

## **LEGISLATIVE COUNCIL BRIEF**

Minimum Wage Ordinance  
(Chapter 608)

Employment Ordinance  
(Chapter 57)

### **Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2012**

### **Employment Ordinance (Amendment of Ninth Schedule) Notice 2012**

#### **INTRODUCTION**

A At the meeting of the Executive Council on 11 December 2012, the Council ADVISED and the Chief Executive ORDERED that the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2012 at Annex A be made under section 16(1) of the Minimum Wage Ordinance (Cap. 608) (MWO).

B 2. Consequential to the implementation of the revised statutory minimum wage (SMW) rate, the Commissioner for Labour has made the Employment Ordinance (Amendment of Ninth Schedule) Notice 2012 at Annex B in accordance with section 49A(6) of the Employment Ordinance (Cap. 57) (EO).

#### **JUSTIFICATIONS**

##### **(A) Revised SMW rate and its effective date**

3. SMW provides a wage floor, not a living wage, to forestall excessively low wages but without unduly jeopardising our labour market flexibility, economic growth and competitiveness or causing significant adverse effects on the employment opportunities for vulnerable workers.

C 4. The Minimum Wage Commission (MWC) has by consensus recommended in its report at Annex C that the current SMW rate of \$28.0 be adjusted to \$30.0 per hour, an increase of \$2.0 or 7.1%. The Administration notes that the MWC reviewed and deliberated the SMW rate through an evidence-based approach and in an objective and balanced manner. The MWC examined the performance of a Basket of Indicators to evaluate the socio-economic and employment conditions during the implementation of the

initial SMW rate and its impact. It conducted comprehensive analyses on the data and empirical evidence of statistical surveys and research studies such as the Annual Earnings and Hours Survey (AEHS) conducted by the Census and Statistics Department (C&SD) and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors (Study on Knock-on Effect<sup>1</sup>) commissioned by the Government. It took into account the views of stakeholders and interested parties collected through consultation and other relevant considerations pertinent to the review of the SMW rate. It also formulated an assessment framework to estimate the possible impact of different SMW test levels on employees, businesses, inflation and unemployment rate. As there would inevitably be a time lag between the date of making recommendation and the date of its implementation, the MWC took due account of the short-term economic and labour market outlook in conducting scenario testing so as to achieve a more thorough perspective in reviewing the SMW rate.

5. According to the MWC's estimation, based on the data of the 2011 AEHS conducted by C&SD, around 327 200 employees would be covered by the recommended SMW rate, accounting for 11.7% of all employees in Hong Kong<sup>2</sup>. With the persistent rise in wages over the past year, the actual number of employees involved and coverage of SMW may be smaller than estimated after SMW uprating. On the basis of the pay trend up to mid-2012, it was estimated that the coverage of SMW would be about 223 100 employees, or 7.9% of all employees. The number of employees involved and the coverage of SMW may dwindle further if wages continue to rise in the months ahead. Using the number of 327 200 employees, with the hourly wages adjusted upwards to the recommended SMW level, their average wage increase would be 5.4% to 5.5%<sup>3</sup>. Factoring into account the knock-on effect on pay hierarchies, the average wage increase of employees involved would be an even higher level of 7.3%. Most of the employees involved would benefit from the uprating of the SMW rate. Although some employees may be affected by the mitigation measures taken by employers in controlling labour costs, the employment earnings of most employees involved would still gain

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<sup>1</sup> SMW narrowed the wage differentials between low-paid employees and employees of higher ranks. However, some employers pointed out that apart from raising employees' wages to the SMW level, they also needed to increase the pay of employees at higher ranks in order to maintain a reasonable differential in the pay hierarchy to upkeep staff morale. On the other hand, the wage differentials among lower-skilled jobs across sectors might also be narrowed owing to the implementation of SMW. When the labour market was tight, employees engaged in obnoxious sectors or occupations might prefer other jobs with more pleasant working environment. Employers thus had to further raise the wages of these employees to retain staff.

<sup>2</sup> These figures exclude employees in the Government, live-in domestic workers, student interns and work experience students as defined in the MWO.

<sup>3</sup> Average wage increase was calculated based on the definition of wages under the MWO and total wages (i.e. wages including rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement)).

some increase owing to SMW uprating after considering the mitigation strategies to be adopted by enterprises under different economic scenarios.

6. For enterprises, based on the definition of wages under the MWO, the estimated additional wage bill entailed by the recommended SMW rate would be about \$1.35 billion. As rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement) is over and above the statutory requirements, and given the additional labour costs arising from knock-on effect, the total additional wage bill would rise to around \$2.0 billion, up by approximately 0.3%. The analysis of the MWC suggests that the impact on most sectors (including the low paying sectors (LPS)<sup>4</sup>) should be moderate. As enterprises would likely adopt different strategies to absorb or mitigate the rise in cost, it is believed that the cost impact, albeit possibly more visible in certain sectors, would be largely manageable for most businesses. Enterprises that are already making losses or are competing on low wages and prices rather than productivity and output quality may be subject to greater pressure.

7. In regard to the impact on unemployment rate, considering the dynamic factors of the labour market under different economic scenarios (including the pace of creating grassroots jobs, the loss of low-paid jobs, the growth in grassroots labour force and the stimulating effect of SMW uprating on labour force), the MWC estimated that the overall unemployment rate would go up by about 0.3 percentage point under the “base case”, which assumes a real year-on-year economic growth at 1.0% for the first half of 2013. As the unemployment rate in Hong Kong is still relatively low, the impact of the recommended SMW rate on unemployment rate is unlikely to lead to a marked deterioration in the labour market. As regards the impact on inflation, assuming a full pass-through of additional wage bills to prices of products and services, it was estimated that the Composite Consumer Price Index (CPI) would go up by about 0.3 to 0.4 percentage point<sup>5</sup>. As a measure

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<sup>4</sup> LPS refers to sectors employing a relatively large number of low-paid employees (i.e. employees earning hourly wage within the lowest overall hourly wage decile) or sectors with a relatively high proportion of low-paid employees among all employees within the sectors. Based on the above criteria and the findings of the 2011 AEHS, the following four sectors (including 15 subsectors) are identified by the MWC as LPS: (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).

<sup>5</sup> According to the MWC, the former figure (i.e. 0.3 percentage point for CPI and 0.5 percentage point for CPI (A)) was estimated on the basis of the total wages received by employees, i.e. wages estimated based on the definition under the MWO plus rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement). The latter figure (i.e. 0.4 percentage point for CPI

of inflation on the grassroots, the CPI (A) was estimated to rise by 0.5 to 0.6 percentage point<sup>5</sup>. However, as a full pass-through of additional wage bills to consumer prices would be unlikely, the actual impact on inflation should be milder than the above estimate.

8. The Administration has carefully considered the report of the MWC and are of the view that the Commission has ably discharged its statutory function of reviewing the SMW rate and the basis of its deliberation is reasonable and balanced. The MWC has meticulously and prudently considered various social, economic and employment factors and conducted comprehensive analyses and assessment. There was extensive consultation to take full account of the views of various sectors of the community. The likely mild impact on enterprises and unemployment as assessed by the MWC also satisfies the objectives of preventing substantial loss of low-paid jobs and maintaining the economic development of Hong Kong. The discussion in the MWC also convinces us that the recommended rate strikes an optimum balance between the interests of both employees and employers. The Chief Executive in Council has accepted and adopted the MWC's recommended rate of \$30.0 per hour as the revised SMW rate.

9. The revised SMW rate will take effect on 1 May 2013. It is pragmatic and reasonable to implement the new rate on the next Labour Day, two years after the first introduction of SMW on 1 May 2011. Counting from the gazettal of the new rate which is scheduled for 14 December 2012 (as referred to in paragraph 13 below), this will allow ample time for completing the legislative process (which is likely to take at least up to 49 days) and for employers and the business community to prepare for the SMW uprating. Prior to implementation, the Labour Department (LD) will launch publicity and promotional activities to enhance public awareness of the new SMW rate.

## **(B) Revised monetary cap on keeping records of hours worked**

10. Under the EO, an employer is obliged to keep records of the total number of hours worked by an employee in a wage period if the latter is an employee within the meaning of the 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 the EO, or a proportionate amount when the wage period is not a month. This serves the dual purposes of meeting the need to enforce the MWO on the one hand and the need to minimise the administrative burden of employers on the other.

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and 0.6 percentage point for CPI (A)) was estimated based on total wages received by employees as well as the knock-on effect on pay hierarchies.

11. The present monthly monetary cap is set at \$11,500, based on the current SMW rate of \$28.0 per hour. If and when the revised SMW rate of \$30.0 per hour is implemented on 1 May 2013, the monthly cap should be increased to \$12,300 after rounding, in proportion to the percentage increase (i.e. 7.1%) of the SMW rate adjustment. To synchronise with the commencement of the new SMW rate, it will come into force on the same day on which the revised rate comes into effect, i.e. 1 May 2013.

## **THE NOTICES**

12. The Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2012 amends Schedule 3 to the MWO to add the revised SMW rate with its effective date. The Employment Ordinance (Amendment of Ninth Schedule) Notice 2012 amends the Ninth Schedule to the EO to amend the monetary cap on keeping records of hours worked.

## **LEGISLATIVE TIMETABLE**

13. The legislative timetable is –

Publication in the Gazette	14 December 2012
Tabling at the Legislative Council (LegCo)	19 December 2012

## **IMPLICATIONS OF THE PROPOSAL**

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

D

15. Employees working for contractors of bureaux and departments are entitled to no less than the revised SMW rate in accordance with the MWO when the new rate takes effect. Examples include workers of government service contractors and agency workers supplied by employment agencies in the provision of government services. The Administration has also undertaken to pay its employees, both civil servants and non-civil servants, no less favourably than the prevailing SMW rate stipulated under the MWO.

## **PUBLIC CONSULTATION**

16. The MWC, in accordance with its statutory function, conducted extensive and intensive consultation, including an eight-week public consultation and two rounds of consultation meetings to collect oral and written submissions, to gauge the views and concerns of stakeholders and

interested parties on the SMW rate. The MWC received a total of 774 written submissions during public consultation and met with 139 stakeholder groups in consultation meetings. The revision of the monetary cap on keeping records of hours worked is consequential to the adoption of the revised SMW rate of \$30.0 per hour. A meeting of the LegCo Panel on Manpower was held on 20 November 2012 to meet the Administration as well as 49 deputations and individuals on the review of the SMW rate.

## **PUBLICITY**

17. A press release will be issued and a spokesman from the LD will be made available to handle press enquiries.

## **ENQUIRIES**

18. Enquiries on this brief may be addressed to Mr William Mak, Chief Labour Officer (Statutory Minimum Wage) of LD, at 2852 3842.

Labour and Welfare Bureau  
Labour Department  
December 2012

## **Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2012**

(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 2013.

### **2. Minimum Wage Ordinance amended**

The current hourly wage rate specified in Schedule 3 to the Minimum Wage Ordinance (Cap. 608) is increased, and the effective date of the increase is specified, by amending that Schedule, as set out in section 3.

### **3. Schedule 3 amended (prescribed minimum hourly wage rate)**

(1) Schedule 3, column 2—

#### **Repeal**

“the day on which section 9 comes into operation”

#### **Substitute**

“1 May 2011”.

(2) At the end of Schedule 3—

#### **Add**

“\$30  
1 May 2013”.

Clerk to the Executive Council

COUNCIL CHAMBER

2012

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### **Explanatory Note**

The minimum hourly wage rate for an employee is stipulated under the Minimum Wage Ordinance (Cap. 608) by reference to the prescribed minimum hourly wage rate specified in Schedule 3 to that Ordinance. This Notice amends that Schedule to increase the prescribed minimum hourly wage rate from \$28 to \$30, with effect from 1 May 2013. As to the effective date of the original prescribed minimum hourly wage rate, this Notice also replaces the reference to “the day on which section 9 comes into operation” by a reference to the actual effective date for that rate.

## **Employment Ordinance (Amendment of Ninth Schedule) Notice 2012**

(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 2012 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**

“\$11,500”

**Substitute**

“\$12,300”.

Commissioner for Labour

11 December 2012

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### **Explanatory Note**

In relation to an employee within the meaning of the Minimum Wage Ordinance (Cap. 608), the Employment Ordinance (Cap. 57) requires the employer to keep records of the total number of hours worked by the employee in each wage period. The requirement only applies to a wage period if wages payable to the employee for the wage period are less than the monetary cap set in the Ninth Schedule to the Employment Ordinance, or a proportionate amount if the wage period is not a month.

2. Corresponding to the increase of the prescribed minimum hourly wage rate to \$30 (effected by the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2012), this Notice amends the Ninth Schedule to increase that monetary cap from \$11,500 per month to \$12,300 per month.

# 2012 Report of the Minimum Wage Commission

Forestalling excessively low wages

Minimizing the loss of low-paid jobs

Sustaining Hong Kong's economic growth

and competitiveness

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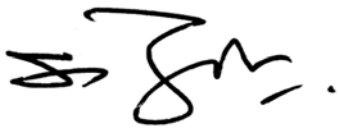
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## Chairperson's Foreword

- 1 After years of community-wide discussion and consensus building, the statutory minimum wage (SMW) came into effect on 1 May 2011 in Hong Kong. Providing further protection for the remuneration of grassroots employees, the SMW represents an important milestone in the development of labour policy. The initial SMW rate set at \$28.0 per hour has improved noticeably the income of low-paid employees in real terms. The robust economic environment and the relative tight labour market have alleviated the pressure induced by SMW. With the wide acceptance by businesses and employees, the implementation of SMW has been by and large smooth. The community is generally pleased with the successful launch of the initial SMW rate in Hong Kong.
- 2 The recommendation on the SMW rate has extensive and far-reaching impact on employees, the business sector and society at large. The Minimum Wage Commission (MWC) is tasked with the important function of reporting to the Chief Executive in Council (CE-in-Council) its recommendation about the SMW rate. We all are keenly aware of the substantial responsibility of undertaking this mission.
- 3 In the process of deliberating and examining the SMW rate, the MWC conducted extensive consultation and considered fully and conscientiously the opinions of various sectors of the community. We gathered valuable views from stakeholders through two rounds of consultation meetings, which facilitated us in better understanding their position on the review of the SMW rate and the actual impact of the initial SMW rate. The MWC also conducted public consultation to collect written submissions from a wide spectrum of the community so as to grasp their concerns about the impact of SMW. These views provided important reference which laid a solid foundation for the impact assessment conducted during our review of the SMW rate. We would like to take this opportunity to express our gratitude to those stakeholders and interested parties that attended the consultation meetings or presented written submissions for their frank exchanges with the MWC.

- 4 Adopting an evidence-based approach in reviewing the SMW rate, the MWC considered various social, economic and employment conditions in Hong Kong and comprehensively analysed data collected from statistical surveys and research studies. We are indebted to the MWC Secretariat for providing voluminous analyses as well as logistical and technical support which are indispensable to our work. To tie in with our deliberation on the SMW rate, the concerned Government departments also continuously enhanced the relevant statistical surveys, in particular the Annual Earnings and Hours Survey and the Annual Survey of Economic Activities. We would like to thank the Labour and Welfare Bureau, the Labour Department, the Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office and the Census and Statistics Department for the great assistance they provided.
- 5 Setting SMW at an appropriate level is vital to striking the balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while sustaining Hong Kong's economic growth and competitiveness. Members of the MWC are drawn from the labour sector, business sector, academia and Government. We examined and considered a multiplicity of issues and, by way of iterative analyses and in-depth discussions, built up and reached consensus through mutual understanding and respect for divergent views.
- 6 The reaching of consensus on the recommended SMW rate would not have been possible without the active participation of all members of the Commission and their utilitarian spirit. Their experience and expertise enabled the MWC to undertake comprehensive and meticulous analyses on the relevant statistical information, as well as to conduct thorough discussions. Putting the wider interest of the community in the forefront, all members paid heed to and fully considered the relevant evidence with an open mind. This coupled with rational and objective discussions led to our consensus. As the Chairperson of the MWC, I am extremely grateful to members for their devotion to the work of the Commission and the contributions they made.

- 7 The recommendation of this report is made with the unanimous consent and support of all MWC members. We trust that the recommendation has taken care of the interests of employees, employers and the community at large, and is conducive to achieving the goals of forestalling excessively low wages and minimising the loss of low-paid jobs while sustaining Hong Kong's economic development and competitiveness. I have the pleasure to submit to the CE-in-Council this *Report of the Minimum Wage Commission*, and appeal for acceptance of and support for the recommendation unanimously reached by the Commission.




JAT Sew Tong

October 2012



## Members

### Chairperson

A handwritten signature in black ink, appearing to be 'JAT Sew Tong'.

**Mr JAT Sew Tong, S.C., J.P.**

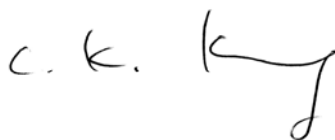
### Non-official Members (\*)

A handwritten signature in black ink, appearing to be 'Alfred Chan'.

**Professor Alfred CHAN Cheung Ming, B.B.S., J.P.**

A handwritten signature in black ink, appearing to be 'Stephen Cheung'.

**Professor Stephen CHEUNG Yan Leung, B.B.S., J.P.**

A handwritten signature in black ink, appearing to be 'C. K. Kwong'.

**Mr KWONG Chi Kin**

A handwritten signature in black ink, appearing to be 'Lau Chin Shek'.

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



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**Ms LAU Ka Shi**



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**Mr LEE Kai Ming, G.B.S., J.P.**



A handwritten signature in black ink, appearing to read 'Caroline Mak'.

**Ms Caroline MAK Sui King**



A handwritten signature in black ink, appearing to read 'Wing Suen'.

**Professor SUEN Wing Chuen**



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**Mr Simon WONG Kit Lung**

(\*) listed in alphabetical order of the surname

**Official Members**



A handwritten signature in black ink, appearing to read 'Annie Tam'.

**Miss Annie TAM Kam Lan, J.P.**

*Permanent Secretary for Labour and Welfare*



A handwritten signature in black ink, appearing to read 'Andrew Wong'.

**Mr Andrew WONG Ho Yuen, J.P.**

*Permanent Secretary for Commerce and Economic  
Development (Commerce, Industry and Tourism)*



A handwritten signature in black ink, appearing to read 'Helen Chan'.

**Mrs Helen CHAN, J.P.**

*Government Economist*

**Secretary**



**Mr William MAK Chi Tung**

*Chief Labour Officer (Statutory Minimum Wage)*

## Executive Summary

- I Assuming that the recommendation on the adjustment of the statutory minimum wage (SMW) rate will be implemented in the first half of 2013, the Minimum Wage Commission (MWC) recommended that the SMW rate be adjusted from \$28.0 per hour to \$30.0 per hour, up by \$2.0 (or 7.1%).

### Chapter 1: Introduction

- II The MWC is an independent statutory body established under Part 3 of the Minimum Wage Ordinance (MWO) (Cap. 608) with the main function to, when required by the Chief Executive (CE) to do so, report its recommendation about the SMW rate to the CE-in-Council. In performing its function, the 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 to sustain Hong Kong's economic growth and competitiveness.

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

- III The MWC adopted an evidence-based approach in discharging its duties with regard to the statutory function as stipulated in the MWO. SMW has far-reaching impact on employment, society and economy. There are also diverse views and concerns about the SMW rate in various sectors of the community. To conform with the statutory function of the MWC and maintain an appropriate balance among the objectives mentioned in paragraph II above, the MWC not only made reference to the relevant data in a Basket of Indicators when reviewing the SMW rate, but also undertook detailed analyses on wage distribution data and findings of other surveys and considered views from various sectors of the community in order to recommend an appropriate SMW rate.
- IV The MWC unanimously agreed to adopt at the very outset a consensus-building approach on its *modus operandi*. Working towards this objective, we encouraged rational discussions when studying various controversial issues relating to the setting of the SMW rate. We kept the deliberations confidential so as to ensure the building of consensus without undue influence. Nevertheless, we understood that there had been a keen interest in the work of the MWC in the community. Therefore, we informed the public of our work when there was notable progress and released the data and

information considered by us in the deliberations.

### **Chapter 3: The Socio-economic Conditions during the Implementation of the Initial Statutory Minimum Wage Rate**

- V Implementing SMW during times of favourable macroeconomic conditions would help relieve the pressures on employment and corporate profits, and encourage more people to join the labour market. On the contrary, should SMW be implemented during economic slowdown, the impact on the business environment would become more pronounced and dampen labour demand further. Hence, the MWC needs to analyse the socio-economic conditions during the implementation of SMW when assessing the potential impact of the SMW rate.
- VI The initial SMW rate came into force on 1 May 2011 amidst a robust economy in Hong Kong with strong domestic demand, notable expansion of business activities and persistent strength in labour demand, which provided a very favourable environment for its implementation. Hong Kong remained virtually in a state of full employment over the past year or so. The labour market stayed buoyant on the back of flourishing business activities, thereby cushioning considerably the pressure on the labour market brought about by the initial SMW rate. The overall prices and cost pressures on enterprises were nevertheless also on a visible uptrend for most of 2011. However, dragged by external headwinds, Hong Kong's economic growth decelerated visibly since the second half of 2011 to only a meagre growth in the first half of 2012. Economic activities across major sectors have gradually slackened since early 2012, causing uncertainties in employment prospects. Inflation eased as the economy moderated.

### **Chapter 4: Impact of the Initial Statutory Minimum Wage Rate**

- VII Those sectors hiring more low-paid employees would be more susceptible to the impact of SMW. The MWC made reference to the definition adopted by the Provisional Minimum Wage Commission (PMWC) which identified employees earning hourly wage within the lowest overall hourly wage decile as "low-paid employees". Based on the definition of the PMWC and the findings of the 2011 Annual Earnings and Hours Survey, we consider it appropriate to continue to adopt the four sectors (including: retail; restaurants; estate management, security and cleaning services; as well as other low paying sectors) and their 15 sub-sectors as "low paying sectors" (LPS).

- VIII Thanks to Hong Kong's vibrant economy last year, the initial SMW rate had brought more positive impacts than negative impacts. The impact of the initial SMW rate can be summarised on three fronts. Firstly, regarding the impact on employees, relevant data indicated that low-paid employees enjoyed notable pay increase in real terms even after discounting inflation, suggesting that SMW did help enhance the quality of life of grassroots employees. However, the wage differentials among different ranks and occupations were narrowed, causing recruitment difficulties in some sectors with less favourable working environment. In order to retain talents, employers often had to offer pay rise to employees with wage rate already at or above the statutory level. The related Study revealed that the retail and restaurant sectors were to a certain extent affected by the knock-on effect. However, data from the Study also showed that businesses had not reduced the employment benefits of their employees by a significant extent after the implementation of SMW as a means to mitigate the increase in labour costs.
- IX Secondly, for the impact on businesses, the implementation of the initial SMW rate increased their wage bills, particularly those in LPS. With the overall profit ratio of LPS lower than that of other sectors, there were concerns that SMW would weaken the hiring sentiment in these sectors, or even lead to massive layoffs. There were also concerns that some enterprises with very low profit margins might turn from profits to losses or even have to close down. Nonetheless, because the economy was buoyant when the initial SMW rate was implemented, the hiring sentiment of businesses generally stayed positive with no substantial layoffs seen. On the contrary, the number of establishments continued to rise to a record high. As the information on businesses' profitability after the implementation of the initial SMW rate was not yet available, we were unable to make further analysis. However, entrepreneurship remained largely positive amidst the expansion of economic activities over the past year, in particular with the business receipts for the retail sector recording appreciable growth when SMW was just implemented and the persistent increase in the overall number of establishments to a record high.
- X Finally, regarding the impact on the labour market, prices and overall economy, the unemployment rate has stayed low so far since the implementation of the initial SMW rate and the labour market was virtually in a state of full employment. Although the part-time ratios rose due to seasonal labour demand or recruitment difficulties and

working hours fell in certain sectors, such changes were not significant in overall terms. Moreover, the implementation of SMW helped enhance the incentive to work notably. The overall labour force rose persistently, with increases in labour force participation rates across different age groups and educational levels, especially among women and the elderly. Furthermore, the prices of those consumer goods and services with relatively larger shares of labour costs were notably higher when compared with those in the past few years. It suggested that the initial SMW rate, to a certain extent, had pushed up inflation. Nevertheless, Hong Kong was still ranked high in the world with regard to overall economic freedom and competitiveness by a number of renowned international organisations. This demonstrated that the international community remained confident in Hong Kong's competitiveness and business environment.

## **Chapter 5: Considerations Underlying the Recommendation of the Statutory Minimum Wage Rate**

- XI The MWC adopted an evidence-based approach in reviewing the SMW rate. In making recommendation on the SMW rate, the MWC mainly considered the following four factors: Basket of Indicators; views of stakeholders and interested parties; other relevant considerations; and impact assessment.
- XII The Basket of Indicators identified by the MWC, which comprises general economic conditions, labour market conditions, competitiveness and social inclusion, covers a wide range of information on the latest socio-economic and employment conditions for assessing the impact of the initial SMW rate and conducting scenario testing based on the local economic outlook and inflation trend. Data of the Basket of Indicators revealed that although the initial SMW rate seemed to bring more positive impacts than negative impacts, the stronger than expected economy in Hong Kong in 2011 had, to a large extent, cushioned the pressure on the economy, labour market and businesses brought about by SMW. The overall economic growth however has evidently slowed down since late 2011 amidst a worsening external economic environment. As it is very likely that the macroeconomic conditions in 2013 would be very different from the robust economic landscape in 2011 when the initial SMW rate was implemented, the MWC agreed that it had to be cautious in making the recommendation on the SMW rate.
- XIII Extensive consultation is of utmost importance in the review process. Through

meetings and discussions with stakeholders and collecting views from people from various strata of society, the MWC could gauge the social, economic and sectoral (in particular LPS) impacts of the initial SMW rate as well as views and concerns of various sectors of society on the review of the SMW rate. Stakeholders and interested parties generally held the view that the initial SMW rate did not induce any negative impact on enterprises as originally expected, but in view of the uncertain economic outlook, employers' associations and employer representatives considered that the MWC should consider preserving the flexibility for businesses to adjust in times of economic downturn and they generally suggested that the SMW rate should be maintained at its current level of \$28 per hour. Trade unions however opined that Hong Kong's economy was still expected to grow in 2012 and the MWC should not be over-pessimistic about Hong Kong's economic outlook. They were generally of the view that the SMW rate should be raised to \$33 to \$35 per hour so as to meet the basic needs of employees and their families.

- XIV As not all considerations related to the review of the SMW rate could be quantified through the Basket of Indicators, the MWC also took into account other relevant considerations that were not totally quantifiable. These considerations include: enhancing employees' quality of life, preserving the market's capacity to adjust, enhancing the incentive to work, additional costs entailed by increase in wages, and the impact of SMW implementation on the quality of products and services, wage differentials across sectors or positions, the vulnerable groups as well as social harmony. Furthermore, since the time of implementing SMW is still short, the MWC also took into account the possibility that other impact has yet to fully emerge.
- XV The impact of the adjustment of the SMW rate would, to a certain extent, depend on how enterprises would respond under the prevailing economic conditions at the time of implementation. To understand the impact of the recommended SMW rate on employees, businesses, inflation and unemployment rate, the MWC made a series of assumptions on the mitigation strategies that might be adopted by enterprises in LPS and other sectors under different economic scenarios to assess the potential impact of different SMW test levels.



## Chapter 6: The Recommended Statutory Minimum Wage Rate

- XVI To conform with the statutory function of the MWC and to strike an appropriate balance among the demands of various parties, the MWC adopted an evidence-based approach in reviewing and making recommendation on the SMW rate. As there would inevitably be a time lag between the date of making recommendation and the date of its implementation, the MWC took into account short-term economic and labour market outlook to conduct scenario testing with an attempt to have more thorough considerations when reviewing the SMW rate. After having objective, rational and in-depth discussions with regard to the considerations mentioned in Chapter 5, we unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$30.0 per hour.
- XVII The analysis related to the possible impact of the recommended rate on employees, businesses, unemployment rate and inflation showed that the number of employees earning an hourly wage below \$30.0 in May to June 2011 was 327 200, accounting for 11.7% of all employees (i.e. the coverage of SMW). Due to time lag of data, the actual number of employees involved and coverage of SMW may be less than estimated. Although most of the employees involved may benefit from the increase in wages, some may have their working hours reduced, remuneration packages restructured or even be laid off. As for the impact on businesses, taking into account rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement) that are beyond and above the statutory requirements, as well as the additional labour costs arising from knock-on effect, the total additional wage bill would rise to around \$2.0 billion, up by approximately 0.3%. As enterprises would likely adopt different strategies to absorb or mitigate the rise in cost, it is believed that the cost impact, albeit possibly more visible in individual sectors, would be largely manageable for most businesses. As regards the impact assessment on the unemployment rate, it was estimated that the overall unemployment rate would go up by about 0.3 percentage point under the “base case” (i.e. assuming real economic growth for the first half of 2013 at 1.0% year-on-year), affecting some 9 800 to 11 300 grassroots employees. While the unemployment rate in Hong Kong is still relatively low, the impact of the recommended SMW rate on unemployment rate is unlikely to lead to a marked deterioration in the labour market. Furthermore, should there be a full pass-through of additional wage bills on prices of products and services, it was

estimated that the Composite Consumer Price Index (CPI) would go up by about 0.3 to 0.4 percentage point. Low-paid employees would more likely feel the pinch as daily necessities may be subject to more discernible impact of SMW uprating when compared with the impact on other consumer items. As a measure of inflation on the grassroots, the CPI(A) was estimated to rise by 0.5 to 0.6 percentage point. However, as a full pass-through to consumer prices would be unlikely, the actual impact on inflation should be lower than the above estimate.

- XVIII The MWC believes that the recommended rate has struck an appropriate balance among the needs of various parties. The recommended rate would also help improve the living standard of grassroots employees while giving due consideration to employment of the vulnerable groups, enhance the incentive to work and promote social harmony yet preserving the market's capacity to adjust without bringing significant negative impact on the quality of products and services.

## **Chapter 7: Recommendation**

- XIX The MWC is tasked with the statutory function of making recommendation on the SMW rate to the CE-in-Council. After prudent and objective deliberations as well as iterative discussions, we reached a consensus and recommended the SMW rate be adjusted upwards to \$30.0 per hour. Should this SMW rate be accepted and implemented, we also recommended the Government to render more active assistance to employers and employees so that they could have a clear understanding of their relevant statutory liabilities and rights.

# **1 Introduction**

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

- 1.1 In response to the community's demand for wage protection to low-paid employees, the Chief Executive (CE) announced in his Policy Address in October 2008 the introduction of a statutory minimum wage (SMW). In tandem with the Government's formulation of the main legislation on SMW, the CE appointed the Provisional Minimum Wage Commission (PMWC) in late February 2009 to advise on the initial SMW rate. The Legislative Council (LegCo) passed the Minimum Wage Bill on 17 July 2010, which laid the legal foundation for an SMW regime. With the objective of setting a wage floor to protect grassroots employees, the PMWC submitted its report to the CE in October the same year with a recommendation for the initial SMW rate to be set at \$28.0 per hour. The recommendation was endorsed by the CE-in-Council and the relevant subsidiary legislation was passed by LegCo, with the initial SMW rate implemented on 1 May 2011.
- 1.2 The Minimum Wage Commission (MWC) is an independent statutory body established under Part 3 of the Minimum Wage Ordinance (MWO) (Cap. 608) with the main function to, when required by the CE to do so, report its recommendation about the SMW rate to the CE-in-Council.
- 1.3 The MWO stipulates that in performing its function, the 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.II Composition and Membership List

1.4 Members for the first term of the MWC were appointed by the CE with a two-year tenure starting from 1 March 2011. Among them, the nine non-official members were appointed on an ad personam basis and drawn equally from the labour, business and academic sectors respectively. Secretariat support to the MWC is provided by the Labour Department and the Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office.

1.5 Membership of the first term of the MWC is as follows:

<b>Chairperson</b>	Mr JAT Sew Tong, S.C., J.P.
<b>Non-official Members<sup>(*)</sup></b>	Professor Alfred CHAN Cheung Ming, B.B.S., J.P.
	Professor Stephen CHEUNG Yan Leung, B.B.S., J.P.
	Mr KWONG Chi Kin
	Mr LAU Chin Shek, J.P.
	Ms LAU Ka Shi
	Mr LEE Kai Ming, G.B.S., J.P.
	Ms Caroline MAK Sui King
	Professor SUEN Wing Chuen
	Mr Simon WONG Kit Lung
<b>Official Members</b>	Permanent Secretary for Labour and Welfare Mr Paul TANG Kwok Wai, J.P. (1 March 2011 to 30 June 2012) Miss Annie TAM Kam Lan, J.P. (since 1 July 2012)
	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) Mr Andrew WONG Ho Yuen, J.P.
	Government Economist Mrs Helen CHAN, J.P.
<b>Secretary</b>	Chief Labour Officer (Statutory Minimum Wage) Mr Charles HUI Pak Kwan (1 March 2011 to 14 March 2012) Mr William MAK Chi Tung (since 15 March 2012)

(\*) listed in alphabetical order of the surname

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

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

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

- 2.1 According to the Minimum Wage Ordinance (MWO) (Cap. 608), the function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to report its recommendation about the amount of the prescribed minimum hourly wage rate (the statutory minimum wage (SMW) rate) to the CE-in-Council. After considering the work and time involved in reviewing the SMW rate and making a recommendation, the CE had, in accordance with the MWO, required the MWC to submit the recommendation report on the SMW rate on or before 31 October 2012.
- 2.2 The MWO also stipulates that in performing its function, the 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 to sustain Hong Kong's economic growth and competitiveness. Before making a recommendation on the SMW rate, the MWC may conduct consultation, analyse data and information from researches and studies, and consider various views.
- 2.3 SMW has far-reaching impact on employment, society and economy. There are also diverse views and concerns about the SMW rate in various sectors of the community. To conform with the statutory function of the MWC and maintain an appropriate balance among the above-mentioned objectives, we made reference to the relevant data in a Basket of Indicators when reviewing the SMW rate, and undertook detailed analyses on wage distribution data and findings of other surveys and considered views from various sectors of the community in order to recommend an appropriate SMW rate.

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

- 2.4 To deliberate the SMW rate in an objective and balanced manner, the MWC adopted an evidence-based approach by conducting comprehensive analyses on the data and empirical evidence of surveys and research studies, examining the social, economic and employment conditions in Hong Kong, and taking full account of the views of various sectors of the community. In studying the SMW rate, we made reference to the

following four sources of evidence and information. They were: (1) data and information from statistical surveys and research studies, in particular the Annual Earnings and Hours Survey (AEHS) and Annual Survey of Economic Activities (ASEA) conducted by the Census and Statistics Department (C&SD) as well as the consultancy study commissioned by the Government on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors (Study on Knock-on Effect); (2) empirical data, views and information provided by stakeholders and members of the public during consultation; (3) research and studies of experience of other places; and (4) academic journals. After examining the above data and information, we conducted impact assessment on different hourly wage levels so as to recommend an appropriate SMW rate.

### **2.I.3 Dissemination of information and principle of confidentiality**

2.5 There has been a keen interest in the review of the SMW rate in the community. To enhance the transparency of the work of the MWC, we kept the public informed of our work progress through issuing press statements as well as meeting and briefing the media when appropriate. The Commission also set up a dedicated webpage to provide the public with information on our work and the latest news, etc. During public consultation, we uploaded onto our webpage for public information the relevant materials and data considered by the MWC in the deliberation of the SMW rate.

2.6 Nevertheless, to enable objective and balanced discussions among MWC members without undue influence or pressure from outside, we unanimously agreed to keep the deliberations and discussions confidential so as to avoid confusion in the community and undue pressure on members caused by disclosure of deliberation details. Following this principle, we decided that we would inform the public of our work only as and when there was notable progress.

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

2.7 Drawing reference from the experience of the Provisional Minimum Wage Commission (PMWC), the MWC adopted at the very outset a consensus-building approach on its *modus operandi*. Working towards this objective, we encouraged rational discussions rather than confrontation and determination by majority vote when studying various controversial issues relating to the setting of the SMW rate. The merits of this approach are apparent as consensus encompasses understanding of and respect for

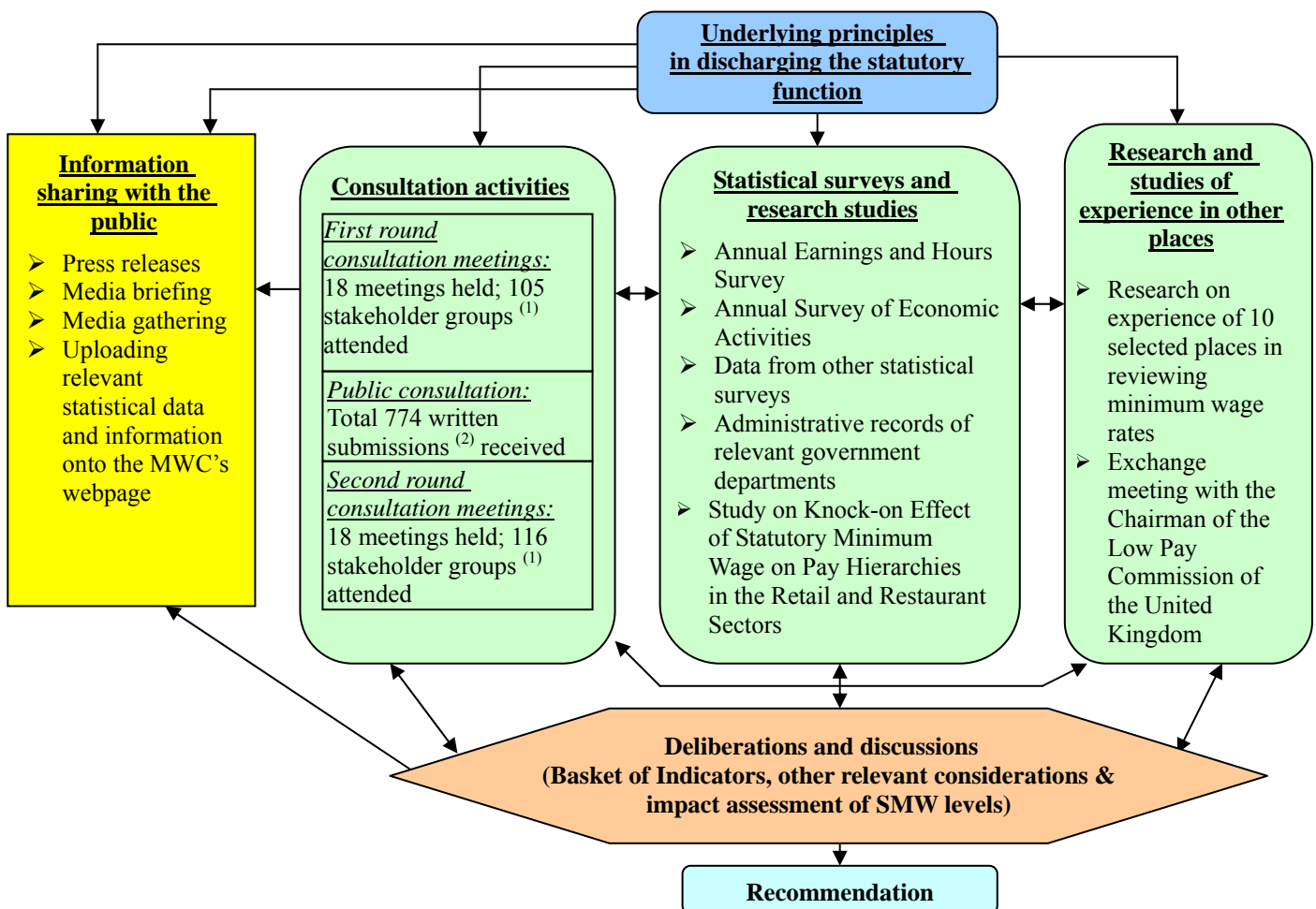
different viewpoints and helps avoid focusing on a narrower perspective. Results deriving from such a process would be more widely accepted and supported.

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

### 2.II.1 Process in deliberating the statutory minimum wage rate

2.8 Based on the above underlying principles, we considered all data and information collected through multifarious channels before reaching a consensus on the recommended SMW rate. Our deliberation process is summarised as follows:

**Figure 2.1: Process of the Minimum Wage Commission (MWC) in deliberating the statutory minimum wage (SMW) rate**



- Notes: (1) The Minimum Wage Commission met with 139 stakeholder groups in total. Some of these stakeholders attended both the first round and second round consultation meetings.  
(2) Attached to one of the submissions are 595 signed letters with identical content.

2.9 In gist, we kick-started our deliberation process by undertaking analyses on data related to the local socio-economic conditions and preliminary impact of the initial SMW rate, followed by conducting extensive consultation with stakeholders and interested parties, studying the relevant statistical data and findings of surveys as well as sharing with the media and the public our work progress as and when appropriate. Major activities/work of the 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 2011</b>		
7 March	Media briefing	• To share the way forward on the work of the MWC.
	MWC meeting	• To convene the first MWC meeting.
	Issuing press release	• To report the issues discussed in the first meeting of the MWC.
19 April	MWC meeting	• To convene the second MWC meeting.
31 May	Setting up the webpage of the MWC	• To share with the public the work progress of the MWC and the latest news, etc.
25 August	Media gathering	<ul style="list-style-type: none"> <li>• To report progress on preparatory work of the MWC including: <ul style="list-style-type: none"> <li>➢ formulating the house rules of the MWC and work principles;</li> <li>➢ examining the major findings of the 2010 Annual Earnings and Hours Survey and 2009 Annual Survey of Economic Activities;</li> <li>➢ providing advice to the Census and Statistics Department on the data items to be collected in the 2011 Annual Earnings and Hours Survey; and</li> <li>➢ studying a Basket of Indicators for monitoring the socio-economic situation after the implementation of statutory minimum wage (SMW); and listening to and providing advice on the Government's proposed study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.</li> </ul> </li> </ul>
23 September	MWC meeting	• To convene the third MWC meeting.
17, 22 & 23 November, 1, 20 & 21 December	Conducting the first round consultation meetings with stakeholders	• Please refer to paragraphs 2.20 and 2.21 of the report.
1 December	MWC meeting	• To convene the fourth MWC meeting.
<b>Year 2012</b>		
15 February	Exchange meeting with the Chairman of the Low Pay Commission (LPC), the United Kingdom (UK)	• To meet with Mr David Norgrove, Chairman of the LPC of the UK during his visit to Hong Kong to share his valuable working experience in the LPC.
22 March	MWC meeting	• To convene the fifth MWC meeting.
2 April to 28 May	Uploading relevant statistical data and information onto the MWC's webpage for public information and conducting public consultation to invite submission of views on the SMW rate	• Please refer to paragraphs 2.22 to 2.25 of the report.



Date	Events	Details
<b>Year 2012</b>		
12 April	Issuing press release	<ul style="list-style-type: none"> <li>To report that the Chief Executive (CE) had, in accordance with the Minimum Wage Ordinance, required the MWC to submit the recommendation report on or before 31 October 2012 after considering the work and time involved for the Commission to review and report its recommendation on the SMW rate.</li> </ul>
14 May	Issuing press release	<ul style="list-style-type: none"> <li>To announce that the public consultation would close on 28 May 2012 and appeal to stakeholders and interested parties for written submissions on the SMW rate.</li> </ul>
29 May	Uploading relevant information onto the MWC's webpage for public information	<ul style="list-style-type: none"> <li>To report the working timetable of our review of the SMW rate.</li> </ul>
14 & 15 June	Conducting the second round consultation meetings with stakeholders	<ul style="list-style-type: none"> <li>Please refer to paragraphs 2.26 to 2.28 of the report.</li> </ul>
19 June	Uploading relevant information onto the MWC's webpage for public information	<ul style="list-style-type: none"> <li>To share with the public the list of stakeholders that attended the second round consultation meetings held in June 2012.</li> </ul>
30 June	MWC meeting	<ul style="list-style-type: none"> <li>To convene the sixth MWC meeting.</li> </ul>
25 July	MWC meeting	<ul style="list-style-type: none"> <li>To convene the seventh MWC meeting.</li> </ul>
23 August	MWC meeting	<ul style="list-style-type: none"> <li>To convene the eighth MWC meeting.</li> </ul>
	Issuing press release	<ul style="list-style-type: none"> <li>To report that the MWC convened a meeting on that day to consider prudently and conduct detailed analysis and assessment on the basis of relevant statistical data and information as well as views of members of the public and stakeholders.</li> </ul>
5 September	MWC meeting	<ul style="list-style-type: none"> <li>To convene the ninth MWC meeting.</li> </ul>
	Issuing press release	<ul style="list-style-type: none"> <li>To report that the MWC convened a meeting on that day to consider prudently and conduct detailed analysis and assessment on the basis of relevant statistical data and information as well as views of members of the public and stakeholders.</li> </ul>
24 September	MWC meeting	<ul style="list-style-type: none"> <li>To convene the tenth MWC meeting.</li> </ul>
	Issuing press release	<ul style="list-style-type: none"> <li>To report that the MWC convened a meeting on that day to consider prudently and conduct detailed analysis and assessment on the basis of relevant statistical data and information as well as views of members of the public and stakeholders.</li> </ul>
25 September	Issuing press release	<ul style="list-style-type: none"> <li>To report that the MWC had reached consensus on the recommended SMW rate and would submit its recommendation report to the CE-in-Council on or before 31 October 2012.</li> </ul>
11 October	MWC meeting	<ul style="list-style-type: none"> <li>To convene the eleventh MWC meeting.</li> </ul>

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

2.10 We adopted the evidence-based approach in deliberating the SMW rate. During the deliberation, we studied prudently and conducted detailed analyses on relevant statistical data, considered a Basket of Indicators to monitor the situation after the SMW implementation, and conducted impact assessment taking into account the existing data as well as views and information from stakeholders and interested parties. Therefore, the data and information from statistical surveys and research studies were

indispensable in our process of deliberating and analysing the SMW rate.

**(a) Basket of Indicators**

2.11 In setting minimum wage rates, different places would generally make reference to a basket of indicators so as to grasp the detailed changes of socio-economic conditions. The Basket of Indicators considered by the PMWC in deliberating the initial SMW rate comprised four areas, namely general economic conditions, labour market conditions, competitiveness and standard of living. Based on the framework of the PMWC, the MWC further enhanced relevant indicators by extending the scope of “standard of living” to “social inclusion”. The Basket of Indicators not only covers the essential considerations as stipulated in the statutory function of the MWC, but also draws on the experience and considerations of other places in reviewing the SMW rate, thereby facilitating the MWC’s work in reviewing the SMW rate. A summary of the Basket of Indicators considered by the MWC is in Table 2.2. All relevant indicators (including sources of data) are listed in **Appendix I**. We will examine the socio-economic conditions during the implementation of the initial SMW rate in Chapter 3, analyse in detail the socio-economic and labour market data under the Basket of Indicators in Chapter 4, and elaborate the areas covered under the Basket of Indicators considered by the MWC in Chapter 5.

**Table 2.2: Summary of the Basket of Indicators considered by the Minimum Wage Commission**

Consideration	Summary of indicators
1. General Economic Conditions	1(a) Latest economic performance and forecasts
2. Labour Market Conditions	2(a) Labour supply and demand 2(b) Wage level and distribution 2(c) Wage differentials 2(d) Employment characteristics 2(e) Working hours
3. Competitiveness	3(a) Productivity growth 3(b) Labour costs 3(c) Operating characteristics of enterprises 3(d) Entrepreneurship, business sentiment and solvency 3(e) Relative economic freedom and competitiveness of Hong Kong
4. Social Inclusion	4(a) Standard of living 4(b) Enhancing work incentive 4(c) Labour relations

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

2.12 In the Basket of Indicators, AEHS and ASEA conducted by C&SD provided very useful information for our review of the SMW rate. AEHS provides comprehensive data on employees in Hong Kong regarding the level and distribution of their wages, employment details and demographic profile. These data enabled us to conduct detailed analyses so as to understand the socio-economic characteristics of employees under different wage levels. In the 2009 and 2010 AEHS, the reference periods were the second quarter while that of the 2011 AEHS was May to June so as to reflect the wage distribution after the implementation of the initial SMW rate since 1 May 2011.

2.13 On the other hand, ASEA provides statistical data on the business performance and operating characteristics of enterprises in various sectors, which facilitate analyses on business receipts, operating expenses, compensation of employees and gross surplus of different sectors. These data provided an important reference for assessing the impact of the SMW rate on enterprises, in particular small and medium enterprises (SMEs).

2.14 In addition, to support our analyses on the SMW rate, the survey methodologies for the 2011 AEHS and 2010 ASEA were enhanced accordingly. Details are in **Appendix II**.

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

2.15 Apart from the data of AEHS and ASEA, the MWC also made reference to other relevant and more frequently released indicators to monitor closely the latest situation after the implementation of SMW. These included data from other statistical surveys conducted by C&SD (e.g. General Household Survey, Quarterly Survey of Employment and Vacancies, etc) and administrative records of other government departments (e.g. data from the Inland Revenue Department, Official Receiver's Office, etc).

2.16 To enable the public to better understand the socio-economic circumstances, the wage distribution of employees and the operating characteristics of business enterprises after the implementation of SMW for contributing their views on the SMW rate, the MWC made available on its webpage the prevailing data of the Basket of Indicators and related links, as well as supplementary statistical data including: (1) the estimated number and proportion of employees involved analysed by sector and different SMW test levels; (2) the estimated increase in wages of employees involved analysed by

sector and different SMW test levels; (3) the estimated increase in wage bill of enterprises analysed by sector and different SMW test levels; (4) the operating characteristics of enterprises analysed by sector; and (5) the situation of employees having paid rest day(s) and/or paid meal break(s) or not as analysed by sector.

**(d) Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors**

- 2.17 The PMWC recommended in its report that a study on the specific changes in pay hierarchies in the low paying sectors (LPS) with special reference to the retail and restaurant sectors should be conducted to examine the possible knock-on effect after SMW implementation. The Government adopted the recommendation and commissioned a consultancy study focusing on the specific changes in pay hierarchies of the retail and restaurant sectors and the possible knock-on effect on these sectors brought about by the implementation of SMW. The MWC had rendered advice on this research study, and assessed the possible knock-on effect of SMW on the concerned sectors based on the study findings. The analyses and deliberations of the MWC on the study are in Chapters 4 to 6.

**2.II.3 Consultation**

- 2.18 Apart from studying the relevant statistical data and findings of other surveys, the MWC also fully considered the views of various sectors of the community. The MWC conducted intensive and extensive consultation to exchange and collect views of stakeholders and interested parties on the SMW rate. Through consultation meetings and disseminating relevant information on the MWC's webpage, we shared with stakeholders and interested parties our preliminary views and considerations, thus enhancing the transparency of our work.
- 2.19 The consultation exercise undertaken by the MWC comprised public consultation and two rounds of consultation meetings with a view to collecting written and oral submissions from stakeholders and interested parties. The MWC received a total of 774 written submissions during public consultation and met with 139 stakeholder groups with some of them having attended both the first round and second round consultation meetings. These stakeholders included: trade unions, employers' associations, associations of SMEs, associations of LPS (including employers' associations, trade unions, employers and institutes in the respective sectors), other

trade/professional/employers' associations, labour policy concern groups, and think tanks/policy research institutes. The MWC carefully analysed the views and concerns of stakeholders and members of the public so as to gauge their opinions on the impact of SMW as well as the review of the SMW rate. A summary of views is in Section 5.II of Chapter 5 and the list of stakeholders that attended consultation meetings is in **Appendix III**.

**(a) First round consultation meetings**

2.20 The MWC invited a total of 190 stakeholder groups to attend the first round consultation meetings held in the fourth quarter of 2011. Among these stakeholders, 105 groups<sup>(1)</sup> attended 18 meetings with the MWC. The meetings mainly served to gauge the views of stakeholders on the preliminary impact of the implementation of the initial SMW rate as well as on the SMW rate. These groups had either met with the PMWC on the initial SMW rate and related issues, or requested for meeting with MWC members, or expressed views on the concerned issues, or were associations of LPS likely to be more affected by SMW.

2.21 In this round of consultation meetings, stakeholders provided their preliminary views on the impact of the initial SMW rate on different areas including the economy, labour market, individual sectors and SMEs. Having made reference to the stakeholders' views, the MWC formulated and provided on its webpage for public information its preliminary views on the Basket of Indicators, supplementary statistical data, other relevant considerations and impact assessment that would be taken into account in deliberating the SMW rate.

**(b) Public consultation**

2.22 Upon the release of the findings of the 2011 AEHS on 22 March 2012, we launched an eight-week public consultation from 2 April to 28 May 2012 to invite written submissions on the SMW rate from members of the public and stakeholders after making reference to relevant statistical data and information.

2.23 To launch the public consultation, relevant statistical data and information were made

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(1) Participating stakeholders included: 5 major employers' associations, 4 major trade unions, 20 relevant associations of the estate management, security and cleaning services sector, 22 relevant associations of the restaurant sector, 14 relevant associations of the retail sector, 9 labour policy concern groups, 3 SME associations, 4 think tanks/policy research institutes, 10 other trade associations, 4 other professional/ employers' associations and 10 associations of other LPS.

available on the MWC's webpage for public information, comprising: (1) preliminary views of the MWC on the study of the SMW rate, including preliminary views on the Basket of Indicators, supplementary statistical data, other relevant considerations and impact assessment; (2) a summary of views collected by the MWC at consultation meetings with stakeholders in the fourth quarter of 2011; and (3) *2011 Report on Annual Earnings and Hours Survey* published by C&SD.

2.24 The MWC appealed for written submissions through various means including press releases; appeal letters to stakeholders and some 8 600 Incorporated Owners, Mutual Aid Committees and Owners' Committees; advertisements on newspapers, MTR cabins and bus compartments; promotional messages via the webpage of the MWC, the GovHK and the Labour Department, in the E-newsletter of the Support and Consultation Centre for SMEs as well as on the radio.

2.25 During the public consultation, the MWC received a total of 774 written submissions, with one of these submissions attaching 595 signed letters with identical content. These written submissions came from individuals and organisations in different sectors including trade unions, employers' associations, associations of SMEs, associations of LPS, other trade/professional/employers' associations, labour policy concern groups, think tanks/policy research institutes, and Incorporated Owners, Mutual Aid Committees and Owners' Committees, etc.

**(c) Second round consultation meetings**

2.26 We conducted the second round of consultation meetings with stakeholders in June 2012 to understand their views and standpoints on the review of the SMW rate after making reference to the findings of AEHS and other relevant statistical data, as well as their opinions on the preliminary views of the MWC in studying the SMW rate. This would make our subsequent analyses more comprehensive and objective. In this round of consultation meetings, 207 stakeholder groups were invited and 116 groups<sup>(2)</sup> attended 18 meetings with the MWC.

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(2) Participating stakeholders included: 5 major employers' associations, 4 major trade unions, 22 relevant associations of the estate management, security and cleaning services sector, 25 relevant associations of the restaurant sector, 15 relevant associations of the retail sector, 10 labour policy concern groups, 5 SME associations, 5 think tanks/policy research institutes, 10 other trade associations, 7 other professional/ employers' associations and 8 associations of other LPS.

- 2.27 In this round of consultation meetings, stakeholders provided invaluable views on the specific impact of SMW implementation on the concerned sectors and considerations that should be taken into account in reviewing the SMW rate, including factors that are not totally quantifiable.
- 2.28 The views and information collected during the above consultation facilitated us to have a more complete picture of the impact of the initial SMW rate on the community, economy and different sectors, in particular LPS, as well as the views and concerns of various sectors of society on the SMW rate. These provided the MWC with a solid base and reference in discharging our duties.

#### **2.II.4 Research and studies of experience in other places**

- 2.29 As Hong Kong does not have much experience in implementing SMW, we conducted a research on ten selected places (i.e. the United Kingdom (UK), France, Ireland, Australia, New Zealand, the Mainland, Taiwan, South Korea, the United States and Canada) to draw on the experience of different places in reviewing minimum wage rates. Details of the research are in **Appendix IV**.
- 2.30 We also held an exchange meeting with Mr David Norgrove, Chairman of the Low Pay Commission (LPC) of the UK during his visit to Hong Kong in February 2012 who shared with us the working experience of the LPC in deliberating the UK's National Minimum Wage (NMW) rates.
- 2.31 The LPC of the UK is a statutory body tasked with studying and recommending the NMW rates. Through the exchanges with its Chairman, we noted that the NMW system was called into question when it was first implemented in the UK in 1999. Nevertheless, it is now widely accepted in the UK owing to the prudent, flexible and evidence-based approach in setting and reviewing the NMW rates all along adopted by the LPC.
- 2.32 Furthermore, in reviewing the minimum wage rate, the LPC of the UK mainly takes into account a basket of indicators rather than setting the rates simply by applying a mathematical formula. According to the experience of the UK, any adjustments to the NMW rates on an individual occasion would have limited impact on employment while the cumulative effect of adjustments over years would be much more far-reaching. Increases in the NMW rates were actually set in a relatively prudent level at the

beginning of its implementation, while more substantial increases in the NMW rates were made subsequently between 2001 and 2007. In face of the prevailing economic outlook in particular at times of financial tsunami and the eurozone sovereign debt crisis, the LPC adopted a prudent approach again after 2007 by recommending minor upratings.

- 2.33 SMW has been in force in Hong Kong for only a short period of time. In studying the SMW rate, the MWC made reference to the experience of other places in reviewing the minimum wage rate as appropriate.



### **3. The Socio-economic Conditions during the Implementation of the Initial Statutory Minimum Wage Rate**

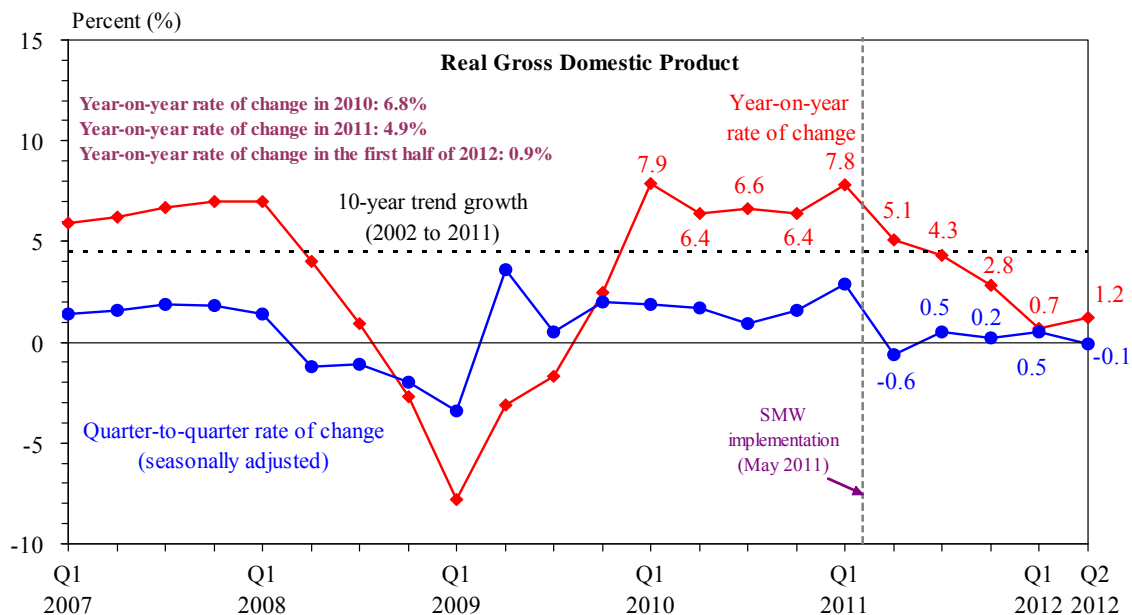
- 3.1 The initial statutory minimum wage (SMW) rate came into force on 1 May 2011 amidst a robust economy in Hong Kong with strong domestic demand, notable expansion of business activities and persistent strength in labour demand, which provided a very favourable environment for its implementation. However, dragged by external headwinds, Hong Kong's economic growth decelerated visibly since the second half of 2011 to only a meagre growth in the first half of 2012.
- 3.2 Implementing SMW during times of favourable macroeconomic conditions would help relieve the pressures on employment and corporate profits, and encourage more people to join the labour market. On the contrary, corporate profits would be under stress should SMW be implemented during economic slowdown, particularly when facing significant external economic shocks. In such circumstances, the impact of SMW on the business environment would become more pronounced and dampen labour demand further. Hence, we would first analyse in this Chapter the socio-economic conditions during the implementation of SMW in order to provide background information for the impact of the initial SMW rate to be discussed in Chapter 4.

#### **3.I Macroeconomic Environment**

- 3.I.1 Strong economic growth when the initial statutory minimum wage rate was launched**
- 3.3 Following the notable expansion of 6.8% in 2010, the economy in Hong Kong saw another year of above-trend growth in 2011. The resilient domestic demand rendered the key impetus to the overall economic performance. Thanks to the stable employment situation, earnings picked up sharply. The Government's "Scheme \$6,000" also helped in boosting local consumer sentiment. Private consumption expenditure grew by 8.2% in 2011, higher than the already strong growth of 6.3% in 2010. Hectic expansion of public sector construction works also provided another drive to the growth of domestic demand. Meanwhile, visitor arrivals hit a record high of 41.9 million in 2011, with visitor spending surging in tandem and exports of travel services staying sturdy. This also led to noticeable expansion in the domestic-oriented sectors.

3.4 However, as import demand of advanced economies faltered in the midst of an increasingly difficult global economic environment, Hong Kong's exports of goods experienced a marked slowdown since the second quarter of 2011. The momentum of overall economic growth also weakened visibly. Real Gross Domestic Product (GDP), after surging by 7.8% year-on-year in the first quarter of 2011, had its year-on-year growth moderated progressively to 5.1%, 4.3% and 2.8% in the subsequent three quarters respectively, hence reflecting increasing downside risks in the external economic environment. Nonetheless, for 2011 as a whole, real GDP expanded by 4.9%, still higher than the average-trend growth of 4.5% of the past decade (Figure 3.1).

**Figure 3.1: Economic growth moderated since the second quarter of 2011**



Note: Figures for 2010 and thereafter are subject to revision by the Census and Statistics Department when more data become available.

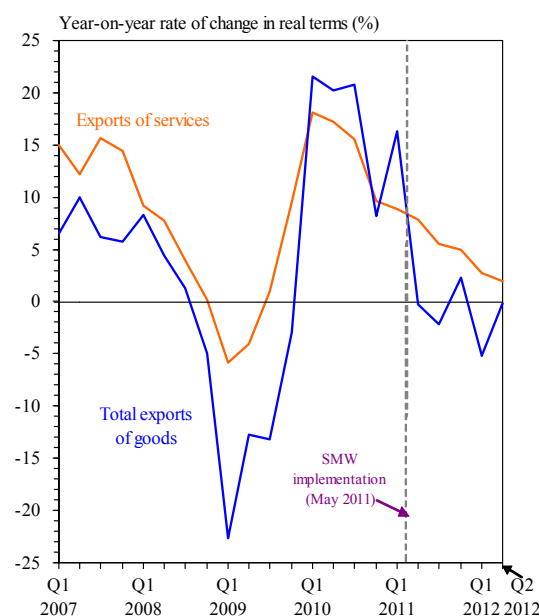
Source: National Income Statistics, Census and Statistics Department.

### 3.1.2 Increasing downside risks to the economy

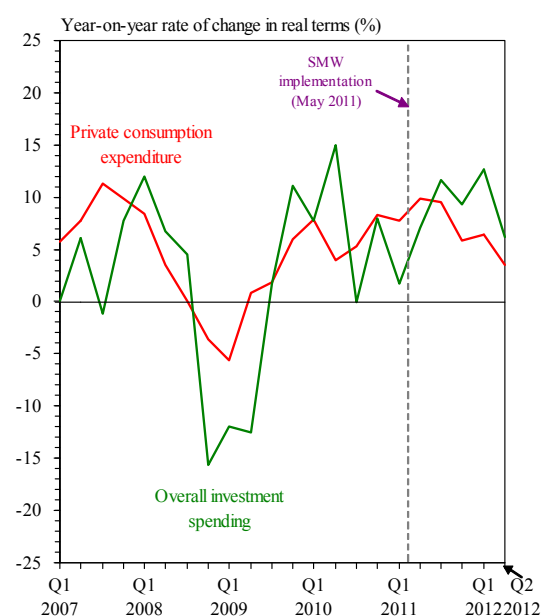
3.5 On entering 2012, the eurozone sovereign debt crisis (eurozone debt crisis) re-intensified in early May, triggering a fresh round of financial market gyrations and dealing a further blow to the already feeble economic sentiment in Europe. At the same time, the US economy, being hampered by fragile fundamentals and fiscal restraints, also took its toll on production and export activities in Asia. Nevertheless, Hong Kong's inbound tourism continued to thrive in the first half of the year, with a

double-digit growth in total visitor arrivals. Domestic demand stayed relatively resilient on the back of a tight labour market and elevated public sector infrastructure works. In the first half of the year, private consumption expenditure grew, albeit somewhat slower, by 4.9% year-on-year in real terms (Figure 3.2). With the worsening eurozone debt crisis, sluggish exports to the European Union and uncertainties surrounding the global economic outlook, market sentiment had turned more cautious. In the first half of the year, Hong Kong's real GDP only posted a muted growth of 0.9% over a year earlier.

**Figure 3.2a: Exports of goods weakened visibly since the second quarter of 2011; exports of services also gradually decelerated on entering 2012**



**Figure 3.2b: Private consumption expenditure and overall investment spending registered a remarkable growth in 2011, yet moderating in the first half of 2012**



Source: National Income Statistics, Census and Statistics Department.

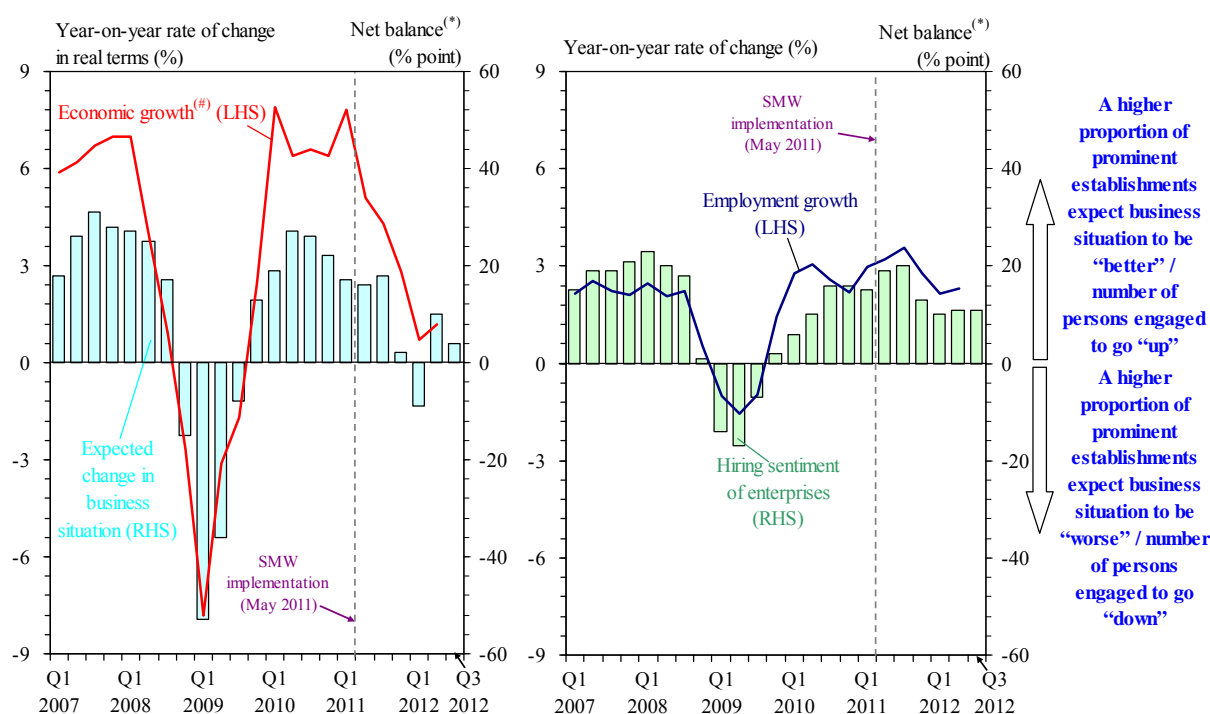
- 3.6 As the eurozone debt crisis continued to pose a substantial drag on global economic activities, Hong Kong's exports of goods stayed weak on entering the third quarter of 2012, registering a dip of 5.1% year-on-year in real terms in July. With the austere external economic environment, local consumer sentiment also turned more cautious, resulting in a marginal growth in the volume of total retail sales. The buoyant construction activities in public and private sectors continued to provide impetus to the overall investment spending. However, with both domestic and external sectors moderating further, the overall economic performance of Hong Kong is expected to attain only a tepid growth in the period ahead.

3.7 Besides, the results of the Quarterly Business Tendency Survey on prominent establishments indicated that business sentiment turned more cautious on entering the third quarter of 2012. Yet their anticipated manpower requirements remained largely stable (Figure 3.3).

**Figure 3.3: Overall business sentiment turned more cautious**

**(a) Expected change in business situation**

**(b) Expected change in number of persons engaged**



Notes: (#) Figures for 2010 and thereafter are subject to revision by the Census and Statistics Department when more data become available.  
(\*) Net balance indicates the difference in percentage points between the proportion of establishments choosing "better"/"up" over that choosing "worse"/"down" in terms of expected change in business situation/expected change in number of persons engaged.  
"SMW" refers to statutory minimum wage, "RHS" refers to right hand side and "LHS" refers to left hand side.

Sources: National Income Statistics, Quarterly Survey of Employment and Vacancies and Quarterly Business Tendency Survey, Census and Statistics Department.

## 3.II Local Labour Market

### 3.II.1 In a state of full employment

3.8 Overall demand for labour was strong alongside the resilient domestic consumption and vibrant inbound tourism. Total employment increased sharply by 2.9% in 2011, not only distinctly up from the meagre 0.2% rise in 2010, but also the largest since 2001. This trend continued in mid-2012, with total employment rising further by 78 100 in

June to August 2012 to 3.67 million, representing a year-on-year increase of 2.2%. A noticeable growth was observed in the lower-skilled segment, with employment gains reaching 87 500 (or 4.0%) (Figure 3.4). Meanwhile, labour supply also grew persistently. The labour force increased substantially by 2.0% in 2011, recording the strongest growth since 1998 and reversing the decline of 0.8% in 2010. Conceivably, more job opportunities arising from the economic expansion, coupled with the initial SMW rate, enticed more people to join the labour market. Up to June to August 2012, the labour force grew by 2.2% year-on-year to 3.80 million.

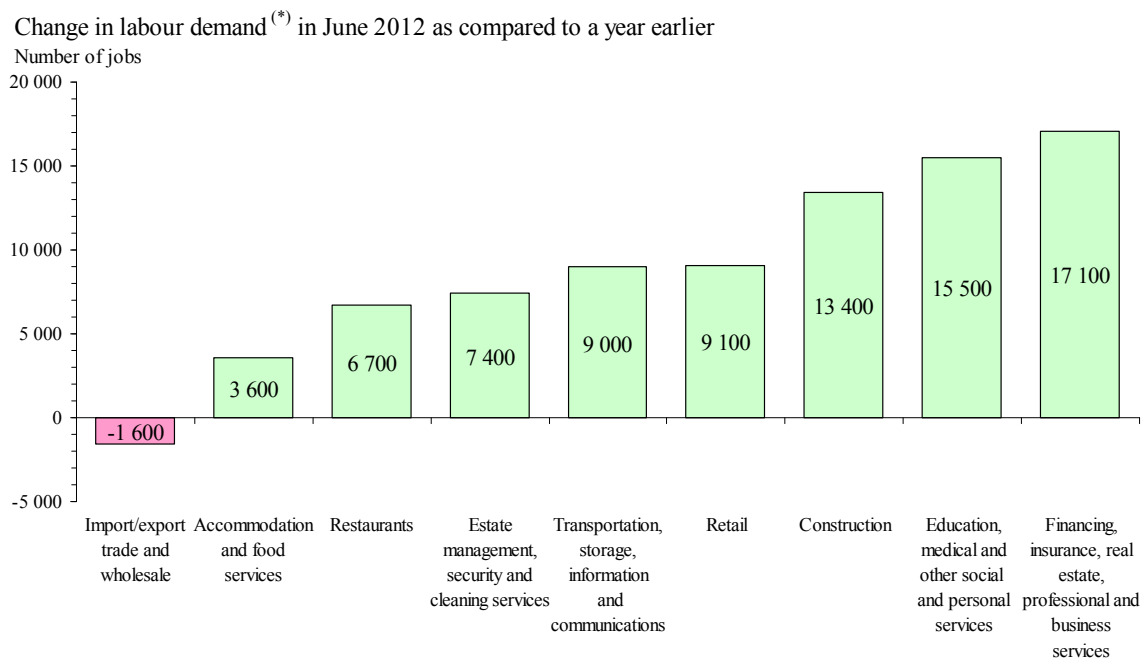
**Figure 3.4: Employment and labour force increased sharply, with noticeable employment growth in the lower-skilled segment**



Source: General Household Survey, Census and Statistics Department.

3.9 While employment is a lagging indicator, the labour market held up well despite the economic slowdown since early 2012. In particular, labour demand in the domestic-oriented sectors and those related to exports of services, such as construction and retail, remained strong. This also tied in with the resilience of domestic demand. In addition, employment in the less economic cycle-prone social and personal services sector was relatively stable and served as an additional buffer. The domestic-oriented sectors scored significant employment gains over the past year or so, more than offsetting the job losses in the trade-related sectors, which in turn explained why the labour market had been able to hold up so well despite the economic slowdown (Figure 3.5).

**Figure 3.5: Labour market held up well on the back of strong labour demand in domestic-oriented sectors**

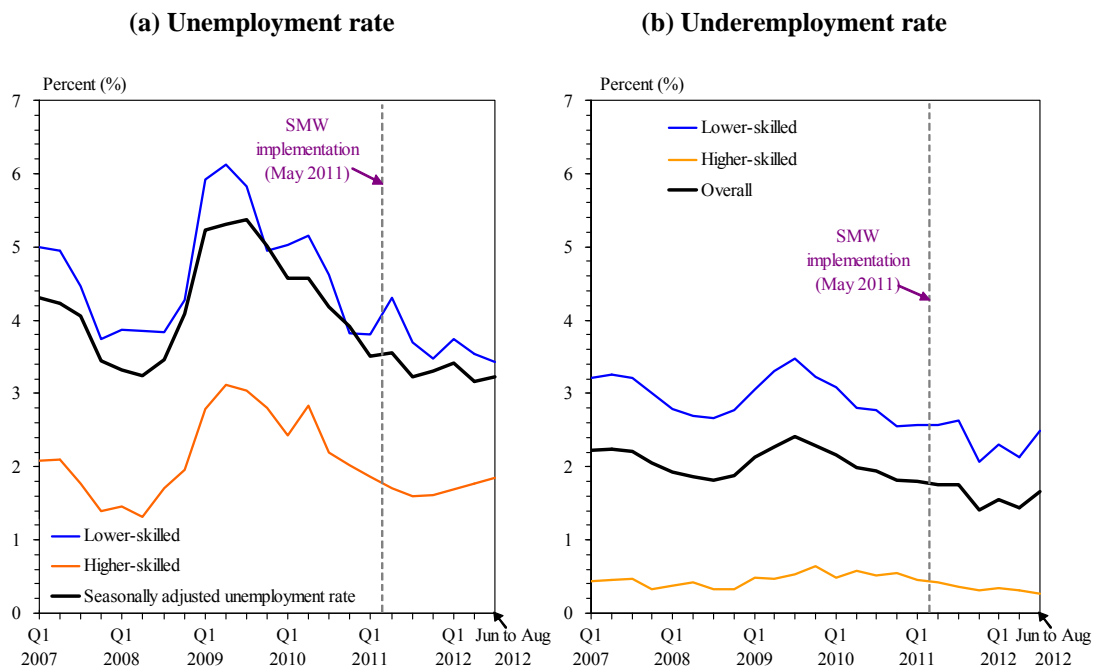


Note: (\*) Labour demand is deduced from the sum of the number of persons engaged and vacancies in private sector establishments, rounded to the nearest 100.

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

3.10 As labour demand persistently outstripped the supply, the seasonally adjusted unemployment rate fell noticeably from 3.6% in the second quarter to 3.2% in the third quarter of 2011, and continued to hover at a low level in mid-2012. The labour market remained virtually in a state of full employment. The underemployment rate likewise remained low. As at June to August 2012, the underemployment rate was 1.7% (Figure 3.6).

**Figure 3.6: Unemployment and underemployment situations continued to improve over the past year, with the unemployment rate hovering at a low level and the labour market in a state of full employment for most of the time**

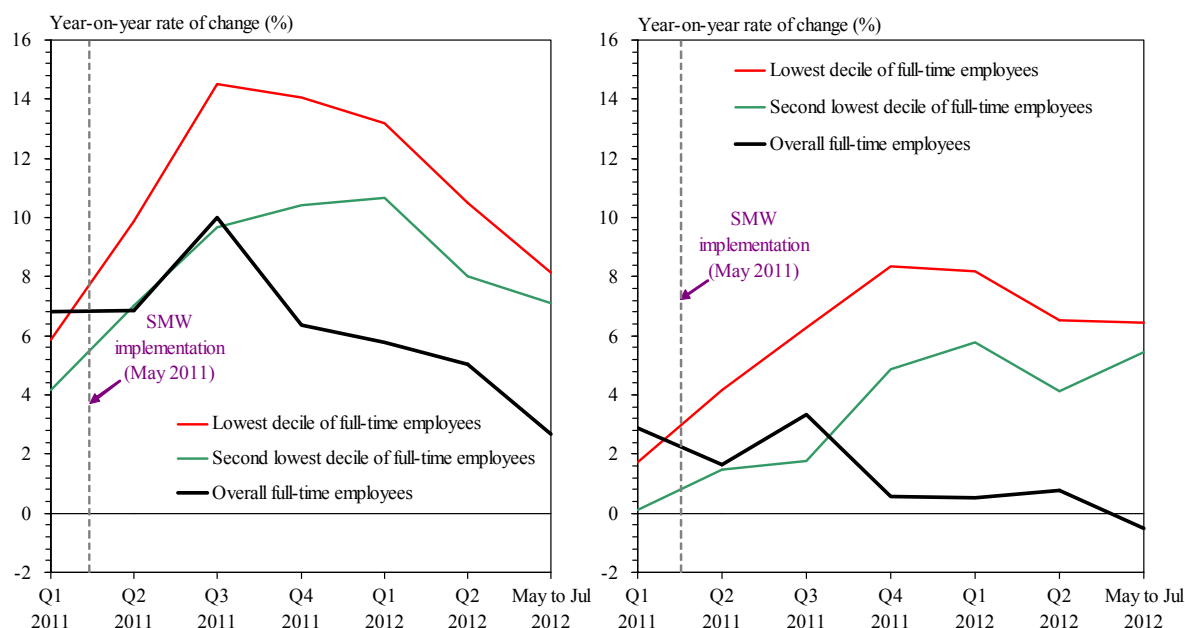


Source: General Household Survey, Census and Statistics Department.

3.11 Thanks to the buoyant labour market and the boost from the initial SMW rate, employment earnings showed notable broad-based improvement. The average monthly employment earnings of overall full-time employees (excluding government employees and live-in domestic workers not covered by SMW) achieved a year-on-year growth of 5.4% and 2.7% for the whole year of 2011 and May to July 2012 respectively. For the same periods, the average monthly employment earnings of full-time employees in the lowest decile group rose by 10.7% and 8.1% respectively year-on-year. After discounting for inflation, the increases were 4.8% and 6.4% in real terms respectively. All these indicated that the implementation of SMW markedly improved the income of grassroots employees (Figure 3.7). We will analyse in greater detail the effect of SMW on employees' income in Chapter 4.

**Figure 3.7: Average monthly employment earnings of full-time employees<sup>(^)</sup> rose in 2011 and the first half of 2012, with those of grassroots employees markedly improved**

**(a) Nominal average monthly employment earnings    (b) Real average monthly employment earnings**



Note: (^) Exclude government employees and live-in domestic workers. Full-time employees are those who worked at least 35 hours during the 7 days before enumeration, or those who worked less than 35 hours due to vacation during the 7-day period.

Source: General Household Survey, Census and Statistics Department.

### 3.II.2 Uncertainties in employment prospects

3.12 On the whole, Hong Kong remained virtually in a state of full employment over the past year or so. The labour market stayed buoyant on the back of flourishing business activities, thereby cushioning considerably the pressure on the labour market brought about by the initial SMW rate. While the labour market thrives currently, it should be noted that economic activities across major sectors have gradually slackened since early 2012, causing uncertainties in employment prospects. Most visible moderations were found in the import/export trade, transportation, retail, restaurants and wholesale sectors, with total business receipts of import/export trade recording a year-on-year decrease since the first quarter of 2012 (Table 3.1). Given that these major sectors account for about 40% of jobs in Hong Kong, the mounting external downside risks may have implications on their hiring sentiment and the pace of job creation in the coming period.



**Table 3.1: Growth of economic activities across major sectors moderated gradually since early 2012, causing uncertainties in employment prospects**

Year-on-year rates of change in business receipts indices of selected sectors (%)						
	2011				2012	
	Q1	Q2	Q3	Q4	Q1	Q2
<b>I. Low paying sectors</b>						
Retail	+21.0 (+16.6)	+28.1 (+21.7)	+27.4 (+19.5)	+23.3 (+16.4)	+15.8 (+10.7)	+10.3 (+7.2)
Restaurants	+5.9 (+1.7)	+6.0 (+0.7)	+6.2 (+0.4)	+7.3 (+1.1)	+6.1 (-0.1)	+4.2 (-1.4)
<b>II. Other sectors</b>						
Import/export trade	+22.6	+7.6	+3.4	+4.9	-4.7	-2.6 <sup>(*)</sup>
Wholesale	+21.7	+8.9	+9.1	+12.7	+4.2	+2.9 <sup>(*)</sup>
Transportation	+13.4	+4.3	+2.4	-0.7	+0.1	-0.7 <sup>(*)</sup>

Notes: (\*) Provisional figures.

Figures in brackets represent year-on-year rate of change in real terms.

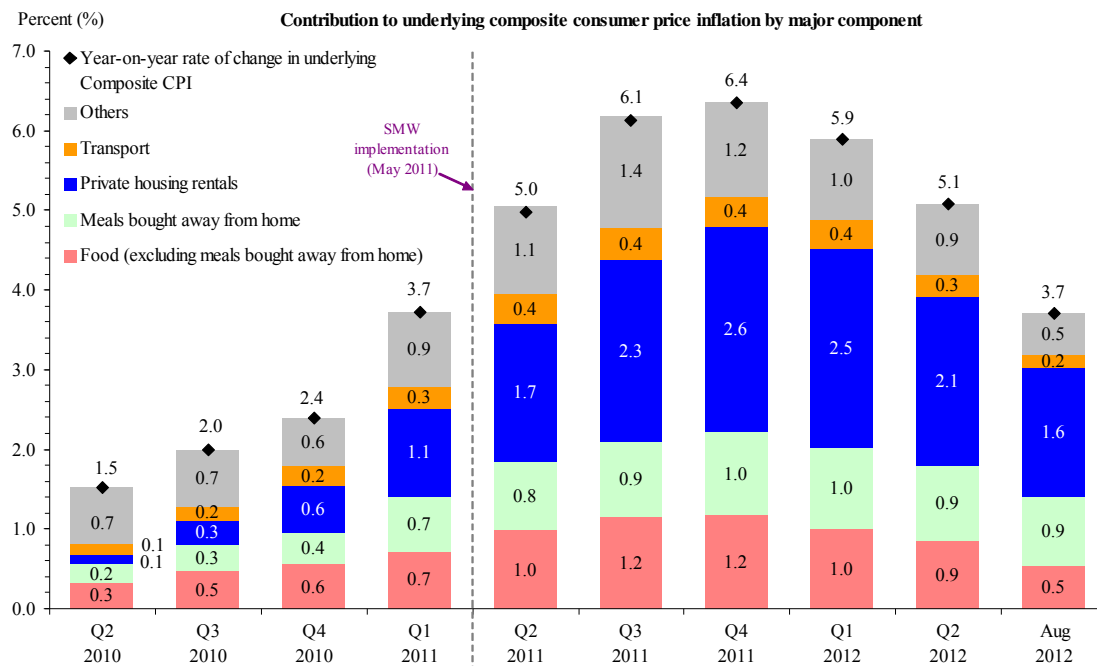
Sources: Quarterly Survey of Service Industries, Quarterly Survey of Restaurant Receipts and Purchases, and Monthly Survey of Retail Sales, Census and Statistics Department.

### 3.III Prices

#### 3.III.1 External and domestic price pressures eased after a visible uptrend

- 3.13 With Hong Kong's economic growth maintaining strong momentum in 2011, the impact of rising domestic cost pressures turned more evident. Also stemming from higher imported inflation, inflation was on a visible uptrend for most of 2011. For 2011 as a whole, the Composite Consumer Price Index (CPI) rose by 5.3%, up notably from 2.4% in 2010. Netting out the effects of the Government's one-off relief measures, the underlying Composite CPI also rose by 5.3% in 2011, after a 1.7% increase in 2010.
- 3.14 Imported inflation, in the midst of soaring world food prices during end-2010 to early 2011, played a key role in the inflation hike in 2011. Meanwhile, private housing rentals picked up markedly in 2011 and its lagged effect continued to filter through in the second half of the year. In fact, food prices and private housing rentals taken together accounted for over 70% of the underlying inflation in 2011 (Figure 3.8).

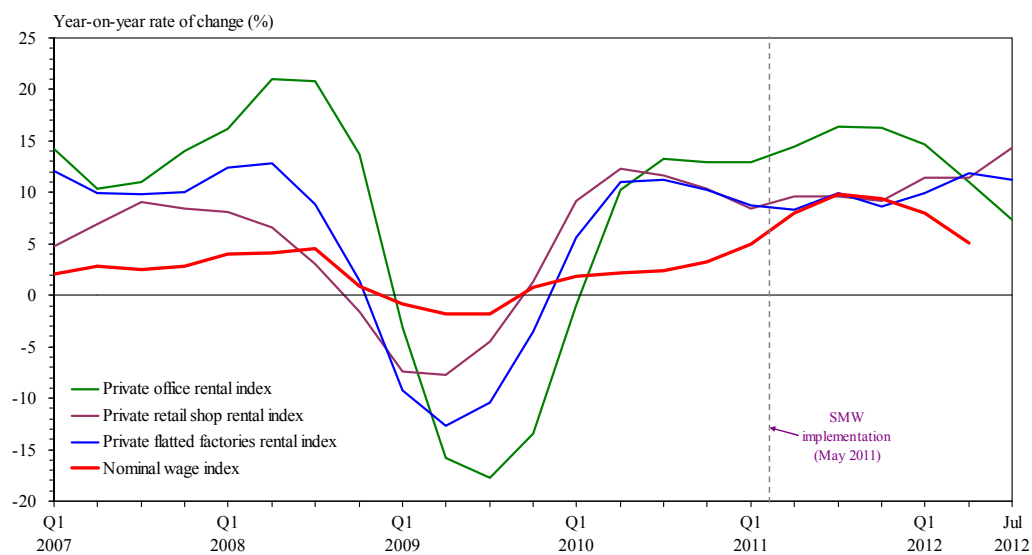
**Figure 3.8: Soaring food prices and private housing rentals were the key drivers of inflationary pressures in 2011**



Note: Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total.

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

3.15 Rising cost pressures on enterprises were also noticeable in 2011. With the labour market virtually in a state of full employment, wages picked up visibly and recorded its largest increase since 1994, which is also believed to be attributable to the impact brought about by SMW implementation. Moreover, surging commercial rental costs on support of thriving retail business and generally sanguine business sentiment during most of the year also put additional pressure on domestic costs (Figure 3.9). With greater pricing power amidst a buoyant domestic economy, retailers and restaurants were able to pass on the additional labour and other operating costs to consumers.

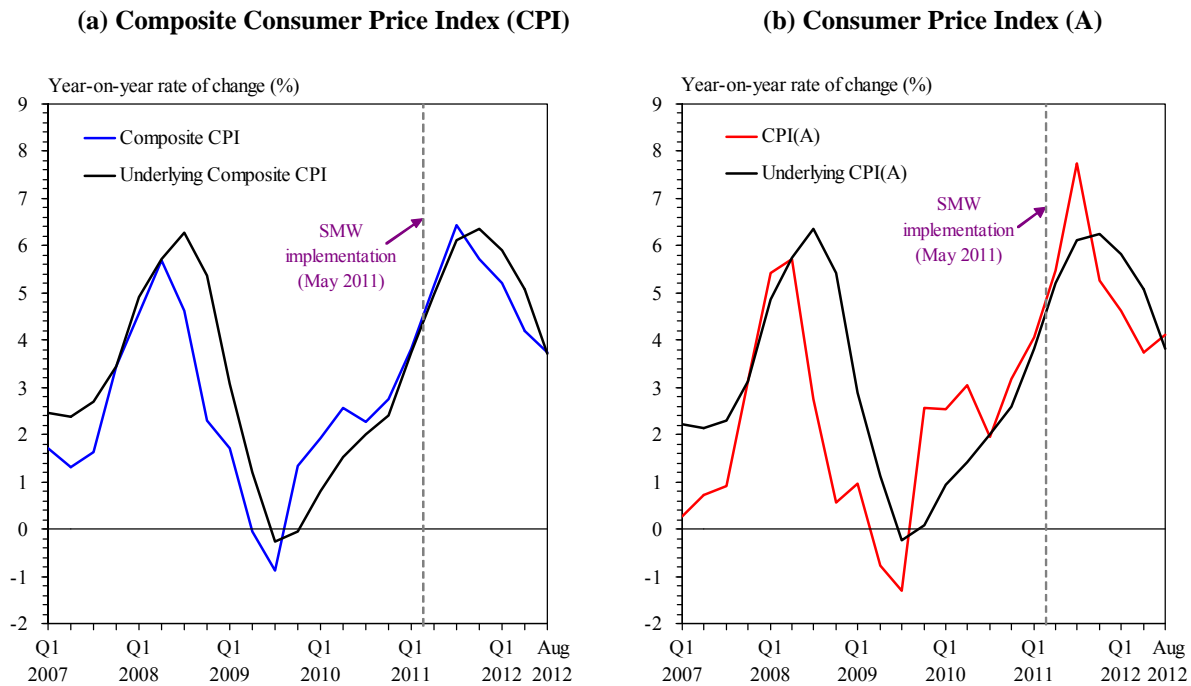
**Figure 3.9: Labour costs and rentals picked up visibly since 2011**

Note: Rental indices for 2012 are provisional figures.

Sources: Rating and Valuation Department; Labour Earnings Survey, Census and Statistics Department.

3.16 Nonetheless, inflation showed a receding trend in the first half of 2012, consequential upon easing imported inflation stemming from softening global food and commodity prices as well as slower inflation in Hong Kong's major trading partners. Meanwhile, wage costs grew at a slower pace, albeit against the backdrop of tight labour market conditions. Office rentals also moderated on a year-on-year basis. Compared with the same period a year earlier, composite consumer price inflation went down from 5.2% in the first quarter of 2012 to 4.2% in the second quarter. The CPI(A), which reflects the livelihood of the grassroots, likewise fell from 4.6% in the first quarter to 3.7% in the second quarter (Figure 3.10). Inflation eased as domestic cost pressures gradually receded and the economy moderated.

**Figure 3.10: Inflationary pressure soared in 2011 but receded on entering 2012**



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

- 3.17 In sum, the good macroeconomic situation in 2011 provided a very favourable environment conducive to the implementation of the initial SMW rate. In particular, strong domestic demand eased the possible pressures brought about by SMW on unemployment and business operation, and largely helped alleviate the negative impact as anticipated before SMW implementation.
- 3.18 After examining these socio-economic conditions during the implementation of the initial SMW rate, we will analyse in detail the impact of the initial SMW rate in Chapter 4.

## 4 Impact of the Initial Statutory Minimum Wage Rate

- 4.1 The initial statutory minimum wage (SMW) rate has only been implemented for over a year. Its structural impacts on individual sectors, local labour market and the long-term economic development of Hong Kong have yet to fully emerge. We note that a detailed and accurate analysis can only be conducted through observations over a longer period of time. Nevertheless, the Minimum Wage Commission (MWC) since its establishment has all along been monitoring closely and analysing thoroughly the changes in various data as well as studying the Basket of Indicators mentioned in Chapter 2. This facilitated us in obtaining detailed information on the socio-economic conditions since the implementation of SMW and assessing its preliminary impact.
- 4.2 This Chapter summarises our observations on the changes of the Basket of Indicators since the implementation of SMW for analysing the impacts of the initial SMW rate on local employees, businesses, labour market, prices and the overall competitiveness of Hong Kong, in particular the impact on the low-paid and low paying sectors (LPS). We made reference to a number of statistical surveys of the Census and Statistics Department (C&SD) and studied the latest related statistics regularly.
- 4.3 Although every sector had to make certain adaptations to the implementation of SMW, those sectors hiring more low-paid employees would undoubtedly be more susceptible to the impact of SMW. There is no established definition of “low-paid employees”. Hence, apart from examining employees earning the initial SMW rate (i.e. with hourly wage at \$28.0), the MWC made reference to the definition adopted by the Provisional Minimum Wage Commission (PMWC) which identified employees earning hourly wage within the lowest overall hourly wage decile as “low-paid employees”. Based on the findings of the 2011 Annual Earnings and Hours Survey (AEHS), there were 279 400 low-paid employees (i.e. with hourly wage less than \$29.3) in May to June 2011. Among these employees, 180 600 (accounting for 64.6%) were employees earning the initial SMW rate (i.e. with hourly wage at \$28.0), with some of them having paid rest day(s) and/or paid meal break(s). Details are in **Appendix VI**.

- 4.4 According to the definition adopted by the PMWC, LPS are sectors employing a relatively large number of low-paid employees or sectors with a relatively high proportion of low-paid employees among all employees within the sectors. Based on the above criteria and the findings of the 2011 AEHS, we consider it appropriate to continue to adopt the four sectors (including 15 sub-sectors) identified by the PMWC as LPS (Table 4.1). These sectors 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); as well as (iv) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

**Table 4.1: Employees within the lowest overall hourly wage decile analysed by sector in 2011**

Sector	Employees within the lowest overall hourly wage decile (i.e. with hourly wage less than \$29.3)		Hourly wage (\$)	
	Number of persons	Proportion among all employees in respective sector (%)	Median	1st decile
<b>I. Low paying sectors</b>	<b>231 400</b>	<b>29.8</b>	<b>33.4</b>	<b>28.0</b>
1 Retail	45 700	17.4	36.3	28.0
1.1 Supermarkets and convenience stores	14 500	35.7	30.3	28.0
1.2 Other retail stores	31 200	14.1	38.0	28.3
2 Restaurants	50 100	24.3	33.3	28.0
2.1 Chinese restaurants	11 500	17.0	37.1	28.1
2.2 Non-Chinese restaurants	10 800	16.3	34.6	28.3
2.3 Fast food cafes <sup>(^)</sup>	22 200	43.5	29.8	28.0
2.4 Hong Kong style tea cafes	5 700	26.6	32.3	28.0
3 Estate management, security and cleaning services	114 100	52.3	29.0	28.0
3.1 Real estate maintenance management	48 700	45.5	30.5	28.0
3.2 Security services <sup>(#)</sup>	20 900	64.3	28.0	28.0
3.3 Cleaning services	40 700	63.4	28.5	28.0
3.4 Membership organisations <sup>(@)</sup>	3 900	26.7	38.5	28.0
4 Other low paying sectors	21 500	23.7	34.8	28.0
4.1 Elderly homes	6 800	36.4	33.5	28.0
4.2 Laundry and dry cleaning services	1 700	29.6	31.6	28.0
4.3 Hairdressing and other personal services	7 200	17.8	36.5	28.0
4.4 Local courier services	600	10.7	34.3	29.2
4.5 Food processing and production	5 200	25.9	34.4	28.0
<b>II. Other sectors</b>	<b>48 000</b>	<b>2.4</b>	<b>62.6</b>	<b>34.7</b>
5 Manufacturing	3 600	3.8	51.3	31.7
6 Construction	3 400	1.4	61.5	38.0
7 Import/export trade and wholesale	10 800	2.3	59.4	34.1
8 Accommodation <sup>(*)</sup> and food services	§	§	43.0	30.9
9 Transportation, storage, information and communications	9 200	2.7	59.2	34.1
10 Financing, insurance, real estate, professional and business services	6 400	1.6	75.4	37.8
11 Education, medical and other social and personal services	11 900	2.9	66.1	33.7
12 Others	§	§	83.8	48.1
<b>III. All sectors</b>	<b>279 400</b>	<b>10.0</b>	<b>52.4</b>	<b>29.3</b>

Notes: (^) Fast food cafes include takeaway shops.  
 (#) Security services include investigation activities, pest control services as well as landscape care and greenery services.  
 (@) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.  
 (\*) Accommodation services cover hotels, guesthouses, boarding houses and other enterprises providing short term accommodation.  
 § Estimates are not released due to relatively large sampling error.

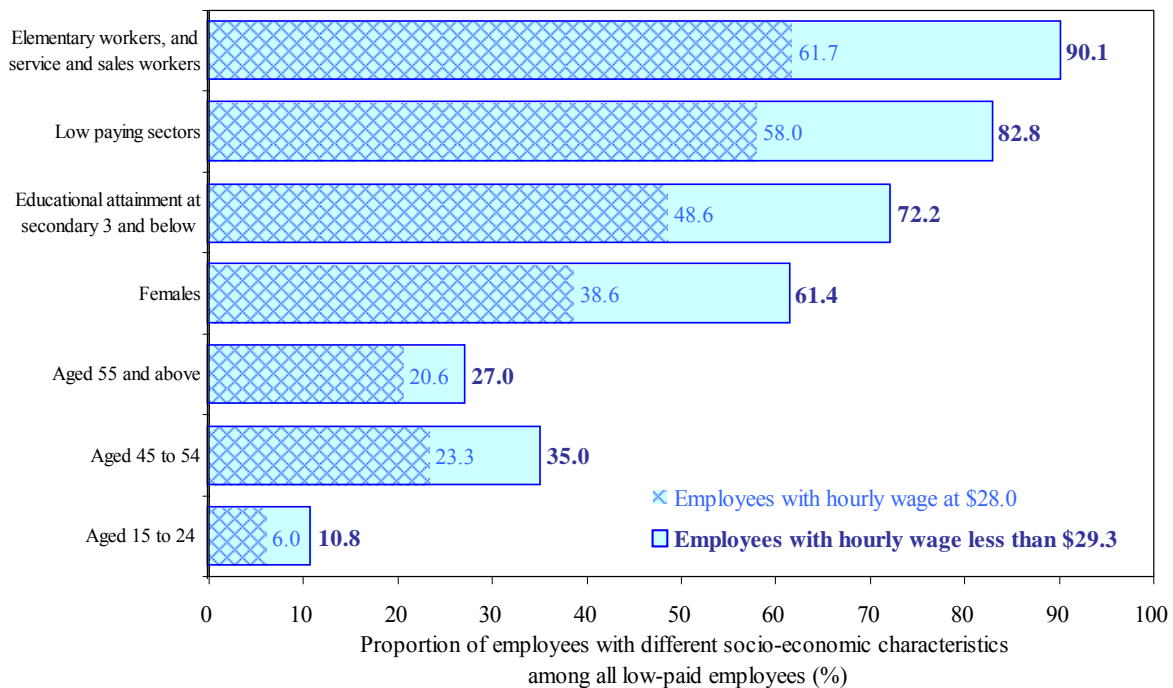
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Source: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

4.5 The lowest deciles of the hourly wage distribution of the above four LPS were \$28.0, while those of all sub-sectors of LPS were less than \$29.3. This suggested that there was a relatively large number of low-paid employees in these sectors. In addition, 29.8% of the employees in LPS fell within the lowest overall hourly wage decile (i.e. low-paid employees). For all sub-sectors of LPS, the corresponding shares were also larger than the overall figure of 10.0%. As the hourly wage data of other sectors did not meet the criteria of LPS as set out above, we therefore continued to adopt the sectors currently identified as LPS.

4.6 Most of the low-paid employees were females (61.4%); workers with lower educational attainment (secondary 3 and below) (72.2%); young (aged 15 to 24) (10.8%) or middle-aged/elderly employees (aged 45 and above) (61.9%). About 90% (90.1%) of the low-paid employees were elementary workers, and service and sales workers (Figure 4.1). Although the number of employees in LPS only accounted for about 30% (27.7%) of all employees in Hong Kong, more than 80% (82.8%) of the low-paid employees were engaged in LPS, mainly in estate management, security and cleaning services (40.8%), restaurants (17.9%), retail (16.4%), and other LPS (7.7%).

**Figure 4.1: Socio-economic characteristics of low-paid employees<sup>(\*)</sup> in 2011**



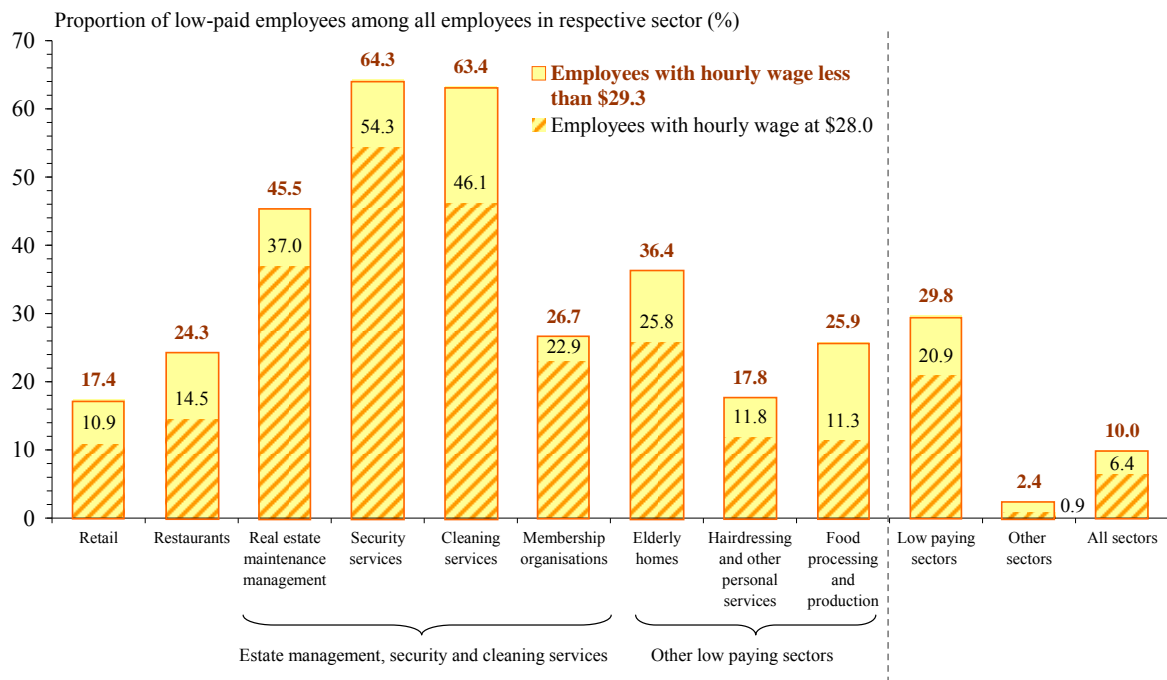
Note: (\*) Low-paid employees refer to employees with hourly wages within the lowest overall hourly wage decile in May to June 2011.

Source: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.



4.7 It is worth noting that the proportions of low-paid employees were particularly large in security services, cleaning services, real estate maintenance management, and elderly homes, with 54.3%, 46.1%, 37.0% and 25.8% of employees in the above sectors earning the initial SMW rate respectively. As for other sectors, only 2.4% of the employees were low-paid and merely 0.9% were employees earning an hourly wage at \$28.0 (Figure 4.2).

**Figure 4.2: Proportion of low-paid employees among all employees in respective sector analysed by sector<sup>(\*)</sup> in 2011**



Note: (\*) Statistics of certain low paying sectors are not released due to relatively large sampling error.

Source: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

4.8 After identifying low-paid employees and LPS, we will discuss in the following sections and Chapter 5 the changes of these employees and sectors on different fronts before and after the implementation of the initial SMW rate.

## 4.I Impact on Employees

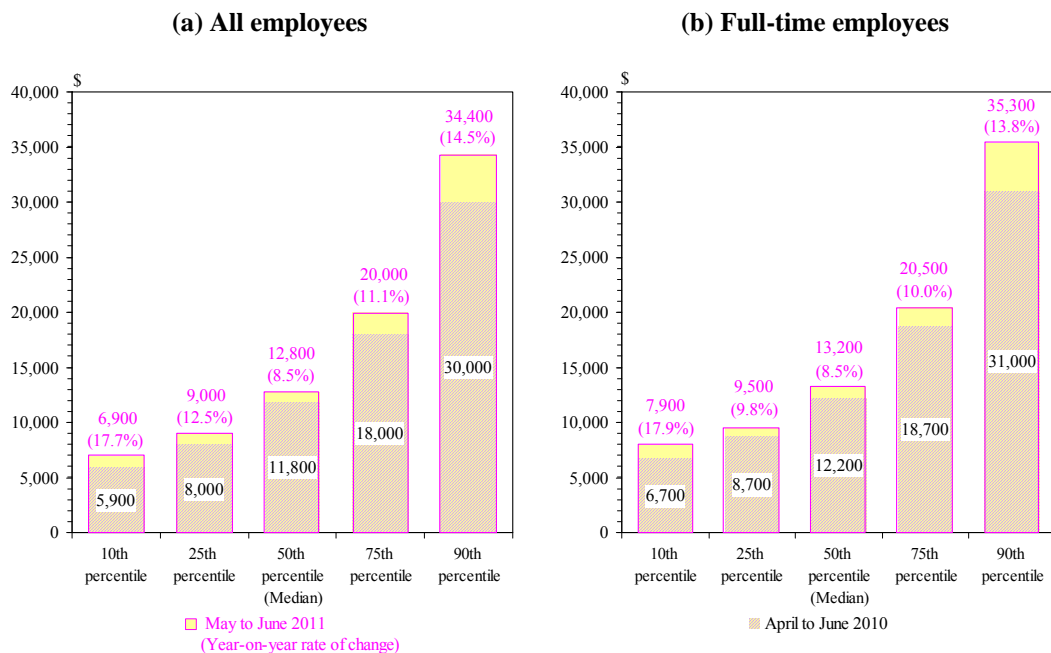
### 4.I.1 Changes in wages/salaries/employment earnings of employees

4.9 The implementation of SMW offered wage protection to grassroots employees and notably improved income of low-paid employees. Data from the 2011 AEHS allowed us to review the wage levels and wage distribution of employees in Hong Kong in May

to June 2011<sup>(1)</sup>, just after the implementation of the initial SMW rate. While our review was mainly based on the findings of AEHS, we also made reference to the information from the monthly General Household Survey (GHS) and the quarterly Labour Earnings Survey (LES) as a supplement.

- 4.10 The change in monthly wages of employees between 2010 and 2011 could reflect the impact of SMW on employees' income. According to the findings of the 2011 AEHS, the year-on-year increases of monthly wages of employees in the lower wage bands of the overall monthly wage distribution were more noticeable: the 10<sup>th</sup> and 25<sup>th</sup> percentiles of monthly wages increased from \$5,900 and \$8,000 in April to June 2010 to \$6,900 and \$9,000 in May to June 2011, representing increases of 17.7% and 12.5% respectively. These increases outpaced those for the median (8.5%) and the 75<sup>th</sup> percentile (11.1%). The growth of monthly wages of full-time employees was similar (Figure 4.3).

**Figure 4.3: Monthly wage distributions and year-on-year increases (\*) in 2010 and 2011**



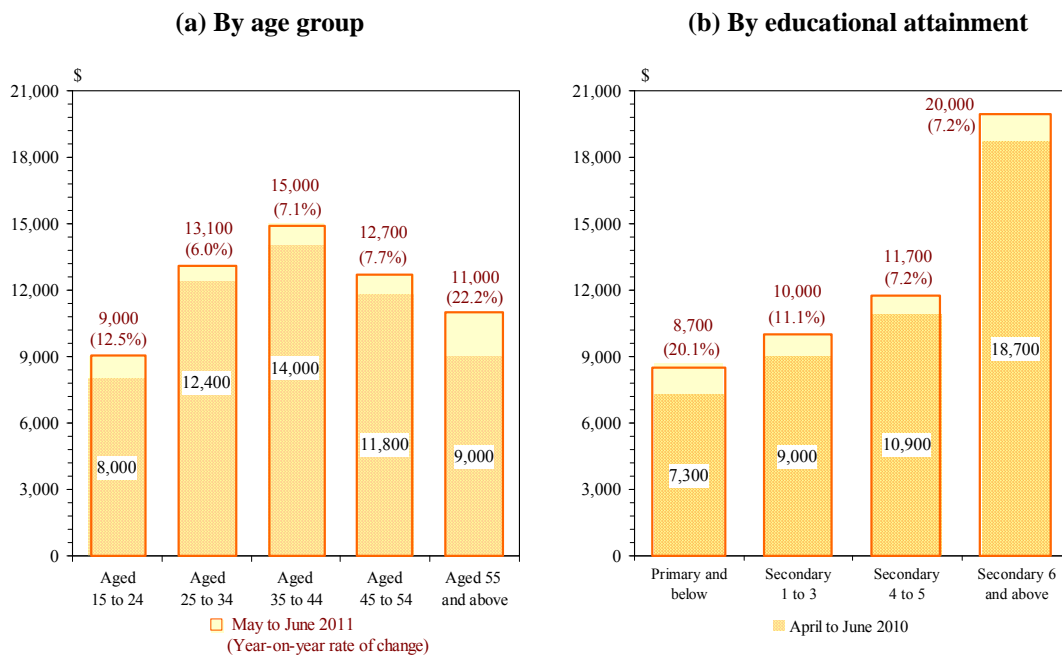
Note: (\*) The rate of change is calculated based on unrounded figures.

Sources: 2010 and 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

(1) The reference period of the 2010 AEHS was the second quarter (i.e. April to June 2010) whereas that of the 2011 round was May to June. This was to tie in with SMW coming into force on 1 May 2011 and hence the 2011 survey results could reflect the wage distribution after the implementation of the initial rate. Details are in [Appendix II](#).

4.11 As mentioned above, most low-paid employees were relatively young or relatively old, and with lower level of educational attainment. With the implementation of the initial SMW rate, the median monthly wages of employees aged 15 to 24, aged 55 and above and with educational attainment of primary and below surged by 12.5%, 22.2%, and 20.1% respectively. These increases were more visible as compared to those for employees in other age groups and with other levels of educational attainment (Figure 4.4).

**Figure 4.4: Increases (\*) in median monthly wage of all employees analysed by age group and educational attainment**

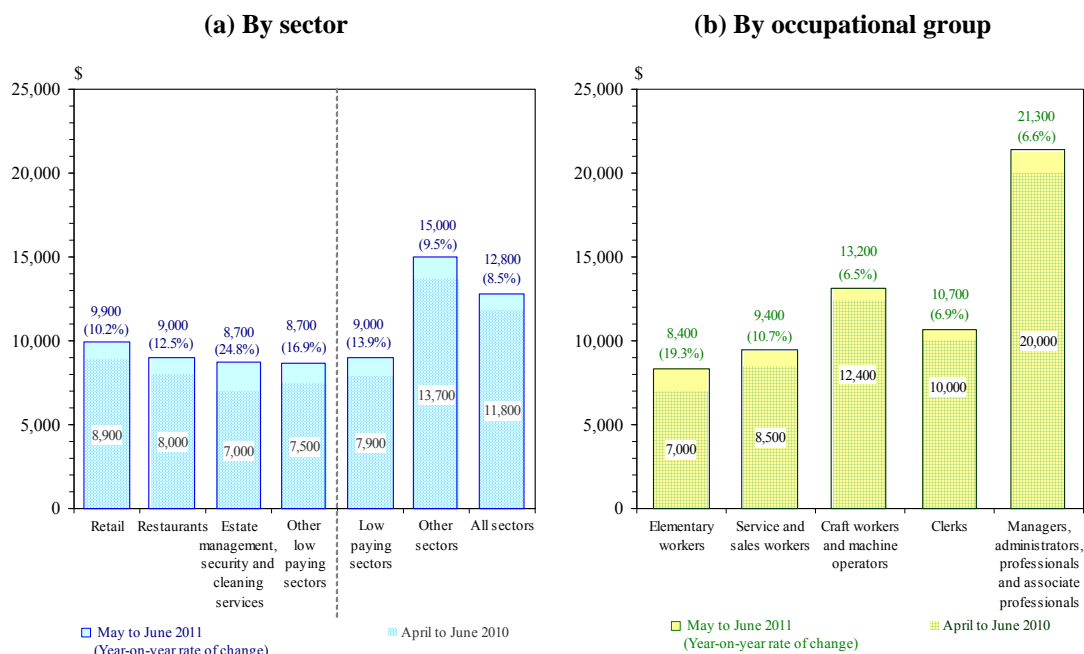


Note: (\*) The rate of change is calculated based on unrounded figures.

Sources: 2010 and 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

4.12 As there were more low-paid employees in LPS, more noticeable increases were seen in the monthly wages of employees engaged in these sectors. The median wage of LPS as a whole increased from \$7,900 in April to June 2010 to \$9,000 in May to June 2011, representing an increase of 13.9%, with a more significant growth of 24.8% for employees engaged in estate management, security and cleaning services. Despite these significant increases, the proportion of employees earning the initial SMW rate was still relatively large in LPS, indicating that their monthly wages prior to the implementation of the initial SMW rate were relatively low. Moreover, about 90% of low-paid employees were elementary workers, and service and sales workers. The median monthly wages of employees engaged in these lower-skilled occupations also increased year-on-year by 19.3% and 10.7% respectively in May to June 2011, higher than the increases for other occupational groups (with year-on-year increases ranging from 6.5% to 6.9%) (Figure 4.5).

**Figure 4.5: Increases (\*) in median monthly wage of all employees analysed by sector and occupational group**



Note: (\*) The rate of change is calculated based on unrounded figures.

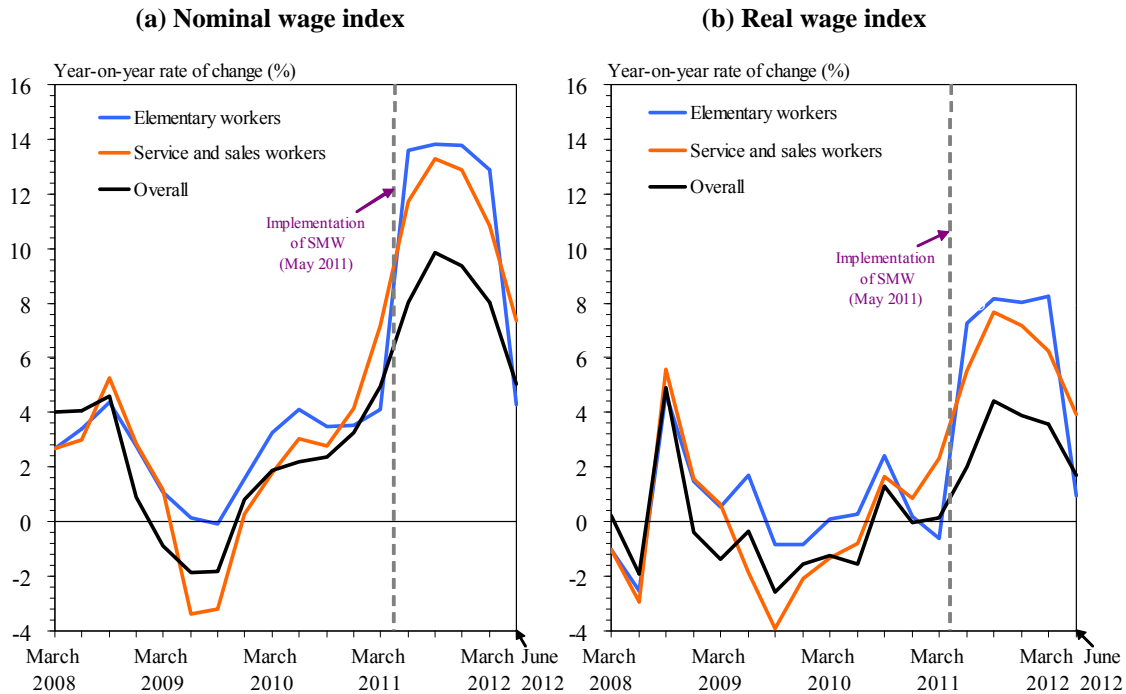
Sources: 2010 and 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

4.13 Based on the findings of LES, the nominal and real wage indices have been on the uptrend since September 2010, broadly reflecting the persistently tight labour market (Figure 4.6). Nevertheless, the one-off boosting effect of the initial SMW rate on wages was still substantial. For instance, the nominal wage index recorded a quarter-to-quarter increase of 3.9% (a year-on-year increase of 8.0%) in June 2011 (just after the implementation of the initial SMW rate), the largest ever on a quarter-to-quarter basis. Over the same period, the nominal wage indices for elementary workers as well as service and sales workers, which reflect wages of lower-skilled employees, surged by 10.5% and 5.0% quarter-to-quarter respectively (year-on-year increases of 13.6% and 11.7% respectively), significantly outpacing that of the overall. After discounting the effect of inflation, their real wage indices also rose by 9.0% and 3.6% quarter-to-quarter respectively (up by 7.3% and 5.5% year-on-year respectively). This suggests that the implementation of SMW substantially improved the income of grassroots employees in real terms. As at June 2012, despite the dissipating impact of SMW, the above two nominal wage indices still recorded year-on-year increases of 4.3% and 7.3% respectively.

4.14 The average monthly salaries of some typical low-paid occupations such as cleaner, guard, and dishwasher also rose significantly. As compared with March 2011 (before the implementation of SMW rate), the average monthly salaries across these low-paid occupations went up by \$400 to \$800 in June 2011, with the rising trend continuing

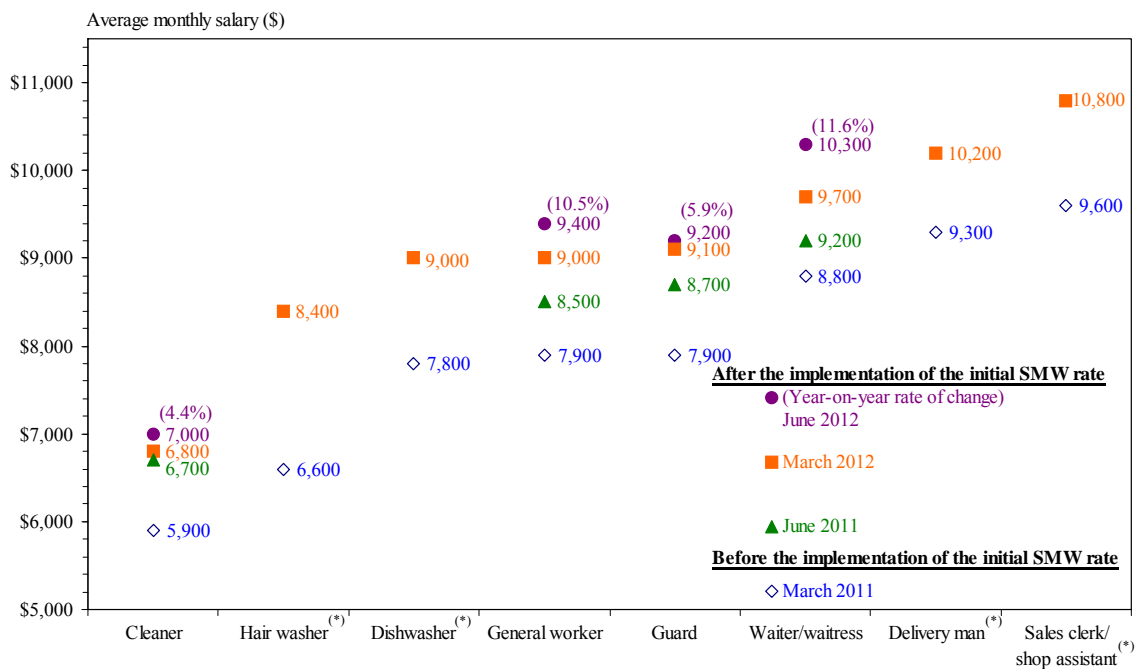
thereafter. As at June 2012, the year-on-year pay rise of these low-paid occupations ranged from 4.4% (cleaner) to 11.6% (waiter/waitress) (Figure 4.7).

**Figure 4.6: The one-off boosting effect of the initial statutory minimum wage rate on wages**



Source: Labour Earnings Survey, Census and Statistics Department.

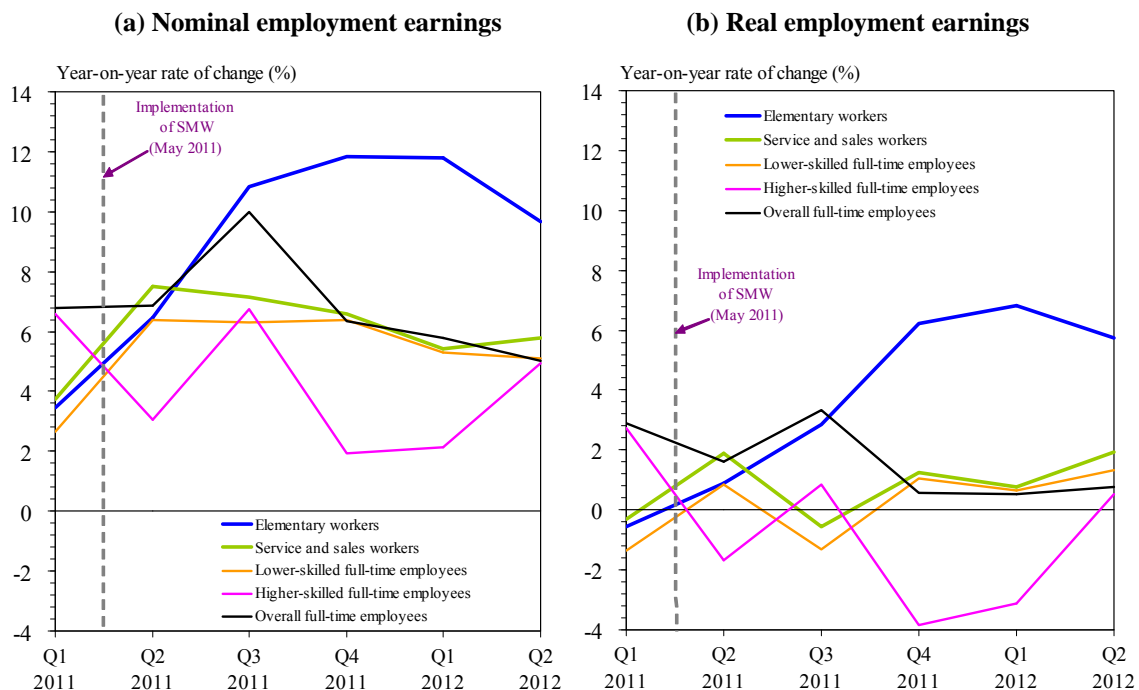
**Figure 4.7: Increases<sup>(^)</sup> in salaries for low-paid jobs after the implementation of the initial statutory minimum wage rate**



Notes: (^) The rate of change is calculated based on unrounded figures.  
(\* ) Figures for June 2011 and June 2012 are not released due to relatively large sampling error.  
Source: Labour Earnings Survey, Census and Statistics Department.

4.15 Furthermore, we also examined data from GHS on employment earnings as at the second quarter of 2012. Although the coverage of employment earnings is different from that of wages (both include basic wage, commission, tips and guaranteed allowance, but employment earnings also cover discretionary bonus and allowance from employers), the movement of employment earnings can also serve as a crude indicator of pay trend. As shown in Figure 4.8, after the implementation of the initial SMW rate, employment earnings of the lower-skilled full-time employees (including elementary workers, and service and sales workers) had surged noticeably since the second quarter of 2011 in both nominal terms and real terms, with the latter discounting the effect of inflation. Although the effect gradually dissipated over time, the growth in their employment earnings was still more substantial when compared with that of the higher-skilled full-time employees. Judging from the observations on different indicators, the initial SMW rate had brought a significant positive effect on the income of grassroots employees, thereby improving their livelihood.

**Figure 4.8: Year-on-year rates of change in average monthly employment earnings of full-time employees<sup>(^)</sup> from the first quarter of 2011 to the second quarter of 2012**



Note: (^) Exclude government employees and live-in domestic workers. Full-time employees are those who worked at least 35 hours during the 7 days before enumeration, or those who worked less than 35 hours due to vacation during the 7-day period.

Source: General Household Survey, Census and Statistics Department.

#### **4.I.2 Wage differentials**

- 4.16 Generally speaking, SMW narrowed the wage differentials between low-paid employees and employees of higher ranks. However, some employers pointed out that apart from raising employees' wages to the SMW level, they also needed to increase the pay of employees at higher ranks in order to maintain a reasonable differential in the pay hierarchy to upkeep staff morale. On the other hand, the wage differentials among lower-skilled jobs across sectors might also be narrowed due to the implementation of SMW. When the labour market was tight, employees engaged in obnoxious sectors/occupations such as cleaner, dishwasher and care worker in elderly homes might prefer other jobs with more pleasant working environment. Employers thus had to further raise the wages of these employees to retain staff.
- 4.17 This knock-on effect on pay hierarchy (knock-on effect) arising from the implementation of SMW would bring about impact in two aspects. Firstly, if the majority of enterprises chose to maintain the pay differentials among employees of different ranks, more employees would be affected by SMW than expected because those with wages above the statutory level would also be indirectly benefitted. Secondly, enterprises would face further increase in labour costs, thereby adding fuel to the inflationary pressure.
- 4.18 When assessing the impact of SMW on wage differentials, we first compared the hourly wage distribution in April to June 2010 with that in May to June 2011<sup>(2)</sup>. As revealed from the AEHS data on the overall hourly wage distribution, the year-on-year increases of the lower percentiles were most significant: the 5<sup>th</sup> and 10<sup>th</sup> percentiles showed year-on-year increases of 22.4% and 19.1% respectively, considerably outpacing those of the 25<sup>th</sup> percentile and the median (11.2% and 10.8% respectively) (Table 4.2). This indicates that wage differentials were narrowed to some extent.

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(2) The hourly wage figures in 2011 AEHS were calculated after taking into account the definitions of hours worked and wages payable under the Minimum Wage Ordinance (MWO). These figures are not directly comparable with those compiled before the implementation of the MWO in 2011 since information on whether an employee had paid rest days and/or paid meal breaks was not available for collection before 2011. To facilitate general comparison with the 2010 AEHS figures, C&SD compiled a set of hourly wage statistics for 2011 based on a method close to the one used in 2010. Details are in [Appendix II](#).

**Table 4.2: Hourly wage distributions in 2010 and 2011**

Percentile	Hourly wage (\$)			Rate of change <sup>(^)</sup> (%)
	April to June 2010	May to June 2011		
	(i)	Calculated based on the definition under the Minimum Wage Ordinance (ii)	Compiled based on a method close to the one used in 2010 <sup>(*)</sup> (iii)	(iii) over (i)
5 <sup>th</sup>	25.0	28.0	30.5	+22.4
10 <sup>th</sup>	28.1	29.3	33.4	+19.1
25 <sup>th</sup>	39.5	36.0	43.9	+11.2
Median	59.5	52.4	65.9	+10.8
75th	96.7	82.5	107.1	+10.8
90 <sup>th</sup>	176.0	143.9	200.0	+13.6

Notes: (\*) Details are in **Appendix II**.

(^) The rate of change is calculated based on unrounded figures.

Sources: 2010 and 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

4.19 Analysed by occupational group, the wages of elementary workers as well as service and sales workers were generally lower than those of other occupations. Table 4.3 shows that for the same percentiles, the increases in hourly wages of these two occupational groups were significantly higher than those of other occupational groups. Wage differentials between the lower-skilled and higher-skilled occupational groups were also narrowed.

**Table 4.3: 10<sup>th</sup> percentile and 25<sup>th</sup> percentile hourly wages and their rates of change analysed by occupational group in 2010 and 2011**

	10 <sup>th</sup> percentile hourly wage (\$)			25 <sup>th</sup> percentile hourly wage (\$)		
	April to June 2010	May to June 2011 <sup>(*)</sup>	Rate of change <sup>(^)</sup> (%)	April to June 2010	May to June 2011 <sup>(*)</sup>	Rate of change <sup>(^)</sup> (%)
<b>Lower-skilled occupational group</b>						
Elementary workers	22.4	28.1	+25.1	26.0	31.6	+21.8
Service and sales workers	24.0	29.9	+24.4	28.7	33.9	+18.1
Craft workers and machine operators	34.6	40.3	+16.5	45.5	50.0	+10.0
Clerks	35.6	40.8	+14.5	44.2	47.4	+7.3
<b>Higher-skilled occupational group</b>						
Managers, administrators, professionals and associate professionals	56.6	59.1	+4.4	77.4	80.7	+4.3

Notes: (\*) Compiled based on a method close to the one used in 2010. Details are in **Appendix II**.

(^) The rate of change is calculated based on unrounded figures.

Sources: 2010 and 2011 Annual Earnings and Hours Survey, Census and Statistics Department.



4.20 For individual sectors, wage differentials can also be analysed by comparing the ratios of different percentiles of the hourly wage distribution. If the ratio goes up and is closer to 1, it means that the differential between two percentiles was narrowed. Following the implementation of the initial SMW rate, the ratios of the 10<sup>th</sup> and 25<sup>th</sup> percentiles of the hourly wage distribution relative to the median for all sectors in May to June 2011 were generally higher than those in April to June 2010, whilst this trend was more noticeable in LPS but not in other sectors. In sum, the wage differentials were narrowed in different magnitudes among LPS after SMW implementation (Table 4.4).

**Table 4.4: Ratios of different hourly wage percentiles analysed by sector in 2010 and 2011**

	Hourly wage								
	Ratio of 10 <sup>th</sup> percentile to the median			Ratio of 10 <sup>th</sup> percentile to 25 <sup>th</sup> percentile			Ratio of 25 <sup>th</sup> percentile to the median		
	April to June 2010	May to June 2011 <sup>(*)</sup>	Rate of change <sup>(^)</sup> (%)	April to June 2010	May to June 2011 <sup>(*)</sup>	Rate of change <sup>(^)</sup> (%)	April to June 2010	May to June 2011 <sup>(*)</sup>	Rate of change <sup>(^)</sup> (%)
Low paying sectors	0.67	0.75	+11.4	0.87	0.89	+3.1	0.77	0.84	+8.1
Retail	0.62	0.68	+9.9	0.82	0.85	+4.0	0.75	0.80	+5.6
Restaurants	0.69	0.78	+12.4	0.87	0.91	+5.1	0.80	0.86	+6.9
Estate management, security and cleaning services	0.75	0.83	+10.3	0.86	0.92	+6.4	0.87	0.90	+3.6
Other low paying sectors	0.66	0.72	+9.2	0.87	0.89	+2.2	0.76	0.81	+6.8
Elderly homes	0.65	0.68	+5.9	0.91	0.91	@	0.71	0.75	+6.0
Laundry and dry cleaning services	0.65	0.79	+20.8	0.90	0.93	+3.4	0.72	0.84	+16.8
Hairdressing and other personal services	0.63	0.68	+7.1	0.81	0.85	+4.8	0.78	0.80	+2.3
Local courier services	0.71	0.79	+10.6	0.83	0.91	+10.0	0.86	0.87	+0.5
Food processing and production	0.60	0.73	+22.6	0.84	0.85	+0.5	0.71	0.86	+22.0
Other sectors	0.54	0.53	-0.6	0.77	0.77	+1.0	0.70	0.69	-1.5
All sectors	0.47	0.51	+7.5	0.71	0.76	+7.1	0.66	0.67	+0.3

Notes: (\*) Compiled based on a method close to the one used in 2010. Details are in **Appendix II**.

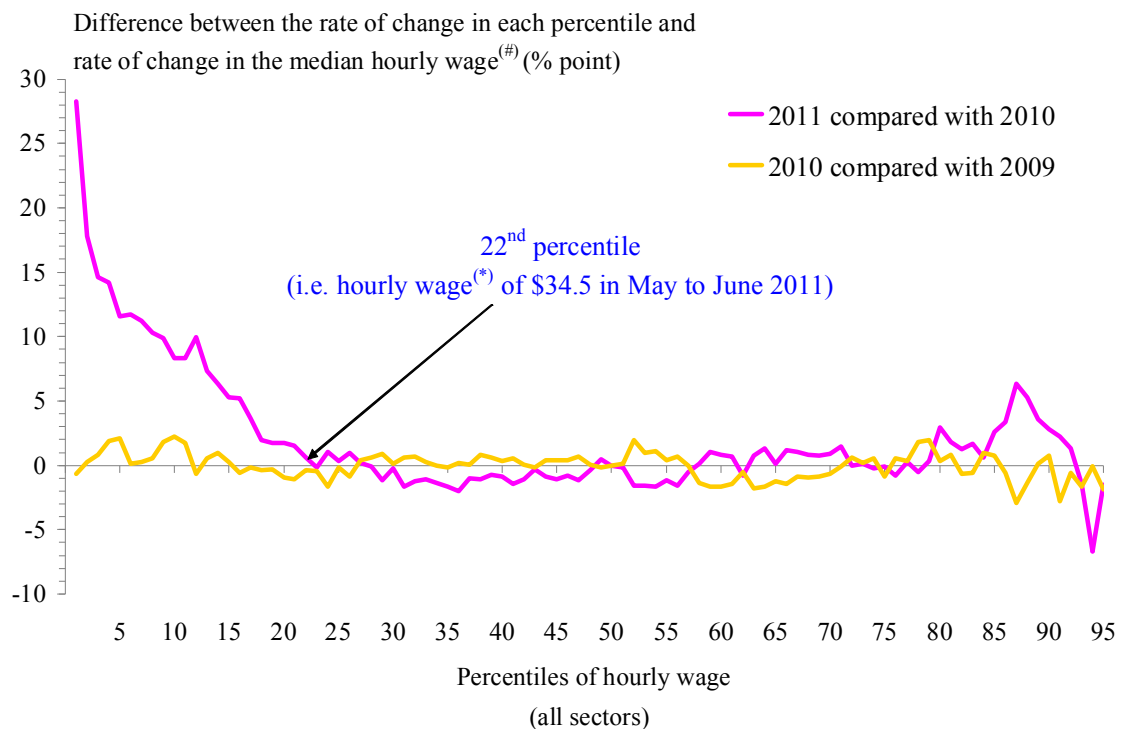
(^) The rate of change is calculated based on unrounded figures.

@ Change is between +/- 0.05%.

Sources: 2010 and 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

4.21 As regards the magnitude of knock-on effect, we obtained relevant information by conducting further analysis on the changes in hourly wage distribution in the period between 2009 and 2011. Figure 4.9 shows the differences between “the rate of change in each percentile of the hourly wage” and “the rate of change in the median hourly wage” in 2010 over 2009 and 2011 over 2010. As seen from the figure, “the rates of change in each percentile of hourly wage” in 2010 as compared to 2009 were broadly comparable to that for the median (the differences were generally not more than 3 percentage points). However, when comparing 2011 with 2010, owing to the effect of the initial SMW rate, the increases for the lower percentiles in the hourly wage distribution were significantly higher than that of the median, up to the 22<sup>nd</sup> percentile (i.e. hourly wage of around \$34.5 in May to June 2011). Although the increases somewhat slowed down from the 12<sup>th</sup> percentile (i.e. hourly wage of around \$30.0 in May to June 2011) onwards, the increases were still well above that of the median. This shows that employees earning less than \$34.5 were more affected by the implementation of initial SMW rate and the knock-on effect.

**Figure 4.9: Comparison between the rate of change in each percentile and the rate of change in the median hourly wage (all sectors)**



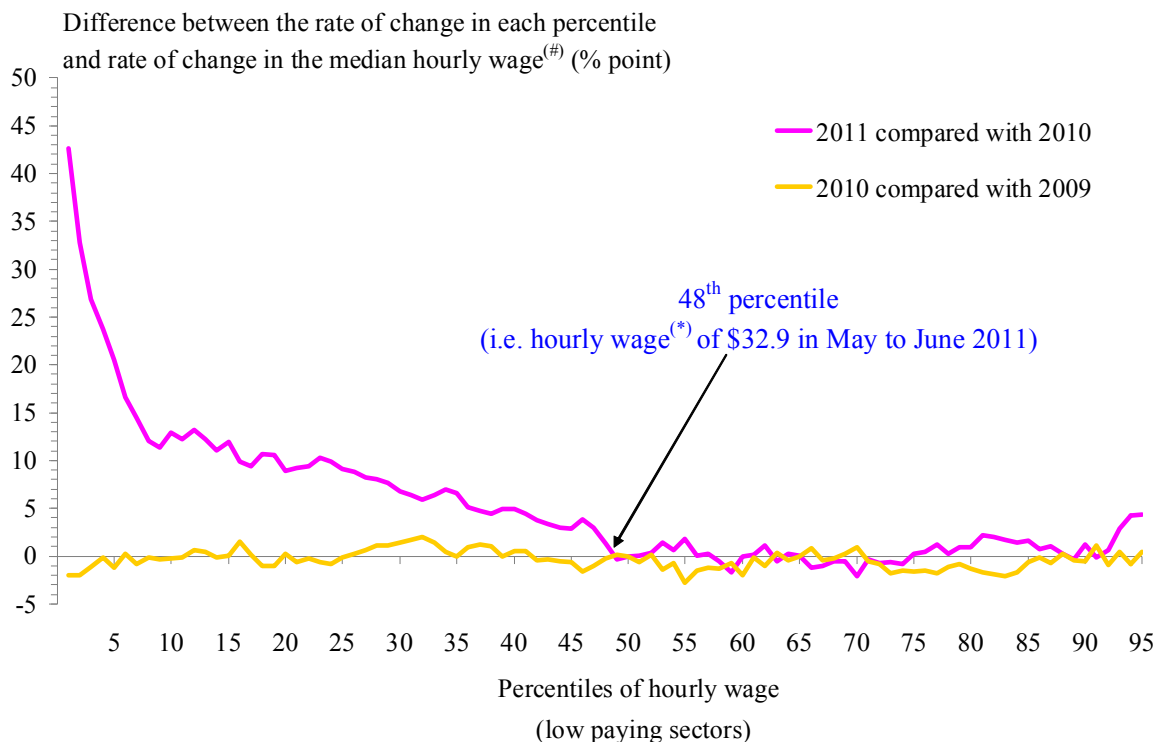
Notes: (#) It refers to “the rate of change in each percentile of hourly wage” minus “the rate of change in the median hourly wage”.

(\*) Calculated based on the definition under the Minimum Wage Ordinance.

Sources: 2009, 2010 and 2011 Annual Earnings and Hours Surveys, Census and Statistics Department.

4.22 As for LPS, when comparing 2011 with 2010, the increases for the lower percentiles were higher than that of the median hourly wage up to the 48<sup>th</sup> percentile (i.e. hourly wage of around \$32.9 in May to June 2011) (Figure 4.10). The first 7 percentiles (i.e. hourly wage around \$28.0 in May to June 2011) obviously were more directly affected by the initial SMW rate. Although the effects gradually diminished from the 8<sup>th</sup> percentile, the year-on-year increases were still much more noticeable than that of the median, indicating more visible knock-on effect in LPS.

**Figure 4.10: Comparison between the rate of change in each percentile and the rate of change in the median hourly wage (low paying sectors)**



Notes: (#) It refers to “the rate of change in each percentile of hourly wage” minus “the rate of change in the median hourly wage”.

(\*) Calculated based on the definition under the Minimum Wage Ordinance.

Sources: 2009, 2010 and 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

4.23 In fact, when the PMWC set the initial SMW rate, some stakeholders expressed concerns that the knock-on effect would likely be particularly pronounced in sectors and firms with multi-layered grade structures and small pay differentials between adjacent ranks, in particular large and medium restaurants and retail shops. These stakeholders were concerned that firms might change the organisational structures (such as changing the number of ranks and pay hierarchies) apart from downsizing in response to the cost impact of SMW and the knock-on effect.

4.24 To capture more precisely the magnitude of knock-on effect, the Government commissioned a consultancy study, namely the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors (Study on Knock-on Effect), to collect information on organisational structure (in particular the remuneration packages of employees) from enterprises in the retail and restaurant sectors in September 2010 and September 2011, as well as to collect data of those employees who were employed by the same enterprise at the same rank and with the same employment status during this period (i.e. matched target employees<sup>(3)</sup>). According to the findings of the Study on Knock-on Effect, except for large Hong Kong style tea cafes in which the average number of ranks fell from 10.2 in September 2010 (before SMW implementation) to 9.3 in September 2011 (after SMW implementation), there was no marked change in other sub-sectors<sup>(4)</sup> covered in the Study, suggesting that it was not common for enterprises to mitigate the knock-on effect by reducing the number of ranks. In addition, the assessment of knock-on effect indicated that in the retail sector, those matched target employees who were affected by the knock-on effect with hourly wages less than \$33.3 in September 2011 had their wages increased on average by 11.8% year-on-year, of which 3.1 percentage points were estimated to be attributable to the knock-on effect. As regards the restaurant sector, for those matched target employees who were affected by knock-on effect with hourly wages less than \$32.2 in September 2011, their wages were on average up by 13.6% year-on-year, of which 3.5 percentage points were estimated to be attributable to the knock-on effect. Hence, the initial SMW rate induced some knock-on effect to these two selected sectors.

#### **4.I.3 Remuneration structure**

4.25 There were views that while increasing their employees' wages, some employers might also restructure the remuneration packages such as reducing year-end bonus, on-the-job training, paid rest days or paid meal breaks after the implementation of SMW to mitigate the rise in labour costs.

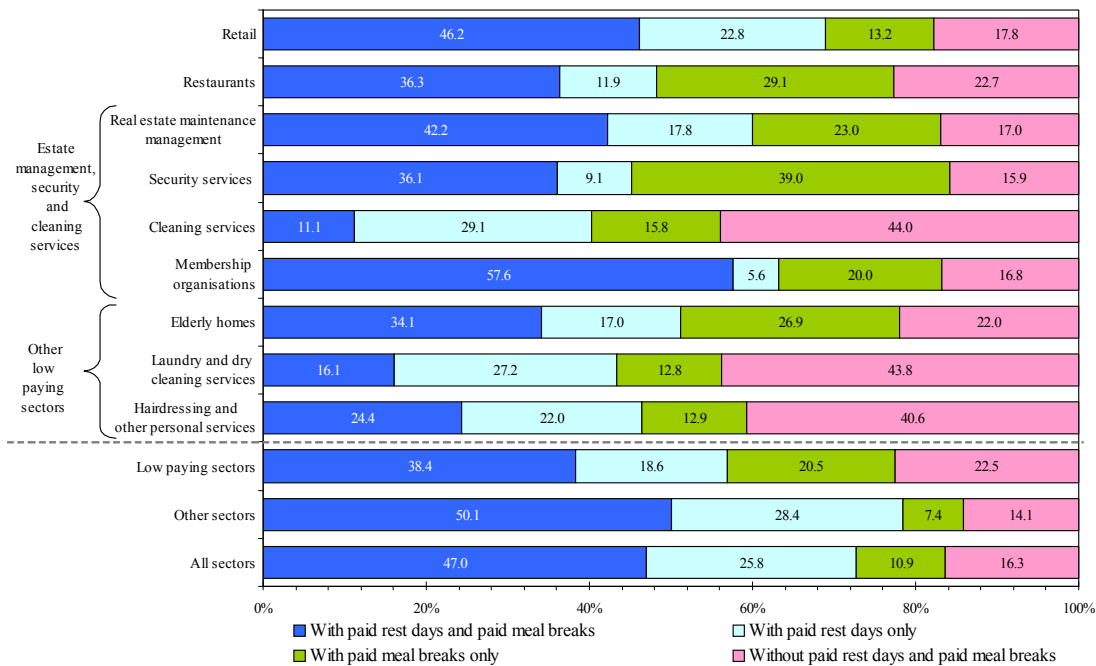
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- (3) More specifically, matched target employees refer to those employees working at the same rank, with the same employment status (full-time/part-time) and in the same outlet in September 2010 and September 2011, as well as (1) with monthly wages below \$13,000 in September 2010 for those in the Chinese restaurants; or (2) with monthly wages below \$11,500 in September 2010 for those in other enterprises.
- (4) Sub-sectors covered in the Study on Knock-on Effect include: supermarkets and convenience stores, other retail stores, Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes.
-

- 4.26 The findings of AEHS nevertheless showed that the overall picture of whether full-time employees were entitled to meal benefits and year-end payment/bonus in May to June 2011 was largely similar to that in April to June 2010. In May to June 2011, 9.7% of full-time employees were entitled to meal benefits only (9.6% in 2010); 23.9% were entitled to year-end payment/bonus only (25.4% in 2010); and 2.2% were entitled to both (2.4% in 2010). The changes in the retail sector were however more noticeable: the proportion of full-time employees entitled to at least one or both of these benefits dropped from 35.3% in April to June 2010 to 25.5% in May to June 2011.
- 4.27 Before the implementation of the Minimum Wage Ordinance (MWO), many employers and employees, in particular small and medium enterprises (SMEs) and monthly-paid employees, did not have clear concept and agreement on whether rest day or meal break should be paid or not. The relevant records might not be readily available as well. The 2010 AEHS hence could not gauge the information on whether employees were entitled to paid rest days and/or paid meal breaks. According to the findings of 2011 AEHS conducted after the implementation of SMW, 25.8% of full-time employees in all sectors were entitled to paid rest day(s) only; 10.9% were entitled to paid meal break(s) only; and 47.0% were entitled to both<sup>(5)</sup>. As compared with the overall figure for all sectors, the proportion of full-time employees having paid rest day(s) only was lower (18.6%) in LPS as a whole; but the proportion of full-time employees having paid meal break(s) only was higher (20.5%), while 38.4% had both. Among LPS, cleaning services, laundry and dry cleaning services, and hairdressing and other personal services had larger proportions of full-time employees who neither had paid rest day nor paid meal break (all over 40%) when compared with other sub-sectors in LPS (Figure 4.11).

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(5) For part-time employees in all sectors, 14.3% were entitled to paid rest day(s) only, 12.8% were entitled to paid meal break(s) only, 2.6% were entitled to both; and 70.3% were entitled to neither of them.

**Figure 4.11: Proportion of full-time employees with paid rest day(s) and/or paid meal break(s) analysed by sector<sup>(\*)</sup>**



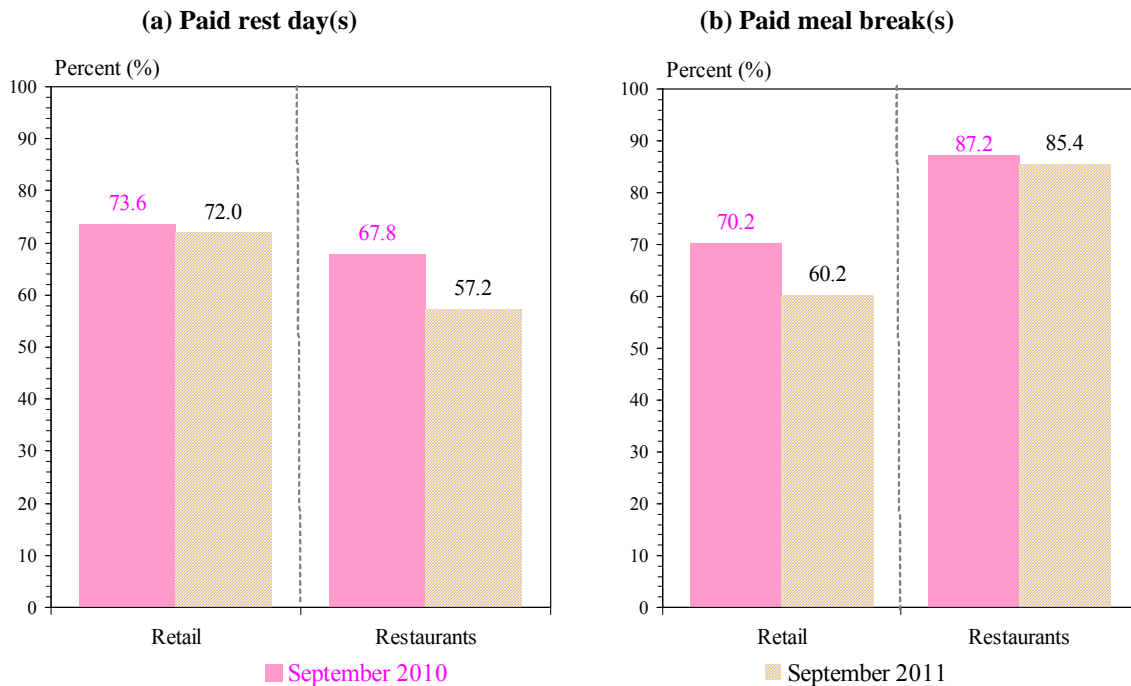
Notes: (\*) Figures of certain low paying sectors are not released due to relatively large sampling error. Owing to rounding, individual percentages may not add up to 100%.

Source: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

4.28 In addition, the findings of the Study on Knock-on Effect revealed that 72.0% of the matched target employees in the retail sector were entitled to paid rest day(s) in September 2011, down only marginally by 1.6 percentage points compared with that in September 2010. For restaurants, however, 57.2% of the matched target employees were entitled to paid rest day(s) in September 2011, down by 10.6 percentage points compared with that in September 2010 (Figure 4.12). Nevertheless, for all matched target employees who were no longer entitled to paid rest day(s) in September 2011 (for both retail and restaurant sectors) as compared with September 2010, their monthly wages did not decrease.

4.29 As for paid meal breaks, 60.2% of the matched target employees in the retail sector were entitled to paid meal break(s) in September 2011, down by 10.0 percentage points when compared with that in September 2010. For the restaurant sector, 85.4% of the matched target employees were entitled to paid meal break(s) in September 2011, edging down by 1.8 percentage points when compared with that in September 2010 (Figure 4.12). Nonetheless, as compared with September 2010, the monthly wages of all matched target employees (for both retail and restaurant sectors) who were no longer entitled to paid meal break(s) in September 2011 did not decrease.

**Figure 4.12: Change in percentage share of matched target employees with paid rest day(s) or paid meal break(s)**



Source: Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

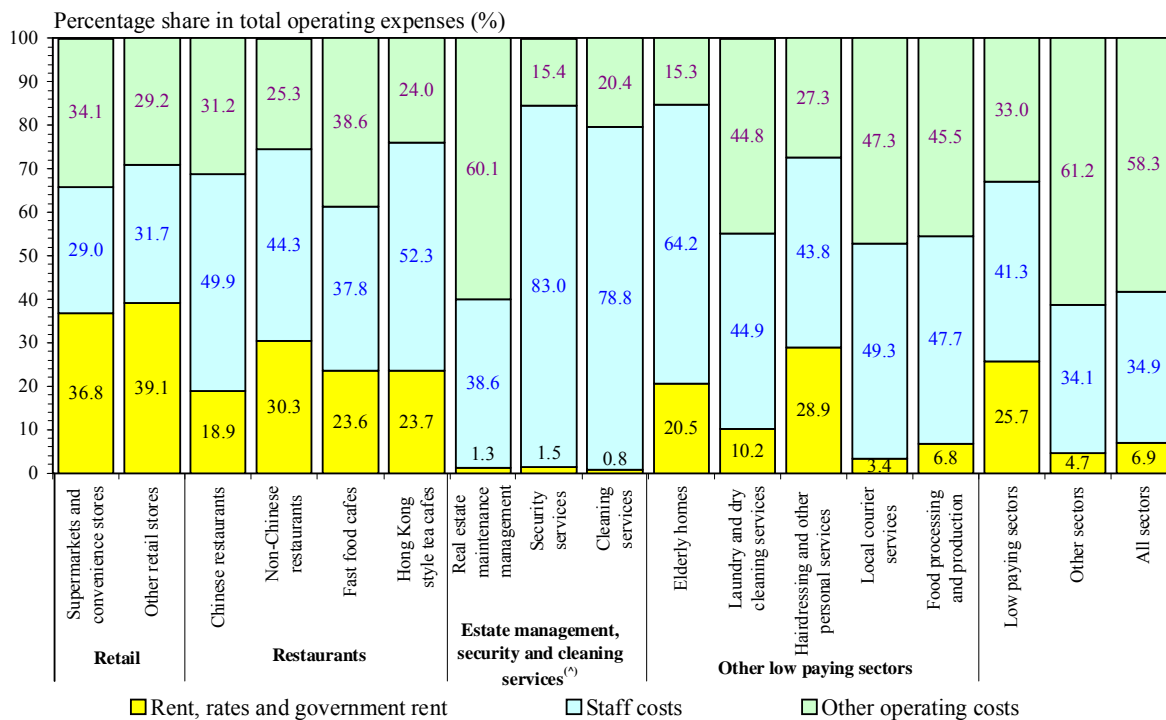
4.30 In conclusion, data obtained from different statistical surveys all revealed that there was a considerable increase in the income of low-paid employees after the implementation of the initial SMW rate. After discounting the effect of inflation, there was still improvement in the income of low-paid employees in real terms. At the same time, however, the implementation of the initial SMW rate narrowed the wage differentials among different ranks and different occupations, possibly causing recruitment difficulties for those sectors with relatively obnoxious working environment. As a result, some employers had to pay more than the initial SMW rate to retain and recruit staff. Such knock-on effect was particularly prominent under a tight labour market. Furthermore, there appeared to be no significant impact on the remuneration packages (including meal benefits and year-end payment/bonus) of full-time employees after SMW implementation. However, as information on whether employees had paid rest days and/or paid meal breaks was not available for collection in the 2010 AEHS, we are unable to compare thoroughly the change in employees' entitlement to paid rest days and/or paid meal breaks before and after the implementation of SMW.

## 4.II Impact on Businesses

4.31 The implementation of SMW would increase the labour costs for businesses. In particular, LPS and enterprises employing more low-paid employees would face higher additional wage bills. Moreover, as we have pointed out in Chapter 3, Hong Kong's imported inflation soared and commercial rentals picked up visibly when the initial SMW rate was implemented in 2011. All these factors exerted significant upward pressures on the overall costs of local businesses.

4.32 Owing to data limitations, we could only refer to the results of the 2010 Annual Survey of Economic Activities (ASEA) to study the operating characteristics of different sectors when conducting our review. For all sectors, the average percentage share of staff costs in total operating expenses was about 35%. However, as most LPS are relatively labour-intensive, the corresponding share of staff costs in their operating expenses was even larger (about 41%), in particular security services (83%), cleaning services (79%), elderly homes (64%), Hong Kong style tea cafes (52%), and Chinese restaurants (50%) (Figure 4.13).

**Figure 4.13: Composition of total operating expenses analysed by sector<sup>(\*)</sup>**



Notes: (\*) For enterprises with employees only.

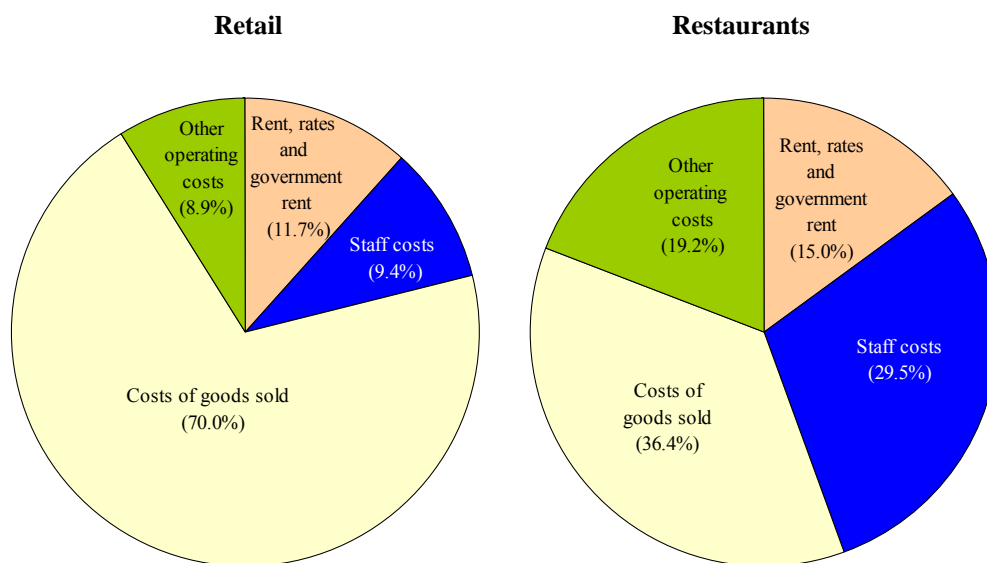
(^) Estate management, security and cleaning services do not include membership organisations.  
Owing to rounding, individual percentages may not add up to 100%.

Source: 2010 Annual Survey of Economic Activities, Census and Statistics Department.



4.33 Compared with most of LPS, rent, rates and government rent in retail and restaurants took up larger shares in their total operating expenses while the costs of goods sold also accounted for significant proportions in their total costs (Figure 4.14). Thus, apart from labour costs, these two sectors faced more significant cost pressures in 2011 as a result of the surge in rentals and costs of goods sold/food ingredients.

**Figure 4.14: Composition of total costs<sup>(\*)</sup> of the retail and restaurant sectors**



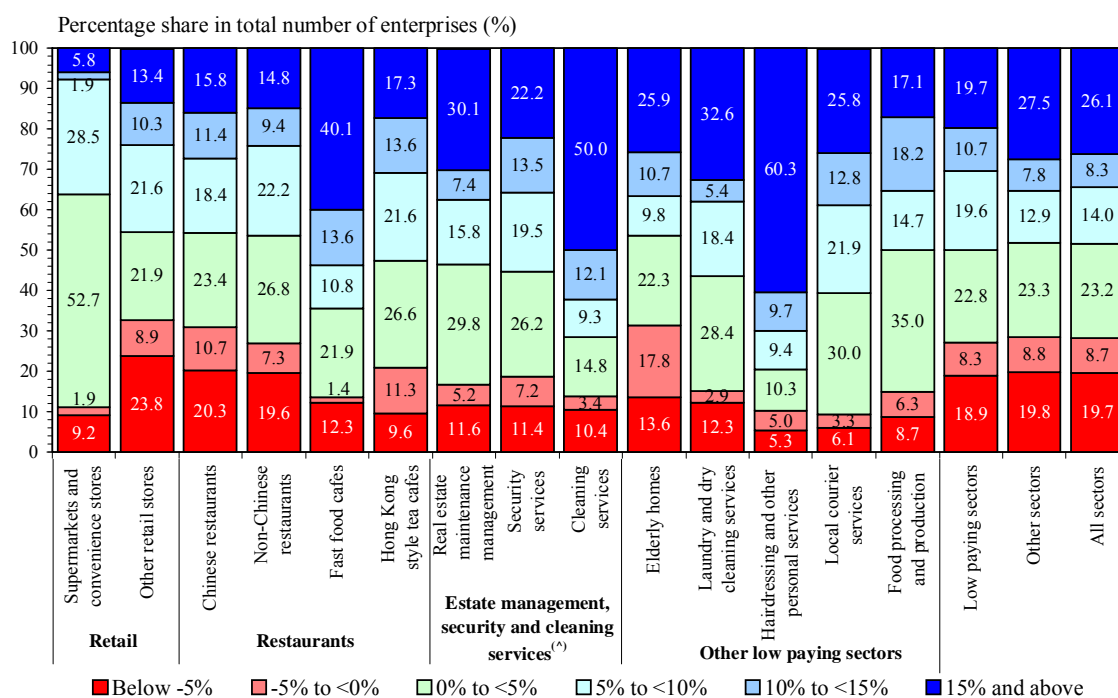
Notes: (\*) Total costs include total operating expenses (viz. staff costs; rent, rates and government rent; and other operating costs (including depreciation)), and the costs of goods sold. Owing to rounding, individual percentages may not add up to 100%.

Source: 2010 Annual Survey of Economic Activities, Census and Statistics Department.

4.34 Furthermore, the overall profit ratio of LPS (7.6%) was lower than that of other sectors (16.9%)<sup>(6)</sup>. Even before the implementation of SMW (in 2010), more than a quarter of enterprises in some LPS, namely other retail stores, Chinese restaurants, non-Chinese restaurants, and elderly homes, incurred losses (Figure 4.15). This implies that the operating environment of these sectors was relatively difficult, hence they might not be able to cut profits further or raise prices to pass on the costs to consumers.

(6) Details on the distribution of profit ratios of enterprises analysed by sector are in **Appendix VI**.

**Figure 4.15: Distribution of profit ratios analysed by sector<sup>(\*)</sup>**



Notes: (\*) For enterprises with employees only.

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

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

Source: 2010 Annual Survey of Economic Activities, Census and Statistics Department.

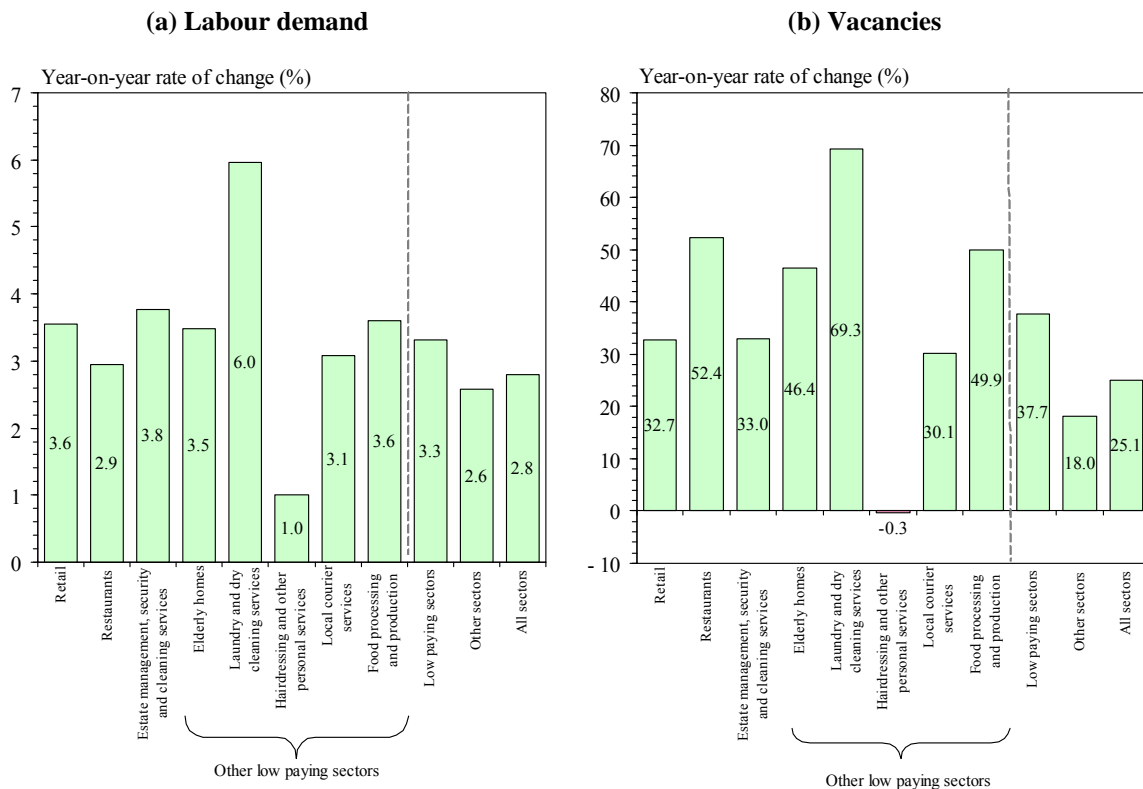
4.35 Hence, stakeholders and interested parties expressed concerns about whether SMW would lead to massive lay-offs or even closure of a large number of enterprises in relevant sectors, thereby undermining the overall investment and entrepreneurial sentiment. We will discuss the impact of the initial SMW rate on hiring sentiment, and entrepreneurship and business sentiment in the following sections.

#### 4.II.1 Hiring sentiment

4.36 When the initial SMW rate was implemented, thanks to resilient domestic demand, the overall demand for labour was strong. For 2011 as a whole, the average number of job vacancies in private sector establishments was about 56 700, leaped by 19.0% over a year earlier. The figure rose further to about 70 800 (a year-on-year upsurge of 25.1%) in June 2012, representing a record high in 18 years. Job vacancies registered an increase of 14 200 on a year-on-year basis. These vacancies were mainly from the lower-skilled occupations (a year-on-year surge of 37.7%), among which vacancies of elementary workers, and service and sales workers rose by 9 500, accounting for about two-thirds of the overall increase. In contrast, the number of vacancies from higher-skilled occupations went up by about 1 400, a year-on-year increase of 6.2% only. This shows that the overall hiring sentiment (particularly in respect of the demand for

lower-skilled employees) was not substantially weakened by the implementation of SMW. On the contrary, the labour demand (crudely deduced from the sum of the number of persons engaged and vacancies in the sectors) in most of LPS held strong amid the buoyant local economy (Figure 4.16).

**Figure 4.16: Year-on-year rates of change in labour demand<sup>(\*)</sup> and vacancies analysed by sector in June 2012**



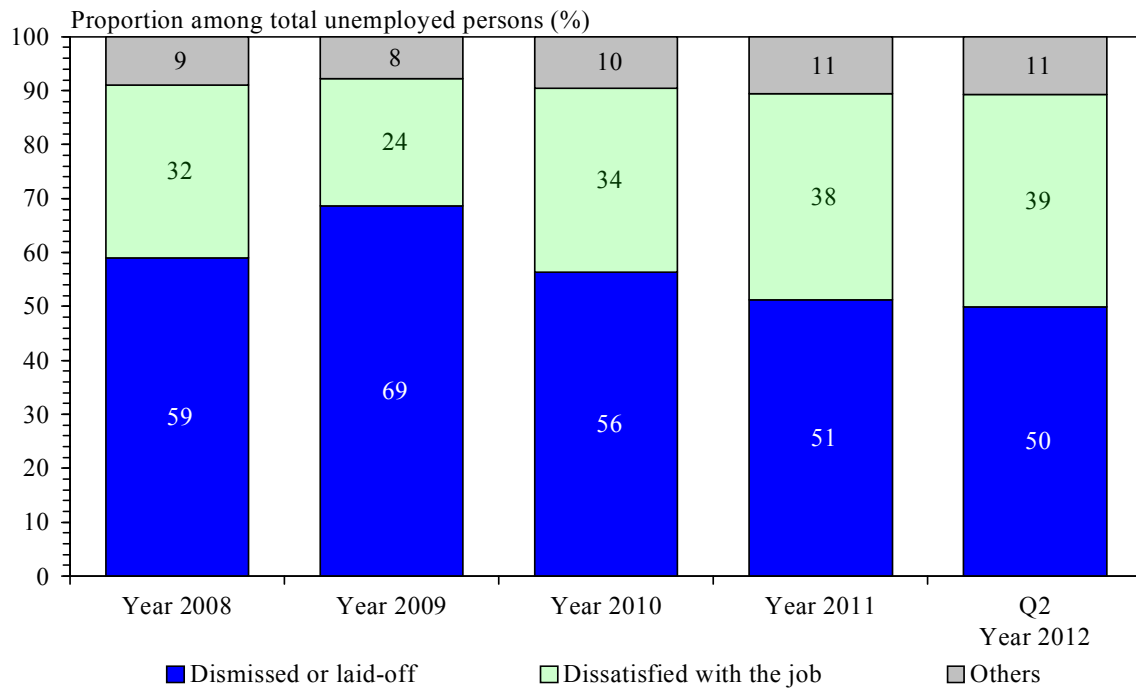
Note: (\*) Labour demand is deduced from the sum of the number of persons engaged and vacancies in private sector establishments, rounded to the nearest 100.

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

4.37 There were views that despite the buoyant overall labour demand, some enterprises might have dismissed employees with lower productivity and replaced them by new recruits with higher abilities or better qualifications. Some enterprises might also have to lay off employees because of the difficulties in carrying out businesses arising from higher labour costs. Whether these scenarios took place could be reflected by the changes in the proportion of unemployed persons who were dismissed/laid-off among total unemployed persons. After the implementation of the initial SMW rate, this proportion showed no significant change. On the contrary, there was a slight increase in the proportion of unemployed persons who quitted jobs due to dissatisfaction, reflecting the prevailing tight labour market conditions with labour demand even outstripping the labour supply in some occupations (Figure 4.17). In fact, on the back of robust labour demand, the number of long-term unemployed persons (i.e.

unemployed for six months or above) fell in a row from 31 300 in the first quarter of 2011 to 28 600 in the second quarter of 2012 (a cumulative decrease of 8.8%).

**Figure 4.17: Proportion of unemployed persons analysed by reason of unemployment**



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

Source: General Household Survey, Census and Statistics Department.

#### 4.II.2 Entrepreneurship, business environment and sentiment

4.38 There were views that additional operating costs induced by SMW might on one hand have weakened the incentive for business start-up, and caused less competitive enterprises to gain less profit, or even incur losses and close down their businesses on the other. Whether these scenarios took place could be reflected by changes in the numbers of establishments, business registrations, and bankruptcy and winding-up petitions.

4.39 As shown in Table 4.5, there were increases in the numbers of establishments in all sectors as well as in LPS after the implementation of the initial SMW rate. As at June 2012, the number of establishments rose to a record high of 349 645 (or a year-on-year increase of 1.7%). Hence, the implementation of the initial SMW rate did not seem to have significant adverse impact on entrepreneurship.

**Table 4.5: Change in number of establishments**

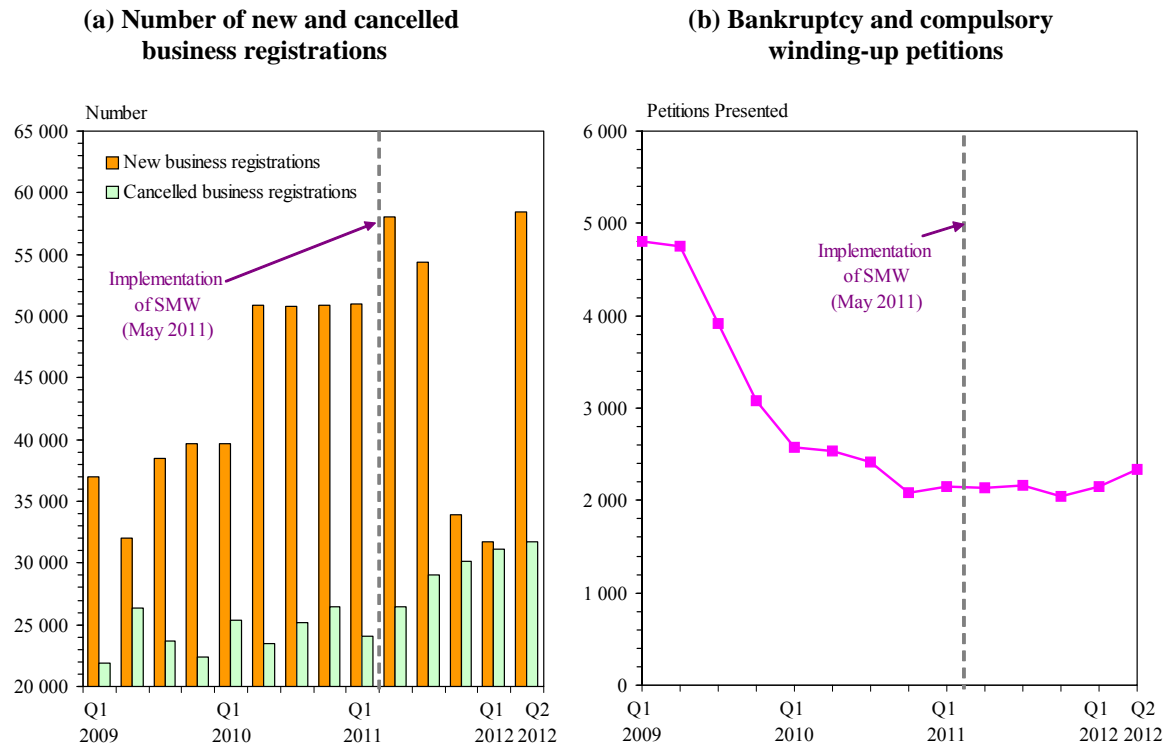
	Year 2011				Year 2012		
	March (i)	June (ii)	Quarter-to-quarter change (ii) over (i)		June (iii)	Year-on-year change (iii) over (ii)	
	Number	Number	Number	Rate of change (%)	Number	Number	Rate of change (%)
Low paying sectors	94 351	94 814	+ 463	+0.5	95 940	+ 1 126	+1.2
Retail	63 151	63 318	+ 167	+0.3	64 015	+ 697	+1.1
Restaurants	13 943	14 106	+ 163	+1.2	14 177	+ 71	+0.5
Estate management, security and cleaning services	4 218	4 272	+ 54	+1.3	4 463	+ 191	+4.5
Other low paying sectors	13 039	13 118	+ 79	+0.6	13 285	+ 167	+1.3
Other sectors	247 772	248 839	+ 1 067	+0.4	253 705	+ 4 866	+2.0
All sectors	342 123	343 653	+ 1 530	+0.4	349 645	+ 5 992	+1.7

Note: Establishments do not include government departments.

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

4.40 Moreover, the number of new business registrations rose in the second quarter of 2011 (just after the implementation of the initial SMW rate), up by 13.8% over the preceding quarter. In the second quarter of 2012, the number of new business registrations increased slightly by 0.8% to about 58 500, which was largely comparable to the corresponding figure over the previous year. However, the number of cancelled business registrations had been on the uptrend since the first quarter of 2011 to 31 694 in the second quarter of 2012, up by 20.0% year-on-year. Meanwhile, the number of bankruptcy and compulsory winding-up petitions presented was still much lower than the peak of about 4 800 in the first quarter of 2009, which however had been edging up since end-2011 to 2 338 in the second quarter of 2012 (a year-on-year increase of 9.1%) (Figure 4.18). It should be noted that the numbers of cancelled business registrations, and bankruptcy and compulsory winding-up petitions were, to a certain extent, also affected by the worsening external economic environment.

**Figure 4.18: Change in numbers of new and cancelled business registrations/bankruptcy and compulsory winding-up petitions**



Sources: Inland Revenue Department and Official Receiver's Office.

4.41 Since the data of the 2011 ASEA was not yet available when we reviewed and made recommendation on the SMW rate, there was no information on the changes in profit ratios in different sectors after SMW implementation. Despite the limitation, we reviewed the changes in the indices of business receipts for the retail and restaurant sectors to monitor their operating conditions after the implementation of SMW. For 2011 as a whole, the business receipts for both sectors performed well. Business receipts for the retail sector registered an appreciable growth in real terms (measured in terms of the volume of total sales) when SMW was just implemented. However, as shown in Figure 4.19, the year-on-year increases in business receipts for both sectors moderated markedly on entering 2012. Total restaurant receipts even posted a negative growth in real terms since the first quarter of 2012, indicating that the operating environment of these sectors was also affected by the local economic slowdown in recent months. Conceivably, these sectors might be less resilient in coping with increasing operating costs during an economic downturn.

**Figure 4.19: Year-on-year rates of change in business receipts of the retail and restaurant sectors**



Sources: Monthly Survey of Retail Sales and Quarterly Survey of Restaurant Receipts and Purchases, Census and Statistics Department.

4.42 In sum, local enterprises did not seem to cut down recruitment significantly after the implementation of the initial SMW rate. On the contrary, with the expanding economic activity, the number of establishments increased in tandem. Incentives for business start-up stayed positive generally. Although we do not have information on the profitability of different sectors after SMW implementation, taking the retail and restaurant sectors as examples, the considerable growth in their business receipts in 2011 amidst a buoyant economy conceivably helped ease the cost pressures arising from the initial SMW rate in these sectors.

### **4.III Impact on the Labour Market, Prices and Overall Economy of Hong Kong**

4.43 For many people in society, their income was not directly affected by the implementation of the initial SMW rate. Their main concerns about SMW are rather the impact of SMW on the overall macroeconomic situation of Hong Kong (including the local labour market, prices and economic competitiveness).

#### **4.III.1 Impact on the labour market (1): employment conditions**

4.44 In reviewing the SMW rate, we were particularly concerned about the employment situation of those who would more likely be affected by SMW. Taking lower-skilled employees as an example, when the initial SMW rate was just implemented, their unemployment rate once surged by 0.5 percentage point from 3.8% in the first quarter of 2011 to 4.3% in the second quarter. During the same period, the number of lower-skilled employees (excluding government employees and live-in domestic workers not covered by SMW) dropped by 32 000 (or 1.9%), indicating that the labour market took time to adapt when SMW was just implemented. The pace of job creation gradually accelerated thereafter, offsetting the previous loss. As at the second quarter of 2012, the number of lower-skilled employees increased notably by 54 300 (or 3.3%) year-on-year, accounting for over 60% of additional employees in Hong Kong (Table 4.6).



**Table 4.6: Employment of different groups**

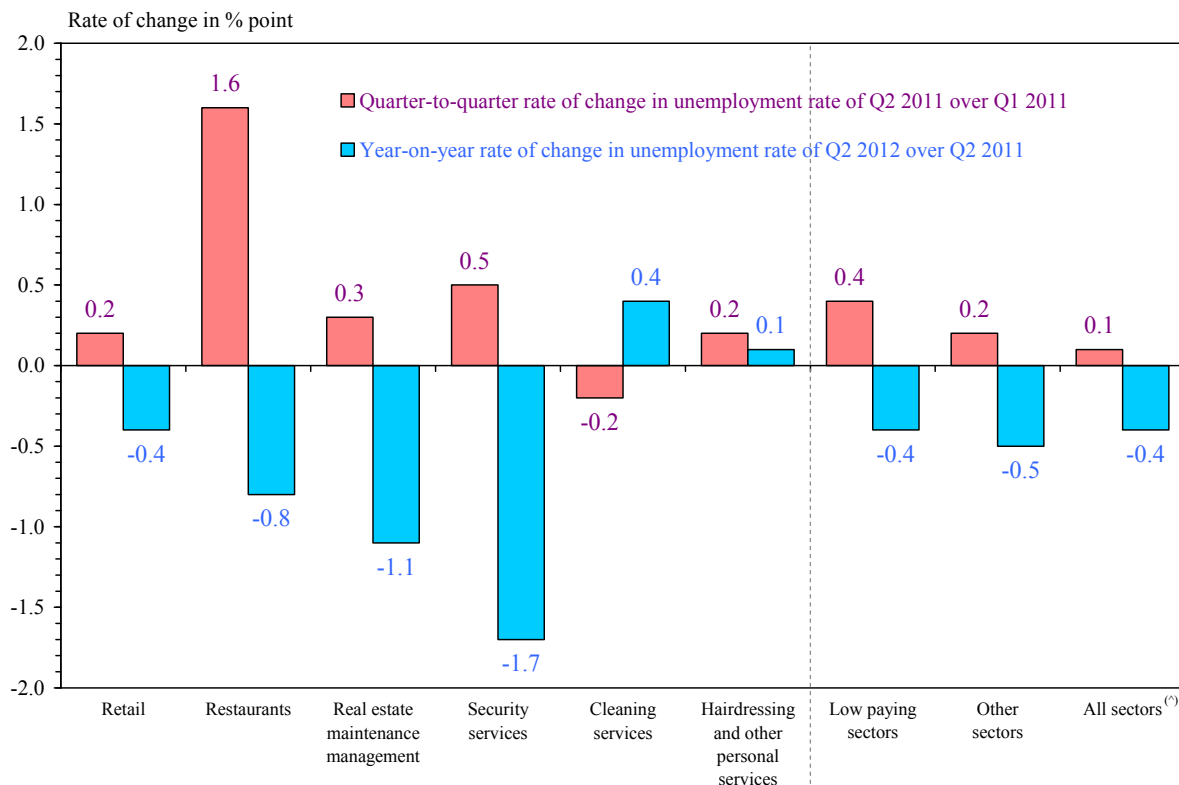
	Q1 2011 (i)	Q2 2011 (ii)	Quarter-to-quarter rate of change <sup>(^)</sup> (%) (ii) over (i)	Q2 2012 (iii)	Year-on-year rate of change <sup>(^)</sup> (%) (iii) over (ii)
<b>Number of employees <sup>(#)</sup></b>					
<b>Age</b>					
Aged 15 to 19	27 700	29 500	+6.5	31 700	+7.7
Aged 20 to 24	213 200	207 100	-2.8	211 900	+2.3
Aged 55 and above	359 200	367 600	+2.4	422 600	+14.9
<b>Educational attainment</b>					
Primary and below	311 600	300 100	-3.7	296 400	-1.2
Secondary 1 to 3	414 800	408 900	-1.4	436 500	+6.8
<b>Occupational group</b>					
Lower-skilled	1 698 500	1 666 500	-1.9	1 720 700	+3.3
Higher-skilled	1 045 100	1 090 500	+4.3	1 123 600	+3.0
<b>Overall</b>	<b>2 743 600</b>	<b>2 757 000</b>	<b>+0.5</b>	<b>2 844 300</b>	<b>+3.2</b>
<b>Number of unemployed persons</b>					
<b>Age</b>					
Aged 15 to 19	6 500	7 600	+18.3	5 900	-22.4
Aged 20 to 24	20 300	24 600	+20.9	24 400	-0.9
Aged 55 and above	12 800	15 700	+22.5	11 000	-29.9
<b>Educational attainment</b>					
Primary and below	15 500	14 600	-5.5	14 400	-1.1
Secondary 1 to 3	26 700	28 400	+6.4	24 600	-13.7
<b>Occupational group</b>					
Lower-skilled	88 000	99 400	+12.9	83 500	-16.0
Higher-skilled	24 900	23 500	-5.6	25 100	+6.6
<b>Overall</b>	<b>124 000</b>	<b>137 600</b>	<b>+11.0</b>	<b>125 500</b>	<b>-8.8</b>
	Q1 2011 (i)	Q2 2011 (ii)	Quarter-to-quarter rate of change in percentage point (ii) over (i)	Q2 2012 (iii)	Year-on-year rate of change in percentage point (iii) over (ii)
<b>Unemployment rate (%)</b>					
<b>Age</b>					
Aged 15 to 19	17.7	19.0	+1.3	14.8	-4.2
Aged 20 to 24	7.5	9.2	+1.7	9.0	-0.2
Aged 55 and above	2.6	3.1	+0.5	1.9	-1.2
<b>Educational attainment</b>					
Primary and below	3.8	3.6	-0.2	3.6	@
Secondary 1 to 3	4.9	5.2	+0.3	4.3	-0.9
<b>Occupational group</b>					
Lower-skilled	3.8	4.3	+0.5	3.5	-0.8
Higher-skilled	1.9	1.7	-0.2	1.8	+0.1
<b>Overall<sup>(*)</sup></b>	<b>3.5</b>	<b>3.6</b>	<b>+0.1</b>	<b>3.2</b>	<b>-0.4</b>

Notes: (^) The rate of change is calculated based on unrounded figures.  
 (#) Employees exclude government employees and live-in domestic workers.  
 (\*) Seasonally adjusted unemployment rate.  
 @ Less than +/- 0.05 percentage point.  
 Source: General Household Survey, Census and Statistics Department.

4.45 Employees with less experience and lower productivity usually face greater risks of unemployment. Younger (aged 15 to 24) and older (aged 55 and above) persons, as well as persons with educational attainment at secondary 3 and below accounted for a significant share of low-paid employees (see paragraph 4.6). The unemployment rates of most of these groups edged up slightly when the initial SMW rate was just implemented. Yet, with the increasingly tight labour market, the employment conditions of these groups improved substantially (Table 4.6).

4.46 The employment conditions in LPS also took time to adjust. When the initial SMW rate was just implemented, there was some upward pressure on the unemployment rates in most LPS. In particular, the unemployment rate of restaurants went up by 1.6 percentage points quarter-to-quarter to 6.6% in the second quarter of 2011 (Figure 4.20). However, in general, owing to the thriving inbound tourism and strong domestic demand, the unemployment rates of almost all LPS gradually came down. The unemployment rates of only certain LPS (including restaurants, cleaning services, and hairdressing and other personal services) in the second quarter of 2012 were still slightly higher than the levels before SMW implementation (the first quarter of 2011) (Table 4.7).

**Figure 4.20: Change in unemployment rate analysed by sector<sup>(\*)</sup>**



Notes: (\*) Unemployment rates of certain low paying sectors are not released due to large sampling error.

(^) Seasonally adjusted unemployment rate.

Source: General Household Survey, Census and Statistics Department.

4.47 Job growth was noticeable in most of LPS. The total number of employees increased substantially by 87 300 (or 3.2%) from the second quarter of 2011 to the second quarter of 2012. Although nearly 60% of the job gains came from other sectors, the pace of job creation in LPS was markedly faster (Table 4.7).

**Table 4.7: Change in number of employees and unemployment rate analysed by sector**

	Number of employees <sup>(*)</sup>			Unemployment rate		
	Q2 2012	As compared to Q2 2011		Q2 2012	As compared to Q2 2011	As compared to Q1 2011
	Number	Number	Rate of change <sup>(#)</sup> (%)	Percent (%)	Percentage point	Percentage point
Low paying sectors	826 100	+36 100	+4.6	3.2	-0.4	@
Retail	267 200	+8 600	+3.3	4.1	-0.4	-0.2
Restaurants	217 700	+16 600	+8.2	5.8	-0.8	+0.8
Estate management, security and cleaning services	227 000	+2 100	+0.9	2.5	-0.6	-0.4
Real estate maintenance management	101 300	+1 100	+1.1	2.1	-1.1	-0.8
Security services	34 800	+2 400	+7.3	3.6	-1.7	-1.2
Cleaning services	68 200	+500	+0.8	2.7	+0.4	+0.2
Membership organisations	22 800	-1 900	-7.5	2.5	§	§
Other low paying sectors	114 100	+8 800	+8.4	1.3	-0.2	-0.2
Elderly homes	23 400	-1 800	-7.2	§	§	§
Laundry and dry cleaning services	3 200	-2 600	-45.1	§	§	§
Hairdressing and other personal services	53 500	+4 400	+9.0	1.4	+0.1	+0.3
Local courier services	9 700	+100	+1.3	§	§	§
Food processing and production	24 400	+8 700	+55.0	§	§	§
Other sectors	2 018 200	+51 200	+2.6	2.7	-0.5	-0.3
<b>Overall</b>	<b>2 844 300</b>	<b>+87 300</b>	<b>+3.2</b>	<b>3.2<sup>(^)</sup></b>	<b>-0.4</b>	<b>-0.3</b>

Notes: (\*) Employees exclude government employees and live-in domestic workers.  
 (#) The rate of change is calculated based on unrounded figures.  
 (^) Seasonally adjusted unemployment rate.  
 @ Less than +/- 0.05 percentage point.  
 § Figures are not released due to relatively large sampling error.

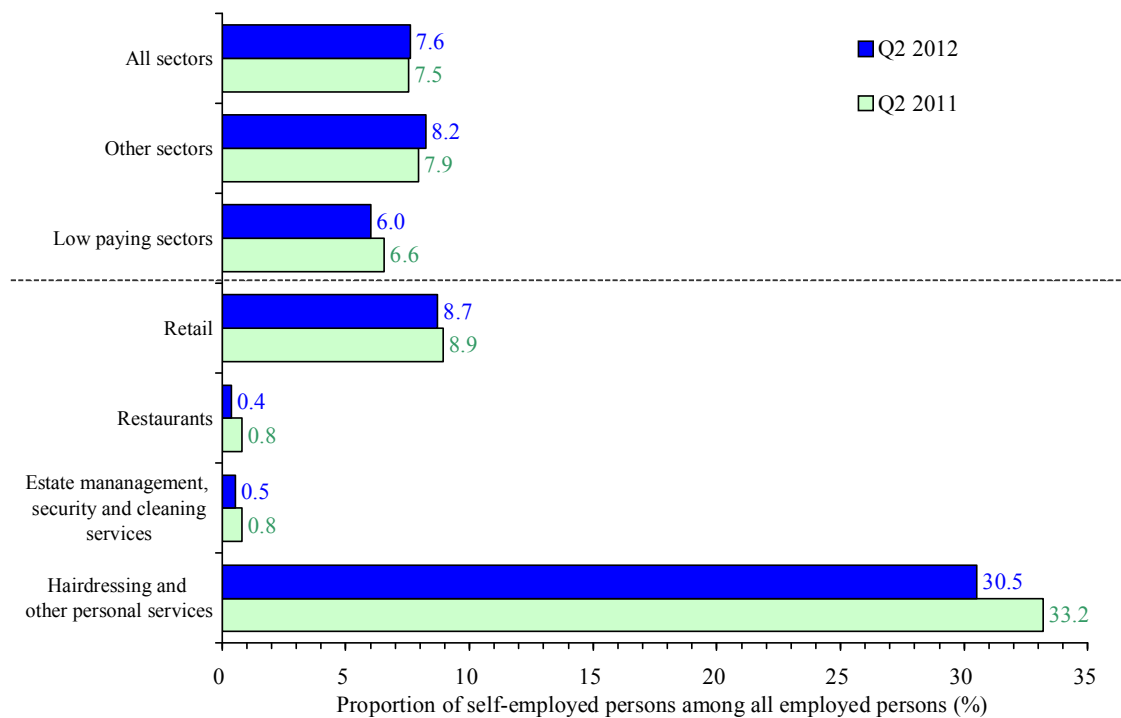
Source: General Household Survey, Census and Statistics Department.

- 4.48 Overall speaking, with the buoyant domestic economic activity in 2011, there were improvements in the unemployment situations for most sectors. In particular, the unemployment rate of the lower-skilled segment still hovered at a low level up to mid-2012. The number of employees in LPS did not fall despite rising labour costs, but increased notably amidst the expansion of business activities. Indeed, the unemployment rates of only a few LPS in the second quarter of 2012 remained slightly above the levels before SMW implementation (the first quarter of 2011).

#### **4.III.2 Impact on the labour market (2): employment nature**

- 4.49 Before the implementation of the initial SMW rate, stakeholders and interested parties expressed the view that some employers might request their employees to switch to self-employment status for service provision, or replace full-time employees with part-time employees, or even break-up a job to mitigate the additional wage bills entailed by SMW.
- 4.50 The self-employment ratio in LPS (i.e. the proportion of self-employed persons among all employed persons in the sector) was generally lower than that in other sectors. The self-employment ratio in LPS was 5.9% in the first quarter of 2011 (before SMW implementation) as compared with 7.8% in other sectors. However, self-employment was more common in some LPS, such as hairdressing and other personal services (29.6%). Self-employment did not become more widespread after SMW implementation. The self-employment ratio in LPS as a whole was 6.0% in the second quarter of 2012, down by 0.6 percentage point as compared with the same period in 2011. In particular, the self-employment ratio in hairdressing and other personal services fell by 2.7 percentage points (Figure 4.21).

**Figure 4.21: Self-employment ratios<sup>(\*)</sup> went down in most low paying sectors**



Note: (\*) Self-employment ratio refers to the proportion of self-employed persons among all employed persons. The numbers of employed persons and self-employed persons exclude government employees and live-in domestic workers. The self-employment ratios in some low paying sectors are not released due to relatively large sampling error.

Source: General Household Survey, Census and Statistics Department.

4.51 Moreover, the part-time ratio (i.e. the proportion of part-time employees<sup>(7)</sup> among all employees) in LPS was generally higher than that in other sectors. For example, in the first quarter of 2011 (before SMW implementation), the part-time ratio in LPS was 10.2%, much higher than the 6.4% in other sectors; the ratios were even higher in supermarkets and convenience stores (13.5%), fast food cafes (17.1%), cleaning services (15.4%), and hairdressing and other personal services (19.6%). As at the second quarter of 2012, the part-time ratio in LPS decreased slightly to 10.9% from 11.0% for the same period in 2011, with virtually no change. As for individual LPS, only laundry and dry cleaning services, local courier services, fast food cafes and Chinese restaurants recorded more noticeable increases (Table 4.8).

(7) As defined in the GHS, a part-time employee refers to a person who is arranged to work less than 35 hours during the 7 days before enumeration.

**Table 4.8: Change in part-time ratio and proportion of underemployed employees among part-time employees analysed by sector**

	Proportion of part-time employees among all employees			Proportion of underemployed employees among part-time employees
	Q2 2011	Q2 2012	Year-on-year rate of change in Q2 2012	Year-on-year rate of change in Q2 2012
	Percent (%)	Percent (%)	Percentage point	Percentage point
<b>Low paying sectors</b>	11.0	10.9	-0.1	-4.6
Retail	9.4	9.7	+0.3	-4.0
Supermarkets and convenience stores	17.9	16.1	-1.8	§
Other retail stores	8.3	9.0	+0.7	-1.7
Restaurants	12.7	13.2	+0.5	-3.1
Chinese restaurants	8.5	9.7	+1.2	-14.8
Non-Chinese restaurants	10.8	10.6	-0.2	-3.5
Fast food cafes	15.3	21.6	+6.3	§
Hong Kong style tea cafes	16.8	15.1	-1.7	-2.7
Estate management, security and cleaning services	8.2	7.1	-1.1	-2.6
Real estate maintenance management	1.9	2.3	+0.4	§
Security services	4.2	3.2	-1.0	§
Cleaning services	16.4	15.1	-1.3	-5.3
Membership organisations	16.6	10.6	-6.0	§
<b>Other low paying sectors</b>	17.4	17.1	-0.3	-9.3
Elderly homes	5.4	4.8	-0.6	§
Laundry and dry cleaning services	9.0	20.9	+11.9	§
Hairdressing and other personal services	26.2	23.7	-2.5	-11.9
Local courier services	7.7	15.3	+7.6	§
Food processing and production	18.5	14.8	-3.7	§
<b>Other sectors</b>	5.7	5.9	+0.2	-3.7
<b>Overall</b>	<b>7.2</b>	<b>7.4</b>	<b>+0.2</b>	<b>-4.0</b>

Notes: § Figures are not released due to relatively large sampling error.

The numbers of employees and part-time employees in the above table exclude government employees and live-in domestic workers.

Source: General Household Survey, Census and Statistics Department.

4.52 The increase in part-time ratio in individual LPS was related to their own operating characteristics. The labour demand in some sectors, such as retail and restaurants, is obviously seasonal and largely affected by the resilience of local private consumption. During peak seasons, employers may have to recruit more part-time staff to meet short-term manpower requirements. Hence, whether the increase in part-time ratio was of voluntary nature can be concurrently examined through observing the change in proportion of underemployed employees among all part-time employees. As shown in Table 4.8, part-time ratios in sectors like other retail stores and Chinese restaurants increased, but their proportions of underemployed employees among all part-time employees decreased concurrently. In other words, although some employees in these sectors seemed to have shorter working hours, it might not be due to underemployment. In fact, during MWC's consultation sessions, many employers indicated to us their recruitment difficulties. Hence, the increase in part-time ratio was not necessarily induced by employers in a bid to offset rising labour costs. Rather, it might possibly reflect the situation of labour shortage.

### 4.III.3 Impact on the labour market (3): working hours

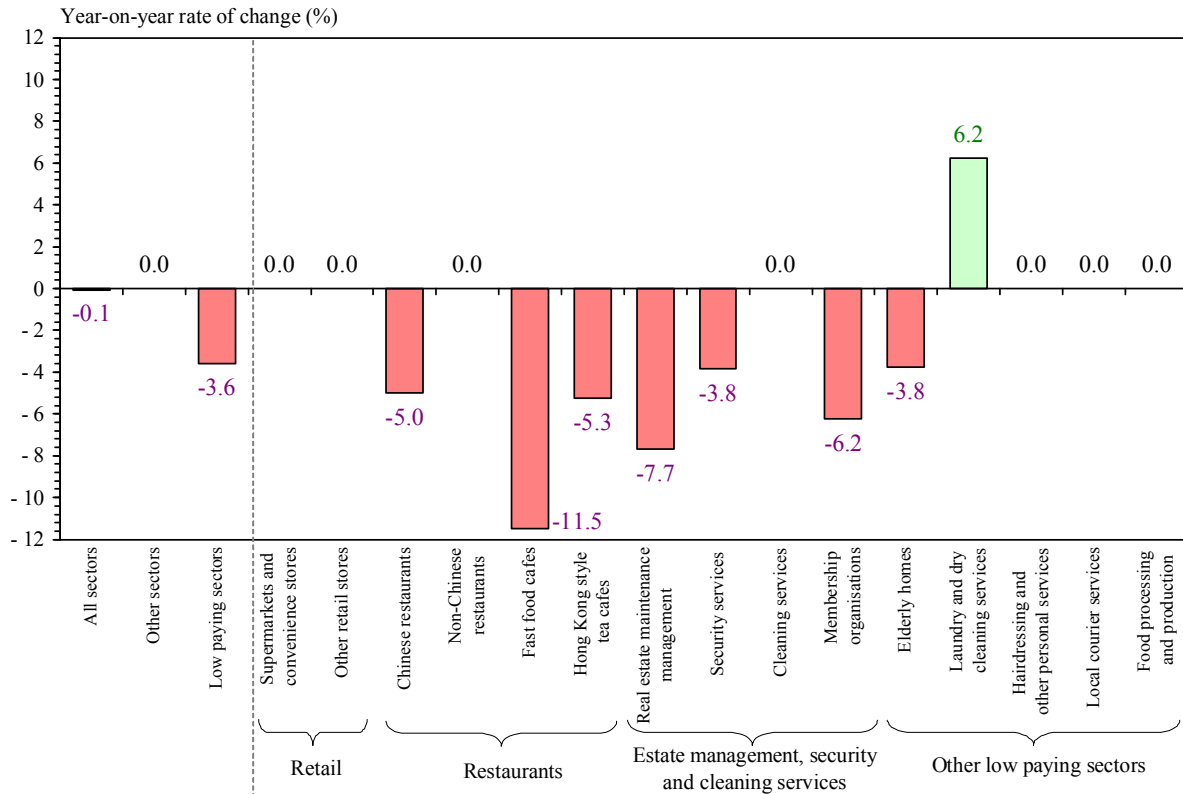
- 4.53 There were also views that SMW implementation might cause employers to reduce staff's working hours in order to cut labour costs. Based on the findings of the 2010 AEHS (before SMW implementation) and 2011 AEHS (after SMW implementation)<sup>(8)</sup>, we examined the changes in weekly working hours of lower-skilled employees in various sectors when the policy was just implemented. In overall terms, the median working hours of lower-skilled employees for all sectors and other sectors<sup>(9)</sup> did not change significantly at the time when SMW was just implemented. However, the median working hours of lower-skilled employees in LPS dropped by 3.6%, particularly visible in restaurants (such as fast food cafes (-11.5%), Hong Kong style tea cafes (-5.3%) and Chinese restaurants (-5.0%)), and estate management, security and cleaning services (such as real estate maintenance management (-7.7%), and membership organisations (-6.2%)) (Figure 4.22).
- 4.54 By making reference to the findings of GHS in the second quarter of 2012, we could observe from employees' perspective the change in actual working hours after the initial SMW rate was implemented for some time. The data collected in GHS were the actual working hours of employees during the 7 days before enumeration. As the definition of working hours in the survey was different from that under the MWO, the survey results could only be regarded as crude indicators. Figures for the second quarter of 2012 showed that the average weekly working hours of lower-skilled employees only decreased slightly by 0.4% year-on-year, virtually the same as compared with the same period in 2011. While the average working hours of lower-skilled employees in estate management, security and cleaning services (except membership organisations) registered no substantial change, the corresponding figure in restaurants still recorded a noticeable decrease (Figure 4.23).

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(8) Since the calculation methods of working hours used for the two survey periods were different, to facilitate general comparison with the 2010 figures, this section uses working hours statistics in 2011 compiled based on a method close to the one used in 2010, i.e. the statistics that were derived by deducting the total number of working hours by meal breaks which were regarded as working hours. While this method is close to the one used in 2010, the 2011 weekly working hours so compiled are not fully comparable with the 2010 figures.

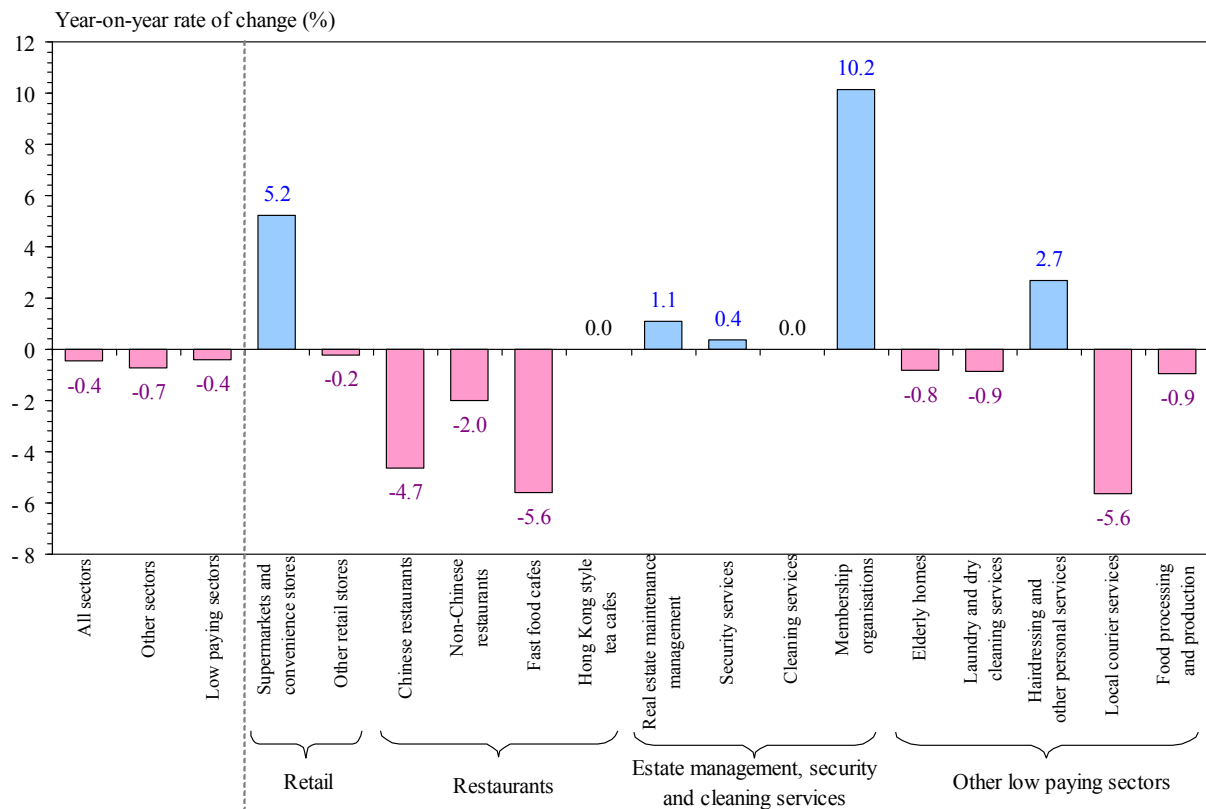
(9) Details on the distribution of working hours analysed by sector are in [Appendix VI](#).

**Figure 4.22: Year-on-year rate of change in median weekly working hours of lower-skilled employees in May to June 2011 as compared to the second quarter in 2010 by sector**



Sources: 2010 and 2011 Annual Earnings and Hours Surveys, Census and Statistics Department

**Figure 4.23: Year-on-year rate of change in average weekly working hours of lower-skilled employees<sup>(\*)</sup> in the second quarter of 2012 by sector**



Note: (\*) Employees exclude government employees and live-in domestic workers.

Source: General Household Survey, Census and Statistics Department.



4.55 The Study on Knock-on Effect also revealed that the contractual monthly working hours of most of the matched target employees in September 2011 remained largely unchanged as compared to the same period in 2010. In the retail sector, however, the contractual working hours of about 25% of elementary workers (mostly general workers and storekeepers) were reduced. The median of such reduction was 12 hours a month. As for restaurants, the monthly contractual working hours of about 10% each of dishwashers, kitchen general workers and other related elementary workers; restaurant supervisors, managers and other related staff; as well as waiters/waitresses, cooks and other related service workers were cut. The median of such reduction was 25 hours a month. Enumerated enterprises in both sectors indicated that one of the reasons for cutting staff's working hours was to cope with the increase in labour costs arising from SMW implementation, indicating that some enterprises inevitably absorbed the additional SMW-induced labour costs by adopting such mitigation measure. However, the monthly wages of the overwhelming majority of the above matched target employees with reduced working hours did not decrease as compared to September 2010.

#### **4.III.4 Impact on the labour market (4): incentive to work**

4.56 The implementation of SMW lifted wages of the grassroots employees, thereby encouraging potential labour force to enter or re-enter the labour market and boosting the incentive to work. When the initial SMW rate was just implemented, the positive effect on boosting the incentive to work was particularly pronounced amidst a robust economy and increased job opportunities. The labour force grew persistently in 2011, up by 43 500 (or 1.2%) to 3 701 700 in the second quarter of 2011 as compared with the first quarter. For 2011 as a whole, a marked year-on-year growth of 2.0% was observed, representing the largest increase since 1998. The labour force reached a record high of 3 796 900 in the second quarter of 2012, up by 95 300 (or 2.6%) year-on-year with the lower-skilled segment contributing nearly 60%.

4.57 Among the additional labour force, we saw the most prominent increases in the older age groups (aged 50 to 59, and aged 60 and above). In the second quarter of 2012, labour force of these two groups increased year-on-year by around 33 200 (or 4.2%) and 34 400 (or 17.4%) respectively. In addition, female labour force posted a notable year-on-year increase of 68 900 (or 3.9%), of which about 50% were aged 50 and above. The implementation of the initial SMW rate, together with the buoyant economic

conditions, helped encourage women with family responsibilities to enter the labour market. Meanwhile, the labour force participation rates of these groups were also considerably higher than those during the same period in 2011 (Table 4.9).

**Table 4.9: Change in labour force and labour force participation rate**

Labour force							
	Q1 2011	Q2 2011	Change in Q2 2011 over Q1 2011 <sup>(*)</sup>		Q2 2012	Change in Q2 2012 over Q2 2011 <sup>(*)</sup>	
			Number of persons	Rate of change (%)		Number of persons	Rate of change (%)
Age							
Aged 15 to 19	36 500	40 200	+3 600	+9.9	40 000	-200	-0.4
Aged 20 to 24	270 900	267 600	-3 300	-1.2	270 900	+3 300	+1.2
Aged 50 to 59	755 600	781 100	+25 500	+3.4	814 300	+33 200	+4.2
Aged 60 and above	195 300	198 100	+2 700	+1.4	232 400	+34 400	+17.4
Gender							
Male	1 922 200	1 944 500	+22 300	+1.2	1 970 800	+26 300	+1.4
Female	1 736 000	1 757 200	+21 200	+1.2	1 826 100	+68 900	+3.9
Overall	3 658 200	3 701 700	+43 500	+1.2	3 796 900	+95 300	+2.6
Labour force participation rate							
	Q1 2011	Q2 2011	Change in Q2 2011 over Q1 2011		Q2 2012	Change in Q2 2012 over Q2 2011	
	Percent (%)	Percent (%)	Change in percentage point		Percent (%)	Change in percentage point	
Age							
Aged 15 to 19	8.5	9.5	+1.0		9.7	+0.2	
Aged 20 to 24	60.2	59.5	-0.7		61.0	+1.5	
Aged 50 to 59	66.5	68.4	+1.9		69.2	+0.8	
Aged 60 and above	15.4	15.5	+0.1		17.3	+1.8	
Gender							
Male	67.9	68.5	+0.6		68.8	+0.3	
Female	52.5	53.0	+0.5		54.1	+1.1	
Overall	59.6	60.1	+0.5		60.8	+0.7	

Note: (\*) The change in number of persons and the rate of change are calculated based on unrounded figures.  
Source: General Household Survey, Census and Statistics Department.

4.58 The number of unemployment cases of Comprehensive Social Security Assistance is an alternative indicator for the incentive to work. There was a persistent decline in the number from 29 206 in April 2011 to 25 070 in August 2012, a drop of 4 136 cases or 14.2%. The implementation of the initial SMW rate thus neither resulted in substantial job loss nor led to heavier reliance on social welfare.

#### **4.III.5 Impact on the labour market (5): labour relations**

4.59 After SMW came into force, both employers and employees took time to adapt to the implementation of the new policy. Statistics indicated that the Labour Department (LD) handled one labour dispute and 278 claim cases arising from SMW between May 2011 and August 2012, representing 0.9% and 1.1% of the total labour disputes and total claim cases handled respectively during the same period. The overall numbers of labour disputes and claim cases handled by LD were broadly similar to those before the implementation of the MWO. This shows that labour relations remained largely stable after the implementation of SMW.

#### **4.III.6 Impact on inflation**

4.60 The implementation of the initial SMW rate brought about an instant one-off boost to labour costs, triggering some employers to pass on part or all of the additional wage bills to consumers via price increase. On the other hand, employees with more income increased their consumption, generating extra demand which might further push up prices of local goods and services and, to a certain extent, added fuel to the inflation hike in 2011.

4.61 Although inflation in 2011 was mainly driven by food prices and private housing rentals, prices of certain goods and services surged noticeably as compared to pre-SMW implementation period. Apart from the increase in labour costs, price upsurge of some items such as food, meals bought away from home, clothing and footwear, and transport was also somehow related to imported inflation. For other consumption goods and services with larger shares of staff costs in total operating expenses such as hairdressing, management fees and other housing charges, their year-on-year inflation rates for 2011 as a whole were visibly higher than those in the past few years. In particular, the uptrend for management fees and other housing charges sustained until the first half of 2012, indicating that the initial SMW rate did exert an upward pressure on domestic inflation (Table 4.10).

**Table 4.10: Year-on-year rates of change in Consumer Price Index (CPI) between 2007 and 2012**

	Year 2007	Year 2008	Year 2009	Year 2010	Year 2011	Year 2012		
						Q1	Q2	August
<b>Rate of change in Composite CPI (%)</b>	<b>2.0</b>	<b>4.3</b>	<b>0.5</b>	<b>2.4</b>	<b>5.3</b>	<b>5.2</b>	<b>4.2</b>	<b>3.7</b>
Food (excluding meals bought away from home)	7.1	16.8	0.9	3.5	9.9	9.4	8.1	5.2
Meals bought away from home	2.5	5.9	1.6	1.7	5.2	6.1	5.7	5.2
Clothing and footwear	4.1	0.8	2.7	1.8	6.8	4.9	3.2	2.8
Transport	-0.1	2.5	-0.9	2.0	4.4	4.4	3.3	2.1
Hairdressing	1.1	2.2	0.5	1.9	4.0	4.0	2.9	1.8
Management fees and other housing charges	1.4	0.9	1.0	-0.2	4.1	6.6	4.7	2.5

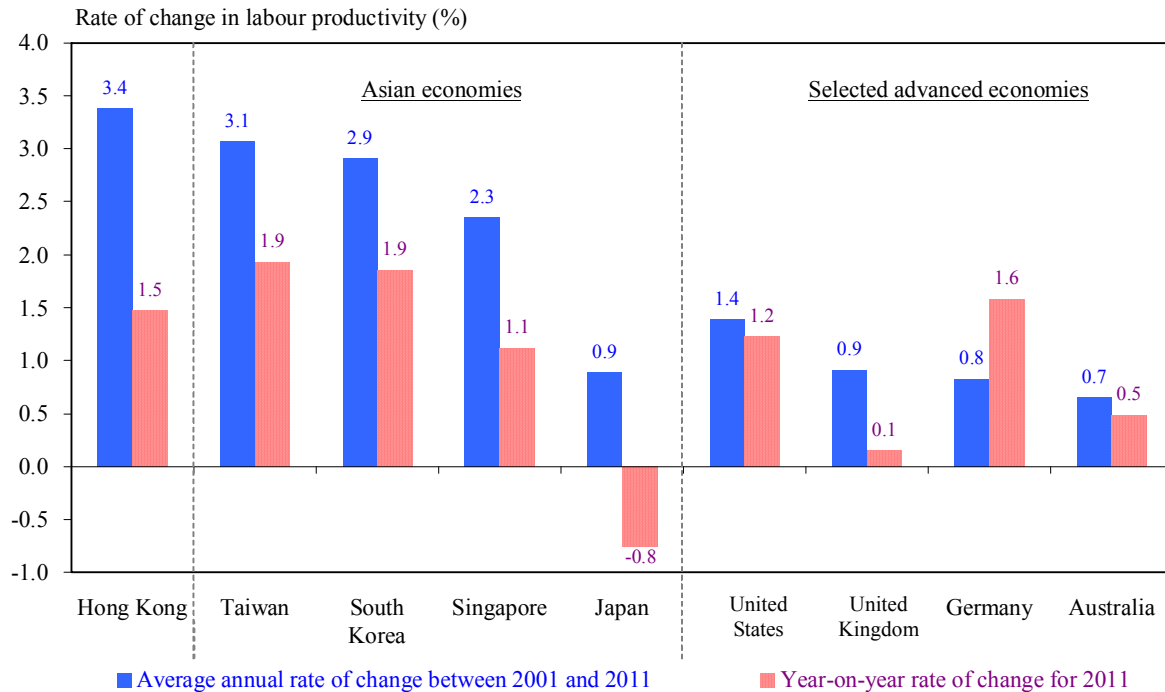
Source: Monthly Retail Price Survey, Census and Statistics Department.

#### 4.III.7 Impact on overall competitiveness

4.62 SMW had directly increased the operating costs of businesses, with greater pressures felt by LPS and SMEs. This would carry far-reaching implications to the competitiveness and growth potential of the overall economy.

4.63 Labour productivity refers to the amount of labour inputs required for producing one unit of real output. Businesses might have responded to the rise in labour costs by adopting different mitigation strategies after the implementation of the initial SMW rate, such as enhancing staff efficiency or increasing capital investment, etc., to improve labour productivity. Analysing the change in labour productivity would help examine whether local enterprises had made corresponding adjustments to their operations in order to maintain competitiveness after the implementation of the initial SMW rate. As Hong Kong is moving steadily towards a knowledge-based economy, we also saw a significant improvement in labour productivity. Between 2001 and 2011, the average annual growth rate of labour productivity in Hong Kong was 3.4%, outperforming that of other major Asian economies (Japan, Singapore, South Korea and Taiwan) and selected advanced economies (including Australia, Germany, the United Kingdom and the United States) with corresponding growth rates ranging from 0.9% to 3.1% and from 0.7% to 1.4% respectively. For the year 2011 alone, Hong Kong's labour productivity growth was still higher than that of Singapore, Japan, and the above selected advanced economies (except Germany) (Figure 4.24).

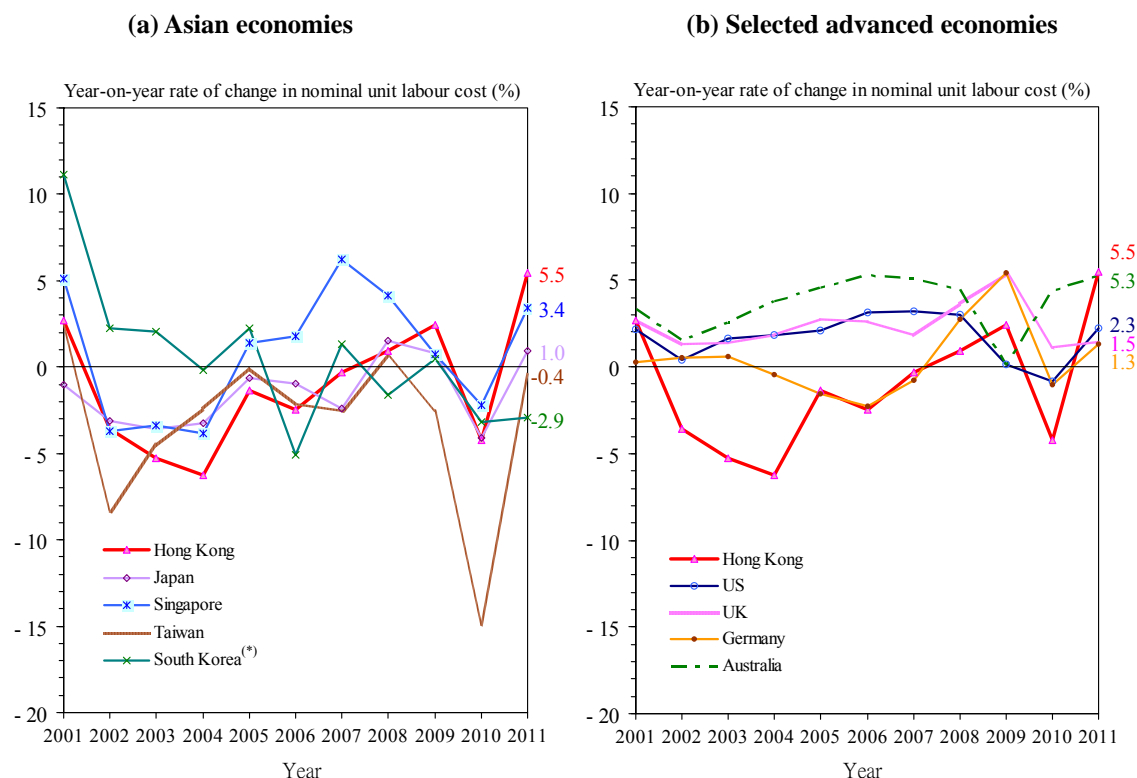
**Figure 4.24: Rates of change in labour productivity of Hong Kong and selected economies**



Note: Labour productivity is measured by the real gross domestic product (GDP) per worker.  
Sources: Hong Kong – National Income Statistics and General Household Survey, Census and Statistics Department.  
Other places – real GDP and labour force statistics in CEIC database.

4.64 We also made reference to the nominal unit labour cost, which indicates the average labour cost per unit of output. With the implementation of the initial SMW rate, value of production would also be adjusted apart from wage level and employment. Therefore, the unit labour cost, which incorporates these factors, can effectively reflect the changes in Hong Kong's labour costs after SMW implementation. Our nominal unit labour cost was on a downward trend between 2002 and 2007, having gradually turned around since 2008. Between 2001 and 2011, Hong Kong's nominal unit labour cost fell by 1.5% on average per annum, larger than the declines in most of the Asian economies and selected advanced economies (Figure 4.25). However, it should be noted that for the year 2011 alone, Hong Kong's nominal unit labour cost rose by 5.5%, significantly higher than other selected economies (ranging from -2.9% to +5.3%).

**Figure 4.25: Year-on-year rates of change in nominal unit labour cost of Hong Kong and selected economies**



Note: (\*) Statistics cover the manufacturing sector only.

Sources: Hong Kong – National Income Statistics, General Household Survey, and Labour Earnings Survey, Census and Statistics Department.

Other places – National statistics authorities, CEIC and Datastream databases.

4.65 As the initial SMW rate has been implemented for just over one year, its impact on Hong Kong's competitiveness in medium to long term has yet to be seen. Nevertheless, the change in Hong Kong's global rankings in indices of economic freedom and competitiveness compiled by various renowned international organisations can serve as references of whether Hong Kong's recognised competitiveness has been affected. Hong Kong's rankings in these indices is usually one of the factors considered by investors. Up to now, Hong Kong's rankings in these indices of economic freedom and competitiveness stayed among the top in the world. For example, Hong Kong was named the world's freest economy by The Heritage Foundation under its *Index of Economic Freedom* for 18 consecutive years (January 2012), and was consistently ranked the freest economy in the world by the Fraser Institute in its *Economic Freedom of the World Report* (September 2012). In terms of competitiveness, Hong Kong was ranked the world's most competitive economy again by the Lausanne, Switzerland-based International Institute for Management Development in its *2012 World Competitiveness Yearbook* (May 2012). Once again, Hong Kong was acclaimed as the second easiest place to do business by the World Bank

in its *2012 Doing Business Report* (October 2011), and ranked 9<sup>th</sup> in the World Economic Forum's *Global Competitiveness Report 2012-2013* (September 2012), up from 11<sup>th</sup> a year earlier (Table 4.11).

**Table 4.11: Hong Kong's global rankings of economic freedom and competitiveness<sup>(^)</sup>**

Institution	Heritage Foundation		Fraser Institute		International Institute for Management Development		World Bank		World Economic Forum	
Report	Index of Economic Freedom		Economic Freedom of the World Report		World Competitiveness Yearbook		Doing Business Report		Global Competitiveness Report	
	(1)		(2)		(3)		(4)		(5)	
Report Year Ranking	2011	2012	2011	2012	2011	2012	2011	2012	2011-2012	2012-2013
1	Hong Kong	Hong Kong	Hong Kong	Hong Kong	Hong Kong/United States	Hong Kong	Singapore	Singapore	Switzerland	Switzerland
2	Singapore	Singapore	Singapore	Singapore	–	United States	Hong Kong	Hong Kong	Singapore	Singapore
3	Australia	Australia	New Zealand	New Zealand	Singapore	Switzerland	New Zealand	New Zealand	Sweden	Finland
4	New Zealand	New Zealand	Switzerland	Switzerland	Sweden	Singapore	United States	United States	Finland	Sweden
5	Switzerland	Switzerland	Australia	Australia/Canada	Switzerland	Sweden	Denmark	Denmark	United States	Netherlands
6	Canada	Canada	Canada	–	Taiwan	Canada	United Kingdom	Norway	Germany	Germany
7	Ireland	Chile	Mauritius	Bahrain	Canada	Taiwan	Norway	United Kingdom	Netherlands	United States
8	Denmark	Mauritius	Chile	Mauritius	Qatar	Norway	Ireland	South Korea	Denmark	United Kingdom
9	United States	Ireland	United Kingdom	Finland	Australia	Germany	Sweden	Iceland	Japan	Hong Kong
10	Bahrain	United States	Bahrain/Finland	Chile	Germany	Qatar	Saudi Arabia	Ireland	United Kingdom	Japan
									Hong Kong (11 <sup>th</sup> )	
Number of economies ranked	179	179	141	144	59	59	183	183	142	144

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

Sources: Various ranking institutions.

4.66 Moreover, Hong Kong's inward direct investment stock totalled \$ 8,623.5 billion at the end of 2011, representing an increase of 3.9% over the end of 2010. A further quarter-to-quarter increase of 1.6% was seen in the second quarter of 2012. So far, the free market mechanism and competitiveness of Hong Kong have not been manifestly hampered as a result of the implementation of the initial SMW rate, indicating that Hong Kong still has an edge in attracting foreign investment.

#### 4.IV Observations

- 4.67 The above analysis on the changes of indicators related to the review of the SMW rate facilitated us to summarise systematically the impact of the initial SMW rate on three fronts. Firstly, regarding the impact on employees, data from statistical surveys conducted at different time points all indicated that SMW had brought about a significant extra boost to the pay rises of low-paid employees. Low-paid employees enjoyed notable pay increases in real terms even after discounting inflation, suggesting that SMW did help enhance the quality of life of grassroots employees. However, the wage differentials among different ranks and occupations were narrowed, causing recruitment difficulties in some sectors with less favourable working environment. In order to retain employees or maintain the wage differentials among different ranks, employers often had to offer pay rise to employees with wage rate already at or above the statutory level. The related Study revealed that the retail and restaurant sectors were to a certain extent affected by the knock-on effect. However, data from the Study also showed that businesses had not reduced the employment benefits of their employees by a significant extent after the implementation of SMW as a means to mitigate the increase in labour costs.
- 4.68 Secondly, for the impact on businesses, the implementation of the initial SMW rate increased their wage bills, particularly those in LPS. With the overall profit ratio of LPS lower than that of other sectors, there were concerns that SMW would weaken the hiring sentiment in these sectors, or even lead to massive layoffs. There were also concerns that some enterprises with very low profit margins might turn from profits to losses or even have to close down, thereby impeding the incentives for investment and business start-up. Nonetheless, because the economy was buoyant when the initial SMW rate was implemented, the hiring sentiment of businesses generally stayed positive with no substantial layoffs seen. On the contrary, the number of establishments continued to rise to a record high. As the information on businesses' profitability after the implementation of the initial SMW rate was not yet available, we were unable to make further analysis. However, entrepreneurship remained largely positive amidst the expansion of economic activities over the past year, in particular with the business receipts for the retail sector recording appreciable growth when SMW was just implemented and the persistent increase in the overall number of establishments to a record high.



- 4.69 Finally, regarding the impact on the labour market, prices and overall economy, Hong Kong's labour market went through some adjustment right after the initial SMW rate was implemented, but job creation in LPS gradually resumed amidst an expanding local economy. The unemployment rate stayed low so far and the labour market was virtually in a state of full employment. Although the part-time ratios rose due to seasonal labour demand or recruitment difficulties and working hours fell in certain sectors, such changes were not significant in overall terms. Moreover, the implementation of SMW helped enhance the incentive to work notably. The overall labour force rose persistently after SMW implementation, with increases in the labour force participation rates across different age groups and educational levels, especially among women and the elderly. Furthermore, although inflation in 2011 was mainly driven by food prices and private housing rentals, the prices of consumer goods and services with relatively larger shares of labour costs were notably higher when compared with those in the past few years. It suggested that the initial SMW rate, to a certain extent, had pushed up inflation. Although SMW had the effect of pushing up local labour costs and reducing labour market flexibility, Hong Kong was still ranked high in the world with regard to overall economic freedom and competitiveness by a number of renowned international organisations. This demonstrated that the international community remained confident in Hong Kong's competitiveness and business environment.
- 4.70 To conclude, thanks to Hong Kong's vibrant economy last year, the initial SMW rate had brought more positive impacts than negative impacts. However, as SMW has only been implemented for a short period of over a year, some potential impact (such as the impact on the long term competitiveness, labour productivity and attractiveness of Hong Kong to foreign investment) might not have fully emerged. In any case, the valuable experience of the implementation of the initial SMW rate provided an important reference for our review of the SMW rate.

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

5.1 The Minimum Wage Commission (MWC) adopted an evidence-based approach in reviewing the statutory minimum wage (SMW) rate. In making recommendation on the SMW rate, the MWC mainly considered the following four factors:

- (a) **Basket of Indicators:** These relevant indicators covered a wide range of information on the socio-economic and employment conditions for assessing the impact of the initial SMW rate and conducting scenario testing based on the local economic outlook and inflation trend;
- (b) **Views of stakeholders and interested parties:** Through meetings and discussions with stakeholders and collecting views from people from various strata of society, it enabled us to gauge the social, economic and sectoral (in particular the low paying sectors (LPS)) impacts of the initial SMW rate as well as views and concerns of various sectors of society on the review of the SMW rate;
- (c) **Other relevant considerations:** These referred to other considerations that are related to the review of the SMW rate but could not be totally quantified through the Basket of Indicators; and
- (d) **Impact assessment:** Assessment of the potential impact of the recommended SMW rate, including the impact on employees, businesses, inflation and unemployment rate.

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

### 5.1 Basket of Indicators

#### 5.1.1 Basket of Indicators considered by the Minimum Wage Commission

5.2 On the basis of the Basket of Indicators adopted by the Provisional Minimum Wage Commission (PMWC) and making reference to the views of stakeholders and interested parties as well as the objectives of SMW, we further enhanced and added relevant indicators in the basket for a more comprehensive coverage of various areas of consideration. The Basket of Indicators identified by the MWC comprises four areas:

(a) general economic conditions; (b) labour market conditions; (c) competitiveness; and (d) social inclusion. Table 2.2 in Chapter 2 summarises the Basket of Indicators considered by the MWC. All relevant indicators (including sources of data) are listed in **Appendix I**. Details of major indicators in the Basket of Indicators will be elaborated in the following paragraphs.

**(a) General economic conditions**

5.3 Macroeconomic conditions, including the prevailing economic conditions and its outlook, are of utmost importance in the Basket of Indicators for studying the impact of SMW and reviewing the rate. As we all know, Hong Kong is an externally-oriented economy. When faced with different external economic developments and under different phases of an economic cycle or growth path, SMW is bound to bring about different impacts.

5.4 Indicators pertinent to this consideration include the latest economic performance (real Gross Domestic Product (GDP) growth rate), Composite Consumer Price Index (CPI) as well as the near term GDP forecast. To better understand the changes in short-term economic conditions after the implementation of SMW, we also added for reference indicators to reflect the views of enterprises on the short-term business performance outlook and hiring sentiment.

**(b) Labour market conditions**

5.5 The labour market is the first segment that would be affected by SMW. Flexibility of wage adjustment is one of the major factors affecting labour market adjustments. The introduction of a wage floor not only affects the capacity of the labour market to adjust, but also directly increases business costs, thereby leading to job loss. Therefore, there will be adjustments in the labour market after SMW uprating and such changes should be closely monitored.

5.6 Indicators reflecting labour market conditions include:

- (i) *Labour supply and demand*: These indicators include total employment and vacancies by sector (especially LPS) and occupational group; total labour force by socio-economic characteristic; labour force participation rate by age; unemployment by sector and socio-economic characteristic; and underemployment by sector. Besides, we added an indicator on the mode of leaving last job of unemployed persons with a previous job (e.g. being

dismissed/laid-off or leaving job on own accord) for considering whether SMW has led to downsizing in enterprises.

- (ii) *Wage level and distribution:* These indicators include the wage distribution in major sectors and LPS covered by the Annual Earnings and Hours Survey (AEHS) conducted by the Census and Statistics Department. Such data are further analysed by socio-economic characteristics of employees (such as gender, age, educational attainment and occupation).
- (iii) *Wage differentials:* These indicators cover the comparison of hourly wage distributions and ratios of different percentile of hourly wage between the periods of April to June 2010 and May to June 2011 for analysing the changes in wage differentials before and after the implementation of SMW.
- (iv) *Employment characteristics:* These indicators include the number of employed persons or employees analysed by employment status (employees and self-employed persons), employment nature (full-time and part-time employment), etc. Experience in other places shows that some enterprises may opt to change employment terms, reduce the number of full-time and permanent positions, and recruit more temporary and part-time employees after SMW implementation or uprating. These indicators are therefore useful for examining the structural impact of SMW on the labour market.
- (v) *Working hours:* These indicators include the distribution of working hours and average number of hours actually worked during the 7 days before enumeration for analysing the changes in working hours of employees in LPS before and after the implementation of SMW. We added “working hours” as a new indicator in consideration of the possibility that some enterprises might reduce operating costs by reducing working hours of employees or employing more part-time and/or temporary employees after SMW implementation. While such changes will be reflected by the proportion of full-time or part-time employees, the changes in the average number of working hours in different sectors/occupations also provide useful information for analysing the mitigation strategies adopted by different sectors.

(c) **Competitiveness**

5.7 The wage bills of enterprises will increase after SMW implementation or uprating. Other things being unchanged, this would raise the unit labour cost in the economy as a whole. In the long run, such a change may affect Hong Kong's competitiveness, productivity, inflation and economic growth. Hence, it is important to examine and consider the impact of SMW on Hong Kong's competitiveness at both the micro and macro levels.

5.8 Indicators reflecting competitiveness include:

- (i) *Productivity growth*: This indicator measures the change in labour productivity of enterprises in Hong Kong after the implementation of SMW (i.e. the amount of labour input required for producing one unit of real output) for understanding whether adjustments to the mode of operation have been made in different sectors to maintain competitiveness.
- (ii) *Labour costs*: This indicator includes the nominal unit labour costs of Hong Kong and selected economies, which indicates the average labour cost required to produce a unit of output. It helps us understand the actual changes in labour costs after the implementation of SMW.
- (iii) *Operating characteristics of enterprises*: A detailed analysis of the operating characteristics of enterprises in various sectors facilitates the MWC to consider the impact of different SMW levels on individual sectors at the micro level and their affordability in order to make sure that the recommended SMW rate would not bring substantial negative impact to the overall economic activity and competitiveness.

Relevant indicators include profit ratios, ratios of compensation of employees to total operating expenses and business receipts, etc. Furthermore, we also made reference to the latest statistics on business receipts and sales for obtaining the latest business performance in the rapidly changing market. We also added an indicator on rental indices of commercial properties to reflect the trend of offices and shops rentals so as to fully consider the different costs pressures faced by enterprises.

- (iv) *Entrepreneurship, business sentiment and solvency*: Start-up, closure, bankruptcy and winding-up of companies are indicators of current and expected business sentiment. The numbers of new and cancelled business registrations as well as bankruptcy and compulsory winding-up petitions facilitate us to monitor the impact of SMW implementation on entrepreneurship and business sentiment. We also added the number of establishments to examine the operating conditions of major sectors (especially LPS) after the implementation of SMW.
- (v) *Relative economic freedom and competitiveness of Hong Kong*: Examining the changes in Hong Kong's rankings on indices of economic freedom and competitiveness compiled by various renowned organisations helps us understand whether Hong Kong's perceived competitiveness has been affected after the implementation of SMW. Moreover, to examine the attractiveness of Hong Kong to foreign investment, we also included new indicators such as inward direct investment.

5.9 Items (i), (ii) and (v) above reflect in different ways the actual and/or perceived competitiveness of Hong Kong at the macro level, while items (iii) and (iv) measure the features and situations related to competitiveness of various sectors in Hong Kong at the sectoral and enterprise levels.

**(d) Social inclusion**

5.10 "Standard of living" is the last area of consideration covered under the Basket of Indicators identified by the PMWC with a view to comparing and analysing changes in employment earnings and consumer prices to gauge the overall standard of living and purchasing power of the low-paid. However, there are considerable views in the community that social harmony should also be covered in the considerations in reviewing the SMW rate. For example, some employees might choose to work for flexible or less working hours while receiving the same or even higher income and also devoting more time to take care of their families after the implementation or uprating of SMW. SMW uprating may enhance the incentive to work of those who are not in the labour market and encourage them to join the workforce. In view of this, we further expanded the scope of "standard of living" adopted by the PMWC to "social inclusion".

5.11 It is noteworthy that there is no objective standard for measuring “social inclusion” and it is difficult to quantify such concept. As such, the indicators covered in this area as below are meant to indirectly reflect the situation of “social inclusion” in a broad sense:

- (i) *Standard of living*: These indicators include changes in the nominal and real employment earnings of employees in LPS, and CPI(A). The nominal and real wage indices were also added and relevant analysis was made with regard to the employment earnings of full-time employees by decile for monitoring the magnitude of improvements in earnings of low-paid workers after the implementation of SMW from different aspects.
- (ii) *Enhancing work incentive*: Some stakeholders expressed that SMW could enhance the incentive to work, and encourage those who are economically inactive to seek employment or recipients of the unemployed Comprehensive Social Security Assistance (CSSA) to re-enter the labour market. This would not only improve their livelihood but also embrace social inclusion and broaden their social circles. Relevant indicators include labour force participation rate (especially the participation rate of older persons), number of long term unemployment (unemployed for six months or above) and unemployment cases of CSSA.
- (iii) *Labour relations*: Some stakeholders and interested parties expressed that SMW adjustment might have impact on labour relations. We thus added an indicator on the number of disputes and claim cases arising from SMW to monitor the situation.

#### **5.I.2 Impact of the implementation of the initial statutory minimum wage rate so far**

5.12 We have set out the social, economic and labour market data of the Basket of Indicators and consolidated our observations on the impact of the initial SMW rate in Chapters 3 and 4. Based on an evidence-based approach, these analyses laid a solid foundation for the review of the SMW rate and facilitated the MWC to carry out rational and objective discussions on the rate. The experience in implementing the initial SMW rate preliminarily showed that an appropriate balance could be struck between forestalling excessively low wages and minimising the loss of low-paid jobs, while also having regard to the need to sustain Hong Kong’s economic growth and competitiveness.

- 5.13 As mentioned in Chapter 3, although the initial SMW rate seemed to bring more positive impacts than negative impacts, the stronger than expected economy in Hong Kong in 2011 had, to a large extent, cushioned the pressure on the economy, labour market and businesses brought about by SMW. While the unemployment rate stayed at a low level up to mid-2012, the overall economic growth has evidently slowed down since late 2011 amidst a worsening external economic environment. Whether enterprises can bear a higher SMW rate without substantial downsizing hinges largely on the prevailing economic environment when the rate is implemented. Taking into account the time lag between recommending and implementing the SMW rate, it is necessary to make a judgement on the economic conditions when the rate is implemented, and assess the near term economic and labour market outlook when considering whether adjustment to the SMW rate should be made.

### **5.1.3 Economic and labour market outlook**

- 5.14 Hong Kong's economic outlook remained uncertain and the external economic environment was deteriorating when we reviewed and made recommendation on the SMW rate. The fiscal positions of many member states of the eurozone were fragile amidst the lingering concerns over an eventual Greek exit from the eurozone and the overhang of the eurozone sovereign debt crisis (eurozone debt crisis). The momentum of the US economic recovery was clouded by uncertainties. The negative spillovers from the sluggishness of the advanced economies to Asia also became increasingly visible.
- 5.15 As a small externally-oriented economy, Hong Kong can hardly stay unscathed from the risk of tapering growth or even recession faced by major economies. The mounting headwinds to the global economy would inevitably continue to overshadow the outlook for Hong Kong's exports. Volatility in the financial and stock markets caused by gyrations on the external front also resulted in more cautious local consumer sentiment as reflected in the latest performance of the retail trade. The volume of total retail sales in August this year only increased slightly by 4.5% over a year earlier (a year-on-year increase of 3.2% after discounting the effect of price changes), a meagre performance as compared with the double-digit growth for most of the time from 2010 to the first quarter of 2012. In overall terms, the economic outlook for Hong Kong is uncertain on the back of these developments. The economic growth forecast for 2012 as a whole released by the Government in August was revised downwards to 1% to 2%, considerably lower than the average annual growth rate of



4.5% over the last decade, suggesting that the Hong Kong economy is poised to attain a tepid growth in the near term.

5.16 To mitigate the impact of data limitation arising from the issue of time lag as mentioned in paragraph 5.13, we considered conducting scenario testing based on the assumptions on the economic outlook of the first half of 2013 when reviewing the SMW rate. Noting that the downside risks in the economy continued to loom large, the MWC considered after iterative discussions that stress tests could be conducted under four economic scenarios, including “optimistic scenario”, “base case”, “pessimistic scenario” and “more pessimistic scenario”, to assess the impact on the affordability of businesses under different economic environments. The first two economic scenarios represent a macroeconomic environment with relatively tepid growth, while the latter two have taken into account the possibility of the economy entering into recession. Table 5.1 sets out our assumptions about these four economic scenarios. It should be emphasised that the assumptions only served to help us understand the possible impact of the recommended SMW rate under different economic scenarios. They should not be taken as an economic forecast.

**Table 5.1: Assumptions made by the Minimum Wage Commission  
on the four economic scenarios**

<b>Economic scenario</b>	<b>Real economic growth for the first half of 2013, year-on-year rate of change</b>
Optimistic scenario	+3.0%
Base case	+1.0%
Pessimistic scenario	-1.0%
More pessimistic scenario	-2.0%

5.17 Notwithstanding the above, the Asian economies generally have sounder fundamentals and more room for policy manoeuvring. Many of them including the Mainland have gradually eased their policy to support economic growth in recent months. This should hopefully render some support to the region’s demand. In addition, the local labour market remains buoyant with the unemployment rate staying at a low level. Positive hiring sentiment prevails among many enterprises. The overall employment situation remains buoyant and workers’ income continues to rise. This would hopefully provide some impetus to local consumption-related sectors.

- 5.18 Nevertheless, the labour market outlook would be directly affected by whether the corporate sector would turn more cautious in creating new jobs amidst the increasing downside risks to the economy. Pay rise in overall terms has moderated somewhat since early 2012. After discounting the effect of inflation, employment earnings of the higher-income groups actually fell slightly in recent months.
- 5.19 Moreover, a rise in inflation would carry impact on purchasing power. Soaring inflation since end-2010 had brought substantial cumulative effect. During the 15-month period since the implementation of SMW from May 2011 to August 2012, after netting out the effect of Government one-off relief measures, the underlying Composite CPI and CPI(A) rose by 5.3% and 5.2% respectively in cumulative terms. In the near term, inflation is expected to ease further amidst the economic slowdown. Nevertheless, international food and commodity prices are quite volatile. The series of quantitative easing measures in Europe and the United States would also bring about abundant global liquidity. All these external factors and the persistently high local rentals would continue to pose potential upward pressure on domestic prices.
- 5.20 Looking ahead into the economic outlook of the remaining few months of 2012 and the year of 2013, we considered that the economic environment at the time the recommended SMW rate is implemented will largely depend on the developments of the following factors:
- (a) Severity and duration of the eurozone debt crisis;
  - (b) Economic performance of the major economies including the Mainland;
  - (c) Conditions of local consumption market and its impact on the overall economic outlook of Hong Kong; and
  - (d) Hong Kong's potential inflationary pressure.
- 5.21 To conclude, it is very likely that the macroeconomic conditions in 2013 would be very different from the robust economic landscape in 2011 when the initial SMW rate was implemented. After considering and balancing various evidences, we unanimously agreed that we had to be cautious in making the recommendation.

## **5.II Views of Stakeholders and Interested Parties**

5.22 As mentioned in Chapter 2, we conducted intensive and extensive consultations including public consultation and two rounds of consultation meetings to collect oral and written submissions from stakeholders and interested parties. The views and information collected concern mainly about the impact of the initial SMW rate and review of the SMW rate. These views and information were our reference in formulating our preliminary views on the study of the SMW rate and the framework of impact assessment. They also facilitated us to have a more complete picture of the impact of the initial SMW rate on society, economy and different sectors, in particular LPS, as well as of the views and concerns of various sectors of the community on the SMW rate. The main points are summarised below.

### **5.II.1 Impact of the initial statutory minimum wage rate**

#### **(a) Impact on the economy**

5.23 Employers' associations and employer representatives generally held the view that the initial SMW rate was implemented in the midst of a sustained economic upswing in Hong Kong. Economic activities expanded, resulting in a tight labour market. As such, the initial SMW rate did not cause severe adverse impact on various sectors and enterprises. Nevertheless, with the significant one-off increase in the wages of low-paid employees, enterprises had to raise prices to offset the increase in labour costs, which in turn became one of the factors pushing up inflation.

5.24 Trade unions and labour policy concern groups were generally of the view that the initial SMW rate was not the major cause of rising inflation, as it was mainly driven by the increase in rentals and prices of raw materials (such as foodstuff). The implementation of SMW neither induced any negative impact as originally expected nor resulted in waves of business closures. By adopting different mitigation measures, enterprises were able to cope with changes in the business environment brought about by SMW implementation. The initial SMW rate also enhanced the purchasing power of employees, thereby boosting the local demand and benefiting the economy as a whole.

**(b) Impact on the labour market**

- 5.25 Trade unions and labour policy concern groups generally opined that the number of job vacancies did not drop significantly after the implementation of the initial SMW rate. Employment of young and middle-aged persons remained unaffected. On the contrary, total employment went up persistently and the overall unemployment rate decreased, indicating that SMW did not necessarily bring adverse impact on the job market.
- 5.26 Employers' associations, employer representatives, think tanks/policy research institutes and professional associations generally remarked that the initial SMW rate intensified labour market mobility. Some employees had switched to those sectors with more pleasant working environment and stable working hours, which in turn resulted in labour shortage and succession gap in other sectors with longer working hours, unpleasant working environment or even of obnoxious nature. Enterprises had to offer wages higher than the initial SMW level to attract or retain employees.
- 5.27 However, some trade unions believed that labour shortage in some sectors was attributed to the tight labour market amidst the buoyant economy when the initial SMW rate was introduced. In addition, the issues of long working hours and unpleasant working environments had long existed in certain sectors such as restaurants and elderly homes. The implementation of SMW only brought those issues to the surface rather than causing labour shortage in these sectors. The operation of these sectors should be improved to attract and retain talents.
- 5.28 Some employers' associations, small and medium enterprises (SMEs) associations and members of the public considered that the initial SMW rate had reduced the wage differentials among different occupations and sectors, and narrowed the gap between the entry salary of university graduates and the salary of grassroots employees. This would dampen incentive of youngsters to pursue further studies and upward mobility, thus impeding human resources upgrading and Hong Kong's development into a knowledge-based economy.

**(c) Social Inclusion**

- 5.29 *Work incentive:* Trade unions and labour policy concern groups were generally of the view that the implementation of the initial SMW rate had boosted people's incentive to work and led to a rise in labour force participation rates across all age groups, showing that wage increase had attracted more people (including women, the middle-aged and

the elderly) to enter or re-enter the labour market.

- 5.30 *Standard of living:* Some trade unions held the view that the implementation of the initial SMW rate ensured low-paid employees receiving a certain level of income, hence raising their purchasing power and improving their standard of living. However, some trade unions and members of the public asserted that escalating inflation had eroded the purchasing power of wages. As a result, the initial SMW rate had not brought about improvement in the standard of living of grassroots employees in real terms as originally anticipated.
- 5.31 On the other hand, some employers' associations and members of the public stated that the initial SMW rate had pushed up inflation, causing many people who did not benefit from SMW (in particular retirees, full-time housewives and employees receiving salary above the SMW rate) to suffer a decline in their living standard.
- 5.32 *Employment opportunities of vulnerable groups:* Trade unions and labour policy concern groups were generally of the view that employment opportunities of youngsters and the middle-aged had not been affected after the implementation of SMW. Some employers' associations, employer representatives, think tanks/policy research institutes and professional organisations were concerned about the impact of SMW on the employment of vulnerable groups. With increase in labour costs, some employers might tend to engage employees with higher capability, hence undermining the employment opportunities of the elderly, the less-educated and persons with disabilities. Some employers also hired less inexperienced young people and offered them fewer internship opportunities, making it difficult for young people to accumulate work experience. A report of a survey conducted by an academic institution revealed that the implementation of the initial SMW rate had positive impact on the employment of female new arrivals and CSSA recipients, but the impact on persons with disabilities tended to be negative.
- 5.33 Some incorporated owners and employers' associations from the estate management and security services sector revealed that the initial SMW rate had pushed up property management fees. Some property owners with limited financial means (especially owners of single block private residential buildings) might choose to save costs by engaging one-shift security guard service and dispensing with the night shift service. Moreover, with a view to raising service quality, some occupants requested security companies to engage younger security guards and replace those aged above 60, thereby

affecting the employment opportunities of elderly security guards.

- 5.34 *Labour relations:* Some employers' associations, employer representatives and professional organisations were of the view that upon the implementation of the initial SMW rate, some enterprises had to adopt measures such as downsizing, reducing employees' working hours, restructuring remuneration and benefit packages (such as paid rest days and paid meal breaks) or reducing training to offset the additional labour costs. Labour relations might thus be affected. It would take time for both employees and employers to adapt to the changes brought about by SMW.

**(d) Competitiveness**

- 5.35 *Knock-on effect on pay hierarchy and ripple effect:* Employers' associations and employer representatives generally remarked that the implementation of the initial SMW rate had induced knock-on effect on pay hierarchy (knock-on effect). Apart from raising wages of employees to the SMW rate, enterprises also had to raise the wages of employees at other ranks to maintain reasonable pay differentials among ranks and upkeep staff morale, leading to a significant increase in labour costs. For those enterprises which had to control labour costs and were unable to raise the wages of employees of other ranks correspondingly, they suffered from brain drain. Some think tanks/policy research institutes also shared the same view.
- 5.36 Besides, some employers' associations pointed out that with significant pay rise for employees in LPS or lower-skilled occupations upon the implementation of the initial SMW rate, employees in other sectors and occupations also expected to have comparable pay rise. Enterprises thus had to face additional labour costs on top of what was required for complying with the statutory requirement of SMW. Some trade associations remarked that due to such ripple effect, enterprises that had not been envisaged to be affected by SMW also had to raise wages to retain employees, thereby leading to increase in labour costs.
- 5.37 A survey conducted by an academic institution revealed that upon the implementation of the initial SMW rate, about 60% to 70% of the enterprises surveyed (mostly in the retail sector) faced recruitment difficulties and increase in staff turnover, resulting in pressure for pay rise. The knock-on effect and ripple effect had resulted in an increase of 5.5% of wage bills. Moreover, a survey conducted by an employers' association in the restaurant sector revealed that in order to maintain pay differentials among ranks, enterprises surveyed had to increase wages of about 50% of their staff on

average.

- 5.38 *Labour costs in relation to entitlements and benefits of employees:* Some employers' associations and trade associations opined that apart from paying SMW, many employers had to provide rest day and/or meal break pay to employees. Moreover, employers' contributions to the Mandatory Provident Fund, premium for employees' compensation insurance, long service payments and other employees' statutory entitlements were all assessed with reference to wage levels. The impact of the initial SMW rate on the labour costs of enterprises was therefore higher than anticipated.
- 5.39 *Impact on SMEs and individual sectors:* Some think tanks/policy research institutes and SMEs associations indicated that the initial SMW rate had some adverse impact on SMEs with low profit margins. Compared with large enterprises that were able to attract talents by offering better career development opportunities and promotion prospects, SMEs had no competitive edge in recruitment. They hence had to offer wages higher than the SMW level to recruit suitable staff, resulting in a considerable increase in labour costs.
- 5.40 Some employers' associations and employer representatives as well as an institute from the restaurant sector pointed out that as the restaurant sector was labour intensive, the initial SMW rate had significantly increased labour costs while most customers of restaurants were price sensitive. The profit margin of small and medium-sized restaurants was rather low. Since some operators of these restaurants found it not possible to pass on the additional labour costs to consumers, they resorted to lowering the quality and quantity of food or shrinking their businesses, leading to eventual drop-out from the market. Their market shares were overtaken by large-scale or chain restaurants. Moreover, some restaurants might undergo business restructuring by operating as self-service fast food restaurants to reduce labour costs. Traditional Chinese restaurants, which had difficulty in downsizing, might have to move up the value chain by serving the high-end consumption market to offset the increase in labour costs. Diversification of the restaurant sector would thus be affected.
- 5.41 Some employers' associations and employer representatives from the cleaning services sector revealed that the initial SMW rate had induced more cleaning workers to switch to other sectors. Enterprises had to pay wages higher than the SMW level to recruit suitable workers. As the premium for employees' compensation insurance was assessed based on the payroll, the related expenditure rose as wages increased. Some

small operators in the sector had already closed down their business due to excessively high operating costs.

- 5.42 Some employers' associations and employer representatives from the estate management and security services sector were concerned that although most estate management companies could pass on the additional wage bills entailed by the initial SMW rate directly to occupants, occupants of some housing estates and buildings might not be willing to pay the indirect additional labour costs (e.g. other benefits or statutory entitlements of employees) arisen. These costs had to be internally absorbed by the estate management companies. Moreover, the extent to which occupants were willing to bear additional labour costs (such as rest day and meal break pay of employees) differed. Hence, employees in the same company with the same job duties but working at different buildings or estates were paid differently. Some of them felt aggrieved by the differential treatments.
- 5.43 Some trade unions of the beauty care and hairdressing sectors expressed the view that after the implementation of the initial SMW rate, enterprises preferred to hire skilled and experienced workers rather than inexperienced trainees due to excessively high labour costs, thus depriving young persons of opportunities to join the sector through training. Besides, some enterprises exerted more work pressure on trainees through raising job requirements and abolishing basic salary whilst setting sales targets for commission instead.
- 5.44 An employer representative from the food processing and production sector indicated that the initial SMW rate had caused labour shortage in the sector. With experienced employees switching to jobs with more pleasant working environment and more attractive conditions of work and no new blood joining the sector, enterprises faced manpower shortage to maintain operations. A number of noodle factories had changed hands, merged or closed down since the implementation of the initial SMW rate.
- 5.45 Some employers' associations from the transport and logistics sector remarked that their sector faced severe staff turnover after the implementation of the initial SMW rate. Many elementary and frontline employees as well as those at the middle and supervisory level switched to sectors with more favourable employment terms. The business environment had become more difficult for the operators because of labour shortage as well as increase in labour costs, rentals and fuel price.



- 5.46 *Business sentiment and service quality:* Some SMEs associations and employer representatives from the elderly homes noted that owing to the obnoxious nature of the sector, operators persistently suffered from labour shortage. Upon the implementation of the initial SMW rate, pay rise in other sectors exacerbated staff turnover in the sector, thus affecting the service quality of elderly homes. Moreover, labour and rental costs constituted a huge share of the gross expenses of elderly homes. Some operators started to downsize their businesses since they were unable to cope with the increasing operating costs. Some enterprises might choose to relocate their businesses to the Mainland if labour costs were to increase further.
- 5.47 Some employer representatives from the retail and restaurant sectors revealed that in the past, lower-paid employees were more inclined to improve their service quality and performance in order to earn higher wages and allowances. However, upon the implementation of the initial SMW rate, as employees were guaranteed a certain level of wages, their incentive to seek continuous improvement in performance and undertake additional duties subsided, thus affecting the quality of service.

## **5.II.2 Review of the statutory minimum wage rate**

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

- 5.48 Some employers' associations, employer representatives, think tanks/policy research institutes and professional associations were of the view that with the onset of slower economic growth in the Mainland amidst the uncertain global economic conditions, Hong Kong's economic growth had exhibited a marked slowdown with a bleak outlook. In the event of an economic downturn, SMW might constitute a heavy burden on business operations. When reviewing the SMW rate, the MWC should consider the market flexibility for businesses to adjust in times of economic downturn. The MWC should also consider factors such as the global economic changes, movement of interest rates and economic cycle, and assess prudently and objectively the impact of adjusting the SMW rate on Hong Kong's future economy.
- 5.49 Some trade unions opined that according to the forecast of a number of institutes and universities, Hong Kong's economy was still expected to grow in 2012, albeit at a slower pace. Moreover, Hong Kong was virtually in a state of full employment with robust domestic demand. In view of these, the MWC should not be over-pessimistic about Hong Kong's economic outlook.

**(b) Assessment of the actual impact and experience of implementation**

5.50 Some employers' associations, employer representatives and professional associations pointed out that the experience of other places showed that the actual impact of minimum wage could only become apparent over a longer period of time. Given that SMW had been in force in Hong Kong for a short period of time only and it was implemented amidst a strong economy, there were insufficient data to reflect and assess its actual impact, including whether SMW would bring significant impact on society and economy during economic downturn. As it would take time for enterprises and the labour market to adapt to the changes brought about by SMW, it was not appropriate to raise the SMW rate at the current stage. The MWC should only commence the review of the SMW rate when adequate data and evidence were available.

**(c) Wage floor**

5.51 Some employers' associations, employer representatives and think tanks/policy research institutes considered that SMW only set a wage floor to protect low-paid employees and it should not be perceived as a welfare policy or a poverty alleviation measure. With the implementation of the initial SMW rate, the aim of forestalling excessively low wages had been achieved. Meanwhile, businesses should be allowed to adjust wages in the light of the economic situation, their business operations and the labour market conditions. Review of the SMW rate should be held once in every two years. Employers' associations and employer representatives holding the above view generally suggested that the SMW rate should be maintained at its current level of \$28 per hour. Moreover, many members of the public considered that the current SMW rate of \$28 per hour was set at a reasonable level. The level of wages should be determined based on the productivity of employees and supply and demand in the market, and should be adjusted by employers with reference to employees' performance.

**(d) Standard of living**

5.52 Many members of the public raised concerns over the persistent inflation in Hong Kong and held the view that the livelihood of grassroots employees could only be maintained with an uprating of SMW. On the other hand, there were also other members of the public who opined that SMW exacerbated inflation and uprating of SMW would only result in the vicious cycle of wages and prices chasing each other.

This would lower the standard of living of people (in particular retirees, full-time housewives and employees not benefited from SMW). They hence suggested maintaining the SMW rate at its current level of \$28 per hour.

5.53 Some trade unions, labour policy concern groups and think tanks/policy research institutes were of the view that to enable employees to live with dignity, the SMW rate should be set at a level that could meet the basic needs of individual employees and their families. Therefore, in reviewing the SMW rate, the MWC should put emphasis on the basic needs of individual employees and their families, and collect more data in this regard. These stakeholders were commonly of the view that the SMW rate should be adjusted in line with inflation and reviewed annually to avoid employees' purchasing power being eroded by inflation. The MWC should take into account the cumulative increase in inflation during the period between the setting of the initial SMW rate and the implementation of the second SMW rate to beat inflation. Moreover, the SMW rate should not be lower than the CSSA level to cover the basic living expenses of employees and their families. In order to attract CSSA recipients to enter or re-enter the labour market, the SMW rate should even be raised to a level higher than the CSSA level.

5.54 Trade unions and labour policy concern groups were generally of the view that the SMW rate should be raised to \$33 to \$35 per hour so as to meet the basic needs of employees and their families. They expected that with such an increase, the impact on enterprises' profits would be limited and should be manageable for enterprises. In addition, some trade union and labour policy concern groups recommended that the SMW rate should be raised to the range of \$30 to \$32, or even to \$36 per hour.

**(e) Business environment**

5.55 Some employers' associations, SMEs associations, employer representatives and think tanks/policy research institutes remarked that SMEs with limited financial means and competitiveness were unable to make bulk purchase and undergo mass production to control costs like what larger enterprises did. They also found it more difficult to pass on additional costs to consumers. As a result, SMW had greater impact on SMEs and an exceedingly high SMW rate would undermine their survival. SMEs might eventually be squeezed out of the market by large enterprises. Upon the implementation of the initial SMW rate, SMEs had already deployed substantial resources to adapt to the changes brought about by the policy. Amidst an uncertain

economic outlook, the SMW uprating would pose further challenges to SMEs or would even result in waves of business closures and dampen the incentive for business start-up. It was suggested that the SMW rate should be maintained at its current level of \$28 per hour to give room for enterprises to adapt to the changes. Besides, some SMEs associations and employer representatives indicated that whilst no change to the current SMW rate of \$28 per hour was preferred, they found it acceptable for the SMW rate to be raised to \$30 to \$31 per hour or be adjusted in tandem with inflation.

- 5.56 Some employers' associations and employer representatives were of the view that in reviewing the SMW rate, the MWC should take into account the operating characteristics of various sectors and the impact of SMW on them in order not to adversely affect their development and competitiveness. The MWC should also consider Hong Kong's overall economic development, business environment, the impact of SMW on inflation and prices, etc. Moreover, apart from assessing the additional labour costs borne by employers due to increased wages of grassroots employees, the MWC should take into account the costs to be borne by enterprises arising from the increase in statutory benefits and other expenses induced by SMW and the additional wage bills as a result of the knock-on effect and the ripple effect.
- 5.57 However, some trade unions held the view that high rentals were the main cause for operating difficulties. As SMEs employed only a small number of employees, the additional labour costs resulting from SMW uprating would be limited. In contrast, some employers' associations from the restaurant sector were of the view that some LPS, for example the restaurant sector, were labour-intensive. Wages rather than rentals accounted for the largest proportion of their operating costs.

**(f) Property management fee**

- 5.58 Property owners/residents' associations generally considered that the implementation of the initial SMW rate had resulted in significant increase in property management fee. Any increase in the SMW rate would further push up property management fee that many owners would not be able to bear. Therefore, it was suggested that the SMW rate should be maintained at the present level of \$28 per hour. On the other hand, some trade unions pointed out that although property management fee rose due to increase in security and cleaning services costs following the implementation of the initial SMW rate, these costs only accounted for 30% to 40% of the property management fee. Their actual impact should be limited and it was estimated that

SMW uprating would not lead to a surge in property management fee.

**(g) Proposed indicators**

- 5.59 Some trade unions and labour policy concern groups remarked that in reviewing the SMW rate, consideration should be given to the “dependency ratio” i.e. the ratio of number of employed persons to total population in Hong Kong so as to ensure that wages of employees were sufficient to support their families. Besides, some labour policy concern groups expressed the view that consideration should be given to an indicator which measured the level of poverty, viz. deprivation index under which deprivation is defined as the lack of three or more essential items<sup>(1)</sup>. The labour policy concern groups added that SMW uprating would help relieve the degree of deprivation for those in poverty.
- 5.60 Some trade unions considered that for employees to share the fruits of economic development, GDP per capita should be made reference to when setting the SMW rate. Drawing from the experience of other places, minimum wage was usually set at 30% to 60% of GDP per capita. On this basis, there was still room for an increase in the current SMW rate of \$28 per hour in Hong Kong.
- 5.61 A trade union suggested that in reviewing the SMW rate, the MWC should consider the poverty indicator as set out in a report of the former Commission on Poverty, in which the working poor was defined as employees with monthly income below 50% of the median monthly employment earnings. Median monthly household income was another indicator that the MWC could take into consideration. Besides, some trade unions pointed out that the MWC could include in its Basket of Indicators the “number and percentage of low-income households” with a monthly income less than half of the median household income so as to look into whether SMW rate could improve the living standard of the low-income households.
- 5.62 Some think tanks/policy research institutes and SMEs associations expressed the view that for setting the SMW rate at a reasonable level, the MWC should make reference to the ratio of minimum wage rate to median wage in other places, which generally ranged from 45% to 50%. The SMW rate of \$28 per hour in Hong Kong was around 53% of the median hourly wage (\$52.4) for the period from May to June 2011.

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(1) These essential items covered various aspects such as housing, food, education and medical care. Examples include “able to have periodic dental check-ups”, “have the opportunity to learn computer skills”, “can go to the teahouse at times during leisure hours”, “have a safe living environment without any structural danger”, “have leisure activities in a holiday”, etc.

However, some think tanks/policy research institutes were of the view that it was more appropriate to compare with the median monthly wage and that the SMW level should be set at 55% of the median monthly wage.

### 5.III Other Relevant Considerations

5.63 Despite the fact that the Basket of Indicators we considered has covered data from various aspects, not all impact of SMW can be reflected merely by the changes in figures. In the process of reviewing the SMW rate, we also discussed some considerations and impact that could not be totally quantified, including:

- (a) **Enhancing employees' quality of life:** Benefitting from an increase in the SMW rate, grassroots employees can enjoy a certain level of income, thus increasing their consumption power and improving their livelihood.
- (b) **Preserving the market's capacity to adjust:** While SMW imposes a wage floor, it also limits the flexibility of wage adjustment. If the rate is raised to an excessively high level, it would undermine the flexibility of different sectors and enterprises in coping with the changes in their respective operating environment. Preserving the market's capacity to adjust will be conducive to the sustainable development of all sectors.
- (c) **Enhancing incentive to work:** The increase in wages induced by the implementation of the initial SMW rate, together with a buoyant labour market, encouraged more potential labour force and people with family responsibilities to enter or re-enter the labour market, and helped people who used to live on social welfare become self-reliant. SMW rate relative to CSSA payments for unemployment and low earnings cases is also a factor affecting the incentive to work of those concerned.
- (d) **Impact on the quality of products and services:** After the implementation of SMW, employees are assured of a certain level of wages. This would reduce their incentives to improve performance and take up extra workload, hence affecting service quality. Enterprises that fail to pass on the SMW induced additional costs to consumers may have to reduce the quantity and quality of products as well as quality of services.
- (e) **Impact on wage differentials across sectors or positions:** As the SMW rate applies to all sectors, some grassroots employees may switch to jobs with less

pressure and more pleasant working environment while allowing them to maintain a certain level of income. However, this situation would aggravate employees' turnover in certain sectors. This would also, to some extent, make those sectors with more manual labour work, less favourable working environment and obnoxious duties pay higher wages as a hardship premium to retain employees, thereby further pushing up labour costs and inflationary pressure.

- (f) **Additional costs entailed by increase in wages:** The SMW rate brings about additional cost implications on areas such as investment risks, labour insurance premiums, long service payments and contributions to the Mandatory Provident Fund.
- (g) **Other impact of the initial SMW rate yet to fully emerge:** As the time of implementing SMW is still short, its impact has not fully emerged. In particular, the profitability of enterprises after SMW implementation has yet to be observed.
- (h) **Impact on the vulnerable groups:** Pay rise of those grassroots employees with less bargaining power, if adjusted by market forces, tends to lag behind the overall increase. SMW can offer them wage protection, promoting the society to move towards a caring society for the vulnerable groups and enhancing social harmony. On the other hand, with increasing labour costs, employers may incline to hire employees with higher capabilities, thus affecting employment opportunities of the elderly, the less educated and persons with disabilities. Some employers may also hire fewer inexperienced young people and offer them fewer internship opportunities, making them more difficult to accumulate job experience.
- (i) **Impact on social harmony:** The implementation of SMW enables grassroots employees to share the fruits of economic development and thus helps promote social harmony. Grassroots employees generally wish to have the SMW level uprated while other people (including those who do not directly benefit from the SMW) may hold different views. It would take time to narrow the discrepancy between them.

## **5.IV Impact Assessment**

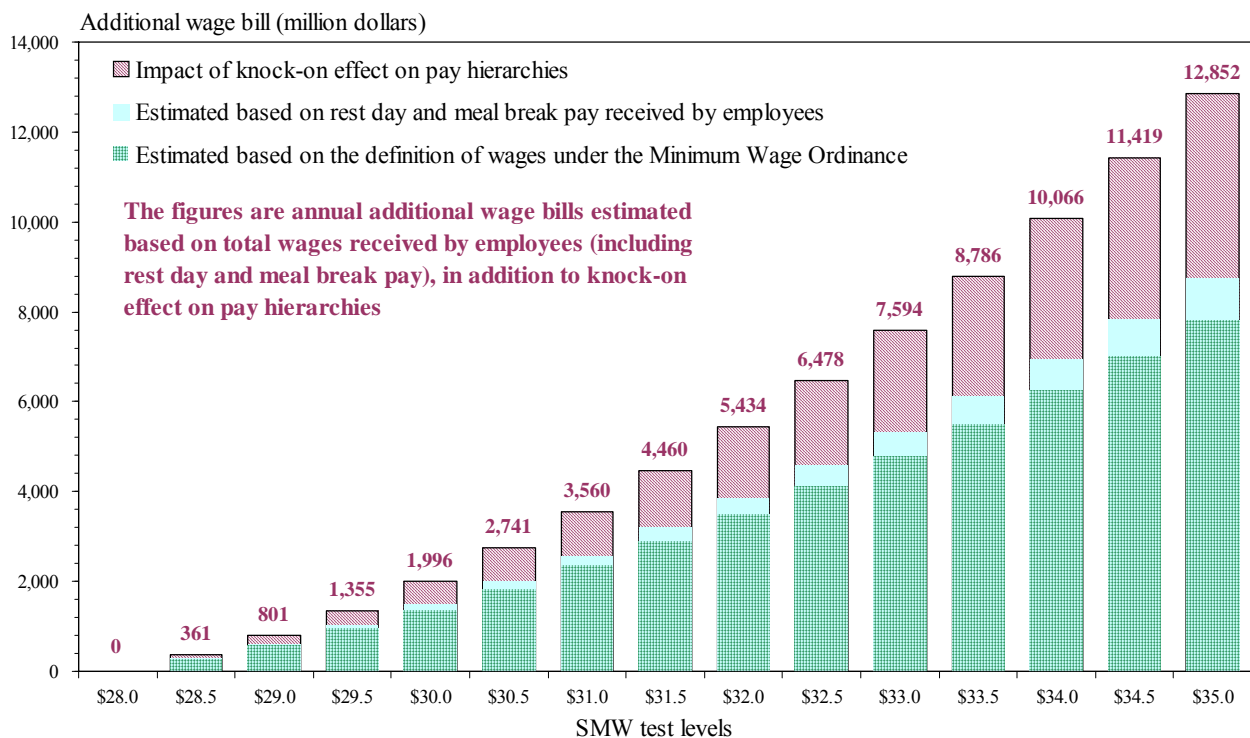
### **5.IV.1 Framework and scope of impact assessment**

- 5.64 Last but not least, based on data obtained from different statistical surveys, and views and suggestions collected through consultation, we conducted comprehensive studies on the potential impact of various SMW test levels as one of the considerations for reviewing the SMW rate.
- 5.65 The MWC did not have any pre-established stance on the adjustment direction of the SMW rate. However, after taking into account the views of stakeholders and interested parties and the macroeconomic performance since the implementation of the initial SMW rate, developments in the labour market, inflation and short term economic outlook, and having gone through iterative deliberations on these issues, we were of the view that the implementation of the initial SMW rate has brought some positive impacts and provided an appropriate wage floor. To consider a downward adjustment of the SMW rate is not deemed appropriate at this moment. Nevertheless, this does not preclude the possibility that the MWC may recommend a downward adjustment to the SMW rate in the future as and when adequate data or information support such decision.
- 5.66 Based on the above considerations, views collected from the first round of consultation and data in the Basket of Indicators, we conducted impact assessment on SMW test levels from \$28.0 to \$35.0 per hour at \$0.5 per interval (15 test levels in total).
- 5.67 After considering the views of stakeholders, we understood that SMW uprating would not only incur additional wage bills to enterprises for complying with the Minimum Wage Ordinance (MWO), but also possibly increase other labour costs (including non-wage remunerations and additional costs indirectly induced by SMW). Owing to data limitations, we could only estimate the potential rest day and meal break pay to be borne by enterprises and the additional wage bill arising from the knock-on effect according to the findings of the 2011 AEHS and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors. Apart from conducting basic impact assessment using the estimated wage bill data based on the definition of wages under the MWO, we also considered two sets of data in defining wage bill, viz. total wage bill with rest day and meal break pay included (for employees who are granted these payments according to their employment contract or agreement); and total wage bill (with rest day and meal break pay included)



plus the amount of additional wage bill induced by knock-on effect. Figure 5.1 shows the estimated amount of annual additional wage bill under 15 SMW test levels based on the three definitions of wage bill as set out above. For example, at the SMW test levels of \$28.5 and \$35.0, the amount of annual additional wage bill (estimated based on total wages (with rest day and meal break pay included) received by employees plus the additional wage bill induced by knock-on effect) would be \$0.361 billion and \$12.852 billion respectively, representing 0.1% and 2.1% of Hong Kong's total wage bill respectively in 2011. We should emphasise that due to data limitations, the estimated additional wage bills do not include all the other labour costs arising from SMW uprating.

**Figure 5.1: Annual additional wage bills under different statutory minimum wage (SMW) test levels**



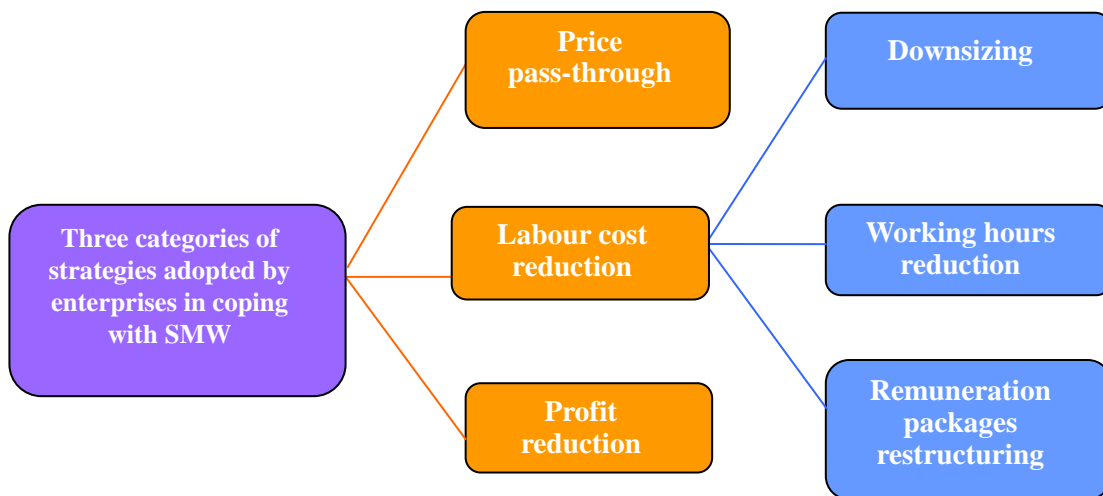
Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

5.68 We studied how enterprises would respond to SMW under four different economic scenarios to analyse the dynamics of labour supply and demand. The following paragraphs summarise our considerations when designing the framework of impact assessment. The methodology and major assumptions of impact assessment are in **Appendix V**. Results of the impact assessment for the recommended SMW rate will be analysed in detail in Chapter 6.

#### 5.IV.2 Responses of enterprises under different economic scenarios

5.69 The impact of SMW uprating depends, to a large extent, on the strategies adopted by enterprises in coping with the additional wage bills. By making reference to the framework of impact assessment conducted by the PMWC on the initial SMW rate and the views of stakeholders and interested parties, we summarise the mitigation strategies adopted by enterprises (i.e. “enterprise response scenarios”) into three major categories (Figure 5.2):

**Figure 5.2: Strategies adopted by enterprises in coping with statutory minimum wage (SMW)**



- (a) **“Price pass-through”**: Enterprises pass through the additional wage bills to consumers by raising prices of products and services. They are more likely to adopt this strategy when economic activities expand and consumers are somewhat less sensitive to prices;
- (b) **“Labour cost reduction”**: Enterprises mitigate the additional wage bills by downsizing, reducing working hours or restructuring the remuneration packages (such as reducing remunerations that are not covered under the definition of wages under the MWO, or reducing paid rest days or meal breaks); and
- (c) **“Profit reduction”**: Enterprises absorb the additional wage bills by reducing profit. Nevertheless, stakeholders were of the view that enterprises would attempt to maintain certain profits. Hence, profit reduction would generally be the last resort to mitigate the additional wage bills.

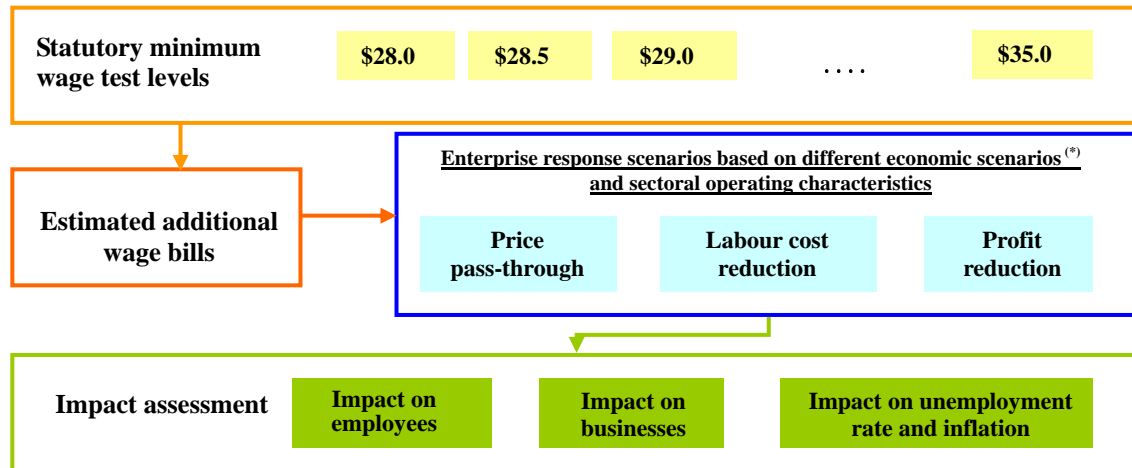
5.70 To construct different “enterprise response scenarios” for the impact assessment, we made assumptions about the possibility of different sectors adopting the three categories of strategies listed above after analysing the business environment and

characteristics of various sectors in detail as well as making reference to views of stakeholders and interested parties. A number of factors were considered while we constructed these scenarios, including the manpower structure of individual sectors, ratio of part-time positions, nature of operation, cost structure, degree of sectoral concentration and competition in the sectors, feasibility of automation and outsourcing of work procedures, and ability to pass on the costs to consumers, etc. We further assumed that enterprises would offset different proportions of the additional wage bills through each of the three categories of strategies set out above.

5.71 Business situations vary under different economic cycles. Hence, sectors may adjust their strategies accordingly. When facing higher costs, many enterprises would first enhance productivity and improve production flow to control costs. Some would actively develop new products and services in a bid to create demand, or some may even expand their businesses to alleviate cost pressures. As people generally have higher income and stronger purchasing power during an economic up-cycle, it would be easier for enterprises to pass on the costs to consumers. Labour demand would conceivably increase in tandem with the buoyant business conditions, thereby cushioning the downsizing pressure brought about by SMW uprating. However, to offset the additional labour costs, many enterprises expressed the view that they would incline to mitigate the pressures on operating costs by adjusting working hours and/or remuneration packages of employees. Cut-back in profit would generally be the last resort for them to mitigate the additional wage bills. There are significant variations in strategies that might be adopted by enterprises under different economic cycles, but the three major strategies described above are the more commonly adopted strategies for many enterprises.

5.72 In conducting the assessment, we constructed different “enterprise response scenarios” by assigning different proportions of the additional wage bills to be offset by the three strategies mentioned above under different economic scenarios, namely “optimistic scenario”, “base case”, “pessimistic scenario” and “more pessimistic scenario”, in 15 LPS and other sectors. Based on the 15 different SMW test levels and three sets of wage bill data under different definitions, we conducted studies with respect to the impact on employees, businesses, inflation and unemployment rate. Figure 5.3 summarises the study framework of our impact assessment.

**Figure 5.3: Study framework of impact assessment**



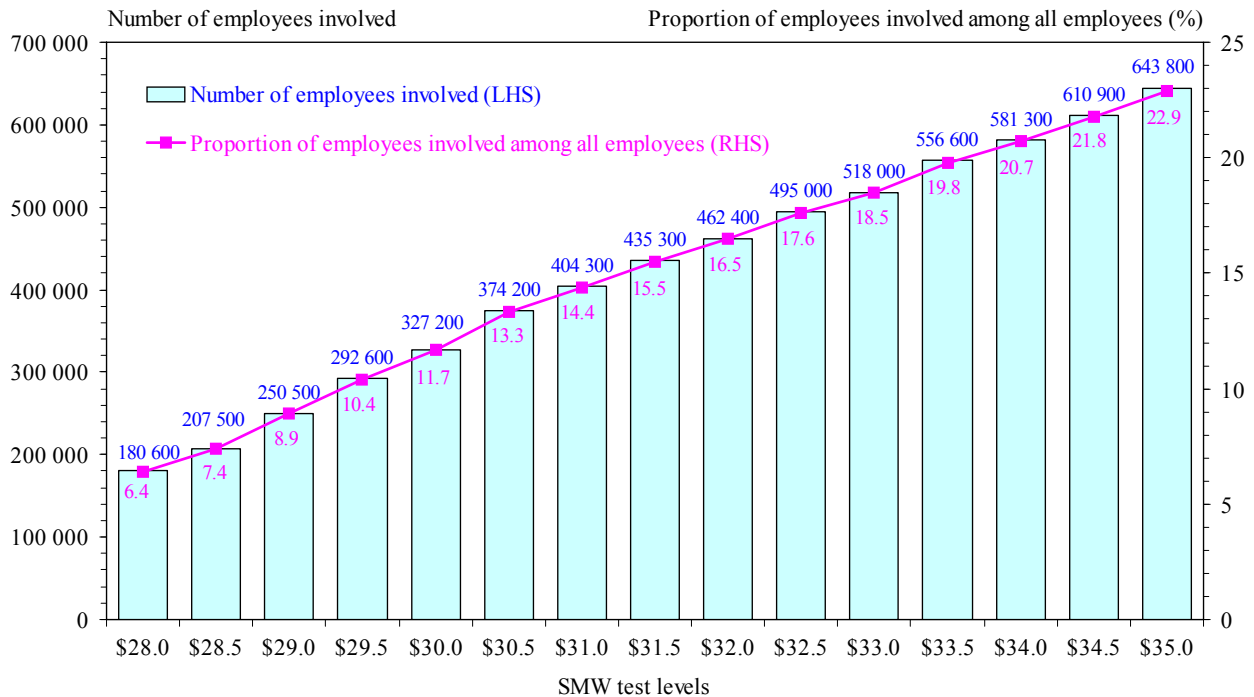
Note: (\*) Different economic scenarios include “optimistic scenario”, “base case”, “pessimistic scenario” and “more pessimistic scenario”.

### 5.IV.3 Impact assessment under different statutory minimum wage test levels

#### (a) Impact on employees

5.73 This involves assessing the number and proportion of employees involved (i.e. employees with an hourly wage below the SMW test level), their socio-economic characteristics, magnitude of changes in wages (irrespective of hourly wages or monthly wages), the number of employees involved who may be laid off or whose remuneration packages may be restructured, and the total number of working hours that may be reduced and its full-time equivalent jobs. For instance, the corresponding numbers of employees involved at SMW test levels of \$28.5 and \$35.0 were 207 500 and 643 800, representing 7.4% and 22.9% of all employees in Hong Kong respectively (Figure 5.4).

**Figure 5.4: Number and proportion of employees involved<sup>(^)</sup>**



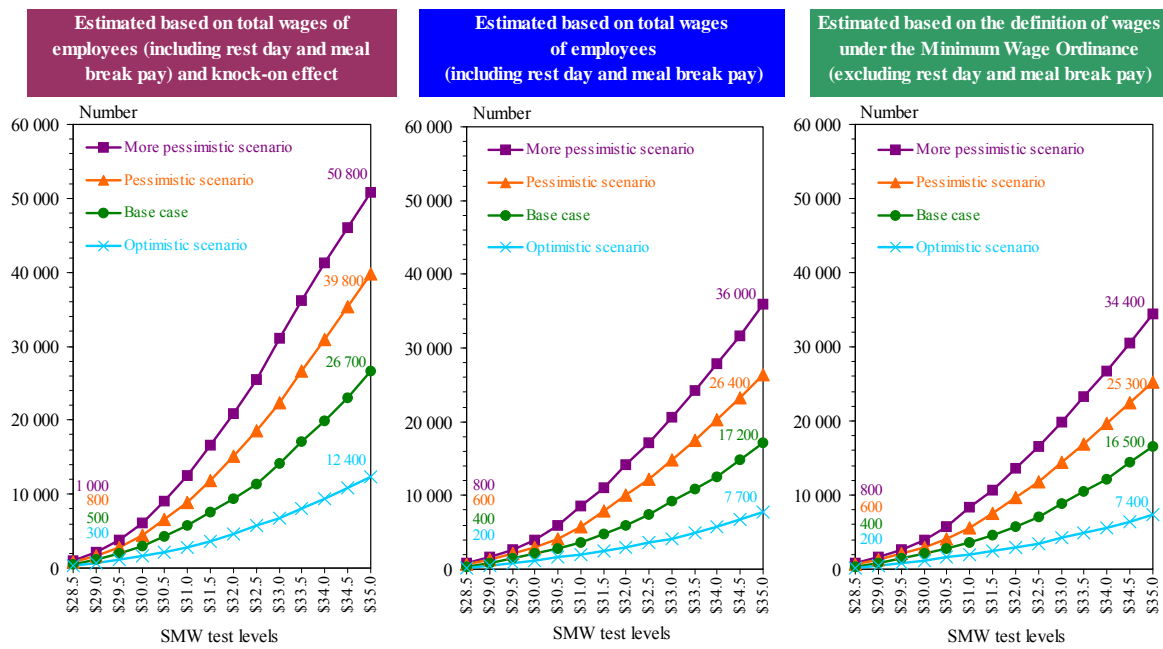
Notes: (^) Employees involved only include those with an hourly wage at \$28.0 when the statutory minimum wage (SMW) test level is at \$28.0. As for other test levels, employees involved refer to those with an hourly wage below the respective level.

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

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey.

5.74 As mentioned earlier, SMW uprating would entail additional labour costs for some enterprises. This would increase their pressure to downsize or reduce working hours to offset the additional wage bills. However, the magnitude of job cuts and working hours reduction depends on the macroeconomic environment at the time of SMW implementation. As shown in Figure 5.5, the number of layoffs varies considerably under different economic scenarios. For instance, the number of layoffs would range from around 500 (at SMW test level of \$28.5) to 26 700 (at SMW test level of \$35.0) under the “base case”, estimated based on the additional wage bill imputed from total wages of employees and knock-on effect. As for the “more pessimistic scenario”, the respective numbers would go up to 1 000 and 50 800, almost doubled that of the “base case”. Similarly, the estimated number of working hours reduced would also increase when macroeconomic conditions deteriorate (Figure 5.6). The higher the SMW test level, the greater are the risks associated with layoffs or working hours reduction.

**Figure 5.5: Estimates on the number of employees involved who may be laid off under different statutory minimum wage (SMW) test levels <sup>(^)</sup>**

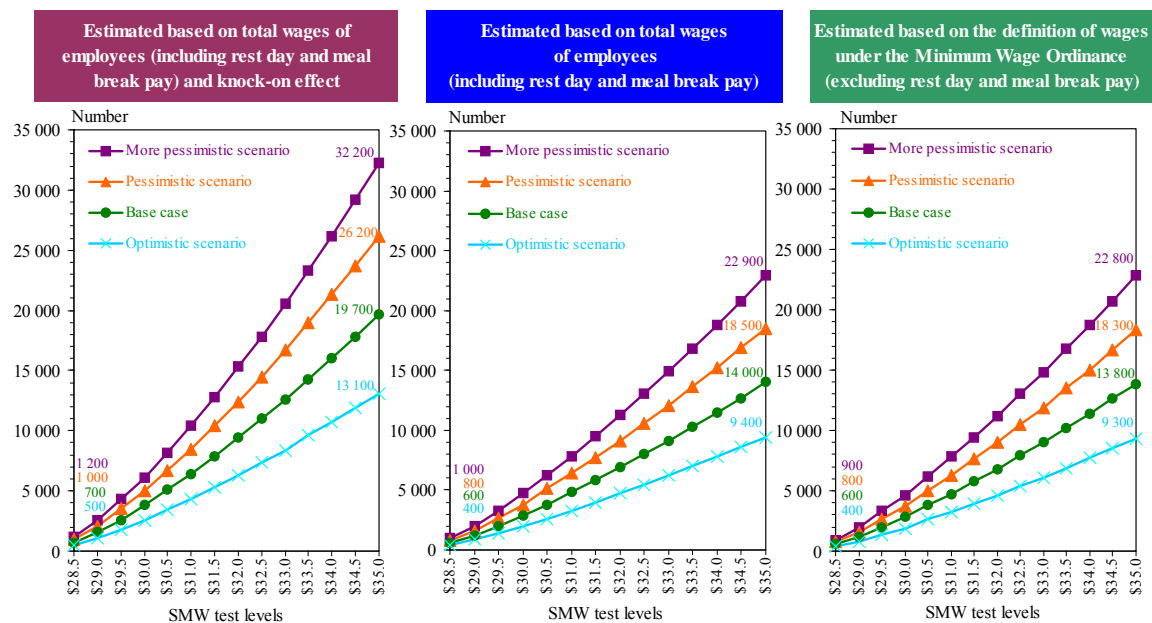


Notes: <sup>(^)</sup> Results under different economic scenarios were estimated based on three sets of additional wage bills imputed under different definitions. Details are in [Appendix V](#).

Figures shown in the diagrams are assessment results at SMW test levels of \$28.5 and \$35.0 respectively.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

**Figure 5.6: Estimates on the number of working hours reduced in terms of number of full-time equivalent jobs under different statutory minimum wage (SMW) test levels <sup>(^)</sup>**



Notes: <sup>(^)</sup> Results under different economic scenarios were estimated based on three sets of additional wage bills imputed under different definitions. Details are in [Appendix V](#).

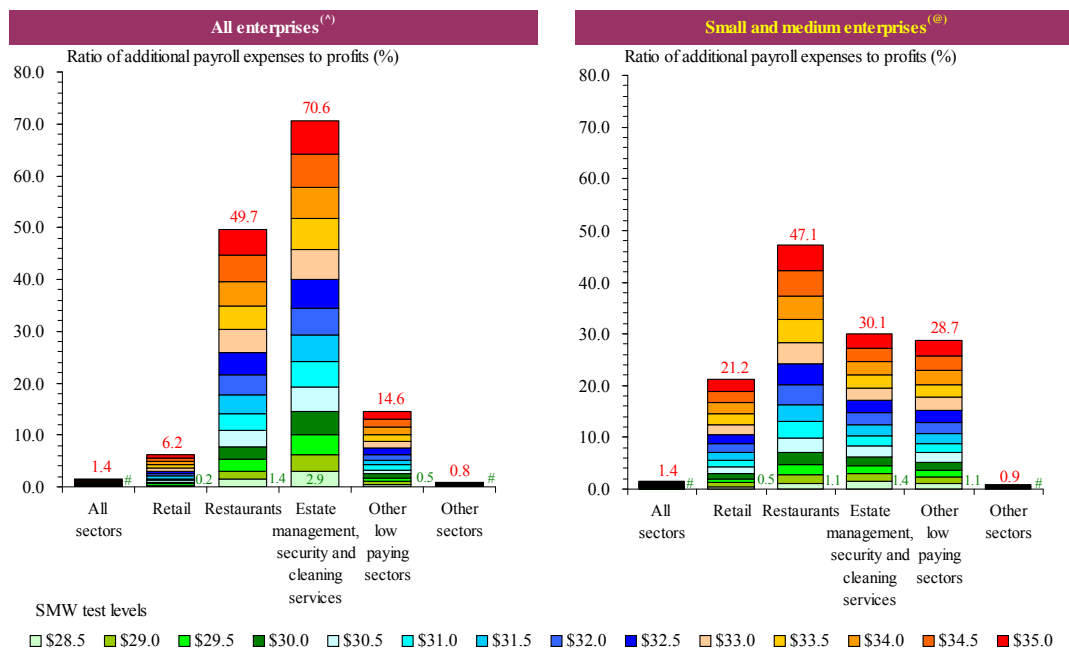
Figures shown in the diagrams are assessment results at SMW test levels of \$28.5 and \$35.0 respectively.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

**(b) Impact on businesses**

5.75 The impact of SMW varies amongst different sectors. For demonstration, the ratio of additional payroll expenses<sup>(2)</sup> (with additional contributions to pensions included) to profits can serve as a crude indicator in measuring the affordability of enterprises at different SMW rates (Figure 5.7). For estate management, security and cleaning services, for example, the corresponding ratio is visibly higher than those in other sectors, ranging from 2.9% (at SMW test level of \$28.5) to 70.6% (at SMW test level of \$35.0). The impact assessment on the change in profit ratio under different economic scenarios is set out in Table 5.2. Figure 5.8 shows the estimated number of enterprises turning from profits to losses at different SMW test levels.

**Figure 5.7: Estimated ratio of additional payroll expenses<sup>(\*)</sup> to profits under different statutory minimum wage (SMW) test levels**



Notes: (\*) Additional payroll expenses were estimated by multiplying the rate of change in wages under different SMW test levels based on the results of the 2011 Annual Earnings and Hours Survey, by the staff costs shown in 2010 Annual Survey of Economic Activities, with additional contributions to pensions included. Additional wage bills were estimated based on total wages (including rest day and meal break pay) and knock-on effect on pay hierarchies. Details are in [Appendix V](#).

(^) Include enterprises with employees only.

(@) Small and medium enterprises refer to enterprises with employment less than 50 persons. Include enterprises with employees only.

# Between 0% and 0.05%.

Figures in green and red indicate the assessment results at SMW test levels of \$28.5 and \$35.0 respectively.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey, the 2010 Annual Survey of Economic Activities and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

(2) Additional payroll expenses were estimated by multiplying the rate of change in wages under different SMW test levels based on the results of the 2011 AEHS, by the staff costs shown in the 2010 Annual Survey of Economic Activities. Estimated additional payroll expenses include additional contributions to pensions.

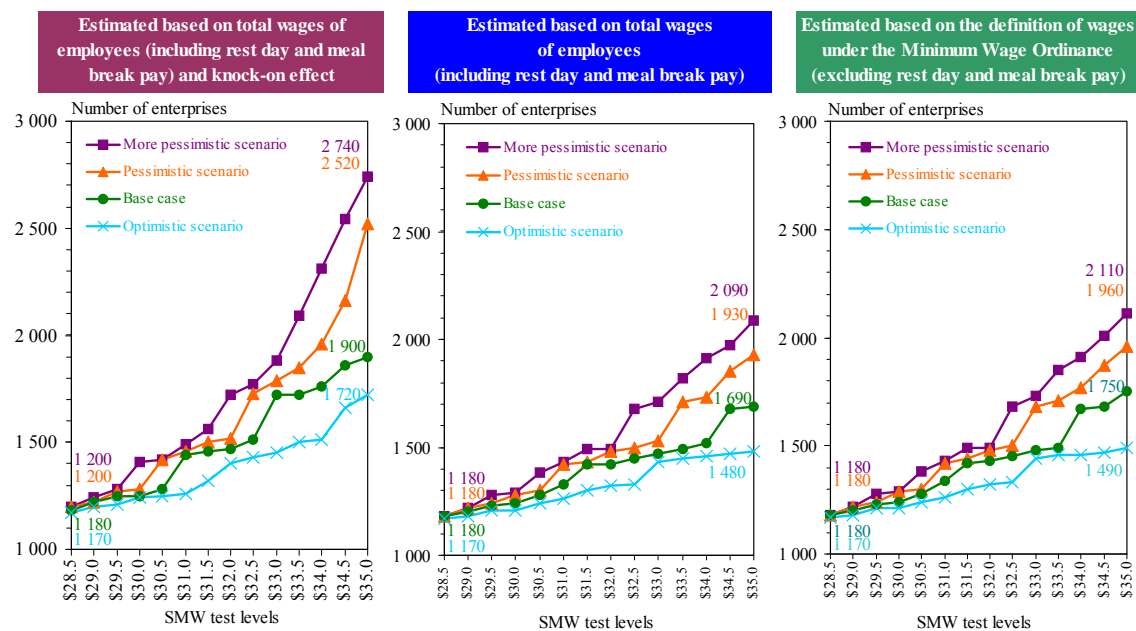
Table 5.2: Change in profit ratio by sector under different statutory minimum wage (SMW) test levels<sup>(^)</sup>

	Retail	Restaurants	Estate management, security and cleaning services	Other low paying sectors	Other sectors
Overall profit ratio (2010)	8.1%	5.6%	6.3%	9.6%	16.9%
SMW test levels	Change in profit ratio (percentage point)				
\$28.5	#	#	#	#	#
\$29.0	#	#	# to -0.1	#	#
\$29.5	#	# to -0.1	# to -0.1	#	#
\$30.0	#	# to -0.1	# to -0.2	# to -0.1	#
\$30.5	#	# to -0.1	-0.1 to -0.2	# to -0.1	#
\$31.0	#	-0.1 to -0.2	-0.1 to -0.3	# to -0.1	#
\$31.5	#	-0.1 to -0.2	-0.1 to -0.4	# to -0.1	#
\$32.0	# to -0.1	-0.1 to -0.3	-0.1 to -0.4	-0.1 to -0.2	#
\$32.5	# to -0.1	-0.1 to -0.3	-0.1 to -0.5	-0.1 to -0.2	#
\$33.0	# to -0.1	-0.1 to -0.4	-0.1 to -0.6	-0.1 to -0.2	#
\$33.5	# to -0.1	-0.1 to -0.4	-0.2 to -0.7	-0.1 to -0.3	#
\$34.0	# to -0.1	-0.2 to -0.5	-0.2 to -0.7	-0.1 to -0.3	#
\$34.5	# to -0.1	-0.2 to -0.5	-0.2 to -0.8	-0.1 to -0.3	#
\$35.0	# to -0.1	-0.2 to -0.6	-0.2 to -0.9	-0.1 to -0.4	#

Notes: (^) The range refers to assessment results under different economic scenarios and was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix V](#).  
# Between 0% and 0.05%.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey, the 2010 Annual Survey of Economic Activities and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

Figure 5.8: Number of enterprises turning from profits to losses under different statutory minimum wage (SMW) test levels<sup>(^)</sup>



Notes: (^) Include enterprises with employees only.  
Results under different economic scenarios were estimated based on three sets of additional wage bills imputed under different definitions. Details are in [Appendix V](#).  
Figures shown in the diagrams are the assessment results at SMW test levels of \$28.5 and \$35.0 respectively.

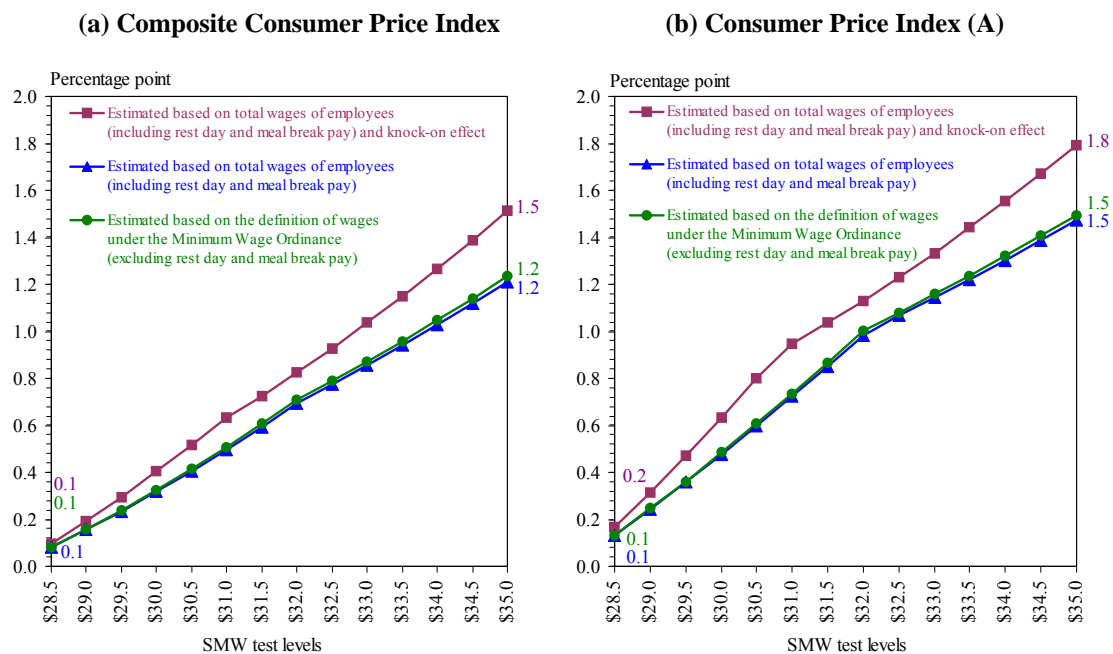
Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey, the 2010 Annual Survey of Economic Activities and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.



(c) **Impact on inflation**

5.76 To the extent that enterprises can pass on the additional wage bills to consumers through charging higher prices, consumer price inflation would rise as a result. Assuming a full pass-through of the additional wage bills to consumers by raising price, the impacts on Composite CPI are 0.1 percentage point and 1.2 percentage points at SMW test levels of \$28.5 and \$35.0 respectively. Taking into account the total wages received by employees (including rest day pay and meal break pay), and the additional wage bills brought about by knock-on effect, the impacts on inflation would be 0.1 percentage point and 1.5 percentage points respectively (Figure 5.9).

**Figure 5.9: Impact on inflation under different statutory minimum wage (SMW) test levels**



Note: Figures shown in the diagrams are the assessment results estimated based on the additional wage bills imputed under three different definitions at SMW test levels of \$28.5 and \$35.0 respectively.

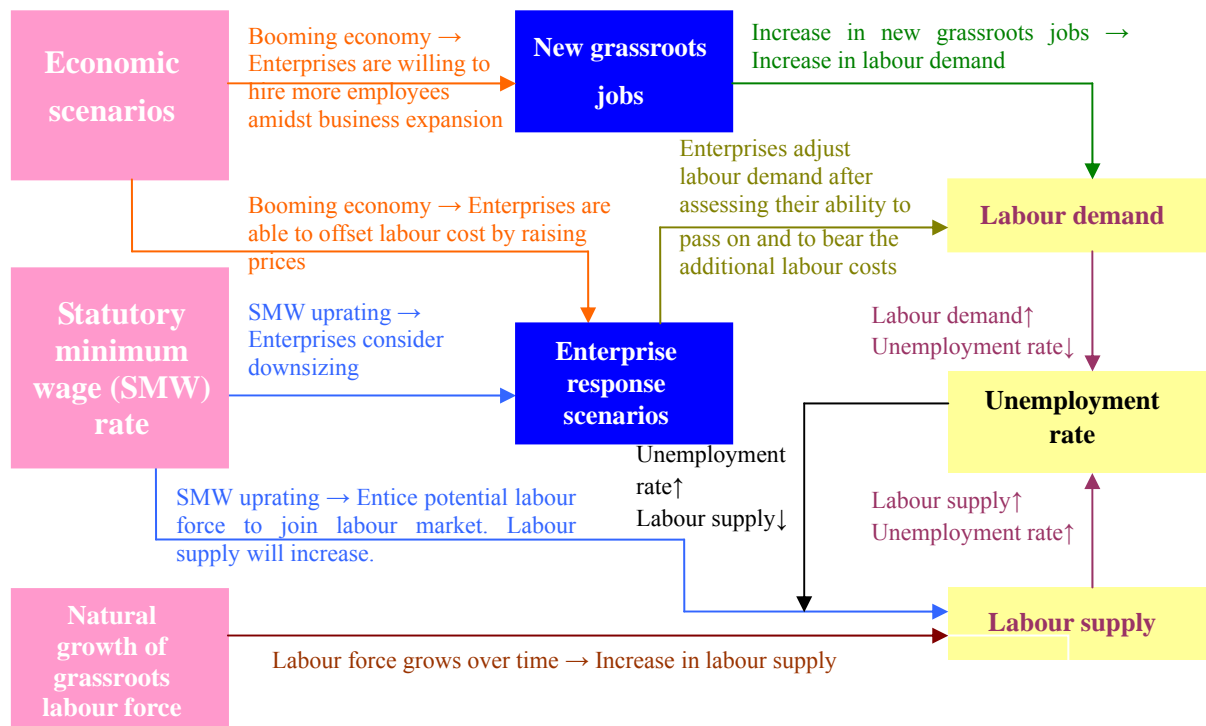
Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

(d) **Dynamic analysis of the effect of enterprises' responses on labour supply and demand to assess the impact on unemployment rate**

5.77 There are views that SMW uprating would lead to pay rise of all grassroots employees. The more the rate is raised, the more employees would benefit. It would also entice more people to join the labour market. Nevertheless, given that the labour market is rapidly changing, adopting a static approach to analyse the impact of SMW may not be adequate. In view of this, the MWC also considered some dynamic analyses.

5.78 The increase in labour cost induced by an upward adjustment of the SMW rate inevitably affects the labour demand of enterprises. In the face of higher labour costs, there would be more pressures on enterprises to contain cost through manpower streamlining. Employees would also face higher risks of having their working hours reduced, remuneration packages restructured and even being laid off, which in turn would exert an upward pressure on the unemployment rate. And with the hiring sentiment becoming more pessimistic, employment prospect as perceived by some potential job seekers or unemployed persons could change, thereby also curtailing their incentive to enter the labour market. The impact of enterprises' response strategies would gradually surface in the labour market, in turn affecting the labour demand and supply. The magnitude of pay rise of grassroots employees due to SMW uprating thus hinges on the responses of enterprises and the prevailing labour market conditions. The purpose of analysing these dynamics is to take into account the interactions among these factors. Figure 5.10 illustrates the interactions among the macroeconomic scenarios, "enterprise response scenarios" as well as labour supply and demand.

**Figure 5.10: Interactions among different factors under the framework of impact assessment of the Minimum Wage Commission**

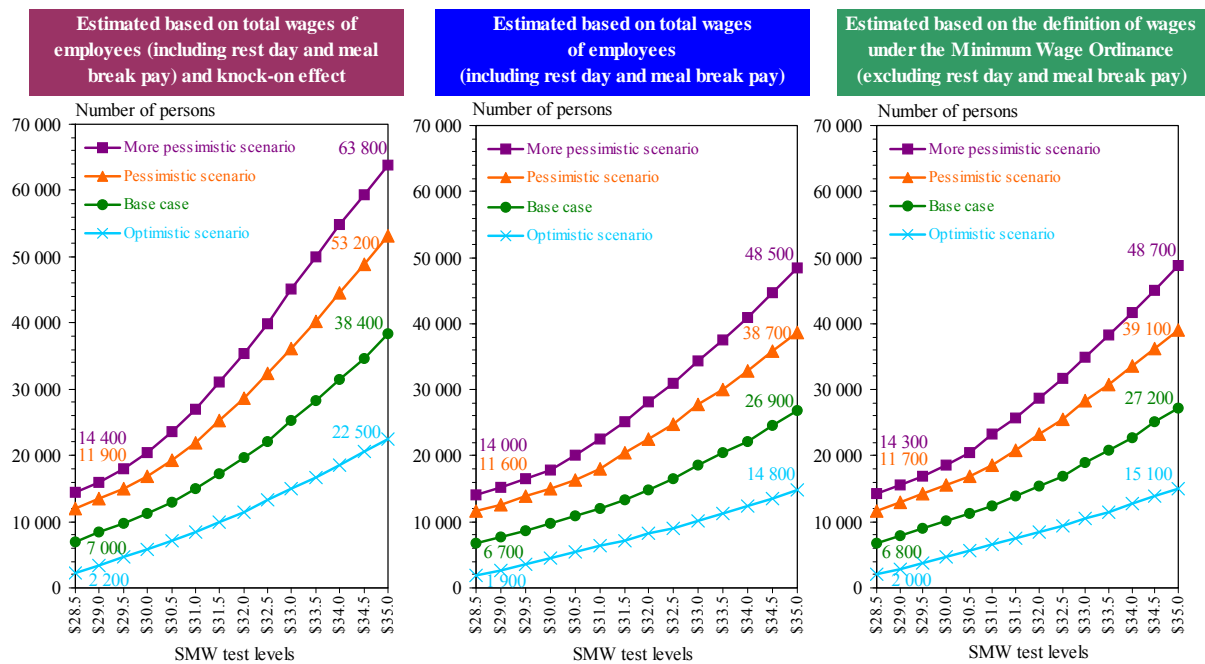


5.79 In view of the interactions among these factors, apart from the number of employees who may be laid off under different “enterprise response scenarios”, we also considered the number of grassroots jobs<sup>(3)</sup> created and the natural growth of grassroots labour force in our assessment. The former depends on different economic scenarios while the latter is determined by the demographic characteristics of Hong Kong. The rationale of considering these two factors is: (i) despite the fact that some employees may be laid off as a result of the SMW rate adjustment, the pressure on the unemployment rate consequential to SMW implementation would be lessened if the economy stays buoyant to maintain the strength of overall labour demand, with sufficient new jobs created. Such scenario is similar to that when the initial SMW rate was implemented, and; (ii) on the contrary, the pace of job creation would slow down in the corporate sector during an economic downturn. Job creation in the labour market may not even be able to absorb the natural growth of the labour force, thus posing considerable upward pressure on the unemployment rate. Under such circumstances, an upward revision of the SMW rate would only make the labour market more difficult to adjust. After taking these two factors into consideration, we have a more comprehensive understanding in assessing the impact of SMW rate adjustment on the number of unemployed persons (Figure 5.11) and unemployment rate (Figure 5.12).

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(3) Grassroots jobs refer to jobs of elementary workers and service and sales workers. According to the 2011 AEHS, about 90% of low-paid employees (employees within the lowest decile of the overall hourly wage distribution) were grassroots employees.

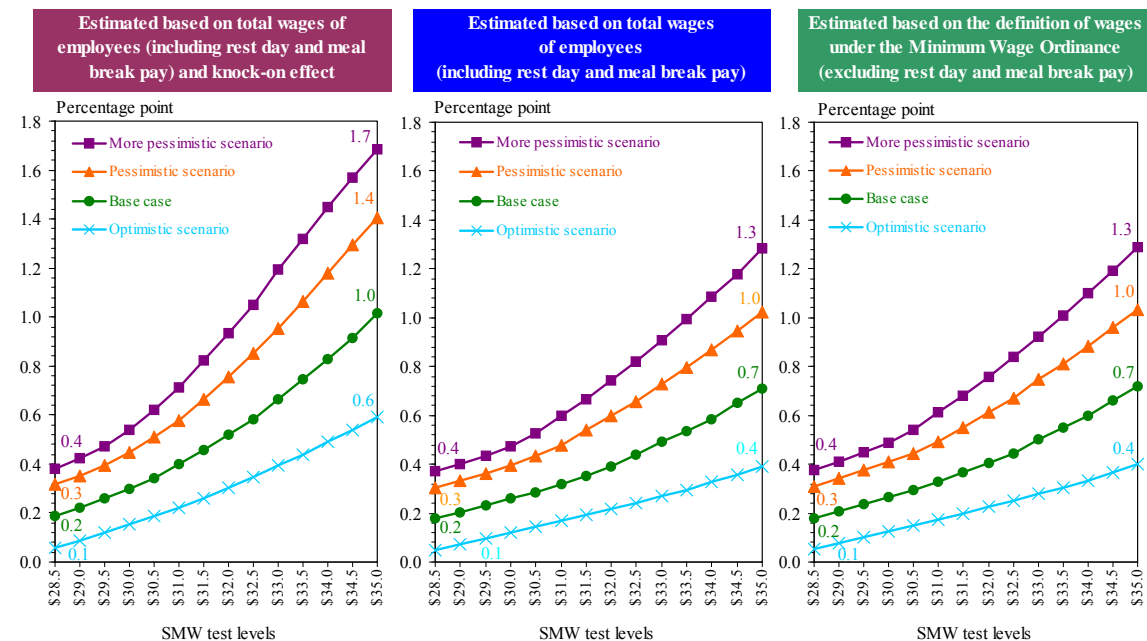
**Figure 5.11: Estimates on the number of unemployed grassroots workers under different statutory minimum wage (SMW) test levels**



Notes: Results under different economic scenarios were estimated based on three sets of additional wage bills imputed under different definitions. Details are in [Appendix V](#). Figures shown in the diagrams are the assessment results at SMW test levels of \$28.5 and \$35.0 respectively.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

**Figure 5.12: Impact on unemployment rate under different statutory minimum wage (SMW) test levels**



Notes: Results under different economic scenarios were estimated based on three sets of additional wage bills imputed under different definitions. Details are in [Appendix V](#). Figures shown in the diagrams are the assessment results at SMW test levels of \$28.5 and \$35.0 respectively.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

- 5.80 To conclude, we reckon that the changes in and interactions between labour demand and supply as a result of the adjustment of the SMW rate would, to a certain extent, depend on how enterprises would respond under the economic conditions prevailing at the time of implementation. Neither would the direct impact of the SMW rate adjustment be an one-off effect only. Although the labour market is constantly evolving in the midst of complex and dynamic interactions between labour demand and supply, we strived to incorporate these dynamics in the impact assessment to the extent possible and studied the impact of the recommended SMW rate from different perspectives.
- 5.81 In our framework of impact assessment, we took into account, where possible, our observations on the impact of the initial SMW rate, economic outlook, views of stakeholders and interested parties and other relevant considerations which are not totally quantifiable. We also considered different economic scenarios and the dynamics of the labour market to assess enterprises' ability to cope with the recommended SMW rate. Nevertheless, since Hong Kong has limited experience in implementing SMW, the impact assessment is bound to have limitations. Experience of other places (e.g. the United Kingdom and Australia) also showed that a comprehensive impact assessment of SMW would be conducted through thematic studies by academics and researchers only after several years of SMW implementation. We consider that thematic studies can be conducted when appropriate for a more detailed assessment of the impact of SMW.

## 6 The Recommended Statutory Minimum Wage Rate

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

- 6.1 According to the Minimum Wage Ordinance (MWO), the Minimum Wage Commission (MWC), in making recommendation on the statutory minimum wage (SMW) rate to the Chief Executive in Council, 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 to sustain Hong Kong's economic growth and competitiveness.
- 6.2 To conform with the above objectives, we on one hand hope to recommend an appropriate SMW rate to forestall excessively low wages and to provide wage protection for more low-paid employees as well as to improve their living standard, but need to deliberate the SMW rate cautiously with regard to the affordability of businesses and Hong Kong's society and economy as a whole on the other so as to reduce the potential layoffs and rise in unemployment rate (especially for the vulnerable groups) arising from the adjustment of the SMW rate and to avoid bringing substantial negative impact on the operation of the affected businesses, inflation, competitiveness and economic growth. As there is no quick rule to arrive at a recommendation on an appropriate SMW rate and given Hong Kong does not have much experience in implementing SMW, we also made reference to the experience of other places (see Chapter 2 and **Appendix IV**) and actively gauged the views of stakeholders and interested parties (see Chapter 5) when reviewing the SMW rate. This laid a solid foundation for our deliberations.
- 6.3 To strike an appropriate balance among the demands of various parties, the MWC adopted an evidence-based approach in reviewing and making recommendation on the SMW rate. We examined the performance of the Basket of Indicators, which covers the socio-economic and employment situations, to grasp the socio-economic conditions during the implementation of the initial SMW rate (see Chapter 3) and its impact (see Chapter 4). We also made reference to the views of stakeholders and interested parties to better understand the impact of the initial SMW rate on society, economy and different sectors (in particular the low paying sectors (LPS)), and concerns expressed on the SMW rate and its review. Based on these views, we brought forth other considerations that are related to the review of the SMW rate but cannot be fully quantified through the Basket of Indicators. We also formulated an assessment

framework to estimate the possible impact of different SMW levels on employees, businesses, inflation and unemployment rate (see Chapter 5). As there would inevitably be a time lag between the date of making recommendation and the date of its implementation, we took into account short-term economic and labour market outlook to conduct scenario testing with an attempt to have more thorough consideration when reviewing the SMW rate. We held in-depth, objective and rational discussions with regard to the considerations mentioned above and went through iterative dialectical deliberations. Having regard to the objectives enshrined in our statutory function, we unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$30.0 per hour (by \$2.0 or 7.1%).

- 6.4 The recommended SMW rate might impact on employees, businesses, unemployment rate and inflation. During the review process, we conducted quantitative analyses in these aspects. The details will be elaborated in the ensuing paragraphs. We also gave due consideration to other impacts of the recommended SMW rate that cannot be fully quantified and evaluated the competing needs of different stakeholders carefully. We believe that the recommended SMW rate would help improve the living standard of grassroots employees while giving due consideration to employment of the vulnerable groups, enhance incentive to work and promote social harmony yet preserving the market's capacity to adjust without bringing significant negative impact on the quality of products and services.

## **6.II Impact on Employees**

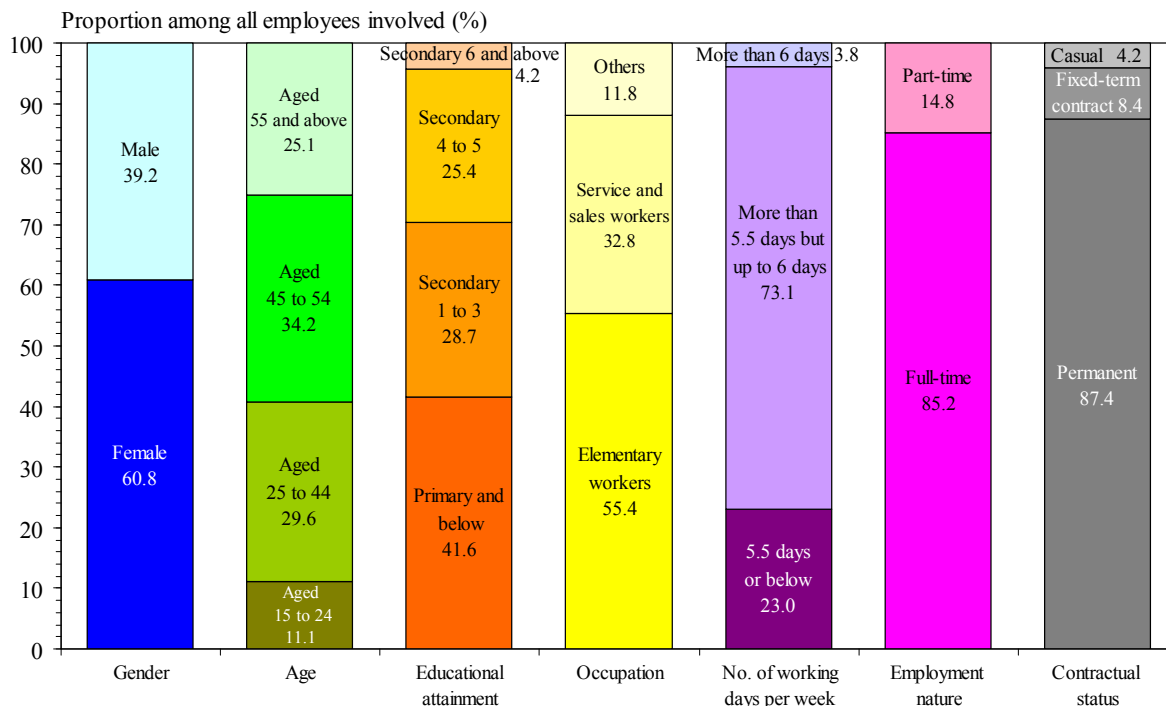
### **6.II.1 Employees involved**

- 6.5 The recommended SMW rate may directly affect all employees with an hourly wage below the recommended SMW level (i.e. employees involved). According to the wage distribution data from the 2011 Annual Earnings and Hours Survey (AEHS) conducted by the Census and Statistics Department (C&SD), the number of employees with an hourly wage below \$30.0 in May to June 2011 was 327 200, accounting for 11.7% of all employees (i.e. the coverage of SMW). Nevertheless, due to time lag of data as well as the persistent rise in wages over the past year, the actual number of employees involved and coverage of SMW may be less than estimated after SMW uprating. Although most of the employees involved may benefit from the increase in wages, some may have their working hours reduced, remuneration packages restructured or even be laid off. Some stakeholders and interested parties suggested the MWC to consider the

coverage of SMW in other places when reviewing the SMW rate. According to the experience in other places, however, the number and proportion of employees involved only help reflect the outcome of the relevant recommendation, rather than as the main objectives and considerations in recommending the rate. Besides, when reviewing the SMW rate, the diversities in terms of social, economic and labour market situations in different places should also be taken into account. Hence, we considered that it might not be appropriate to directly compare the coverage of SMW in Hong Kong with that in other places.

6.6 A relatively large number of the employees involved mentioned above were females (60.8%), middle-aged/older employees (aged 45 and above) (59.3%), or employees with lower level of educational attainment (secondary 3 and below) (70.4%). Most of them were elementary workers, and service and sales workers (88.2%), working full-time (85.2%), employed on a permanent basis (87.4%), and having more working days per week (exceeding 5.5 days) (77.0%) (Figure 6.1).

**Figure 6.1: Socio-economic characteristics of employees involved**



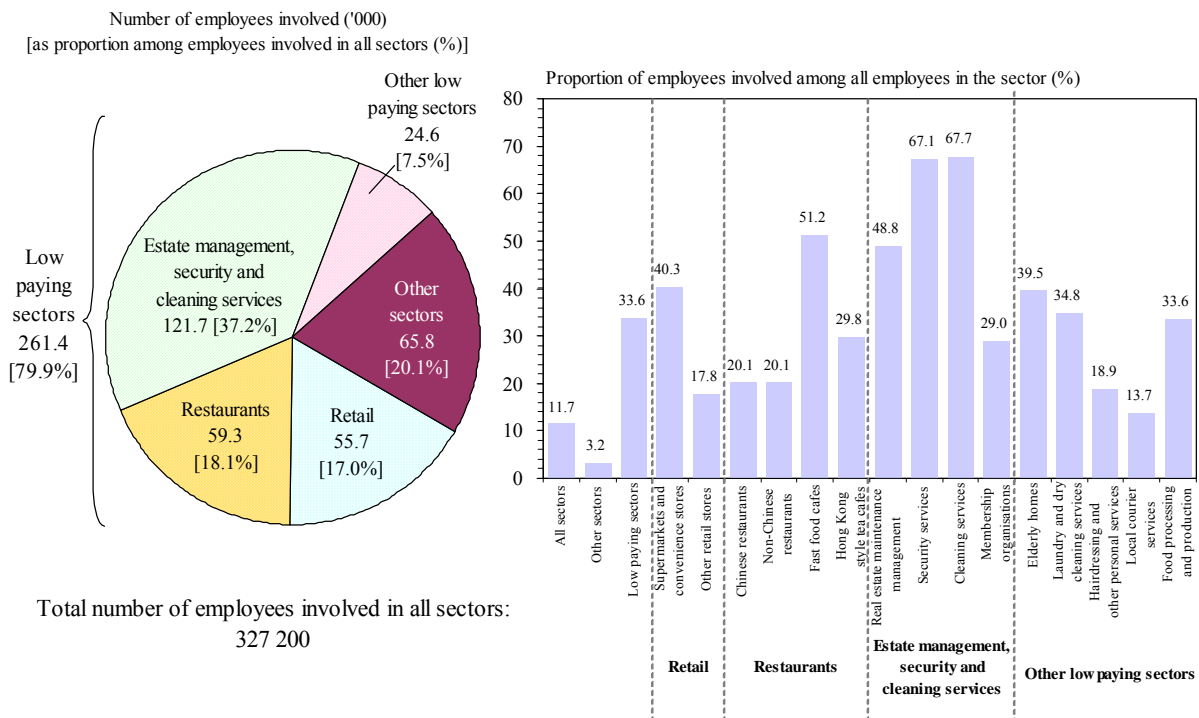
Note: Owing to rounding, individual percentages may not add up to 100%.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey.



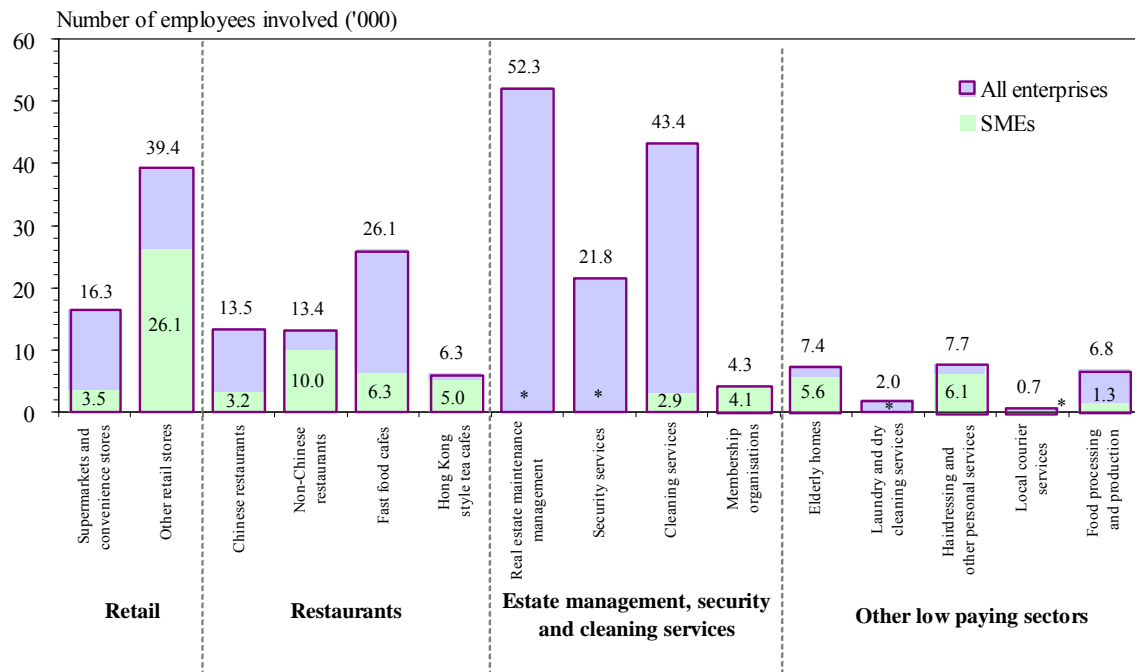
6.7 About 80% of employees involved worked in LPS, with most of them in estate management, security and cleaning services, which accounted for 37.2% of all employees involved. For LPS, the proportion of employees involved among all employees in the sector was notably higher than that in other sectors. In cleaning services (67.7%), security services (67.1%) and fast food cafes (51.2%), more than half of the employees in these sectors were earning an hourly wage below the recommended SMW rate (Figure 6.2). Moreover, about 35% of employees involved were employed in small and medium enterprises (SMEs), with most of them working in other retail stores and non-Chinese restaurants (Figure 6.3). It can be seen from the above that the impact of the recommended SMW rate would be more pronounced in these LPS and enterprises. We will further discuss the impact of the recommended SMW rate on businesses in section 6.III.

**Figure 6.2: Number and proportion of employees involved analysed by sector**



Note: Owing to rounding, individual percentages may not add up to 100%.  
Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey.

**Figure 6.3: Number of employees involved in small and medium enterprises (SMEs)**



Note: \* Estimates for SMEs in the sectors concerned are not released due to relatively large sampling error.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey.

6.8 The number of employees involved and coverage of SMW as shown in Figures 6.2 and 6.3 were estimated based on AEHS data obtained in May to June 2011. It should be noted that some of the employees involved might have enjoyed pay rise after the survey period as a result of the robust economy, enhanced experience or better qualifications. Their hourly wages thus might have been adjusted above the recommended SMW level. At the same time, some low-paid jobs with hourly wages below \$30.0 might have been created after the survey period. These two factors might affect the estimation of the number of employees involved, yet it might be more difficult to estimate the number of low-paid jobs created.

6.9 We made reference to the upward trend of employment earnings in the General Household Survey (GHS) as a crude indicator of pay rise. Taking into account the trend of pay rise up to mid-2012, it was estimated that the coverage of SMW would be about 7.9%, amounting to about 223 100<sup>(1)</sup> employees. The number of employees involved and coverage of SMW may drop further if wages continue to rise in the period ahead.

(1) The number of employees was adjusted based on the data of GHS at the time of estimation.

## **6.II.2 Impact on wage differentials**

- 6.10 With the SMW rate raised to the recommended level, wage differentials between the lower-paid and the higher-paid employees in the wage distribution would generally be narrowed. While this may narrow wage differentials among different positions, it may also entail higher labour costs for businesses to retain staff or maintain their morale. Hence, to compare the changes in wage differentials, we examined the ratios of the recommended SMW rate to the 25<sup>th</sup> percentile, median and 75<sup>th</sup> percentile hourly wages of various sectors. The closer the ratio is to 1, the closer the hourly wage at that particular percentile is to the recommended SMW rate.
- 6.11 As for the four LPS (viz. retail; restaurants; estate management, security and cleaning services; and other LPS), the ratios of the recommended SMW rate to their 25<sup>th</sup> percentile hourly wages were at 1 or above, indicating that the recommended SMW rate was higher than the hourly wages of at least a quarter of employees in these sectors in May to June 2011. For fast food cafes, security services and cleaning services, the ratios of the recommended SMW rate to their median hourly wages were also higher than 1, suggesting that the recommended SMW rate would push up the hourly wages of the majority of employees in these sectors, thereby narrowing significantly the wage differentials among different ranks in these sectors (Table 6.1). As the impact of SMW on wage differentials may bring some knock-on effect on pay hierarchies (knock-on effect) and further push up labour costs and inflation, we took this factor into account when examining the impact of the recommended SMW rate so as to make the assessment more comprehensive.

**Table 6.1: Ratios of the recommended statutory minimum wage rate (SMW) to hourly wages at different percentiles analysed by sector**

Sector	Ratio of the recommended SMW rate to		
	25 <sup>th</sup> percentile hourly wage of the sector	Median hourly wage of the sector	75 <sup>th</sup> percentile hourly wage of the sector
<b>(A) Low paying sectors</b>	<b>1.04</b>	<b>0.90</b>	<b>0.66</b>
<b>1. Retail</b>	<b>1.00</b>	<b>0.83</b>	<b>0.59</b>
1.1 Supermarkets and convenience stores	1.06	0.99	0.79
1.2 Other retail stores	0.96	0.79	0.55
<b>2. Restaurants</b>	<b>1.02</b>	<b>0.90</b>	<b>0.68</b>
2.1 Chinese restaurants	0.97	0.81	0.60
2.2 Non-Chinese restaurants	0.98	0.87	0.66
2.3 Fast food cafes	1.07	1.01	0.88
2.4 Hong Kong style tea cafes	1.03	0.93	0.70
<b>3. Estate management, security and cleaning services</b>	<b>1.07</b>	<b>1.03</b>	<b>0.78</b>
3.1 Real estate maintenance management	1.07	0.98	0.69
3.2 Security services	1.07	1.07	0.93
3.3 Cleaning services	1.07	1.05	0.92
3.4 Membership organisations	1.04	0.78	0.40
<b>4. Other low paying sectors</b>	<b>1.02</b>	<b>0.86</b>	<b>0.62</b>
4.1 Elderly homes	1.07	0.90	0.66
4.2 Laundry and dry cleaning services	1.05	0.95	0.74
4.3 Hairdressing and other personal services	0.95	0.82	0.60
4.4 Local courier services	0.95	0.87	0.74
4.5 Food processing and production	1.03	0.87	0.61
<b>(B) Other sectors</b>	<b>0.68</b>	<b>0.48</b>	<b>0.31</b>
<b>(C) All sectors</b>	<b>0.83</b>	<b>0.57</b>	<b>0.36</b>

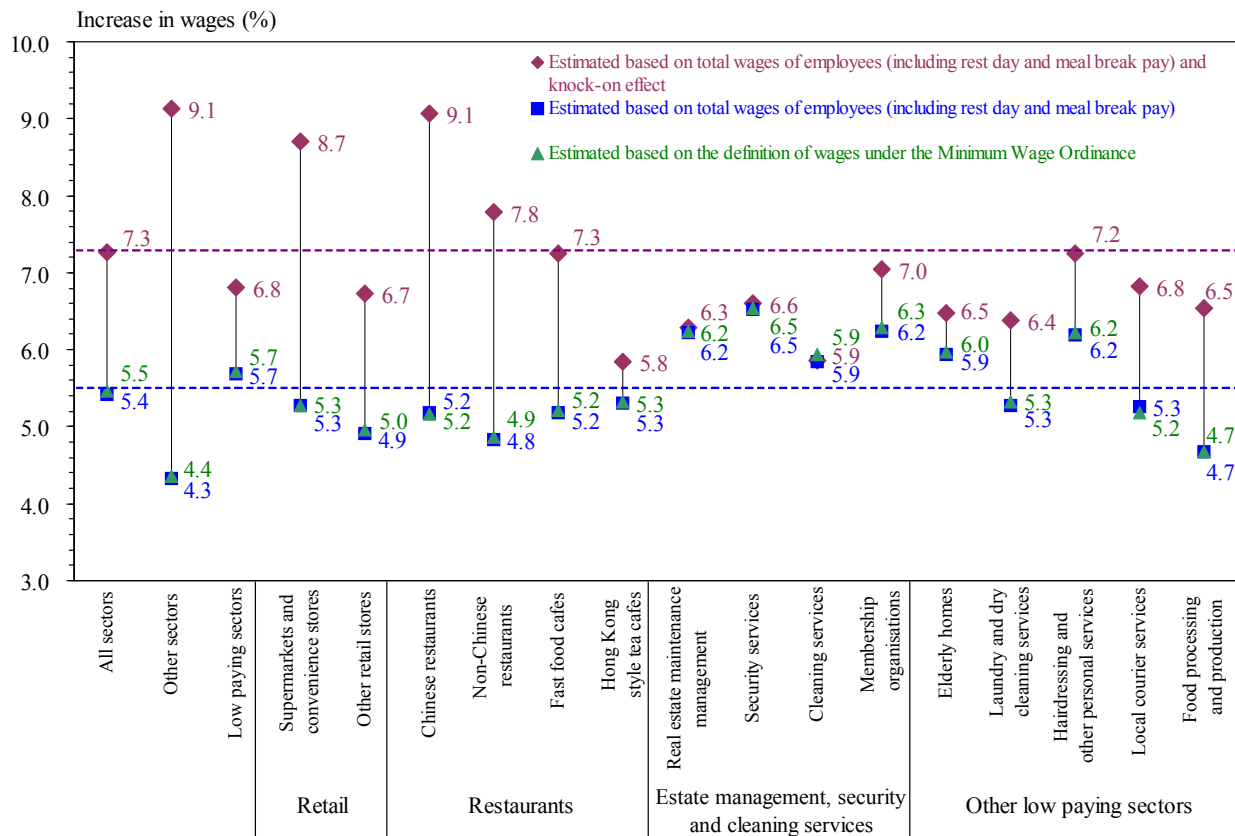
Source: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

### 6.II.3 Increase in wages of employees involved

6.12 On the whole, with the hourly wages of 327 200 employees involved adjusted upwards to the recommended SMW level, their average wage increase would be 5.4% to 5.5%<sup>(2)</sup>. Wage increase of employees involved in estate management, security and cleaning services would be more significant as their hourly wages were generally lower. Taking into account the impact of knock-on effect, the average wage increase of employees involved would be even higher, estimated at 7.3%. As the knock-on effect was found to be more pronounced in retail, restaurants and other sectors, the average wage increase of employees involved in these sectors would be even more visible (Figure 6.4).

(2) Average wage increase was calculated based on the definition of wages under the MWO and total wages (i.e. wages including rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement)). Details are in [Appendix V](#).

**Figure 6.4: Estimated increase in wages of employees involved analysed by sector**



Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

6.13 As the majority of employees in Hong Kong are remunerated on a monthly basis, examining the changes in the monthly pay of employees involved can enhance the understanding of the impact of the recommended SMW rate on employees involved. Table 6.2 summarises the changes in the average monthly pay of the employees involved. With the hourly wages of employees involved raised to the recommended SMW rate, their wages as defined under the MWO out of their total wages (i.e. monthly pay including rest day and meal break pay) would increase by about \$300 on average (for all employees involved) to \$400 on average (for full-time employees involved). Taking into account rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement), the average monthly pay of employees involved would increase by about \$400 (for all employees involved) to \$500 (for full-time employees involved). In addition, the estimated average monthly pay would further increase by about \$100 due to knock-on effect.

**Table 6.2: Change in average monthly pay <sup>(^)</sup> of employees involved**

Employees involved	Estimated based on the definition of wages under the Minimum Wage Ordinance ( <u>not including</u> employees' rest day and meal break pay)		Estimated based on total wages received by employees ( <u>including</u> employees' rest day and meal break pay)		
	(i)	(ii)	(iii)	(iv)	(v)
	May to June 2011	Hourly wages of employees involved raised to \$30.0 (percentage change %) (ii) compared with (i)	May to June 2011	Hourly wages of employees involved raised to \$30.0 (percentage change %) (iv) compared with (iii)	Knock-on effect added on top of (iv) (percentage change %) (v) compared with (iii)
All	\$6,300	<b>\$6,600</b> (5.5)	\$7,000	<b>\$7,400</b> (5.4)	<b>\$7,500</b> (7.3)
Full-time	\$6,900	<b>\$7,300</b> (5.4)	\$7,700	<b>\$8,200</b> (5.4)	<b>\$8,300</b> (7.2)

Note: (^) Figures are rounded to the nearest hundred. Percentage changes in average monthly pay are calculated based on unrounded figures.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

6.14 The above static analysis was made based on the assumption that wages of all employees involved would be raised to the recommended SMW level, with other employment terms remaining unchanged. However, as discussed in Chapter 5, enterprises would adopt different strategies under different economic scenarios to mitigate the additional wage bills brought about by the recommended SMW rate. Some of the employees involved may have working hours reduced, remuneration packages restructured or even be laid off. As a result, the average increase in monthly pay of employees involved would be less than estimated should enterprises adopt these strategies to reduce labour costs. Nevertheless, Table 6.3 shows that even after taking into account these dynamic changes, the average monthly pay of employees involved would still be higher than that in May to June 2011 under different economic scenarios.

**Table 6.3: Average monthly pay<sup>(^)</sup> of those employees involved with jobs retained after enterprises adopt strategies to reduce labour costs and their hourly wages are raised to \$30.0**

	Estimated based on the definition of wages under the Minimum Wage Ordinance (not including employees' rest day and meal break pay)		Estimated based on total wages received by employees (including employees' rest day and meal break pay)		Estimated based on total wages received by employees with knock-on effect included	
	All employees involved	Full-time employees involved	All employees involved	Full-time employees involved	All employees involved	Full-time employees involved
May to June 2011	\$6,300	\$6,900	\$7,000	\$7,700	\$7,000	\$7,700
<b>Economic scenarios<sup>(*)</sup> (after enterprises adopt strategies to reduce labour costs under different economic scenarios)</b>						
Optimistic scenario	\$6,600	\$7,300	\$7,300	\$8,100	\$7,400	\$8,200
<b>Base case</b>	<b>\$6,600</b>	<b>\$7,200</b>	<b>\$7,300</b>	<b>\$8,100</b>	<b>\$7,400</b>	<b>\$8,200</b>
Pessimistic scenario	\$6,600	\$7,200	\$7,200	\$8,000	\$7,300	\$8,100
More pessimistic scenario	\$6,600	\$7,200	\$7,200	\$8,000	\$7,300	\$8,100

Notes: (^) Rounded to the nearest hundred.

(\*) Economic scenarios refer to the assumptions made on the economic outlook of the first half of 2013, which include "optimistic scenario", "base case", "pessimistic scenario" and "more pessimistic scenario". The first two economic scenarios represent an economy with only tepid growth, while the latter two have taken into account an economic recession (see Chapter 5). "Base case" in the table is in **blue and bold** to facilitate examination.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

#### **6.II.4 Estimated impact of labour costs reduction strategies adopted by enterprises on employees involved**

##### **(a) Number of possible layoffs of employees involved**

6.15 Raising the SMW rate to our recommended level would inevitably increase the labour costs in some enterprises. In conducting the review, we paid particular attention to the possible downsizing pressure brought about by different hourly wage rates, especially in times of economic downturn. We therefore carried out stress tests based on different economic scenarios to assess the risks of job loss amidst an economy with only tepid growth (i.e. under the "optimistic scenario" and "base case") and during economic recession (i.e. under the "pessimistic scenario" and "more pessimistic scenario").

6.16 Under the "base case" (i.e. assuming real economic growth for the first half of 2013 at 1.0% year-on-year), it was estimated that about 2 100 to 2 900 employees involved may be laid off, accounting for 0.6% to 0.9% of all employees involved. Under the "more pessimistic scenario", enterprises may face greater downsizing pressure when their operating environment becomes more difficult amidst the unfavourable economic conditions. The estimated number of employees involved who may be laid off would

increase to 4 000 to 6 100, accounting for 1.2% to 1.9% of all employees involved (Table 6.4).

**Table 6.4: Estimates on the number and proportion of employees involved who may be laid off under different economic scenarios**

Economic scenario	Number of employees <sup>(^)</sup>	As proportion of all employees involved <sup>(^)</sup> (%)
Optimistic scenario	1 200 to 1 600	0.4 to 0.5
<b>Base case</b>	<b>2 100 to 2 900</b>	<b>0.6 to 0.9</b>
Pessimistic scenario	3 000 to 4 400	0.9 to 1.4
More pessimistic scenario	4 000 to 6 100	1.2 to 1.9

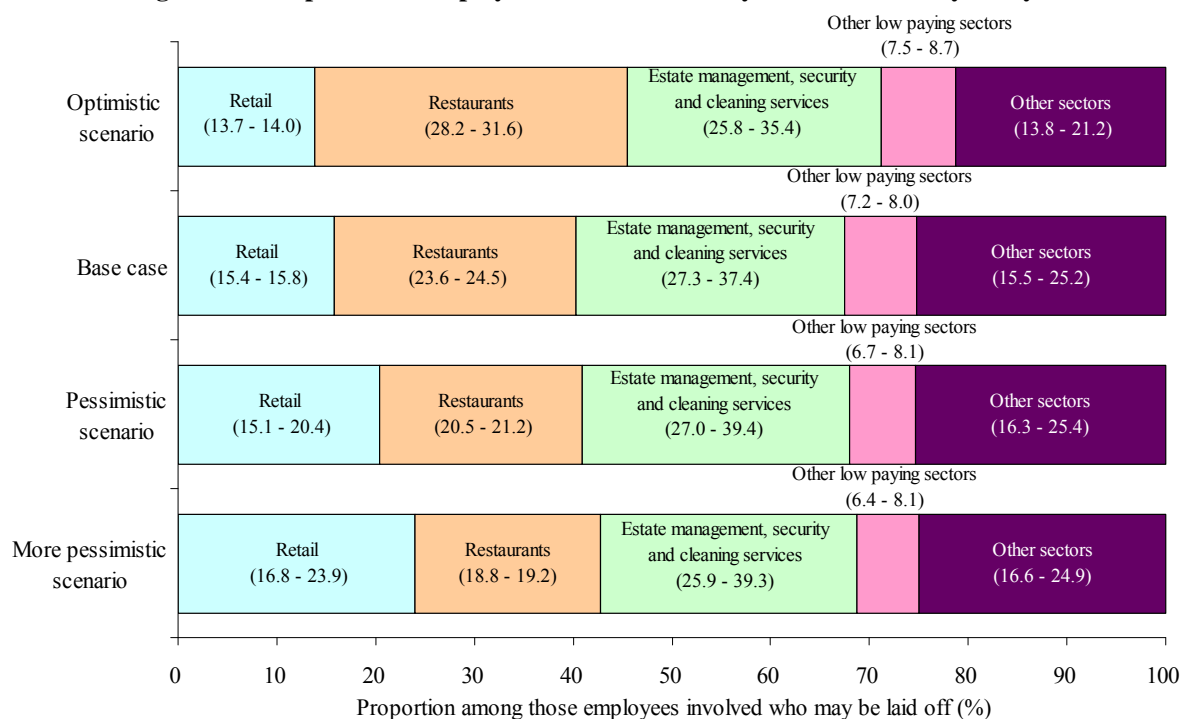
Notes: (^) The range of assessment results was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix V](#).

“Base case” in the table is in **blue and bold** to facilitate examination.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

6.17 On the whole, the risk of layoff posed by the recommended SMW rate should be relatively mild. Provided that the economy can maintain its growth momentum, new jobs created should by and large help offset the loss of these low-paid jobs. Since the hourly wages of employees involved in LPS were generally lower, most of the employees who may be laid off were expected to come from these sectors, in particular estate management, security and cleaning services (Figure 6.5).

**Figure 6.5: Proportion of employees involved who may be laid off<sup>(\*)</sup> analysed by sector**



Note: (\*) The range of assessment results was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix V](#).

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.



(b) **Total number of working hours that may be reduced and the number of full-time equivalent jobs**

6.18 Based on the experience of implementing the initial SMW rate, it was quite unlikely for most LPS to pursue significant downsizing within a short period of time to offset the additional wage bills. Hence, among the various mitigation strategies, enterprises may be more likely to adopt the strategy of reducing working hours. There may also be cases of replacing full-time jobs by part-time or casual jobs. The relevant estimates are presented in Table 6.5.

**Table 6.5: Estimates on total number of working hours that may be reduced and the number of full-time equivalent jobs under different economic scenarios**

Economic scenario	Total number of working hours reduced <sup>(^)</sup> (million hours)	Proportion of total number of working hours reduced among total working hours <sup>(^)</sup> (%)	Total number of working hours reduced in terms of number of full-time equivalent jobs <sup>(^)</sup>
Optimistic scenario	4.8 to 6.4	0.6 to 0.7	1 900 to 2 600
<b>Base scenario</b>	<b>7.1 to 9.4</b>	<b>0.8 to 1.1</b>	<b>2 800 to 3 800</b>
Pessimistic scenario	9.3 to 12.4	1.1 to 1.4	3 700 to 5 000
More pessimistic scenario	11.6 to 15.3	1.3 to 1.8	4 600 to 6 100

Notes: (^) The range of assessment results was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix V](#).  
“Base case” in the table is in **blue and bold** to facilitate examination.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

6.19 The total number of working hours reduced was estimated to be relatively mild at the recommended SMW rate. Under the “base case”, about 0.8% to 1.1% of working hours may possibly be reduced, equivalent to about 2 800 to 3 800 full-time jobs. The proportion of working hours reduced among total working hours would be higher in restaurants (especially Chinese restaurants) (Table 6.6).

**Table 6.6: Estimates on the proportion of total number of working hours that may be reduced among total working hours analysed by sector**

	Proportion of total number of working hours reduced among total working hours in the sector (%) <sup>(^)</sup>			
	Optimistic scenario	Base case	Pessimistic scenario	More pessimistic scenario
<b>(A) Low paying sectors</b>	0.6 - 0.8	<b>0.9 - 1.1</b>	1.2 - 1.5	1.4 - 1.8
<b>1 Retail</b>	0.6 - 0.8	<b>0.8 - 1.2</b>	1.0 - 1.5	1.3 - 1.9
1.1 Supermarkets and convenience stores	0.7 - 1.2	<b>1.0 - 1.6</b>	1.2 - 2.0	1.5 - 2.5
1.2 Other retail stores	0.5 - 0.7	<b>0.7 - 1.0</b>	0.9 - 1.3	1.2 - 1.6
<b>2 Restaurants</b>	0.9 - 1.3	<b>1.1 - 1.7</b>	1.4 - 2.1	1.6 - 2.3
2.1 Chinese restaurants	1.0 - 1.7	<b>1.2 - 2.1</b>	1.5 - 2.5	1.7 - 2.7
2.2 Non-Chinese restaurants	0.7 - 1.1	<b>0.9 - 1.5</b>	1.2 - 1.9	1.4 - 2.2
2.3 Fast food cafes	1.0 - 1.4	<b>1.2 - 1.7</b>	1.5 - 2.1	1.7 - 2.3
2.4 Hong Kong style tea cafes	0.8 - 0.9	<b>1.0 - 1.1</b>	1.3 - 1.4	1.5 - 1.7
<b>3 Estate management, security and cleaning services</b>	0.6 - 0.6	<b>0.9 - 0.9</b>	1.2 - 1.2	1.5 - 1.5
3.1 Real estate maintenance management	0.6 - 0.6	<b>0.9 - 0.9</b>	1.2 - 1.2	1.5 - 1.5
3.2 Security services	0.6 - 0.6	<b>0.9 - 0.9</b>	1.2 - 1.3	1.5 - 1.6
3.3 Cleaning services	0.6 - 0.6	<b>0.8 - 0.9</b>	1.1 - 1.2	1.4 - 1.4
3.4 Membership organisations	0.9 - 1.0	<b>1.2 - 1.3</b>	1.5 - 1.7	1.8 - 2.0
<b>4 Other low paying sectors</b>	0.4 - 0.5	<b>0.7 - 0.9</b>	1.0 - 1.2	1.2 - 1.5
4.1 Elderly homes	0.3 - 0.3	<b>0.6 - 0.6</b>	0.8 - 0.9	1.1 - 1.2
4.2 Laundry and dry cleaning services	0.5 - 0.6	<b>0.8 - 0.9</b>	1.0 - 1.2	1.3 - 1.5
4.3 Hairdressing and other personal services	0.6 - 0.7	<b>0.9 - 1.1</b>	1.2 - 1.4	1.5 - 1.7
4.4 Local courier services	0.5 - 0.7	<b>0.7 - 1.0</b>	1.0 - 1.3	1.2 - 1.6
4.5 Food processing and production	0.4 - 0.6	<b>0.7 - 0.9</b>	0.9 - 1.2	1.1 - 1.6
<b>(B) Other sectors</b>	0.2 - 0.4	<b>0.4 - 0.9</b>	0.6 - 1.3	0.8 - 1.8
<b>(C) All sectors</b>	0.6 - 0.7	<b>0.8 - 1.1</b>	1.1 - 1.4	1.3 - 1.8

Notes: (^) The range of assessment results was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix V](#).

“Base case” in the table is in **blue and bold** to facilitate examination.

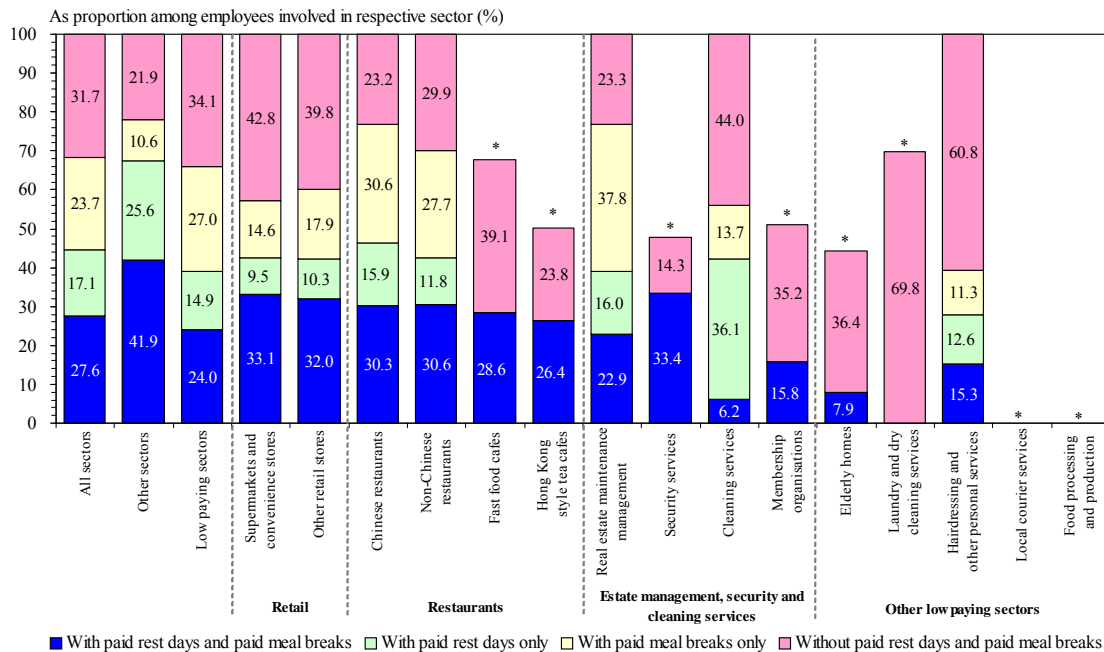
Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

### (c) Number of employees whose remuneration packages may be restructured

6.20 Although it is less feasible for firms to substantially change the remuneration packages of all employees to reduce labour costs, stakeholders and interested parties opined that enterprises might choose to restructure employees’ remuneration packages to offset the additional wage bills and alleviate their downsizing pressures in times of economic downturn. According to the findings of the 2011 AEHS, among all the employees with hourly wage less than \$30.0, about 68.3% had paid rest day(s) and/or paid meal break(s). The picture in LPS was largely similar, with only some LPS (such as laundry and dry cleaning services, hairdressing and other personal services, and cleaning services) having lower proportions of employees with paid rest day(s) or paid meal break(s) (Figure 6.6). Besides, about 20% of the employees involved were entitled to meal benefits in kind, most commonly found in restaurants (more than 70%) and elderly

homes (more than 60%). In comparison, only less than 10% of the employees involved were entitled to year-end payments/bonuses.

**Figure 6.6: Employees involved with paid rest day(s) and/or paid meal break(s) analysed by sector (May to June 2011)**



Notes: \* Some or all of the estimates for the sectors concerned are not released due to relatively large sampling error. Owing to rounding, individual percentages may not add up to 100%.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey.

6.21 As to the estimated number of employees whose remuneration packages may be restructured<sup>(3)</sup>, about 14 200 to 17 300 employees involved (or approximately 4.3% to 5.3% of all employees involved) would be affected under the “base case” after adjustment to the recommended SMW level (Table 6.7), where estate management, security and cleaning services would account for a higher share (Figure 6.7).

(3) Restructuring remuneration packages refers to the reduction in remuneration items that are not defined as wages under the MWO (i.e. non-wage items). When carrying out impact assessment, we assumed all non-wage items (including rest day and/or meal break pay, meal benefits in kind, and guaranteed year-end payments/bonuses) would be cut down.

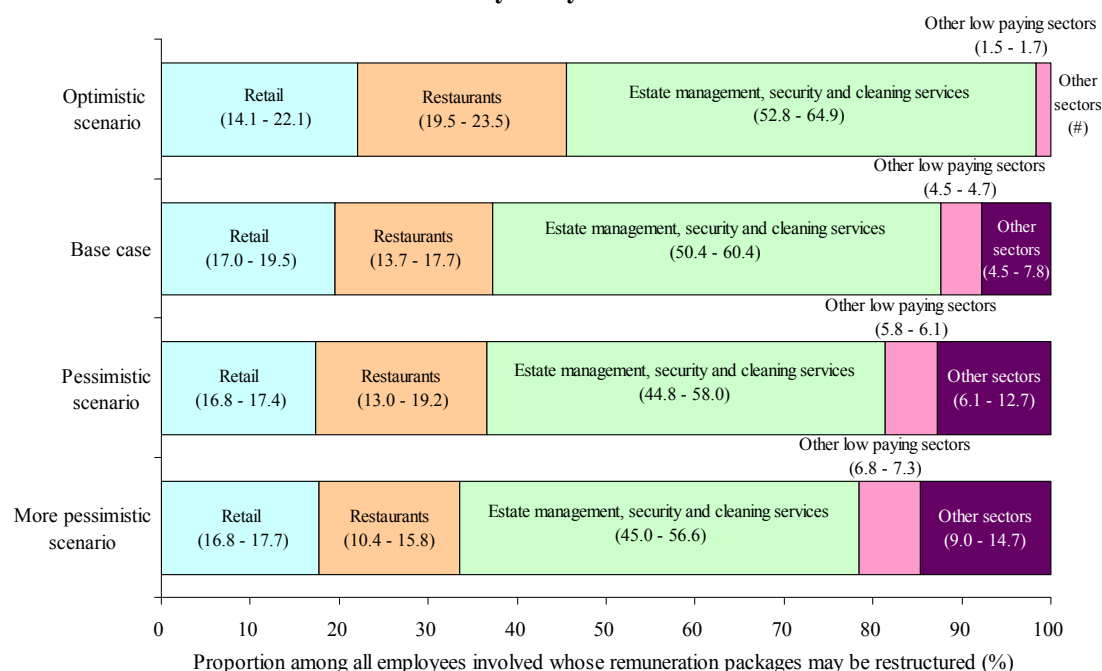
**Table 6.7: Estimates on number and proportion of employees involved whose remuneration packages may be restructured under different economic scenarios**

Economic scenario	Number of employees involved ('000) <sup>(^)</sup>	As proportion of all employees involved <sup>(^)</sup> (%)
Optimistic scenario	6.1 to 7.7	1.9 to 2.3
<b>Base case</b>	<b>14.2 to 17.3</b>	<b>4.3 to 5.3</b>
Pessimistic scenario	20.6 to 26.9	6.3 to 8.2
More pessimistic scenario	25.8 to 32.7	7.9 to 10.0

Notes: <sup>(^)</sup> The range of assessment results was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix V](#).  
“Base case” in the table is in **blue and bold** to facilitate examination.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

**Figure 6.7: Proportion of employees whose remuneration packages may be restructured<sup>(\*)</sup> analysed by sector**



Notes: <sup>(^)</sup> The range of assessment results was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix V](#).

<sup>(#)</sup> Less than 0.05%.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

6.22 In conclusion, upward revision in the SMW rate to the recommended level would lead to increases in wages for most employees involved, help improve the living standard of those employees with less bargaining power, and enhance their incentives to work. Although some employees involved may have their working hours reduced, remuneration packages restructured and even be laid off, the average wages of most of the employees involved would still see some increase even after considering that enterprises may adopt strategies to reduce labour costs under different economic scenarios. The pressure for downsizing brought about by the recommended SMW rate

should be modest. Hence, it is believed that an appropriate balance has been struck between forestalling excessively low wages and reducing the loss of low-paid jobs.

### **6.III Impact on Businesses**

6.23 While endeavouring to forestall excessively low wages, particularly considering those lacking bargaining power and earning low wages, we also have to make sure that the business sector could bear the adjustment of the SMW rate and market flexibility would largely be maintained when making recommendation on the SMW rate. An excessively high SMW rate would entail heavy additional costs to enterprises, causing job losses in those enterprises with larger proportions of low-paid employees and with very low or even negative profits to cease operations in the end. This would eventually bring negative impact on employees. As the impact of SMW adjustment would be different across sectors and enterprises, we considered it necessary to have more detailed analysis by sector.

#### **6.III.1 Additional wage bill**

6.24 The impact of the SMW rate on businesses largely hinges on the additional wage bill entailed (i.e. the additional wage bill incurred by raising the hourly wages of all employees involved to the recommended SMW rate). As mentioned above, the amount of additional wage bill may be smaller than expected as the number of employees involved may fall as a result of pay rise. However, the recommended SMW rate would undeniably push up the wage floor. Enterprises may face a larger than expected wage bill when recruiting new employees.

6.25 Based on the definition of wages under the MWO, the estimated additional wage bill entailed by the recommended SMW rate for all enterprises would be about \$1.35 billion. Taking into account rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement) that are beyond and above the statutory requirements, as well as the additional labour costs arising from knock-on effect, total additional wage bill would rise to around \$2.0 billion (Table 6.8), up by approximately 0.3%<sup>(4)</sup>. Additional wage bills for LPS would account for about 80% of the total, with most notable increases in security services (4.1%), cleaning services (3.7%), fast food cafes (2.8%), and supermarkets and convenience stores

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(4) We understand that wage increases are likely to push up other labour costs such as premium for employees' compensation at the same time. However, due to data limitations, not all labour-related costs could be taken into account in estimating additional wage bills. Details of the methodology of estimation are in [Appendix V](#).

(2.7%)<sup>(5)</sup>. Additional wage bills for membership organisations, Hong Kong style tea cafes, hairdressing and other personal services, elderly homes and non-Chinese restaurants would be mainly felt on SMEs. The recommended SMW rate may thus have greater impact on SMEs in these sectors.

**Table 6.8: Estimates on additional wage bills of various sectors**

Sector	Estimated additional wage bills based on the definition of wages under the Minimum Wage Ordinance (not including employees' rest day and meal break pay)			Estimated additional wage bills based on total wages received by employees (including employees' rest day and meal break pay)			Estimated additional wage bills based on total wages received by employees with knock-on effect		
	(million dollars)	Percentage share among all sectors (%)	Additional wage bills of SMEs as percentage share of additional wage bills in respective sector (%)	(million dollars)	Percentage share among all sectors (%)	Additional wage bills of SMEs as percentage share of additional wage bills in respective sector (%)	(million dollars)	Percentage share among all sectors (%)	Additional wage bills of SMEs as percentage share of additional wage bills in respective sector (%)
<b>(A) Low paying sectors</b>	1,152.9	85.4	27.1	1,252.6	84.2	26.6	1,501.2	75.2	29.0
1 Retail	191.8	14.2	51.4	216.1	14.5	49.9	315.8	15.8	47.6
1.1 Supermarkets and convenience stores	60.8	4.5	13.3	70.4	4.7	11.9	116.1	5.8	11.9
1.2 Other retail stores	131.0	9.7	69.0	145.7	9.8	68.3	199.7	10.0	68.3
2 Restaurants	212.2	15.7	42.6	234.3	15.8	41.5	353.5	17.7	40.3
2.1 Chinese restaurants	58.6	4.3	21.6	65.2	4.4	21.4	114.0	5.7	21.4
2.2 Non-Chinese restaurants	48.2	3.6	76.2	52.9	3.6	75.2	85.1	4.3	75.2
2.3 Fast food cafes	79.3	5.9	24.9	88.2	5.9	23.1	123.5	6.2	23.1
2.4 Hong Kong style tea cafes	26.1	1.9	81.7	28.0	1.9	82.3	30.8	1.5	82.3
3 Estate management, security and cleaning services	640.2	47.4	8.1	687.0	46.2	7.9	694.7	34.8	8.2
3.1 Real estate maintenance management	308.6	22.9	*	331.8	22.3	*	335.1	16.8	*
3.2 Security services	130.3	9.6	*	140.0	9.4	*	141.4	7.1	*
3.3 Cleaning services	180.9	13.4	7.3	194.0	13.0	6.9	194.2	9.7	6.9
3.4 Membership organisations	20.5	1.5	97.1	21.3	1.4	96.7	24.0	1.2	96.7
4 Other low paying sectors	108.6	8.0	65.6	115.2	7.7	64.5	137.3	6.9	62.7
4.1 Elderly homes	42.1	3.1	77.9	43.1	2.9	78.2	47.0	2.4	78.2
4.2 Laundry and dry cleaning services	7.6	0.6	*	8.0	0.5	*	9.6	0.5	*
4.3 Hairdressing and other personal services	36.7	2.7	79.3	38.5	2.6	78.5	45.0	2.3	78.5
4.4 Local courier services	2.3	0.2	*	2.5	0.2	*	3.3	0.2	*
4.5 Food processing and production	20.0	1.5	27.3	23.1	1.6	27.1	32.4	1.6	27.1
<b>(B) Other sectors</b>	197.6	14.6	54.9	234.6	15.8	54.5	494.9	24.8	54.5
<b>(C) All sectors</b>	1,350.5	100.0	31.2	1,487.2	100.0	31.0	1,996.2	100.0	35.3

Notes: \* Estimates are not released due to relatively large sampling error.  
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total.  
“SMEs” refers to small and medium enterprises.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

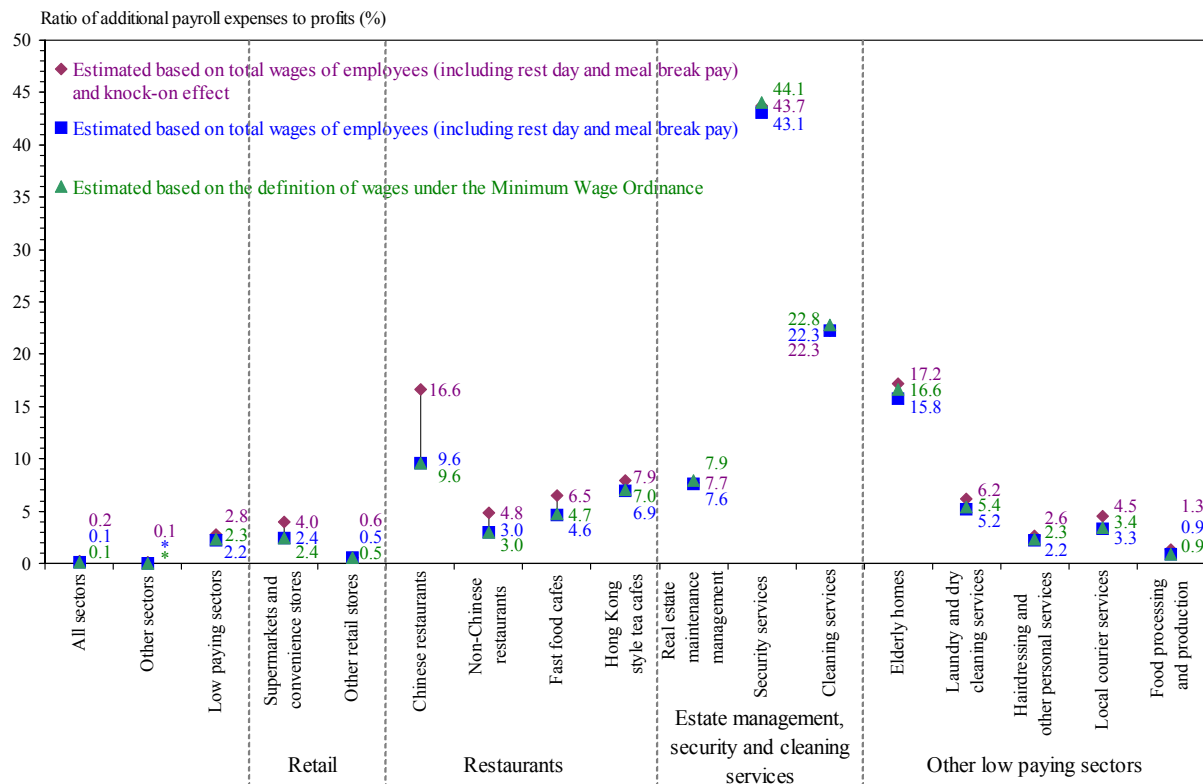
(5) Estimated increase in total wage bill analysed by sector is in **Appendix VI**.

- 6.26 To understand the pressure brought by additional wage bills on profits across sectors, we examined the ratio of additional payroll expenses<sup>(6)</sup> (with additional contributions to pensions included) to profits as a crude indicator. A higher ratio indicates that the additional labour costs entailed by SMW uprating may attribute a more significant proportion of businesses' profits. Unless enterprises are able to pass on all these costs to consumers, the SMW rate may hamper some sectors in receiving certain returns.
- 6.27 As shown in Figure 6.8, the ratio of additional payroll expenses to profits in LPS as a whole would be about 2.2% to 2.8%, a magnitude that would be largely manageable. However, the corresponding ratios in some sub-sectors would be much higher, most visible in security services (43.1% to 44.1%) and cleaning services (22.3% to 22.8%). Hence, for securing their returns, these sectors would have less room to completely offset additional labour costs by reducing profits. Many stakeholders and interested parties in these sectors had also indicated that they were more inclined to pass on all additional labour costs to consumers.

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(6) Additional payroll expenses were estimated by multiplying the rate of change in wages under the recommended SMW rate based on the results of the 2011 AEHS, by the staff costs shown in the 2010 Annual Survey of Economic Activities. Estimated additional payroll expenses include the additional contributions to pensions.

**Figure 6.8: Ratio of additional payroll expenses to profits analysed by sector**



Note: \* Between 0% and 0.05%.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey, the 2010 Annual Survey of Economic Activities and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors

6.28 Besides, the corresponding ratios in elderly homes and Chinese restaurants also reached 15.8% to 17.2% and 9.6% to 16.6% respectively, higher than those in other sectors. However, compared to security and cleaning services, elderly homes and Chinese restaurants may find it more difficult to raise prices. The situation warrants particular concerns, especially that some elderly homes may have limited ability to pass through given subsidy restrictions. Moreover, about 30% of these enterprises already saw losses, and the additional payroll expenses would inevitably pose further downward pressure on their profits. However, as a whole, most businesses should be able to bear the brunt of the recommended SMW rate, even though the impact on some sectors may be more noticeable.



### **6.III.2 Profit reduction strategies adopted by enterprises to offset additional wage bills**

#### **(a) Change in profit ratio**

- 6.29 According to the 2010 Annual Survey of Economic Activities, the overall profit ratio of LPS (7.6%) was lower than that of other sectors (16.9%), in particular for Chinese restaurants (2.4%), security services (4.1%), elderly homes (4.7%) and Hong Kong style tea cafes (5.1%). Any further downward pressure on profits may deal a heavy blow to their operating environments. As regards SMEs, other retail stores (2.5%) and Chinese restaurants (2.1%) recorded lower profit ratios. We thus have to pay particular attention to the impact of the recommended SMW rate on these sectors and enterprises.
- 6.30 Sustainable development of businesses is not possible without profitability, which is also important for not stifling the aspirations of business starters. Some stakeholders and interested parties pointed out that businesses typically would first consider strategies like raising prices or reducing labour costs to offset the additional wage bills entailed by SMW uprating. Absorbing the costs by their profits would likely be the last resort. However, given the limited information about the changes in businesses' profits upon the implementation of SMW, as well as the uncertainties surrounding the economic outlook, we considered it necessary to be prudent in evaluating the impact of the recommended SMW rate on profit ratios in various sectors under different economic scenarios, so as to determine the extent to which businesses could cope with the entailed cost increase.
- 6.31 As shown in Table 6.9, the impact of the recommended SMW rate on profit ratios in most sectors would be mild even under the "base case" assuming only tepid economic growth. However, for certain sectors like security services and small and medium-sized elderly homes, the downward pressure on overall profit ratios, by 0.1 to 0.2 percentage point, would be more heavily felt. Under the "more pessimistic scenario", their overall profit ratios would drop even more noticeably by 0.4 percentage point and 0.2 to 0.3 percentage point respectively.

**Table 6.9: Estimates on decrease in profit ratio by sector after enterprises offset additional wage bills by profits under different economic scenarios<sup>(\*)</sup>**

	Profit ratio in 2010 (%)	Decrease in profit ratio after enterprises offset additional wage bills by profits (percentage point)			
		Optimistic scenario	Base case	Pessimistic scenario	More pessimistic scenario
<b>All enterprises</b>					
<b>(A) Low paying sectors</b>	7.6	#	#	#	#
1 Retail	8.1	#	#	#	#
1.1 Supermarkets and convenience stores	5.5	#	#	#	# - 0.1
1.2 Other retail outlets	8.4	#	#	#	#
2 Restaurants	5.6	# - 0.1	# - 0.1	0.1	0.1
2.1 Chinese restaurants	2.4	#	# - 0.1	# - 0.1	# - 0.1
2.2 Non-Chinese restaurants	6.3	#	#	# - 0.1	# - 0.1
2.3 Fast food cafes	11.0	0.1	0.1	0.1 - 0.2	0.1 - 0.2
2.4 Hong Kong-style tea cafes	5.1	#	0.1	0.1	0.1
3 Estate management, security and cleaning services <sup>(^)</sup>	6.3	#	0.1	0.1	0.2
3.1 Real estate maintenance management	7.0	#	0.1	0.1	0.1
3.2 Security services	4.1	0.1	0.2	0.3	0.4
3.3 Cleaning services	6.0	0.1	0.1	0.2	0.3
4 Other low paying sectors	9.6	#	#	#	0.1
4.1 Elderly homes	4.7	0.1	0.1	0.1 - 0.2	0.2
4.2 Laundry and dry cleaning services	10.8	0.1	0.1	0.1 - 0.2	0.2
4.3 Hairdressing and other personal services	13.9	# - 0.1	0.1	0.1	0.1
4.4 Local courier services	6.6	#	# - 0.1	0.1	0.1
4.5 Food processing and production	10.0	#	#	#	#
<b>(B) Other sectors</b>	16.9	#	#	#	#
<b>(C) All sectors</b>	16.1	#	#	#	#
<b>SMEs</b>					
<b>(A) Low paying sectors</b>	3.9	#	#	#	#
1 Retail	2.6	#	#	#	#
1.1 Supermarkets and convenience stores	5.2	#	#	#	#
1.2 Other retail outlets	2.5	#	#	#	#
2 Restaurants	5.1	#	# - 0.1	0.1	0.1
2.1 Chinese restaurants	2.1	#	# - 0.1	# - 0.1	# - 0.1
2.2 Non-Chinese restaurants	5.4	#	#	# - 0.1	# - 0.1
2.3 Fast food cafes	15.1	#	# - 0.1	0.1	0.1
2.4 Hong Kong-style tea cafes	4.9	#	0.1	0.1	0.1
3 Estate management, security and cleaning services <sup>(^)</sup>	8.7	#	0.1	0.1	0.1
3.1 Real estate maintenance management	6.4	#	#	# - 0.1	0.1
3.2 Security services	10.1	#	0.1	0.1	0.2
3.3 Cleaning services	13.5	#	0.1	0.1	0.2
4 Other low paying sectors	6.1	#	# - 0.1	0.1	0.1
4.1 Elderly homes	4.9	0.1	0.1 - 0.2	0.2	0.2 - 0.3
4.2 Laundry and dry cleaning services	7.1	0.1	0.1	0.1	0.1
4.3 Hairdressing and other personal services	14.6	#	0.1	0.1	0.1
4.4 Local courier services	11.5	# - 0.1	0.1	0.1	0.1
4.5 Food processing and production	4.2	#	#	#	#
<b>(B) Other sectors</b>	12.0	#	#	#	#
<b>(C) All sectors</b>	11.6	#	#	#	#

Notes: (\*) The range of assessment results was estimated based on the additional wage bills imputed under three different definitions. Details are in **Appendix V**.

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

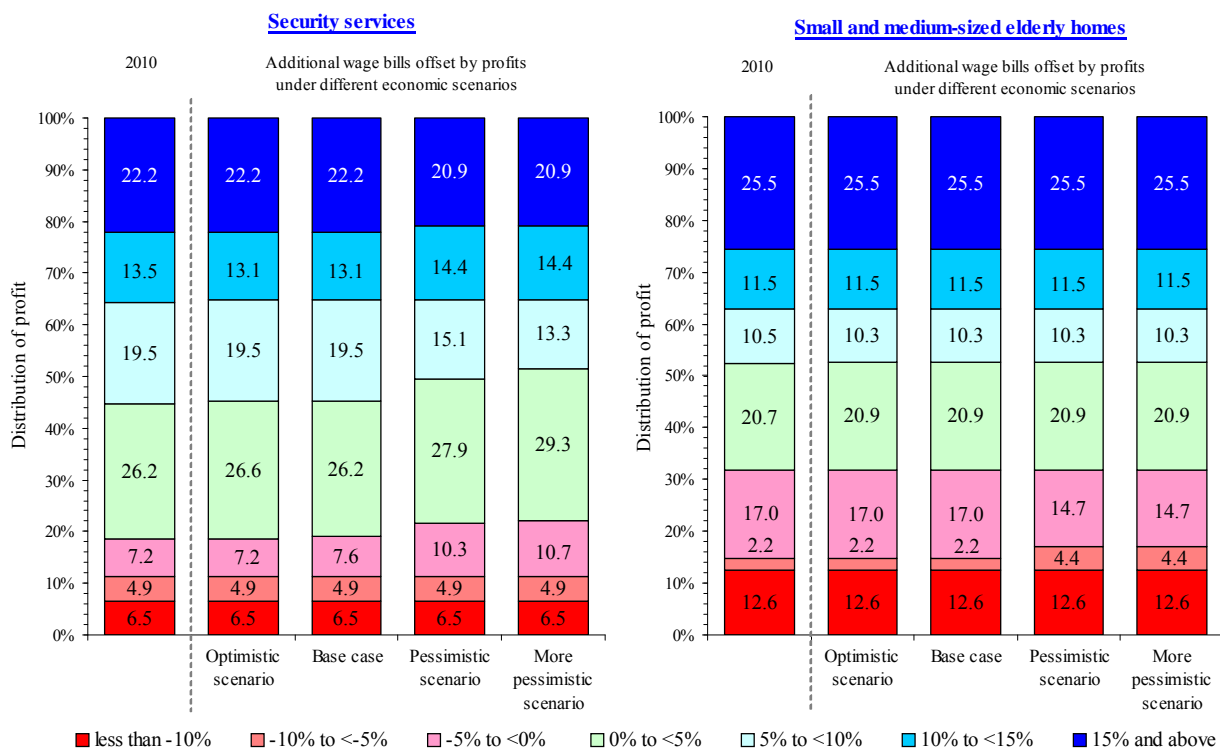
# Between 0 and 0.05.

“Base case” in the table is in **blue and bold** to facilitate examination.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey, the 2010 Annual Survey of Economic Activities and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

6.32 A further analysis of changes in the distributions of profit ratio in these two sub-sectors shows that the proportion of enterprises in security services with losses was relatively low, yet with a relatively large proportion only making narrow profits (i.e. with a profit ratio below 5%). In times of economic downturn (such as under the “pessimistic scenario” and “more pessimistic scenario”), the additional wage bills entailed by the recommended SMW rate may turn some marginal enterprises (about 3% of enterprises) from profits to losses. Small and medium-sized elderly homes would fare even worse as a larger proportion (31.8%) of enterprises in the sector already recorded losses. The recommended SMW rate may squeeze their profits further (Figure 6.9).

**Figure 6.9: Estimated distributions of profit ratio in security services and small and medium-sized elderly homes**



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

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey, the 2010 Annual Survey of Economic Activities and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

## (b) Number of enterprises turning from profits to losses and the total number of employees in these enterprises

6.33 As shown in the situations of individual sectors above, some enterprises may find it difficult to raise prices and downsize due to their operating environments and characteristics. They may thus have to offset additional wage bills by reducing profits. For those enterprises with low profit margins, additional wage bills may turn them from profits to losses. Under the constraints of up-front investments and tenancy

agreements or owing to their operating strategies, enterprises incurring losses may not close down immediately to cause losses in employment opportunities. When these enterprises close down, their market shares may be taken up by existing enterprises or even by newly established ones which would in turn hire some of the laid-off employees. However, in the long run, enterprises incurring losses would be more likely to lay off their staff or even close down, thereby exerting some pressure on the labour market.

- 6.34 With the SMW rate raised to the recommended level, we estimated that about 1 240 to 1 250 enterprises would turn from profits to losses due to the additional wage bills under the “base case”. The number would go up to 1 290 to 1 410 under the “more pessimistic scenario”, among which about 98% would be SMEs but that would only account for about 0.7% of all SMEs in Hong Kong. Nearly 7 000 to 10 000 employees were engaged in these enterprises that would turn from profits to losses, accounting for about 0.4% of the total number of employees in all enterprises (Table 6.10).

**Table 6.10: Estimated number of enterprises turning from profits to losses under different economic scenarios and the total number of employees in these enterprises**

Economic scenario	Enterprises turning from profits to losses <sup>(^)</sup>		
	Number	Proportion of SMEs(%)	Total number of employees in these enterprises
Optimistic scenario	1 210 to 1 240	98.6	6 600 to 6 900
<b>Base case</b>	<b>1 240 to 1 250</b>	<b>98.5</b>	<b>7 900 to 8 000</b>
Pessimistic scenario	1 280 to 1 290	98.0 to 98.1	9 100 to 9 300
More pessimistic scenario	1 290 to 1 410	97.8 to 98.0	9 500 to 10 300

Notes: (^) The range of assessment results was estimated based on the additional wage bills imputed under three different definitions. Details are in **Appendix V**.  
“Base case” in the table is in **blue and bold** to facilitate examination.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey, the 2010 Annual Survey of Economic Activities and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

- 6.35 In overall terms, as enterprises would likely adopt different strategies to absorb or mitigate the rise in cost, it is believed that the cost impact, albeit possibly more visible in individual sectors, would be largely manageable for most businesses. We must emphasise that these impact assessment results were made based on the assumption that not all enterprises would have a full pass-through of additional wage bills to consumers. However, when the external economic environment improves, enterprises would have more room to adopt different strategies (such as raising prices) to maintain reasonable

returns. Undeniably, enterprises that are already making losses or are competing all along on low wages and prices rather than productivity and output quality may be subject to greater pressure. Some of them may have to close down in the end.

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

6.36 We understand that uprating of SMW may lead to a corresponding increase in labour costs arising from employees' statutory entitlements, such as the liability of long service payment. Based on the data of GHS, it was estimated that around 23% of the employees involved in 2011 had been working in the same organisation for 5 years or above. Estimated based on total wages plus knock-on effect, the increase in employers' liability of long service payment would be around \$230.3 million or up by 7.3% pursuant to uprating of SMW to the recommended level. It accounted for only 0.04% of the total wage bill of all employees. The impact is considered slight. Besides, owing to data limitations, the estimate did not take into account that employers may use the accrued benefits derived from their contributions made for their employees under the Mandatory Provident Fund schemes to offset the long service payment required under the Employment Ordinance (EO). Moreover, as an employee is only entitled to long service payment if he/she has been continuously employed by the same employer for no less than 5 years of service<sup>(7)</sup>, the impact would be even smaller for those sectors hiring more short-term staff.

6.37 To sum up, when reviewing the SMW rate, we have considered the possible impact on businesses from various perspectives with an aim to safeguard the existing business environment and competitiveness. Based on the above assessment results, the recommended SMW rate is considered to be manageable for most businesses and should not cause significant impact on the overall business environment and incentives to business start-up.

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(7) According to the EO, an employee who has been employed under a continuous contract for not less than 5 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; or the employee resigns on ground of ill health; or the employee, aged 65 or above, resigns on ground of old age.

## **6.IV Impact on Overall Unemployment Rate and Inflation**

### **6.IV.1 Impact on overall unemployment rate**

- 6.38 The impact of SMW on job loss and unemployment rate is determined by a series of factors, including macroeconomic environment, dynamic adjustments of economic activities after SMW uprating (such as the extent to which enterprises raise prices, downsize and reduce profits to mitigate the additional wage bills), as well as people's incentive of joining the labour market. In theory, a higher SMW rate would cover more employees involved and possibly further enhance workers' quality of life and incentive to work. Yet, a higher rate may also prompt enterprises to economise through downsizing and to increase the risk of grassroots jobs loss, especially in times of economic downturn. The impact of SMW uprating on the dynamic effects of labour demand and supply, and the pace of job creation would also vary under different macroeconomic environments, thereby further complicating the whole picture. While SMW uprating may enhance the incentive to work, whether these new job seekers will find jobs or not also depends on if new jobs can be created at a rate commensurate with the increase in labour supply.
- 6.39 We considered that the additional wage bill entailed by the recommended SMW rate would unlikely trigger a massive scale of reorganisation of work practices and lead to substantial downsizing. Having taken into account the dynamic factors of the labour market under different economic scenarios (including the pace of grassroots jobs creation, the loss of low-paid jobs, the growth in grassroots labour force and the stimulating effect of SMW uprating on labour force), it was estimated that the overall unemployment rate would go up by about 0.3 percentage point under the "base case", affecting some 9 800 to 11 300 grassroots employees. While the unemployment rate in Hong Kong is still relatively low, the impact of the recommended SMW rate on unemployment rate is unlikely to lead to a marked deterioration in the labour market (Table 6.11).

**Table 6.11: Estimates on number of unemployed grassroots workers and increase in unemployment rate under different economic scenarios**

Economic scenario	Number of unemployed grassroots workers <sup>(^)</sup>	Increase in unemployment rate <sup>(^)</sup> (percentage point)
Optimistic scenario	4 500 to 5 800	0.1 to 0.2
<b>Base case</b>	<b>9 800 to 11 300</b>	<b>0.3</b>
Pessimistic scenario	15 000 to 16 900	0.4
More pessimistic scenario	17 900 to 20 400	0.5

Notes: (^) The range of assessment results was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix V](#).  
“Base case” in the table is in **blue and bold** to facilitate examination.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

## 6.IV.2 Impact on inflation

6.40 Additional inflationary pressure was seen as a number of enterprises raised prices to offset the additional wage bills after the implementation of the initial SMW rate. Higher inflation is a cost that has to bear for the whole society in exchange for the protection of low-paid employees. Should there be a full pass-through of additional wage bills on prices of products and services, it was estimated that the Composite Consumer Price Index (CPI) would go up by about 0.3 to 0.4 percentage point<sup>(8)</sup>. Low-paid employees would more likely feel the pinch as daily necessities may be subject to more discernible impact of SMW uprating when compared with the impact on other consumer items. As a measure of inflation on the grassroots, the CPI(A) was estimated to rise by 0.5 to 0.6 percentage point<sup>(8)</sup>. However, as a full pass-through to consumer prices would be unlikely, the actual impact on inflation should be lower than the above estimate.

## 6.V Observations

6.41 We should emphasise that the impact assessment was an attempt to carry out stress tests on the impact of SMW adjustment and the extent to which different sectors would cope with based on a series of assumptions. As every enterprise is unique, there are variations in operating modes, varieties of goods/services, demand and supply conditions, and profitability. Hence, it is difficult to predict precisely the actual responses of different enterprises. As such, the results of the impact assessment should

(8) The former figure was estimated based on total wages received by employees (i.e. wages estimated based on the definition under the MWO plus rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement)). The latter figure was estimated based on total wages as well as knock-on effect.

not be taken as an accurate forecast of all the actual situations upon the adjustment of the SMW rate.

- 6.42 In overall terms, although the economic outlook of Hong Kong is full of uncertainties and the impact of the recommended SMW rate cannot be forecast accurately, we have made every attempt to consider and weigh different factors against each other. While we understand that the recommended SMW rate is a judgement call, we have fully considered a wide range of evidence, statistical data and impact assessment, views of stakeholders and members of the public, as well as considerations that are relevant to the review of the SMW rate but cannot be fully quantifiable. It is almost a mission impossible to recommend a rate which is satisfactory to all. However, the SMW rate recommended by the MWC has struck an appropriate balance between forestalling excessively low wages and minimising the loss of low-paid jobs while sustaining Hong Kong's economic growth and competitiveness. The recommended rate would also help improve the livelihood of the vulnerable groups in the society, enhance the incentive to work of grassroots employees and their quality of life.
- 6.43 On the other hand, some stakeholders pointed out during the consultation sessions that the SMW rate should be set at a level that could meet the basic needs of employees and their families to enable them to live with dignity. Some other stakeholders considered that SMW should only set a wage floor to protect grassroots low-paid employees and it should not be perceived as a welfare policy or a poverty alleviation measure. Apart from implementing SMW, the community should concern and systematically deal with the problem of poverty, in particular the problem of working poverty. We agree that the main objective of SMW is to set a wage level to forestall excessively low wages. Although SMW helps improve quality of life of low-paid workers, employment terms and working hours of employees vary, and different families may also face different situations and needs. As such, employment earnings of some employees may not be able to cover all family expenses. SMW is by no means the only way to eradicate working poverty.



## 7 Recommendation

- 7.1 The Minimum Wage Commission (MWC) is tasked with the statutory function of making recommendation on the statutory minimum wage (SMW) rate to the Chief Executive in Council. The review of the SMW rate has far-reaching impact on society. Stakeholders and members of the public may hold different perspectives and opinions on the SMW rate irrespective of the level to which the rate would be adjusted. In view of this, we adopted an evidence-based approach in conducting in-depth deliberations on the SMW rate. We conducted impact assessment after making reference to the relevant data in a Basket of Indicators and undertaking detailed analyses on wage distribution data and findings of other surveys. During the process, we took into account views from various sectors of society and other relevant considerations that could not be totally quantified in the hope that our recommendation on the SMW rate could strike a balance among the needs of various strata of society and gain wide support. After prudent and objective deliberations as well as iterative discussions, we reached a consensus and recommended the SMW rate be adjusted upwards to \$30.0 per hour.
- 7.2 According to the data of the 2011 Annual Earnings and Hours Survey, around 327 200 employees would be covered by the recommended SMW rate, accounting for 11.7% of all employees in Hong Kong. Owing to time lag of data, the actual coverage of SMW and number of employees involved may be less than the above estimate. Most of the employees involved would benefit from the uprating of the SMW rate. Although some employees may be affected by the mitigation measures taken by employers in controlling labour costs, it is believed that employment earnings of most employees involved would still see some increase due to SMW uprating after considering the mitigation strategies to be adopted by enterprises under different economic scenarios. In reviewing the SMW rate, we also took into account the purchasing power and the incentive to work of employees. On the other hand, taking into account rest day and meal break pay (for employees who are granted rest day and meal break pay according to their employment contracts or agreements) that are beyond and above the statutory requirements, as well as the additional labour costs arising from knock-on effect, the recommended SMW rate would additionally increase Hong Kong's total wage bill by about \$2.0 billion, up by approximately 0.3%. The impact on most sectors (including the low paying sectors (LPS)) should be moderate. We believe that as enterprises would likely adopt different strategies to absorb or mitigate the rise in cost, the cost

impact would be largely manageable for most businesses (including LPS). As regards the impact on the unemployment rate, it was estimated that the overall unemployment rate would go up by about 0.3 percentage point under the “base case” (i.e. assuming real economic growth for the first half of 2013 at 1.0% year-on-year), affecting some 9 800 to 11 300 grassroots employees. While the unemployment rate in Hong Kong is still relatively low, it is anticipated that the impact of the recommended SMW rate on unemployment rate is unlikely to lead to a marked deterioration in the labour market. As there are considerable concerns from various sectors of society over the impact of SMW on inflation, we also conducted prudent impact assessment in this aspect. Should there be a full pass-through of additional wage bill on prices of products and services, it was estimated that the Composite Consumer Price Index would go up by about 0.3 to 0.4 percentage point<sup>(1)</sup>. However, as a full pass-through to consumer prices would be unlikely, the actual impact on inflation should be lower than the above estimate.

7.3 According to the above evidence-based analyses and assessment, and after taking into account the risk of unemployment/lay-offs derived from different economic scenarios when the recommended rate is implemented as well as going through iterative, in-depth and rational discussions, we considered that SMW should be uprated to \$30.0 per hour. This recommendation enables us to discharge the statutory function of the MWC in striking an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while sustaining Hong Kong’s economic growth and competitiveness. Should this SMW rate be accepted and implemented, we also recommend the Government to render more active assistance to employers and employees so that they could have a clear understanding of their relevant statutory liabilities and rights.

7.4 The economic and labour market conditions in Hong Kong are ever-changing. The setting of an appropriate SMW rate can recognise the contributions of grassroots employees to society and economy and take care of their needs on one hand, while having regard to the affordability of businesses and the long-term socio-economic development of Hong Kong on the other. SMW is also conducive to the building of a harmonious and fair society. We believe that the SMW rate recommended under

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(1) The former figure was estimated based on total wages received by employees (i.e. wages estimated based on the definition under the Minimum Wage Ordinance plus rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement)). The latter figure was estimated based on total wages as well as knock-on effect.

unanimous consensus by all the members of MWC after evidence-based and rational discussions could be accepted by various sectors of society and would be of ultimate benefit to the overall interest and development of Hong Kong.

## Appendix I

### Basket of Indicators considered by the Minimum Wage Commission

Summary of Indicators	Statistical Indicators	Information Sources
<b>Area Considered (1): General Economic Conditions</b>		
1. Latest economic performance and forecasts	Nominal and real Gross Domestic Product (GDP)	National Income Statistics, Census and Statistics Department (C&SD)
	Composite Consumer Price Index	Monthly Retail Price Survey, C&SD
	GDP and price forecasts	Economic Analysis and Business Facilitation Unit, Financial Secretary's Office
	Prominent establishments' views on expected changes in short-term business situation and number of persons engaged	Quarterly Business Tendency Survey, C&SD
<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, 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
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

Summary of Indicators	Statistical Indicators	Information Sources
<b>Area Considered (3): Competitiveness</b>		
1. Productivity growth	Labour productivity growth in Hong Kong and selected economies	Hong Kong: National Income Statistics and GHS, C&SD Selected economies: Real GDP and employment data in CEIC
2. Labour costs	Nominal unit labour cost in Hong Kong and selected economies	Hong Kong: National Income Statistics, GHS and Labour Earnings Survey, C&SD Selected economies: National statistics authorities, CEIC and Datastream databases
3. Operating characteristics of enterprises	Operating characteristics analysed by sector	Annual Survey of Economic Activities, C&SD
	Business receipts indices	Quarterly Survey of Service Industries, C&SD
	Total retail sales	Monthly Survey of Retail Sales, C&SD
	Total restaurant receipts	Quarterly Survey of Restaurant Receipts and Purchases, C&SD
	Rental indices of commercial properties	Rating and Valuation Department
4. Entrepreneurship, business sentiment and solvency	Number of creation and deletion of business registration	Inland Revenue Department
	Number of bankruptcy and compulsory winding-up cases	Official Receiver's Office
	Number of establishments	Quarterly Survey of Employment and Vacancies, C&SD
5. 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

Summary of Indicators	Statistical Indicators	Information Sources
<b>Area Considered (4): Social Inclusion</b>		
1. Standard of living	Average monthly employment earnings	GHS, C&SD
	Consumer Price Index (A)	Monthly Retail Price Survey, C&SD
	Wage indices and indices of payroll per person engaged	Labour Earnings Survey, C&SD
	Employment earnings of full-time employees analysed by decile group	GHS, C&SD
2. Enhancing work incentive	Labour force participation rate	GHS, C&SD
	Number of long-term (unemployed for 6 months or above) unemployed 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

Note : Based on the framework of the Basket of Indicators of the Provisional Minimum Wage Commission, new indicators identified by the Minimum Wage Commission are shown in **green**.

## Appendix II

### Changes in Methodology of Major Statistical Surveys

#### II.1 Annual Earnings and Hours Survey

- II.1.1 The reference period of the 2011 Annual Earnings and Hours Survey (AEHS), conducted by the Census and Statistics Department (C&SD), was May to June 2011, while those of the previous rounds of the survey were the second quarter (i.e. April to June) of the year concerned. By changing the reference period, the 2011 AEHS results could reflect the wage distribution after the implementation of the initial statutory minimum wage (SMW) rate, which came into effect on 1 May 2011.
- II.1.2 Before 2011, the number of working hours collected by AEHS was defined to cover contractual/agreed working hours and overtime hours worked at the direction of the employer. Meal breaks were excluded if no work was done or to be done during the time period concerned. Starting from 2011, taking into account the definition of hours worked under the Minimum Wage Ordinance (MWO), meal breaks which are regarded as working hours according to the employment contract or agreement with the employer are also included in the working hours, irrespective of whether work is provided during the meal break period.
- II.1.3 In the 2009 and 2010 AEHS, hourly wages were derived by dividing the amount of wages paid to an employee in the wage period by the total number of working hours in the same period. Rest time and meal break were not counted as working hours if no work was done or to be done during the time period concerned. As information on whether an employee had paid rest days and/or paid meal breaks was not available for collection before 2011, wages of an employee did not exclude payments for rest days and/or meal breaks. Starting from 2011, the method for deriving hourly wages has taken into account the definitions of hours worked and wages payable under the MWO, such that the data can be directly used for analyses related to the SMW. In brief, hourly wages for 2011 were 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 were not regarded as working hours, by the number of working

hours in the same wage period<sup>(1)</sup>.

- II.1.4 Despite the change in the calculation method of hourly wages in 2011, there is no change to the definition of monthly wages, which refers to the total monthly wages paid to an employee. Hence, direct comparison of the monthly wage figures in 2011 with those in previous years is not affected.

## **II.2 Annual Survey of Economic Activities**

- II.2.1 C&SD introduced the Annual Survey of Economic Activities (ASEA)<sup>(2)</sup> starting from 2009 (reference period) as a unified survey integrating the annual economic surveys on different major economic sectors conducted in past years. This has resulted in harmonisation and streamlining of survey processes.

- II.2.2 To enhance the statistical support to be provided to the Minimum Wage Commission, C&SD has implemented the following enhancements to ASEA starting from the 2009 round:

- (1) The sample size of enterprises providing personal services as well as that of small and medium enterprises have been increased;
- (2) The number of overlapped sampled cases between AEHS and ASEA has been increased to improve the SMW impact assessment at a more disaggregated level; and
- (3) Depreciation data were collected for the low paying sectors to facilitate more refined impact analysis. Collection of depreciation data has been extended to all sectors starting from the 2010 round.

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- (1) To facilitate general comparison with the 2010 AEHS figures, C&SD has compiled a set of hourly wage statistics for 2011 based on a method close to the one used in 2010. According to this calculation method, hourly wages were derived by dividing the total amount of wages paid to an employee in the wage period by the total number of working hours in the same period with all meal breaks excluded. While this method is close to the one used in 2010, the 2011 hourly wages so compiled are still not fully comparable with the 2010 figures.
- (2) ASEA was formerly known as the Programme of Annual Economic Surveys (consisting of six annual economic surveys) and the Annual Survey of Personal, Social and Recreational Services. The Programme started to be conducted in the 1980s.



## Appendix III

### List of Stakeholders that attended Consultation Meetings

Name of Organisation (*) 團體名稱	
1.	Advance Caterers Ltd. 駿昇飲食有限公司
2.	Aegean Coast Owners' Committee 愛琴海岸業主委員會
3.	Association of Health Service Workers 健康服務從業員協會
4.	Association of Professional Personnel (Hotels, Food & Beverage) 酒店及飲食專業人員協會
5.	Association of Restaurant Managers 現代管理（飲食）專業協會
6.	Belle Worldwide Ltd. 百麗環球有限公司
7.	Bossini Enterprises Limited 堡獅龍企業有限公司
8.	Business and Professionals Federation of Hong Kong 香港工商專業聯會
9.	Café de Coral Holdings Limited 大家樂集團有限公司
10.	Caritas Youth and Community Service 明愛青少年及社區服務
11.	Catering and Hotels Industries Employees General Union 飲食及酒店業職工總會
12.	Catering Trade Chiuchow and Cantonese Workers Union 飲食業潮粵籍職工會
13.	Chamber of Security Industry Limited 保安業商會（前稱「保安業最低工資關注組」）
14.	China Hong Kong and Macau Boundary Crossing Bus Association 中港澳直通巴士聯會
15.	China Resources Vanguard (Hong Kong) Co. Ltd. 華潤萬家（香港）有限公司
16.	Chinese & Western Food Workers Union 中西飲食業職工會
17.	Chiu Chow Overseas Food Trade Merchants Association 潮僑食品業商會
18.	Cleaning Service Industry Workers Union 清潔服務業職工會
19.	Cleaning Workers Union 清潔工人職工會
20.	Commercial Organisation and Domicile Services Employees Association 商業機構及家居服務從業員協會
21.	Commodities Promotion and Retailing Employees General Union 商品推廣及零售業僱員總會
22.	Community Care and Nursing Home Workers General Union 社區及院舍照顧員總工會
23.	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
24.	Crocodile Garments Ltd. 鱷魚恤有限公司
25.	Dah Chong Hong Ltd. 大昌貿易行有限公司
26.	Eating Establishment Employees General Union 飲食業職工總會
27.	Employers' Federation of Hong Kong 香港僱主聯合會

Name of Organisation <sup>(*)</sup> 團體名稱	
28.	Environmental Services Contractors Alliance (Hong Kong) 香港環境衛生業界大聯盟
29.	Environmental Services Operatives Union 環境服務從業員工會
30.	Estate Restaurant Merchant Association Ltd. 港九新界屋邨酒樓業商會
31.	Fairwood Holdings Ltd. 大快活集團有限公司
32.	Federal Restaurant Group Ltd. 聯邦酒樓集團有限公司
33.	Federation of Hong Kong Industries 香港工業總會
34.	Forum Restaurant (1977) Limited 富臨飯店（1977）有限公司
35.	G2000 (Apparel) Ltd. 縱橫二千有限公司
36.	Hang Yick Properties Management Ltd. 恒益物業管理有限公司
37.	Happiness Cuisine 囍慶藝廚酒家
38.	Hong Kong & Kowloon Electrical Appliances Merchants Association Ltd. 港九電器商聯會
39.	Hong Kong & Kowloon Motor Boats & Tug Boats Association Ltd. 港九電船拖輪商會有限公司
40.	Hong Kong & Kowloon Restaurant & Café Workers General Union 港九酒樓茶室總工會
41.	Hong Kong & Kowloon Tea House Workers General Union 港九茶居工業總會
42.	Hong Kong & Kowloon Trades Union Council 港九工團聯合總會
43.	Hong Kong Air Freight Transport and Express Transport Employees Union 香港航空貨運及速遞業工會
44.	Hong Kong Beauty and Fitness Professionals General Union 香港美容健體專業人員總會
45.	Hong Kong Beauty and Hair Care Employees' Union 香港美容美髮職工會
46.	Hong Kong Building Management and Security Workers General Union 香港物業管理及保安職工總會
47.	Hong Kong Business Community Joint Conference Meeting 香港各界商會聯席會議
48.	Hong Kong Catering Industry Association 香港飲食業聯合總會
49.	Hong Kong Catholic Commission for Labour Affairs 香港天主教勞工事務委員會
50.	Hong Kong CFS & Logistics Association Ltd. 香港集裝箱貨倉及物流服務聯會有限公司
51.	Hong Kong Chinese Reform Association 香港華人革新協會
52.	Hong Kong Christian Council 香港基督教協進會
53.	Hong Kong Christian Service 香港基督教服務處
54.	Hong Kong Civic Association 香港公民協會

Name of Organisation (*) 團體名稱	
55.	Hong Kong Confederation of Trade Unions 香港職工會聯盟
56.	Hong Kong Construction Association 香港建造商會
57.	Hong Kong Container Drayage Services Association Limited 香港貨櫃拖運業聯會有限公司
58.	Hong Kong Container Tractor Owner Association 香港貨櫃車主聯會
59.	Hong Kong Courier Association 香港速遞業協會
60.	Hong Kong Democratic Foundation 香港民主促進會
61.	Hong Kong Department Stores & Commercial Staff General Union 香港百貨商業僱員總會
62.	Hong Kong District Tourists and Passengers Omnibus Operators Association 香港區旅運巴士同業聯會
63.	Hong Kong Federation of Insurers 香港保險業聯會
64.	Hong Kong Federation of Restaurants & Related Trades 香港餐飲聯業協會
65.	Hong Kong General Chamber of Commerce 香港總商會
66.	Hong Kong General Chamber of Pharmacy Ltd. 港九藥房總商會有限公司
67.	Hong Kong General Chamber of Social Enterprises Limited 香港社會企業總會有限公司
68.	Hong Kong Hair & Beauty Merchants Association 香港美髮美容業商會
69.	Hong Kong Housing Management Employees Union 香港樓宇管理僱員工會
70.	Hong Kong Institute of Housing 香港房屋經理學會
71.	Hong Kong Institute of Human Resource Management 香港人力資源管理學會
72.	Hong Kong Institute of Real Estate Administrators 香港地產行政師學會
73.	Hong Kong Japanese Restaurant Association 香港日本料理店協會
74.	Hong Kong Jewellers' & Goldsmiths' Association 香港珠石玉器金銀首飾業商會
75.	Hong Kong Logistics Association 香港物流協會
76.	Hong Kong People Management Association 香港人才管理協會
77.	Hong Kong Professionals and Senior Executives Association 香港專業及資深行政人員協會
78.	Hong Kong Restaurant & Eating House Merchants General Association 香港飲食業總商會
79.	Hong Kong Retail Management Association 香港零售管理協會
80.	Hong Kong Sea Transport and Logistics Association 香港航運物流協會
81.	Hong Kong Security Association 香港保安業協會
82.	Hong Kong Small and Medium Enterprises Association 香港中小型企業聯合會

Name of Organisation (*) 團體名稱	
83.	Hong Kong SME Development Association 香港中小企業促進協會
84.	Hong Kong SME Development Federation Ltd. 香港中小企促進聯會
85.	Hong Kong Union of Chinese Workers in Western Style Employment 香港洋務工會
86.	Hong Kong Women Development Association Limited 香港婦聯
87.	Hong Kong Women Professionals and Entrepreneurs Association 香港女工商及專業人員聯會
88.	Hong Kong Women Workers' Association 香港婦女勞工協會
89.	Hong Yip Services Co. Ltd. 康業服務有限公司
90.	Hotels, Food & Beverage Employees Association 酒店及餐飲從業員協會
91.	Institution of Dining Art 稻苗學會
92.	ISS EastPoint Property Management Ltd. 置邦物業管理有限公司
93.	JLW Management Services Ltd. 仲量聯行物業管理有限公司
94.	Joint Council of Estate Agents Associations 地產代理業界聯席會議
95.	Kai Shing Management Services Ltd. 啟勝管理服務有限公司
96.	Kam Hing Food Factory Ltd. 錦興食品集團
97.	Li & Fung (Retailing) Ltd. 利豐（零售）有限公司
98.	Lucky House Restaurant Group 叙福樓飲食集團
99.	Oxfam Hong Kong 樂施會
100.	People's Alliance for Minimum Wage 民間爭取最低工資聯盟
101.	Public Omnibus Operators Association Ltd. 公共巴士同業聯會有限公司
102.	Retail, Commerce and Clothing Industries General Union 零售、商業及成衣業總工會
103.	Sa Sa Cosmetic Co. Ltd. 莎莎化妝品有限公司
104.	Savills Property Management Ltd. 第一太平戴維斯物業管理有限公司
105.	Seafood Delight Restaurant 昇悅集團
106.	Service Industry General Union 服務業總工會
107.	Sham Tseng Yue Kee Roast Goose Restaurant Ltd. 深井裕記燒鵝飯店
108.	SME Global Alliance 中小企國際聯盟
109.	Sun Lok Restaurant 新樂茶餐廳
110.	Synergis Management Services Ltd. 新昌管理服務有限公司
111.	Tai Hing Worldwide Development Ltd. 太興環球發展有限公司
112.	The Association for Hong Kong Catering Services Management Ltd. 香港餐務管理協會
113.	The British Chamber of Commerce in Hong Kong 香港英商會
114.	The Chamber of Hong Kong Logistics Industry 香港物流商會
115.	The Chinese General Chamber of Commerce 香港中華總商會
116.	The Chinese Manufacturers' Association of Hong Kong 香港中華廠商聯合會

Name of Organisation (*) 團體名稱	
117	The Dairy Farm Company Limited 牛奶有限公司
118	The Elderly Services Association of Hong Kong 香港安老服務協會
119	The Federation of Environmental and Hygiene Services 中港澳環衛總商會
120	The Federation of Hong Kong & Kowloon Labour Unions 港九勞工社團聯會
121	The Federation of Hong Kong Property Management Industry Limited 香港物業管理聯會有限公司
122	The Hong Kong Association of Property Management Companies Ltd. 香港物業管理公司協會有限公司
123	The Hong Kong Council of Social Service 香港社會服務聯會
124	The Hong Kong Federation of Trade Unions 香港工會聯合會
125	The Hong Kong General Chamber of Small and Medium Business 香港中小型企業總商會
126	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
127	The Hong Kong Shippers' Council 香港付貨人委員會
128	The Incorporated Owners of Goldfield Tower 金輝行業主立案法團
129	The Lion Rock Institute 獅子山學會
130	The Wing On Department Stores (HK) Ltd. 永安百貨有限公司
131	Travel Industry Council of Hong Kong 香港旅遊業議會
132	Tsuen Wan District Tourists and Passengers Omnibus Operators Association 荃灣區旅運巴士同業聯會
133	Tsui Wah Group 翠華集團
134	Urban Property Management Ltd. 富城物業管理有限公司
135	Well Born Real Estate Management Ltd. 偉邦物業管理有限公司
136	(No English name) 天主教爭取家庭工資聯盟
137	(No English name) 天主教家庭工資關注組
138	(No English name) 洗髮業職工會
139	(No English name) 香港理髮化粧業職工總會

(\*) listed in alphabetical order

## Appendix IV

### Experience of Reviewing Minimum Wage Rate in Other Places

Place studied	Concept	Criteria for reviewing minimum wage rate
The United Kingdom	Minimum wage is a “wage floor”, not a “living wage”. Its aim is to have a minimum wage that helps as many low-paid workers as possible without creating any significant adverse impacts on inflation or employment	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria: <ul style="list-style-type: none"> <li>➤ Economic conditions</li> <li>➤ Pay growth and differentials</li> <li>➤ Labour market and employment conditions</li> <li>➤ Business costs and environment</li> <li>➤ Competitiveness</li> <li>➤ Inflation</li> </ul> </li> </ul>
France	Minimum wage is a “living wage” that ensures low-paid workers can enjoy a certain living standard and have a share in the 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>➤ Overall average wage and the increase in its purchasing power</li> <li>➤ Needs of workers and their families</li> <li>➤ Economic considerations (e.g. economic conditions, productivity, employment level, overall wages and income level, etc)</li> <li>➤ Political and social considerations</li> <li>➤ Views of the National Collective Bargaining Commission and the Group of Experts</li> </ul> </li> </ul>
Ireland	Minimum wage is only one of the components in safeguarding the living standard of nationals. In terms of policy design, it is more akin to the concept of “wage floor” instead of “living wage”	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria: <ul style="list-style-type: none"> <li>➤ Movement in employees earnings</li> <li>➤ Relevant exchange rate movement</li> <li>➤ Impacts on unemployment and employment rates, inflation and competitiveness</li> </ul> </li> </ul>

Place studied	Concept	Criteria for reviewing minimum wage rate
Australia	Minimum wage is to establish a safety net of wage. It is only one of the components in safeguarding the living standard of workers. In terms of policy design, it is more akin to the concept of “wage floor” instead of “living 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 a disability</li> </ul> </li> </ul>
New Zealand	Minimum wage is a “wage floor” that balances the protection of the lowest paid with employment impacts, in the context of current and forecast labour market and economic conditions and social impacts	<ul style="list-style-type: none"> <li>✧ Major criteria: <ul style="list-style-type: none"> <li>➤ The extent to which any change to the minimum wage would produce gains that are more significant than any losses</li> <li>➤ Consideration of whether a change to the minimum wage would be the best way to protect the lowest paid in the context of the broader package of income and employment-related interventions, and would meet the broader objectives of the government</li> </ul> </li> <li>✧ In considering the first criterion, the major factors include: <ul style="list-style-type: none"> <li>➤ Minimum wage being no lower than a socially acceptable level; benchmarks for reference include average wages and consumer price index</li> <li>➤ Wage protection to vulnerable workers; benchmarks for reference include minimum wages paid under collective agreements</li> <li>➤ No deterioration of earnings of low-paid workers relative to those of other workers; benchmarks for reference include changes in average and median wages</li> <li>➤ Increase of incentive to work for people considering work; benchmarks for reference include benefit levels and costs associated with working</li> <li>➤ Comparison against other local and international benchmarks</li> <li>➤ Consideration of social and economic impacts</li> </ul> </li> </ul>

Place studied	Concept	Criteria for reviewing minimum wage rate
The Mainland (Beijing, Shanghai, Guangdong and Shenzhen)	Minimum wage is built on the “living wage” concept and is an important means to protect the basic living of workers and their family members so as to ensure that workers can have reasonable remuneration	<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 is the lowest standard of employment conditions with a basket of indicators taken into account in setting its rate. It is considered as adopting the “wage floor” concept	<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 various sectors</li> <li>➤ Survey and statistical figures on household income and expenditure</li> </ul> </li> </ul>
South Korea	Minimum wage takes into account the living needs of workers as well as a basket of indicators so as to balance various interests. In terms of policy design, it is more akin to the “wage floor” concept	<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>
The United States	Federal minimum wage is a “wage floor” instead of a “living wage”. Its aim is to maintain the minimum standard of living of workers without substantially curtailing employment	<ul style="list-style-type: none"> <li>✧ Major considerations and criteria:               <ul style="list-style-type: none"> <li>➤ Cost of living</li> <li>➤ Productivity in the manufacturing sector</li> <li>➤ Wage level</li> <li>➤ Affordability of employers to wage increase</li> </ul> </li> </ul>



<b>Place studied</b>	<b>Concept</b>	<b>Criteria for reviewing minimum wage rate</b>
Canada (British Columbia and Ontario)	Minimum wage takes account of the living needs of workers as well as a basket of indicators so as to balance various interests. In terms of policy design, it is more akin to the “wage floor” concept	In general, cost of living, economic conditions and other related factors are taken into account by the Provinces

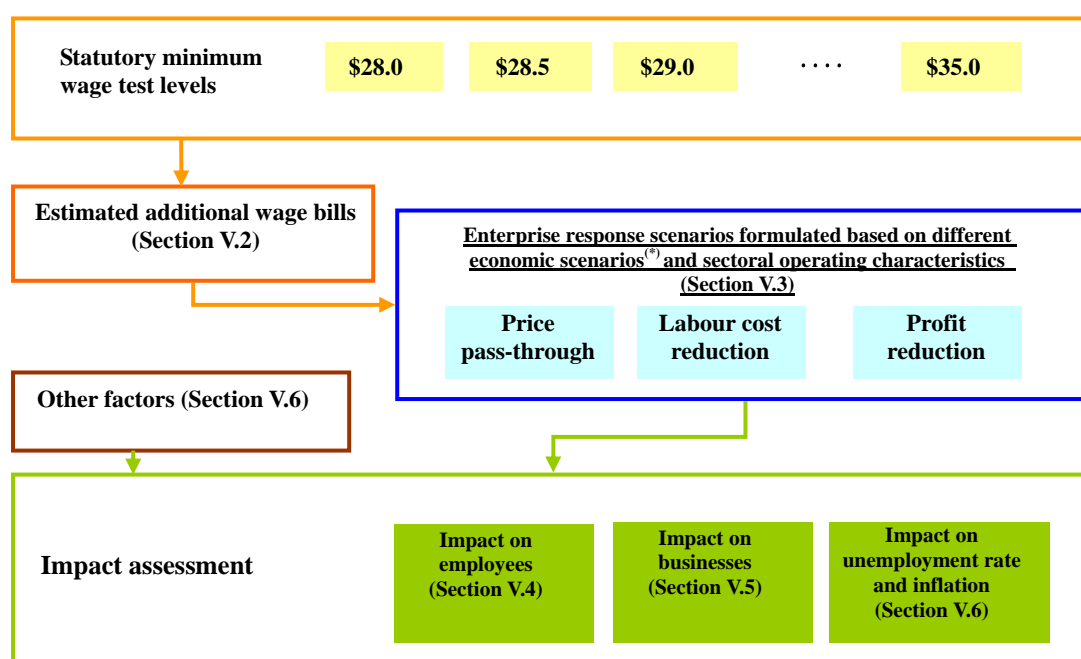
## Appendix V

### Methodology of Impact Assessment

#### V.1 Introduction

- V.1.1 Based on a series of strategies adopted by enterprises in response to the implementation of statutory minimum wage (SMW) (i.e. “enterprise response scenarios”) and assumptions made with regard to different economic scenarios, we conducted assessment on the possible impact of additional wage bills brought about by different SMW test levels on employees, businesses and unemployment rate as well as inflation. The methodology is summarised in Figure V.1.

**Figure V.1: Methodology of impact assessment**



Note: (\*) Different economic scenarios include “optimistic scenario”, “base case”, “pessimistic scenario” and “more pessimistic scenario” (see Chapter 5 of the Report).

#### V.2 Estimates on Additional Wage Bill

- V.2.1 SMW uprating will increase the wage bills across sectors. Additional wage bill in the impact assessment refers to the difference between the wage bill when enterprises raise the hourly wages of all employees earning less than the SMW test level to that level and the original wage bill, while other factors (e.g. number of employees and the structure of employees’ occupation, skill level and working experience) remain unchanged.

V.2.2 In estimating the annual additional wage bill, we made reference to the following three sets of wage bill definition:

- (a) **Estimate based on the definition of wages under the Minimum Wage Ordinance (MWO), which does not include rest day pay and meal break pay of employees.** We estimated the additional wage bill under this item and item (b) below mainly based on the findings of the 2011 Annual Earnings and Hours Survey (AEHS) conducted by the Census and Statistics Department (C&SD);
- (b) **Estimate based on total wages (i.e. monthly wages) received by employees, which includes rest day pay and meal break pay (for employees who are granted these payments according to their employment contract or agreement) of employees.** In estimating the additional wage bill under this item, we assumed that employees with rest day pay and/or meal break pay would continue to enjoy these benefits with their hourly wages raised to the SMW test level, and their rest day pay and/or meal break pay would also increase along with the rise in hourly wages; and
- (c) **Estimate based on total wages received by employees (i.e. definition under item (b)) and also the knock-on effect on pay hierarchies (knock-on effect).** In estimating the additional wage bill under this item, we made reference to the findings of the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors (Study on Knock-on Effect) and the 2011 AEHS. These two study/survey provided reference data for analysing the knock-on effect in the retail and restaurant sectors as well as other sectors respectively.

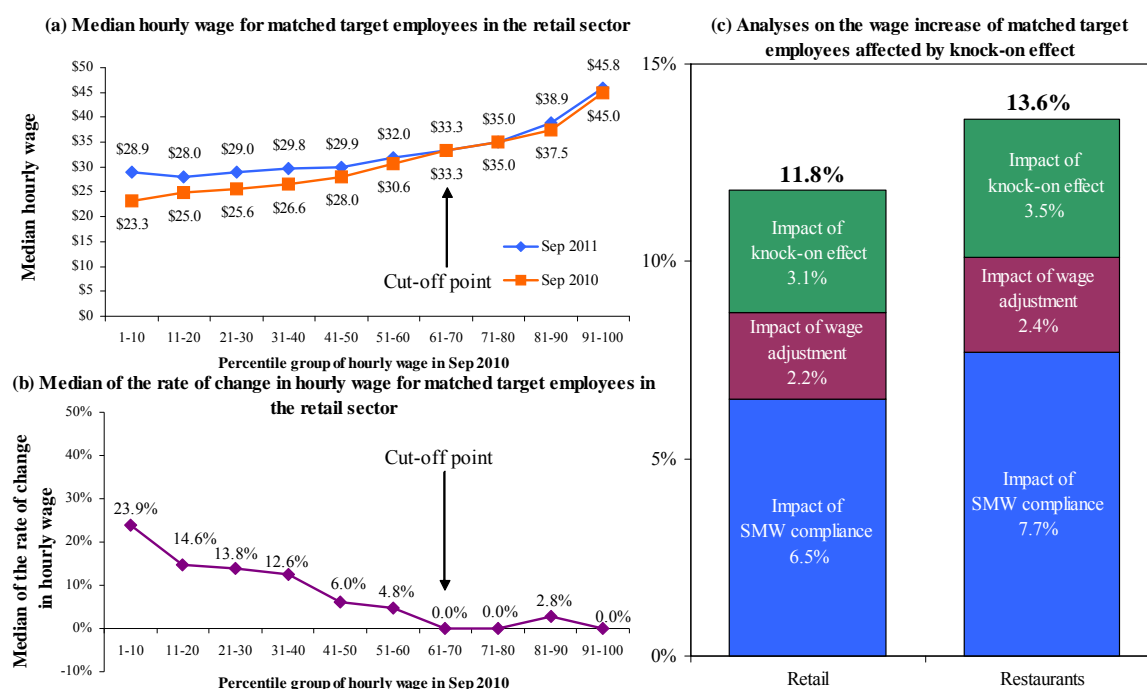
V.2.3 In brief, it was assumed in the Study on Knock-on Effect that the wage increase of employees affected by knock-on effect comprised three parts, namely, compliance with the SMW rate of \$28.0 per hour (“impact of SMW compliance”), “impact of wage adjustment”<sup>(1)</sup> and “impact of knock-on effect”. Studies in other places revealed that the knock-on effect generally affected employees with the lowest pay (or employees earning slightly higher than the SMW level). Hence, the knock-on effect would gradually

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(1) In estimating the impact of wage adjustment, the Study on Knock-on Effect adopted the “Nominal Wage Index”, which was compiled by C&SD on a quarterly basis, in December 2010. As some enterprises might have raised the wages of employees before the implementation of SMW (e.g. in March 2011), the figures in a quarter earlier were adopted to minimise such impact.

diminish above a certain wage level (hourly wage cut-off point<sup>(2)</sup>). For illustration purpose, Figure V.2 summarises the estimated hourly wage cut-off point for the retail sector<sup>(3)</sup> and the main findings of the Study.

**Figure V.2: Hourly wage cut-off point for the retail sector and analyses on the wage increase of matched target employees in the retail and restaurant sectors affected by knock-on effect**



Source: Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

- (2) By carrying out a retrospective survey, the Study on Knock-on Effect collected hourly wage data of matched target employees in the selected sectors (i.e. retail and restaurants) for two reference periods before and after the implementation of SMW (i.e. September 2010 and September 2011 respectively). To estimate the “impact of knock-on effect”, hourly wages of matched target employees in September 2010 were first arranged in ascending order for each selected sector and sub-sector. Hourly wages at percentiles were then used to divide the matched target employees into ten groups, followed by computation of the rate of change in hourly wage of each of the matched target employees. The median of the rate of change in hourly wage of each group was analysed to arrive at an hourly wage cut-off point of the matched target employees affected by knock-on effect for each selected sector and sub-sector. It should be noted as pointed out in the Study on Knock-on Effect, apart from the impact of knock-on effect related to pay hierarchies, the estimated impact of knock-on effect in the selected sectors might also be affected by other factors, such as competing labour demand among different sectors.
- (3) Following the same estimation method, the findings of the Study on Knock-on Effect showed that the hourly wage cut-off point for the restaurant sector was \$32.2.

V.2.4 In the Study on Knock-on Effect, the wage data of all matched target employees below the hourly wage cut-off point were employed to estimate the proportion of additional wage bill arising from the “impact of knock-on effect” over that arising from the “impact of SMW compliance” in the retail and restaurant sectors. We applied these proportions to the additional wage bill data estimated based on total wages received by employees to impute the additional wage bill under item (c) in paragraph V.2.2. As for sectors other than retail and restaurants, we made reference to the methodology of the Study on Knock-on Effect and applied it to the findings of the 2011 AEHS<sup>(4)</sup> so as to analyse the hourly wage cut-off points of employees affected by knock-on effect and estimate the amount of additional wage bill. Table V.1 sets out our major assumptions used in estimating the additional wage bill arising from knock-on effect.

**Table V.1: Major assumptions used in estimating the additional wage bill arising from knock-on effect**

Sector	Hourly wage cut-off point of employees affected by knock-on effect	Proportion of additional wage bill arising from “impact of knock-on effect” over additional wage bill arising from “impact of SMW compliance”
Retail	\$33.3	46%
Restaurants	\$32.2	51%
Real estate maintenance management and security services	\$29.0	1.3% <sup>(1)</sup>
Cleaning Services	\$28.3	0.1% <sup>(1)</sup>
Membership organisations	\$34.5	13%
Elderly homes	\$32.1	9%
Laundry and dry cleaning services	\$31.5	21%
Hairdressing and other personal services	\$32.0	17%
Local courier services	\$31.4	30%
Food processing and production	\$34.3	40%
Other sectors	\$33.3	111% <sup>(2)</sup>

Notes: (1) In these sectors, there are fewer ranks and over 40% of employees earning wages just at the statutory minimum wage (SMW) level (i.e. \$28.0 per hour). Though enterprises might have to raise wages of employees originally above the SMW level to maintain staff morale and wage differentials among different ranks, the additional wage bills thus entailed by the “impact of knock-on effect” were relatively small.

(2) There were fewer low-paid employees in the sector. The additional wage bill entailed by the “impact of SMW compliance” was relatively small. As the additional wage bill entailed by the “impact of knock-on effect” was comparable to that by the “impact of SMW compliance”, the proportion so derived was higher.

Source: Estimated based on the results of the 2011 Annual Earnings and Hours Survey and the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

(4) It should be noted the survey methodology adopted in AEHS was slightly different from that in the Study on Knock-on Effect. AEHS did not keep track of the changes of wages of individual employees in different reference periods. In computing hourly wage cut-off points of employees affected by knock-on effect, AEHS made reference to the difference between the year-on-year rate of change in the hourly wage at each percentile and the year-on-year rate of change in the median hourly wage.

### **V.3 Enterprise Response Scenarios**

- V.3.1 As enterprises are likely to adopt various strategies to mitigate the additional wage bills entailed by SMW, we formulated different “enterprise response scenarios” in various sectors under different economic scenarios by analysing their pricing pressures, costs, profit ratios and manpower requirements.
- V.3.2 We analysed the operating characteristics of different sectors based on the framework as set out in Table V.2, with focus on the changes in these sectors after the implementation of SMW. For restaurants, for example, there may be some room to raise price during an economic upturn. However, whether they could pass through all the cost increases to consumers hinges on the location of shops and source of customers. Other than fast food cafes, the profit margins of other types of restaurants are comparatively thin. It would thus be more difficult for them to reduce profit to mitigate cost increases. Although the restaurant sector is labour intensive in nature, work process has been gradually mechanised and outsourced. The labour demand of each restaurant is relatively stable. On the contrary, to save costs, enterprises inclined to consider recruiting part-time and casual employees for deploying staff in a flexible and effective manner. Given the labour market was relatively tight when we were conducting the analyses, employees’ remuneration packages in the sector were fairly satisfactory. For large enterprises, expanding market share is the prime concern in business development. Even in the face of cost increases, large enterprises would set up branches even more actively. We also conducted similar analyses for other sectors.

**Table V.2: Analytical framework of operating characteristics by sector<sup>(\*)</sup>**

<b>Feasibility of pricing</b>	<b>Cost structure</b>
<ul style="list-style-type: none"> <li>➤ Price elasticity of demand of product/service provided</li> <li>➤ Number of enterprises, and sectoral concentration calculated on the basis of business receipts and number of employees</li> <li>➤ Changes in business receipts under different economic cycles</li> <li>➤ Changes in Consumer Price Indices by groups of product/service related to the sector</li> </ul>	<ul style="list-style-type: none"> <li>➤ Ratio of rental, rates and Government rent, compensation of employees, costs of goods sold and other operating expenses to total operating expenses, in particular that of small and medium enterprises (SMEs)</li> </ul>
<b>Profitability</b>	<b>Manpower requirement</b>
<ul style="list-style-type: none"> <li>➤ Overall profit ratio and its distribution, in particular the situation of SMEs and that as compared to other sectors</li> <li>➤ Number of enterprises running under deficit</li> <li>➤ Changes in the average number of establishments under different economic cycles</li> </ul>	<ul style="list-style-type: none"> <li>➤ Changes in the number of employees under different economic cycles</li> <li>➤ Ratio of lower-skilled workers</li> <li>➤ Ratio of number of vacancies to number of unemployed persons in the sector</li> <li>➤ Compensation and working hours of employees in the sector, in particular as compared to other sectors</li> <li>➤ Feasibility of work process automation, central processing or outsourcing</li> <li>➤ Labour intensity, e.g. average employment opportunities of each establishment</li> <li>➤ Ratio of part-time, hourly-rated and casual employees</li> <li>➤ Remuneration and benefit package of employees</li> </ul>

Note: (\*) In undertaking the analyses, we also made reference to annual reports of relevant listed companies and views of stakeholders and interested parties to enhance our understanding of individual sector.

V.3.3 Having considered the above analyses on operating characteristics of various sectors, we identified the strategies adopted by enterprises to offset the additional wage bill entailed by SMW adjustment and summarised into three major “enterprises response scenarios” as follows:

- (a) **“Price pass-through”**: This refers to scenarios under which enterprises pass on the increase in wage bill to prices of goods and services. Different assumptions regarding the proportion of additional wage bill to be offset by this strategy were made for scenario testing. The experience of enterprises’ responses to the implementation of the initial SMW rate showed that enterprises were more likely to adopt this strategy when the economic environment was stable and consumers’ affordability was strong. Stakeholders and interested parties also expressed that some enterprises had reluctantly adopted manpower streamlining strategy in

response to the implementation of the initial SMW rate. There would be limited room for enterprises to downsize further to offset the additional wage bills. Therefore, they could only have a full pass-through of additional wage bills to consumers. On the basis of this assumption, we obtained the assessment results as shown in Chapter 6 with an attempt to estimate the upper bound of the inflation impact.

- (b) **“Labour cost reduction”**: This includes “downsizing”, “working hours reduction” and “remuneration package restructuring” scenarios, under which enterprises offset additional wage bill by laying off staff, reducing working hours or restructuring remuneration packages (e.g. reducing part of the remuneration package that is not covered by the definition of wages under the MWO (non-wage remuneration items)). According to the experience of the implementation of the initial SMW rate and views of stakeholders and interested parties, it would be difficult for enterprises to offset additional wage bills through large-scale redundancy in the short run and it might not be feasible for some sectors to restructure remuneration packages completely, in particular in those sectors where not many employees enjoyed non-wage remuneration items. In contrast, adjusting working hours should be more commonly adopted among these three strategies. Different assumptions regarding the proportion of additional wage bill to be offset under different economic scenarios were made for scenario testing (Table V.3).



**Table V.3: Assumptions regarding the proportion of additional wage bill to be offset by “labour cost reduction” under different scenario testing**

Economic scenario	Assumptions regarding the proportion of additional wage bill to be offset by labour cost reduction under different scenario testing		
	Downsizing	Working hours reduction	Remuneration package restructuring
Optimistic scenario	5% to 10%	5% to 20%	0% to 10%
Base case <sup>(@)</sup>	10% to 15%	10% to 25%	5% to 15%
Pessimistic scenario	15% to 20%	15% to 30%	10% to 20%
More pessimistic scenario	20% to 25%	20% to 35%	15% to 25%

Note :     (@)     Under the base case of the economic scenarios, it was assumed that enterprises in different sectors would offset 10% to 15%, 10% to 25% and 5% to 15% of additional wage bills by “downsizing”, “working hours reduction” and “remuneration package restructuring” respectively for scenario testing.

- (c) **“Profit reduction”**: This refers to scenarios under which enterprises reduce profits to absorb additional wage bills. Nevertheless, stakeholders and interested parties opined that enterprises would strike to maintain certain profits. Profit reduction would generally be the last resort to absorb additional wage bills. Notwithstanding the above, different assumptions regarding the proportion of additional wage bill to be offset by this strategy were made for scenario testing (Table V.4).

**Table V.4: Assumptions regarding the proportion of additional wage bill to be offset by “profit reduction”**

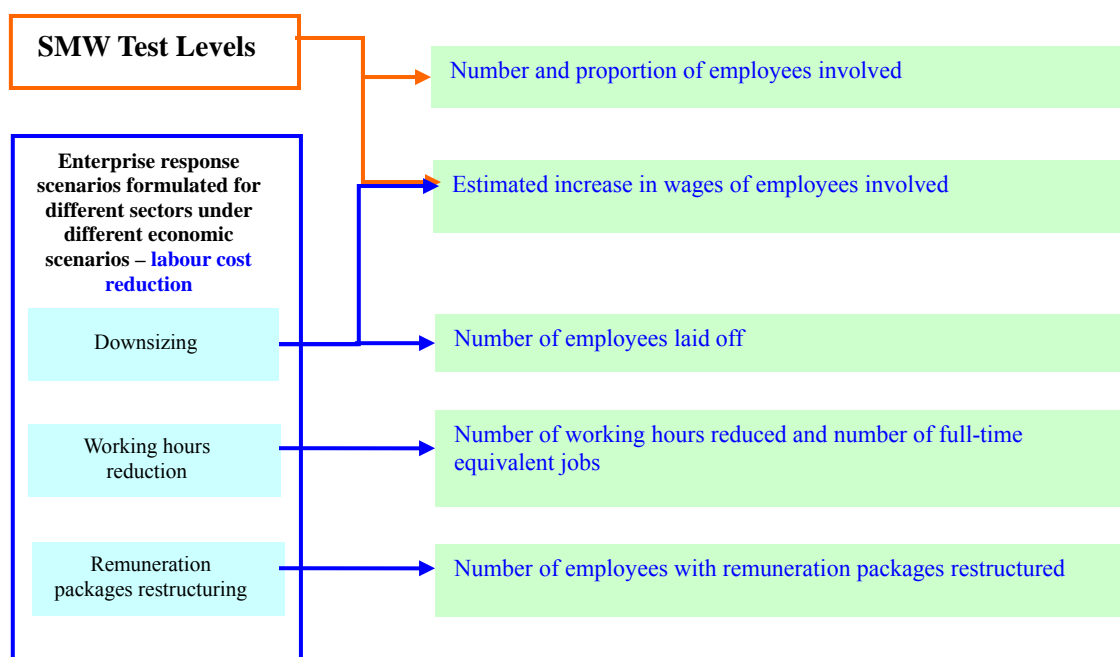
Economic scenario	Proportion of additional wage bill to be offset by profit reduction
Optimistic scenario	5% to 15%
Base case <sup>(@)</sup>	10% to 20%
Pessimistic scenario	15% to 25%
More pessimistic scenario	20% to 30%

Note :     (@)     Under the base case of the economic scenarios, it was assumed that enterprises in different sectors would offset 10% to 20% of additional wage bills by “profit reduction” for scenario testing.

## V.4 Impact on Employees

- V.4.1 We conducted assessment regarding the impact of different SMW test levels on employees, which includes the following items (Figure V.3):

**Figure V.3: Items covered by impact assessment of different statutory minimum wage (SMW) test levels on employees**



V.4.2 The methodology of assessing the above items is as follows:

- (a) **Number and proportion of employees involved:** Employees involved refer to employees with hourly wage below the SMW test levels. The proportion of employees involved refers to the proportion of the number of employees involved among total number of employees in Hong Kong. The number of employees involved was estimated based on the findings of the 2011 AEHS. However, AEHS only reflected the situation during May to June 2011. The wages of some employees involved might have been raised afterwards. The number of employees involved thus may be different from that obtained during the survey period. In view of this, we further estimated the number and proportion of employees involved after pay rise based on the latest data on employees' employment earnings compiled by the General Household Survey (GHS) of C&SD.
- (b) **Estimated increase in wages of employees involved:** The estimated increase in wages of employees involved refers to the increase in wages after the hourly wages of all employees involved are raised to the SMW test levels, while other factors remaining constant. As enterprises would adopt mitigation measures to reduce labour cost, the actual increase in wages of employees involved may be

lower than the estimate derived from the static analyses. As such, we also conducted dynamic analyses, which took into account the increase in wages of those employees involved who would still retain their jobs after enterprises had adopted strategies (including downsizing, reducing working hours and restructuring remuneration packages) to offset the additional wage bills.

- (c) **Number of employees laid off:** We assumed that only employees involved would be laid off. For each occupational group within each sector, employees earning the lowest hourly wage would be laid off first. The number of employees laid off was estimated until the wage bill saved from lay-offs reached the proportion of additional wage bill to be offset by downsizing as assumed under the “enterprise response scenarios”.
- (d) **Number of working hours reduced and number of full-time equivalent jobs:** Similar to the method adopted for estimating the number of employees laid off, we assumed that for each occupational group within each sector, employees earning the lowest hourly wage would have their working hours reduced first. The number of working hours reduced and the number of full-time equivalent jobs were estimated until the wage bill saved from reducing the working hours of these employees reached the proportion of additional wage bill to be offset by reducing working hours as assumed under the “enterprises response scenarios”. The latter was derived from dividing the total number of working hours reduced by the average monthly working hours of all full-time employees.
- (e) **Number of employees with remuneration packages restructured:** Similar to the method adopted for estimating the number of employees laid off, we assumed that for each sector, employees earning the lowest hourly wage would have their remuneration packages restructured first, with all non-wage remuneration items (including rest day pay and/or meal break pay, meal benefits, guaranteed year-end bonus/gratuity) completely cut down, until the wage bill saved from restructuring the remuneration packages of these employees reached the proportion of additional wage bill to be offset by restructuring remuneration packages as assumed under the “enterprise response scenarios”.

## V.5 Impact on Businesses

V.5.1 Our impact assessment regarding businesses includes the following items:

- (a) **Changes in overall profit ratio and profit ratio distribution by individual sector:** We made reference to the findings of the 2010 Annual Survey on Economic Activities (ASEA)<sup>(5)</sup> and obtained data on staff costs of various sectors (including staff costs and costs of other relevant benefits, such as employers' contribution to the Mandatory Provident Fund). We then estimated the changes in overall profit ratio and profit ratio distribution of individual sector by applying the estimated increase in wage bills to staff costs according to the proportion of additional wage bill to be offset by the "profit reduction" scenario of the specific sector. The analysis was further extended to assess the impact on SMEs.
- (b) **Number of enterprises turning from profits to losses:** The number of enterprises turning from profits to losses in individual sector was derived from deducting the changes in the overall profit ratio estimated in paragraph (a) above from the profit ratios of individual sectors obtained from the findings of ASEA. Similarly, we also assessed the impact on SMEs.
- (c) **Liability of long service payment:** Based on the data obtained from AEHS and GHS, we first estimated the number of employees involved who have worked in the same organisation for 5 years or above, and assumed that the monthly wages of these employees would equal to the average monthly wages of all employees involved after adjustment of the SMW rate, which was then multiplied by two-thirds and their years of service. The potential additional liability of long service payment of enterprises was thus estimated.

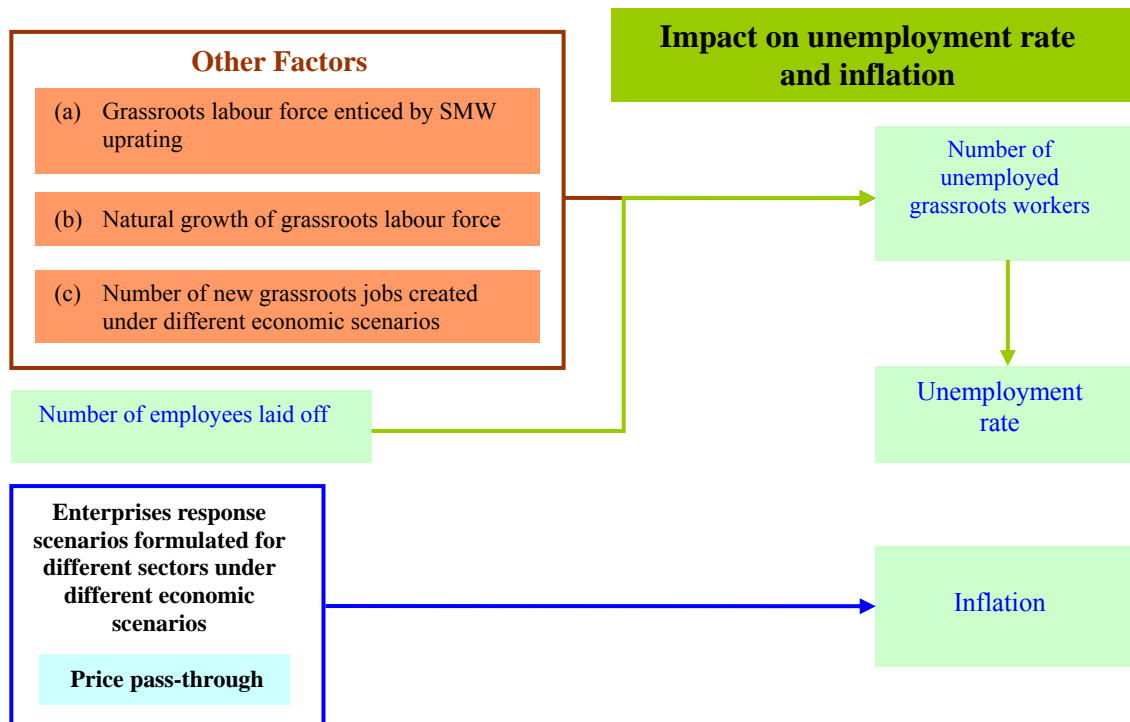
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(5) Information from this statistical survey only reveals the operating situation of businesses before the implementation of SMW. As the results of the 2011 ASEA were not yet available when we conducted the review and made recommendation on the SMW rate, the impact assessment of SMW on businesses was conducted based on the prevailing data (i.e. results of the 2010 ASEA).

## V.6 Impact on Unemployment Rate and Inflation

V.6.1 Our methodology of assessing the impacts on unemployment rate and inflation is as follows (Figure V.4):

**Figure V.4: Impact assessment on unemployment rate and inflation under different statutory minimum wage (SMW) test levels**



V.6.2 In estimating the number of unemployed grassroots workers (i.e. elementary workers and services and sales workers), we calculated the sum of (a) grassroots labour force enticed by SMW uprating and (b) natural growth of grassroots labour force, and then deducted (c) number of grassroots jobs created under different economic scenarios. Based on the above, we then added the number of employees laid off estimated under paragraph V.4.2(c). Items (a) to (c) above are estimated as follows:

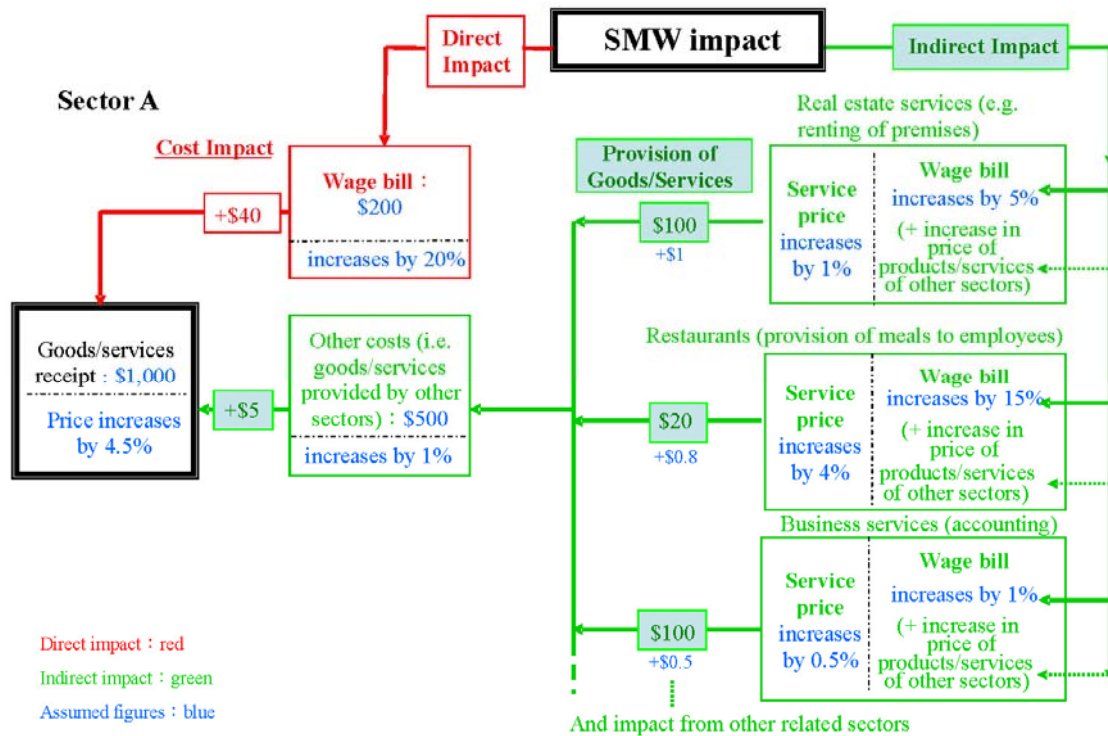
- (a) **Grassroots labour force enticed by SMW uprating:** We analysed the empirical relationship between the growth of grassroots labour force and wages as well as employment conditions based on historical data. We then estimated the growth of grassroots labour force enticed by SMW uprating based on the increase in wages of grassroots employees under different SMW test levels and economic scenarios.

- (b) **Natural growth of grassroots labour force:** We made reference to the labour force projection compiled by C&SD in 2010, which was estimated based on Hong Kong's demographic structure, to obtain the average annual growth rate of grassroots labour force. We then estimated the natural growth of grassroots labour force.
- (c) **Number of grassroots jobs created under different economic scenarios:** We made reference to historical data on economic growth and the number of grassroots employees to build up an empirical relationship between the growth rate of the number of grassroots employees and the growth rate of real Gross Domestic Product (GDP), i.e. the number of grassroots jobs created by each percentage point of year-on-year growth rate of real GDP.

V.6.3 In assessing the impact of different SMW test levels on unemployment rate, our estimation was based on dividing the number of unemployed grassroots workers by the sum of (i) total labour force obtained from GHS, (ii) grassroots labour force enticed by SMW uprating, and (iii) natural growth of grassroots labour force.

V.6.4 Finally, our assessment on the impact of different SMW test levels on prices of products and services as well as inflation was based on the “price pass-through” strategy. We assumed that a full pass-through of the increase in direct and indirect costs to the prices of products and services. Increase in direct cost refers to the increase in the enterprise's wage bill directly arising from the increase in wages of employees under different SMW test levels, while increase in indirect costs refers to the increase in its other expenses (such as rent, transport and courier service, etc.) arising from the increase in prices of products and services of other enterprises. Figure V.5 shows the impact on prices of products and services arising from the increase in direct and indirect costs. Impact on prices was estimated based on the detailed statistical data and cost structure of products and services of relevant sectors.

**Figure V.5: Illustration on increase in direct and indirect costs of enterprises due to additional wage bill arising from the statutory minimum wage (SMW)**



V.6.5 Regarding the impact of SMW on inflation, we first estimated the increases in prices of products and services in relevant sectors and then considered the relevant weightings of Composite Consumer Price Index (CPI) and CPI(A) to assess the impact on these two indices. Besides, we also estimated the first round effect of wage-price spiral, i.e. the increase in prices of other items (such as public utilities, rent of public housing, etc) which were directly or indirectly linked to wages and inflation, thereby causing a series of price increases and inflationary pressures to surface at different stages. Since the initial SMW rate has only been implemented for a short period of time, the resulting wage-price spiral effect may not have been fully emerged. Our impact assessment, therefore, only covered the first round effect owing to data limitations.

## Appendix VI

### Statistical Appendix

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

Table C.1	Coverage of sectors
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## A. Low-paid Employees and Low Paying Sectors

**Table A.1 Socio-economic characteristics of employees earning the initial statutory minimum wage (SMW) rate (i.e. \$28.0 per hour) in May to June 2011**

Socio-economic characteristic	Employees earning the initial SMW rate (i.e. \$28.0 per hour)			Proportion of employees with the corresponding socio-economic characteristic among all employees <sup>(@)</sup> (%)
	Number of persons ('000)	Proportion among all employees with the corresponding socio-economic characteristic <sup>(*)</sup> (%)	Proportion among all employees earning the initial SMW rate <sup>(#)</sup> (%)	
<b>All employees earning the initial SMW rate</b>	<b>180.6</b>	<b>100.0</b>	<b>100.0</b>	<b>6.4</b>
<b>I. Gender</b>				
Female	107.9	8.0	59.7	47.8
Male	72.7	5.0	40.3	52.2
<b>II. Age</b>				
Aged 15 to 24	16.7	7.5	9.3	8.0
Aged 25 to 34	13.8	1.8	7.6	27.3
Aged 35 to 44	27.4	3.7	15.2	26.4
Aged 45 to 54	65.2	9.0	36.1	25.8
Aged 55 and above	57.5	16.4	31.8	12.5
<b>III. Educational attainment</b>				
Primary and below	87.2	23.8	48.3	13.0
Secondary 1 to 3	48.5	12.0	26.9	14.4
Secondary 4 to 5	40.9	4.1	22.7	35.4
Secondary 6 and above	4.0	0.4	2.2	37.2
<b>IV. Employment nature</b>				
Full-time	145.7	5.6	80.7	93.0
Part-time	34.9	17.8	19.3	7.0
<b>V. Contractual status</b>				
Permanent	152.0	6.0	84.2	89.7
Fixed-term contract	17.2	8.1	9.5	7.5
Casual	11.5	14.9	6.3	2.7
<b>VI. Occupational group</b>				
Managers, administrators, professionals and associate professionals	1.3	0.1	0.7	39.6
Clerks	4.5	0.9	2.5	17.6
Craft workers and machine operators	2.5	0.8	1.4	11.8
Service and sales workers	55.8	12.4	30.9	16.0
Elementary workers	116.6	27.7	64.6	15.0
<b>VII. Weekly working days</b>				
Less than or equal to 5 days	30.7	3.1	17.0	35.2
More than 5 days but up to 5.5 days	5.7	0.8	3.2	25.2
More than 5.5 days but up to 6 days	137.9	13.4	76.4	36.6
More than 6 days	6.2	7.4	3.5	3.0
<b>VIII. Basis of wage rate</b>				
Monthly	90.5	3.7	50.1	86.0
Daily	9.4	5.9	5.2	5.7
Hourly	79.7	40.2	44.1	7.1
Others	1.0	2.9	0.6	1.2

Notes: (\*) For example, female employees earning the initial SMW rate accounted for 8.0% of all female employees, and so on.  
 (#) For example, female employees accounted for 59.7% of all employees earning the initial SMW rate, and so on.  
 (@) For example, female employees accounted for 47.8% of all employees, and so on.  
 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: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

**Table A.2 Socio-economic characteristics of employees within the lowest overall hourly wage decile in May to June 2011**

Socio-economic characteristic	Employees within the lowest overall wage decile (i.e. hourly wage less than \$29.3) (i.e. low-paid employees)			Proportion of employees with the corresponding socio-economic characteristic among all employees <sup>(@)</sup> (%)
	Number of persons ('000)	Proportion among all employees with the corresponding socio-economic characteristic <sup>(*)</sup> (%)	Proportion among all low-paid employees <sup>(#)</sup> (%)	
<b>All low-paid employees</b>	<b>279.4</b>	<b>100.0</b>	<b>100.0</b>	<b>10.0</b>
<b>I. Gender</b>				
Female	171.6	12.8	61.4	47.8
Male	107.8	7.4	38.6	52.2
<b>II. Age</b>				
Aged 15 to 24	30.2	13.5	10.8	8.0
Aged 25 to 34	27.2	3.6	9.7	27.3
Aged 35 to 44	48.9	6.6	17.5	26.4
Aged 45 to 54	97.7	13.5	35.0	25.8
Aged 55 and above	75.4	21.4	27.0	12.5
<b>III. Educational attainment</b>				
Primary and below	122.1	33.3	43.7	13.0
Secondary 1 to 3	79.8	19.8	28.6	14.4
Secondary 4 to 5	68.8	6.9	24.6	35.4
Secondary 6 and above	8.8	0.8	3.1	37.2
<b>IV. Employment nature</b>				
Full-time	234.8	9.0	84.0	93.0
Part-time	44.6	22.7	16.0	7.0
<b>V. Contractual status</b>				
Permanent	241.4	9.6	86.4	89.7
Fixed-term contract	24.7	11.7	8.8	7.5
Casual	13.3	17.3	4.8	2.7
<b>VI. Occupational group</b>				
Managers, administrators, professionals and associate professionals	3.5	0.3	1.3	39.6
Clerks	16.0	3.2	5.7	17.6
Craft workers and machine operators	8.1	2.5	2.9	11.8
Service and sales workers	90.1	20.1	32.2	16.0
Elementary workers	161.7	38.4	57.9	15.0
<b>VII. Weekly working days</b>				
Less than or equal to 5 days	46.8	4.7	16.7	35.2
More than 5 days but up to 5.5 days	14.5	2.0	5.2	25.2
More than 5.5 days but up to 6 days	207.6	20.2	74.3	36.6
More than 6 days	10.5	12.4	3.7	3.0
<b>VIII. Basis of wage rate</b>				
Monthly	171.4	7.1	61.3	86.0
Daily	11.7	7.3	4.2	5.7
Hourly	94.5	47.7	33.8	7.1
Others	1.8	5.2	0.6	1.2

Notes: (\*) For example, female low-paid employees accounted for 12.8% of all female employees, and so on.

(#) For example, female employees accounted for 61.4% of all low-paid employees, and so on.

(@) For example, female employees accounted for 47.8% of all employees, and so on.

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: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

**Table A.3 Number of employees earning the initial statutory minimum wage (SMW) rate (i.e. \$28.0 per hour) with paid rest day(s) and/or paid meal break(s) in May to June 2011**

Sector <sup>(Note 2)</sup>	Employees <sup>(Note 1)</sup> earning the initial SMW rate (i.e. \$28.0 per hour)									
	No. of persons ('000)	Proportion among all employees in respective sector (%)	With paid rest day(s) and paid meal break(s)		With paid rest day(s) only		With paid meal break(s) only		Without paid rest day(s) and paid meal break(s)	
			No. of persons ('000)	Proportion among all employees earning the initial SMW rate in respective sector (%)	No. of persons ('000)	Proportion among all employees earning the initial SMW rate in respective sector (%)	No. of persons ('000)	Proportion among all employees earning the initial SMW rate in respective sector (%)	No. of persons ('000)	Proportion among all employees earning the initial SMW rate in respective sector (%)
<b>(A) Low paying sectors<sup>(Note 3)</sup></b>	<b>162.1</b>	<b>20.9</b>	<b>27.9</b>	<b>17.2</b>	<b>21.7</b>	<b>13.4</b>	<b>45.3</b>	<b>27.9</b>	<b>67.2</b>	<b>41.5</b>
1. Retail	28.5	10.9	6.0	21.0	2.6	9.0	4.3	15.2	15.6	54.8
1.1 Supermarkets and convenience stores	9.1	22.4	2.2	24.5	1.5	16.7	0.7	7.9	4.6	50.8
1.2 Other retail stores	19.4	8.8	3.8	19.4	1.0	5.3	3.6	18.5	11.0	56.7
2. Restaurants	29.9	14.5	7.4	24.9	1.4	4.6	8.2	27.4	12.9	43.1
2.1 Chinese restaurants	6.1	9.0	2.0	33.6	1.0	16.7	1.4	22.5	1.7	27.2
2.2 Non-Chinese restaurants	6.1	9.1	*	*	*	*	*	*	2.7	44.1
2.3 Fast food cafes <sup>(Note 4)</sup>	14.8	29.0	*	*	*	*	*	*	7.4	50.0
2.4 Hong Kong style tea cafes	3.0	14.0	*	*	*	*	*	*	1.2	39.0
3. Estate management, security and cleaning services	90.2	41.3	12.7	14.1	16.9	18.8	29.4	32.6	31.1	34.5
3.1 Real estate maintenance management	39.6	37.0	6.4	16.1	7.3	18.4	15.0	37.8	11.0	27.7
3.2 Security services <sup>(Note 5)</sup>	17.6	54.3	*	*	*	*	*	*	2.2	12.7
3.3 Cleaning services	29.6	46.1	0.5	1.8	7.3	24.7	5.1	17.1	16.7	56.3
3.4 Membership organisations <sup>(Note 6)</sup>	3.4	22.9	*	*	*	*	*	*	1.3	37.3
4. Other low paying sectors	13.5	14.9	1.7	12.8	0.9	6.4	3.4	24.9	7.6	56.0
4.1 Elderly homes	4.8	25.8	*	*	*	*	*	*	2.1	43.6
4.2 Laundry and dry cleaning services	*	*	*	*	*	*	*	*	*	*
4.3 Hairdressing and other personal services	4.8	11.8	*	*	*	*	*	*	3.3	67.6
4.4 Local courier services	*	*	*	*	*	*	*	*	*	*
4.5 Food processing and production	2.3	11.3	*	*	*	*	*	*	*	*
<b>(B) Other sectors</b>	<b>18.5</b>	<b>0.9</b>	<b>6.0</b>	<b>32.6</b>	<b>3.4</b>	<b>18.2</b>	<b>2.4</b>	<b>13.0</b>	<b>6.7</b>	<b>36.3</b>
5. Manufacturing	1.3	1.3	*	*	*	*	*	*	0.6	48.2
6. Construction	0.7	0.3	*	*	*	*	*	*	*	*
7. Import/export trade and wholesale	3.9	0.8	*	*	*	*	*	*	1.3	33.2
8. Accommodation <sup>(Note 7)</sup> and food services	*	*	*	*	*	*	*	*	*	*
9. Transportation, storage, information and communications	3.3	1.0	1.0	31.6	0.8	23.7	0.5	15.6	1.0	29.1
10. Financing, insurance, real estate, professional and business services	3.2	0.8	*	*	*	*	*	*	0.7	20.3
11. Education, medical and other social and personal services	5.3	1.3	*	*	*	*	*	*	3.0	56.3
12. Others	*	*	*	*	*	*	*	*	*	*
<b>(C) All sectors</b>	<b>180.6</b>	<b>6.4</b>	<b>33.9</b>	<b>18.8</b>	<b>25.1</b>	<b>13.9</b>	<b>47.7</b>	<b>26.4</b>	<b>74.0</b>	<b>40.9</b>

Notes: (1) Employees do not include employees in the Government, 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.

(3) Low paying sectors as adopted by the Minimum Wage Commission.

(4) Fast food cafes include takeaway shops.

(5) Security services include investigation activities, pest control services as well as landscape care and greenery services.

(6) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.

(7) Accommodation services cover hotels, guesthouses, boarding houses and other enterprises providing short term accommodation.

\* 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: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

**Table A.4 Number of employees within the lowest overall hourly wage decile with paid rest day(s) and/or paid meal break(s) in May to June 2011**

Sector <sup>(Note 2)</sup>	Employees <sup>(Note 1)</sup> within the lowest overall hourly wage decile (i.e. hourly wage less than \$29.3) (i.e. low-paid employees)									
	No. of persons ('000)	Proportion among all employees in respective sector (%)	With paid rest day(s) and paid meal break(s)		With paid rest day(s) only		With paid meal break(s) only		Without paid rest day(s) and paid meal break(s)	
			No. of persons ('000)	Proportion among all low-paid employees in respective sector (%)	No. of persons ('000)	Proportion among all low-paid employees in respective sector (%)	No. of persons ('000)	Proportion among all low-paid employees in respective sector (%)	No. of persons ('000)	Proportion among all low-paid employees in respective sector (%)
<b>(A) Low paying sectors <sup>(Note 3)</sup></b>	<b>231.4</b>	<b>29.8</b>	<b>50.4</b>	<b>21.8</b>	<b>36.3</b>	<b>15.7</b>	<b>61.8</b>	<b>26.7</b>	<b>82.9</b>	<b>35.8</b>
1. Retail	45.7	17.4	14.0	30.7	5.1	11.2	6.5	14.2	20.0	43.9
1.1 Supermarkets and convenience stores	14.5	35.7	5.1	35.5	1.6	10.8	1.5	10.6	6.2	43.2
1.2 Other retail stores	31.2	14.1	8.9	28.5	3.6	11.4	5.0	15.9	13.8	44.2
2. Restaurants	50.1	24.3	14.1	28.2	2.8	5.6	15.7	31.4	17.5	34.9
2.1 Chinese restaurants	11.5	17.0	3.7	32.5	1.6	14.1	3.2	27.9	2.9	25.5
2.2 Non-Chinese restaurants	10.8	16.3	3.2	29.7	0.8	7.2	3.3	30.9	3.5	32.2
2.3 Fast food cafes <sup>(Note 4)</sup>	22.2	43.5	*	*	*	*	*	*	9.6	43.5
2.4 Hong Kong style tea cafes	5.7	26.6	*	*	*	*	*	*	1.4	25.1
3. Estate management, security and cleaning services	114.1	52.3	18.6	16.3	26.1	22.9	34.7	30.4	34.7	30.4
3.1 Real estate maintenance management	48.7	45.5	10.3	21.2	8.0	16.3	18.5	38.0	11.9	24.4
3.2 Security services <sup>(Note 5)</sup>	20.9	64.3	*	*	*	*	*	*	3.1	14.7
3.3 Cleaning services	40.7	63.4	0.9	2.3	15.7	38.6	5.7	13.9	18.4	45.2
3.4 Membership organisations <sup>(Note 6)</sup>	3.9	26.7	*	*	*	*	*	*	1.4	35.0
4. Other low paying sectors	21.5	23.7	3.7	17.0	2.3	10.6	5.0	23.0	10.6	49.3
4.1 Elderly homes	6.8	36.4	*	*	*	*	*	*	2.6	37.7
4.2 Laundry and dry cleaning services	1.7	29.6	*	*	*	*	*	*	1.3	75.9
4.3 Hairdressing and other personal services	7.2	17.8	1.2	16.1	0.8	10.6	0.8	11.2	4.5	62.1
4.4 Local courier services	0.6	10.7	*	*	*	*	*	*	*	*
4.5 Food processing and production	5.2	25.9	*	*	*	*	*	*	*	*
<b>(B) Other sectors</b>	<b>48.0</b>	<b>2.4</b>	<b>19.6</b>	<b>40.9</b>	<b>10.9</b>	<b>22.8</b>	<b>5.2</b>	<b>10.8</b>	<b>12.3</b>	<b>25.6</b>
5. Manufacturing	3.6	3.8	*	*	*	*	*	*	1.5	41.7
6. Construction	3.4	1.4	*	*	*	*	*	*	0.5	15.6
7. Import/export trade and wholesale	10.8	2.3	4.5	41.3	2.8	25.8	1.1	10.0	2.5	22.9
8. Accommodation <sup>(Note 7)</sup> and food services	*	*	*	*	*	*	*	*	*	*
9. Transportation, storage, information and communications	9.2	2.7	3.0	32.5	2.6	28.2	1.3	14.1	2.3	25.3
10. Financing, insurance, real estate, professional and business services	6.4	1.6	*	*	*	*	*	*	1.2	18.9
11. Education, medical and other social and personal services	11.9	2.9	4.7	39.6	1.9	16.0	1.3	10.8	4.0	33.6
12. Others	*	*	*	*	*	*	*	*	*	*
<b>(C) All sectors</b>	<b>279.4</b>	<b>10.0</b>	<b>70.0</b>	<b>25.1</b>	<b>47.2</b>	<b>16.9</b>	<b>67.0</b>	<b>24.0</b>	<b>95.1</b>	<b>34.0</b>

Notes: (1) Employees do not include employees in the Government, 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.  
(3) Low paying sectors as adopted by the Minimum Wage Commission.  
(4) Fast food cafes include takeaway shops.  
(5) Security services include investigation activities, pest control services as well as landscape care and greenery services.  
(6) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.  
(7) Accommodation services cover hotels, guesthouses, boarding houses and other enterprises providing short term accommodation.  
\* 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: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

**Table A.5 Distribution of profit ratio of all enterprises analysed by sector in 2010 (including all enterprises with employees only)**

Sector <sup>(Note 1)</sup>	All enterprises				
	Number of enterprises <sup>(Note 2)</sup>	Profit ratio (%) <sup>(Note 3)</sup>			
		Overall	25 <sup>th</sup> percentile <sup>(Note 4)</sup>	Median <sup>(Note 4)</sup>	75 <sup>th</sup> percentile <sup>(Note 4)</sup>
<b>(A) Low paying sectors<sup>(Note 5)</sup></b>	<b>33 840</b>	<b>7.6</b>	<b>-1.3</b>	<b>5.0</b>	<b>12.0</b>
1. Retail	17 890	8.1	-4.8	3.3	9.7
1.1 Supermarkets and convenience stores	50	5.5	1.1	2.7	5.7
1.2 Other retail stores	17 840	8.4	-4.8	3.3	9.7
2. Restaurants	9 960	5.6	#	5.0	12.0
2.1 Chinese restaurants	2 200	2.4	-4.4	3.5	10.1
2.2 Non-Chinese restaurants	3 930	6.3	-0.2	4.1	9.4
2.3 Fast food cafes <sup>(Note 6)</sup>	1 010	11.0	2.3	10.8	23.5
2.4 Hong Kong style tea cafes	2 820	5.1	0.9	5.2	11.9
3. Estate management, security and cleaning services <sup>(Note 7)</sup>	1 650	6.3	1.8	9.8	22.3
3.1 Real estate maintenance management	560	7.0	0.5	5.6	17.2
3.2 Security services <sup>(Note 8)</sup>	260	4.1	1.6	5.3	14.6
3.3 Cleaning services	820	6.0	2.7	15.7	23.4
4. Other low paying sectors	4 350	9.6	1.9	11.7	19.9
4.1 Elderly homes <sup>(Note 9)</sup>	610	4.7	-2.4	3.7	15.6
4.2 Laundry and dry cleaning services	650	10.8	3.1	5.9	18.7
4.3 Hairdressing and other personal services	2 060	13.9	8.6	18.4	23.8
4.4 Local courier services	260	6.6	1.9	8.7	15.5
4.5 Food processing and production	760	10.0	0.1	4.1	11.9
<b>(B) Other sectors</b>	<b>166 560</b>	<b>16.9</b>	<b>-1.5</b>	<b>4.4</b>	<b>16.6</b>
5. Manufacturing	5 580	5.8	2.4	8.5	21.4
6. Construction	13 590	5.6	1.2	6.8	12.8
7. Import/export trade and wholesale	79 030	5.9	-1.9	2.5	10.3
8. Accommodation <sup>(Note 10)</sup> and food services	3 640	24.4	-3.1	5.3	12.5
9. Transportation, storage, information and communications	14 630	11.9	-0.4	5.8	17.1
10. Financing, insurance, real estate, professional and business services	30 450	53.1	-5.3	8.6	30.7
11. Education, medical and other social and personal services	See (Note 11)				
12. Others	^	38.4	-0.1	4.3	9.5
<b>(C) All sectors</b>	<b>200 400</b>	<b>16.1</b>	<b>-1.5</b>	<b>4.4</b>	<b>15.7</b>

- Notes: (1) Please refer to Table C.1 for coverage of individual sectors.  
(2) In this table, a business establishment is defined as an economic unit (i.e. a unit engaged in the production of goods or services) which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location. An enterprise consists of one or more business establishments which engage, under a single ownership or control, in one or predominantly one kind of economic activity at one or more locations. Figures were rounded to tens.  
(3) 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, amortisation; provisions; etc. to business receipts.  
(4) Not including those enterprises without business receipts (including local representative offices of overseas companies).  
(5) Low paying sectors as adopted by the Minimum Wage Commission.  
(6) Fast food cafes do not include takeaway shops.  
(7) Estate management, security and cleaning services do not include membership organisations.  
(8) Security services include investigation activities, pest control services as well as landscape care and greenery services.  
(9) In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.  
(10) Accommodation services cover hotels, guesthouses, boarding houses and other enterprises providing short term accommodation.  
(11) Data are not released.  
# In between -0.05% and 0.05%.  
^ The figures are not provided so as to prevent the deduction of suppressed cells.

Source: 2010 Annual Survey of Economic Activities, Census and Statistics Department.

**Table A.6 Distribution of profit ratio of small and medium enterprises analysed by sector in 2010 (including small and medium enterprises with employees only)**

Sector <sup>(Note 1)</sup>	Small and medium enterprises <sup>(Note 3)</sup>				
	Number of enterprises <sup>(Note 2)</sup>	Profit ratio (%) <sup>(Note 4)</sup>			
		Overall	25 <sup>th</sup> percentile <sup>(Note 5)</sup>	Median <sup>(Note 5)</sup>	75 <sup>th</sup> percentile <sup>(Note 5)</sup>
<b>(A) Low paying sectors<sup>(Note 6)</sup></b>	<b>32 150</b>	<b>3.9</b>	<b>-1.3</b>	<b>5.0</b>	<b>12.1</b>
1. Retail	17 490	2.6	-4.8	3.3	9.7
1.1 Supermarkets and convenience stores	50	5.2	1.1	2.5	5.7
1.2 Other retail stores	17 440	2.5	-4.8	3.3	9.7
2. Restaurants	9 280	5.1	0.5	5.1	12.1
2.1 Chinese restaurants	1 680	2.1	0.7	5.2	12.5
2.2 Non-Chinese restaurants	3 800	5.4	-0.2	4.1	9.4
2.3 Fast food cafes <sup>(Note 7)</sup>	980	15.1	2.6	10.8	24.3
2.4 Hong Kong style tea cafes	2 810	4.9	0.9	5.2	11.6
3. Estate management, security and cleaning services <sup>(Note 8)</sup>	1 220	8.7	1.9	13.2	23.9
3.1 Real estate maintenance management	410	6.4	0.4	6.3	17.3
3.2 Security services <sup>(Note 9)</sup>	170	10.1	1.9	8.9	19.1
3.3 Cleaning services	650	13.5	8.6	18.4	24.9
4. Other low paying sectors	4 170	6.1	1.9	11.7	19.9
4.1 Elderly homes <sup>(Note 10)</sup>	540	4.9	-2.5	4.2	15.6
4.2 Laundry and dry cleaning services	630	7.1	3.1	5.9	18.7
4.3 Hairdressing and other personal services	2 060	14.6	9.7	18.4	23.8
4.4 Local courier services	240	11.5	3.1	9.4	17.5
4.5 Food processing and production	700	4.2	0.1	3.9	11.9
<b>(B) Other sectors</b>	<b>162 900</b>	<b>12.0</b>	<b>-1.7</b>	<b>4.3</b>	<b>16.4</b>
5. Manufacturing	5 390	4.5	2.5	8.5	21.9
6. Construction	13 230	5.3	1.2	6.8	12.8
7. Import/export trade and wholesale	78 130	4.7	-2.0	2.5	10.2
8. Accommodation <sup>(Note 11)</sup> and food services	3 510	7.0	-3.8	5.3	12.2
9. Transportation, storage, information and communications	13 980	8.4	-0.5	5.7	17.1
10. Financing, insurance, real estate, professional and business services	29 580	58.8	-5.8	8.6	30.7
11. Education, medical and other social and personal services	See (Note 12)				
12. Others	^	5.1	-0.1	4.3	9.5
<b>(C) All sectors</b>	<b>195 050</b>	<b>11.6</b>	<b>-1.5</b>	<b>4.4</b>	<b>15.7</b>

- Notes: (1) Please refer to Table C.1 for coverage of individual sectors.  
(2) In this table, a business establishment is defined as an economic unit (i.e. a unit engaged in the production of goods or services) which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location. An enterprise consists of one or more business establishments which engage, under a single ownership or control, in one or predominantly one kind of economic activity at one or more locations. Figures were rounded to tens.  
(3) In this table, small and medium enterprises refer to those enterprises with fewer than 50 persons engaged.  
(4) 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, amortisation; provisions; etc. to business receipts.  
(5) Not including those enterprises without business receipts (including local representative offices of overseas companies).  
(6) Low paying sectors as adopted by the Minimum Wage Commission.  
(7) Fast food cafes do not include takeaway shops.  
(8) Estate management, security and cleaning services do not include membership organisations.  
(9) Security services include investigation activities, pest control services as well as landscape care and greenery services.  
(10) In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.  
(11) Accommodation services cover hotels, guesthouses, boarding houses and other enterprises providing short term accommodation.  
(12) Data are not released.

^ The figures are not provided so as to prevent the deduction of suppressed cells.  
Source: 2010 Annual Survey of Economic Activities, Census and Statistics Department.

**Table A.7 Distribution of weekly working hours analysed by sector in May to June 2011: All employees**

Sector <sup>(Note 2)</sup>	Employees <sup>(Note 1)</sup>		Weekly working hours		
	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) Low paying sectors<sup>(Note 3)</sup></b>	<b>777.1</b>	<b>27.7</b>	<b>44.3</b>	<b>51.0</b>	<b>60.0</b>
1. Retail	262.0	9.3	41.8	48.0	56.1
1.1 Supermarkets and convenience stores	40.5	1.4	35.8	51.0	60.0
1.2 Other retail stores	221.5	7.9	42.0	48.0	54.8
2. Restaurants	206.1	7.3	48.0	54.0	60.0
2.1 Chinese restaurants	67.4	2.4	51.0	60.0	64.2
2.2 Non-Chinese restaurants	66.5	2.4	48.0	54.0	60.0
2.3 Fast food cafes <sup>(Note 4)</sup>	51.0	1.8	25.7	48.1	55.0
2.4 Hong Kong style tea cafes	21.3	0.8	48.0	58.5	60.6
3. Estate management, security and cleaning services	218.4	7.8	45.0	54.0	66.0
3.1 Real estate maintenance management	107.1	3.8	48.0	57.5	66.0
3.2 Security services <sup>(Note 5)</sup>	32.4	1.2	48.0	66.0	72.0
3.3 Cleaning services	64.2	2.3	42.0	48.0	54.0
3.4 Membership organisations <sup>(Note 6)</sup>	14.7	0.5	38.1	44.3	54.0
4. Other low paying sectors	90.6	3.2	44.3	48.0	55.5
4.1 Elderly homes	18.7	0.7	45.0	54.0	66.0
4.2 Laundry and dry cleaning services	5.7	0.2	39.2	51.0	58.4
4.3 Hairdressing and other personal services	40.8	1.5	43.2	48.0	54.6
4.4 Local courier services	5.2	0.2	40.6	44.3	51.0
4.5 Food processing and production	20.2	0.7	42.5	48.0	54.0
<b>(B) Other sectors</b>	<b>2 029.9</b>	<b>72.3</b>	<b>40.6</b>	<b>44.3</b>	<b>48.0</b>
5. Manufacturing	93.7	3.3	44.3	47.9	50.0
6. Construction	238.2	8.5	44.3	48.8	54.6
7. Import/export trade and wholesale	475.6	16.9	40.6	43.4	45.7
8. Accommodation <sup>(Note 7)</sup> and food services	47.0	1.7	48.0	49.4	54.0
9. Transportation, storage, information and communications	341.7	12.2	40.6	44.5	54.0
10. Financing, insurance, real estate, professional and business services	408.8	14.6	40.6	41.1	45.7
11. Education, medical and other social and personal services	408.0	14.5	39.6	44.3	46.8
12. Others	17.0	0.6	39.8	45.7	48.0
<b>(C) All sectors</b>	<b>2 807.0</b>	<b>100.0</b>	<b>40.6</b>	<b>45.0</b>	<b>51.6</b>

- Notes: (1) Employees do not include employees in the Government, 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.  
(3) Low paying sectors as adopted by the Minimum Wage Commission.  
(4) Fast food cafes include takeaway shops.  
(5) Security services include investigation activities, pest control services as well as landscape care and greenery services.  
(6) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.  
(7) Accommodation services cover hotels, guesthouses, boarding houses and other enterprises providing short term accommodation.  
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: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.



**Table A.8 Distribution of weekly working hours analysed by sector in May to June 2011: Lower-skilled employees**

Sector <sup>(Note 2)</sup>	Lower-skilled employees <sup>(Note 1)</sup>		Weekly working hours		
	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) Low paying sectors<sup>(Note 3)</sup></b>	<b>681.8</b>	<b>40.2</b>	<b>44.3</b>	<b>52.2</b>	<b>60.0</b>
1. Retail	219.6	12.9	42.0	48.2	57.0
1.1 Supermarkets and convenience stores	34.4	2.0	33.2	48.0	60.0
1.2 Other retail stores	185.2	10.9	43.2	48.2	55.5
2. Restaurants	192.0	11.3	46.2	54.0	60.0
2.1 Chinese restaurants	61.9	3.7	51.0	60.0	64.2
2.2 Non-Chinese restaurants	61.9	3.6	48.0	54.0	60.0
2.3 Fast food cafes <sup>(Note 4)</sup>	47.5	2.8	25.1	48.0	54.9
2.4 Hong Kong style tea cafes	20.7	1.2	48.0	58.5	60.0
3. Estate management, security and cleaning services	189.2	11.2	48.0	54.0	66.0
3.1 Real estate maintenance management	86.3	5.1	49.5	66.0	72.0
3.2 Security services <sup>(Note 5)</sup>	31.2	1.8	48.0	66.0	72.0
3.3 Cleaning services	61.9	3.6	42.0	48.0	54.0
3.4 Membership organisations <sup>(Note 6)</sup>	9.9	0.6	24.0	46.5	55.4
4. Other low paying sectors	81.0	4.8	44.3	48.1	57.0
4.1 Elderly homes	16.0	0.9	46.2	54.0	66.0
4.2 Laundry and dry cleaning services	5.2	0.3	36.0	52.9	58.5
4.3 Hairdressing and other personal services	38.2	2.3	42.0	48.1	54.6
4.4 Local courier services	4.5	0.3	40.6	44.3	49.9
4.5 Food processing and production	17.1	1.0	42.0	48.0	54.0
<b>(B) Other sectors</b>	<b>1 014.8</b>	<b>59.8</b>	<b>40.6</b>	<b>45.7</b>	<b>52.0</b>
5. Manufacturing	50.5	3.0	44.3	48.0	54.0
6. Construction	179.6	10.6	48.0	49.9	55.9
7. Import/export trade and wholesale	231.9	13.7	40.6	44.3	47.5
8. Accommodation <sup>(Note 7)</sup> and food services	36.5	2.2	48.0	51.0	54.0
9. Transportation, storage, information and communications	207.2	12.2	41.3	48.0	57.3
10. Financing, insurance, real estate, professional and business services	121.3	7.2	40.1	41.3	45.7
11. Education, medical and other social and personal services	180.2	10.6	40.6	45.0	48.0
12. Others	7.7	0.5	45.7	48.0	54.0
<b>(C) All sectors</b>	<b>1 696.6</b>	<b>100.0</b>	<b>42.0</b>	<b>48.0</b>	<b>54.6</b>

- Notes: (1) Employees do not include employees in the Government, 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.  
(3) Low paying sectors as adopted by the Minimum Wage Commission.  
(4) Fast food cafes include takeaway shops.  
(5) Security services include investigation activities, pest control services as well as landscape care and greenery services.  
(6) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.  
(7) Accommodation services cover hotels, guesthouses, boarding houses and other enterprises providing short term accommodation.  
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: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.



## B. Impact Assessment

**Table B.1** Socio-economic characteristics of employees involved (i.e. employees with hourly wage less than \$30.0 in May to June 2011)

Socio-economic characteristic	Employees with hourly wage less than \$30.0			Proportion of employees with the corresponding socio-economic characteristic among all employees <sup>(@)</sup> (%)
	Number of persons ('000)	Proportion among all employees with the corresponding socio-economic characteristic <sup>(*)</sup> (%)	Proportion among all employees with hourly wage less than \$30.0 <sup>(#)</sup> (%)	
<b>Employees involved (Employees with hourly wage less than \$30.0)</b>	<b>327.2</b>	<b>100.0</b>	<b>100.0</b>	<b>11.7</b>
<b>I. Gender</b>				
Female	199.1	14.8	60.8	47.8
Male	128.1	8.7	39.2	52.2
<b>II. Age</b>				
Aged 15 to 24	36.4	16.3	11.1	8.0
Aged 25 to 34	37.9	5.0	11.6	27.3
Aged 35 to 44	59.0	8.0	18.0	26.4
Aged 45 to 54	111.8	15.4	34.2	25.8
Aged 55 and above	82.1	23.3	25.1	12.5
<b>III. Educational attainment</b>				
Primary and below	136.2	37.2	41.6	13.0
Secondary 1 to 3	93.9	23.3	28.7	14.4
Secondary 4 to 5	83.1	8.4	25.4	35.4
Secondary 6 and above	13.9	1.3	4.2	37.2
<b>IV. Employment nature</b>				
Full-time	278.6	10.7	85.2	93.0
Part-time	48.5	24.7	14.8	7.0
<b>V. Contractual status</b>				
Permanent	286.1	11.4	87.4	89.7
Fixed-term contract	27.4	13.0	8.4	7.5
Casual	13.7	17.8	4.2	2.7
<b>VI. Occupational group</b>				
Managers, administrators, professionals and associate professionals	4.9	0.4	1.5	39.6
Clerks	22.6	4.6	6.9	17.6
Craft workers and machine operators	11.1	3.4	3.4	11.8
Service and sales workers	107.2	23.9	32.8	16.0
Elementary workers	181.3	43.1	55.4	15.0
<b>VII. Weekly working days</b>				
Less than or equal to 5 days	54.2	5.5	16.6	35.2
More than 5 days but up to 5.5 days	21.1	3.0	6.4	25.2
More than 5.5 days but up to 6 days	239.3	23.3	73.1	36.6
More than 6 days	12.5	14.9	3.8	3.0
<b>VIII. Basis of wage rate</b>				
Monthly	212.3	8.8	64.9	86.0
Daily	12.8	8.0	3.9	5.7
Hourly	100.2	50.6	30.6	7.1
Others	1.9	5.4	0.6	1.2

Notes: (\*) For example, female employees with hourly wage less than \$30.0 accounted for 14.8% of all female employees, and so on.  
 (#) For example, female employees accounted for 60.8% of all employees with hourly wage less than \$30.0, and so on.  
 (@) For example, female employees accounted for 47.8% of all employees, and so on.  
 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: 2011 Annual Earnings and Hours Survey, Census and Statistics Department.

**Table B.2 Estimate on increase in wages of employees<sup>(Note 1)</sup> involved (i.e. employees with hourly wage less than \$30.0 in May to June 2011) analysed by sector**

Sector <sup>(Note 2)</sup>	Estimated increase in wages based on the definition of wages under the Minimum Wage Ordinance (not including employees' rest day and meal break pay)		Estimated increase in wages based on total wages (including employees' rest day and meal break pay) received by employees		Estimated increase in wages based on total wages received by employees and the knock-on effect on pay hierarchies	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
<b>(A) Low paying sectors<sup>(Note 3)</sup></b>	<b>1 152.9</b>	<b>5.7</b>	<b>1 252.6</b>	<b>5.7</b>	<b>1 501.2</b>	<b>6.8</b>
<b>1 Retail</b>	<b>191.8</b>	<b>5.1</b>	<b>216.1</b>	<b>5.0</b>	<b>315.8</b>	<b>7.3</b>
1.1 Supermarkets and convenience stores	60.8	5.3	70.4	5.3	116.1	8.7
1.2 Other retail stores	131.0	5.0	145.7	4.9	199.7	6.7
<b>2 Restaurants</b>	<b>212.2</b>	<b>5.1</b>	<b>234.3</b>	<b>5.1</b>	<b>353.5</b>	<b>7.7</b>
2.1 Chinese restaurants	58.6	5.2	65.2	5.2	114.0	9.1
2.2 Non-Chinese restaurants	48.2	4.9	52.9	4.8	85.1	7.8
2.3 Fast food cafes <sup>(Note 4)</sup>	79.3	5.2	88.2	5.2	123.5	7.3
2.4 Hong Kong style tea cafes	26.1	5.3	28.0	5.3	30.8	5.8
<b>3 Estate management, security and cleaning services</b>	<b>640.2</b>	<b>6.2</b>	<b>687.0</b>	<b>6.2</b>	<b>694.7</b>	<b>6.2</b>
3.1 Real estate maintenance management	308.6	6.2	331.8	6.2	335.1	6.3
3.2 Security services <sup>(Note 5)</sup>	130.3	6.5	140.0	6.5	141.4	6.6
3.3 Cleaning services	180.9	5.9	194.0	5.9	194.2	5.9
3.4 Membership organisations <sup>(Note 6)</sup>	20.5	6.3	21.3	6.2	24.0	7.0
<b>4 Other low paying sectors</b>	<b>108.6</b>	<b>5.7</b>	<b>115.2</b>	<b>5.6</b>	<b>137.3</b>	<b>6.7</b>
4.1 Elderly homes	42.1	6.0	43.1	5.9	47.0	6.5
4.2 Laundry and dry cleaning services	7.6	5.3	8.0	5.3	9.6	6.4
4.3 Hairdressing and other personal services	36.7	6.2	38.5	6.2	45.0	7.2
4.4 Local courier services	2.3	5.2	2.5	5.3	3.3	6.8
4.5 Food processing and production	20.0	4.7	23.1	4.7	32.4	6.5
<b>(B) Other sectors</b>	<b>197.6</b>	<b>4.4</b>	<b>234.6</b>	<b>4.3</b>	<b>494.9</b>	<b>9.1</b>
<b>(C) All sectors</b>	<b>1 350.5</b>	<b>5.5</b>	<b>1 487.2</b>	<b>5.4</b>	<b>1 996.2</b>	<b>7.3</b>

- Notes: (1) Employees do not include employees in the Government, 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.  
(3) Low paying sectors as adopted by the Minimum Wage Commission.  
(4) Fast food cafes include takeaway shops.  
(5) Security services include investigation activities, pest control services as well as landscape care and greenery services.  
(6) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc. Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

Source: Estimated based on the 2011 Annual Earnings and Hours Survey and Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

**Table B.3 Estimate on increase in total wage bill under the recommended statutory minimum wage rate (i.e. \$30.0 per hour) analysed by sector**

Sector <sup>(Note 2)</sup>	Estimated increase in total wage bill based on the definition of wages under the Minimum Wage Ordinance (not including employees <sup>(Note 1)</sup> rest day and meal break pay)		Estimated increase in total wage bill based on total wages (including employees' rest day and meal break pay) received by employees		Estimated increase in total wage bill based on total wages received by employees and the knock-on effect on pay hierarchies	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
<b>(A) Low paying sectors<sup>(Note 3)</sup></b>	1 152.9	1.4	1 252.6	1.3	1 501.2	1.5
1 Retail	191.8	0.6	216.1	0.6	315.8	0.9
1.1 Supermarkets and convenience stores	60.8	1.7	70.4	1.7	116.1	2.7
1.2 Other retail stores	131.0	0.5	145.7	0.4	199.7	0.6
2 Restaurants	212.2	1.0	234.3	1.0	353.5	1.5
2.1 Chinese restaurants	58.6	0.7	65.2	0.7	114.0	1.2
2.2 Non-Chinese restaurants	48.2	0.7	52.9	0.7	85.1	1.1
2.3 Fast food cafes <sup>(Note 4)</sup>	79.3	2.1	88.2	2.0	123.5	2.8
2.4 Hong Kong style tea cafes	26.1	1.2	28.0	1.2	30.8	1.3
3 Estate management, security and cleaning services	640.2	2.9	687.0	2.7	694.7	2.7
3.1 Real estate maintenance management	308.6	2.4	331.8	2.2	335.1	2.2
3.2 Security services <sup>(Note 5)</sup>	130.3	4.1	140.0	4.0	141.4	4.1
3.3 Cleaning services	180.9	3.7	194.0	3.7	194.2	3.7
3.4 Membership organisations <sup>(Note 6)</sup>	20.5	1.2	21.3	1.0	24.0	1.1
4 Other low paying sectors	108.6	1.1	115.2	1.0	137.3	1.2
4.1 Elderly homes	42.1	1.9	43.1	1.7	47.0	1.9
4.2 Laundry and dry cleaning services	7.6	1.4	8.0	1.4	9.6	1.6
4.3 Hairdressing and other personal services	36.7	0.8	38.5	0.7	45.0	0.9
4.4 Local courier services	2.3	0.5	2.5	0.5	3.3	0.6
4.5 Food processing and production	20.0	0.9	23.1	0.9	32.4	1.2
<b>(B) Other sectors</b>	197.6	#	234.6	#	494.9	0.1
<b>(C) All sectors</b>	1 350.5	0.3	1 487.2	0.2	1 996.2	0.3

- Notes: (1) Employees do not include employees in the Government, 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.  
(3) Low paying sectors as adopted by the Minimum Wage Commission.  
(4) Fast food cafes include takeaway shops.  
(5) Security services include investigation activities, pest control services as well as landscape care and greenery services.  
(6) Membership organisations include incorporated owners/tenants committees, kaifong welfare associations, etc.  
# Less than 0.05%.  
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.
- Source: Estimated based on the 2011 Annual Earnings and Hours Survey and Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors.

## C. Coverage of Sectors

Table C.1 Coverage of sectors

Sector	Coverage of sector <sup>(Note 1)</sup>			
	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 2)</sup>			
(A) Low paying sectors <sup>(Note 3)</sup>				
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) Other sectors <sup>(Note 4)</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, 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, 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) In the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, the coverage of the retail and restaurant sectors is formulated by following that of the 2011 Annual Earnings and Hours Survey.
  - (2) 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)).
  - (3) Low paying sectors as adopted by the Minimum Wage Commission.
  - (4) 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
CE-in-Council	Chief Executive in Council
CPI	Consumer Price Index
CSSA	Comprehensive Social Security Assistance
DI	Direct investment
Employees involved	Unless specified, all employees with an hourly wage below the recommended statutory minimum wage level
EO	Employment Ordinance
Eurozone debt crisis	Eurozone sovereign debt crisis
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
LD	Labour Department
LegCo	Legislative Council
LES	Labour Earnings Survey
LPC	Low Pay Commission
LPS	Low paying sectors
MWC	Minimum Wage Commission
MWO	Minimum Wage Ordinance
NMW	National Minimum Wage
PMWC	Provisional Minimum Wage Commission
SME	Small and medium enterprise
SMW	Statutory minimum wage
Study on Knock-on Effect	The Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors
UK	United Kingdom

## Glossary

Glossary <sup>(*)</sup>	Definition
Average monthly salary	<p>In the Labour Earnings Survey (LES), average monthly salary refers to the average wage rate of a particular occupation in a particular industry. It is given by the ratio of the total amount of wage bill paid to that category of employees in the month by the total number of employees of that category on the 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 property, machinery and equipment.</p>
Casual employees	<p>A casual employee refers to an employee who is employed by an employer on a day-to-day basis or for a fixed period of less than 60 days at the time of enumeration.</p>
Compensation of employees	<p>Compensation of employees in the Annual Survey of Economic Activities refers to income from work including basic wages, over-time payments, commissions, bonuses, allowances, share-based payments granted to employees, contributions to Mandatory Provident Fund Scheme by employers, cost of benefits in kind (such as meals), etc.</p>
Composite Consumer Price Index (Composite CPI)	<p>Different series of 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 (e.g. the waiver/Government's payment of public housing rentals, the rates concession, electricity charge subsidy, etc).</p>

Glossary <sup>(*)</sup>	Definition
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. average monthly household expenditure during October 2009 to September 2010 is within the range of \$4,500 to \$18,499 with approximate 50% of households covered 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 in the Annual Earnings and Hours Survey (AEHS); and craft and related workers, plant and machine operators and assemblers in the General Household Survey (GHS).
Earnings	In this report, earnings mean earnings before tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off; amortisation and provisions.
Earnings before tax ratio (profit ratio)	Earnings before tax ratio (abbreviated as profit ratio) refer to ratio of earnings before deduction of a number of items (such as tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off; amortisation and provisions) to business receipts.
Elementary workers	<p>In 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>In GHS, elementary occupations include street vendors; domestic helpers and cleaners; messengers; private security guards; watchmen; freight handlers; lift operators; construction labourers; hand packers; agricultural and fishery labourers.</p> <p>In LES, miscellaneous non-production workers include general workers; messengers/office assistants, drivers, delivery men, bell boys, cleaners, dishwashers and watchmen/guards, etc.</p> <p>In this report, elementary workers refer to persons engaged in the above occupational groups.</p>

Glossary <sup>(*)</sup>	Definition
Employed persons/ persons engaged	<p>In GHS, employed persons include all persons aged 15 or over that 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>
Employees	<p>In AEHS, employees include all employees under the coverage of the Minimum Wage Ordinance (MWO). Specifically, the MWO applies to all employees with the following exceptions:</p> <ul style="list-style-type: none"> <li>(i) a family member who lives in the same dwelling as the employer;</li> <li>(ii) an employees defined in the Contracts for Employment Outside Hong Kong Ordinance;</li> <li>(iii) a person serving under a crew agreement under the Merchant Shipping (Seafarers) Ordinance, or on board a ship which is not registered in Hong Kong;</li> <li>(iv) an apprentice whose contract of apprenticeship has been registered under the Apprenticeship Ordinance;</li> </ul>



Glossary <sup>(*)</sup>	Definition
Employees (Continued)	<p>(v) a student intern or a work experience student during a period of exempt student employment as defined in the MWO;</p> <p>(vi) live-in domestic workers; and</p> <p>(vii) Government employees.</p> <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.</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>
Enterprises	<p>In this report, enterprises consist 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.</p>
Establishment	<p>In this report, 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, e.g. an individual factory, workshop, retail shop or office.</p>
Fixed term contract employees	<p>Fixed term contract employees refer to employees with contracts of employment for a fixed period of 60 days or more, and are due to end when a specified date is reached.</p>
Full-time employees	<p>In GHS, full-time employees refer to employees who work more than 35 hours or more during 7 days before enumeration or work less than 35 hours due to leave during the 7-day period.</p> <p>In AEHS, full-time employees mean employees who cannot be classified as part-time employees (please refer to definition of “part-time employees” below).</p>
Higher-skilled employees/ occupational groups	<p>In this report, higher-skilled employees/occupational groups include managers and administrators, professionals and associate professionals.</p>

Glossary <sup>(*)</sup>	Definition
Hourly wage	<p>Hourly wage in the 2011 AEHS is derived from dividing the wages paid to an employee during the wage period (after deducting payments related to rest days and those 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 definition of wages.</p> <p>Please refer to “working hours” for definition of working hours.</p>
Inward direct investment (Inward DI)	<p>In this report, inward DI refers to DI in a Hong Kong resident enterprise by a non-Hong Kong resident who has a significant degree of influence or an effective voice in the management of the Hong Kong enterprise. For statistical purpose, an effective voice is taken as equivalent to a holding of 10% or more of the voting power in an enterprise. DI comprises equity and investment fund shares as well as debt instrument. Typical examples of inward DI are multinational corporations’ branches and subsidiaries operating in Hong Kong.</p>
Labour force	<p>Labour force refers to the land-based non-institutional population aged 15 and over who satisfy the criteria for being classified as employed population or unemployed population.</p>
Labour force participation rate	<p>Labour force participation rate refers to the proportion of labour force in the total land-based non-institutional population aged 15 or over.</p>
Labour productivity	<p>Labour productivity is compiled by dividing real output (e.g. real Gross Domestic Product (GDP) or real value added) by labour input (e.g. total hours worked and total persons engaged).</p>
Lower-skilled employees/ occupational groups	<p>For the statistical figures of AEHS, lower-skilled employees/ occupational groups include elementary occupations, service and shop sales workers; craft and related workers, plant and machine operators and assemblers; and clerks.</p> <p>For the statistical figures of 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>
Low-paid employees	<p>In this report, low-paid employees refer to employees with hourly rates falling within the lowest decile of the hourly wage distribution of all employees.</p>

Glossary <sup>(*)</sup>	Definition
Monthly contractual working hours	In the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, number of contractual working hours refer to the number of working hours in accordance with the contract of employment, or with the agreement of the employer that would not be affected by factors such as absenteeism, overtime work, bad weather, strike and leave, etc. In other words, the employee is assumed to attend work every day without taking annual leave, maternity leave, sick leave, etc. If the employee does not have regular contractual working hours, the actual number of hours worked in the month would be regarded as the number of monthly contractual working hours.
Monthly employment earnings	In this report, monthly employment earnings refer to income received from all employments during the month before enumeration (including wages and salary, bonus, commission, tips, housing allowance, overtime allowance, attendance allowance and other cash allowance but excluding back pays).
Nominal unit labour cost	<p>Nominal 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>Nominal 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 GDP.</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>
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>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> </ul>

Glossary <sup>(*)</sup>	Definition
Nominal Wage Index (Continued)	<ul style="list-style-type: none"> <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>In this report, unless otherwise specified, other sectors refer to non low paying sectors (LPS) which include (i) manufacturing; (ii) construction; (iii) import and export trade and wholesale; (iv) accommodation and food services; (v) transportation, storage, 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>
Part-time employees	<p>In GHS, part-time employees are persons who work less than 35 hours during the 7 days before enumeration. Those who work less than 35 hours due to leave during the 7-day period are not counted.</p> <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>
Real Wage Index	<p>Real Wage Index is obtained by deflating the Nominal Wage Index by the CPI(A) to discount consumer price changes.</p>
Seasonally adjusted unemployment rate	<p>Seasonally adjusted unemployment rate is compiled by the X-12 ARIMA method. The method is a standard method used for performing seasonal adjustment of statistical series.</p> <p>Please refer to “unemployment rate” for the definition of unemployment rate.</p>

Glossary <sup>(*)</sup>	Definition
Self-employed persons	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.
Service and sales workers	<p>In AEHS, service workers and shop 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>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>In LES, service workers include customer services workers; bartenders; waiters/waitresses; cooks; security officers and room housemen, etc.</p> <p>In this report, service and sales workers refer to persons engaged in the above occupational groups.</p>
Small and medium enterprises	In this report, small and medium enterprises refer to those enterprises with fewer than 50 persons engaged.
Stock of inward DI	Stock of inward DI refers to the value of investment received from abroad of Hong Kong residents at a specified date. It reflects the extent to which the investment received from abroad of Hong Kong residents.
Total costs	Total costs include total operating expenses/costs and costs of goods sold.
Total operating expenses/costs	Total operating expenses/costs include compensation of employees; rent; rates; interest expenses; electricity; water; fuel; repair and maintenance; depreciation charges and other operating expenses; but do not include costs of goods sold, tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off; amortisation and provisions.

Glossary <sup>(*)</sup>	Definition
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 either 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 CPI	<p>Underlying CPI denotes CPI compiled upon netting out the effects of all Government's one-off relief measures.</p>
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>

Glossary <sup>(*)</sup>	Definition
Unemployment rate (Continued)	<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 need).</li> </ul> </li> </ul>
Vacancies	<p>Vacancies refer to unfilled job openings which are immediately available, and for which active recruitment steps are being taken on the survey reference date. However, vacancies at construction sites include only those vacancies of manual workers.</p>
Wages	<p>Wages in AEHS follow the definition as adopted in the Employment Ordinance. In brief, the following components are covered:</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 year-end bonus/payment (e.g. shift allowance, cost-of-living allowance, meal allowance, good attendance bonus not of gratuitous nature); and overtime allowance;</li> </ul> <p>Wages in AEHS 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 which is of a gratuitous nature or is payable only at the discretion of 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> </ul>

Glossary <sup>(*)</sup>	Definition
Wages (Continued)	<p>(v) any sum payable to the employee to defray special expenses incurred by him/her by the nature of his/her employment;</p> <p>(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</p> <p>(vii) gratuity payable on completion or termination of a contract of employment.</p>
Working hours	<p>The number of working hours compiled in the 2011 AEHS refers to the sum of:</p> <p>(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</p> <p>(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.).</p> <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 and Financial Implications of the Proposal**

### **Economic implications**

As a wage floor applicable to all sectors, statutory minimum wage (SMW) can potentially entail great economic implications for Hong Kong. Since the initial SMW rate has only been implemented for just over one and a half years, potential market responses arising from SMW, and hence the exact economic impact, may not have fully emerged so far. However, judging from the experience of implementing the initial SMW rate since 1 May 2011, the income of grassroots employees has markedly improved. With Hong Kong's vibrant economy last year, abundant job opportunities coupled with the initial SMW rate, more people have been enticed to join the labour force. The potential negative impact brought about by SMW was thus largely cushioned by the favourable macroeconomic environment at the time of its implementation.

2. The recommended SMW rate of \$30.0 per hour is an increase of \$2.0 per hour or 7.1% over the initial SMW rate of \$28.0. According to the data of the 2011 Annual Earnings and Hours Survey conducted by the Census and Statistics Department, around 327 200 employees (i.e. earning less than \$30.0 per hour in May-June 2011) would be covered by the recommended SMW rate, accounting for 11.7% of all employees in Hong Kong<sup>1</sup>. These employees were mostly elementary workers and service and sales workers (88.2%); females (60.8%); middle to older-aged (59.3% aged 45 and above); of lower level of educational attainment (70.4% with education at secondary three and below); and working in the low paying sectors (LPS) (79.9%). With the persistent rise in wages over the past year, the actual number of employees involved and coverage of SMW should be smaller than that estimated after SMW uprating. Considering the trend of pay rise up to mid-2012, it was estimated that the coverage of SMW would be about 223 100 employees, or 7.9% of all employees. The number of employees involved and coverage of SMW may drop further if wages continue to rise in the months ahead.

3. Based on the definition of wages under the Minimum Wage Ordinance (Cap. 608) (MWO), the Minimum Wage Commission (MWC)

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<sup>1</sup> These figures exclude employees in the Government, live-in domestic workers, student interns and work experience students as defined in the MWO.



estimated that the additional wage bill entailed by the recommended SMW rate for all enterprises would be about \$1.35 billion. As rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement) is over and above the statutory requirements, and given the additional labour costs arising from knock-on effect, the total additional wage bill would rise to around \$2.0 billion, up by approximately 0.3%. The impact on most sectors should be moderate. As enterprises would likely adopt different strategies to absorb or mitigate the rise in cost, it is believed that the cost impact, albeit possibly more visible in certain sectors, would be largely manageable for most businesses.

4. The increase in total wage bill for LPS as a whole was estimated at 1.5%, arising from the compliance with the MWO, impact on rest day and meal break pay and knock-on effect. There would be larger cost impact on security services (up by 4.1%), cleaning services (up by 3.7%), fast food cafes (up by 2.8%), supermarkets and convenience stores (up by 2.7%), real estate maintenance management (up by 2.2%), and elderly homes (up by 1.9%).

5. Feedback from the extensive consultation with the affected trades after the implementation of the initial SMW rate indicates that sectors like real estate maintenance management, security services and cleaning services should be able to pass on a sizable portion of the cost burden to consumers through price increase. Other sectors, like Chinese restaurants and elderly homes with lower profitability and less room to raise prices, are likely to be harder hit.

6. Depending on the extent to which these affected sectors can offset the additional costs through price increase, there would inevitably be some pressure for downsizing after SMW adjustment. Considering the dynamic factors of the labour market under different economic scenarios (including the pace of grassroots jobs creation, the loss of low-paid jobs, the growth in grassroots labour force and the stimulating effect of SMW uprating on labour force), and based on the assumption that firms would offset partly the additional wage bills through downsizing, the MWC estimated that the overall unemployment rate would go up by about 0.3 percentage point under the “base case” (i.e. assuming a real economic growth for the first half of 2013 at 1.0% year-on-year). It is envisaged that the eventual impact on the unemployment rate will hinge crucially on the prevailing macroeconomic conditions in 2013 and whether the overall pace of job creation can offset or otherwise add to the pressure for downsizing caused by the proposed upward adjustment in the SMW rate.

7. To the extent that some firms can pass on additional wage bills to consumers through charging higher prices, consumer price inflation would rise as a result. Assuming a full pass-through of additional wage bills to prices of products and services, it was estimated that the Composite Consumer Price Index (CPI) would go up by about 0.3 to 0.4 percentage point<sup>2</sup>. As a measure of inflation on the grassroots, the CPI(A) was estimated to rise by 0.5 to 0.6 percentage point<sup>2</sup>. However, as a full pass-through of additional wage bills to consumer prices would be unlikely, the actual impact on inflation should be milder than the above estimate. Yet, in the longer run, as enterprises fully adjust to SMW through capital investment and better work organisation to maximise the return on labour and improve output quality, positive effects such as enhanced sectoral productivity and efficiency are possible, hopefully mitigating in part the negative impact on Hong Kong's cost competitiveness as a whole.

8. Overall, the impact of SMW depends much on the economic conditions at the time of implementation. The experience of implementing the initial SMW rate suggests that favourable economic conditions would significantly relieve the pressure on employment and corporate profits, and the impact would fall mostly on inflation. On the contrary, at a time when economic outlook is subject to considerable downside risks, MWC's view was that in this round it had to be cautious in making the recommendation. On the whole, however, the short-term negative impacts on job loss, business profits and higher inflation are expected to be still largely manageable given the recommended magnitude of adjustment.

### **Sustainability implications**

9. By enhancing the protection of vulnerable workers, the statutory wage floor at the adjusted level would be conducive to social sustainability as it helps foster a harmonious society as well as social equality and justice.

### **Financial implications**

10. To meet the increase in wage costs arising solely and directly from the introduction of the initial SMW rate, the Government granted

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<sup>2</sup> According to the MWC, the former figure (i.e. 0.3 percentage point for CPI and 0.5 percentage point for CPI (A)) was estimated based on total wages received by employees (i.e. wages estimated based on the definition under the MWO plus rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement)). The latter figure (i.e. 0.4 percentage point for CPI and 0.6 percentage point for CPI (A)) was estimated based on total wages received by employees as well as the knock-on effect on pay hierarchies.

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 much more modest in financial terms and could be better anticipated at the tendering stage of subsequent contracts, the Government would provide no top-up 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>3</sup>. Nevertheless, making reference to the change in CSSA caseloads upon the implementation of the initial SMW rate for over one year<sup>4</sup>, and assuming the current economic and labour market situation will be largely stable, we estimate that the recommended SMW rate will not have any effect on increasing the CSSA expenditure.

12. The Administration's policy to pay its employees no less favourably than the prevailing SMW rate stipulated under the MWO 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>3</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 and in particular the pace of job creation in the corporate sector. In case of economic downturn, elderly and young and inexperienced workers as well as workers with lower education 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>4</sup> As at October 2012, there were 24 604 unemployment cases and 10 725 low earnings cases out of a total of 271 123 CSSA cases, which represent 16% and 23% decrease against 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.