III Impact on Enterprises**

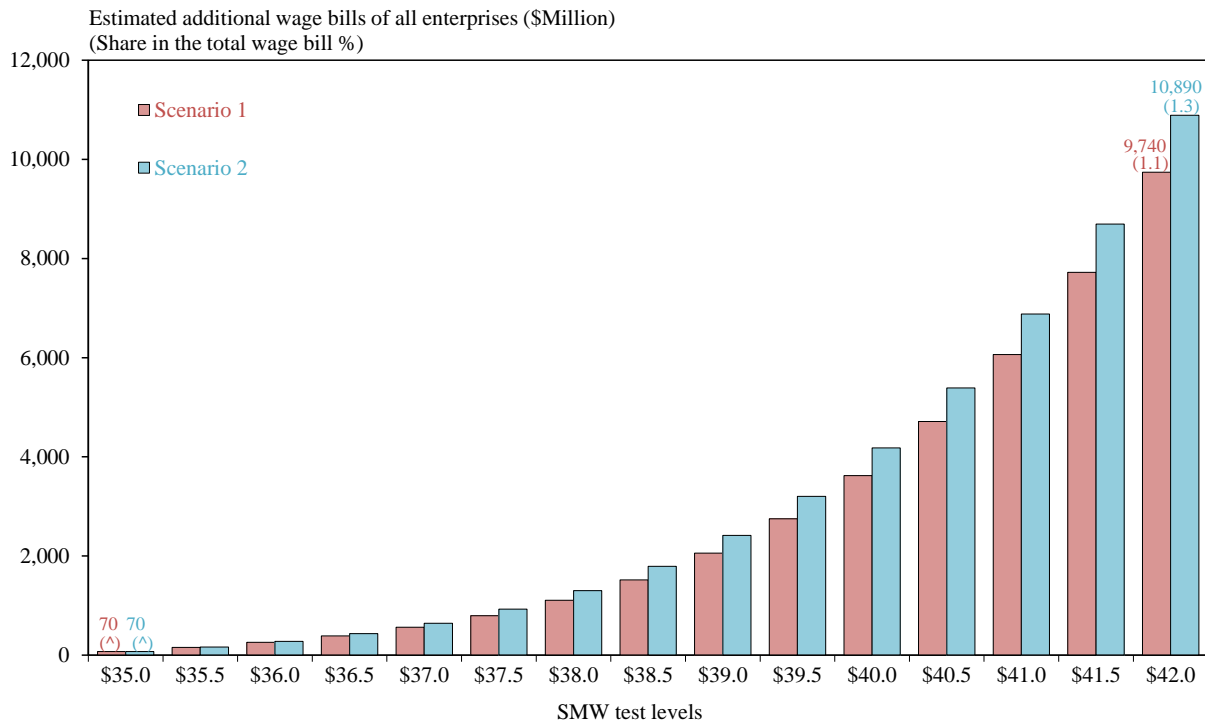
5.10 When recommending the SMW rate, apart from forestalling excessively low wages, MWC also has to take into consideration the affordability of enterprises in order to sustain Hong Kong's economic growth and competitiveness. Any excessively high SMW rate would limit the flexibility of wage adjustments and push up labour costs for enterprises. This might cause some enterprises with only thin profits to turn from profits to losses or even to cease operations, in turn increasing the unemployment risk of the employees concerned. In assessing the impact of the recommended rate, MWC had conducted detailed analyses with regard to the conditions of different sectors to fully consider their respective cost structure and profitability.

#### **5.III.1 Additional wage bills**

5.11 The most direct impact of uprating of SMW on enterprises would be increase in staff costs. The additional wage bills for enterprises under different SMW test levels as estimated by MWC included the following three components: (i) the additional wage bills for raising the hourly wages of all the pre-adjustment employees involved to the SMW test levels to meet the requirement under MWO; (ii) the additional wage bills relating to rest day pay and meal break pay of the pre-adjustment employees involved (for employees who are granted these payments according to their employment contracts or agreements); and (iii) the additional wage bills induced by knock-on effect.

5.12 Based on MWC's impact assessment under Economic Scenarios 1 and 2, the additional wage bills under SMW test levels from \$35.0 to \$42.0 were estimated to range from about \$70 million to \$10.89 billion, representing less than 0.05% to 1.3% of the total wage bill (Figure 5.2). Since it was assumed that the pace of economic and wage growth was slower under other economic scenarios, the estimated number of pre-adjustment employees involved and the corresponding estimated additional wage bills would be higher. Due to data limitations, the estimated additional wage bills did not include all the other additional labour costs (such as premium for employees' compensation insurance) arising from uprating of SMW.

**Figure 5.2: Estimated increase in wage bills under different Statutory Minimum Wage (SMW) test levels and Economic Scenarios 1 and 2**



Notes: ^ Between 0 and 0.05%.

The above estimations have taken into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement.

The economic scenarios with assumptions on the real economic growth for the first half of 2019 are set out in Table 4.1.

Figures shown in the chart are the estimations at the SMW test levels of \$35.0 and \$42.0.

For detailed data, please refer to **Table B.2 in Appendix V**.

Source: Estimated with reference to the results of the Annual Earnings and Hours Survey.

5.13 As regards the recommended SMW rate of \$37.5, based on the impact assessment under Economic Scenarios 1 and 2, it was estimated that the total wage bill would increase by about \$800 million to \$930 million respectively or approximately 0.1% <sup>(1)</sup> after taking into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement.

(1) Owing to data limitations, the estimated additional wage bills have not taken into account all labour costs (such as premium for employees' compensation insurance) arising from uprating of SMW. Additional wage bills were estimated with reference to the results of AEHS and the review results on the additional wage bills stemming from the previous SMW upratings. Details are in **Appendix IV**.



5.14 As mentioned in Chapter 3, most LPS were labour-intensive, with rising staff costs as one of the major factors pushing up the total operating expenses of many LPS in the past few years. Given the different modes of operation, cost structure and profitability across sectors, the impact of SMW uprating also varied with their individual business cycles and manpower demand and supply conditions. Based on MWC's impact assessment under Economic Scenarios 1 and 2, it was estimated that the uprating of SMW to \$37.5 would bring about an increase of 0.4% in the wage bill of LPS as a whole, higher than the increase of less than 0.05% for other sectors. Among LPS, the corresponding increases in estate management, security and cleaning services with more lower-paid employees ranged from 0.9% to 1.0%, notably higher than those for other individual LPS (Table 5.1).

**Table 5.1: Estimated increase in wage bills induced by the implementation of the recommended Statutory Minimum Wage rate (i.e. \$37.5)**

Sector	Economic Scenario 1		Economic Scenario 2		Economic Scenario 3		Economic Scenario 4	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
<b>(A) Low paying sectors</b>	<b>520</b>	<b>0.4</b>	<b>600</b>	<b>0.4</b>	<b>670</b>	<b>0.5</b>	<b>730</b>	<b>0.5</b>
1 Retail	100	0.2	130	0.3	170	0.3	200	0.4
1.1 Supermarkets and convenience stores	20	0.4	30	0.5	40	0.7	50	0.8
1.2 Other retail stores	80	0.2	100	0.2	130	0.3	150	0.3
2 Restaurants	40	0.1	50	0.1	60	0.2	80	0.2
2.1 Chinese restaurants	20	0.1	20	0.2	30	0.2	30	0.2
2.2 Non-Chinese restaurants	*	*	*	*	*	*	*	*
2.3 Fast food cafes	10	0.1	10	0.2	10	0.2	20	0.3
2.4 Hong Kong style tea cafes	*	*	*	*	*	*	*	*
3 Estate management, security and cleaning services	340	0.9	370	1.0	390	1.0	400	1.1
3.1 Real estate maintenance management	120	0.6	140	0.7	150	0.7	150	0.7
3.2 Security services	70	1.1	80	1.2	80	1.2	90	1.3
3.3 Cleaning services	130	1.7	130	1.8	140	1.9	140	1.9
3.4 Membership organisations	20	0.6	20	0.7	20	0.7	20	0.7
4 Other low paying sectors	40	0.2	40	0.3	50	0.3	50	0.3
4.1 Elderly homes	10	0.4	20	0.4	20	0.5	20	0.5
4.2 Laundry and dry cleaning services	*	*	*	*	*	*	*	*
4.3 Hairdressing and other personal services	10	0.2	20	0.2	20	0.2	20	0.3
4.4 Local courier services	*	*	*	*	*	*	*	*
4.5 Food processing and production	10	0.2	10	0.2	10	0.2	10	0.3
<b>(B) Other sectors</b>	<b>270</b>	<b>#</b>	<b>320</b>	<b>#</b>	<b>360</b>	<b>0.1</b>	<b>390</b>	<b>0.1</b>
<b>(C) All sectors</b>	<b>800</b>	<b>0.1</b>	<b>930</b>	<b>0.1</b>	<b>1,030</b>	<b>0.1</b>	<b>1,120</b>	<b>0.1</b>

Notes: The above estimations have taken into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement.

The economic scenarios with assumptions on the real economic growth for the first half of 2019 are set out in Table 4.1.

Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

# Between 0 and 0.05%.

\* The figures are not released due to relatively large sampling error.

Source: Estimated with reference to the results of the Annual Earnings and Hours Survey.

5.15 It is noteworthy that the magnitude of the impact of knock-on effect in different sectors would vary with, among others, their individual operating characteristics, rank and remuneration structure. The impact of knock-on effect would be greater in those

sectors with multi-layered grade structures, narrower pay differentials between adjacent ranks and more low-paid employees. The experience of MWC's previous reviews of the SMW rates suggested that knock-on effect was more pronounced in certain sectors (such as the restaurant sector). MWC had fully considered the impact of knock-on effect when estimating the additional wage bill of each sector. See **Appendix IV** for details.

### **5.III.2 Change in overall profits and number of enterprises turning from profits to losses**

5.16 When faced with various cost pressures (including cost of goods sold, compensation of employees, rent, rates and government rent, and other operating expenses), enterprises would generally adopt different strategies to absorb or pass on the impact of the rise in costs. Profit reduction would usually be regarded as the last resort. However, as mentioned in Chapter 3, the overall profit ratios of LPS were generally lower than those of other sectors. The operating environment of LPS would become increasingly difficult if their profit is under further pressures arising from cost increase. Meanwhile, as compared to large enterprises, SMEs were generally weaker in raising prices and controlling costs and their profitability was more susceptible to cost increases. Having regard to the above factors, based on the assumptions of enterprises offsetting half or all of the additional wage bills by profits, MWC assessed enterprises' affordability in different sectors to cope with the recommended SMW rate under less favourable conditions.

5.17 According to MWC's impact assessment, the impact of the recommended SMW rate on the overall profit ratios of most sectors would be relatively mild. Even assuming that enterprises would offset **all** of the additional wage bills by profits, the overall profit of LPS as a whole would decline by about 1%, and the corresponding profit ratio by only about 0.1 percentage point under both Economic Scenarios 1 and 2. However, for some more labour-intensive LPS such as estate management, security and cleaning services, the additional wage bills would have more noticeable impact on their profitability. Even assuming that enterprises would offset **half** of the additional wage bills by profits, it was estimated that the overall profit of estate management, security and cleaning services would decline by about 4%, and the profit ratio would decline by about 0.3 percentage point (Table 5.2 and Table 5.3).

**Table 5.2: Estimated change in overall profits after enterprises offsetting the additional wage bills induced by the implementation of the recommended Statutory Minimum Wage rate (i.e. \$37.5) by profits under Economic Scenarios 1 and 2<sup>(#)</sup>**

Sector	Overall profit ratio in 2016 (%)	Change in overall profits (%)	
		Offsetting <u>half</u> of the additional wage bills by profits	Offsetting <u>all</u> of the additional wage bills by profits
<b>(A) Low paying sectors</b>	<b>6.2</b>	<b>-0.6</b>	<b>-1.1 to -1.3</b>
1. Retail	5.9	-0.2	-0.3 to -0.4
2. Restaurants	5.1	-0.3 to -0.4	-0.7 to -0.8
3. Estate management, security and cleaning services <sup>(^)</sup>	7.0	-4.1 to -4.4	-8.1 to -8.8
4. Other low paying sectors	9.7	-0.3	-0.6 to -0.7
<b>(B) Other sectors</b>	<b>20.3</b>	*	*
<b>(C) All sectors</b>	<b>19.0</b>	*	<b>-0.1</b>

Notes: (#) Only including enterprises with employees. The above estimations have taken into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement.

(^) Estate management, security and cleaning services do not include membership organisations.

\* Between -0.05% and 0.

The economic scenarios with assumptions on the real economic growth for the first half of 2019 are set out in Table 4.1.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey and the Annual Survey of Economic Activities.

**Table 5.3: Estimated change in overall profit ratio after enterprises offsetting the additional wage bills induced by the implementation of the recommended Statutory Minimum Wage rate (i.e. \$37.5) by profits under Economic Scenarios 1 and 2<sup>(#)</sup>**

Sector	Overall profit ratio in 2016 (%)	Change in overall profit ratio (percentage point)	
		Offsetting <u>half</u> of the additional wage bills by profits	Offsetting <u>all</u> of the additional wage bills by profits
<b>(A) Low paying sectors</b>	<b>6.2</b>	*	<b>-0.1</b>
1. Retail	5.9	*	*
2. Restaurants	5.1	*	*
3. Estate management, security and cleaning services <sup>(^)</sup>	7.0	-0.3	-0.6
4. Other low paying sectors	9.7	*	-0.1
<b>(B) Other sectors</b>	<b>20.3</b>	*	*
<b>(C) All sectors</b>	<b>19.0</b>	*	*

Notes: (#) Only including enterprises with employees. The above estimations have taken into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement.

(^) Estate management, security and cleaning services do not include membership organisations.

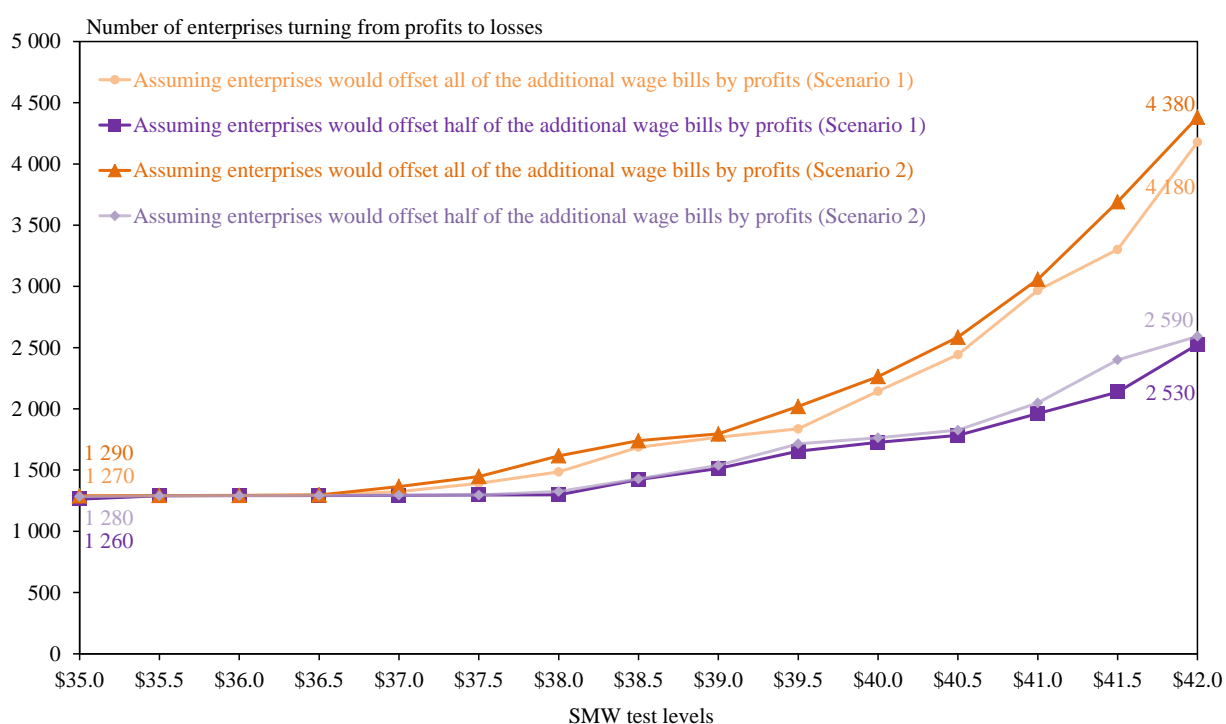
\* Between -0.05 percentage point and 0.

The economic scenarios with assumptions on the real economic growth for the first half of 2019 are set out in Table 4.1.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey and the Annual Survey of Economic Activities.

5.18 Based on MWC's impact assessment under Economic Scenarios 1 and 2, assuming that enterprises would offset **all** of the additional wage bills by profits after the implementation of the recommended SMW rate, it was estimated that the additional wage bills would cause about 1 390 to 1 450 enterprises to turn from profits to losses, accounting for about 0.7% of all enterprises in Hong Kong. If assuming enterprises would offset **half** of the additional wage bills by profits after the implementation of the recommended SMW rate, it was estimated that the additional wage bills would cause about 1 300 enterprises to turn from profits to losses, accounting for about 0.6% of all enterprises in Hong Kong (Figure 5.3), among which most of the enterprises affected would be SMEs.

**Figure 5.3: Estimated number of enterprises<sup>(^)</sup> turning from profits to losses under different Statutory Minimum Wage (SMW) test levels and Economic Scenarios 1 and 2**



Notes: (^) Only including enterprises with employees. Not including those enterprises without business receipts and local representative offices of overseas companies.

The above estimations have taken into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement.

The economic scenarios with assumptions on the real economic growth for the first half of 2019 are set out in Table 4.1.

Figures shown in the chart are the estimations at the SMW test levels of \$35.0 and \$42.0.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey and the Annual Survey of Economic Activities.

5.19 MWC envisaged that the impact of the recommended SMW rate would in general be manageable for most sectors. As enterprises can adopt various mitigating strategies

(including raising prices) to cope with increases in labour costs, it would be unlikely for all enterprises to offset half or all of the additional wage bills by profits. As for individual enterprises which would be more affected, they might consider restructuring, downsizing (including layoff) or even cease operations. Yet, if the overall economy sustains expansion, some of the laid-off employees might be hired by other existing or new enterprises, thereby relieving the impact on the labour market stemming from the above mitigating measures.

### **5.III.3 Increase in potential liability of long service payment**

5.20 With the SMW rate raised to the recommended rate, part of the labour costs associated with employees' statutory entitlements such as liability of long service payment might also increase. According to the data from AEHS, around 30% of the pre-adjustment employees involved had been working in the same organisation for five years or above in May to June 2017. Taking into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement, based on MWC's impact assessment under Economic Scenarios 1 and 2, the uprating of SMW to the recommended rate would result in an increase in employers' potential liability of long service payment<sup>(2)</sup> of about \$110 million to \$140 million, or up by 9% to 10%, accounting for only 0.01% to 0.02% of the total wage bill for all employees, suggesting a rather mild impact. As an employee is entitled to long service payment only if he/she has been continuously employed by the same employer for not less than five years<sup>(3)</sup>, the impact might even be smaller for those sectors hiring more short-term staff.

5.21 When recommending the SMW rate, MWC considered the possible impact on enterprises from various aspects to assess whether Hong Kong could maintain its favourable business environment and competitiveness. With reference to the above assessment results, MWC envisaged that the impact of the recommended SMW rate would be manageable for most enterprises, while the overall business environment and incentives for business start-ups should not be significantly affected.

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(2) The estimation was based on the assumption that long service payment would not be offset by the accrued benefits from employers' contributions made to the Mandatory Provident Fund when the enterprises dismissed their employees.

(3) The criteria for entitlement to long service payment are in footnote (2) of [Appendix IV](#).

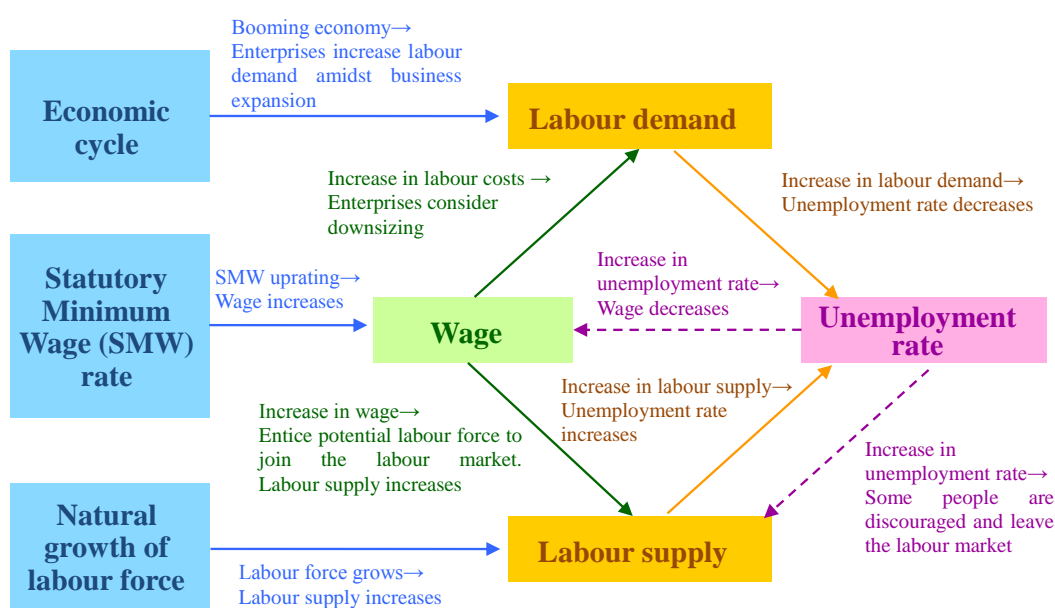
## 5.IV Impact on Overall Unemployment Rate and Inflation

### 5.IV.1 Impact on overall unemployment rate

5.22 Adjustment of the SMW rate inevitably affects labour supply and demand, which in turn affect the unemployment rate. Uprating of SMW would push up staff costs of enterprises. When enterprises face increase in labour costs, the hiring sentiment of employers would be somewhat hampered, resulting in lower labour demand. On the other hand, a pay rise entices more potential workforce to enter or re-enter the labour market, thereby boosting labour supply.

5.23 Labour demand and supply are also simultaneously affected by various factors including macroeconomic environment and population growth. If the macroeconomic environment is favourable, enterprises would create sufficient new jobs to absorb labour supply, the upward pressure arising from uprating of SMW on the unemployment rate would thus be relieved. On the contrary, if the economy slackens, enterprises would slow down their pace of business expansion, cut down on recruitment or even lay off their staff, etc.; the labour market would be unable to fully absorb the growth of the labour force, and the unemployment rate would likely be subject to greater upward pressure (Figure 5.4).

**Figure 5.4: Interactions between different factors and labour supply and demand under the framework of impact assessment**



5.24 In assessing the impact of SMW on unemployment rate, MWC had taken into account the above interactions among economic cycles, wage level, and labour supply and demand. MWC constructed an econometric model based on the economic data (including real economic growth rate, inflation rate, consumption expenditure in the domestic market and wages data released by C&SD) of the past 20 years or so to conduct comprehensive and objective assessment of the possible impact of different SMW test levels on the number of unemployed grassroots<sup>(4)</sup> workers and the overall unemployment rate. Under Economic Scenarios 1 and 2 and the SMW test levels from \$35.0 to \$42.0, it was estimated that the uprating of SMW would lead to an increase in the number of unemployed grassroots workers by less than 500 to 34 300 (Table 5.4).

**Table 5.4: Estimated impact on the number of unemployed grassroots workers and the overall unemployment rate under Economic Scenarios 1 and 2 and the Statutory Minimum Wage test levels from \$35.0 to \$42.0**

Economic Scenario	Increase in number of unemployed grassroots workers	Increase in overall unemployment rate (percentage point)
1	less than 500 to 23 500	Less than 0.1 to 0.6
2	8 100 to 34 300	0.2 to 0.9

Notes: The above estimations have taken into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement. The economic scenarios with assumptions on the real economic growth for the first half of 2019 are set out in Table 4.1.

Source: Estimated by Minimum Wage Commission Secretariat. See [Appendix IV](#) for details.

5.25 Based on MWC's impact assessment under Economic Scenario 1, it was estimated that the uprating of SMW to the recommended rate would lead to an increase of around 2 100 unemployed grassroots workers and lift the overall unemployment rate by about 0.1 percentage point. If the Hong Kong economy grows at a slower pace in the first half of 2019 (i.e. Economic Scenario 2), the number of unemployed grassroots workers was estimated to rise by around 10 300 and the overall unemployment rate by about 0.3 percentage point. As the prevailing unemployment rate in Hong Kong is still low, barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in labour market conditions.

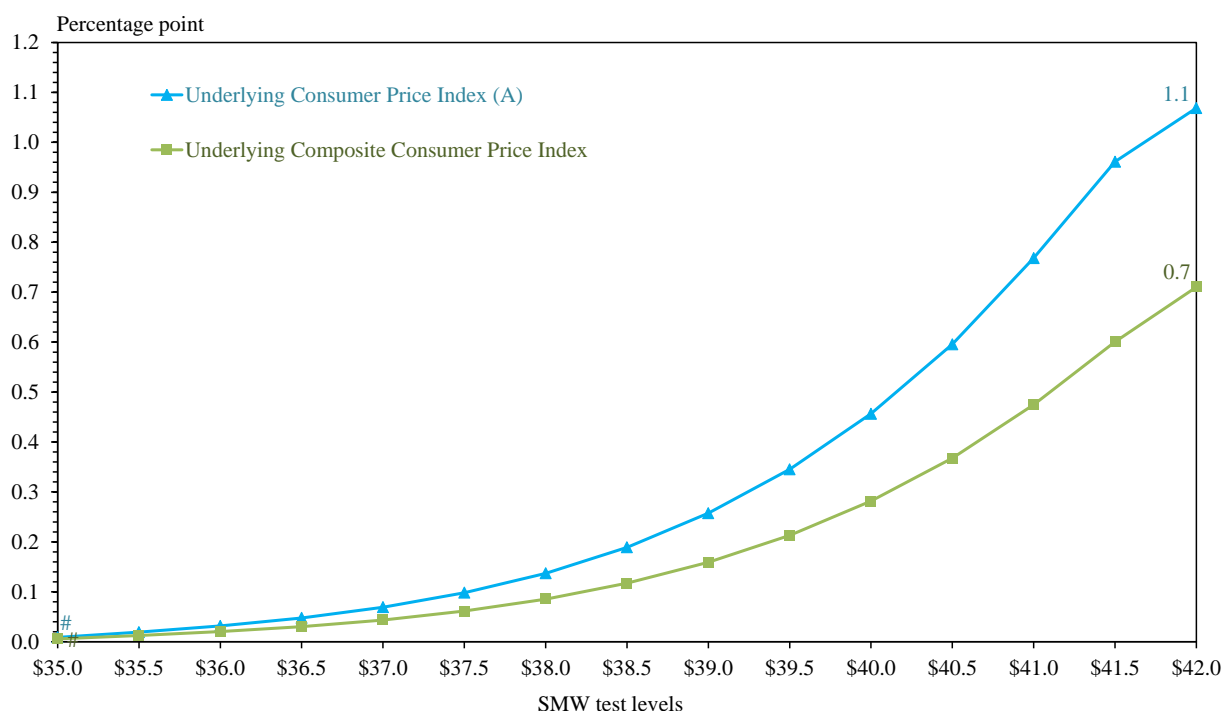
(4) Grassroots occupations include occupations of elementary workers, as well as service and sales workers. In May to June 2017, the share of these occupations was about 70% of all low-paid employees (i.e. employees with hourly wage rates below the 10<sup>th</sup> percentile of the overall hourly wage distribution). Analysing the number of unemployed grassroots workers helped MWC focus on the impact of SMW on low-paid employees.



### 5.IV.2 Impact on inflation

- 5.26 When coping with increase in wage bills, enterprises might alleviate cost pressure by raising prices of products or services, subsequently pushing up inflation. In order to consider the potential maximum impact on inflation brought about by the uprating of SMW to the recommended rate, MWC assumed a full pass-on of additional wage bills to prices of products and services and took into account the first round of wage-price spiral effect (i.e. prices of other items which were directly or indirectly linked to wages and inflation would also go up).
- 5.27 Based on MWC's impact assessment, it was estimated that the uprating of SMW to the recommended rate would push up the Composite Consumer Price Index (CPI) inflation by about 0.1 percentage point. When using CPI(A) inflation to measure the impact on the grassroots, the corresponding rise would also be about 0.1 percentage point (Figure 5.5). Since estate management, security and cleaning services would face greater pressures entailed by the additional wage bills and have stronger pricing power, the price increases in the services provided by the sectors might be more apparent. Nevertheless, generally speaking, since enterprises are unlikely to fully pass on the additional wage bills to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the estimates.

**Figure 5.5: Estimated impact on inflation under different Statutory Minimum Wage (SMW) test levels**



Notes: The above estimations have taken into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement. Figures shown in the chart are the estimations at the SMW test levels of \$35.0 and \$42.0.

# Between 0 and 0.05 percentage point.

Source: Estimated by Minimum Wage Commission Secretariat. See [Appendix IV](#) for details.

## 5.V Observations

5.28 Noting the complexity of and rapid changes in the economic environment and labour market, MWC strived to conduct forward-looking estimation and incorporated these dynamics into the impact assessment so as to comprehensively and objectively assess the possible impact of the revised SMW rate on employees, enterprises, unemployment rate and inflation. Nonetheless, since different sectors would keep on adjusting before and after the adjustment of the SMW rate, the assumptions adopted by the impact assessment would likely differ from the situation after the implementation of the recommended SMW rate. Hence, the impact assessment results should not be taken as a precise forecast of all actualities upon the implementation of the recommended SMW rate. Although MWC believed that the above assessment results have considerable reference value, the impact assessment would inevitably have limitations given Hong Kong has implemented SMW for just seven years. After SMW has been implemented for a longer period, with accumulation of sufficient data, MWC could review and consider the need to further enhance the relevant assessment framework.

- 5.29 The impact brought about by an adjustment of the SMW rate hinges on the economic conditions and the interaction of various economic factors when the rate takes effect, and its impact would not be a one-off direct effect. The impact assessment set out in this chapter was based on MWC's past experience in reviewing the SMW rate, with the main objective of conducting stress tests on the possible conditions induced by the uprating of SMW and assessing the potential impact of the recommended rate at the macro level. At the micro level, however, given the uniqueness and diversities of enterprises in terms of operating mode, type of goods/services supplied, labour supply and demand conditions as well as profitability, it would be difficult for MWC to predict the outcomes faced by individual enterprises after raising the SMW rate to the recommended rate.
- 5.30 Although the Hong Kong economy sustained strong momentum in the first half of 2018, with the uncertainties in external environment having increased markedly of late, a precise forecast of the impact of the recommended SMW rate would not be possible. Nonetheless, adopting an evidence-based approach in recommending the SMW rate, MWC had conducted comprehensive analyses of information and data obtained from various statistical surveys, examined in detail the possible impact brought about by various SMW test levels under different economic scenarios, and given thorough consideration to the views from the community on the review of the SMW rate so as to take into account and balance different factors of consideration. MWC noted that the views of different stakeholders on the review of the SMW rate were diverse and the recommended rate might not be able to fully satisfy the demands of different sectors of society. Nevertheless, MWC considered that the recommended rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.
- 5.31 During MWC's consultation, some stakeholders suggested that the SMW rate should be set at a level that could meet the basic living needs of employees and their families. However, other stakeholders considered that the aim of forestalling excessively low wages had been achieved after the implementation of SMW, the legislative intent of SMW should be to set a wage floor to protect grassroots workers only, and SMW should not be taken as a welfare policy or a poverty alleviation measure. MWC appreciates the community's concerns over the problems of poverty (in particular the problem of the working poor and whether the basic living needs of employees and their families could

be met). However, SMW mainly aims to set a wage floor to forestall excessively low wages. Even though SMW helps raise the employment earnings of low-paid workers, it is by no means and should not be the only way of resolving working poverty. Besides, since the employment terms, job nature and working hours of employees as well as their family situations and needs vary, it is difficult to meet the needs of the families of all employees by relying on uprating of SMW.

- 5.32 Besides, during the consultation period, some stakeholders suggested anchoring the SMW rate on changes in such indicators as median wage, price indices or local economic growth. Considering that SMW may bring about impact on various aspects like society, economy, the labour market, inflation, productivity, competitiveness, etc. and these factors, bearing their own weight, would interact with each other and adjust with different socio-economic environments, a formula indexation of the SMW rate to individual indicators might not enable MWC to consider the multiple relevant factors and their interactions in a comprehensive and timely manner. When reviewing the SMW rate, MWC had fully considered various factors and had given due regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and to sustain Hong Kong's economic growth and competitiveness.
- 5.33 During consultation conducted by MWC, some stakeholders suggested that the Government should formulate a long-term labour policy to alleviate the problem of manpower shortage. MWC understood that the relevant policy bureaux and departments would continue their deliberation with the relevant sectors on enhancing training and attracting new recruits (especially young people); and allow the importation of labour on an appropriate, limited and targeted basis on the premise of according employment priority to local workers. Besides, some stakeholders raised concerns on the wage levels of non-skilled employees engaged by government service contractors. MWC noted that the Government had set up an inter-departmental working group to explore feasible options to improve the government outsourcing system with a view to enhancing the protection of labour benefits as well as reasonable employment terms and conditions for non-skilled employees engaged by government service contractors.

## 6 Recommendation

- 6.1 According to the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong), the main function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to report its recommendation about the Statutory Minimum Wage (SMW) rate to CE in Council. SMW impacts on various aspects including the society, economy, labour market and inflation in Hong Kong. The community also has diverse views and concerns about the review of the SMW rate. By adopting an evidence-based approach, MWC reviewed the SMW rate in a comprehensive, objective and balanced manner. Apart from making reference to the data of an Array of Indicators (including a large number of indicators which were released more frequently and more up-to-date), MWC also studied in detail the findings of other surveys and fully considered the views on the review of the SMW rate from the community. MWC also considered other factors that were pertinent to the review of the SMW rate but could not be fully quantified, and conducted stress tests under four economic scenarios to assess the potential impact of each SMW test level under different economic environments. After conducting detailed analyses and in-depth assessment, and having thoroughly considered the different aspects and undertaken iterative deliberations, MWC unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$37.5 per hour (by \$3.0 or 8.7%).
- 6.2 Based on the data on wage distribution from the 2017 Annual Earnings and Hours Survey of the Census and Statistics Department (C&SD) and with reference to other more recent wage data from C&SD, MWC crudely estimated that under Economic Scenarios 1 and 2 (i.e. assuming a year-on-year economic growth of 2.5% to 3.5% in real terms in the first half of 2019), the number of employees with an hourly wage less than \$37.5 in the first half of 2019 **before** the implementation of the recommended SMW rate would be around 61 500 to 75 500, representing 2.0% to 2.5% of all employees in Hong Kong. Yet, as the labour market would keep adjusting before and after the implementation of the recommended SMW rate and the assumptions behind the above estimates might differ from the actual outcomes, these estimates should be used for reference only. Taking into account the impact of knock-on effect on pay hierarchies (knock-on effect), MWC believed that, barring any abrupt economic downturn, the number of employees benefiting from pay rises owing to the uprating of

SMW would eventually be greater than the number of pre-adjustment employees involved, as well as the number of employees earning the SMW rate after the adjustment.

- 6.3 Regarding the total wage bill, based on the impact assessment under Economic Scenarios 1 and 2, it was estimated that the total wage bill would increase by about \$800 million to \$930 million respectively or approximately 0.1% after taking into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement. Although as compared to large enterprises, small and medium enterprises were generally weaker in raising prices and controlling costs and their profitability was more susceptible to cost increases, based on MWC's assessments on the change in overall profits and the number of enterprises turning from profits to losses, the impact of the recommended SMW rate on the overall profit ratios of most sectors would be relatively mild. MWC envisaged that the impact of the recommended SMW rate would be manageable for most enterprises, while the overall business environment and incentives for business start-ups should not be significantly affected.
- 6.4 As regards the impact assessment on the unemployment rate, based on MWC's impact assessment under Economic Scenario 1, it was estimated that the uprating of SMW to the recommended SMW rate would lead to an increase of around 2 100 unemployed grassroots workers and lift the overall unemployment rate by about 0.1 percentage point. If the Hong Kong economy grows at a slower pace in the first half of 2019 (i.e. Economic Scenario 2), the number of unemployed grassroots workers was estimated to rise by around 10 300 and the overall unemployment rate by about 0.3 percentage point. As the prevailing unemployment rate in Hong Kong is still low, barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in labour market conditions.
- 6.5 For the impact assessment on inflation, MWC assumed a full pass-on of additional wage bills to prices of products and services and took into account the first round of wage-price spiral effect. Based on MWC's impact assessment, it was estimated that the uprating of SMW to the recommended rate would push up the Composite Consumer Price Index (CPI) inflation by about 0.1 percentage point. When using CPI(A)

inflation to measure the impact on the grassroots, the corresponding rise would also be about 0.1 percentage point. Nevertheless, generally speaking, since enterprises are unlikely to fully pass on the additional wage bills to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the estimates.

- 6.6 Based on the above evidence-based analyses and assessment, MWC gave thorough consideration to the possible impact on various aspects and the views from the community on the review of the SMW rate so as to take into account and balance different factors of consideration. Upon iterative deliberations together with in-depth and rational discussions, MWC considered that the upward adjustment of the SMW rate to \$37.5 per hour would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.
- 6.7 The recommended SMW rate was reached with the unanimous consensus of all MWC members based on an evidence-based approach and rational discussions. It was considered that the recommended rate would be conducive to the overall interest and development of Hong Kong.

## Appendix I

### Array of Indicators Considered by the Minimum Wage Commission and their Data Sources

Summary of Indicators	Statistical Indicators	Data Sources
<b>Area Considered (1): General Economic Conditions</b>		
1. Latest local economic performance and forecasts	Nominal and real Gross Domestic Product (GDP)	National Income Statistics, Census and Statistics Department (C&SD)
	Main expenditure components of real GDP	National Income Statistics, C&SD
	Composite Consumer Price Index and Consumer Price Index (A)	Monthly Retail Price Survey, C&SD
	Prominent establishments' views on expected changes in short-term business situation and number of persons engaged	Quarterly Business Tendency Survey, C&SD
	GDP and price forecasts	Office of the Government Economist, Financial Secretary's Office
<b>Area Considered (2): Labour Market Conditions</b>		
1. Labour demand and supply – employment, unemployment, underemployment, labour force and vacancies	Labour statistics	General Household Survey (GHS), C&SD
	Vacancies	Quarterly Survey of Employment and Vacancies (SEV), C&SD
	Mode of leaving last job of unemployed persons with a previous job	GHS, C&SD
2. Wage level and distribution	Wage level and distribution	Annual Earnings and Hours Survey (AEHS), C&SD
3. Wage differentials	Wage differentials	AEHS, C&SD
4. Employment characteristics	Employed persons analysed by employment status	GHS, C&SD
	Employees analysed by employment nature and contractual status	AEHS, C&SD
	Employees analysed by basis on which basic wage rate is rated	AEHS, C&SD



Summary of Indicators	Statistical Indicators	Data Sources
	Employees analysed by remuneration structure	AEHS, C&SD
5. Working hours	Distribution of working hours	AEHS, C&SD
	Overtime hours with pay	AEHS, C&SD
	Hours of work during the 7 days before enumeration	GHS, C&SD
<b>Area Considered (3): Competitiveness</b>		
1. Operating characteristics of enterprises	Operating characteristics analysed by sector (only including enterprises with employees)	Annual Survey of Economic Activities, C&SD
	Rental indices of non-residential properties	Rating and Valuation Department
	Total retail sales	Monthly Survey of Retail Sales, C&SD
	Total restaurant receipts	Quarterly Survey of Restaurant Receipts and Purchases, C&SD
	Business receipts indices	Quarterly Survey of Service Industries, C&SD
2. Entrepreneurship, business sentiment and solvency	Number of establishments	SEV, C&SD
	Labour demand	SEV, C&SD
	Number of creation and deletion of business registration	Inland Revenue Department
	Number of bankruptcy and compulsory winding-up cases	Official Receiver's Office
3. Relative economic freedom and competitiveness of Hong Kong	Hong Kong's rankings on indices of economic freedom and competitiveness	Various rating agencies
	Regional headquarters, regional offices and local offices in Hong Kong representing parent companies located outside Hong Kong	Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong, C&SD
	Inward direct investment	Survey of External Claims, Liabilities and Income, C&SD
4. Productivity growth	Labour productivity growth in Hong Kong and other places	Hong Kong: National Income Statistics and Composite Employment Estimates, C&SD Other places: Real GDP and employment data in CEIC database

Summary of Indicators	Statistical Indicators	Data Sources
5. Labour costs	Changes in unit labour cost in Hong Kong and other places	Hong Kong: National Income Statistics (LES), GHS and Labour Earnings Survey, C&SD Other places: National statistics authorities, CEIC and Datastream databases
<b>Area Considered (4): Social Inclusion</b>		
1. Standard of living	Wage indices / indices of payroll per person engaged	LES, C&SD
	Employment earnings of full-time employees analysed by decile group	GHS, C&SD
	Average monthly employment earnings	GHS, C&SD
2. Enhancing work incentive	Labour force participation rate	GHS, C&SD
	Number of long-term unemployed (unemployed for 6 months or above) persons	GHS, C&SD
	Unemployment cases of Comprehensive Social Security Assistance	Social Welfare Department
3. Labour relations	Number of disputes and claim cases	Labour Department

## Appendix II

### List of Stakeholders that Attended Consultation Meetings Conducted by the Minimum Wage Commission (listed in alphabetical order)

#### II.1 Focused Consultation Meetings with Low Paying Sectors in September 2017

Name of Organisation	
1.	A. S. Watson & Co. Ltd. 屈臣氏有限公司
2.	A-1 Bakery Co., (HK) Ltd. 英王麵包（香港）有限公司
3.	Association of Professional Personnel (Hotels, Food & Beverage) 酒店及飲食專業人員協會
4.	Association of Restaurant Managers 現代管理（飲食）專業協會
5.	Bakery, Confectionery and Cake Trade Workers Union 麵包糖果餅業食品職工會
6.	Belle Worldwide Limited 百麗環球有限公司
7.	Bossini Enterprises Ltd. 堡獅龍企業有限公司
8.	Buckingham Restaurant 金漢宮宴會廳
9.	Catering and Hotels Industries Employees General Union 飲食及酒店業職工總會
10.	Centuryan Environmental Services Group Limited 新紀元環保服務集團有限公司
11.	Certis Centurion Facility Company Limited 世紀服務有限公司
12.	Chamber of Security Industry 保安業商會
13.	China Overseas Property Services Limited 中國海外物業服務有限公司
14.	City Cut Hair & Beauty Salon 匠髮廊
15.	Cleaning Service Industry Workers Union 清潔服務業職工會
16.	Cleaning Workers Union 清潔工人職工會
17.	Commercial Organization and Domicile Services Employees Association 商業機構及家居服務從業員協會
18.	Community Care and Nursing Home Workers General Union 社區及院舍照顧員總工會
19.	Convenience Retail Asia Ltd. 利亞零售有限公司
20.	Creative Property Services Consultants Limited 創毅物業服務顧問有限公司
21.	Crocodile Garments Ltd. 鱷魚恤有限公司
22.	Dussmann Service Hong Kong Limited 嘉捷香港有限公司
23.	Eating Establishment Employees General Union 飲食業職工總會

<b>Name of Organisation</b>	
24.	Eco Industry Labour Union 環保業職工會
25.	EMV Laundry Workshop 宏遠洗衣服務公司
26.	Environmental Services Operatives Union 環境服務從業員工會
27.	Express Security Limited 警衛國際有限公司
28.	Fai-To, Kato for the Elderly Holding Limited 輝濤、嘉濤護老集團有限公司
29.	Federation of Beauty Industry (H.K.) 香港美容業總會
30.	Food and Beverage Management and Professional Staff Association 飲食業管理專業人員協會
31.	Fuk Yuen Group 福苑集團
32.	Funing Property Management Limited 富寧物業管理有限公司
33.	G2000 (Apparel) Ltd. 縱橫二千有限公司
34.	Golden Age Home For Senior Citizens 知年護養院
35.	Grace Nursing Home 頌恩護理院
36.	Granyet Care Group 鈞溢護老服務集團
37.	Guardian Property Management Ltd. 佳定物業管理有限公司
38.	Hair and Make-up Stylish Image Designers General Union 髮型化妝整體形象設計師總會
39.	Hang Yick Properties Management Ltd. 恒益物業管理有限公司
40.	Happiness Cuisine 囍慶藝廚酒家
41.	Hong Kong Air Freight Transport and Express Transport Employees Union 香港航空貨運及速遞業工會
42.	Hong Kong Beauty and Fitness Professionals General Union 香港美容健體專業人員總會
43.	Hong Kong Buildings Management and Security Workers General Union 香港物業管理及保安職工總會
44.	Hong Kong Catering Industry Association 香港飲食業聯合總會
45.	Hong Kong Chilled Meat & Poultry Association 香港冰鮮禽畜業商會
46.	Hong Kong Department Stores & Commercial Staff General Union 香港百貨、商業僱員總會
47.	Hong Kong Environmental Services, Logistics and Cleaning Employees Association 香 港環保、物流及清潔從業員協會
48.	Hong Kong Federation of Restaurants & Related Trades Ltd. 香港餐飲聯業協會有限公司
49.	Hong Kong Housing Management Employees Union 香港樓宇管理僱員工會
50.	Hong Kong Retail Management Association 香港零售管理協會
51.	Hotels, Food & Beverage Employees Association 酒店及餐飲從業員協會

<b>Name of Organisation</b>	
52.	Imperial Bird's Nest International Co. Limited 官燕棧國際有限公司
53.	Johnson Cleaning Services Co. Ltd. 莊臣有限公司
54.	Kam Hing Food Factory Ltd. 錦興粉麵食品集團
55.	Kwan Sang Catering Professional Employees Association 群生飲食技術人員協會
56.	Kwong Fuk Elderly Care Centre (Tuen Mun) Limited 廣福護老院(屯門)有限公司
57.	Laundry Trade Employees' Union 洗熨業職工會
58.	Luen Fat Cleaning Company 聯發清潔公司
59.	Magic Clean Environmental Services Limited 壹清潔環境服務有限公司
60.	Megabite Hong Kong Limited 大食代香港有限公司
61.	Nice Property Management Limited 嘉怡物業管理有限公司
62.	Ocean Empire International Ltd. 海皇國際有限公司
63.	Personal and Community Services Workers General Union 個人及社區服務行業職工總會
64.	Pollution & Protection Services Limited 寶聯環衛服務有限公司
65.	Pricerite Stores Limited 實惠家居有限公司
66.	Professional Security Services Limited 專業護衛有限公司
67.	Promoters and Casual Workers Union 推廣員及零散工工會
68.	Property Management Administrative and Clerical Staff Association 物業管理行政及文職人員協會
69.	Prosperity Land Cleaning Service Limited 豐寧清潔服務有限公司
70.	Retail, Commerce and Clothing Industries General Union 零售、商業及成衣業總工會
71.	Savills Property Management Ltd. 第一太平戴維斯物業管理有限公司
72.	Service Industry General Union 服務業總工會
73.	Stratton Property Management Limited 兆達隆物業管理有限公司
74.	Sun Lok Restaurant 新樂茶餐廳
75.	Sunshine Laundry Factory Co., Ltd. 陽光洗衣廠有限公司
76.	Supermarkets & Chain Stores Employees General Union 超市及連鎖店僱員總會
77.	Swan Hygiene Services Limited 時運服務有限公司
78.	Swire Resources Ltd. 太古資源有限公司
79.	Synergis Holdings Limited 昇捷控股有限公司
80.	Tai Hing Worldwide Development Ltd. 太興環球發展有限公司
81.	Tak Lung Restaurant 得龍大飯店
82.	Tao Heung Group 稻香集團

<b>Name of Organisation</b>	
83.	The Dairy Farm Company Ltd. 牛奶有限公司
84.	The Elderly Services Association of Hong Kong 香港安老服務協會
85.	The Federation of Hong Kong Food & Beverage Industries Trade Unions 香港飲食業職工會聯合會
86.	The Federation of Hong Kong Property Management Industry Ltd. 香港物業管理聯會有限公司
87.	The Hong Kong Association of Property Management Companies Ltd. 香港物業管理公司協會有限公司
88.	The Hong Kong General Union of Security & Property Management Industry Employees 香港護衛及物業管理從業員總會
89.	The Hong Kong Institute of Housing 香港房屋經理學會
90.	The Hong Kong Security Association 香港保安業協會
91.	The Laundry Association of Hong Kong 香港洗衣商會
92.	Tsui Wah Group 翠華集團
93.	Union of Hong Kong Beauty and Health Care Employees 香港美容保健業僱員總會
94.	Urban Property Management Ltd. 富城物業管理有限公司
95.	Watami (China) Company Limited 和民(中國)有限公司
96.	Well Born Real Estate Management Limited 偉邦物業管理有限公司
97.	Yue Yi Steam Laundry Factory Limited 如意洗衣廠有限公司

## II.2 Consultation Meetings in June 2018

Name of Organisation	
1.	A. S. Watson & Co. Ltd. 屈臣氏有限公司
2.	Bakery, Confectionery and Cake Trade Workers Union 麵包糖果餅業食品職工會
3.	Business and Professionals Federation of Hong Kong 香港工商專業聯會
4.	Catering and Hotels Industries Employees General Union 飲食及酒店業職工總會
5.	Catering Trade Chiuchow and Cantonese Workers Union 飲食業潮粵籍職工會
6.	Centuryan Environmental Services Group Limited 新紀元環保服務集團有限公司
7.	Chinese & Western Food Workers Union 中西飲食業職工會
8.	Cleaning Service Industry Workers Union 清潔服務業職工會
9.	Cleaning Workers Union 清潔工人職工會
10.	Community, Social and Personal Services (New Territories West) Employees General Union 社區、社會及個人服務業（新界西）總工會
11.	Crocodile Garments Ltd. 鱷魚恤有限公司
12.	D & G Development Limited 瑞華行發展有限公司
13.	Eating Establishment Employees General Union 飲食業職工總會
14.	Elderly Living at Culture Homes 文化村專業護理安老服務
15.	Employers' Federation of Hong Kong 香港僱主聯合會
16.	Environmental Services Contractors Alliance (Hong Kong) 香港環境衛生業界大聯盟
17.	Environmental Services Operatives Union 環境服務從業員工會
18.	Express Security Limited 警衛國際有限公司
19.	Federation of Beauty Industry (H.K.) 香港美容業總會
20.	Federation of Hong Kong Industries 香港工業總會
21.	Fix-up Hair Salon (No Chinese Name)
22.	Food and Beverage Industry Employees General Union 食品及飲品業僱員總會
23.	Food and Beverage Management and Professional Staff Association 飲食業管理專業人員協會
24.	Grace Nursing Home 頌恩護理院
25.	Hair and Make-up Stylish Image Designers General Union 髮型化妝整體形象設計師總會
26.	Happiness Cuisine 囍慶藝廚酒家

<b>Name of Organisation</b>	
27.	Hong Kong & Kowloon Electrical Appliances Merchants Association Ltd. 港九電器商聯會有限公司
28.	Hong Kong (SME) Economic and Trade Promotional Association 香港中小企經貿促進會
29.	Hong Kong Air Freight Transport and Express Transport Employees 香港航空貨運及速遞業工會
30.	Hong Kong and Kowloon Trades Union Council 港九工團聯合總會
31.	Hong Kong Beauty and Fitness Professionals General Union 香港美容健體專業人員總會
32.	Hong Kong Buildings Management and Security Workers General Union 香港物業管理及保安職工總會
33.	Hong Kong Clerical Employees General Union 香港文職人員總會
34.	Hong Kong Confederation of Trade Unions 香港職工會聯盟
35.	Hong Kong Department Stores & Commercial Staff General Union 香港百貨、商業僱員總會
36.	Hong Kong District Tourists and Passengers Omnibus Operators 香港區旅運巴士同業聯會
37.	Hong Kong Environmental Services, Logistics and Cleaning Employees 香港環保、物流及清潔從業員協會
38.	Hong Kong Federation of Restaurants & Related Trades Ltd. 香港餐飲聯業協會有限公司
39.	Hong Kong General Chamber of Commerce 香港總商會
40.	Hong Kong General Chamber of Social Enterprises Limited 香港社會企業總會有限公司
41.	Hong Kong Greater China SME Alliance Association 香港大中華中小企業商會
42.	Hong Kong Guards Ltd. 香港警衛有限公司
43.	Hong Kong Hair & Beauty Merchants Association 香港美髮美容業商會
44.	Hong Kong Housing Management Employees Union 香港樓宇管理僱員工會
45.	Hong Kong Institute of Human Resource Management 香港人力資源管理學會
46.	Hong Kong Insurance Practitioners General Union 香港保險業總工會
47.	Hong Kong Logistics Association 香港物流協會
48.	Hong Kong Policy Viewers 香港政策透視
49.	Hong Kong Professionals and Senior Executives Association 香港專業及資深行政人員協會



Name of Organisation	
50.	Hong Kong Retail Management Association 香港零售管理協會
51.	Hong Kong Small and Medium Enterprises Association 香港中小型企業聯合會
52.	Hong Kong SME Development Federation Ltd. 香港中小企促進聯會
53.	Hong Kong Women Development Association Limited 香港婦聯
54.	Hong Kong Women Workers' Association 香港婦女勞工協會
55.	Hong Shing Home for Aged Company Limited 康盛護老中心有限公司
56.	Institution of Dining Art 稻苗學會
57.	Johnson Cleaning Services Co. Ltd. 莊臣有限公司
58.	Joint Council of Estate Agents Associations 地產代理業界聯席會議
59.	Jones Lang LaSalle Management Services Ltd. 仲量聯行物業管理有限公司
60.	Kai Bo Food Supermarket 佳宝食品超級市場
61.	Kam Hing Food Factory Ltd. 錦興粉麵食品集團
62.	Kee Wah Bakery Limited 奇華餅家有限公司
63.	Laundry Trade Employees' Union 洗熨業職工會
64.	Momentum 107 107 動力
65.	New Gem Property Management & Agency Limited 新豪物業管理及代理有限公司
66.	New Prof Security & Facilities Management Limited 新剛保衛服務有限公司
67.	Old Bazaar Kitchen 老巴剎廚房
68.	Oxfam Hong Kong 樂施會
69.	Pakco Security (HK) Limited 栢高警衛(香港)有限公司
70.	People's Alliance for Minimum Wage 民間爭取最低工資聯盟
71.	Pizza Hut Hong Kong Management Limited 香港必勝客管理有限公司
72.	Pointer Courier Company 保達速遞公司
73.	Pricerite Stores Limited 實惠家居有限公司
74.	Promoters and Casual Workers Union 推廣員及零散工工會
75.	Property Management Administrative and Clerical Staff Association 物業管理行政及文職人員協會
76.	Prosperity Land Cleaning Service Limited 豐寧清潔服務有限公司
77.	Retail & Wholesale Trades Employees Association 零售及批發從業員協會
78.	Retail, Commerce and Clothing Industries General Union 零售、商業及成衣業總工會
79.	Sa Sa Cosmetic Co. Ltd. 莎莎化妝品有限公司
80.	Service Industry General Union 服務業總工會

<b>Name of Organisation</b>	
81.	Shanghai Lane 上海弄堂有限公司
82.	Sun Lok Restaurant 新樂茶餐廳
83.	Super Fast Food 美好快餐
84.	Swire Resources Ltd. 太古資源有限公司
85.	Tao Heung Group 稻香集團
86.	The Chinese General Chamber of Commerce 香港中華總商會
87.	The Chinese Manufacturers' Association of Hong Kong 香港中華廠商聯合會
88.	The Federation of Hong Kong & Kowloon Labour Unions 港九勞工社團聯合會
89.	The Federation of Hong Kong Property Management Industry Ltd. 香港物業管理聯會有限公司
90.	The Hong Kong Chinese Importers' & Exporters' Association 香港中華出入口商會
91.	The Hong Kong Construction Association Ltd. 香港建造商會有限公司
92.	The Hong Kong Council of Social Service 香港社會服務聯會
93.	The Hong Kong Federation of Trade Unions 香港工會聯合會
94.	The Hong Kong General Union of Security & Property Management 香港護衛及物業管理從業員總會
95.	The Lion Rock Institute 獅子山學會
96.	Urban Property Management Ltd. 富城物業管理有限公司
97.	Wai Tat Cleaning Service Co. Ltd. 威達清潔服務有限公司
98.	Watami (China) Company Limited 和民(中國)有限公司
99.	Well Born Real Estate Management Limited 偉邦物業管理有限公司
100.	Yi Wo Yuen Aged Sanatorium Centre 頤和園護老集團
101.	Yick Tat Property Management Co. Ltd. 億達行物業管理有限公司
102.	Yip's Cleaning Service Company Limited 葉氏清潔服務有限公司
103.	Yoshiya Property Management Limited 慶屋物業管理有限公司

## Appendix III

### Experience of Reviewing Minimum Wage Rates in Selected Places

Place studied	Concept	Criteria for reviewing minimum wage rate
The Mainland (Beijing, Shanghai, Guangzhou and Shenzhen)	Minimum wage aims to safeguard the legal rights of workers (in particular low-income workers) to obtain reasonable remuneration and protect the basic living of workers and their family members	<ul style="list-style-type: none"> <li>◇ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Minimum cost of living for a worker and the average number of his/her dependants</li> <li>➤ Average wage levels</li> <li>➤ Labour productivity</li> <li>➤ Employment conditions</li> <li>➤ Economic development differentials among regions</li> </ul> </li> </ul>
Taiwan	Minimum wage provides the minimum standards for working conditions so as to protect workers' rights and interests, strengthen the employee-employer relationships and promote social and economic development	<ul style="list-style-type: none"> <li>◇ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Conditions of economic development</li> <li>➤ Wholesale price index</li> <li>➤ Retail price index</li> <li>➤ Overall income and average individual income</li> <li>➤ Labour productivity of different industries and employment situation</li> <li>➤ Workers' wages in different industries</li> <li>➤ Survey and statistical figures on household income and expenditure</li> </ul> </li> </ul>
South Korea	Minimum wage stabilises workers' life and improves the quality of labour force, thereby contributing to the sound development of the national economy	<ul style="list-style-type: none"> <li>◇ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Cost of living of workers</li> <li>➤ Wages of kindred workers</li> <li>➤ Labour productivity</li> <li>➤ Ratio of workers' compensation to national income</li> </ul> </li> </ul>

Place studied	Concept	Criteria for reviewing minimum wage rate
The United Kingdom	National Minimum Wage aims to help as many low-paid workers as possible without damaging their employment prospects. National Living Wage (statutory minimum wage for workers aged 25 and over) will continue to increase to reach 60% of median earnings by 2020, subject to sustained economic growth	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Economic conditions</li> <li>➤ Employment and unemployment levels (including impact of the statutory minimum wage)</li> <li>➤ Relevant policy changes</li> </ul> </li> </ul>
France	Minimum wage ensures low-paid workers can enjoy a certain living standard and share the fruits of economic development	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Change in price index</li> <li>➤ Increase in the purchasing power of overall average wage</li> <li>➤ Analysis and views of the National Collective Bargaining Commission and the Group of Experts on various economic indicators and factors</li> </ul> </li> </ul>
Ireland	Without creating significant adverse consequences for employment and competitiveness, minimum wage is designed to assist as many low-paid workers as is reasonably practicable, set at a rate that is fair and sustainable, and, where adjustment is appropriate, adjusted incrementally and progressively increased over time	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Changes in earnings</li> <li>➤ Changes in currency exchange rates</li> <li>➤ Changes in income distribution</li> <li>➤ Changes in unemployment, employment and productivity generally and in sectors most affected</li> <li>➤ International comparisons (particularly with Great Britain and Northern Ireland)</li> <li>➤ Need for job creation</li> <li>➤ Likely effect of the proposed minimum wage level on levels of employment and unemployment, cost of living and national competitiveness</li> </ul> </li> </ul>

Place studied	Concept	Criteria for reviewing minimum wage rate
Germany	Minimum wage aims to provide workers with an appropriate minimum level of protection, enabling fair and functioning conditions of competition and not jeopardising employment	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Providing workers with an appropriate minimum level of protection</li> <li>➤ Enabling fair and functioning conditions of competition</li> <li>➤ Not jeopardising employment</li> <li>➤ Collective wage developments</li> </ul> </li> </ul>
Australia	Minimum wage is to establish and maintain a safety net of fair minimum wage	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth</li> <li>➤ Promoting social inclusion through increased workforce participation</li> <li>➤ Relative living standards and the needs of low-paid workers</li> <li>➤ Principle of equal remuneration for work of equal or comparable value</li> <li>➤ Providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with disabilities whose productivity is affected by a disability</li> <li>➤ Encouraging collective bargaining</li> </ul> </li> </ul>

Place studied	Concept	Criteria for reviewing minimum wage rate
New Zealand	Minimum wage provides a wage floor for workers to ensure that they receive enough wages for their employment and to lift wages for low-paid workers	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Inflation (using Consumers Price Index as the indicator)</li> <li>➤ Wage growth (using median wage as the indicator)</li> <li>➤ Restraint on employment</li> <li>➤ Labour productivity</li> <li>➤ Effects of minimum wage increases on social assistance received, business growth, hours worked by employees, workers who are earning at a rate slightly higher than the minimum wage</li> <li>➤ Affordability for Government</li> <li>➤ International standing of the minimum wage rate</li> <li>➤ Impact on industries</li> <li>➤ Other government policies</li> </ul> </li> </ul>
The United States	Federal minimum wage aims to maintain the minimum standard of living of workers without substantially curtailing employment or earning power	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Cost of living</li> <li>➤ Productivity</li> <li>➤ Level of wages in manufacturing</li> <li>➤ Ability of employers to absorb wage increases</li> <li>➤ Other factors deemed pertinent</li> </ul> </li> </ul>
Canada	Minimum wage in individual Provinces aims to set a wage floor in the labour market and ensure a minimum standard of living for employees	The majority of Provinces take into account price index, wage levels, employment conditions, economic conditions, productivity, economic competitiveness, increase in cost of living, minimum wage in other Provinces and effects of minimum wage rate on the society

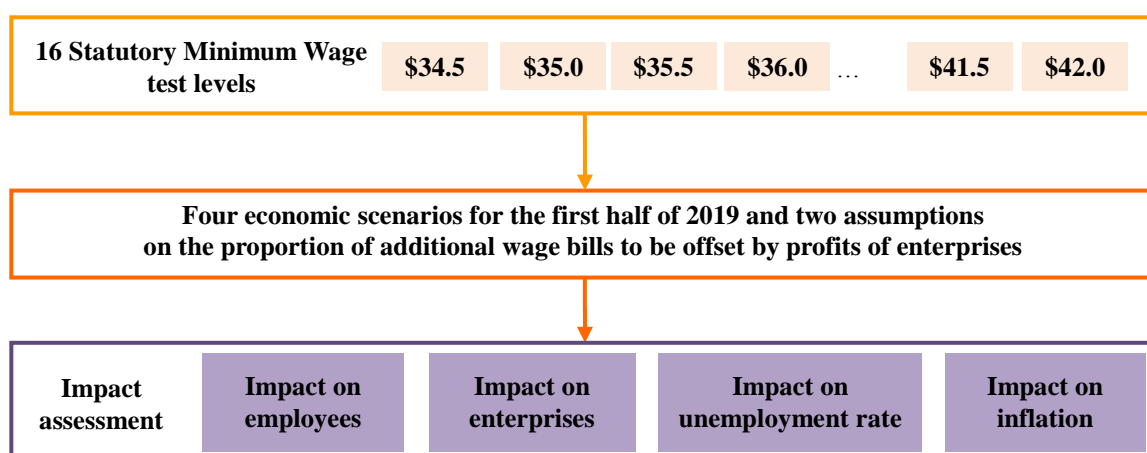
## Appendix IV

### Methodology of Impact Assessment

#### IV.1 Introduction

IV.1.1 Section 4.IV of Chapter 4 has given an overview of the factors considered by the Minimum Wage Commission (MWC) in formulating the framework of impact assessment. This Appendix sets out in detail the methodology and major assumptions adopted by MWC in assessing the possible impact of different Statutory Minimum Wage (SMW) test levels on employees, enterprises, unemployment rate and inflation. The framework is summarised in Figure IV.1.

**Figure IV.1 : Framework of impact assessment**



#### IV.2 Impact Assessment on Employees

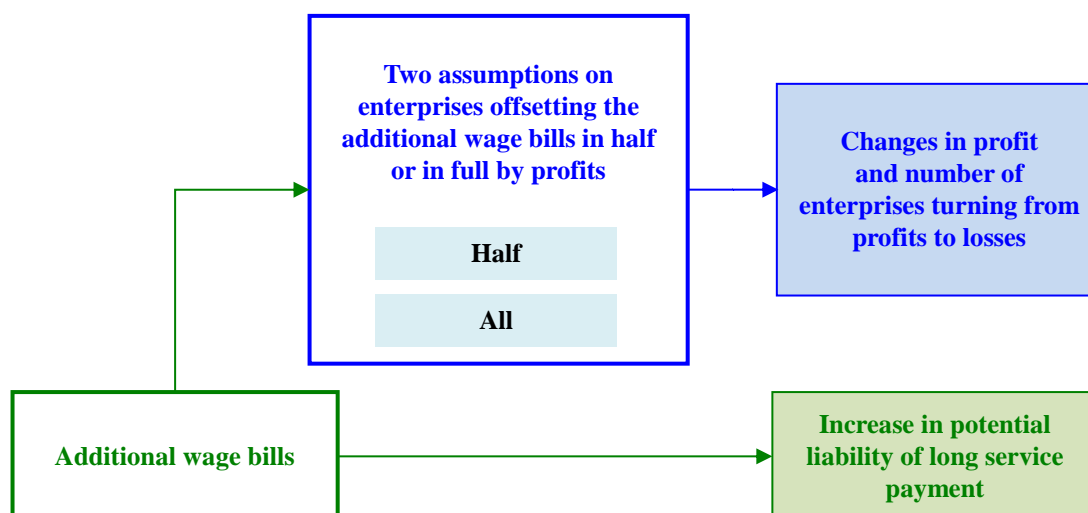
IV.2.1 Providing the basis for assessing the possible impact of the revision of the SMW rate on the other macro aspects, the impact assessment on employees constitutes primarily crude estimates of the number and proportion of employees earning an hourly wage less than the various SMW test levels in the first half of 2019 before the adjustment of the SMW rate (i.e. pre-adjustment employees involved) under different economic scenario assumptions (see Table 4.1 in Chapter 4).

IV.2.2 In view of the time gap between the review of the SMW rate and the implementation of the recommended rate, MWC endeavoured to conduct forward-looking estimation. MWC recognised that if the recommended SMW rate is adopted and implemented in the first half of 2019, the wages of some of the employees originally earning less than the recommended SMW rate in 2017 might have been raised above the new SMW rate by then, and hence the number of pre-adjustment employees involved might actually be smaller than that given in the wage distribution of 2017. As such, when estimating the number of pre-adjustment employees involved, MWC not only made reference to the data on wage distribution from the 2017 Annual Earnings and Hours Survey (AEHS) of the Census and Statistics Department (C&SD), but also took into account the economic and labour market conditions as of the first half of 2018, as well as the more recent wage data from the General Household Survey and the Labour Earnings Survey of C&SD.

### IV.3 Impact Assessment on Enterprises

IV.3.1 The methodology and items relevant to the impact assessment of SMW test levels on enterprises are as follows (Figure IV.2):

**Figure IV.2: Items covered by impact assessment of Statutory Minimum Wage test levels on enterprises**





**(a) Additional wage bills**

IV.3.2 Additional wage bills of enterprises under different SMW test levels include the following three components: (i) the additional wage bills for raising the hourly wages of all the pre-adjustment employees involved to the SMW test levels to meet the requirement under the Minimum Wage Ordinance (“the additional wage bills required to comply with the statutory requirement”); (ii) the additional wage bills relating to rest day pay and meal break pay for the pre-adjustment employees involved (for employees who are granted these payments according to their employment contracts or agreements); and (iii) the additional wage bills induced by the knock-on effect on pay hierarchies (knock-on effect).

IV.3.3 Additional wage bills were estimated based on “the additional wage bills required to comply with the statutory requirement” and the consequential rest day pay and meal break pay of the estimated number of pre-adjustment employees involved under different economic scenario assumptions according to Section IV.2. The relevant estimation assumed that the pre-adjustment employees involved originally entitled to rest day pay and/or meal break pay would continue to enjoy these benefits, and their rest day pay and/or meal break pay increased correspondingly with the rises in their hourly wages.

IV.3.4 The magnitude of the impact of knock-on effect would vary with the operating characteristics, rank and remuneration structure, etc. of different sectors. The impact of knock-on effect would be more significant in those sectors with multi-layered grade structures, narrower pay differentials between adjacent ranks and more lower-paid employees. Drawing on the experience since the implementation of SMW (see Chapter 3) and with reference to the two Government-commissioned thematic studies on knock-on effect in the retail and restaurant sectors<sup>(1)</sup> conducted by consultants, MWC continued to conduct comprehensive examination of the actual wage distribution of employees in different sectors over the past few years from AEHS, and review in detail the direct and indirect impact (the latter being the impact of knock-on effect) of the past three upratings of SMW on labour costs in the current assessment.

IV.3.5 The outcome indicated that the actual magnitude of the impact of knock-on effect hinged very much on the extent of the uprating of SMW, and that the knock-on effect was

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(1) Including the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

particularly pronounced in those sectors with multi-layered grade structures (e.g. the restaurant sector). In short, a relatively modest uprating of SMW would result in a milder impact of knock-on effect, whereas a relatively sizeable uprating of SMW would induce a relatively larger increase in additional wage bills, hence a more noticeable impact of knock-on effect. For instance, taking the experience from the first SMW uprating (in May 2013), for all sectors as a whole, the additional wage bill induced by the impact of knock-on effect was about 1.9 times (i.e. knock-on multiplier) of “the additional wage bill required to comply with the statutory requirement”, suggesting that an increase of \$1 in “the additional wage bill required to comply with the statutory requirement” would entail an increase of \$1.9 in the additional wage bill due to the impact of knock-on effect. For the third SMW uprating (in May 2017), the corresponding knock-on multiplier was about 1.5 times. Making reference to the above review outcome, MWC estimated the knock-on effect of different SMW test levels in the current review.

IV.3.6 MWC has all along been enhancing the impact assessment framework based on the experience from the previous upratings of SMW. Yet it should be noted that since SMW has been implemented in Hong Kong for a rather short period of time and MWC could only draw reference from three SMW upratings, it is inevitable that the relevant estimations have its limitations. The assessment framework would be subject to continual enhancement after accumulating more data and experience when SMW has been implemented for a longer period of time.

**(b) Changes in overall profits and number of enterprises turning from profits to losses**

IV.3.7 The changes in overall profits and number of enterprises turning from profits to losses were estimated based on the data from the Annual Survey on Economic Activities on staff costs (including wage bills and costs of other relevant benefits, such as employers’ contribution to the Mandatory Provident Fund (MPF)), the additional wage bills of SMW test levels under different economic scenarios, and the two assumptions on enterprises offsetting the additional wage bills in half or in full by profits.

**(c) Increase in potential liability of long service payment**

IV.3.8 The increase in the potential liability of long service payment was estimated based on the proportion of employees who had worked in the same organisation for five years or

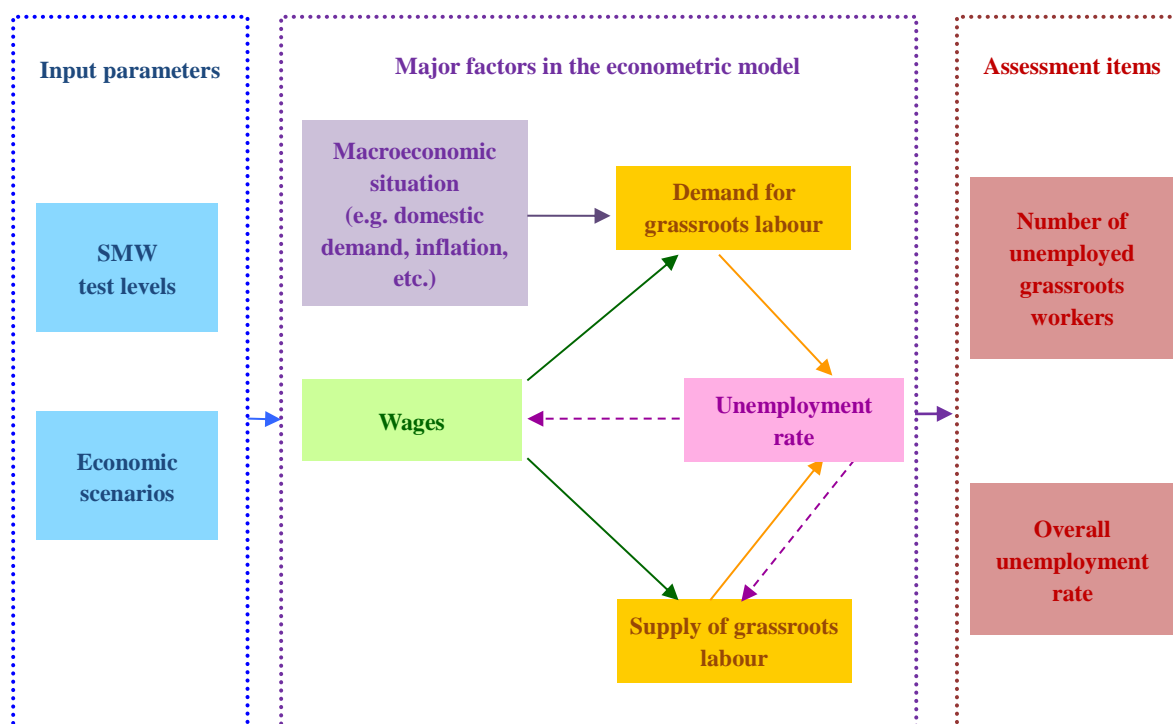
above<sup>(2)</sup> from AEHS, followed by the estimation of the increases in their monthly salaries after the adjustment of the SMW rate. Such increases were then multiplied by two-thirds and their years of service to arrive at an estimate of the additional liability of long service payment that might be faced by enterprises<sup>(3)</sup>.

#### **IV.4 Impact Assessment on Unemployment Rate**

IV.4.1 To estimate the possible impact of different SMW test levels on the number of unemployed grassroots<sup>(4)</sup> workers and the overall unemployment rate under different economic scenarios, MWC analysed the economic data (including real economic growth rate, inflation rate, consumption expenditure in the domestic market and wage statistics released by C&SD) of the past 20 years or so and constructed an econometric model based on these data. Figure IV.3 summarises the framework of the econometric model and the interaction among the major factors in the model, as well as the two input parameters involved.

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- (2) According to the Employment Ordinance, an employee who has been employed under a continuous contract for not less than five years, and satisfies one of the following criteria will be entitled to long service payment. The criteria include: the employee is dismissed, but is not summarily dismissed due to serious misconduct or is not dismissed by reason of redundancy; or the employee's employment contract of a fixed term expires without being renewed; or the employee dies during employment; or the employee resigns on grounds of ill health; or the employee, aged 65 or above, resigns on grounds of old age. Owing to data limitations, the assessment did not take into account employees who are not entitled to long service payment for reason of not satisfying the above criteria.
- (3) The estimation was based on the assumption that long service payment would not be offset by the accrued benefits from employers' contributions made to MPF when the enterprises dismissed their employees.
- (4) Grassroots occupations include occupations of elementary workers, and service and sales workers. In May to June 2017, the share of these occupations was about 70% of all low-paid employees (i.e. employees with hourly wage rates below the 10<sup>th</sup> percentile of the overall hourly wage distribution). Analysing the number of unemployed grassroots workers helped MWC focus on the impact of SMW on low-paid employees.

**Figure IV.3: Methodology for assessing the impact of Statutory Minimum Wage (SMW) test levels on the unemployment rate**

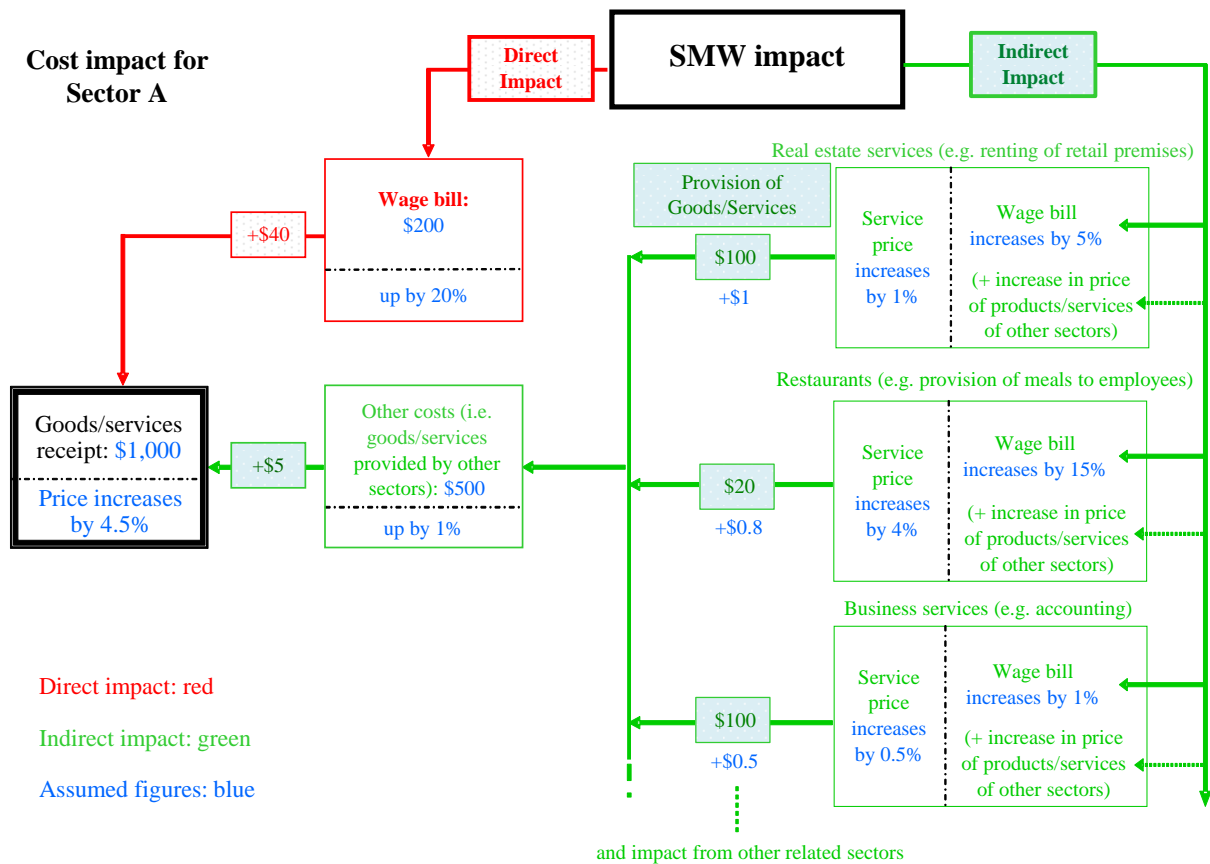


- (a) **SMW test levels:** The wage increases of grassroots employees were estimated under different SMW test levels.
- (b) **Economic scenarios:** To analyse the potential impact brought about by the revision of the SMW rate under different economic scenarios, MWC made four economic scenarios assumptions for the first half of 2019 to estimate the market demand for grassroots employees under these scenarios.

## IV.5 Impact Assessment on Inflation

IV.5.1 When assessing the impact of different SMW test levels on inflation, a full pass-on of the increase in direct and indirect costs to the prices of products and services was assumed. For the business sector, increase in direct costs refers to the additional wage bills of enterprises directly attributable to the increase in wages of their employees induced by SMW uprating. Meanwhile, the indirect costs of enterprises will also go up due to a rise in other operating expenses (such as rent, transport and courier service) as SMW uprating will cause other enterprises to raise the prices of their products or services. Figure IV.4 shows the impact of increase in direct costs and indirect costs on prices of products or services.

**Figure IV.4: Illustration of the relationship between additional wage bills arising from Statutory Minimum Wage (SMW) and direct costs and indirect costs of enterprises**



IV.5.2 Specifically, MWC first estimated the increases in prices of products or services in the related sectors based on detailed statistical data and cost structures. Such increases were then multiplied by the relevant weightings in the Composite Consumer Price Index (CPI) and CPI(A) to assess the lifting effect on these two price indices. The relevant estimates of MWC also included the first round of wage-price spiral effect, i.e. a series of price hikes caused by the increases in prices of other items (such as public transport and rent of public housing) which were directly or indirectly linked to wages and inflation and would subsequently lead to inflationary pressures surfacing at different stages.

## Appendix V

### Statistical Appendices

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##### **B. Impact Assessment**

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##### **C. Coverage of Sectors**

Table C.1 Coverage of sectors

## A. Low-paid Employees and Low Paying Sectors

**Table A.1 Number of employees with hourly wage rates below the 10<sup>th</sup> percentile of the overall hourly wage distribution <sup>(Note 1)</sup> analysed by sector**

Sector <sup>(Note 2)</sup>	Employees with hourly wage rates below the 10 <sup>th</sup> percentile of the overall hourly wage distribution					
	May to June 2015 (i.e. employees with hourly wage less than \$36.5)		10 <sup>th</sup> percentile hourly wage in respective sector (\$)	May to June 2017 (i.e. employees with hourly wage less than \$40.0)		10 <sup>th</sup> percentile hourly wage in respective sector (\$)
	No. of persons (‘000)	Proportion among all employees in respective sector (%)		No. of persons (‘000)	Proportion among all employees in respective sector (%)	
<b>(A) Low paying sectors</b>	<b>209.4</b>	<b>25.1</b>	<b>33.8</b>	<b>188.6</b>	<b>22.4</b>	<b>36.9</b>
1. Retail	55.0	19.4	35.0	45.7	16.4	38.0
1.1 Supermarkets and convenience stores	17.5	41.6	33.8	12.1	27.6	36.3
1.2 Other retail stores	37.6	15.6	35.3	33.7	14.3	38.5
2. Restaurants	37.7	17.2	35.0	25.9	11.7	39.1
2.1 Chinese restaurants	10.0	13.9	35.6	8.2	11.1	39.6
2.2 Non-Chinese restaurants	7.8	11.0	36.0	6.0	8.4	40.0
2.3 Fast food cafes	17.5	32.5	34.0	10.3	18.9	38.2
2.4 Hong Kong style tea cafes	2.3	10.5	36.1	1.5	6.6	40.7
3. Estate management, security and cleaning services	98.5	41.5	32.5	98.0	40.4	35.7
3.1 Real estate maintenance management	48.3	43.0	32.8	45.4	40.4	36.3
3.2 Security services	15.8	39.3	32.5	18.1	41.2	35.9
3.3 Cleaning services	30.5	44.0	32.5	30.6	43.6	34.5
3.4 Membership organisations	4.0	25.4	32.7	3.9	24.6	35.4
4. Other low paying sectors	18.1	19.0	34.4	18.9	19.5	37.0
4.1 Elderly homes	5.7	28.4	33.5	6.0	28.4	37.0
4.2 Laundry and dry cleaning services	1.2	21.8	35.0	1.4	26.0	36.9
4.3 Hairdressing and other personal services	5.6	12.9	35.0	5.7	13.4	37.0
4.4 Local courier services	1.0	20.5	35.3	0.8	16.0	38.3
4.5 Food processing and production	4.7	21.5	33.3	5.0	21.9	36.7
<b>(B) Other sectors</b>	<b>85.4</b>	<b>3.9</b>	<b>41.4</b>	<b>102.0</b>	<b>4.6</b>	<b>45.0</b>
5. Manufacturing	5.0	5.8	39.6	4.3	5.4	43.3
6. Construction	§	§	49.8	§	§	55.6
7. Import/export trade and wholesale	19.3	4.1	40.7	20.9	4.5	44.4
8. Accommodation and food services	6.6	12.6	35.5	6.5	12.6	38.8
9. Transportation, storage, courier services, information and communications	12.3	3.5	40.2	22.0	6.1	43.2
10. Financing, insurance, real estate, professional and business services	14.1	3.1	44.4	16.6	3.6	47.8
11. Education, medical and other social and personal services	22.9	5.1	40.0	27.9	6.1	43.0
12. Others	§	§	52.3	§	§	55.7
<b>(C) All sectors</b>	<b>294.8</b>	<b>9.8</b>	<b>36.5</b>	<b>290.6</b>	<b>9.5</b>	<b>40.0</b>

Notes: (1) Also referred as low-paid employees. Employees do not include those not covered by Statutory Minimum Wage (i.e. government employees, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance).

(2) Please refer to Table C.1 for coverage of individual sectors.

§ Estimates are not released due to relatively large sampling error.

Number of employees is rounded to the nearest hundred. Percentage is derived from unrounded figures.

Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Source: Annual Earnings and Hours Survey, Census and Statistics Department.

Table A.2 Composition of total expenses <sup>(Note 1)</sup> analysed by sector

Sector <sup>(Note 2)</sup>	Proportion of total expenses in respective sector (%)							
	Cost of goods sold		Rent, rates and government rent		Compensation of employees <sup>(Note 3)</sup>		Other operating expenses	
	2014	2016	2014	2016	2014	2016	2014	2016
<b>(A) Low paying sectors</b>	<b>57.0</b>	<b>53.7</b>	<b>11.6</b>	<b>12.7</b>	<b>17.1</b>	<b>19.1</b>	<b>14.4</b>	<b>14.4</b>
1. Retail	68.1	65.1	12.2	14.0	9.4	10.5	10.3	10.4
1.1 Supermarkets and convenience stores	73.0	72.0	9.8	10.3	8.4	8.7	8.8	9.0
1.2 Other retail stores	67.6	64.3	12.5	14.4	9.5	10.7	10.5	10.6
2. Restaurants	34.4	33.2	15.6	15.6	30.9	32.2	19.1	18.9
2.1 Chinese restaurants	34.0	32.3	13.4	14.2	32.9	34.0	19.7	19.5
2.2 Non-Chinese restaurants	35.2	33.8	19.0	18.4	29.2	31.2	16.6	16.6
2.3 Fast food cafes	32.5	31.5	14.7	14.9	27.1	28.1	25.8	25.5
2.4 Hong Kong style tea cafes	36.5	37.0	15.7	14.2	34.0	35.3	13.8	13.4
3. Estate management, security and cleaning services	0.9	0.5	1.6	1.2	54.3	59.7	43.2	38.6
3.1 Real estate maintenance management	1.2	0.8	1.7	1.2	38.1	44.3	59.0	53.7
3.2 Security services	0.9	0.2	2.0	2.0	80.6	80.2	16.5	17.6
3.3 Cleaning services	#	0.2	0.8	0.8	79.5	78.3	19.7	20.7
4. Other low paying sectors	53.5	51.7	6.8	6.9	25.4	26.4	14.4	15.0
4.1 Elderly homes	14.2	9.8	17.3	17.2	54.4	55.2	14.0	17.9
4.2 Laundry and dry cleaning services	7.9	8.8	16.0	15.8	37.0	36.2	39.1	39.2
4.3 Hairdressing services	8.6	7.7	30.5	26.8	38.0	43.2	22.8	22.3
4.4 Local courier services	#	#	4.4	5.3	44.1	45.9	51.5	48.8
4.5 Food processing and production	68.9	67.6	2.5	2.8	17.1	18.1	11.5	11.5
<b>(B) Other sectors</b>	<b>62.3</b>	<b>61.2</b>	<b>1.9</b>	<b>2.0</b>	<b>12.9</b>	<b>14.1</b>	<b>22.8</b>	<b>22.6</b>
5. Manufacturing	81.6	84.9	1.5	1.5	10.5	8.8	6.4	4.8
6. Construction	19.8	20.5	1.1	0.8	28.4	27.6	50.7	51.0
7. Import/export trade and wholesale	87.2	87.2	0.8	0.8	4.6	4.7	7.3	7.2
8. Accommodation and food services	18.0	17.8	11.8	11.0	35.6	35.5	34.6	35.7
9. Transportation, storage, courier services, information and communications	2.6	3.0	2.9	3.4	17.0	18.9	77.4	74.6
10. Financing, insurance, real estate, professional and business services	0.3	0.3	5.5	5.6	42.5	44.5	51.7	49.6
11. Social and personal services	^							
12. Others	60.5	56.1	2.6	3.1	11.8	12.9	25.2	27.9
<b>(C) All sectors</b>	<b>61.7</b>	<b>60.4</b>	<b>3.0</b>	<b>3.2</b>	<b>13.4</b>	<b>14.6</b>	<b>21.9</b>	<b>21.8</b>

- Notes: (1) Only include enterprises with employees.  
(2) Please refer to Table C.1 for coverage of individual sectors.  
(3) Compensation of employees includes wages and salaries, payments in kind and employer's social security expenditure.  
# Between 0 and 0.05%.  
^ Data are not released.

Owing to rounding, individual percentages may not add up to 100%.  
Source: Annual Survey of Economic Activities, Census and Statistics Department.



**Table A.3 Composition of total operating expenses<sup>(Note 1)</sup> (excluding cost of goods sold) analysed by sector**

Sector <sup>(Note 2)</sup>	Proportion of total operating expenses (excluding cost of goods sold) in respective sector (%)					
	Rent, rates and government rent		Compensation of employees <sup>(Note 3)</sup>		Other operating expenses	
	2014	2016	2014	2016	2014	2016
<b>(A) Low paying sectors</b>	<b>26.9</b>	<b>27.5</b>	<b>39.7</b>	<b>41.4</b>	<b>33.4</b>	<b>31.1</b>
1. Retail	38.3	40.0	29.4	30.1	32.3	29.9
1.1 Supermarkets and convenience stores	36.4	36.9	31.0	31.1	32.7	32.0
1.2 Other retail stores	38.5	40.3	29.2	30.0	32.3	29.7
2. Restaurants	23.8	23.4	47.1	48.2	29.1	28.4
2.1 Chinese restaurants	20.3	21.0	49.8	50.2	29.8	28.8
2.2 Non-Chinese restaurants	29.3	27.9	45.0	47.1	25.7	25.0
2.3 Fast food cafes	21.7	21.8	40.1	41.1	38.2	37.2
2.4 Hong Kong style tea cafes	24.7	22.6	53.6	56.1	21.7	21.3
3. Estate management, security and cleaning services	1.6	1.3	54.8	60.0	43.6	38.8
3.1 Real estate maintenance management	1.7	1.2	38.5	44.7	59.7	54.1
3.2 Security services	2.1	2.0	81.3	80.3	16.6	17.7
3.3 Cleaning services	0.8	0.8	79.5	78.4	19.7	20.8
4. Other low paying sectors	14.6	14.4	54.5	54.6	30.9	31.0
4.1 Elderly homes	20.2	19.0	63.5	61.2	16.4	19.8
4.2 Laundry and dry cleaning services	17.4	17.3	40.2	39.7	42.5	43.0
4.3 Hairdressing services	33.4	29.0	41.6	46.8	25.0	24.2
4.4 Local courier services	4.4	5.3	44.1	45.9	51.5	48.8
4.5 Food processing and production	7.9	8.7	55.2	55.7	36.9	35.6
<b>(B) Other sectors</b>	<b>5.2</b>	<b>5.3</b>	<b>34.3</b>	<b>36.3</b>	<b>60.6</b>	<b>58.4</b>
5. Manufacturing	8.1	9.9	57.2	58.1	34.7	31.9
6. Construction	1.3	1.1	35.5	34.7	63.2	64.2
7. Import/export trade and wholesale	6.6	6.5	36.0	37.1	57.4	56.5
8. Accommodation and food services	14.4	13.4	43.4	43.2	42.2	43.4
9. Transportation, storage, courier services, information and communications	3.0	3.5	17.5	19.5	79.5	76.9
10. Financing, insurance, real estate, professional and business services	5.6	5.6	42.6	44.6	51.8	49.8
11. Social and personal services	^					
12. Others	6.5	6.9	29.8	29.4	63.7	63.6
<b>(C) All sectors</b>	<b>7.8</b>	<b>8.0</b>	<b>34.9</b>	<b>36.9</b>	<b>57.2</b>	<b>55.0</b>

Notes: (1) Only include enterprises with employees.  
(2) Please refer to Table C.1 for coverage of individual sectors.  
(3) Compensation of employees includes wages and salaries, payments in kind and employer's social security expenditure.

^ Data are not released.

Owing to rounding, individual percentages may not add up to 100%.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

**Table A.4** Distribution <sup>(Note 1)</sup> of profit ratio <sup>(Note 2)</sup> of all enterprises <sup>(Note 3)</sup> analysed by sector

Sector <sup>(Note 4)</sup>	2014					2016				
	Number of enterprises	Profit ratio (%)				Number of enterprises	Profit ratio (%)			
		Overall	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile		Overall	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) Low paying sectors</b>	<b>37 280</b>	<b>7.6</b>	<b>#</b>	<b>5.1</b>	<b>11.1</b>	<b>35 200</b>	<b>6.2</b>	<b>-1.7</b>	<b>3.9</b>	<b>11.0</b>
1. Retail	21 190	8.0	-0.7	5.0	10.0	19 110	5.9	-3.6	3.1	8.9
1.1 Supermarkets and convenience stores	50	6.4	-1.2	2.3	4.7	50	2.0	-6.3	3.3	4.9
1.2 Other retail stores	21 140	8.2	-0.7	5.0	10.0	19 060	6.3	-3.6	3.1	8.9
2. Restaurants	10 070	5.1	0.3	3.6	10.0	9 800	5.1	-1.1	4.2	9.7
2.1 Chinese restaurants	2 070	4.0	-0.4	2.7	11.8	2 060	3.4	-1.8	1.4	5.7
2.2 Non-Chinese restaurants	4 390	5.6	1.6	4.0	10.4	4 310	5.5	-1.7	4.9	10.0
2.3 Fast food cafes	890	7.7	-1.7	5.2	8.9	900	8.9	#	2.8	13.7
2.4 Hong Kong style tea cafes	2 710	3.4	-0.6	3.1	8.6	2 530	2.8	-1.1	5.4	10.2
3. Estate management, security and cleaning services	1 990	6.3	0.8	8.5	25.8	2 290	7.0	1.5	9.0	27.3
3.1 Real estate maintenance management	550	5.9	-3.0	1.7	8.5	740	6.2	0.3	4.2	27.0
3.2 Security services	350	6.1	0.4	5.4	10.8	380	7.7	#	7.4	15.1
3.3 Cleaning services	1 090	7.9	4.0	22.8	48.7	1 170	8.4	3.7	12.5	28.8
4. Other low paying sectors	4 030	9.4	2.0	8.6	21.7	4 000	9.7	0.6	9.0	20.2
4.1 Elderly homes <sup>(Note 5)</sup>	800	6.0	1.5	4.7	10.9	770	8.6	1.6	7.2	15.0
4.2 Laundry and dry cleaning services	580	9.0	4.6	14.6	24.7	690	7.2	1.5	10.4	24.0
4.3 Hairdressing services	1 630	12.4	0.6	17.8	25.7	1 490	10.5	3.0	14.6	24.8
4.4 Local courier services	180	1.0	2.5	9.2	18.2	170	5.2	-1.7	6.4	13.7
4.5 Food processing and production	840	10.1	-0.6	4.9	12.3	890	10.2	-3.1	2.5	10.6
<b>(B) Other sectors</b>	<b>178 140</b>	<b>19.4</b>	<b>-1.2</b>	<b>4.5</b>	<b>18.0</b>	<b>181 500</b>	<b>20.3</b>	<b>-6.8</b>	<b>2.9</b>	<b>17.4</b>
5. Manufacturing	5 230	5.1	-0.1	9.4	21.7	5 350	4.2	-7.1	7.4	20.9
6. Construction	16 970	7.1	-0.2	5.6	15.9	15 100	8.9	-3.5	4.7	13.7
7. Import/export trade and wholesale	76 310	6.9	-0.9	2.7	10.9	78 400	7.1	-6.6	1.6	9.2
8. Accommodation and food services	3 740	27.7	-0.4	6.7	21.7	3 290	22.3	-1.6	11.5	25.0
9. Transportation, storage, courier services, information and communications	17 540	8.6	-6.1	3.8	15.1	16 950	9.9	-9.6	1.7	16.0
10. Financing, insurance, real estate, professional and business services	36 000	58.3	-3.2	10.0	33.0	38 860	58.2	-10.0	7.9	36.2
11. Social and personal services	^									
12. Others	^	33.1	3.6	14.1	22.4	^	30.2	-9.9	#	3.5
<b>(C) All sectors</b>	<b>215 430</b>	<b>18.3</b>	<b>-1.1</b>	<b>4.7</b>	<b>16.1</b>	<b>216 700</b>	<b>19.0</b>	<b>-5.4</b>	<b>3.2</b>	<b>15.4</b>

- Notes: (1) Not including those enterprises without business receipts and local representative offices of overseas companies.
- (2) Earnings before tax ratio (abbreviated as profit ratio) refers to ratio of profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, provisions; etc. to business receipts.
- (3) Only include enterprises with employees.
- (4) Please refer to Table C.1 for coverage of individual sectors.
- (5) In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.
- # Between -0.05% and 0.05%.
- ^ Data are not released.
- Number of enterprises is rounded to the nearest ten.
- Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.
- Source: Annual Survey of Economic Activities, Census and Statistics Department.

**Table A.5** Distribution <sup>(Note 1)</sup> of profit ratio <sup>(Note 2)</sup> of small and medium <sup>(Note 3)</sup> enterprises <sup>(Note 4)</sup> analysed by sector

Sector <sup>(Note 5)</sup>	2014					2016				
	Number of enterprises	Profit ratio (%)				Number of enterprises	Profit ratio (%)			
		Overall	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile		Overall	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) Low paying sectors</b>	<b>35 550</b>	<b>3.9</b>	<b>#</b>	<b>5.1</b>	<b>11.2</b>	<b>33 200</b>	<b>3.6</b>	<b>-1.9</b>	<b>3.9</b>	<b>11.2</b>
1. Retail	20 770	3.9	-0.7	5.1	10.0	18 510	3.2	-3.6	3.1	9.3
1.1 Supermarkets and convenience stores	50	0.5	-1.2	2.2	4.3	40	0.6	-4.1	3.3	4.9
1.2 Other retail stores	20 720	3.9	-0.7	5.1	10.0	18 460	3.2	-3.6	3.1	9.3
2. Restaurants	9 520	3.0	0.3	3.8	10.0	9 160	2.9	-1.3	4.2	9.7
2.1 Chinese restaurants	1 670	0.9	-1.7	3.4	12.1	1 570	0.8	-1.8	0.5	5.1
2.2 Non-Chinese restaurants	4 300	4.3	1.6	4.0	10.4	4 230	4.0	-1.7	4.9	10.0
2.3 Fast food cafes	870	7.4	-1.7	5.2	8.6	870	7.5	#	2.8	13.7
2.4 Hong Kong style tea cafes	2 680	2.7	-0.6	3.1	8.6	2 500	2.5	-1.1	5.4	10.2
3. Estate management, security and cleaning services	1 520	8.6	2.3	9.0	38.5	1 840	8.2	1.7	12.5	28.8
3.1 Real estate maintenance management	370	5.3	-10.0	0.2	7.5	580	6.3	0.3	7.1	35.4
3.2 Security services	250	11.0	-6.4	5.2	10.8	260	10.6	#	8.7	17.1
3.3 Cleaning services	900	13.0	8.5	25.8	49.2	1 000	10.8	6.0	12.5	28.8
4. Other low paying sectors	3 740	6.1	1.2	8.9	21.9	3 700	7.2	0.6	9.8	20.7
4.1 Elderly homes <sup>(Note 6)</sup>	690	7.0	-0.9	4.7	10.9	630	12.0	2.4	7.3	16.6
4.2 Laundry and dry cleaning services	550	13.6	4.6	18.1	24.7	670	9.9	1.5	10.4	24.4
4.3 Hairdressing services	1 610	11.8	0.4	17.8	26.3	1 480	11.0	3.0	15.1	24.8
4.4 Local courier services	160	6.8	2.7	11.2	18.2	150	2.0	-1.7	6.5	13.9
4.5 Food processing and production	730	3.9	-0.6	2.9	12.3	770	3.8	-3.1	2.5	10.6
<b>(B) Other sectors</b>	<b>173 640</b>	<b>13.0</b>	<b>-1.3</b>	<b>4.4</b>	<b>18.0</b>	<b>177 540</b>	<b>12.7</b>	<b>-7.1</b>	<b>2.8</b>	<b>17.4</b>
5. Manufacturing	5 030	6.8	-0.1	9.6	23.0	5 200	7.3	-7.1	7.4	20.9
6. Construction	16 450	6.8	-0.2	5.6	15.9	14 560	9.9	-3.5	4.5	13.2
7. Import/export trade and wholesale	75 170	5.8	-0.9	2.7	10.9	77 670	4.8	-7.7	1.6	9.0
8. Accommodation and food services	3 560	12.6	-1.2	6.2	21.2	3 120	9.0	-1.6	10.3	20.3
9. Transportation, storage, courier services, information and communications	16 770	4.0	-6.8	3.8	15.1	16 240	2.9	-9.8	1.7	16.0
10. Financing, insurance, real estate, professional and business services	34 980	61.0	-3.3	9.9	33.0	37 910	60.2	-10.4	7.7	36.2
11. Social and personal services	^									
12. Others	^	8.5	3.6	14.1	14.3	^	5.1	-9.9	#	1.2
<b>(C) All sectors</b>	<b>209 190</b>	<b>12.6</b>	<b>-1.2</b>	<b>4.7</b>	<b>16.1</b>	<b>210 740</b>	<b>12.3</b>	<b>-5.6</b>	<b>3.1</b>	<b>15.5</b>

- Notes: (1) Not including those enterprises without business receipts and local representative offices of overseas companies.  
(2) Earnings before tax ratio (abbreviated as profit ratio) refers to ratio of profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, provisions; etc. to business receipts.  
(3) Small and medium enterprises refer to those enterprises with fewer than 50 persons engaged.  
(4) Only include enterprises with employees.  
(5) Please refer to Table C.1 for coverage of individual sectors.  
(6) In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.  
# Between -0.05% and 0.05%.  
^ Data are not released.  
Number of enterprises is rounded to the nearest ten.  
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Source: Annual Survey of Economic Activities, Census and Statistics Department.

**Table A.6 Changes in the 10<sup>th</sup> percentile and median monthly wage <sup>(Note 1)</sup> of full-time employees <sup>(Note 2)</sup> analysed by socio-economic characteristics**

Socio-economic characteristic	10 <sup>th</sup> percentile monthly wage in May to June 2017			Median monthly wage in May to June 2017		
	Monthly Wage (\$)	Year-on-year rate of change (%)	Cumulative change over April to June 2010 (%)	Monthly Wage (\$)	Year-on-year rate of change (%)	Cumulative change over April to June 2010 (%)
<b>Age group</b>						
Aged 15 to 24	10,100	5.3	66.2	13,500	7.7	56.2
Aged 25 to 34	11,200	3.7	40.6	18,000	5.9	41.3
Aged 35 to 44	11,500	4.5	54.4	20,200	1.0	39.3
Aged 45 to 54	10,400	4.5	69.6	18,300	4.6	49.1
Aged 55 and above	9,500	5.2	63.2	15,000	4.5	53.5
<b>Educational attainment</b>						
Primary and below	8,600	6.7	60.0	12,000	3.4	52.0
Secondary 1 to 3	9,600	1.6	59.8	14,000	6.9	50.5
Secondary 4 to 7	10,900	7.8	54.8	16,500	3.8	43.5
Tertiary education	13,200	2.0	30.3	27,000	0.9	32.5
<b>Occupational group</b>						
Elementary workers	8,800	4.8	63.0	12,200	3.9	64.3
Service and sales workers	9,700	1.0	61.7	13,600	4.6	51.1
Craft workers and machine operators	12,500	4.2	75.2	20,500	5.1	64.0
Clerical support workers	10,500	4.9	47.0	14,300	4.4	40.2
Managers, administrators, professionals and associate professionals	14,000	0.7	27.3	27,000	3.7	32.5
<b>Sector <sup>(Note 3)</sup></b>						
<b>Low paying sectors</b>	<b>9,300</b>	<b>4.6</b>	<b>67.2</b>	<b>13,000</b>	<b>4.8</b>	<b>54.7</b>
Retail	9,600	2.0	60.0	13,600	4.6	43.2
Restaurants	10,000	5.3	66.7	13,200	4.5	51.9
Estate management, security and cleaning services	8,800	5.8	64.9	12,300	6.1	71.0
Other low paying sectors	9,500	7.0	71.9	12,300	2.7	55.7
<b>Other sectors</b>	<b>11,600</b>	<b>5.5</b>	<b>47.8</b>	<b>20,200</b>	<b>1.0</b>	<b>42.4</b>

- Notes: (1) Monthly wage is rounded to the nearest hundred. Percentage change is derived from unrounded figures.  
(2) Employees do not include those not covered by Statutory Minimum Wage (i.e. government employees, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance). For the definition of full-time employees in the Annual Earnings and Hours Survey, please refer to **Glossary**.  
(3) Please refer to Table C.1 for coverage of individual sectors.

Source: Annual Earnings and Hours Survey, Census and Statistics Department.

**Table A.7 Distribution of weekly working hours analysed by sector: All full-time employees** <sup>(Note 1)</sup>

Sector <sup>(Note 2)</sup>	May to June 2015					May to June 2017				
	Full-time employees		Weekly working hours (hours)			Full-time employees		Weekly working hours (hours)		
	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) Low paying sectors</b>	<b>735.4</b>	<b>26.4</b>	<b>48.0</b>	<b>53.3</b>	<b>60.0</b>	<b>740.0</b>	<b>26.2</b>	<b>47.1</b>	<b>52.2</b>	<b>60.0</b>
1. Retail	246.7	8.9	46.4	51.0	56.3	244.9	8.7	44.3	50.0	56.6
1.1 Supermarkets and convenience stores	33.0	1.2	48.0	49.8	60.0	35.4	1.3	48.0	54.0	58.6
1.2 Other retail stores	213.7	7.7	46.2	51.0	56.1	209.4	7.4	44.3	49.2	56.0
2. Restaurants	183.6	6.6	49.0	54.0	60.0	184.2	6.5	49.0	54.0	60.0
2.1 Chinese restaurants	69.5	2.5	54.0	60.0	60.7	69.1	2.4	51.9	57.0	60.0
2.2 Non-Chinese restaurants	61.3	2.2	49.9	54.0	60.0	61.8	2.2	48.3	54.0	60.0
2.3 Fast food cafes	32.3	1.2	48.0	49.4	54.8	32.7	1.2	46.6	54.0	59.4
2.4 Hong Kong style tea cafes	20.5	0.7	51.9	57.0	60.0	20.7	0.7	49.9	57.6	60.0
3. Estate management, security and cleaning services	217.8	7.8	48.0	51.0	66.0	222.2	7.9	48.0	51.0	66.0
3.1 Real estate maintenance management	110.5	4.0	48.0	54.0	69.2	110.6	3.9	48.0	55.1	70.2
3.2 Security services	39.0	1.4	48.0	57.2	72.0	41.9	1.5	48.0	60.0	72.0
3.3 Cleaning services	55.2	2.0	46.3	48.0	54.0	56.1	2.0	48.0	48.0	54.0
3.4 Membership organisations	13.1	0.5	40.6	44.7	54.0	13.6	0.5	41.4	48.0	54.0
4. Other low paying sectors	87.3	3.1	45.0	49.3	55.4	88.7	3.1	45.0	48.0	56.1
4.1 Elderly homes	19.5	0.7	46.7	54.0	66.0	20.7	0.7	45.0	54.0	66.0
4.2 Laundry and dry cleaning services	4.5	0.2	44.3	49.5	55.4	4.3	0.2	42.7	51.0	57.8
4.3 Hairdressing and other personal services	39.6	1.4	44.8	49.2	54.8	38.9	1.4	45.5	48.0	54.0
4.4 Local courier services	4.3	0.2	44.3	49.4	49.4	4.4	0.2	44.3	45.7	50.3
4.5 Food processing and production	19.4	0.7	45.7	48.0	54.0	20.4	0.7	45.9	48.0	54.5
<b>(B) Other sectors</b>	<b>2 049.3</b>	<b>73.6</b>	<b>40.6</b>	<b>44.2</b>	<b>48.0</b>	<b>2 087.1</b>	<b>73.8</b>	<b>40.6</b>	<b>43.8</b>	<b>48.0</b>
5. Manufacturing	83.5	3.0	41.6	45.7	49.4	77.8	2.8	42.5	47.5	50.0
6. Construction	276.9	9.9	45.0	48.5	54.0	295.9	10.5	44.3	48.0	54.0
7. Import/export trade and wholesale	452.9	16.3	40.6	41.6	45.1	449.6	15.9	40.6	40.6	44.3
8. Accommodation and food services	§	§	§	§	§	48.7	1.7	45.7	48.0	53.3
9. Transportation, storage, courier services, information and communications	339.6	12.2	40.6	45.3	51.0	346.4	12.3	40.6	45.7	54.0
10. Financing, insurance, real estate, professional and business services	437.0	15.7	40.6	40.6	45.0	446.5	15.8	39.3	40.6	44.3
11. Education, medical and other social and personal services	394.4	14.2	40.6	44.3	48.0	406.4	14.4	40.6	44.3	48.0
12. Others	§	§	§	§	§	15.9	0.6	38.1	42.0	48.0
<b>(C) All sectors</b>	<b>2 784.7</b>	<b>100.0</b>	<b>40.6</b>	<b>45.3</b>	<b>51.5</b>	<b>2 827.1</b>	<b>100.0</b>	<b>40.6</b>	<b>45.0</b>	<b>51.5</b>

Notes: (1) Employees do not include those not covered by Statutory Minimum Wage (i.e. government employees, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance). For the definition of full-time employees in the Annual Earnings and Hours Survey, please refer to **Glossary**.

(2) Please refer to Table C.1 for coverage of individual sectors.

§ Estimates are not released due to relatively large sampling error.

Number of employees is rounded to the nearest hundred. Percentage is derived from unrounded figures.

Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Source: Annual Earnings and Hours Survey, Census and Statistics Department.

**Table A.8 Distribution of weekly working hours analysed by sector: Lower-skilled full-time employees** <sup>(Note 1)</sup>

Sector <sup>(Note 2)</sup>	May to June 2015					May to June 2017				
	Lower-skilled full-time employees		Weekly working hours (hours)			Lower-skilled full-time employees		Weekly working hours (hours)		
	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) Low paying sectors</b>	<b>633.4</b>	<b>38.5</b>	<b>48.0</b>	<b>54.0</b>	<b>60.0</b>	<b>636.9</b>	<b>38.6</b>	<b>48.0</b>	<b>54.0</b>	<b>60.0</b>
1. Retail	204.4	12.4	47.8	51.9	57.0	201.7	12.2	44.7	50.1	56.6
1.1 Supermarkets and convenience stores	27.8	1.7	48.0	51.0	60.0	29.1	1.8	45.0	54.0	57.9
1.2 Other retail stores	176.6	10.7	47.6	52.3	56.7	172.6	10.5	44.3	49.7	56.6
2. Restaurants	167.1	10.1	48.5	54.0	60.0	167.8	10.2	48.6	54.0	60.0
2.1 Chinese restaurants	62.9	3.8	54.0	60.0	62.3	62.6	3.8	52.0	57.0	60.0
2.2 Non-Chinese restaurants	55.9	3.4	49.9	54.0	60.0	56.3	3.4	48.1	54.0	60.0
2.3 Fast food cafes	28.6	1.7	47.7	48.0	54.0	28.9	1.8	46.2	54.0	57.9
2.4 Hong Kong style tea cafes	19.7	1.2	51.9	56.9	60.0	20.0	1.2	49.9	57.0	60.0
3. Estate management, security and cleaning services	185.8	11.3	48.0	54.0	66.0	189.4	11.5	48.0	54.0	67.4
3.1 Real estate maintenance management	86.5	5.3	48.0	63.5	72.0	86.2	5.2	48.0	64.3	72.0
3.2 Security services	36.9	2.2	48.0	59.7	72.0	39.4	2.4	48.0	60.9	72.0
3.3 Cleaning services	53.9	3.3	47.8	48.0	54.0	55.0	3.3	48.0	48.0	54.0
3.4 Membership organisations	8.5	0.5	43.4	48.0	60.4	8.7	0.5	42.0	48.0	61.2
4. Other low paying sectors	76.1	4.6	45.0	49.4	55.4	78.1	4.7	45.4	48.3	56.1
4.1 Elderly homes	16.3	1.0	47.1	54.0	66.0	17.2	1.0	45.2	54.0	66.0
4.2 Laundry and dry cleaning services	3.2	0.2	41.6	48.0	54.0	3.3	0.2	42.0	49.5	54.0
4.3 Hairdressing and other personal services	37.4	2.3	44.8	49.9	54.8	37.4	2.3	45.4	48.0	54.0
4.4 Local courier services	3.8	0.2	46.6	49.4	50.3	4.0	0.2	44.3	45.7	50.9
4.5 Food processing and production	15.3	0.9	47.1	48.2	54.0	16.1	1.0	47.8	48.6	54.9
<b>(B) Other sectors</b>	<b>1 013.6</b>	<b>61.5</b>	<b>40.6</b>	<b>45.7</b>	<b>51.0</b>	<b>1 014.2</b>	<b>61.4</b>	<b>40.8</b>	<b>45.7</b>	<b>51.0</b>
5. Manufacturing	46.5	2.8	43.4	48.0	53.1	42.0	2.5	44.3	48.0	53.3
6. Construction	208.2	12.6	47.0	49.9	54.0	220.3	13.3	44.3	48.0	54.0
7. Import/export trade and wholesale	214.3	13.0	40.6	42.0	45.3	204.7	12.4	40.6	42.2	44.3
8. Accommodation and food services	§	§	§	§	§	36.6	2.2	47.1	48.2	53.5
9. Transportation, storage, courier services, information and communications	208.3	12.6	42.0	48.0	54.9	214.0	13.0	43.2	48.2	61.0
10. Financing, insurance, real estate, professional and business services	125.1	7.6	40.4	41.5	45.7	125.1	7.6	39.6	40.6	45.7
11. Education, medical and other social and personal services	167.7	10.2	41.7	45.3	48.9	163.4	9.9	42.0	45.2	49.0
12. Others	§	§	§	§	§	8.0	0.5	39.2	43.2	54.0
<b>(C) All sectors</b>	<b>1 647.0</b>	<b>100.0</b>	<b>43.2</b>	<b>48.0</b>	<b>54.0</b>	<b>1 651.1</b>	<b>100.0</b>	<b>42.4</b>	<b>48.0</b>	<b>54.2</b>

Notes: (1) Employees do not include those not covered by Statutory Minimum Wage (i.e. government employees, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance). For the definition of lower-skilled employees and full-time employees in the Annual Earnings and Hours Survey, please refer to **Glossary**.

(2) Please refer to Table C.1 for coverage of individual sectors.

§ Estimates are not released due to relatively large sampling error.

Number of employees is rounded to the nearest hundred. Percentage is derived from unrounded figures.

Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Source: Annual Earnings and Hours Survey, Census and Statistics Department.

## B. Impact Assessment

**Table B.1 Estimated number and proportion of pre-adjustment employees involved under different Statutory Minimum Wage (SMW) test levels and economic scenarios <sup>(Note)</sup>**

SMW test level	Economic Scenario 1		Economic Scenario 2		Economic Scenario 3		Economic Scenario 4	
	Number of pre-adjustment employees involved ('000)	Proportion among all employees (%)	Number of pre-adjustment employees involved ('000)	Proportion among all employees (%)	Number of pre-adjustment employees involved ('000)	Proportion among all employees (%)	Number of pre-adjustment employees involved ('000)	Proportion among all employees (%)
\$34.5	19.2	0.6	19.4	0.6	19.6	0.6	20.1	0.7
Below \$35.0	20.5	0.7	21.3	0.7	22.4	0.7	23.8	0.8
Below \$35.5	24.2	0.8	26.8	0.9	29.8	1.0	32.5	1.1
Below \$36.0	29.2	1.0	34.1	1.1	38.7	1.3	42.4	1.4
Below \$36.5	37.0	1.2	44.9	1.5	51.6	1.7	57.1	1.9
Below \$37.0	48.1	1.6	59.0	1.9	68.2	2.2	75.4	2.5
Below \$37.5	61.5	2.0	75.5	2.5	87.0	2.9	95.6	3.1
Below \$38.0	77.5	2.5	94.0	3.1	107.1	3.5	117.2	3.8
Below \$38.5	95.8	3.1	113.4	3.7	127.6	4.2	139.1	4.6
Below \$39.0	115.1	3.8	133.0	4.4	148.3	4.9	161.0	5.3
Below \$39.5	135.2	4.4	153.6	5.0	170.3	5.6	185.0	6.1
Below \$40.0	156.0	5.1	175.2	5.8	193.5	6.4	209.7	6.9
Below \$40.5	177.8	5.8	198.0	6.5	218.0	7.2	234.8	7.7
Below \$41.0	200.6	6.6	222.3	7.3	243.6	8.0	261.4	8.6
Below \$41.5	224.4	7.4	247.0	8.1	268.9	8.8	287.4	9.4
Below \$42.0	248.6	8.2	271.1	8.9	292.9	9.6	311.6	10.2

Notes: When the SMW test level is at \$34.5, the pre-adjustment employees involved only included those with an hourly wage of \$34.5. As for other test levels, the pre-adjustment employees involved referred to those with an hourly wage below the respective levels.

The economic scenarios with assumptions on the real economic growth for the first half of 2019 are set out in Table 4.1.

Source: Estimated with reference to the results of the Annual Earnings and Hours Survey and different wage data.

**Table B.2 Estimated increase in wage bills under different Statutory Minimum Wage (SMW) test levels and economic scenarios** <sup>(Note)</sup>

SMW test level	Estimated increase in wage bills							
	Economic Scenario 1		Economic Scenario 2		Economic Scenario 3		Economic Scenario 4	
	(\$ Mn)	(%)	(\$ Mn)	(%)	(\$ Mn)	(%)	(\$ Mn)	(%)
\$35.0	70	#	70	#	70	#	80	#
\$35.5	160	#	160	#	170	#	180	#
\$36.0	260	#	280	#	300	#	320	#
\$36.5	390	#	430	0.1	470	0.1	510	0.1
\$37.0	560	0.1	640	0.1	710	0.1	770	0.1
\$37.5	800	0.1	930	0.1	1,030	0.1	1,120	0.1
\$38.0	1,110	0.1	1,300	0.2	1,450	0.2	1,580	0.2
\$38.5	1,520	0.2	1,790	0.2	2,000	0.2	2,160	0.3
\$39.0	2,060	0.2	2,420	0.3	2,690	0.3	2,900	0.3
\$39.5	2,750	0.3	3,200	0.4	3,540	0.4	3,820	0.4
\$40.0	3,620	0.4	4,180	0.5	4,610	0.5	4,960	0.6
\$40.5	4,710	0.6	5,390	0.6	5,910	0.7	6,350	0.7
\$41.0	6,060	0.7	6,880	0.8	7,510	0.9	8,040	0.9
\$41.5	7,720	0.9	8,690	1.0	9,460	1.1	10,090	1.2
\$42.0	9,740	1.1	10,890	1.3	11,790	1.4	12,540	1.5

Notes: The above estimations have taken into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement. The economic scenarios with assumptions on the real economic growth for the first half of 2019 are set out in Table 4.1.

# Between 0 and 0.05%.

Source: Estimated with reference to the results of the Annual Earnings and Hours Survey.



## C. Coverage of Sectors

**Table C.1 Coverage of sectors**

Sector	Annual Earnings and Hours Survey	Annual Survey of Economic Activities	Quarterly Survey of Employment and Vacancies	General Household Survey
	Hong Kong Standard Industrial Classification Version 2.0 <sup>(Note 1)</sup>			
<b>(A) Low paying sectors</b>				
1. Retail	47	47	47	47
1.1 Supermarkets and convenience stores	471101, 471102	471101, 471102	471101-2	471101, 471102
1.2 Other retail stores	47 excluding 471101, 471102	47 excluding 471101, 471102	47 excluding 471101-2	47 excluding 471101, 471102
2. Restaurants	561	561 excluding 561901, 561903	561	56
2.1 Chinese restaurants	561109-11	561109-11	561101, 561109-11	561109-11
2.2 Non-Chinese restaurants	561103-8, 561199	561103-8, 561199	561103-8	561103-8, 561199
2.3 Fast food cafes	5612, 5619	5612, 561902 excluding 561901, 561903	5612	5612, 5619
2.4 Hong Kong style tea cafes	561101	561101	561 excluding 561101, 561109-11, 561103-8, 5612	561101
3. Estate management, security and cleaning services	6822, 80-81, 949	6822, 80-81	6822, 80-81, 949	6822, 80-81, 94
3.1 Real estate maintenance management	6822	6822	6822	6822
3.2 Security services	80, 811, 813	80, 811, 813	80, 81 excluding 811-812	80, 811, 813
3.3 Cleaning services	812	812	811-812	812
3.4 Membership organisations	949	Figures not available	949	94
4. Other low paying sectors				
4.1 Elderly homes	873	873	873	87
4.2 Laundry and dry cleaning services	9601	9601	9601	9601
4.3 Hairdressing and other personal services	960201, 9603-9, 97-99	960201	9602	9602-9, 97-99
4.4 Local courier services	5322	5322	5321-2	53
4.5 Food processing and production	10-12	10-12	10-11	10-12
<b>(B) Other sectors</b> <sup>(Note 2)</sup>				
5. Manufacturing	B-C excluding 10-12	C excluding 10-12	C excluding 10-11	C excluding 10-12
6. Construction	F	F	F	F
7. Import/export trade and wholesale	G45-46	G45-46	G45-46	G45-46
8. Accommodation and food services	I55, 562-563	I55, 562-563, 561901, 561903	I55, 562-563	I55
9. Transportation, storage, courier services, information and communications	H, J excluding 5322	H, J excluding 5322	H, J excluding 5321-2	H, J excluding 53
10. Financing, insurance, real estate, professional and business services	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81
11. Education, medical and other social and personal services	O-S excluding 873, 949, 9601, 960201, 9603-9	P-S excluding 873, 9601, 960201 and part of 851, 852, 853 and 86	P-S excluding 873, 949, 9601-2	O-S excluding 87, 94, 96-99
12. Others	D-E	B, D-E	B, D-E	A-B, D-E

Notes: (1) The Hong Kong Standard Industrial Classification Version 2.0 (HSIC V2.0) is modelled on the International Standard Industrial Classification of All Economic Activities Revision 4 (ISIC Rev. 4), which was released by the United Nations Statistics Division in August 2008 and is the latest international statistical standard for industrial classification. HSIC V2.0 has been used progressively in different surveys by Census and Statistics Department (C&SD) since 2009 as a standard framework for classifying business establishments into industry classes as well as for compilation, analysis and dissemination of statistics by industry. A full index of HSIC V2.0 industry codes and titles is available from the publication entitled *Hong Kong Standard industrial Classification (HSIC) Version 2.0*, which can be downloaded free of charge from the website of C&SD ([www.censtatd.gov.hk](http://www.censtatd.gov.hk)).

(2) Sectors other than those in (A) above.

## Abbreviations

AEHS	Annual Earnings and Hours Survey
ASEA	Annual Survey of Economic Activities
C&SD	Census and Statistics Department
CE	Chief Executive
CPI	Consumer Price Index
CSSA	Comprehensive Social Security Assistance
Past three terms of MWC	Minimum Wage Commission (2011-13, 2013-15 and 2015-17)
GDP	Gross Domestic Product
GHS	General Household Survey
HSIC V2.0	Hong Kong Standard Industrial Classification Version 2.0
Knock-on effect	Knock-on effect on pay hierarchies
LES	Labour Earnings Survey
LPS	Low paying sectors
MPF	Mandatory Provident Fund
MWC	Minimum Wage Commission (2017-19)
MWO	Minimum Wage Ordinance
Pre-adjustment employees involved	Employees earning an hourly wage less than the various Statutory Minimum Wage test levels before the adjustment of the Statutory Minimum Wage rate
SEV	Quarterly Survey of Employment and Vacancies
SME	Small and medium enterprise
SMW	Statutory Minimum Wage
The additional wage bills required to comply with the statutory requirement	The additional wage bills for raising the hourly wages of all the pre-adjustment employees involved to the Statutory Minimum Wage test levels to meet the requirement under the Minimum Wage Ordinance

## Glossary (listed in alphabetical order)

Glossary	Definition
Amortisation	<p>Amortisation refers to the amount by which the depreciable value of an intangible asset is allocated over its useful life.</p> <p>The Annual Survey of Economic Activities (ASEA) has started to collect statistics on amortisation since 2011.</p>
Average monthly salaries	<p>In the Labour Earnings Survey (LES), average monthly salaries refer to the average wage rates of particular occupations in particular industries. Average monthly salaries are calculated by dividing the total amount of wage bill paid to a category of employees in the month by the total number of employees of that category on the survey reference date in the month.</p> <p>Please refer to “Nominal wage index” for the definition of wage rate under LES.</p>
Business receipts	<p>Business receipts include service receipts, receipts from sales of goods, commissions, rental, interest and other income, but do not include gain on disposal of financial asset, property, machinery and equipment.</p>
Compensation of employees	<p>In ASEA, compensation of employees refers to income from work including basic wages, over-time payments, commissions, bonuses, allowances, share-based payments granted to employees, employers’ contributions to the Mandatory Provident Fund Scheme, cost of benefits in kind (such as meals), etc.</p>
Composite Consumer Price Index (Composite CPI)	<p>Different series of Consumer Price Indices (CPIs) are compiled by the Census and Statistics Department to reflect the impact of consumer price changes on households in different expenditure ranges. CPI(A), CPI(B) and CPI(C) are compiled based on the expenditure patterns of households in the relatively low, medium and relatively high expenditure ranges respectively. Composite CPI is compiled based on the overall expenditure pattern of all the above households taken together to reflect the impact of consumer price changes on the household sector as a whole.</p> <p>CPI measures the changes over time in the price level of consumer goods and services generally purchased by households and does not net out the effects of all Government’s one-off relief measures (such as the waiver/Government’s payment of public housing rentals, the rates concession, electricity charge subsidy, etc.).</p>

<b>Glossary</b>	<b>Definition</b>
Consumer Price Index (A) (CPI(A))	CPI(A) is compiled based on the expenditure patterns of households in the relatively low expenditure range (i.e. households with average monthly household expenditure within the range of \$5,500 to \$24,499 during the period of October 2014 to September 2015, relating to some 50% of all households in Hong Kong).
Craft workers and machine operators	Craft workers and machine operators refer to craft and related workers, plant and machine operators and assemblers.
Depreciation	<p>Depreciation refers to the amount by which the value of fixed assets has declined during the reference period owing to utilisation and obsolescence.</p> <p>ASEA has started to collect statistics on depreciation from sectors since 2010.</p>
Earnings	Earnings for 2010 and before refer to earnings before tax; gain/loss on disposal of financial asset, property, machinery and equipment; bad debts/write-off; amortisation; and provisions. Starting from 2011, amortisation is deducted from earnings.
Earnings before tax ratio (abbreviated as profit ratio)	<p>Profit ratio refers to the ratio of earnings to business receipts.</p> <p>Please refer to “Earnings” for its definition.</p>
Elementary workers	<p>Elementary workers refer to persons engaged in the following occupational groups:</p> <p>(i) In the Annual Earnings and Hours Survey (AEHS), elementary occupations refer to persons who mainly use hand-held tools and often some physical effort to carry out simple and routine tasks. Examples include cleaners, security guards, building caretakers, messengers, delivery workers, couriers, dishwashers, freight handlers, lift operators, labourers/general workers, hand packers, and card/pamphlet distributors;</p> <p>(ii) In the General Household Survey (GHS), elementary occupations include street vendors, domestic helpers and cleaners, messengers, private security guards, watchmen, freight handlers, lift operators, construction labourers, hand packers, and agricultural and fishery labourers;</p> <p>(iii) In LES, miscellaneous non-production workers include general workers, messengers/office assistants, drivers, bell boys, cleaners, dishwashers and building attendants, etc.</p>

<b>Glossary</b>	<b>Definition</b>
Employed persons/persons engaged	<p>In GHS, employed persons include persons aged 15 or over who satisfy the following situation:</p> <ul style="list-style-type: none"> <li>(i) should be engaged in performing work for pay or profit during the 7 days before enumeration; or</li> <li>(ii) should have formal job attachment (i.e. that the person has continued receipt of wage or salary; or has an assurance or an agreed date of return to job or business; or is in receipt of compensation without obligation to accept another job).</li> </ul> <p>In the Quarterly Survey of Employment and Vacancies, for establishments outside the Civil Service, persons engaged include:</p> <ul style="list-style-type: none"> <li>(i) individual proprietors, partners and persons having family ties with any of the proprietors or partners and working in the establishment without regular pay, who are actively engaged in the work of the establishment for at least one hour on the survey reference date;</li> <li>(ii) full-time salaried personnel/employees directly paid by the establishment and working directors of limited companies, both permanent and temporary, who are either at work (whether or not in Hong Kong) or temporarily absent from work (viz. those on sick leave, maternity leave, annual vacation or casual leave, and on strike) on the survey reference date; and</li> <li>(iii) part-time employees and employees on night/irregular shifts working for at least one hour on the survey reference date.</li> </ul>

<b>Glossary</b>	<b>Definition</b>
Employees	<p>In AEHS, employees include all employees under the coverage of the Minimum Wage Ordinance (MWO). Specifically, MWO applies to all employees with the following exceptions:</p> <ul style="list-style-type: none"> <li>(i) family members who live in the same dwelling as the employer;</li> <li>(ii) employees defined in the Contracts for Employment Outside Hong Kong Ordinance;</li> <li>(iii) persons serving under crew agreements under the Merchant Shipping (Seafarers) Ordinance, or on board a ship which is not registered in Hong Kong;</li> <li>(iv) apprentices who have been registered under the Apprenticeship Ordinance;</li> <li>(v) student interns or work experience students as exempted by MWO;</li> <li>(vi) live-in domestic workers; and</li> <li>(vii) government employees.</li> </ul> <p>In GHS, employees refer to persons who work for employers (private companies or government) for wage, salary, commission, tips, or payment in kind. These also include outworkers, domestic helpers and paid family workers. In this report, unless otherwise specified, employees exclude government employees and live-in domestic workers.</p> <p>In LES, employees include time-rated and piece-rated workers of selected occupations under the coverage of the survey. Proprietors, family workers and outworkers are excluded. Part-time workers, apprentices, learners, trainees and workers on probation are also not covered by the survey.</p>
Enterprise	An enterprise consists of one or more establishments which engage, under a single ownership or control, in one or predominantly one kind of economic activity at one or more locations.
Establishment	An establishment refers to an economic unit which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location, such as an individual factory, a workshop, a retail shop or an office.
First round of wage-price spiral effect	The first round of wage-price spiral effect refers to the increase in prices of other items which are directly or indirectly linked to wages and inflation, beyond the direct and indirect impact of Statutory Minimum Wage (SMW) on prices.

<b>Glossary</b>	<b>Definition</b>
Full-time employees	<p>In AEHS, full-time employees refer to employees who cannot be classified as part-time employees following the definition as adopted in the survey.</p> <p>In GHS, full-time employees refer to employees who worked 35 hours or more during 7 days before enumeration or worked less than 35 hours due to vacation during the 7-day period.</p> <p>Please refer to “Part-time employees” for its definition.</p>
Higher-skilled employees/occupational groups	Higher-skilled employees/occupational groups include managers and administrators, professionals and associate professionals.
Hourly wage	<p>Starting from 2011, the method for deriving hourly wage in AEHS has taken into account the definitions of hours worked and wages payable under MWO. Hourly wage is derived by dividing the amount of wages paid to an employee in the wage period, with deduction of the payments related to rest days and meal breaks which are not regarded as working hours, by the number of working hours in the same wage period.</p> <p>Please refer to “Wages” for its definition.</p> <p>Please refer to “Working hours” for its definition.</p>
Labour force	Labour force refers to the land-based non-institutional population aged 15 and over who satisfy the criteria for inclusion in the employed population or the unemployed population.
Labour force participation rate	Labour force participation rate refers to the proportion of labour force in the total land-based non-institutional population aged 15 and over.
Large enterprises	Large enterprises refer to those enterprises with 50 or more persons engaged.
Lower-skilled employees/occupational groups	<p>In AEHS, lower-skilled employees/occupational groups include elementary occupations; service and sales workers; craft and related workers, plant and machine operators and assemblers; and clerical support workers.</p> <p>In GHS, lower-skilled employees/occupational groups include elementary occupations; service and sales workers; craft and related workers, plant and machine operators and assemblers; clerical support workers; and other occupations.</p>

<b>Glossary</b>	<b>Definition</b>
Low-paid employees	Low-paid employees refer to employees with hourly wage rates below the 10 <sup>th</sup> percentile of the overall hourly wage distribution.
Low paying sectors (LPS)	LPS refer to LPS (covering 15 sub-sectors) as adopted by the Minimum Wage Commission, which include: (i) retail (including supermarkets and convenience stores, and other retail stores); (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes); (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (iv) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).
Market share of small and medium enterprises (SMEs)	Market share of SMEs refers to the proportion of business receipts of SMEs among the total in the sector.  Please refer to “Small and medium enterprises” for its definition.
Median hourly wage	In AEHS, the hourly wages of all employees are arranged from the smallest value to the largest value. The median hourly wage refers to the hourly wage of the employee who ranks in the middle of all the employees concerned.
Monthly employment earnings	In GHS, monthly employment earnings refer to earnings from all jobs during the month before enumeration (including wage and salary, bonus, commission, tips, housing allowance, overtime allowance, attendance allowance and other cash allowances but excluding back pays).



<b>Glossary</b>	<b>Definition</b>
Nominal wage index	<p>Nominal wage index measures the pure changes in wage rates of employees up to supervisory level (i.e. managerial and professional employees are not included) by holding constant the structure of the labour force with respect to industry, occupation and sex between two successive rounds of the survey.</p> <p>In LES, wage rates cover the following elements of payments to workers:</p> <ul style="list-style-type: none"> <li>(i) basic wages/salaries (including paid holidays and leave);</li> <li>(ii) commission and tips (tips received directly from customers are excluded);</li> <li>(iii) shift allowance;</li> <li>(iv) cost-of-living allowance;</li> <li>(v) meal allowance/benefits;</li> <li>(vi) good attendance bonus;</li> <li>(vii) guaranteed year-end bonus; and</li> <li>(viii) other regular and guaranteed bonuses and allowances.</li> </ul>
Other sectors	<p>Unless otherwise specified, other sectors refer to non-LPS including: (i) manufacturing; (ii) construction; (iii) import/export trade and wholesale; (iv) accommodation and food services; (v) transportation, storage, courier services, information and communications; (vi) financing, insurance, real estate, professional and business services; (vii) education, medical and other social and personal services; and (viii) other non LPS.</p>

<b>Glossary</b>	<b>Definition</b>
Part-time employees	<p>In AEHS, employees are regarded as part-time employees if one of the following conditions is met:</p> <ul style="list-style-type: none"> <li>(i) the number of usual days of work per week is less than 5 (for a person with a fixed number of working days per week); or</li> <li>(ii) the number of usual hours of work per working day is less than 6 (for a person with a fixed number of working days per week); or</li> <li>(iii) the number of usual hours of work per week is less than 30 (for a person without a fixed number of working days per week).</li> </ul> <p>However, persons who usually work 24 hours per shift are excluded, regardless of the number of usual days of work per week.</p> <p>In GHS, part-time employees are persons who worked less than 35 hours during the 7 days before enumeration. Those who worked less than 35 hours due to vacation during the 7-day period are not counted.</p>
Percentiles	<p>Percentiles refer to the 99 values that divide an ordered data set into 100 equal parts (in terms of number of observations).</p> <p>The <math>p^{\text{th}}</math> percentile is the value which delineates the lowest <math>p\%</math> of observations of an ordered data set, where <math>p</math> can be any integer value from 1 to 99. The 25<sup>th</sup> percentile, 50<sup>th</sup> percentile and 75<sup>th</sup> percentile are equal to the first (lower) quartile, median and third (upper) quartile hourly wage respectively.</p>
Pre-adjustment employees involved	<p>Unless otherwise specified, pre-adjustment employees involved refer to employees earning an hourly wage less than the various SMW test levels before the adjustment of the SMW rate.</p>
Seasonally adjusted unemployment rate	<p>Seasonally adjusted unemployment rate is compiled by the X-12 ARIMA method.</p> <p>Please refer to “Unemployment rate” for its definition.</p>
Self-employed persons	<p>Self-employed persons in GHS refer to those who work for profit or fees in their own business/profession, neither employed by someone nor employing others.</p>

<b>Glossary</b>	<b>Definition</b>
Self-employed ratio	<p>Self-employed ratio refers to the proportion of self-employed persons among all employed persons (excluding government employees and live-in domestic workers) in the sector.</p> <p>Please refer to “Self-employed persons” for its definition.</p> <p>Please refer to “Employed persons/persons engaged” for its definition.</p>
Service and sales workers	<p>Service and sales workers refer to persons engaged in the following occupational groups:</p> <p>(i) In AEHS, service and sales workers refer to persons providing personal services related to travel, catering, personal care; or demonstrate and sell goods in wholesale or retail shops and similar establishments, as well as at stalls and on markets. Examples include flight attendants and travel guides, cooks and waiters, care workers, hairdressers and beauticians, personal services workers, wholesale and retail sales persons in shops, and shop assistants;</p> <p>(ii) In GHS, service and sales workers include air hostesses and travel guides, house stewards, cooks and waiters, baby-sitters, hairdressers and beauticians, rank and file of the police and other discipline services, transport conductors and other service workers, wholesale and retail salesmen in shops, shop assistants, and fashion models;</p> <p>(iii) In LES, service workers include waiters/waitresses, cooks, guards, etc.</p>
Small and medium enterprises (SMEs)	<p>In this report, SMEs refer to those enterprises with fewer than 50 persons engaged.</p>
Total expenses	<p>Total expenses include total operating expenses and cost of goods sold.</p> <p>Please refer to “Total operating expenses” for its definition.</p>
Total operating expenses	<p>For 2010 and before, total operating expenses include compensation of employees; rent; rates; interest expenses; electricity; water; fuel; repair and maintenance; insurance costs; depreciation charges, etc., but do not include cost of goods sold; tax; gain/loss on disposal of financial asset, property, machinery and equipment; bad debts/write-off; amortisation; and provisions. Starting from 2011, amortisation is included in total operating expenses.</p>

<b>Glossary</b>	<b>Definition</b>
Underemployment rate	<p>Underemployment rate refers to the proportion of underemployed persons in the labour force. The criteria for an employed person to be classified as underemployed are involuntarily working less than 35 hours during the 7 days before enumeration; and satisfying one of the following situations:</p> <ul style="list-style-type: none"> <li>(i) has been available for additional work during the 7 days before enumeration; or</li> <li>(ii) has sought additional work during the 30 days before enumeration.</li> </ul> <p>Working short hours is considered involuntary if it is due to slack work, material shortage, mechanical breakdown or inability to find a full-time job. Following this definition, employed persons taking no-pay leave due to slack work during the 7 days before enumeration are also classified as underemployed if they work less than 35 hours or are on leave even for the whole period during the 7-day period.</p>
Underlying Consumer Price Index (Underlying CPI)	Underlying CPI denotes CPI compiled upon netting out the effects of all Government's one-off relief measures.

<b>Glossary</b>	<b>Definition</b>
Unemployment rate	<p>Unemployment rate refers to the proportion of unemployed persons in the labour force.</p> <p>For a person aged 15 or over to be classified as unemployed, that person should:</p> <ul style="list-style-type: none"> <li>(i) not have had a job and should not have performed any work for pay or profit during the 7 days before enumeration; and</li> <li>(ii) have been available for work during the 7 days before enumeration; and</li> <li>(iii) have sought work during the 30 days before enumeration.</li> </ul> <p>However, if a person aged 15 or over fulfils the conditions (i) and (ii) above but has not sought work during the 30 days before enumeration because he/she believes that work is not available, he/she is still classified as unemployed, being regarded as a so-called “discouraged worker”.</p> <p>Notwithstanding the above, the following types of persons are also classified as unemployed:</p> <ul style="list-style-type: none"> <li>(i) persons without a job, have sought work but have not been available for work because of temporary sickness; and</li> <li>(ii) persons without a job, have been available for work but have not sought work because they: <ul style="list-style-type: none"> <li>✧ have made arrangements to take up a new job or to start business on a subsequent date; or</li> <li>✧ are expecting to return to their original jobs (e.g. casual workers are usually called back to work when service is needed).</li> </ul> </li> </ul>
Unit labour cost	<p>Unit labour cost measures the average labour cost per unit of output. It is an indicator of labour cost after deducting the changes in labour productivity.</p> <p>Unit labour cost index for Hong Kong is estimated by nominal index of payroll per person engaged multiplied by total employment and then divided by real Gross Domestic Product.</p> <p>Nominal index of payroll per person engaged is obtained by comparing the average monthly payroll per person engaged for the quarter concerned with that for the first quarter of 1999, which is taken as 100.</p>

<b>Glossary</b>	<b>Definition</b>
Vacancies	Vacancies refer to unfilled job openings which are immediately available, and for which active recruitment steps are being taken on the survey reference date. Vacancies at construction sites include only those vacancies of manual workers.
Wages	<p>The definition of wages in AEHS follows the definition of wages as adopted in the Employment Ordinance. In brief, wages cover the following components:</p> <ul style="list-style-type: none"> <li>(i) basic wage;</li> <li>(ii) commission and tips not of gratuitous nature;</li> <li>(iii) guaranteed bonuses and allowances other than guaranteed end of year payment (such as shift allowance, cost-of-living allowance, meal allowance, good attendance bonus not of gratuitous nature); and</li> <li>(iv) overtime allowance;</li> </ul> <p>but do not include:</p> <ul style="list-style-type: none"> <li>(i) the value of any accommodation, education, food, fuel, water, light or medical care provided by the employer;</li> <li>(ii) employer's contribution to any retirement scheme;</li> <li>(iii) commission, attendance allowance or attendance bonus which is of a gratuitous nature or is payable only at the discretion of the employer;</li> <li>(iv) non-recurrent travelling allowance or the value of any travelling concession or travelling allowance for actual expenses incurred by the employment;</li> <li>(v) any sum payable to the employee to defray special expenses incurred by him/her by the nature of his/her employment;</li> <li>(vi) end of year payment, or annual bonus which is of a gratuitous nature or is payable only at the discretion of the employer; and</li> <li>(vii) gratuity payable on completion or termination of a contract of employment.</li> </ul>

<b>Glossary</b>	<b>Definition</b>
Working hours	<p>Starting from 2011, the method for deriving the number of working hours in AEHS has taken into account the definition of hours worked under MWO. The number of working hours refers to the sum of the following:</p> <ul style="list-style-type: none"> <li data-bbox="596 412 1388 891">(i) the number of contractual/agreed working hours (refers to the number of working hours in accordance with the contract of employment, or with the agreement or at the direction of the employer. Meal break is included in the working hours if it is regarded as working hours according to the employment contract or agreement with the employer; or if an employee has to be in attendance at a place of employment during his/her meal breaks in accordance with the employment contract or with the agreement or at the direction of the employer, irrespective of whether he/she is provided work or not during the meal break period); and</li> <li data-bbox="596 913 1388 1205">(ii) the number of overtime hours worked at the direction of employers (refers to the number of hours (in addition to the contractual/agreed working hours) during which the employee is, in accordance with the contract of employment or with the agreement or at the direction of the employer, in attendance at a place of employment, irrespective of whether the employee is paid for the relevant hours).</li> </ul> <p>Besides, hours of work in GHS refer to the number of hours which an employed person actually worked in all employment during the 7 days before enumeration. All paid and unpaid hours worked at the place of work are included, but meal breaks are excluded.</p>

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## **Economic, Sustainability, Family, Gender and Financial Implications of the Proposal**

### **Economic implications**

As a wage floor applicable to all sectors, the Statutory Minimum Wage (SMW) can potentially entail great economic implications for Hong Kong. Thanks to the sustained economic expansion since the implementation of SMW in May 2011, the potential negative impact of SMW on the labour market has been cushioned to a large extent. With wages of the grassroots workers posting notable real improvement in the past few years, more people, especially the female and the older employees, have been enticed to enter or re-enter the job market. However, profitability has weakened for some low paying sectors (LPS)<sup>1</sup> and small and medium enterprises (SMEs) which have been less capable of coping with additional cost pressure, including the increase in labour costs brought about by SMW. Also, while Hong Kong's global rankings in economic freedom and overall competitiveness have so far remained high, further observation would be needed to ascertain whether the implementation of SMW would affect the competitiveness of Hong Kong in the long run.

2. The Minimum Wage Commission (MWC) endeavoured to conduct a forward-looking estimation so as to take into account the time gap between recommending the SMW rate and its implementation. Assuming the Hong Kong economy would grow by 2.5% to 3.5% in real terms over the year earlier for the first half of 2019, MWC crudely estimated that the number of employees with an hourly wage less than \$37.5 in the first half of 2019 before the implementation of the recommended SMW rate (i.e. pre-adjustment employees involved) would be around 61 500 to 75 500, representing 2.0% to 2.5% of all employees in Hong Kong. Yet as the labour market would keep adjusting before and after the implementation of the recommended SMW rate, the assumptions behind the above crude estimates might differ from the actual outcomes. Drawing on the experience gained upon the implementation of SMW and its upratings, the estimated number of

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<sup>1</sup> The past three terms (i.e. 2011-13, 2013-15 and 2015-17) of MWC defined LPS as sectors employing a relatively large number of low-paid employees or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. Based on the above criteria and the findings of the 2017 Annual Earnings and Hours Survey (AEHS), MWC considered it appropriate to continue to adopt the four LPS identified by the past three terms of MWC and the 15 sub-sectors covered. These included: (a) retail (including supermarkets and convenience stores and other retail stores); (b) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes and Hong Kong style tea cafes); (c) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (d) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

pre-adjustment employees involved would usually be larger than the number of employees actually earning the SMW rate after the uprating of SMW under favourable economic conditions. Furthermore, taking into account the impact of knock-on effect on pay hierarchies (knock-on effect), MWC envisaged that, barring any abrupt economic downturn, the number of employees benefiting from pay rises owing to the uprating of SMW would eventually be greater than the number of pre-adjustment employees involved.

3. As for enterprises, the most direct impact of uprating of SMW on enterprises would be increases in staff costs. Taking into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contracts or agreements) and the impact of knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement, MWC estimated that, under the assumed real economic growth of 2.5% to 3.5%, the uprating of SMW to \$37.5 would bring about an increase in the total wage bill by around \$800 million to \$930 million or approximately 0.1%<sup>2</sup>, with more apparent increases in the wage bills for LPS in general. Among LPS, the corresponding increases in the estate management, security and cleaning services with more lower-paid employees ranged from 0.9% to 1.0%, notably higher than those in other individual LPS. As enterprises would likely adopt various mitigating strategies (including raising prices) to cope with increases in labour costs, MWC envisaged that the impact of the recommended SMW rate should be manageable for most enterprises in general, though SMEs with generally thinner profit margins and limited scope for manoeuvre are likely to be affected more.

4. Uprating of SMW might, however, prompt some enterprises to streamline and downsize, thereby putting upward pressure on the unemployment rate. In the assessment of MWC, assuming the Hong Kong economy would grow by 3.5% year-on-year in real terms in the first half of 2019, the recommended SMW rate would lead to an increase of around 2 100 unemployed grassroots workers and lift the overall unemployment rate by about 0.1 percentage point. If the Hong Kong economy grows at a slower pace of 2.5% in the first half of 2019, the number of unemployed grassroots workers was estimated to rise by around 10 300 and the overall unemployment rate by about 0.3 percentage point. With the prevailing low unemployment rate in Hong Kong, barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in labour market conditions.

5. As some enterprises could pass on additional wage bills to consumers through raising prices, consumer price inflation would go up as a result. Assuming a full pass-on of additional wage bills to prices of products and services and taking into account the first round of wage-price spiral effect<sup>3</sup>,

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<sup>2</sup> Owing to data limitations, the estimation has not taken into account all labour costs (such as premium for employees' compensation insurance) arising from the uprating of SMW. Additional wage bills were estimated with reference to the results of AEHS and the review results on the additional wage bills stemming from the previous SMW upratings.

<sup>3</sup> The first round of wage-price spiral effect referred to price hikes of other items which were directly or indirectly linked to wages and inflation.

MWC estimated that the Composite Consumer Price Index (CPI) inflation would go up by about 0.1 percentage point. As a measure of inflation on the grassroots, the corresponding rise in CPI(A) inflation would also be around 0.1 percentage point. As estate management, security and cleaning services would face greater pressures entailed by the additional wage bills and have stronger pricing power, the price increases in the services provided by the sectors might be more apparent. Nevertheless, since enterprises are unlikely to fully pass on the additional wage bills to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the estimates.

6. Overall, the actual impact of the recommended SMW rate will hinge crucially on the macroeconomic conditions at the time of its implementation. The experience of implementing SMW in May 2011 and its three upratings suggests that favourable economic conditions would significantly relieve the pressure of SMW on the labour market and businesses. While the Hong Kong economy sustained above-trend growth in the third quarter of 2018, the uncertainties in external environment have increased markedly of late. As such, the impact of a higher SMW rate could be more pronounced than estimated if business growth and labour demand were to slow significantly.

### **Sustainability implications**

7. The increased SMW rate would have positive impact on income distribution and on improving self-reliance, family solidarity and social cohesion. By enhancing the protection of vulnerable workers, it would also be conducive to social sustainability as it helps foster a harmonious society as well as social equality and justice.

### **Family implications**

8. The proposal seeks to protect grassroots employees by increasing the statutory wage floor to the recommended SMW rate. It has a positive impact on strengthening family stability by enhancing families' ability to maintain an adequate standard of living. It may also improve the sense of ability of employees, thereby imposing positive impact on their sense of responsibility towards their families. This would be conducive to family cohesion.

### **Gender implications**

9. The same SMW rate and monetary cap on recording hours worked apply to male and female employees alike. The implementation of SMW has encouraged more people, especially women<sup>4</sup>, to enter or re-enter the labour

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<sup>4</sup> Up to the third quarter of 2018, female workers contributed to nearly 70% of the increase in total employment since the implementation of SMW (i.e. compared to February to April 2011).



market.

## **Financial implications**

10. To meet the increase in wage costs arising solely and directly from the implementation of the initial SMW rate in 2011, the Government granted top-up payment to certain subvented bodies and government service contractors on a one-off and exceptional basis. For subsequent revisions of the SMW rate, as it is expected that their effect should be more modest in financial terms and could be better anticipated at the tendering stage of subsequent contracts, the Government did not provide any top-up payment in these adjustment exercises.

11. It is difficult to estimate the precise net effect of the recommended SMW rate on the Comprehensive Social Security Assistance (CSSA) expenditure, which would depend on the economic and labour market situation as well as how the recommended SMW rate impacts on employment and the profile of those affected<sup>5</sup>. Nevertheless, making reference to the change in CSSA caseloads after the implementation of SMW<sup>6</sup>, and assuming that the economic and labour market situation will remain largely stable, we estimate that the recommended SMW rate will not have any effect on increasing the CSSA expenditure.

12. The Government's policy to pay its employees no less favourably than the prevailing SMW rate should have minimal financial implications for the Government as an employer. This is because the pay for government employees, both civil servants and non-civil servants, should generally be above the SMW rate to be determined from time to time.

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<sup>5</sup> The current labour market situation is largely stable and it is anticipated that the impact of the recommended SMW rate is unlikely to lead to a marked deterioration in the labour market. Nonetheless, the employment situation will hinge on the overall economic performance of Hong Kong. In case of economic downturn, older workers and young people with less experience as well as workers with lower educational attainment and lower skills are more vulnerable to employment displacement. Some of these displaced workers may fall into our social security net for financial assistance, thereby increasing government expenditure on the CSSA Scheme. On the other hand, some low-income workers originally receiving CSSA under the low earnings category may leave the welfare net after their wages have been raised to a higher level following the adjustment of the SMW rate. CSSA expenditure on this front may be reduced as a result.

<sup>6</sup> As of November 2018, there were 12 045 unemployment cases and 3 668 low earnings cases out of a total of 227 489 CSSA cases, which represented respective decreases of 59% and 74% over 29 206 unemployment cases and 13 992 low earnings cases out of a total of 282 351 CSSA cases in April 2011 before the initial SMW rate took effect.