For information on
20 November 2008

**Legislative Council Panel on Manpower**

**Introduction of a new survey and enhancement of a current survey
for the purpose of implementing a statutory minimum wage**

**Purpose**

      This paper briefs Members on the data requirements to support the setting and reviewing of the level of minimum wage, the wage/employment and business cost statistics currently available, and the Administration's plan to conduct new/enhanced surveys to fill the data gap.

**Background**

2.      Having studied overseas experience, members of the Labour Advisory Board (LAB) generally appreciate the merits of an evidence-based approach to set and review the statutory minimum wage (SMW) rate. The essential elements of such an approach include, amongst others, (i) availability of data that ought to be taken into account in the determination of the initial SMW level; and (ii) availability of data to enable a comprehensive and longitudinal impact assessment of SMW on the economy and labour market to facilitate subsequent reviews of the SMW level.

3.      To safeguard workers' interests, the SMW level needs to strike a sensible balance between safeguarding employment and avoiding payment of excessively low wages. For this purpose, detailed wage and labour force data to support analysis and estimation of the effects on employment, wage distribution, and demographics of the affected employees, especially low-paid workers and low-paying sectors is a must. For the macroeconomic health of Hong Kong, deliberation of the SMW level would need to take account of not only social harmony considerations but also the estimated impact on Hong Kong's competitiveness, business cost and change in labour demand, especially in low-paying sectors and small- and medium-sized enterprises (SMEs). Moreover, flexibility of wages and prices, particularly in a downward direction, is crucial to Hong Kong's competitiveness and resilience to external shocks, given our high degree of external orientation and the linked exchange rate system. An illustration of how employment and wages have adjusted at

different stages of economic cycle in the past years is at <u>Annex</u>.  Noteworthy is that, should there be undue downward rigidity in wages, adjustment to external shock would need to take the form of an increase in unemployment.  The crucial need of finding a balance between economic and social considerations in designing an appropriate minimum wage regime for Hong Kong was echoed by the International Monetary Fund mission during its recent regular visit to Hong Kong.

4.      As the existing wage and business costs surveys were introduced decades ago for purposes unrelated to SMW, they fail to provide the required data set to meet the needs discussed in paragraph 3 above.  The following paragraphs provide a brief account of the current wage and business cost statistics, current data gap for SMW analyses and data requirements to support the setting and reviewing of SMW level.

**Current wage and business cost statistics**

5.      At present, there are two major surveys conducted by the Census and Statistics Department (C&SD) to collect wage and business costs statistics, which are relevant for consideration in the SMW context.

*Labour Earnings Survey (LES)*

6.      The LES is a quarterly survey with a sample size of 2 000 establishments.  It measures short-term changes in the wages of workers at supervisory level and below.  Since it aims to give a broad indication of the overall wage situation, only 300 selected occupations regarded as *principal jobs* in the 46 industries are covered by LES.   Based on the data obtained from LES, average daily wages/monthly salaries for some 100 selected occupations in various industries with breakdown by gender are compiled and published in the *Quarterly Report of Wage and Payroll Statistics (Quarterly Report)*.   The wage rates of cleaning workers and security guards in the Quarterly Report are used for the Wage Protection Movement.

7.      However, enterprises employing less than 10 or 20 persons (depending on the nature of business) are excluded from the LES.  Moreover, only the *average wage rates* of employees in individual selected occupations, rather than the wage rates of individual employees, are collected.   In other words, the survey can only give discrete points at average rather than the full range of wage distribution.

*The Programme of Annual Economic Surveys (PAES)*

8. The PAES comprise seven independent surveys with each focusing on a number of industry sectors. The total sample size is 15 000 establishments covering essentially all economic sectors in Hong Kong. The PAES collect data on business operation of establishments, including operating expenses, business receipts, profit margin and value added, etc. in order to understand the operating characteristics of firms in different business sectors for compiling the Gross Domestic Product (GDP) of Hong Kong. Statistics compiled from PAES are also widely used to compute a collection of analytical ratios such as labour cost per unit dollar of income or other operating expenses and labour productivity. Since the PAES are designed to support macro analysis such as GDP compilation, there is no particular focus on low-paying sectors or sectors with a high concentration of SMEs.

9. To provide a comprehensive picture on business operation, the PAES need to collect detailed business data, including sales, investment income, wage bill, rental payment, interest payment, expenses on equipment, etc. These data have to be trawled from the company's profit and loss accounts and balance sheet which are available several months after the close of accounting period.

**Existing data gaps for SMW analyses**

10. As the LES and PAES have been put in place decades ago, they understandably cannot anticipate the SMW's statistical requirements. Before the introduction of SMW, wages, like prices of all other commodities, are market-determined. There is therefore little policy imperative to measure the correlation between wage movements and impact on business bottomline. However, SMW would function as a price floor in wage determination and it becomes necessary to measure the correlation in order to gauge the impact, if any, that the SMW has on business costs and economic competitiveness. However, as currently designed, the LES and PAES cannot support such correlation analysis.

11. Insofar as the LES is concerned, as discussed in paragraphs 6 and 7 above, the major data limitations are as follows –

 (a) Truncated business sample: Only 300 occupations in 46 industries, and establishments with at least 10 or 20 employees are covered. In other words, there is an almost total lack of wage data for small establishments. For the purpose of SMW, however, information on wage data in SMEs, which normally employ fewer workers, is crucial;

(b)  Lack of a comprehensive continuum of wage data: This is essential for ascertaining those who stand to benefit or be affected by SMW. Without such data, the impact of employees under different SMW scenarios could not be accurately assessed; and

(c)  Insufficient related data to enable detailed analysis: The LES contains no data in respect of *individual* employees, including details about their wages, hours of work, hourly rate, employment and demographic characteristics, etc.  Such data are, however, required for conducting analyses on the employment and demographic profiles of affected employees and the impact on wage bills of businesses under different SMW levels.

12.   As regards the PAES, a significant proportion of the survey samples are large establishments.  This poses a major limitation for the purposes of the SMW.  As discussed in paragraph 3 above, details of data on the operating characteristics of SMEs are essential for measuring the impact of SMW on SMEs, which are by nature, more vulnerable to economic fluctuations but yet constitute more than 95% of total establishments in Hong Kong.

13.   To fill the existing data gap, the Labour Department (LD) is working closely with the Economic Analysis and Business Facilitation Unit (EABFU) and C&SD to enhance the current survey on wage data and introduce a new survey tailor-designed to support the implementation of an SMW.

**New and enhanced surveys**

14.   C&SD will introduce a new earnings survey to collect the required data at individual employee level instead of at individual occupational level. The new survey, tentatively known as Annual Earnings and Hours Survey (AEHS), will enumerate around 10 000 establishments across all employment sizes and all industries covered by the Central Register of Establishments[1].

15.   The existing PAES will also be expanded by enlarging the sample sizes and enhancing the industry coverage of the surveys concerned, thereby covering more SMEs to support comprehensive business impact analyses of SMEs under the SMW.  The expanded PAES will enumerate an additional sample of 3 000 SMEs.  For the reason stated in paragraph 9, the PAES will take a longer time than the AEHS to complete.

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[1]  Central Register of Establishments (CRE) is a comprehensive register of business establishments maintained by the C&SD mainly for statistical sampling purpose.  Regular updating to CRE is made with reference to information provided by the Business Registration Office of the Inland Revenue Department and data obtained by C&SD through various statistical surveys.

16.      With the introduction of the new survey and the enhancement of the existing PAES, it is expected that the following data and information will be captured for setting the initial level of minimum wage –

    (a)    Sufficient and more comprehensive data on the level and distribution of wages of employees in Hong Kong, with particular emphasis on those working in the low-paying industries and low-paid occupations, including –

        (i)    mean, median, quartiles and deciles spread of wage rates by key industries and by broad occupational groups with particular reference to a few distinct low-paid occupations; and

        (ii)    wage distribution of employees by percentiles by key industry sector and of a few distinct low-paying industries.

    (b)    Sufficient and more comprehensive data on the employment and demographic characteristics of employees; and

    (c)    Sufficiently detailed and more comprehensive business and operating costs data on SMEs in all key industries and specific low-paying industries for impact analyses related to SMW.

The preparatory work for the introduction of the new AEHS and the enhancement of the PAES has commenced.

17.      Since the SMW level would be an outcome of a holistic analysis to forestall the payment of excessively low wages and job loss for the disadvantaged, while ensuring that the level would be manageable for business and the economy, it would be essential to analyse the PAES and AEHS separately and together, in order to bring out the correlation between wage levels and business and economic activities.


**Supplementary studies on a need basis**

18.      We are also studying the current data to see if there is a need to supplement the overall, general picture with special surveys on certain low-paying sectors or low-paid employees that may be more affected by SMW. An example is the survey on cleansing and guarding services in private residential buildings, including single block buildings of relatively low ratable values and non-single block private residential estates, on which we sought Members' views in February this year.   The survey is near finalisation and we aim to submit a report to Members before the year-end.
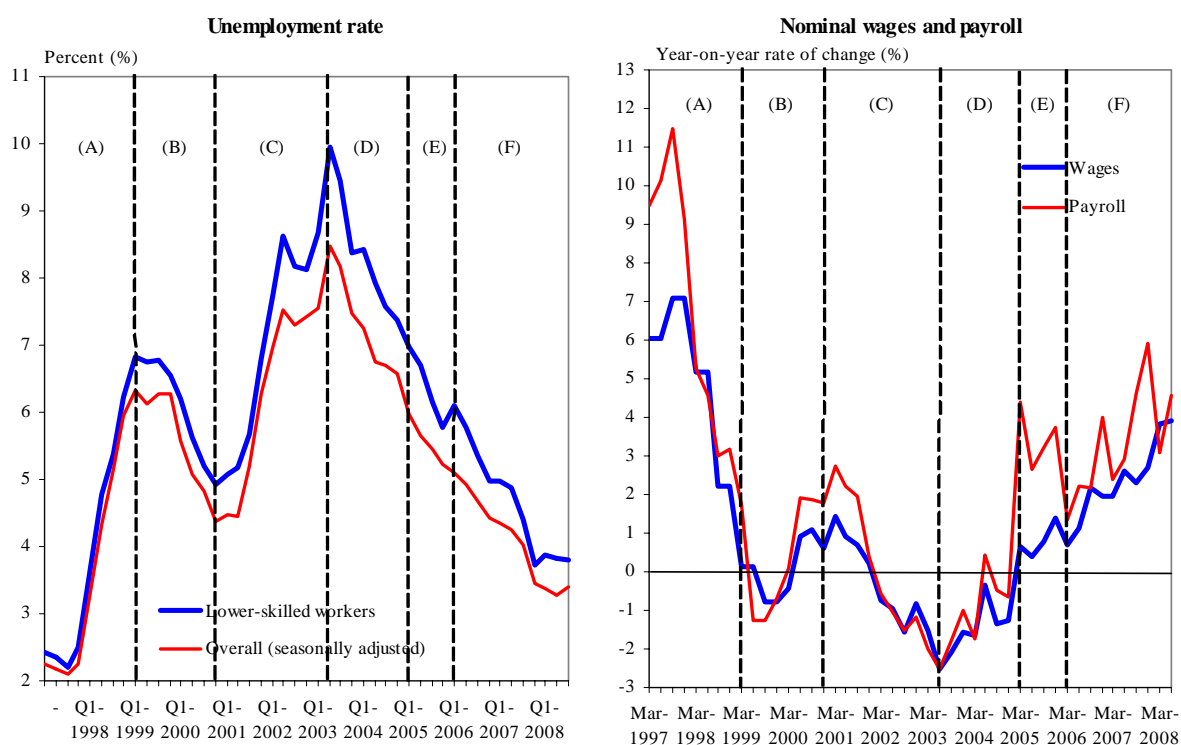
19.      On 6 November 2008, the LAB discussed the design of the surveys and the data requirements as highlighted in paragraphs 14 to 17 for the implementation of the SMW.  LAB members noted the existing data gaps for the setting and reviewing of the wage level of the SMW and unanimously agreed that there was a need to enhance the current survey (PAES) and introduce the tailor-designed wage survey (AEHS).  They supported the LD, in collaboration with the EABFU and C&SD, to proceed immediately with the related work.

Labour and Welfare Bureau
Labour Department
Economic Analysis and Business Facilitation Unit
Census and Statistics Department
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# Unemployment and Wage Adjustments
# at Different Stages of Economic Cycle

Hong Kong's economic cycle and its labour market developments over the past 10 years have affected the employment income of lower-skilled workers in different ways.   During an economic downturn, their unemployment rate surged because the less competitive and part-time workers are likely to lose their jobs as nominal wages did not fall fast enough to clear the market.   On the other hand, faster job creation during a recovery phase not only pulled down their unemployment rate but also lifted wage gains.   A glimpse of the employment situation of lower-skilled workers is given as follow: (***Chart 1 - the zones marked are rough indications for reference only and should not be taken as definitive***)

## Chart 1 : Unemployment rate and labour earnings

(a)  After being hard hit by the Asian Financial turmoil in 1997, the headline unemployment rate and that for the lower-skilled workers rocketed, leading to increasing downward pressure on wage growth during 1998 (*Zone A, Chart 1*).

(b)  During the short recovery in 1999 and 2000, the unemployment rate for lower-skilled workers trended down, rendering a modest boost to their wages (*Zone B, Chart 1*).

(c)  The burst of the dotcom bubble in 2001 and the ensuing outbreak of the Severe Acute Respiratory Syndrome (SARS) in 2003 pushed the headline unemployment rate up to an all-time high of 8.5% in Q2 2003. Meanwhile, the unemployment rate for lower-skilled workers also hit a record high of 10.1% in May – July 2003.  Negative wage growth was found among most jobs during 2002-2004 *(Zone C, Chart 1)*.

(d)  Starting from Q2 2003, unemployment rate began to fall.  At the initial recovery stage, there were more job opportunities for both full-time and part-time workers.  Yet the unemployment rate for the lower-skilled workers remained high and the wage rates for most jobs were still falling, though at a decelerating rate *(Zone D, Chart 1)*.

(e)  As the economic recovery gathered momentum, job creation continued and the unemployment rate fell further, wages for more and more jobs started to rise *(Zone E, Chart 1)*.

(f)  With the unemployment rate falling even further, employers faced a rising rate of labour turnover amidst a booming business environment. More and more firms have to devise ways to retain and train up workers.  Wages for many more job categories rise and the rate of increase accelerates *(Zone F, Chart 1)*.

2.       Following the onset of the recent global "financial tsunami", market sentiments have changed drastically.  With the local economy being increasingly challenged by the worsening external financial and economic environments, the overall seasonally adjusted unemployment rate for July – September 2008 increased to 3.4%, while that for lower-skilled workers to 3.8%, reversing the decline seen earlier in the year.  Hong Kong has just left the stage as described in paragraph 1(f) above.  As the effects of financial turmoil are expected to last for some time, Hong Kong is probably entering to the stage described in paragraph 1(a) with further increase in unemployment rate and moderating wage growth in the short term.