

LEGISLATIVE COUNCIL BRIEF

Minimum Wage Ordinance
(Chapter 608)

Employment Ordinance
(Chapter 57)

**MINIMUM WAGE ORDINANCE
(AMENDMENT OF SCHEDULE 3) NOTICE 2015**

**EMPLOYMENT ORDINANCE
(AMENDMENT OF NINTH SCHEDULE) NOTICE 2015**

INTRODUCTION

At the meeting of the Executive Council on 6 January 2015, the Council ADVISED and the Chief Executive ORDERED that the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2015 at Annex A should be made under section 16(1) of the Minimum Wage Ordinance (Cap. 608) (MWO).

A

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 2015 at Annex B in accordance with section 49A(6) of the Employment Ordinance (Cap. 57) (EO).

B

JUSTIFICATIONS

(A) Revised SMW rate and its effective date

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

4. The Minimum Wage Commission (MWC) has by unanimous consensus recommended in its report at Annex C that the current SMW rate of \$30.0 be adjusted to \$32.5 per hour, an increase of \$2.5 or 8.3%. MWC, apart from undertaking detailed analyses of the wage distribution data from the Annual Earnings and Hours Survey (AEHS) conducted by the Census and

C

Statistics Department (C&SD), made reference to an Array of Indicators with the latest statistics and data to grasp the impact of SMW and the up-to-date socio-economic and employment conditions in Hong Kong. MWC also examined the findings of other surveys such as studies commissioned by the Government to assess the knock-on effect¹ of SMW on pay hierarchies in the retail and restaurant sectors², and took into account other relevant considerations that could not be fully quantified. Moreover, MWC conducted intensive and extensive consultation to collect views of stakeholders and members of the public on the review of the SMW rate and the impact of SMW on society, economy and various sectors (in particular the low paying sectors (LPS)³ and small and medium enterprises (SMEs)). MWC also adopted an assessment framework to estimate the possible impact of different SMW test levels on employees, businesses, unemployment rate and inflation, and conducted scenario testing for the local economic outlook to take into account the time gap between recommending the SMW rate and its implementation.

5. Based on the data from AEHS, the number of employees earning an hourly wage less than \$32.5 in May to June 2013 was 255 200, with a coverage of 8.7% of all employees in Hong Kong⁴. Taking into account the latest data from the General Household Survey and the Labour Earnings Survey conducted by C&SD, and based on the assumptions on different

¹ 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.

² They include the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors (Studies on Knock-on Effect).

³ LPS refers to sectors employing a relatively large number of low-paid employees (i.e. employees earning an 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 2013 AEHS, MWC continued to adopt the four LPS (covering 15 sub-sectors) identified by the first-term MWC. The four LPS are: (i) retail sector (including supermarkets and convenience stores, and other retail stores); (ii) restaurant sector (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes); (iii) estate management, security and cleaning services sector (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).

⁴ These figures exclude employees in the Government, live-in domestic workers, student interns and work experience students as defined in MWO.

economic scenarios, MWC roughly estimated that in the first half of 2015 and at the time just before the SMW rate is raised to the recommended level, there would be approximately 150 000 employees (accounting for about 5% of all employees) earning an hourly wage less than \$32.5. As set out by MWC in its report, since the labour market keeps adjusting, the assumptions underlying the above estimates (including job creation or loss at different income levels and the changes in wages of individual employees) might be different from the situation after the implementation of the recommended SMW rate. Thus, these estimates should be used for reference only. MWC anticipated that the uprating of SMW to the recommended level would raise the wages of the majority of employees involved.

6. For enterprises, based on the definition of wages under MWO, MWC estimated that the additional wage bill arising from the recommended SMW rate for all enterprises would be about \$1.10 billion. Taking into account rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement) beyond the statutory requirements as well as the impact of knock-on effect, the total additional wage bill would be higher at around \$1.36 billion, up by approximately 0.2%⁵. MWC envisaged that the additional wage bill entailed by the recommended SMW rate should be manageable for most enterprises (including LPS and SMEs). Enterprises that are persistently making losses or competing all along on low prices rather than productivity or output quality may be subject to greater operating pressure.

7. Regarding the impact on unemployment rate, should the Hong Kong economy grow by 2.5% in the first half of 2015, MWC estimated that the recommended SMW rate would lead to an increase of 5 800 to 6 400 unemployed grassroots workers. The impact on the overall unemployment rate would be about 0.1 percentage point to 0.2 percentage point⁶. With slower economic growth at 1.5%, the increase in the overall unemployment rate was estimated to be about 0.4 percentage point. With the prevailing unemployment rate in Hong Kong still relatively low, barring any abrupt economic downturn, the recommended SMW rate is unlikely to trigger a marked deterioration in the labour market. As for the impact on inflation,

⁵ Owing to data limitations, the estimated additional wage bill did not take into account all labour costs (such as labour insurance) arising from the uprating of SMW. Additional wage bill was estimated with reference to the results of AEHS and Studies on Knock-on Effect.

⁶ The former set of figures (i.e. 5 800 for unemployed grassroots workers and 0.1 percentage point for unemployment rate) was estimated on the basis of total wages received by employees (i.e. wages as defined in MWO plus rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement)). The latter set of figures (i.e. 6 400 for unemployed grassroots workers and 0.2 percentage point for unemployment rate) was estimated on the basis of total wages received by employees as well as the impact of knock-on effect.

assuming a full pass-on of the additional wage bill to prices of products and services and taking into account the first round of wage-price spiral effect⁷, the Composite Consumer Price Index (CPI) would go up by about 0.3 percentage point based on the estimation of MWC. As a measure of inflation on the grassroots, the corresponding increase in CPI(A) would be around 0.4 percentage point to 0.5 percentage point⁸. However, as it is unlikely for all enterprises to fully pass on the additional wage bill to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the above estimate.

8. The Government has carefully considered the report of MWC and is of the view that MWC has ably discharged its statutory function of reviewing the SMW rate with reasonable and balanced deliberation. MWC has adopted an evidence-based approach by conducting comprehensive analyses and assessment of various social, economic and employment data, and undertaken extensive consultation to take full account of the views of various sectors of the community. The recommended SMW rate of \$32.5 per hour fulfils the objective of forestalling excessively low wages. The likely mild impact on enterprises and unemployment as assessed by MWC also satisfies the objectives of minimising the loss of low-paid jobs and sustaining the economic development of Hong Kong. The analyses of MWC show that the recommended SMW rate strikes an optimum balance between the interests of employees and the affordability of employers. The Chief Executive in Council has accepted and adopted MWC's recommended rate of \$32.5 per hour as the revised SMW rate.

9. The revised SMW rate will take effect on 1 May 2015. Counting from the gazettal of the new rate which is scheduled for 16 January 2015 (as referred to in paragraph 13 below), this will allow sufficient time for completing the legislative process (which is likely to take at least up to 49 days) and for employers and various sectors of the community to prepare for the SMW uprating. Prior to implementation, the Labour Department (LD) will launch territory-wide promotional activities to enhance public awareness of the new SMW rate.

⁷ The first round of wage-price spiral effect refers to a series of price hikes caused by the increase in prices of other items such as public utilities, which were directly or indirectly linked to wages and inflation.

⁸ For CPI(A), the former figure (i.e. 0.4 percentage point) was estimated on the basis of total wages received by employees (i.e. wages as defined in 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. 0.5 percentage point) was estimated on the basis of total wages received by employees as well as the impact of knock-on effect. As for Composite CPI, the figure (i.e. 0.3 percentage point) was both the estimation based on total wages received by employees, and the estimation based on total wages received by employees as well as the impact of knock-on effect.

(B) Revised monetary cap on recording hours worked

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

11. The present monthly monetary cap is set at \$12,300, based on the current SMW rate of \$30.0 per hour. If and when the revised SMW rate of \$32.5 per hour is implemented on 1 May 2015, the monthly cap will be increased to \$13,300 after rounding, in proportion to the percentage increase (i.e. 8.3%) of the SMW rate adjustment. To synchronise with the commencement of the revised SMW rate, the revised monetary cap will come into force on the same day on which the new rate comes into effect, i.e. 1 May 2015.

THE NOTICES

12. The Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2015 amends Schedule 3 to MWO to add the revised SMW rate with its effective date. The Employment Ordinance (Amendment of Ninth Schedule) Notice 2015 amends the Ninth Schedule to EO to revise the monetary cap on recording hours worked.

LEGISLATIVE TIMETABLE

13. The legislative timetable is –

Publication in the Gazette	16 January 2015
Tabling at the Legislative Council (LegCo)	21 January 2015

IMPLICATIONS OF THE PROPOSALS

14. The proposals are in conformity with the Basic Law, including the provisions concerning human rights, and do not affect the binding effect of MWO and EO. There are no productivity, environmental or civil service implications. The same SMW rate and monetary cap on recording hours worked apply to male and female employees alike. The implementation of SMW has encouraged more people, especially women, to enter or re-enter the labour market. The economic, sustainability, family and financial implications are set out at Annex D.

PUBLIC CONSULTATION

15. MWC, in accordance with its statutory function, conducted intensive and extensive consultation, including a six-week public consultation and consultation meetings to collect written and oral submissions, to gauge the views of stakeholders and members of the public on the review of the SMW rate. MWC received a total of 364 written submissions through public consultation and met with 107 stakeholder groups in consultation meetings. A meeting of LegCo Panel on Manpower was held on 17 June 2014 to meet the Government as well as 26 deputations and individuals on the review of the SMW rate. The revision of the monetary cap on recording hours worked is consequential to the adoption of the revised SMW rate of \$32.5 per hour, and no separate public consultation is required.

PUBLICITY

16. The MWC's report (at Annex C) will be uploaded onto the websites of MWC and LD on 14 January 2015. A press release will be issued and a spokesperson from LD will be made available to handle press enquiries.

ENQUIRIES

17. 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
January 2015

**Minimum Wage Ordinance (Amendment of Schedule 3)
Notice 2015**

(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 2015.

2. Minimum Wage Ordinance amended

The Minimum Wage Ordinance (Cap. 608) is amended as set out in
section 3.

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

At the end of Schedule 3—

Add

“\$32.5 1 May 2015”.

Clerk to the Executive Council

COUNCIL CHAMBER

2015

Explanatory Note

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

2. This Notice amends the Schedule to increase the minimum hourly
wage rate from \$30 to \$32.5, with effect from 1 May 2015.

Employment Ordinance (Amendment of Ninth Schedule) Notice 2015

(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 2015 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

“\$12,300”

Substitute

“\$13,300”.

Commissioner for Labour

2015

Explanatory Note

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

- (a) the employee is an employee within the meaning of the Minimum Wage Ordinance (Cap. 608); and
 - (b) the wages payable to the employee for the wage period are less than the monetary cap specified in the Ninth Schedule to the Employment Ordinance (or a proportionate amount if the wage period is not a month).
2. Corresponding to the increase of the minimum hourly wage rate to \$32.5 (effected by the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2015), this Notice amends the Ninth Schedule to the Employment Ordinance to increase the monetary cap from \$12,300 per month to \$13,300 per month.

2014 Report of the Minimum Wage Commission

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Chairperson's Foreword

- 1 Statutory Minimum Wage (SMW) came into effect on 1 May 2011 to provide statutory protection for the wages of grassroots employees. After prudent and objective deliberations as well as iterative discussions, the first term of the Minimum Wage Commission (MWC) reached a unanimous consensus and recommended the SMW rate be adjusted upwards from \$28.0 to \$30.0 per hour. The recommendation was accepted by the Chief Executive (CE) in Council and was implemented on 1 May 2013 after completion of relevant legislative procedures. Since the implementation of SMW, the Hong Kong economy has been stable, the general labour market has been running smoothly and the wages of lower-paid employees have improved in real terms.
- 2 MWC is again tasked with the important mission of reporting to CE in Council its recommendation about the SMW rate. Noting that our recommendation will have impact on various aspects including the labour market, society and economy, we all keenly appreciate the substantial responsibility of undertaking this mission.
- 3 Adopting an evidence-based approach in reviewing the SMW rate, MWC studied various social, economic and employment conditions in Hong Kong and conducted comprehensive analyses of data collected from statistical surveys and research studies. We carried out extensive consultation and considered fully and conscientiously the views from various sectors of the community. It is noteworthy that a large number of submissions received from the grassroots truly conveyed their viewpoint on the implementation of SMW. We also listened carefully to views from various sectors on the review of the SMW rate during consultation meetings. These views provided important reference which laid a solid foundation for the impact assessment conducted in our review of the SMW rate. We would like to take this opportunity to express our gratitude to those stakeholders and members of the public who participated in the consultation activities or presented their submissions to MWC.
- 4 To review the SMW rate in an objective and balanced manner, apart from making reference to statistics in an Array of Indicators which were released and updated more frequently, MWC examined in detail the findings of other surveys and took into account other relevant considerations that could not be fully quantified. Impact assessment under different SMW test levels was conducted. We would like to express

our thanks to the MWC Secretariat which made every effort to provide indispensable analyses as well as ample back-up and technical support. We would also 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 their assistance rendered in various aspects.

5 It is truly my great honour to be able to work closely with Members of MWC on the review of the SMW rate. Their experience and professional knowledge enabled MWC to undertake comprehensive and meticulous analyses on relevant information and data. Regardless of whether they are from the labour sector, business sector, academia or Government, all Members put the overall interest of the community in the forefront and paid heed to and fully considered the views collected with an open mind. This, coupled with rational and objective discussions, led to our unanimous consensus and achieved the mission entrusted to us by CE. I am extremely grateful to our Members for their devotion and contributions.

6 MWC considers that the recommended SMW rate maintains an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, whilst giving due regard to the need to sustain Hong Kong's economic growth and competitiveness. The rate recommended in this report is based on the unanimous consensus and support of all MWC Members. I have the pleasure to submit to CE in Council this *2014 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 2014

Members

Chairperson



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

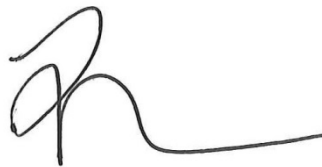
Non-official Members (*)



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



Mr Bankee KWAN Pak Hoo



Mr LAU Chin Shek, J.P.



Ms LAU Ka Shi, B.B.S.

(*) listed in alphabetical order of the surname



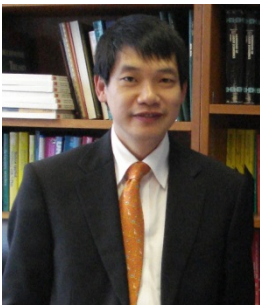
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Professor LEUNG Siu Fai



A handwritten signature in black ink, appearing to be the Chinese characters '李鳳英'.

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



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

Professor SUEN Wing Chuen



A handwritten signature in black ink, appearing to be 'Simon Wong'.

Mr Simon WONG Kit Lung, J.P.



A handwritten signature in black ink, appearing to be 'Kingsley Wong'.

Mr Kingsley WONG Kwok, J.P.

Official Members



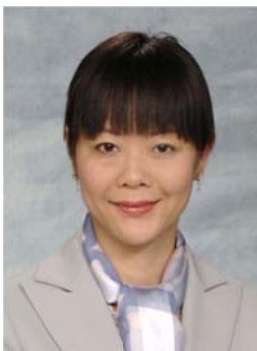
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Miss Annie TAM Kam Lan, J.P.
Permanent Secretary for Labour and Welfare



A handwritten signature in black ink that reads "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 that reads "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 recommended Statutory Minimum Wage (SMW) rate will be implemented in the first half of 2015, the Minimum Wage Commission (MWC) recommended that the SMW rate be adjusted from \$30.0 per hour to \$32.5 per hour, up by \$2.5 (or 8.3%).

Chapter 1: Introduction

- II MWC is an independent statutory body established under Part 3 of the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong) with the main function to, when required by the Chief Executive (CE) to do so, report its recommendation about the SMW rate to CE in Council. In performing its function, MWC must have regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and the need to sustain Hong Kong's economic growth and competitiveness.

Chapter 2: Work of the Minimum Wage Commission

- III MWC adopted an evidence-based approach in discharging its duties with regard to the statutory function as stipulated in MWO. SMW brought about impacts on various aspects including the labour market, society and economy. Various sectors of community also have diverse views and concerns about the review of the SMW rate. To conform with the statutory function of MWC and maintain an appropriate balance among its various objectives mentioned in paragraph II above, MWC not only made reference to the statistics in an Array of Indicators when reviewing the SMW rate, but also studied the findings of other surveys and fully considered the views on the review of the SMW rate from various sectors of the community in recommending an appropriate SMW rate.
- IV MWC unanimously agreed to adopt a consensus-building approach as its *modus operandi* and to study various controversial issues relating to the review of the SMW rate based on rational discussions. The process of deliberations and discussions was kept confidential to ensure objective and balanced discussions among MWC members without external influence. For the purpose of enhancing the transparency of its work, MWC set up a webpage to introduce related work and provide the latest news and

information. MWC also issued press releases and met the media when appropriate to keep the public informed of its work progress. When conducting public consultation, MWC also uploaded onto its webpage the relevant information and data to facilitate various sectors of the community to provide their views on the review of the SMW rate.

Chapter 3: The Socio-economic Conditions since the Implementation of Statutory Minimum Wage

- V Implementing SMW during times of favourable macroeconomic conditions would help cushion the pressures on employment and corporate profits brought about by SMW. On the contrary, with corporate profits facing substantial pressures during economic downturn, upward adjustment of the SMW rate would weigh further on the difficult business and employment conditions. Observations on the socio-economic conditions since the implementation of SMW provided MWC with the background information essential for the analysis on the impact of SMW.
- VI Macroeconomic conditions remained largely stable over the past few years. The rather tight manpower conditions on the back of persistently resilient domestic demand mitigated the possible impacts of the implementation of SMW on employment situation. Employment earnings of lower-paid employees also improved notably. Regarding enterprises, the cost pressure on businesses entailed by the revised SMW rate implemented in May 2013 was relatively modest when compared with that of the initial SMW rate. Nevertheless, with the economy slowing down visibly on entering 2014, some enterprises might not be able to offset additional cost pressure through raising prices. In light of the recent slackening of inbound tourism and domestic demand, as well as the disruptions brought about by the “Occupy Movement” to local business activities, the downside risks to the local economy and labour market in the near term increased. Yet, since only economic data up to August 2014 were available to MWC, the impact of the “Occupy Movement” could not be quantified in any precise terms, nor fully taken into account.

Chapter 4: Impact of Statutory Minimum Wage

- VII MWC made reference to large amounts of data related to the Array of Indicators for monitoring the socio-economic conditions after the implementation of SMW in May

2011 and the revision of the SMW rate in May 2013. Drawing from various observations, MWC considered that the positive impact of the implementation of SMW outweighed the adverse one. Also, the impact brought about by the revised SMW rate in 2013 was relatively modest.

VIII The impact of SMW can be summarised on three fronts. Firstly, regarding the impact on employees, the implementation of the initial SMW rate and upward adjustment in the SMW rate in 2013 helped boost the income of lower-paid employees to a certain extent. The wage differentials also narrowed among some occupational groups and within some sectors. With a relatively mild upward adjustment in the SMW rate, the knock-on effect on pay hierarchies induced was also relatively small. On the back of a persistently tight labour market, the implementation of SMW had neither limited the scope for upward wage adjustment in the labour market, nor made it more prevalent for enterprises to reduce the fringe benefits of their employees to control labour costs.

IX Secondly, regarding the impact on enterprises, the implementation of SMW led to a visible increase in labour costs which, coupled with the rise in other operating costs, had posed some pressure on the operation of enterprises. Fortunately, over some three years in the past since the implementation of SMW, most sectors benefited from the largely stable macroeconomic conditions with expanding business. The number of establishments stayed on the rise and the hiring sentiment of enterprises remained largely positive. From these, SMW had not yet posed significant adverse impact on entrepreneurship and business sentiment. Nevertheless, profitability weakened for some low paying sectors (LPS), in particular small and medium enterprises (SMEs), as they were constrained by their own business performance and lack of resources, and were thus unable to fully cope with the additional cost pressure. The proportion of enterprises recording losses in these sectors also increased, suggesting that some enterprises originally running at a thin profit margin might have turned from profits to losses. Should the business environment become more challenging, these enterprises might face a higher risk of scaling down or even closing down.

X Finally, regarding the impact on the labour market, prices and overall economy, the local labour market held largely stable up to mid-2014. Compared to a year ago, the number of employees increased in overall terms. The unemployment rate stayed at a low level. Although the proportion of part-time employees rose amidst labour

shortage, the underemployment situation did not worsen after the implementation of SMW. There was also no notable change in the self-employment situation. The impact of the SMW rate on working hours was likewise relatively mild. Meanwhile, the implementation of SMW rendered some boost to the wage level, thereby helping to enhance the incentive to work. Total labour force showed sustained increase, contributed mainly by females and older persons. As regards prices, the upward revision in the SMW rate in 2013 was relatively modest, with no visible impact on overall inflation. As to the impact on competitiveness and business environment, Hong Kong's rankings in many indices of overall economic freedom and competitiveness compiled by various international organisations remained high up to 2014. Nevertheless, Hong Kong's performance in other quantifiable indicators of competitiveness like labour productivity and unit labour cost had lagged behind other selected economies during the few years after the implementation of SMW. It is subject to further observation as to how these developments would affect the competitiveness of Hong Kong in the long run.

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

- XI MWC adopted an evidence-based approach in reviewing the SMW rate. In making the recommendation on the SMW rate, MWC mainly analysed and considered the following four areas: Array of Indicators; views of stakeholders and members of the public; other relevant considerations; and impact assessment.
- XII To assess the impact of SMW on the socio-economic and employment conditions, MWC made reference to the relevant data and indicators under the Array of Indicators, which covered the four areas, viz. general economic conditions, labour market conditions, competitiveness and social inclusion. To adopt a more holistic approach in reviewing the SMW rate, MWC conducted scenario testing for the local economic outlook in view of the time gap between recommending the SMW rate and its implementation. Data revealed that since the implementation of SMW and its uprating, Hong Kong's macroeconomic conditions had been broadly stable, thereby cushioning to a large extent the pressure on the economy, employment market, enterprises, etc. The short-term outlook for the Hong Kong economy was nonetheless clouded by considerable uncertainties. These included geopolitical tensions in

various parts of the world, the pace of the normalisation of monetary policy in the United States, global capital flows, etc on the external fronts. Domestically, the trend of inbound tourism and whether domestic demand would slacken further also remained a source of uncertainty. Given the increased downside risks to the Hong Kong economy, MWC unanimously held the view that there was a need to prudently make the recommendation on the next SMW rate.

- XIII MWC conducted intensive and extensive consultation, including public consultation and consultation meetings, so as to actively solicit and gauge the views of stakeholders and members of the public on the impact of SMW on society, economy and different sectors (in particular LPS and SMEs) and on the review of the SMW rate. Stakeholders and members of the public generally held the view that the implementation of SMW and its uprating did not bring about severe adverse impact. However, some employers' associations and employer representatives indicated that there were concerns over Hong Kong's economic development, and MWC should take into account the importance of maintaining flexibility for enterprises to adjust their labour costs in times of economic downturn. They generally suggested that the SMW rate should be maintained at its current level of \$30 per hour. Meanwhile, some trade unions held the view that the SMW rate should be set at a level that could meet the basic needs of individual employees and their families. They generally recommended that the SMW rate should be raised to \$35 to \$40 per hour.
- XIV In reviewing the SMW rate, MWC drew reference from the experience of the review of the initial SMW rate and the views collected during consultation so as to take into account other relevant considerations that could not be fully quantified by the Array of Indicators. These included enhancing employees' quality of life, enhancing work incentive, impact on vulnerable groups, impact on wage differentials across sectors or positions, preserving the market's capacity to adjust, impact on social harmony, additional costs induced by increase in wages, impact on quality of products and services, as well as other impact of SMW yet to fully emerge.
- XV The impact of adjusting the SMW rate depends on the macroeconomic conditions and interaction among various economic factors when the rate takes effect. Therefore, different SMW test levels and economic scenario assumptions were set so as to enable MWC to conduct a comprehensive and objective assessment on the potential impact of

SMW on employees, businesses, unemployment rate and inflation.

Chapter 6: The Recommended Statutory Minimum Wage Rate

- XVI During the process of reviewing the SMW rate, MWC conducted detailed analyses and in-depth assessment, and made thorough consideration of the different aspects listed in Chapter 5, as well as went through iterative deliberations. In conformity with the statutory function, MWC unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$32.5 per hour.
- XVII The analyses related to the potential impact of the recommended rate on employees, businesses, unemployment rate and inflation showed that the number of employees earning an hourly wage less than \$32.5 in May to June 2013 was 255 200, accounting for 8.7% of all employees. MWC crudely estimated that in the first half of 2015 and at the time just before the SMW rate is raised to the recommended level, the number of employees earning an hourly wage less than \$32.5 would be approximately 150 000, accounting for about 5% of all employees. As the labour market keeps adjusting, the assumptions underlying the above estimates (including job creation/loss at different income levels and the changes in wages of individual employees) might be different from the situation after the implementation of the recommended SMW rate. Thus, these estimates should be used for reference only. MWC believed that the recommended SMW rate would raise the income of employees with lower pay and less wage bargaining power, and help narrow the wage differentials between lower-paid employees and employees of higher ranks.
- XVIII For the business sector, taking into account rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement) beyond the statutory requirements as well as the impact of knock-on effect on pay hierarchies, the total wage bill would rise by around \$1.36 billion, representing an increase of approximately 0.2% . While the impact of the recommended SMW rate on some sectors might be more noticeable, enterprises would likely adopt different strategies to absorb or mitigate the rise in costs. It was envisaged that the additional labour costs would be manageable for most enterprises.

- XIX As regards the impact assessment on the unemployment rate, assuming the Hong Kong economy would grow moderately by 2.5% in the first half of 2015, it was estimated that the recommended SMW rate would lead to an increase of 5 800 to 6 400 unemployed grassroots workers. The impact on the overall unemployment rate would be about 0.1 percentage point to 0.2 percentage point. With slower economic growth at 1.5%, the increase in the overall unemployment rate was estimated to be about 0.4 percentage point. With the prevailing unemployment rate in Hong Kong still relatively low, barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in the labour market.
- XX Furthermore, assuming a full pass-on of the additional wage bill to prices of products and services and taking into account the first round of wage-price spiral effect, the Composite Consumer Price Index (CPI) was estimated to go up by about 0.3 percentage point. As a measure of inflation on the grassroots, the corresponding increase in CPI(A) would be around 0.4 percentage point to 0.5 percentage point. Nevertheless, as it would be unlikely for all enterprises to fully pass on the additional wage bill to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the above estimate.
- XXI It should be noted that a precise assessment of the impact of the recommended SMW rate is not possible, especially when Hong Kong's economic outlook is surrounded by considerable uncertainties. Nevertheless, in recommending the SMW rate based on an evidence-based approach, MWC already examined the possible impact brought about by various SMW test levels under different economic scenarios, and made every effort to give thorough consideration to different aspects. MWC considered that the recommended rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, whilst giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.

Chapter 7: Recommendation

- XXII The statutory function of MWC is, when required by CE to do so, to report its recommendation about the SMW rate to CE in Council. After conducting detailed analyses and in-depth assessment as well as undertaking thorough consideration, we unanimously reached a consensus on the recommendation of adjusting the SMW rate

upwards to \$32.5 per hour. We trust that the SMW rate recommended with the unanimous consensus of all MWC members following an evidence-based approach and rational discussion would be acceptable to most sectors of society and would also be conducive to the overall interest and development of Hong Kong.

1 Introduction

1.I Background and Statutory Function

- 1.1 The Minimum Wage Bill was passed by the Legislative Council on 17 July 2010, laying the legal foundation for Statutory Minimum Wage (SMW). The initial SMW rate was set at \$28.0 per hour and 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) (Chapter 608 of the Laws of Hong Kong) with the main function to, when required by the Chief Executive (CE) to do so, report its recommendation about the SMW rate to CE in Council.
- 1.3 MWO stipulates that in performing its function, MWC must have regard to the need:
- (a) to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs; and
 - (b) to sustain Hong Kong's economic growth and competitiveness.
- 1.4 The first term of MWC (2011-13) adopted an evidence-based approach in reviewing the SMW rate. After conducting extensive consultation, prudent and objective deliberations as well as iterative discussions, the first term of MWC reached a consensus and submitted its report to CE in Council in October 2012, recommending that the SMW rate be adjusted upwards from \$28.0 per hour to \$30.0 per hour. The recommendation was endorsed by CE in Council and the relevant subsidiary legislation was passed by the Legislative Council. The revised SMW rate (i.e. \$30.0 per hour) was implemented on 1 May 2013.

1.II Composition and Membership List

- 1.5 Members of the current term of MWC (2013-15) were appointed by CE with a two-year tenure starting from 1 March 2013. Among them, the nine non-official members were appointed on an ad personam basis, with three members drawn equally each from the labour, business and academic sectors respectively. Secretariat support to MWC is provided by the Labour Department and the Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office.

1.6 Membership of the current term of MWC is as follows:

Chairperson	Mr JAT Sew Tong, S.B.S., S.C., J.P.
Non-official Members (*)	Professor Alfred CHAN Cheung Ming, B.B.S., J.P.
	Mr Bankee KWAN Pak Hoo
	Mr LAU Chin Shek, J.P.
	Ms LAU Ka Shi, B.B.S.
	Professor LEUNG Siu Fai
	Ms LI Fung Ying, S.B.S., J.P.
	Professor SUEN Wing Chuen
	Mr Simon WONG Kit Lung, J.P.
	Mr Kingsley WONG Kwok, J.P.
Official Members	Permanent Secretary for Labour and Welfare Miss Annie TAM Kam Lan, J.P.
	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.
Secretary	Chief Labour Officer (Statutory Minimum Wage) Mr William MAK Chi Tung

(*) listed in alphabetical order of the surname

2 Work of the Minimum Wage Commission

2.I Underlying Principles in Discharging the Function

2.I.1 In conformity with the statutory function

2.1 According to the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong), the main function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to report its recommendation about the amount of the prescribed minimum hourly wage rate (the Statutory Minimum Wage (SMW) rate) to CE in Council. After considering the work and time involved for MWC to review and report its recommendation on the SMW rate, CE has, in accordance with MWO, required MWC to submit the recommendation report about the SMW rate on or before 31 October 2014.

2.2 MWO also stipulates that in performing its function, MWC must have regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and the need to sustain Hong Kong's economic growth and competitiveness. Before making a recommendation about the SMW rate, MWC may conduct consultation, analyse and study data and information, and consider views from various sectors.

2.3 SMW has impacts on various aspects including the labour market, society and economy. Various sectors of the community also have diverse views and concerns about the review of the SMW rate. To conform with the statutory function of MWC and maintain an appropriate balance among its various objectives mentioned above, when reviewing the SMW rate, MWC not only made reference to the statistics in an Array of Indicators, but also studied the findings of other surveys and fully considered the views on the review of the SMW rate from various sectors of the community so as 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, MWC adopted an evidence-based approach by conducting comprehensive analyses on the information and data of surveys and research studies, examining the latest conditions of various

aspects of Hong Kong, and taking full account of the views from various sectors of society. In reviewing the SMW rate, the information and data to which we made reference came from: (1) statistical surveys and thematic study, including the Annual Earnings and Hours Survey (AEHS) and Annual Survey of Economic Activities (ASEA) conducted by the Census and Statistics Department (C&SD), the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors commissioned by the Government, as well as a large number of other relevant data which were released and updated more frequently (please refer to paragraph 2.11) so as to consider the latest situation and trend; (2) empirical data, views and information provided by stakeholders and members of the public during the consultation conducted by MWC; (3) research and studies on experience of reviewing minimum wage rates in other places; and (4) relevant academic journals. After making reference to the above information and data, we also conducted impact assessment under different hourly wage test levels so as to recommend an appropriate SMW rate.

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

2.5 We understood that there was a keen interest in the review of the SMW rate in the community. MWC set up a dedicated webpage to introduce our work and provide the latest news and information. To enhance the transparency of the work of MWC, we issued press releases and met the media when appropriate to keep the public informed of our work progress. When conducting public consultation, we also uploaded onto MWC's webpage the relevant information and data so as to facilitate various sectors of the community to provide their views on the review of the SMW rate.

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

2.I.4 Consensus-building approach

2.7 Drawing reference from the past experience of setting and reviewing the SMW rate, MWC unanimously agreed to adopt a consensus-building approach as its modus

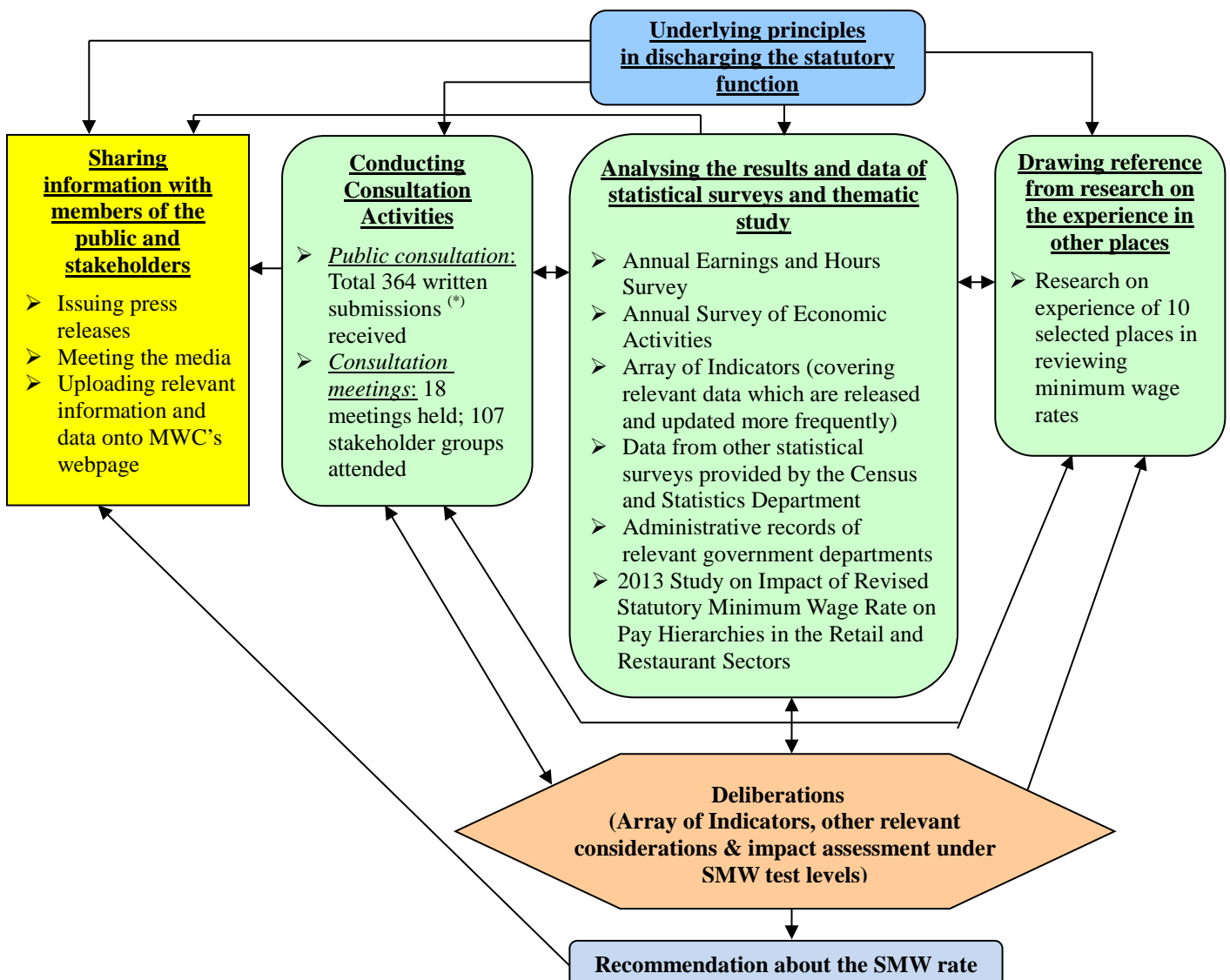
operandi. When studying various controversial issues relating to the review of the SMW rate, rational discussions, rather than confrontation and determination by majority vote, were encouraged so as to achieve the objective of building consensus. The merits of this approach are apparent. Consensus encompasses understanding of and respect for different viewpoints and avoids focusing on a narrower perspective, and the fruit of consensus would receive wider recognition and support.

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

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

2.8 Our process in reviewing the SMW rate is summarised as follows:

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



Note: (*) 493 signed letters were attached to one of the submissions.

2.9 In gist, we kick-started the review process by reviewing and analysing various data on local socio-economic conditions since the implementation of SMW, including the latest situation and trend of other relevant indicators which were released and updated more frequently by C&SD. We then shared these relevant information and data with the public and the stakeholders, conducted intensive and extensive consultation, and reported to the media and members of the public on major work progress when appropriate. Major activities/work of MWC are summarised in Table 2.1.

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

Date	Events	Details
Year 2013		
20 March	MWC meeting	<ul style="list-style-type: none"> To convene the first meeting of MWC (2013-15).
	Issuing press release	<ul style="list-style-type: none"> To report the major matters discussed in the first meeting of MWC.
23 May	MWC meeting	<ul style="list-style-type: none"> To convene the second MWC meeting. Through MWC's webpage, to report to the public that MWC held a meeting to examine the business performance of low paying sectors in 2011, discuss the latest performance of an Array of Indicators that could be considered by MWC, and provide advice on a consultancy study proposed by the Government.
19 September	Meeting the media	<ul style="list-style-type: none"> To report progress on preparatory work of MWC including: <ul style="list-style-type: none"> ◇ formulating the house rules of MWC; ◇ examining the major findings of the 2012 Annual Earnings and Hours Survey (AEHS) and 2011 Annual Survey of Economic Activities (ASEA); ◇ studying the Array of Indicators for monitoring the socio-economic situation after the implementation of Statutory Minimum Wage (SMW); and ◇ being briefed on the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors (2013 Study on Knock-on Effect) proposed by the Government and providing advice.
	MWC meeting	<ul style="list-style-type: none"> To convene the third MWC meeting. Through MWC's webpage, to report to the public that MWC held a meeting to examine the latest performance of the Array of Indicators, listen to the progress of the 2013 Study on Knock-on Effect and provide advice, and note the experience of other places in reviewing minimum wage rates.
19 December	MWC meeting	<ul style="list-style-type: none"> To convene the fourth MWC meeting. Through MWC's webpage, to report to the public that MWC held a meeting to examine the latest performance of the Array of Indicators, discuss the impact assessment framework to be considered when studying the SMW rate, and be informed on the setting of the poverty line.
Year 2014		
20 March	MWC meeting	<ul style="list-style-type: none"> To convene the fifth MWC meeting. Through MWC's webpage, to report to the public that MWC held a meeting to listen to the major results of the 2013 AEHS and 2012 ASEA, examine Hong Kong's latest socio-economic conditions, and deliberate the consultation plan for the review of the SMW rate.

Date	Events	Details
4 April	Issuing press release	<ul style="list-style-type: none"> • To report that after considering the work and time involved for MWC to review and report its recommendation about the SMW rate, the Chief Executive had, in accordance with the Minimum Wage Ordinance, required MWC to submit the recommendation report on or before 31 October 2014. • To announce that MWC would launch a six-week public consultation on 7 April 2014 to invite views from various sectors of the community on the review of the SMW rate.
7 April to 18 May	Uploading relevant information and data onto MWC's webpage for reference of the public and stakeholders, and conducting public consultation to invite views from various sectors of the community on the review of the SMW rate	<ul style="list-style-type: none"> • Please refer to paragraphs 2.19 to 2.22.
6 May	Issuing press release	<ul style="list-style-type: none"> • With regard to the public consultation on the review of the SMW rate which would close on 18 May 2014, to appeal to the public and stakeholders for submissions on the review of the SMW rate.
19 May	Uploading relevant information onto MWC's webpage for public information	<ul style="list-style-type: none"> • To report on the work that has been undertaken/was being planned by MWC in conducting the review of the SMW rate.
10 to 13 June	Conducting consultation meetings with stakeholders	<ul style="list-style-type: none"> • Please refer to paragraphs 2.23 to 2.25.
18 June	Uploading relevant information onto MWC's webpage for public information	<ul style="list-style-type: none"> • To report on the list of stakeholders that attended the consultation meetings held in June 2014.
3 July	MWC meeting	<ul style="list-style-type: none"> • To convene the sixth MWC meeting. • Through MWC's webpage, to report to the public that MWC held a meeting to listen to the findings of the 2013 Study on Knock-on Effect, examine Hong Kong's latest socio-economic conditions, and discuss the underlying considerations and preliminary results of the impact assessment for the review of the SMW rate.
25 July	MWC meeting	<ul style="list-style-type: none"> • To convene the seventh MWC meeting. • Through MWC's webpage, to report to the public that MWC held a meeting to examine Hong Kong's latest socio-economic conditions as well as the views of members of the public and stakeholders on the review of the SMW rate, and deliberate the impact assessment results under different SMW test levels.
22 August	MWC meeting	<ul style="list-style-type: none"> • To convene the eighth MWC meeting. • Through MWC's webpage, to report to the public that MWC held a meeting to examine Hong Kong's latest socio-economic conditions and deliberate the recommended SMW rate.
3 October	MWC meeting	<ul style="list-style-type: none"> • To convene the ninth MWC meeting. • To examine Hong Kong's latest socio-economic conditions and deliberate the recommended SMW rate.
24 October	MWC meeting	<ul style="list-style-type: none"> • To convene the tenth MWC meeting.

2.II.2 Statistical surveys and thematic study

2.10 MWC adopted an evidence-based approach in deliberating the SMW rate. During the review, we conducted detailed and in-depth study and analyses of the relevant statistical data, considered an Array of Indicators to monitor the socio-economic conditions after the implementation of SMW in May 2011 and after the revision of the SMW rate in May 2013, and conducted impact assessment upon obtaining data as well as views and information provided by members of the public and stakeholders. Therefore, the above-mentioned data and information compiled from statistical surveys and thematic study as well as other relevant data which were released and updated more frequently were very important to the deliberation and study undertaken during the review of the SMW rate.

(a) Array of Indicators

2.11 In setting minimum wage rates, different places would generally make reference to a number of indicators to grasp detailed changes in socio-economic conditions. Drawing reference from the past experience, MWC considered that examining the details of socio-economic changes and undertaking thorough analysis of quantitative indicators by way of an evidence-based approach would be useful for the deliberation of the SMW rate. Based on the relevant indicators adopted in the first review of the SMW rate, MWC then examined the feasibility and appropriateness of adding more indicators. We opined that we should continue to adopt these relevant indicators to cover the four areas of consideration, namely general economic conditions, labour market conditions, competitiveness and social inclusion. The Array of Indicators not only covered the essential considerations as stipulated in the statutory function of MWC, but also drew on the experience and considerations of other places in reviewing the minimum wage rates, thereby providing important information for MWC to review the SMW rate. A summary of the Array of Indicators considered by 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 after the implementation of SMW in Chapter 3, analyse in detail the socio-economic and labour market data under the Array of Indicators in Chapter 4, and elaborate on the areas covered under the Array of Indicators considered by MWC in Chapter 5.

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

Areas considered	Summary of indicators
1. General Economic Conditions	1(a) Latest local economic performance and forecasts
2. Labour Market Conditions	2(a) Labour demand and supply 2(b) Wage level and distribution 2(c) Wage differentials 2(d) Employment characteristics 2(e) Working hours
3. Competitiveness	3(a) Operating characteristics of enterprises 3(b) Entrepreneurship, business sentiment and solvency 3(c) Relative economic freedom and competitiveness of Hong Kong 3(d) Productivity growth 3(e) Labour costs
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 Among the various indicators, AEHS and ASEA conducted by C&SD provided very useful information for our review of the SMW rate. AEHS provided comprehensive data on employees in Hong Kong regarding the level and distribution of their wages, employment details and socio-economic profile. These data enabled MWC to conduct detailed analyses so as to understand the socio-economic characteristics of employees under different wage levels.

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

2.14 In addition, to support MWC's review on the SMW rate, the survey methodologies of AEHS and ASEA have been enhanced accordingly. These included the reference period of AEHS was in the second quarter for 2009 and 2010 AEHS, but in May to June for 2011 AEHS so as to reflect the wage distribution after the implementation of the initial SMW rate in May 2011. Since then, the reference period of AEHS is May to June every year to facilitate year-on-year analysis. Moreover, with a view to

conducting more precise analyses, starting from the 2011 ASEA, C&SD started to collect data on amortisation alongside with that on depreciation from all sectors.

(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, MWC also made reference to a large number of other relevant data which were released and updated more frequently to closely monitor the latest situation and trend of socio-economic and employment conditions. As part of the Array of Indicators, these included data from other statistical surveys conducted by C&SD (such as monthly General Household Survey, monthly Retail Price Survey, quarterly Labour Earnings Survey and quarterly Survey of Employment and Vacancies, etc) and administrative records of other government departments (such as data provided by the Inland Revenue Department, Official Receiver's Office, etc). MWC also uploaded these data and relevant links onto MWC's webpage (see paragraph 2.20) to invite views from members of the public and stakeholders on the review of the SMW rate.

(d) **2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors**

2.16 The Provisional Minimum Wage Commission recommended in its report⁽¹⁾ 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 empirical magnitude of knock-on effect on pay hierarchies after the implementation of SMW, so that due consideration could be given in this regard in the reviews of the SMW rate in future. The Government adopted the recommendation and commissioned a consultancy study in 2011 through a retrospective survey to assess the impact of the implementation of SMW on the pay hierarchies in the retail and restaurant sectors. The first term of MWC assessed the possible impact of the initial SMW rate on the pay hierarchies in the concerned sectors based on the study findings.

2.17 Having considered that the SMW rate revised in 2013 (i.e. \$30.0 per hour), in comparison with the implementation of the initial SMW rate, might bring different impact on the relevant sectors, and taking into account the views of the current term of MWC, the Government commissioned a thematic study again to assess the impact of

(1) CE appointed the Provisional Minimum Wage Commission (PMWC) in late February 2009 to advise CE on the initial SMW rate. PMWC then submitted its report to CE on 18 October 2010.

the revised SMW rate on the pay hierarchies in the retail and restaurant sectors. MWC had rendered advice on the study to the consultant and assessed the possible knock-on effect of the revised SMW rate on the pay hierarchies in the concerned sectors based on the study findings. The analyses and deliberations of MWC related to the study are in Chapter 4 to Chapter 6.

2.II.3 Consultation

2.18 Apart from studying statistical data and information from other surveys, MWC also fully considered the views from various sectors of the community. MWC conducted public consultation to collect and understand views of members of the public and stakeholders on the review of the SMW rate. It further conducted consultation meetings with stakeholders to exchange and listen to their views. A summary of the views of stakeholders and members of the public is in Section 5.II of Chapter 5.

(a) Public consultation

2.19 Upon the release of the findings of the 2013 AEHS on 20 March 2014, MWC launched a six-week public consultation from 7 April to 18 May 2014 to invite views from various sectors of the community, including members of the public and stakeholders, on the review of the SMW rate.

2.20 To launch the public consultation, relevant statistical materials were uploaded onto MWC's webpage for public information. These materials comprised: (1) relevant links to the *2013 Report on Annual Earnings and Hours Survey* published by C&SD; and (2) relevant information and data, including data and relevant links of the Array of Indicators and other indicators, employees' entitlement to paid rest day(s) and/or paid meal break(s) analysed by different sector, as well as supplementary statistical data, other relevant considerations and impact assessment. Supplementary statistical data included: (1) number and proportion of employees earning less than different hourly wage levels analysed by sector; (2) estimated extent of increase in wages of employees involved analysed by sector and different SMW test levels; (3) estimated increase in wage bill of all enterprises and SMEs analysed by sector and different SMW test levels; and (4) operating characteristics of enterprises analysed by sector.

2.21 MWC appealed for submissions from members of the public and stakeholders through various means including press releases, appeal letters to stakeholders and about 11 000

Incorporated Owners, Mutual Aid Committees and Owners' Committees, advertisements on newspapers and public transport, promotional messages on MWC's webpage (linked to the webpages of the GovHK, Labour Department, Labour Department's Interactive Employment Services, E-newsletter of the Support and Consultation Centre for SMEs) as well as on the radio.

2.22 During the public consultation, MWC received a total of 364 written submissions, with one of these submissions attaching 493 signed letters. These submissions came from individuals and organisations in different sectors including trade unions, trade/employers' associations, associations of SMEs, associations of LPS, other trade/professional/employers' associations, labour policy concern groups, think tanks/policy research institutes, as well as Incorporated Owners and Owners' Committees, etc.

(b) Consultation meetings

2.23 In June 2014, MWC conducted consultation meetings with stakeholders, including trade unions, trade/employers' associations, associations of SMEs, associations of LPS (comprising organisations in the respective sectors, as well as employers and institutes), other trade/professional/employers' associations, labour policy concern groups and think tanks/policy research institutes. These stakeholders had been invited by the first term of MWC to attend consultation meetings, or expressed views on the SMW rate or related issues, or requested for meeting with MWC, or were associations of LPS likely to be more affected by SMW. MWC invited a total of 233 stakeholder groups to attend the consultation meetings. Among these stakeholders, 107 groups⁽²⁾ attended 18 meetings with MWC. The list of stakeholders that attended consultation meetings is in **Appendix II**. The meetings served mainly to gauge the views of stakeholders or enable them to supplement their written submissions provided during the public consultation to facilitate MWC to conduct comprehensive and objective analyses.

2.24 During the consultation meetings, stakeholders provided views on the specific impact of the implementation of SMW in May 2011 and the revision of the SMW rate in May

(2) Participating stakeholders included: 4 major trade unions, 5 major trade/employers' associations, 6 SME associations, 24 relevant associations of the estate management, security and cleaning services sector, 15 relevant associations of the restaurant sector, 9 relevant associations of the retail sector, 9 associations of other LPS, 13 other trade associations, 6 other professional/employers' associations, 10 labour policy concern groups and 6 think tanks/policy research institutes.

2013 on society, economy, labour market, SMEs and the concerned sectors. They also provided invaluable opinions on the factors that should be taken into account by MWC in reviewing the SMW rate.

2.25 The views and information collected during the above consultation activities facilitated MWC to have a more comprehensive understanding of the impact of SMW on society, economy and different sectors, in particular LPS, as well as views from various sectors of the community on the review of the SMW rate. These provided MWC with a solid foundation and reference in discharging our duties.

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

2.26 Hong Kong does not have much experience in implementing SMW. MWC conducted a research on ten selected places (i.e. the Mainland, Taiwan, South Korea, the United Kingdom, France, Ireland, Australia, New Zealand, the United States and Canada) in the course of the review of the SMW rate to draw on the experience of these places in reviewing minimum wage rates. Information on the research is in **Appendix III**.

3 The Socio-economic Conditions since the Implementation of Statutory Minimum Wage

3.1 With Hong Kong as a highly externally-oriented economy, the Minimum Wage Commission (MWC) recognised that the impact of the implementation of Statutory Minimum Wage (SMW) would vary widely with different external economic factors or with different phases of a business cycle. For instance, favourable macroeconomic conditions would help cushion the pressures on employment and corporate profits brought about by the implementation of SMW or the upward adjustment of the SMW rate. On the contrary, when corporate profits face substantial pressures under economic downturns or severe external shocks, the business and employment conditions would further deteriorate with an upward adjustment of the SMW rate. We will collate our observations on the socio-economic conditions since the implementation of SMW in this chapter to provide the background information for analysing the impact of SMW in Chapter 4.

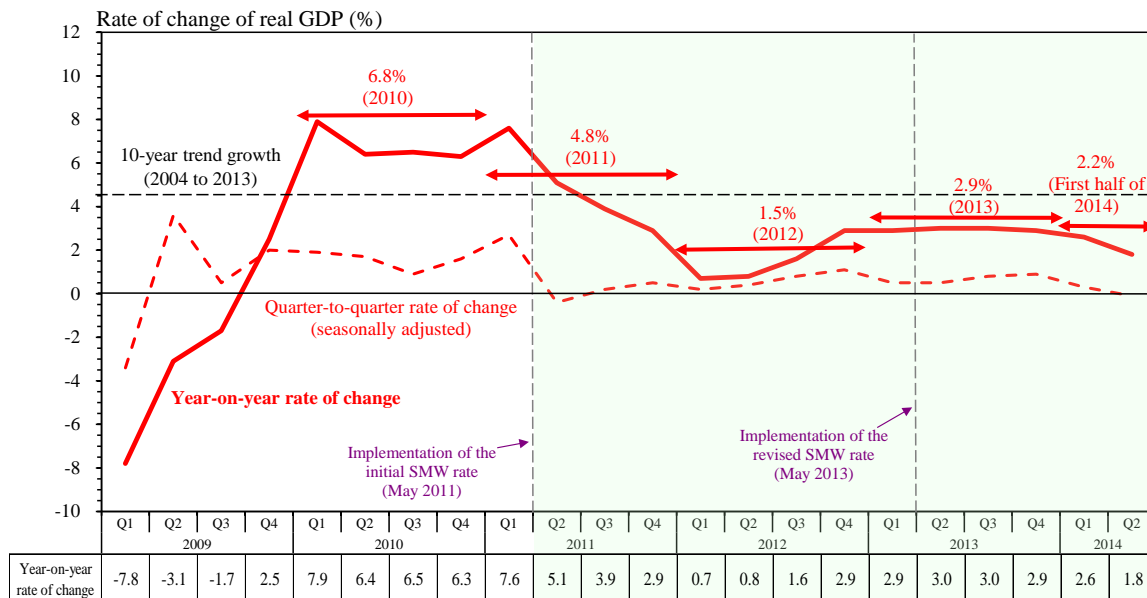
3.I Macroeconomic Environment

3.I.1 Macroeconomic conditions remained largely stable since the implementation of Statutory Minimum Wage

3.2 As pointed out in the *2012 Report of the Minimum Wage Commission*, Hong Kong's strong economic growth in the first half of 2011 had significantly alleviated the negative impacts anticipated before the implementation of the initial SMW rate. Despite the rather subdued export performance in the several quarters that followed, domestic demand stayed firm on the back of hectic infrastructure spending and buoyant local consumption, thereby cushioning the overall economic performance. As the external environment turned relatively stable in the latter part of 2012 and inbound tourism thrived, the Hong Kong economy gradually regained some growth momentum on entering 2013. Although trade performance during the year was still held back by the slow recovery of the advanced economies, fortunately the robust economic performance in the Mainland rendered some support to Hong Kong's exports. The local economy hence recorded a moderate growth of 2.9% in real terms in the first half of 2013. This, though lower than the 10-year trend growth rate of 4.5%, was still higher than the 1.5%

for 2012 as a whole, and provided a relatively stable macroeconomic environment for the implementation of the revised SMW rate in May 2013 (Figure 3.1).

Figure 3.1: Hong Kong’s economic growth remained moderate in the course of 2013



Note: Figures are subject to revision by the Census and Statistics Department when more data become available.
Source: National Income Statistics, Census and Statistics Department.

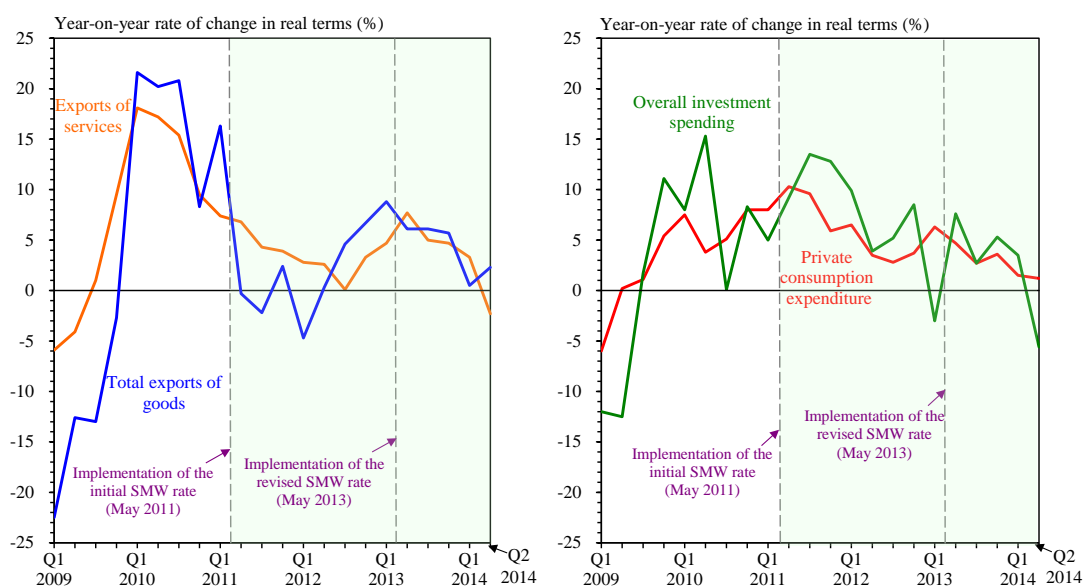
3.1.2 Increasing downside risks to the economy

3.3 Nevertheless, economic growth decelerated again in the first half of 2014. Real Gross Domestic Product (GDP) expanded by 1.8% year-on-year only in the second quarter of 2014, down from the 2.6% in the first quarter, while also marking the slowest growth since the third quarter of 2012. On a seasonally adjusted quarter-to-quarter comparison, real GDP even contracted marginally by 0.1%. On the external front, the slow economic recovery in Europe and the United States (US) on entering 2014 took a toll on the trade and industrial production in Asia. Moreover, with the tapering of asset purchases by the US Federal Reserve since January 2014, uncertainties arising from the pace of its exit strategy added more gyrations to the global financial conditions. Heightened geopolitical risks worldwide also added more uncertainties to the global economic outlook. Against this background, the performance of Hong Kong’s merchandise exports remained sluggish in overall terms in the first half of 2014, despite some improvement in the second quarter. Meanwhile, dragged by the sharp fall in visitors’ spending in the second quarter of 2014, exports of services shrank in real terms

for the first time since the second quarter of 2009, offsetting the positive effect of the slight rebound in merchandise exports.

3.4 At the same time, the growth momentum of domestic demand also softened. Since the Government introduced a new round of demand-side management measures in early 2013, the residential property market cooled off visibly in the subsequent year or so, thereby dampening housing wealth effects. That, coupled with the continuous subdued economic growth, dented local consumption sentiment. Private consumption expenditure grew by a mere 1.4% in real terms in the first half of 2014 over a year earlier, markedly lower than the average annual growth rate of 5.0% in the past 10 years. Overall investment spending declined by 1.5% in real terms in the first half of 2014 amidst a notable fall in private machinery and equipment acquisition (Figure 3.2).

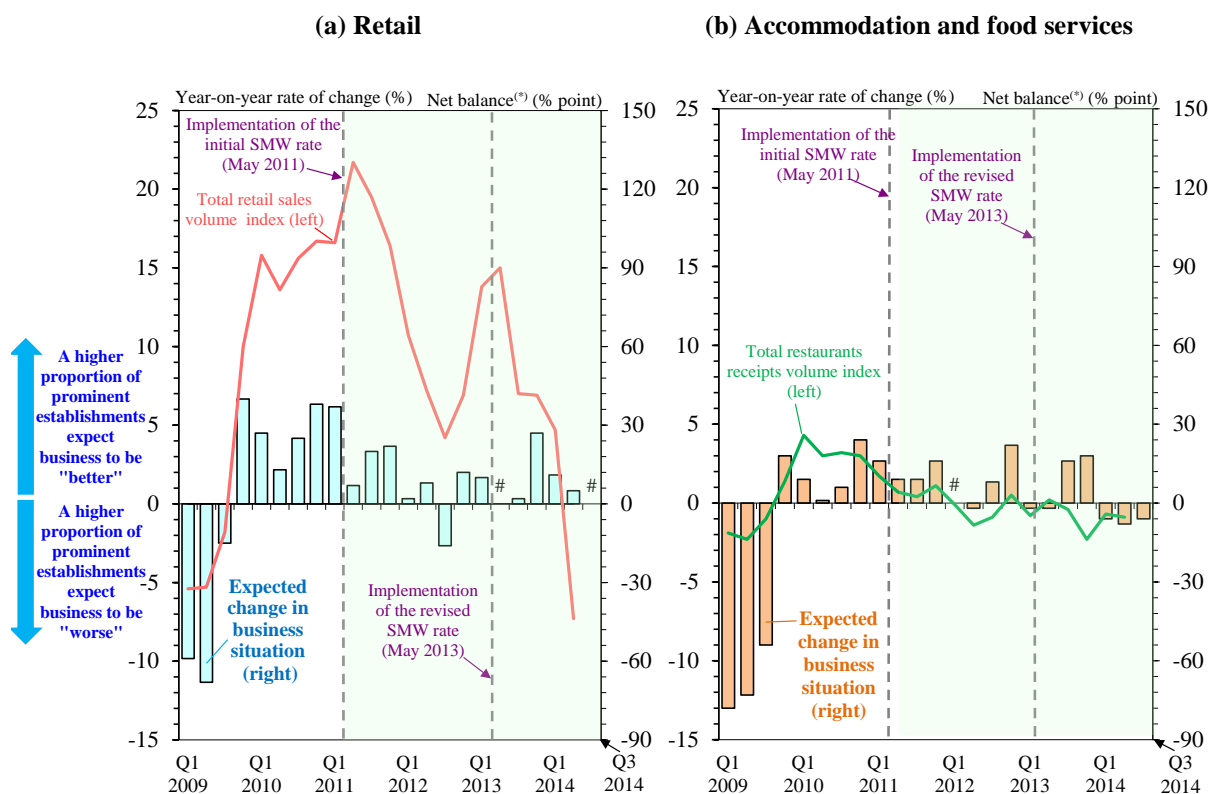
Figure 3.2 : Both Hong Kong’s external trade and domestic demand decelerated on entering 2014



Note: Figures are subject to revision by the Census and Statistics Department when more data become available.
Source: National Income Statistics, Census and Statistics Department.

3.5 The results of the Quarterly Business Tendency Survey on prominent establishments conducted during June to July 2014 indicated that business outlook among large enterprises for the third quarter of 2014 remained broadly positive. However, the retail sector took a more cautious view of business prospects as its businesses hinged more on domestic demand and inbound tourism (Figure 3.3), whereas the accommodation and food services sector was relatively pessimistic about its business prospects since the first quarter of 2014.

Figure 3.3: Retail, and accommodation and food services sectors took a relatively bleak view on business prospects



Notes: (*) Net balance indicates the difference in percentage points between the proportion of establishments choosing “better” over that choosing “worse” in terms of expected change in business situation.

(#) Net balance equals 0.

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

3.6 As regards the “Occupy Movement” that began in late September 2014, it caused some degree of disruptions to local business activities. Consumer and investor sentiments would possibly be affected as well. Yet since only economic data up to August 2014 were available to MWC, the impact of the “Occupy Movement” could not be quantified in any precise terms, nor fully taken into account. In any event, both the external and domestic segments of the Hong Kong economy were beset with considerable uncertainties. The downside risks to the economy in the near term increased.

3.II Local Labour Market

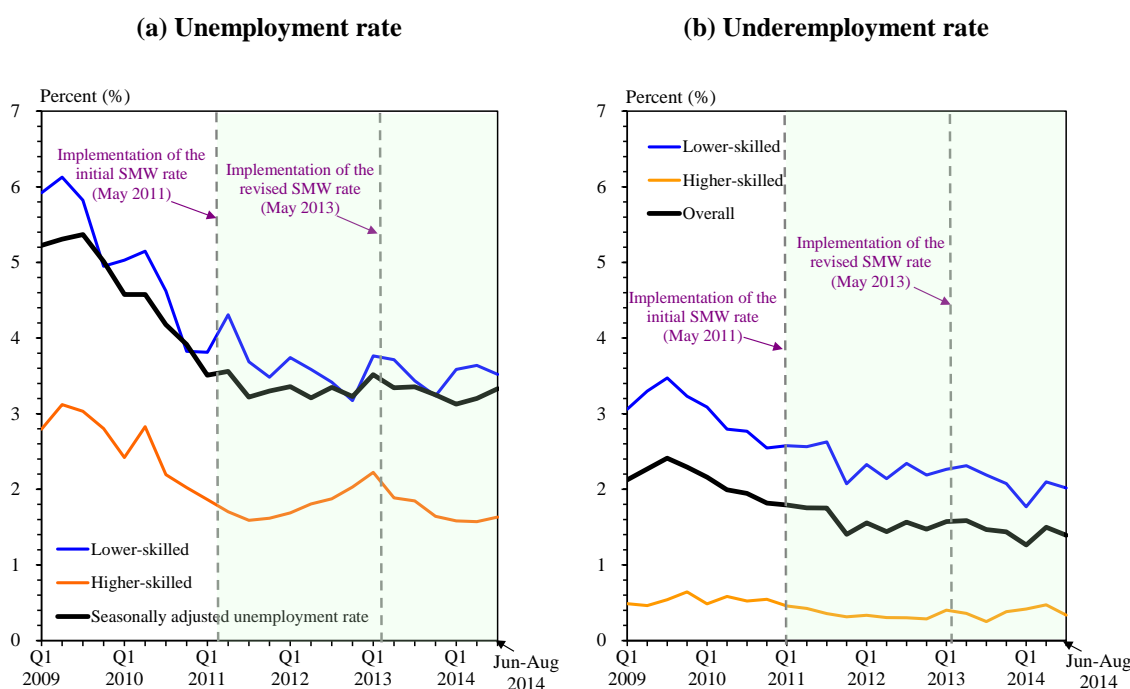
3.II.1 Staying in full employment

3.7 Although the local economy registered below-trend growth for most of the time since 2011, the sturdy strong labour demand on the back of sustained vibrant local consumption and inbound tourism helped ease the pressure on the labour market brought about by the implementation of SMW. Total employment, after a sharp increase of

2.9% in 2011, rose further by 2.4% and 1.8% in 2012 and 2013 respectively. As of June to August 2014, total employment rose to an all-time high of 3 790 000. Positive job and income prospects also helped increase work incentive. The labour force thus expanded notably at a broadly similar pace with employment over the past three years.

3.8 As for unemployment, the annual average unemployment rate remained at low levels between 3.3% and 3.4% since 2011. The unemployment rates of different skill segments stayed low, signifying a state of full employment over the past few years. Nevertheless, with the recent slackening in inbound tourism and domestic demand, the labour market displayed some initial signs of easing. The seasonally adjusted unemployment rate rose from 3.1% in the first quarter of 2014 to 3.3% in June to August, while the underemployment rate also edged up from 1.3% to 1.4% over the same period (Figure 3.4).

Figure 3.4: Both unemployment and underemployment rates remained low since the implementation of Statutory Minimum Wage



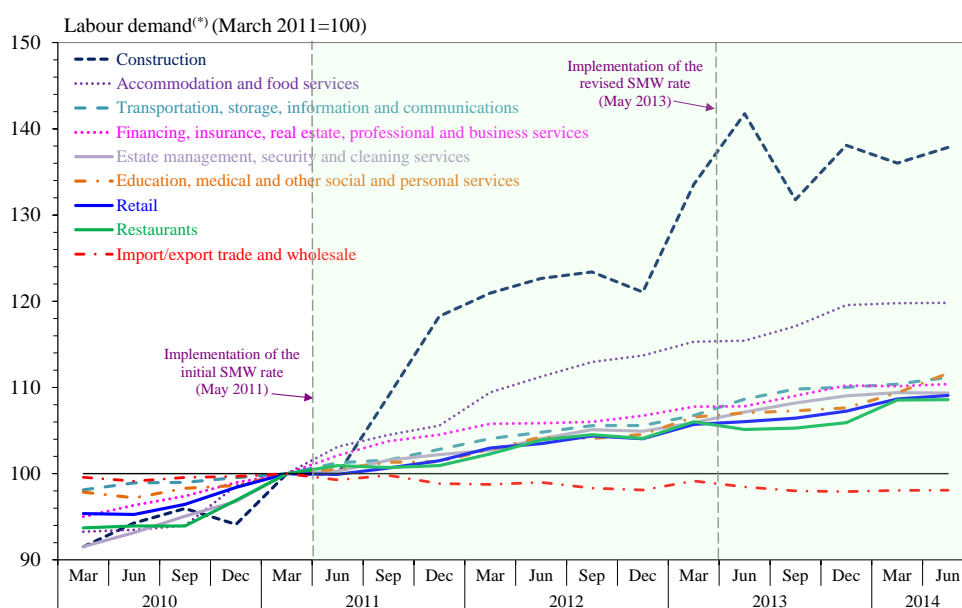
Source: General Household Survey, Census and Statistics Department.

3.II.2 Tight manpower resource balance

3.9 Thanks to sustained vibrancy in public and private sector construction activities over the past some three years and resilient domestic demand, labour demand (estimated from the sum of the number of persons engaged and vacancies in private sector establishments) in

most sectors stayed on the rise after the implementation of SMW, more than offsetting the adverse impacts of a feeble external environment on employment (Figure 3.5). In fact, for 2013 as a whole, the number of job vacancies in the private sector reached 77 180, while the vacancy rate was 2.8%, the highest level since 1994. As at June 2014, both the number of job vacancies and vacancy rate remained at high levels. The ratios of job vacancies per 100 unemployed persons in most sectors and different occupational groups also went up visibly (Figure 3.6), signifying a persistently tight manpower resource balance in the past few years.

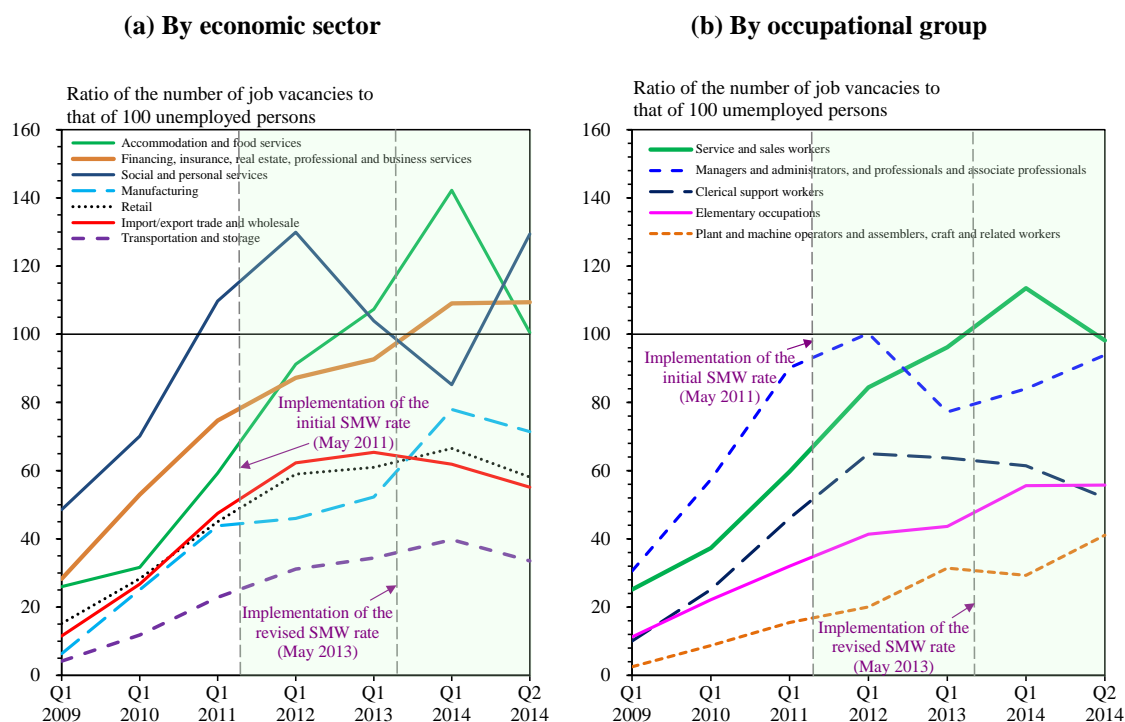
Figure 3.5: Labour demand in most sectors remained sturdy over some three years in the past



Notes: (*) Labour demand is estimated from the sum of the number of persons engaged and vacancies in private sector establishments.

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

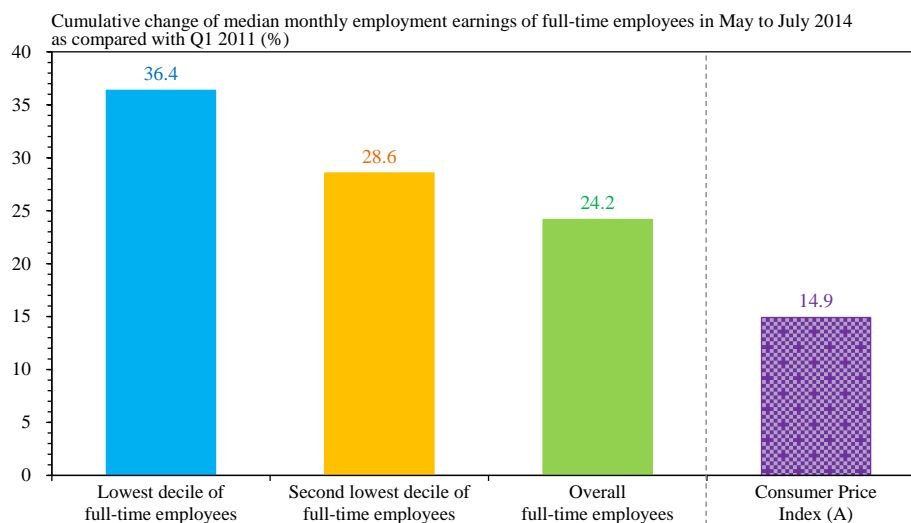
Figure 3.6: Manpower resource balance tightened up in most sectors and occupational groups



Sources: General Household Survey and Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

3.10 The labour market was largely steady between 2011 and mid-2014. Employment earnings saw further improvement, particularly for those lower-paid employees benefiting from the implementation of SMW. Between the first quarter of 2011 and May to July 2014, the median monthly employment earnings of full-time employees (excluding government employees and live-in domestic workers not covered by SMW) in the lowest decile group registered an impressive cumulative increase of 36.4%, while that for the overall full-time employees was 24.2%. This indicated that the implementation of SMW, to a certain extent, helped boost the employment earnings of the lower-paid employees. Moreover, the median monthly employment earnings of lower-paid full-time employees actually rose faster than Consumer Price Index (A) (CPI(A)) over the same period, pointing to a real improvement in earnings (Figure 3.7).

Figure 3.7: Median monthly employment earnings of the lower-paid full-time employees improved in real terms since the implementation of Statutory Minimum Wage

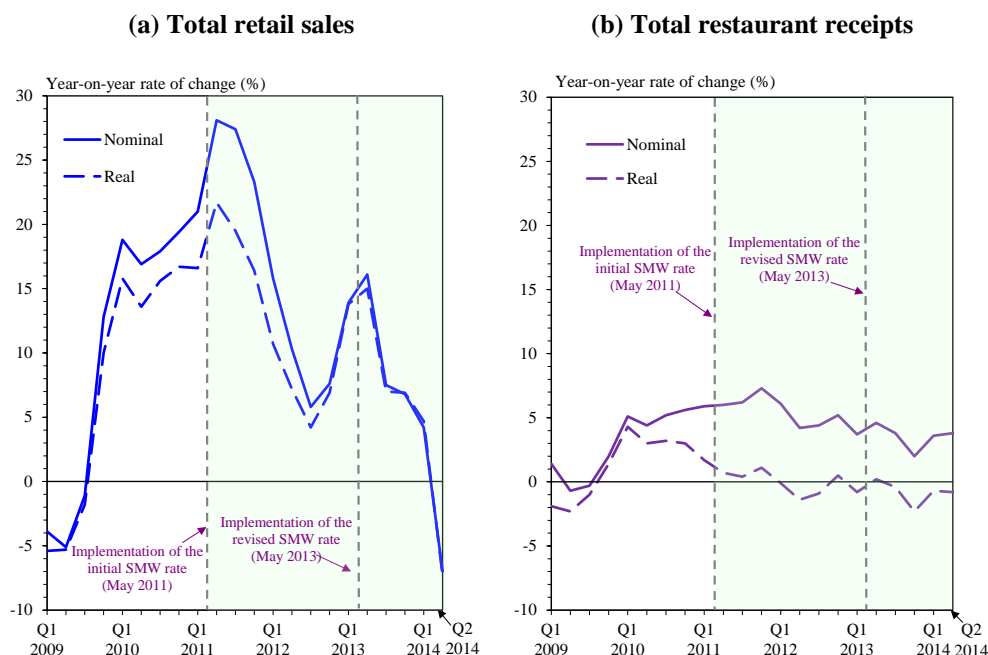


Note: Full-time employees are those who worked at least 35 hours, or those who worked less than 35 hours due to vacation during the 7 days before enumeration. Excluding government employees and live-in domestic workers.
Sources: General Household Survey and Monthly Retail Price Survey, Census and Statistics Department.

3.II.3 Uncertainties in employment prospects

3.11 Over the past few years, job growth was mainly driven by domestic demand. Any setback in business performance in the related sectors would inevitably dampen hiring sentiment and may weigh on the labour market. Take for example the retail and restaurant sectors which hired over 500 000 employees in total (as of June to August 2014) or 15.6% of the employees in Hong Kong: the business performance of the retail sector deteriorated noticeably in the second quarter of 2014, while total business receipts for restaurants kept declining in real terms (Figure 3.8). These developments might, to a certain extent, affect the pace of job creation in these sectors. On entering 2014, the businesses of other sectors, such as tourism, convention and exhibition services, information and communications, banking, as well as computer and information technology services, slowed visibly (Table 3.1), which have also added uncertainties to the employment prospects. Moreover, the “Occupy Movement” caused some degree of disruptions to many sectors, for example, the retail, catering, tourism, and transportation sectors. Whether it would affect the business confidence of enterprises in Hong Kong remains to be seen.

Figure 3.8: Recent business performance of the retail sector weakened visibly, while restaurant receipts continued to dip in real terms



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

Table 3.1: Economic activities across major sectors saw visibly slower growth in the first half of 2014, posing uncertainties to the employment prospects

Year-on-year rates of change in business receipts indices of selected sectors (%)					
Sectors	2011	2012	2013	2014	
	Annual	Annual	Annual	Q1	Q2 ^(*)
Tourism, convention and exhibition services	+23.8	+15.1	+17.8	+6.9 ^(*)	-7.5
Information and communications	+8.8	+9.3	+6.0	-0.1	-1.1
Banking	+10.8	+9.4	+16.8	+5.5	+3.8
Computer and information technology services	+10.4	+15.1	+2.1	-7.8	+1.1
Wholesale	+12.7	+3.2	+4.3	+3.1	+3.5
Import/export trade	+8.9	-1.3	-0.3	+0.9	-0.7

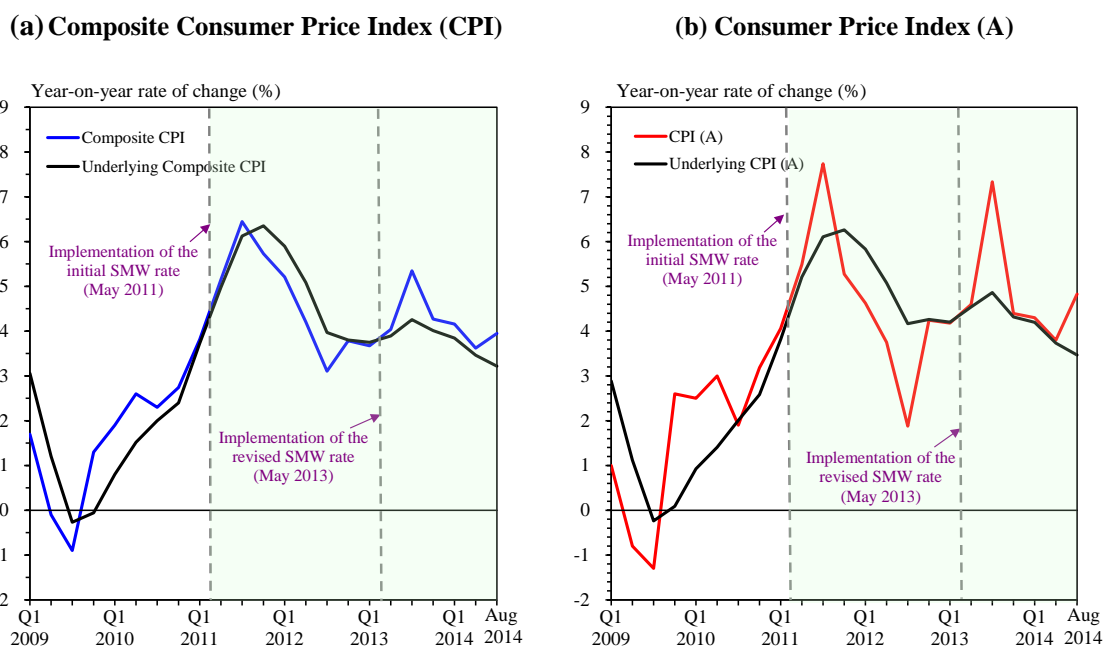
Note: (*) Provisional figures.
Source: Quarterly Survey of Service Industries, Census and Statistics Department.

3.III Prices

3.III.1 Inflationary pressures eased

3.12 Shortly upon the implementation of the initial SMW rate, elevated domestic costs, as well as increases in global food and commodity prices, and private housing rentals resulted in a 5.3% increase in the underlying Composite CPI (CCPI) for 2011 as a whole. However, as imported inflation stabilised and the uptrend in private housing rentals moderated, the underlying CCPI inflation went down to 4.7% and 4.0% in 2012 and 2013 respectively (Figure 3.9). For the first eight months in 2014, underlying CCPI inflation stood at 3.5%, indicating that inflationary pressure eased further. The underlying CPI(A), which reflects the livelihood of the grassroots, displayed similar trend.

Figure 3.9: Inflationary pressure eased gradually after a notable surge in 2011



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

3.13 Nevertheless, commercial rentals were still on the rise in 2013, albeit at a moderated pace since the second half of that year. Wages also rose steadily amidst stable labour market conditions. Should consumer demand for goods/services stay sturdy, business activities in the corporate sector would keep expanding. Business enterprises would then possess stronger pricing power and be able to pass on the additional labour and other operating costs to consumers. However, business performance of some sectors,

such as retail, deteriorated sharply on entering 2014. These enterprises might not be able to offset most of the additional cost pressure through raising prices (Table 3.2).

**Table 3.2: Business costs, receipts and output/service prices
between 2011 and the second quarter of 2014**

	Year-on-year rates of change (%)				
	2011	2012	2013	2014	
				Q1	Q2
<u>Input Costs</u>					
Nominal Wage Index	+8.1	+5.6	+4.7	+4.1	+4.5
<u>Rental Indices</u>					
Private office space rental index	+15.1	+10.8	+8.4	+6.1	+3.8
Private retail shop space rental index	+9.3	+12.7	+9.4	+5.5	+3.8
Private flatted factory space rental index	+8.9	+11.2	+11.7	+9.4	+7.9
<u>Receipts</u>					
Total retail sales value index	+24.9	+9.8	+11.0	+4.2	-7.0
Total restaurant receipts value index	+6.4	+5.0	+3.5	+3.6	+3.8
<u>Output / Service Prices</u>					
Retail	+6.5	+2.6	+0.4	-0.5	+0.2
Restaurants	+5.4	+5.4	+4.3	+4.3	+4.6
Underlying Composite Consumer Price Index	+5.3	+4.7	+4.0	+3.8	+3.5
Gross Domestic Product deflator	+3.9	+3.7	+1.4	+2.2	+3.5

Notes: Rental indices for 2014 are provisional figures.

The year-on-year rates of change in output/service prices of the retail and restaurant sectors were crudely estimated to be the differences between the year-on-year rates of change in the value index and volume index.

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

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

3.14 In gist, macroeconomic conditions over the past few years held largely stable. The rather tight labour market on the back of persistently resilient domestic demand helped mitigate the possible impact of the implementation of SMW on employment situation. As a result, employment earnings of lower-paid employees improved notably. Regarding enterprises, the cost pressure on businesses entailed by the revised SMW rate implemented in May 2013 was relatively modest when compared with that of the initial SMW rate. Nevertheless, it is worth noting that with the economy slowing down visibly on entering 2014, some enterprises might not be able to offset the additional cost pressure through raising prices. Upon the recent slackening of inbound tourism and domestic demand, as well as the disruptions brought about by the “Occupy Movement” to local business activities, the downside risks to the local economy and labour market in the near term increased. Yet since only economic data up to August 2014 were available to MWC, the impact of the “Occupy Movement” could not be quantified in any precise terms, nor fully taken into account. Close monitoring is needed to ascertain

whether the “Occupy Movement” would have long-term impacts on the Hong Kong economy, including the impairment of investor confidence in the Hong Kong market as well as on the overall competitiveness of Hong Kong.

- 3.15 Having reviewed the socio-economic conditions since the implementation of SMW, analyses on its impact based on an Array of Indicators will be given in Chapter 4.

4 Impact of Statutory Minimum Wage

4.1 The Minimum Wage Commission (MWC) made reference to large amounts of data related to an Array of Indicators for monitoring the socio-economic conditions after the implementation of Statutory Minimum Wage (SMW) in May 2011 and the revision of the SMW rate in May 2013. These data came from a number of statistical surveys of the Census and Statistics Department (C&SD) and administrative records of other relevant government departments (see Chapter 2).

4.2 Based on the changes of the relevant data, we analysed the impact of SMW since its implementation on employees, enterprises, the labour market, prices and the overall economy of Hong Kong. This chapter summarises the relevant major observations. While the experiences over some three years in the past after the implementation of SMW enabled us to conduct more comprehensive analyses, we wish to stress that as the implementation time was not long, continuous monitoring and study are still required.

4.I Socio-economic Characteristics of Employees Earning the Statutory Minimum Wage Rate

4.3 In performing its statutory function, MWC sought to recommend an SMW rate that could effectively forestall excessively low wages, while at the same time avoiding hindrance in the development of the labour market. As mentioned in Chapter 3, on the back of the persistently tight manpower situation between 2011 and mid-2014, the income of employees generally increased. It was against such an economic backdrop that MWC examined the conditions of employees who had less bargaining power and were just earning the SMW rate.

4.4 According to the findings of the Annual Earnings and Hours Survey (AEHS), the number of employees earning the SMW rate dropped from 180 600 in May to June 2011 (with the SMW rate at \$28.0 per hour) to 98 100 in May to June 2013 (with the SMW rate at \$30.0 per hour), representing a decrease of 82 500 (down by 45.7%). The proportion of employees earning the SMW rate among all employees also fell from 6.4% to 3.4% (Table 4.1). This showed that the implementation of SMW did not limit the scope for upward wage adjustment in the labour market. Also, it reflected that thanks to SMW and favourable labour market conditions, wages of the majority of

lower-paid employees improved notably, with some even surpassing the SMW rate. We were pleased to see these developments.

Table 4.1: Socio-economic characteristics of employees earning the Statutory Minimum Wage (SMW) rate in May to June 2011 and May to June 2013

Socio-economic characteristic	May to June 2011			May to June 2013		
	Employees earning the SMW rate (i.e. \$28.0 per hour)		Proportion of employees with the corresponding socio-economic characteristic among all employees (%)	Employees earning the SMW rate (i.e. \$30.0 per hour)		Proportion of employees with the corresponding socio-economic characteristic among all employees (%)
	Number of persons ('000)	Proportion among all employees earning the SMW rate (%)		Number of persons ('000)	Proportion among all employees earning the SMW rate (%)	
Total number of employees earning the SMW rate	180.6	100.0	6.4	98.1	100.0	3.4
I. Gender						
Male	72.7	40.3	52.2	42.1	43.0	51.9
Female	107.9	59.7	47.8	55.9	57.0	48.1
II. Age group						
Aged 15 to 24	16.7	9.3	8.0	10.5	10.7	8.0
Aged 25 to 34	13.8	7.6	27.3	6.9	7.1	26.2
Aged 35 to 44	27.4	15.2	26.4	14.8	15.0	25.9
Aged 45 to 54	65.2	36.1	25.8	31.0	31.6	25.5
Aged 55 and above	57.5	31.8	12.5	34.9	35.5	14.5
III. Educational attainment						
Primary and below	87.2	48.3	13.0	40.3	41.1	12.7
Secondary 1 to 3	48.5	26.9	14.4	38.4	39.2	14.6
Secondary 4 to 7	42.9	23.8	40.4	18.1	18.5	39.3
Tertiary education	2.0	1.1	32.2	1.1	1.2	33.5
IV. Employment nature						
Full-time	145.7	80.7	93.0	80.7	82.3	92.9
Part-time	34.9	19.3	7.0	17.3	17.7	7.1
V. Contractual status						
Permanent	152.0	84.2	89.7	85.4	87.0	89.6
Fixed-term contract	17.2	9.5	7.5	9.2	9.3	7.4
Casual	11.5	6.3	2.7	3.6	3.6	2.9
VI. Occupational group						
Elementary workers	116.6	64.6	15.0	65.4	66.6	15.3
Service and sales workers	55.8	30.9	16.0	27.2	27.7	16.9
Craft workers and machine operators	2.5	1.4	11.8	1.8	1.9	12.0
Clerical support workers	4.5	2.5	17.6	2.2	2.3	17.0
Managers, administrators, professionals and associate professionals	1.3	0.7	39.6	1.5	1.5	38.7
VII. Weekly working days						
Less than or equal to 5 days	30.7	17.0	35.2	12.4	12.6	39.4
More than 5 days but up to 5.5 days	5.7	3.2	25.2	2.3	2.3	17.7
More than 5.5 days but up to 6 days	137.9	76.4	36.6	77.8	79.3	39.9
More than 6 days	6.2	3.5	3.0	5.6	5.7	3.0
VIII. Basis of wage rate						
Monthly	90.5	50.1	86.0	46.1	47.0	84.8
Hourly	79.7	44.1	7.1	47.1	48.0	7.7
Daily	9.4	5.2	5.7	§	§	6.9
Others	1.0	0.6	1.2	§	§	0.6
IX. Entitlement to paid rest day(s) and paid meal break(s)^(*)						
With paid rest day(s) only	25.1	13.9	25.0	14.8	15.1	23.0
With paid meal break(s) only	47.7	26.4	11.0	26.8	27.3	10.8
Entitled to both of the above	33.9	18.8	43.9	19.8	20.2	46.7
Entitled to neither of the above	74.0	40.9	20.1	36.6	37.3	19.6

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

(*) For employees who are granted rest day pay and/or meal break pay according to their employment contract or agreement.

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

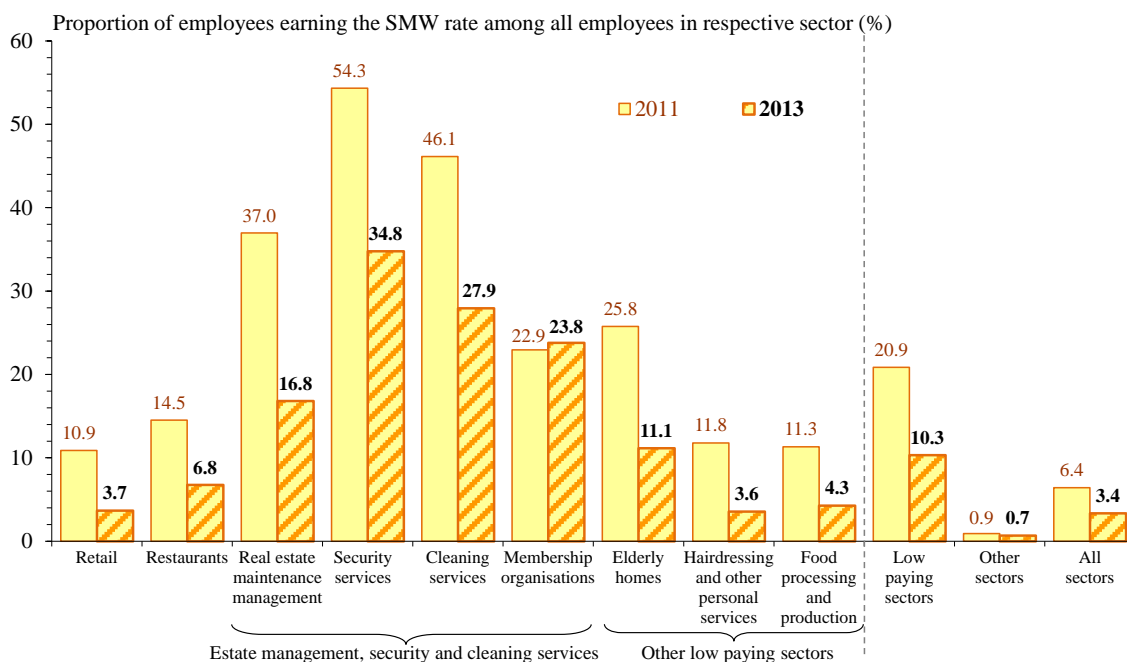
Owing to rounding, the sum of individual items may not be the same as the total.

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

- 4.5 Similar to the situation in May to June 2011, employees earning the SMW rate in May to June 2013 were mainly females (57.0%), older employees (aged 45 and above) (67.2%), those with lower educational attainment (secondary 3 and below) (80.3%) and elementary workers and service and sales workers (94.4%). It is worth noting that between 2011 and 2013, there was a drop in the number of employees earning the SMW rate at all levels of educational attainment. The decline was particularly noticeable for employees with educational attainment of primary and below and of secondary 4 to 7. This somewhat reflected that wages of more lower-paid employees exceeded the SMW rate on the back of the tight manpower conditions in recent years.
- 4.6 More employees earning the SMW rate were engaged in part-time jobs or temporary jobs relative to all employees. Nevertheless, comparing May to June 2013 with May to June 2011, the proportion of employees earning the SMW rate who were entitled to both paid rest day(s) and meal break(s) increased from 18.8% to 20.2%, whereas those who were entitled to neither of them decreased from 40.9% to 37.3%. This indicated that employers generally did not reduce these two fringe benefits of employees despite an increase in labour costs brought about by the implementation of SMW.
- 4.7 The proportion of employees earning the SMW rate in almost all low paying sectors (LPS)⁽¹⁾ in May to June 2013 fell noticeably when compared with May to June 2011. Nevertheless, the respective proportions in the estate management, security and cleaning services remained relatively high (Figure 4.1).

(1) The first-term MWC defined LPS as 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 2013 AEHS, MWC considered it appropriate to continue to adopt the four LPS identified by the first-term MWC and the 15 sub-sectors covered. These included: (i) retail sector (including supermarkets and convenience stores, and other retail stores); (ii) restaurant sector (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). According to the findings of the 2013 AEHS, in May to June 2013, the lowest decile of the hourly wage distribution of LPS was \$30.0, lower than that of all sectors (\$33.0), suggesting that there was a relatively large number of low-paid employees in LPS. In addition, 26.1% of the employees in LPS fell within the lowest overall hourly wage decile, which was larger than the overall figure of 9.5%, suggesting that LPS had a relatively high proportion of low-paid employees among all employees within the sectors. Besides, the hourly wage data of other sectors did not meet the criteria of LPS as set out above. Please refer to **Table A.1 in Appendix V** for detailed statistical data.

Figure 4.1: Proportion of employees earning the Statutory Minimum Wage (SMW) rate among all employees in respective sector analysed by sector (*) in May to June 2011 and May to June 2013



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

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

4.8 The above analysis indicated that the income of employees improved thanks to the favourable labour market conditions over the past few years, and as such the number of employees earning just the SMW rate fell significantly. The fact that wages of the majority of employees were above the SMW rate seemed to suggest that the implementation of SMW had not seriously impeded wage adjustment in the market.

4.9 In the following sections, we will discuss in further detail the impact of the implementation of SMW on employees and enterprises, as well as the local labour market, prices and overall economy, etc.

4.II Impact on Employees

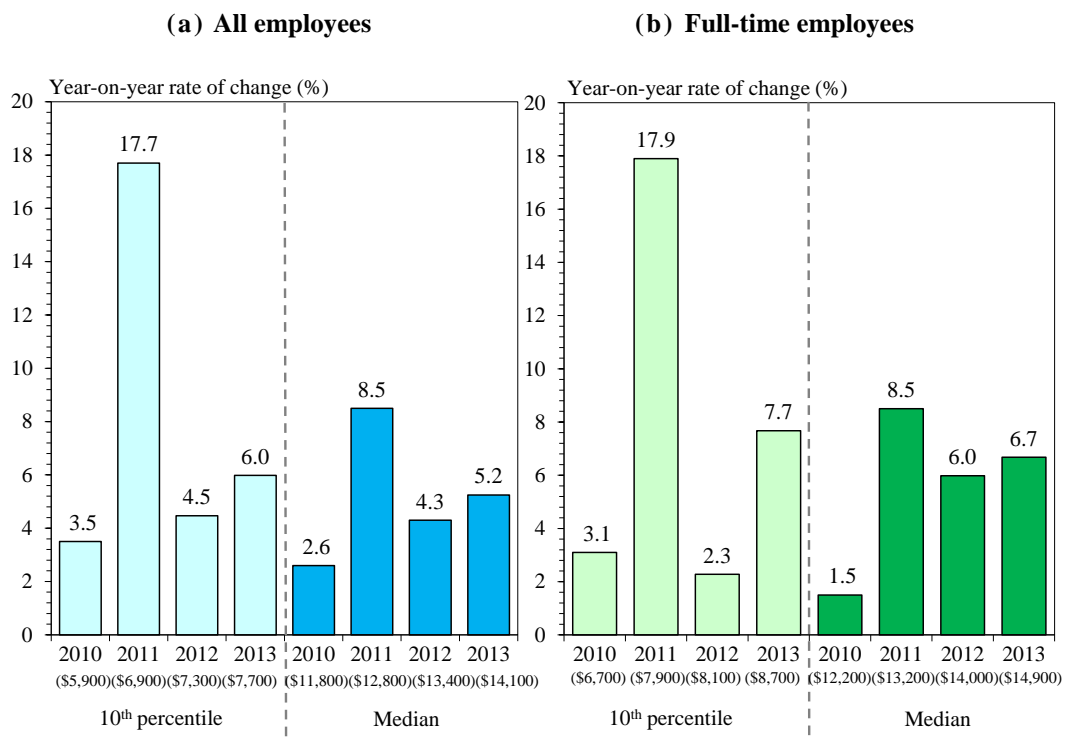
4.II.1 Changes in wages/salaries/employment earnings⁽²⁾ of employees

4.10 Comparing the latest statistics on wage level and distribution with those before the implementation of SMW helped analyse the changes in wages of different groups of employees before and after the implementation of SMW. The wage distribution data

(2) Data on wages/salaries/employment earnings were obtained from different statistical surveys conducted by C&SD. Their definitions are in [Glossary](#).

from AEHS⁽³⁾ showed that the 10th percentile of monthly wages of all employees recorded a considerable year-on-year increase of 17.7% in May to June 2011, benefiting from the one-off boosting effect of the implementation of the initial SMW rate in May 2011. The corresponding increase for full-time employees was even higher, at 17.9% (Figure 4.2). In comparison, the boosting effect of the implementation of the revised SMW rate in May 2013 on wages was relatively mild, albeit still having some effect on raising the wages of employees with the lowest pay. Specifically, the 10th percentile of monthly wages of full-time employees in May to June 2013 increased by 7.7% year-on-year, higher than the corresponding increase of 6.7% for the median monthly wages.

Figure 4.2: Change in monthly wage distributions between April to June 2010 and May to June 2013



Notes: Figures in brackets represent the monthly wages at the percentile in the respective year. Figures were rounded to the nearest hundred.

Rate of change was calculated based on unrounded figures.

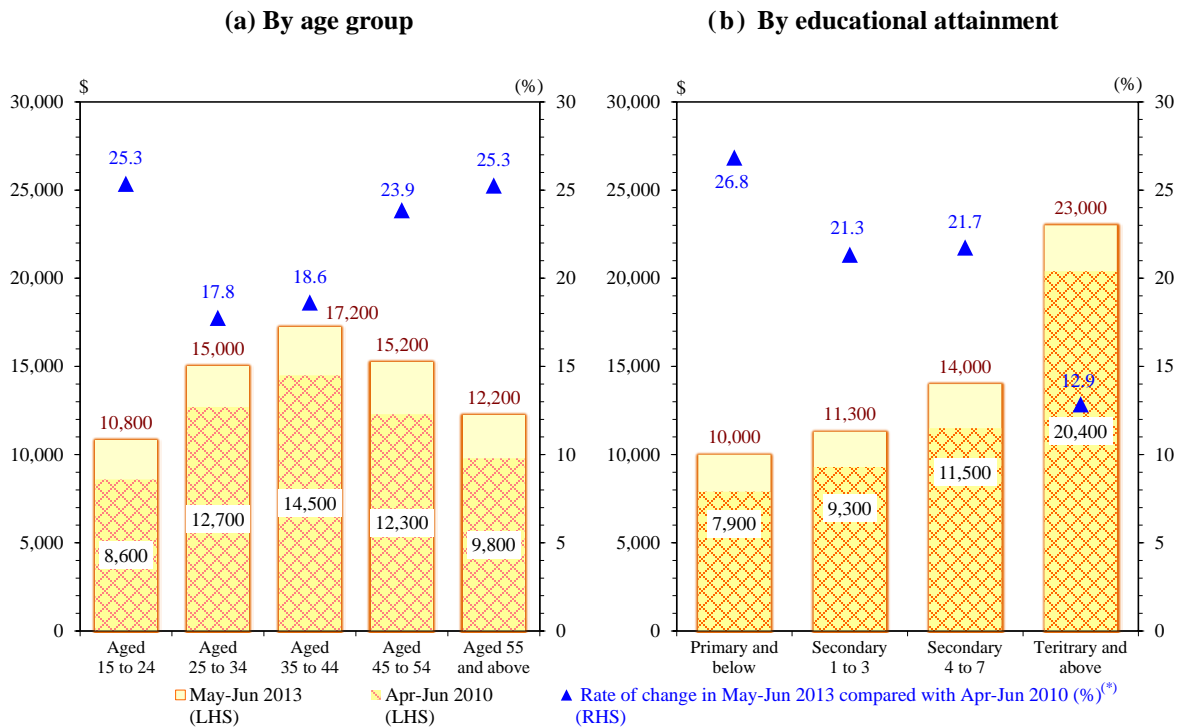
Source: Annual Earnings and Hours Survey, Census and Statistics Department.

4.11 Between April to June 2010 and May to June 2013, the median monthly wages of full-time employees who were younger (aged 15 to 24), older (aged 45 and above) and with lower level of educational attainment recorded cumulative increases of over 20%

(3) The reference period of the 2010 AEHS was the second quarter (i.e. April to June 2010), whereas that of the 2011 to 2013 rounds was May to June so as to show the wage distribution situation after the implementation of the initial SMW rate on 1 May 2011 and the revision of the SMW rate on 1 May 2013.

(Figure 4.3). Wage growth in the estate management, security and cleaning services sector, with almost a quarter of employees earning just the SMW rate, was also rather visible. The median monthly wages of the full-time employees in the sector increased from \$7,200 in April to June 2010 to \$9,900 in May to June 2013, representing a cumulative increase of 37.5% (Figure 4.4). The median monthly wages of the generally lower-paid full-time elementary workers and service and sales workers rose by 31.6% and 27.1% in cumulative terms respectively, greater than the increases seen in the other occupational groups. These data showed that thanks to the implementation of SMW, wages of lower-paid employees improved more notably than those of the employees in other groups.

Figure 4.3: Median monthly wage of full-time employees and its cumulative change from April to June 2010 to May to June 2013 analysed by age group and educational attainment

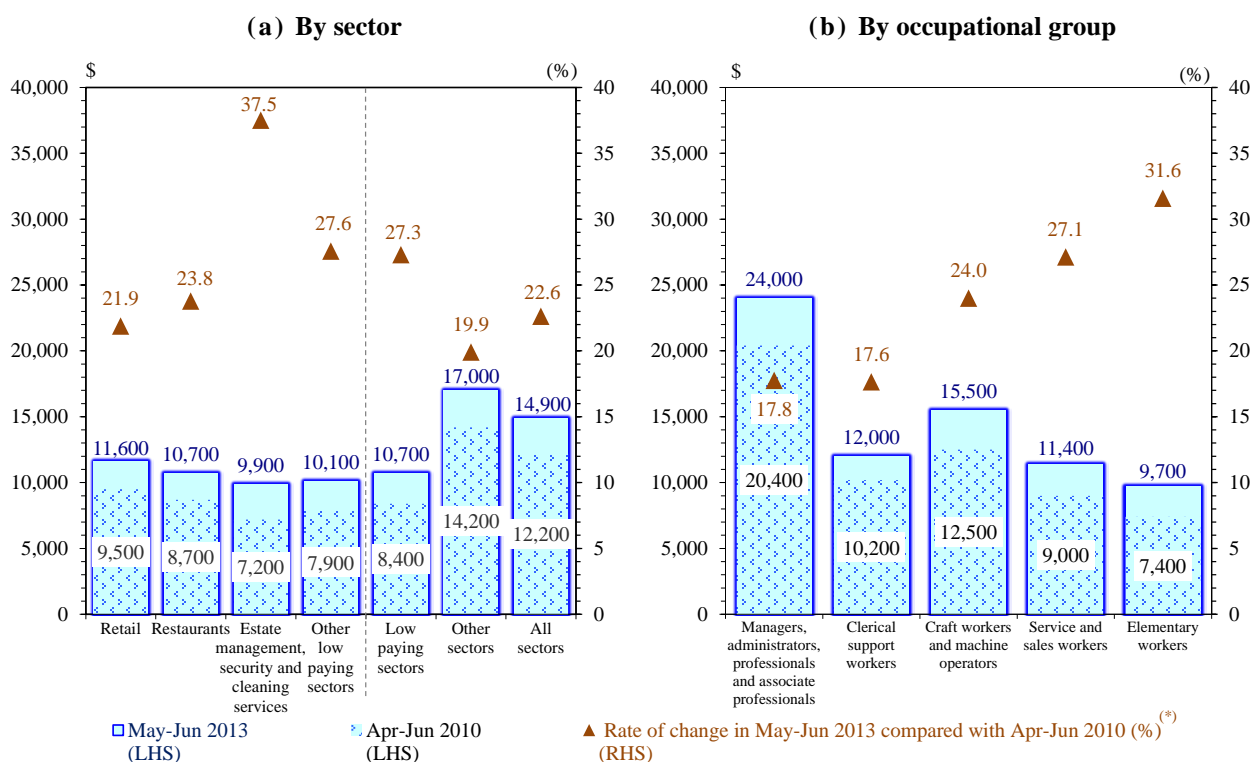


Notes: (*) Median monthly wage was rounded to the nearest hundred. Rate of change was calculated based on unrounded figures.

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

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

Figure 4.4: Median monthly wage of full-time employees and its cumulative change from April to June 2010 to May to June 2013 analysed by sector and occupational group



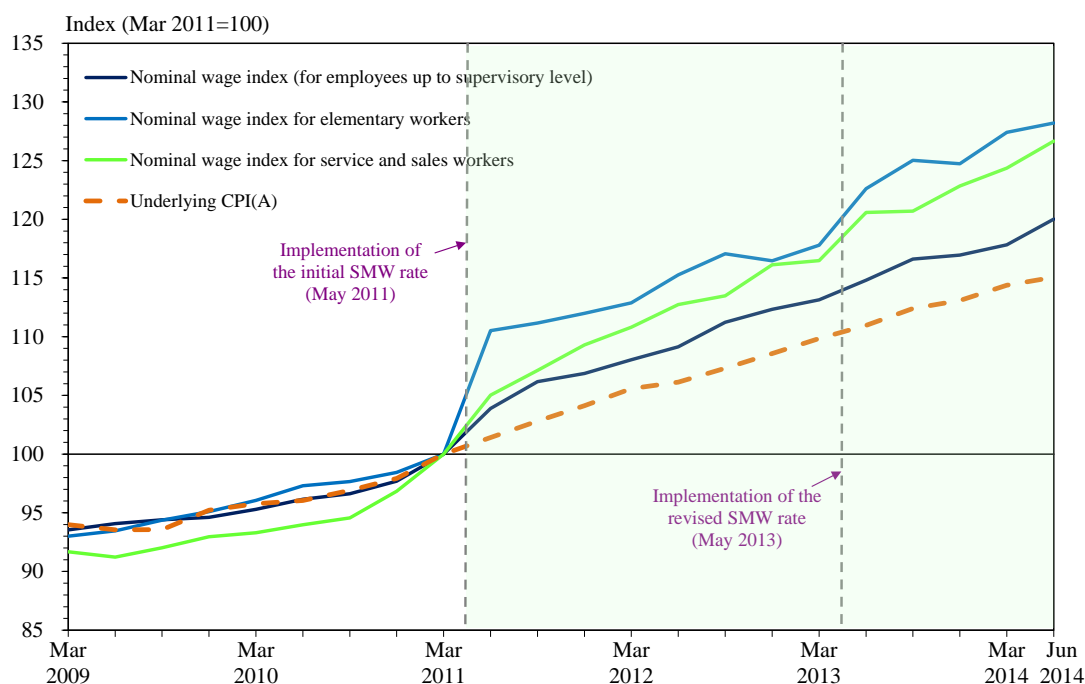
Notes: (*) Median monthly wage was rounded to the nearest hundred. Rate of change was calculated based on unrounded figures.

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

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

4.12 The wage index provided by the Labour Earnings Survey also indicated sustained solid growth in wages over the past few years. Shortly after the implementation of the initial SMW rate (June 2011), the overall nominal wage index increased markedly by 3.9% quarter-to-quarter (up by 8.0% year-on-year). The implementation of the revised SMW rate in May 2013 brought about more significant impact on the nominal wage of elementary workers and service and sales workers. In June 2013, their wage indices recorded increases of 4.1% and 3.5% quarter-to-quarter respectively (up by 6.4% and 7.0% year-on-year respectively), considerably higher than the increase of 1.5% quarter-to-quarter (up by 5.2% year-on-year) in the overall nominal wage index over the same period. Since March 2011 (i.e. before the implementation of the initial SMW rate), the nominal wage indices of elementary workers and service and sales workers rose at a faster pace than that of the Underlying Consumer Price Index (A) (CPI(A)) over the same period (Figure 4.5), signifying that wages of employees with lower income generally improved in real terms after the implementation of SMW.

Figure 4.5: Implementation of Statutory Minimum Wage (SMW) brought about real improvement in the wage of lower-paid employees



Sources: Labour Earnings Survey and Monthly Retail Price Survey, Census and Statistics Department.

4.13 Taking some lower-paid occupations as examples, the average monthly salaries of cleaners rose from \$5,900 in March 2011 to \$7,600 in June 2014 (up by 29.7%), whereas the average monthly salaries of general workers and security guards rose from \$7,900 to \$9,900 (up by 24.8%) and \$10,400 (up by 32.2%) respectively over the same period. The data on employment earnings⁽⁴⁾ of employees from the General Household Survey (GHS) also showed that comparing the second quarter of 2014 with the first quarter of 2011, the median monthly employment earnings of lower-skilled full-time employees⁽⁵⁾ recorded a cumulative increase of 27.8% in nominal terms.

4.14 From the observations above and those in Chapter 3, we can see that the labour market remained in a state of full employment over the past few years. Coupled with the implementation of SMW and its uprating, the income of the lower-paid employees recorded improvement in real terms.

(4) The coverage of employment earnings is different from that of wages although both include basic wage, commission, tips and guaranteed allowance. Employment earnings, however, also cover discretionary bonus and allowance from employers. Please refer to **Glossary** for details.

(5) Employees 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.

4.II.2 Wage differentials

4.15 SMW brought about visible positive effect on the income of lower-paid employees and narrowed the wage differentials between these employees and employees of higher ranks. Nevertheless, there were views that SMW had not only pushed up the wages of lower-paid employees, but also induced a knock-on effect on pay hierarchies (knock-on effect). As a result, enterprises had to raise the pay of employees of other ranks to maintain reasonable pay differentials among ranks and within the same sector so as to maintain staff morale of employees of higher ranks and retain these employees, in turn adding further to the labour costs.

4.16 By examining the hourly wage distribution of May to June 2013 and its year-on-year changes, we can assess the impact of the revised SMW rate on wage differentials. The 5th and 10th percentiles of hourly wage in the overall hourly wage distribution increased by 6.9% and 7.8% year-on-year respectively in May to June 2013, higher than the 4.9% increase for the median hourly wage. This signified that the revised SMW rate helped boost up the wages of lower-paid employees and narrow wage differentials (Table 4.2).

Table 4.2: Hourly wage distributions in May to June 2012 and May to June 2013 and year-on-year rate of change

Percentile	Hourly wage		
	May to June 2012	May to June 2013	
	(\$)	(\$)	Year-on-year rate of change ^(*) (%)
5 th	29.0	31.0	+6.9
10 th	30.6	33.0	+7.8
25 th	37.7	40.0	+6.2
Median	54.8	57.5	+4.9
75 th	86.9	91.9	+5.8
90 th	149.1	156.3	+4.8

Note: (*) Percentile hourly wage was rounded to the nearest ten cents of Hong Kong dollar. Rate of change was calculated based on unrounded figures.

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

4.17 Analysis of the data by occupational groups also revealed similar observation. For elementary workers and service and sales workers who accounted for over 90% of the employees earning the SMW rate, the year-on-year increases of the 10th and 25th percentiles of hourly wage in May to June 2013 were generally higher than those of

other occupational groups, suggesting that the revised SMW rate, to a certain extent, narrowed the wage differentials between the elementary workers and service and sales workers, and other occupational groups (Table 4.3).

Table 4.3: 10th percentile and 25th percentile of hourly wage in May to June 2012 and May to June 2013 and rate of change, analysed by occupational group

	10 th percentile hourly wage (\$)			25 th percentile hourly wage (\$)		
	May to June 2012	May to June 2013	Rate of change ^(*) (%)	May to June 2012	May to June 2013	Rate of change ^(*) (%)
Lower-skilled occupational group^(^)						
Elementary workers	28.0	30.0	+7.1	29.5	31.5	+7.0
Service and sales workers	29.0	31.5	+8.4	31.7	34.0	+7.4
Craft workers and machine operators	37.0	39.2	+5.8	44.4	48.1	+8.3
Clerical support workers	33.7	35.2	+4.6	38.6	40.3	+4.6
Higher-skilled occupational group^(^)						
Managers, administrators, professionals and associate professionals	48.1	50.0	+4.0	63.3	66.5	+5.1

Notes: (*) Percentile hourly wage was rounded to the nearest ten cents of Hong Kong dollar. Rate of change was calculated based on unrounded figures.

(^) Definitions are in **Glossary**.

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

4.18 Comparing the ratios of different percentiles of hourly wage distribution of individual sectors could serve as a crude indicator in measuring the wage differentials within each of these sectors. If the ratio goes up and is closer to 1, it means that the wage differential has been narrowed. Following the uprating of SMW in May 2013, the wage differentials in LPS (except estate management, security and cleaning services) were in general slightly narrowed comparing with 2012, whereas no discernible changes were observed in other sectors (Table 4.4).

Table 4.4: Ratio of different percentiles of hourly wage in May to June 2012 and May to June 2013, analysed by sector

	Hourly wage								
	Ratio of 10 th percentile to the median			Ratio of 10 th percentile to 25 th percentile			Ratio of 25 th percentile to the median		
	May to June 2012	May to June 2013	Year-on-year change	May to June 2012	May to June 2013	Year-on-year change	May to June 2012	May to June 2013	Year-on-year change
Retail	0.76	0.78	+0.02	0.91	0.92	+0.01	0.83	0.85	+0.02
Restaurants	0.82	0.83	+0.01	0.95	0.93	-0.02	0.87	0.89	+0.02
Estate management, security and cleaning services	0.90	0.90	@	0.97	0.98	+0.01	0.93	0.92	-0.01
Other low paying sectors	0.76	0.78	+0.02	0.90	0.91	+0.01	0.85	0.85	@
Other sectors	0.56	0.56	@	0.78	0.79	+0.01	0.71	0.71	@
All sectors	0.56	0.57	+0.01	0.81	0.82	+0.01	0.69	0.70	+0.01

Note: @ Changes are between +/-0.005.

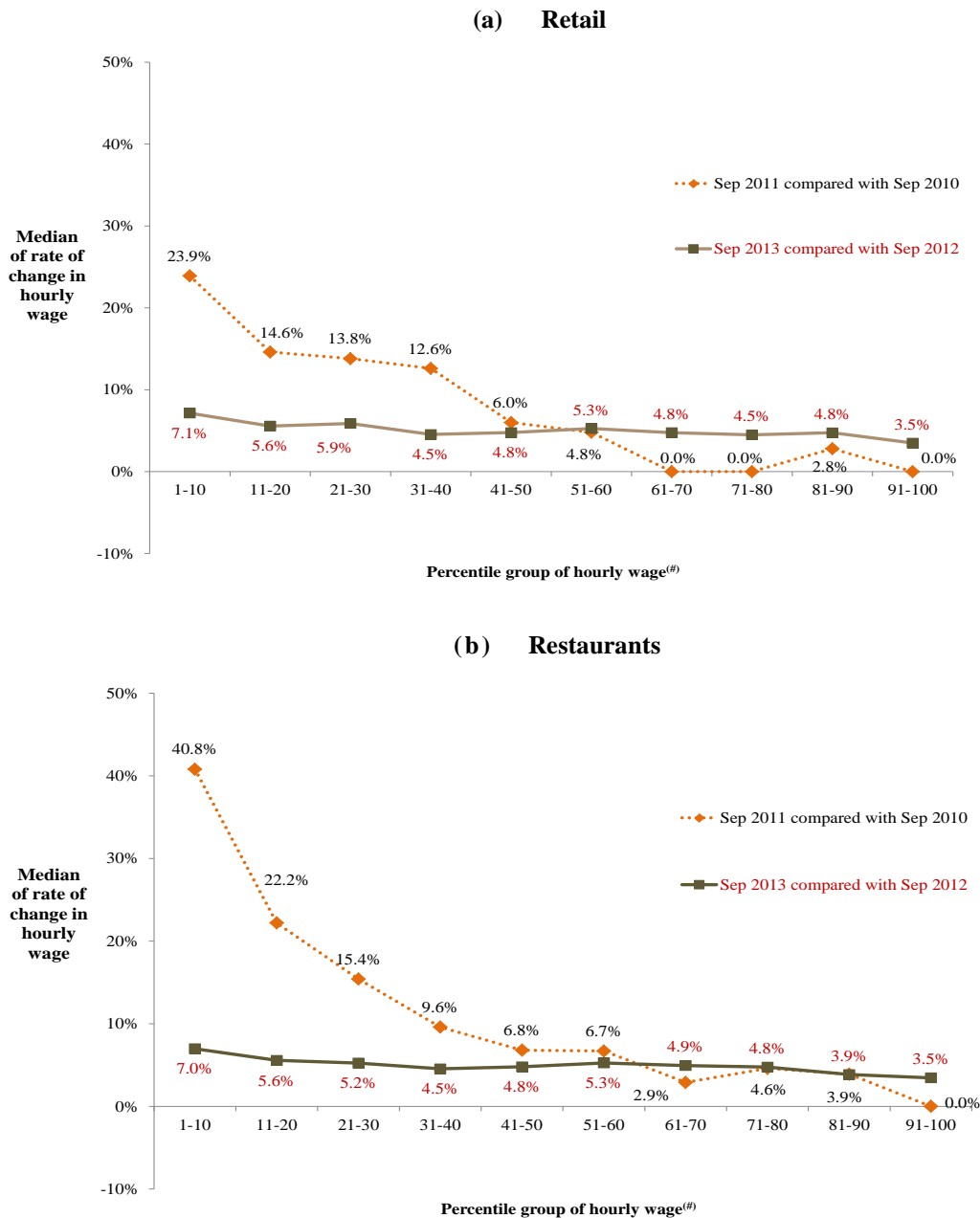
Source: Annual Earnings and Hours Survey, Census and Statistics Department.

4.19 From the above changes in wage differentials among different occupational groups and within each of the sectors, it can be seen that the implementation of the revised SMW rate in May 2013 helped narrow the wage differentials among different ranks and within each of the sectors, although the impact was relatively mild on the whole.

4.20 As regards the retail and restaurant sectors, unlike the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors (2011 Study on Knock-on Effect) conducted in 2011 which the first-term MWC made reference to, the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors (2013 Study on Knock-on Effect) commissioned by the Government showed that except for the groups of matched target employees⁽⁶⁾ in the lower percentiles of hourly wage, the median of rate of change in hourly wage of most of the other groups in the reference period (i.e. September 2012 to September 2013) was comparable to the increase in the overall nominal wage index (up by 4.8%) over the same period (Figure 4.6).

(6) According to the 2013 Study on Knock-on Effect, matched target employees referred to those employees working at the same rank, with the same employment nature (full-time/part-time) and in the same outlet in September 2012 and September 2013, as well as (a) with monthly wages below \$15,000 in September 2012 for those in the Chinese restaurants or other retail stores; or (b) with monthly wages below \$12,500 in September 2012 for those in other sub-sectors (including supermarkets and convenience stores, non-Chinese restaurants, fast food cafes and Hong Kong style tea cafes).

Figure 4.6: Median of rate of change in hourly wage by matched target employees⁽⁷⁾ of different percentile group of hourly wage



Note: (#) When comparing September 2013 and September 2012, the hourly wage of September 2012 was first arranged in ascending order. The matched target employees were then divided into ten groups by percentiles so as to compute the median of rate of change in hourly wage of each group in September 2012 and September 2013 in the respective sector. When comparing September 2011 and September 2010, the hourly wage of September 2010 was arranged in ascending order. The matched target employees were then divided into ten groups by percentiles so as to compute the median of rate of change in hourly wage of each group in September 2011 and September 2010 in the respective sector.

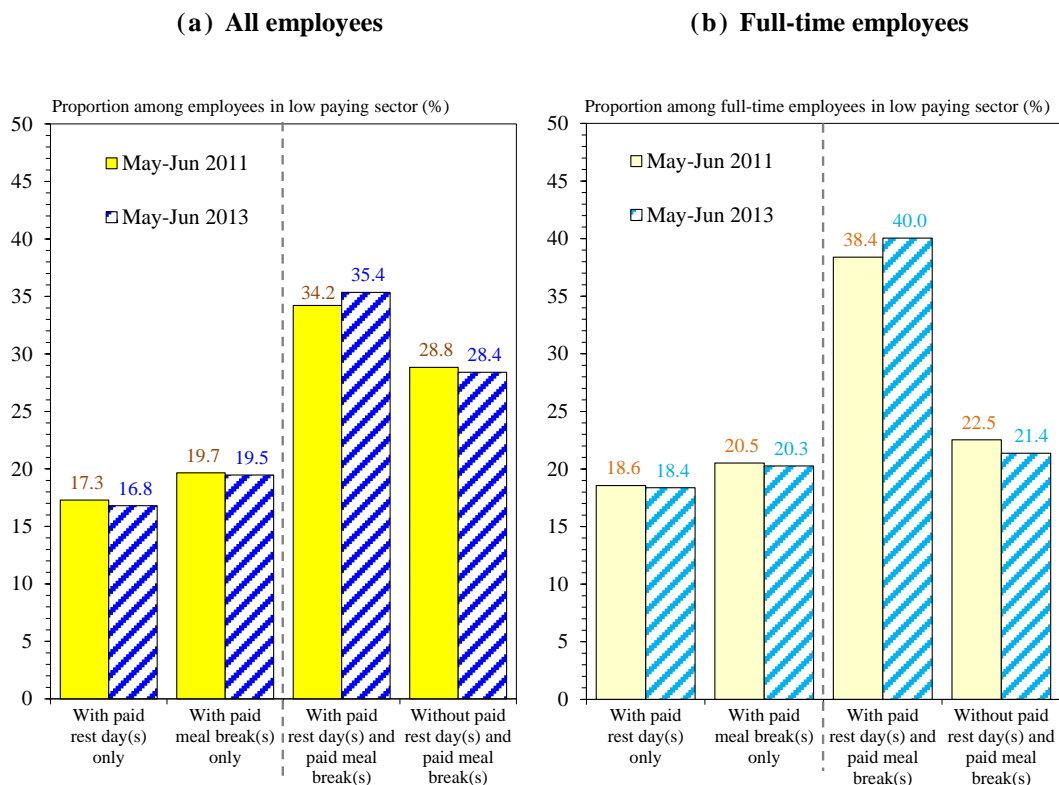
Sources: Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors and 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

(7) As regards the 2011 Study on Knock-on Effect, matched target employees referred to those employees working at the same rank, with the same employment nature (full-time/part-time) and in the same outlet in September 2010 and September 2011, as well as (a) with monthly wages below \$13,000 in September 2010 for those in the Chinese restaurants; or (b) with monthly wages below \$11,500 in September 2010 for those in other enterprises. For the definition of matched target employees in respect of the 2013 Study on Knock-on Effect, please refer to note (6) above.

4.II.3 Remuneration structure

4.21 To offset the additional labour costs arising from SMW, some enterprises might restructure the remuneration packages, such as reducing paid rest day(s) and/or paid meal break(s), year-end payment/bonus, etc. Nevertheless, given the persistently tight labour market over the past few years, lowering costs through restructuring of remuneration package of employees was not prevalent among enterprises. According to the findings of AEHS, the proportion of employees entitled to paid rest day(s) and paid meal break(s) among all employees in LPS increased slightly from 34.2% in May and June 2011 to 35.4% in May to June 2013, and the proportion of those entitled to neither paid rest day(s) nor paid meal break(s) edged down from 28.8% to 28.4% (Figure 4.7). Over the same period, there were no discernible changes in the proportion of full-time employees in LPS entitled to paid rest day(s) and/or paid meal break(s).

Figure 4.7: Entitlement to paid rest day(s) and/or paid meal break(s) of employees in low paying sectors in May to June 2011 and May to June 2013



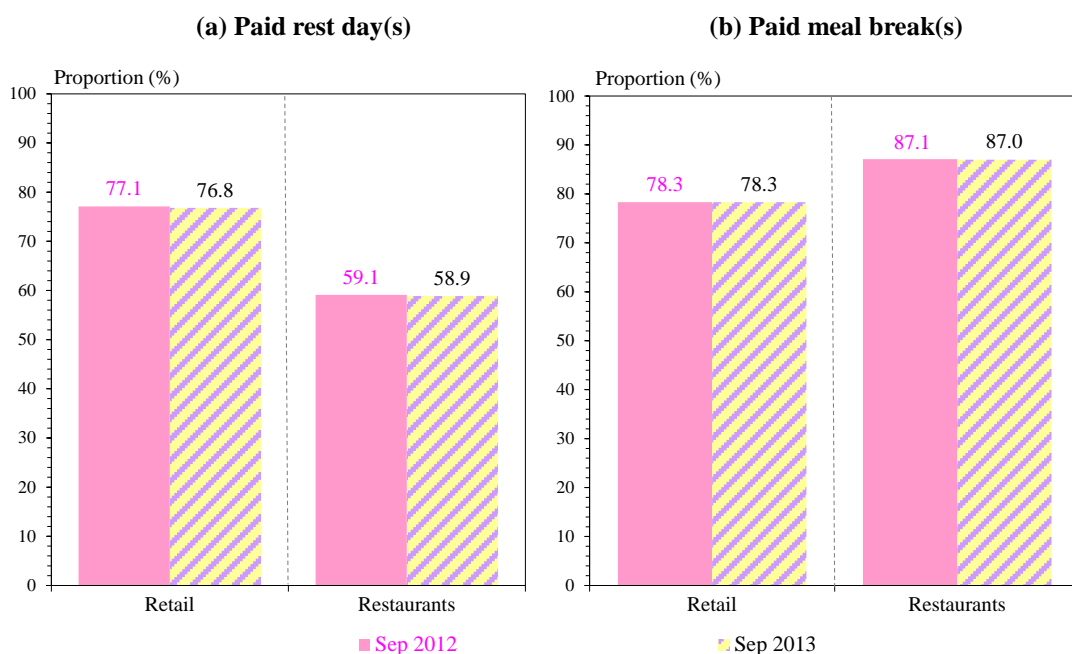
Source: Annual Earnings and Hours Survey, Census and Statistics Department.

4.22 As for other fringe benefits, the proportion of full-time employees in LPS entitled to meal benefits dropped from 27.3% in May to June 2011 to 25.1% in May to June 2013.

Nonetheless, the proportion of full-time employees entitled to year-end payment/bonus increased from 13.4% in May to June 2011 to 13.6% in May to June 2013.

4.23 The findings of the 2013 Study on Knock-on Effect also showed that there were no discernible changes in the proportion of matched target employees in the retail and restaurant sectors entitled to paid rest day(s) in September 2013 as compared with September 2012. Over the same period, the proportion of matched target employees entitled to paid meal break(s) remained largely unchanged (Figure 4.8).

Figure 4.8: Proportion of matched target employees entitled to paid rest day(s) or paid meal break(s) in September 2012 and September 2013



Source: 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

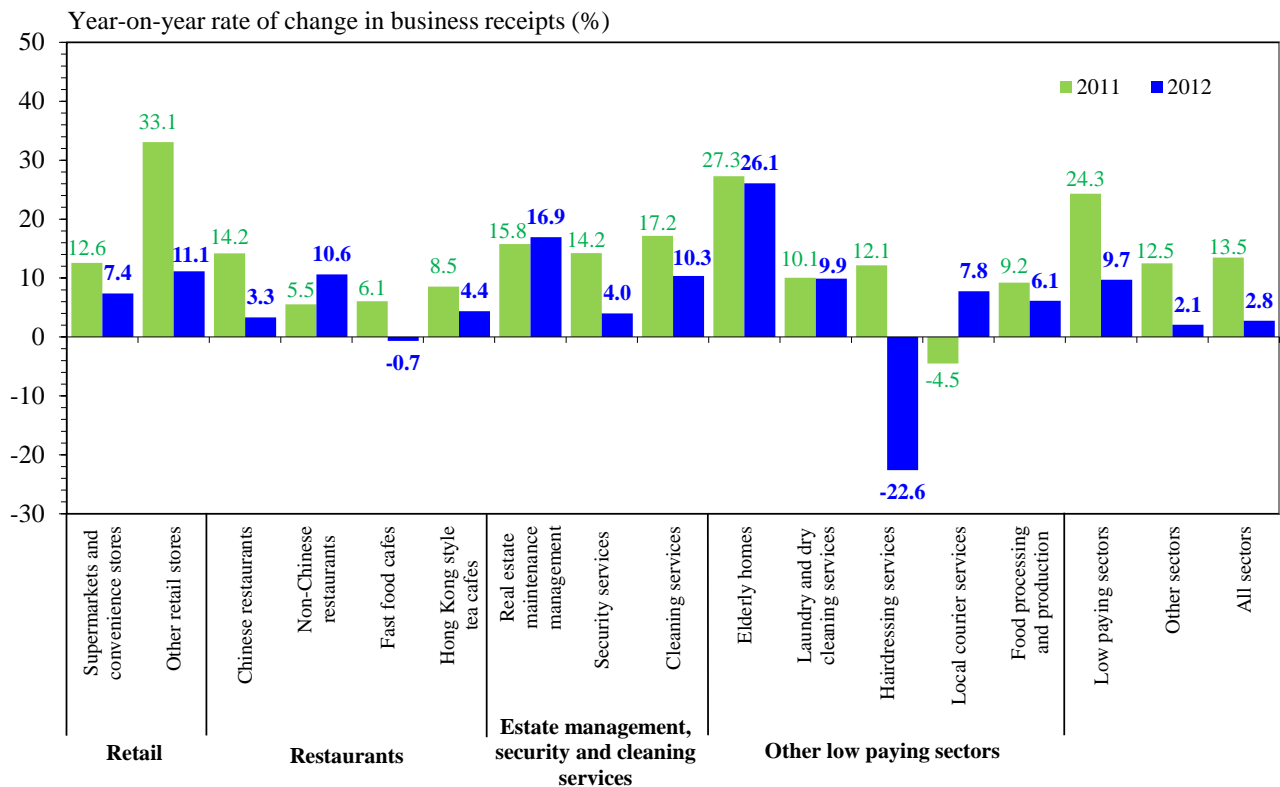
4.24 In sum, the data from different statistical surveys all showed that the revised SMW rate in 2013, to a certain extent, helped boost the income of lower-paid employees and narrow the wage differentials among ranks and within some sectors. It is worth noting that with a relatively mild upward adjustment in the SMW rate in May 2013, the knock-on effect induced was also relatively small. Besides, given the tight overall labour market conditions, there was no substantial reduction in the fringe benefits (including entitlement to fringe benefits according to their employment contract or agreement) of most employees in LPS despite the increase in labour costs.

4.III Impact on Businesses

- 4.25 Although SMW is effective in protecting grassroots employees from excessively low wages, it would at the same time incur additional labour costs on enterprises. Besides, as set out in Chapter 3, the increase in various local business costs also posed further pressure on operators.
- 4.26 Based on the findings of the Annual Survey of Economic Activities (ASEA)⁽⁸⁾ conducted by C&SD, we analysed changes in the business environment after the implementation of the initial SMW rate to gauge its impact on enterprises, including the cost pressure on enterprises, and the operating conditions of LPS and small and medium enterprises (SMEs) that generally have lower profit margins. We also examined more up-to-date data on the number of establishments and business registrations, as well as the data on bankruptcy and winding-up petitions for understanding the latest business situation.
- 4.27 The domestic sector of the Hong Kong economy stayed largely buoyant in 2011. The growth in businesses of domestically-oriented LPS was visibly faster than that of other sectors, thereby providing them with a more favourable environment to cope with the implementation of SMW. As the Hong Kong economy decelerated visibly in 2012, most sectors (including LPS) saw slower growth in business receipts (Figure 4.9). In overall terms, the growth in the business receipts of LPS slowed noticeably from 24.3% in 2011 to 9.7% in 2012. The performance of some LPS was particularly weak. For instance, business receipts of Chinese restaurants, Hong Kong style tea cafes and security services only recorded low and single-digit growth in 2012, whereas those of hairdressing services (down by 22.6%) and fast food cafes (down by 0.7%) even fell.

(8) The statistics from ASEA in this Report pertain to those enterprises with employees only. Data of individual sectors (such as membership organisations and education) are not available. Besides, ASEA required enterprises surveyed to provide financial data of the reference period (the calendar year before the survey was conducted, or any 12 consecutive months between 1 January of that calendar year and 31 March of the following calendar year, depending on the accounting practice of individual enterprises) and the preparation of such data takes time. Hence, when MWC was reviewing and recommending the SMW rate, the 2013 ASEA findings were not yet available. In view of this, we analysed the latest data available at that time (i.e. the 2012 ASEA findings) to assess the impact of the implementation of the initial SMW rate on enterprises.

Figure 4.9: Business receipts of most sectors increased notably in 2011, but slowed down in 2012



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

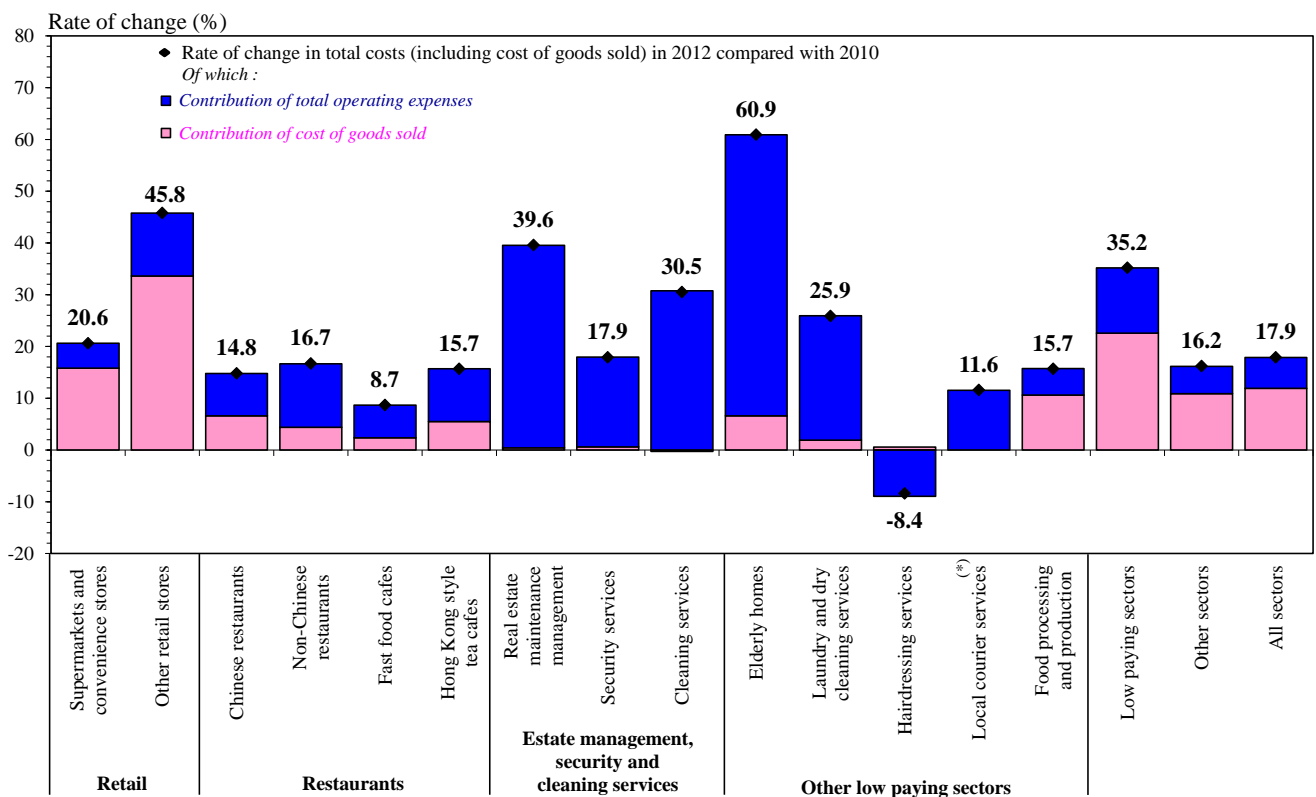
4.III.1 Cost pressure on enterprises

4.28 As compared with 2010, most sectors saw a notable increase in their total costs in 2012 (Figure 4.10). Nevertheless, as the cost structure⁽⁹⁾ varied from sector to sector, the source of cost pressure differed. For instance, in the retail sector, the increase in total costs was mainly contributed by the rise in cost of goods sold. In respect of other LPS (such as estate management, security and cleaning services, laundry and dry cleaning services, and local courier services), the cost pressure mainly came from the hike in total operating expenses covering staff costs; rent, rates and government rent; and other operating expenses (such as advertisement and marketing expenses, management fees, payment for outsourced services, utilities fees, etc).

(9) Details of the composition of total costs of different sectors are in **Table A.4 of Appendix V**.

4.29 As most LPS are labour-intensive, the proportion of staff costs to business receipts was notably higher than that of other sectors. Hence, the additional labour costs brought about by SMW would pose higher pressure on the operation of LPS. In overall terms, the proportion of staff cost to business receipts of LPS was 15.2% in 2012, while that of other sectors was only 10.5% (Figure 4.11). As for SMEs in some LPS (such as the retail and restaurant sectors), the proportion of their staff costs to business receipts was higher than that of the respective sector as a whole, rendering their operation more susceptible to rise in labour costs.

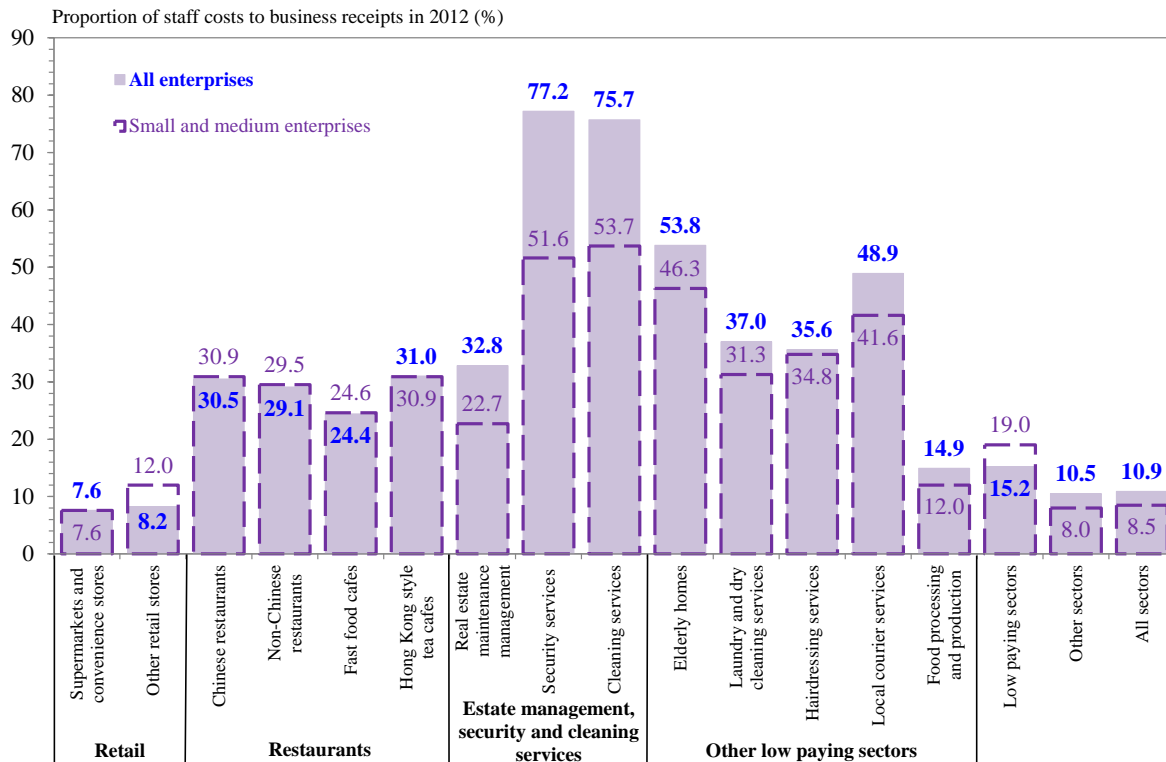
Figure 4.10: Surge in costs of goods sold had greater impact on the retail sector in 2012 as compared to 2010



Note: (*) No cost of goods sold in the sector.

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

Figure 4.11: Proportion of staff costs to business receipts of enterprises with different sizes in 2012

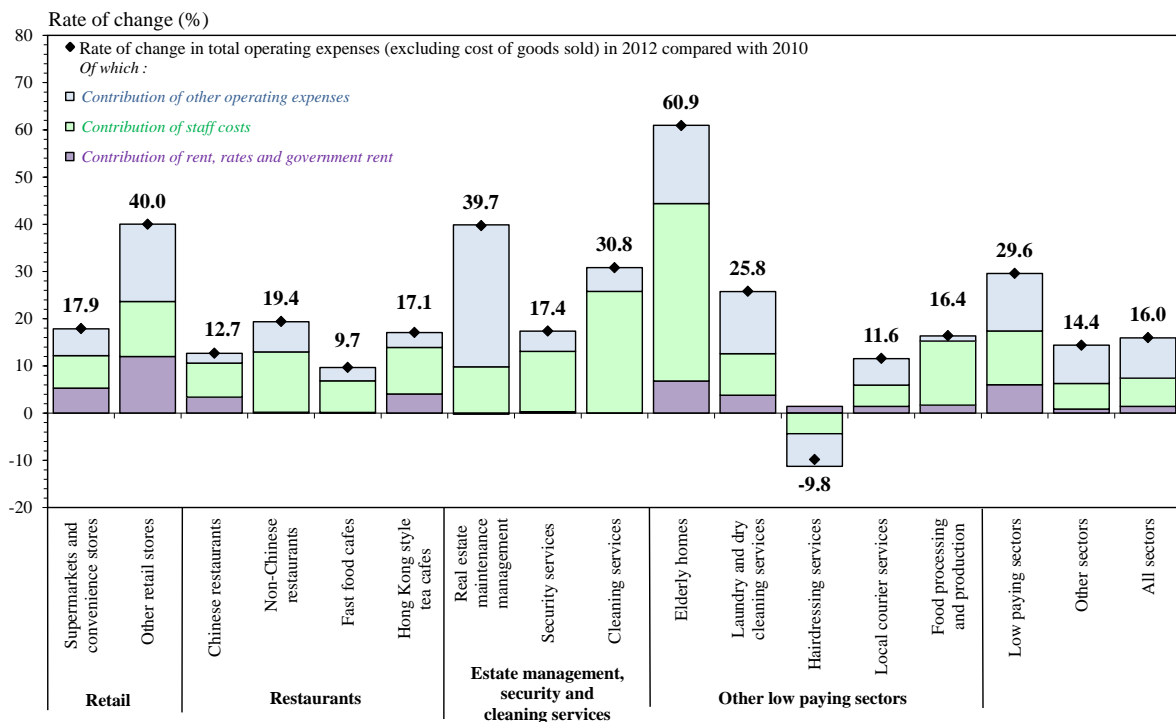


Source: Annual Survey of Economic Activities, Census and Statistics Department.

4.30 The data from ASEA showed that between 2010 and 2012, rising staff costs was one of the key factors underlying the increase in total operating expenses⁽¹⁰⁾ in most LPS (Figure 4.12). Over the two-year period, LPS saw a cumulative increase of 20.9% in average staff costs per employee, much higher than the 8.7% increase in other sectors. The most visible increases were seen in Chinese restaurants (up by 30.2%), laundry and dry cleaning services (up by 26.2%) and cleaning services (up by 25.4%). Over the same period, the proportion of staff costs to business receipts also saw an increase in most LPS. Taking local courier services and non-Chinese restaurants as examples, the corresponding proportions increased from 46.0% and 26.4% in 2010 to 48.9% and 29.1% in 2012 respectively. As for SMEs in LPS, its proportion also went up from 17.4% to 19.0% over the same period. In the face of rising labour costs as well as manpower shortage, some sectors adjusted their mode of operation. For instance, some catering groups set up centralised food factories and outsourced utensil washing operations, while some buildings installed security monitoring systems to replace night-shift security guards, etc.

(10) Total operating expenses exclude costs of goods sold. Details of the composition of total operating expenses of different sectors are in **Table A.5 of Appendix V**.

Figure 4.12: Comparing 2012 with 2010, rising staff costs was one of the key factors underlying the increase in total operating expenses in most low paying sectors



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

4.31 Apart from directly pushing up the labour costs of LPS, SMW also indirectly increased the operating costs of LPS as different sectors raised prices to pass on the additional costs to their users/consumers. For instance, the increase in the charges for the outsourced security and cleaning services, etc caused an upsurge in the other operating expenses of the real estate maintenance management sector. As compared with 2010, the real estate maintenance management sector saw a drastic increase of 39.7% in the total operating expenses in 2012 (Figure 4.12), among which 30.1 percentage points came from the increase in the other operating expenses.

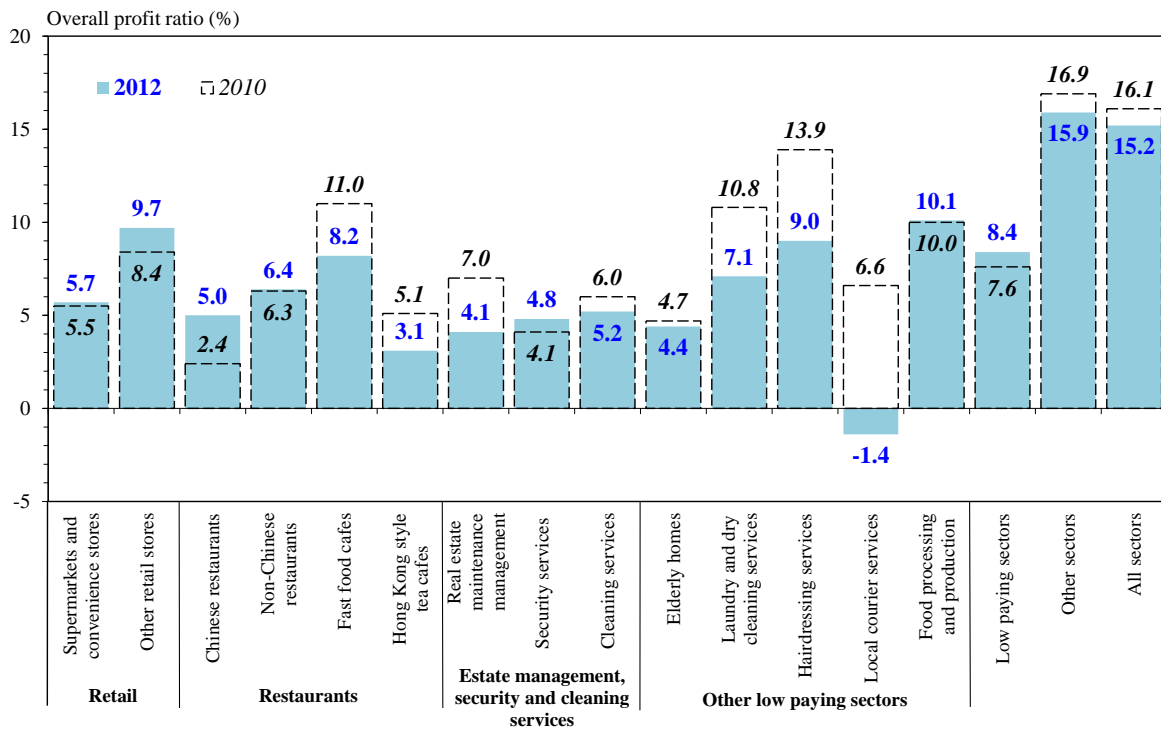
4.32 Besides, rent, rates and government rent also constituted a significant share in the total operating expenses of some LPS (such as the retail and restaurant sectors, etc). Taking supermarkets and convenient stores, and laundry and dry cleaning services as examples, despite cumulative decreases of 5.7% and 2.1% in the number of enterprises respectively between 2010 and 2012, total rental expenses of these sectors still saw increases of 14.4% and 37.2% respectively, indicating that they might find it difficult to change the locations of their outlets as a means to combat rental rises. For LPS as a whole, despite a drop in the proportion of rent, rates and government rent to business receipts from 10.1% in 2010 to 9.2% in 2012, the corresponding figure for SMEs in LPS on the contrary increased from 11.3% to 12.1%, indicating that SMEs in LPS were

more susceptible to rising rental cost.

4.III.2 Corporate profitability

4.33 If enterprises are able to attain rapid business growth when encountering different cost pressures, their profitability may not deteriorate significantly. Nevertheless, with the Hong Kong economy slowing down since the second quarter of 2011, the profitability of some LPS worsened between 2010 and 2012. For instance, the overall profit ratios (i.e. ratio of profit⁽¹¹⁾ to business receipts) of hairdressing services, laundry and dry cleaning services, real estate maintenance management and fast food cafes went down markedly. Local courier services even turned from profits to losses, recording an overall loss of 1.4% in 2012 (Figure 4.13). This showed that owing to the slackening business performance, some LPS were unable to fully absorb the pressure arising from additional costs through price increase. Hence, the overall profitability of these sectors in 2012 was less favourable than that in 2010.

Figure 4.13: Comparing 2012 with 2010, profitability of some low paying sectors deteriorated visibly

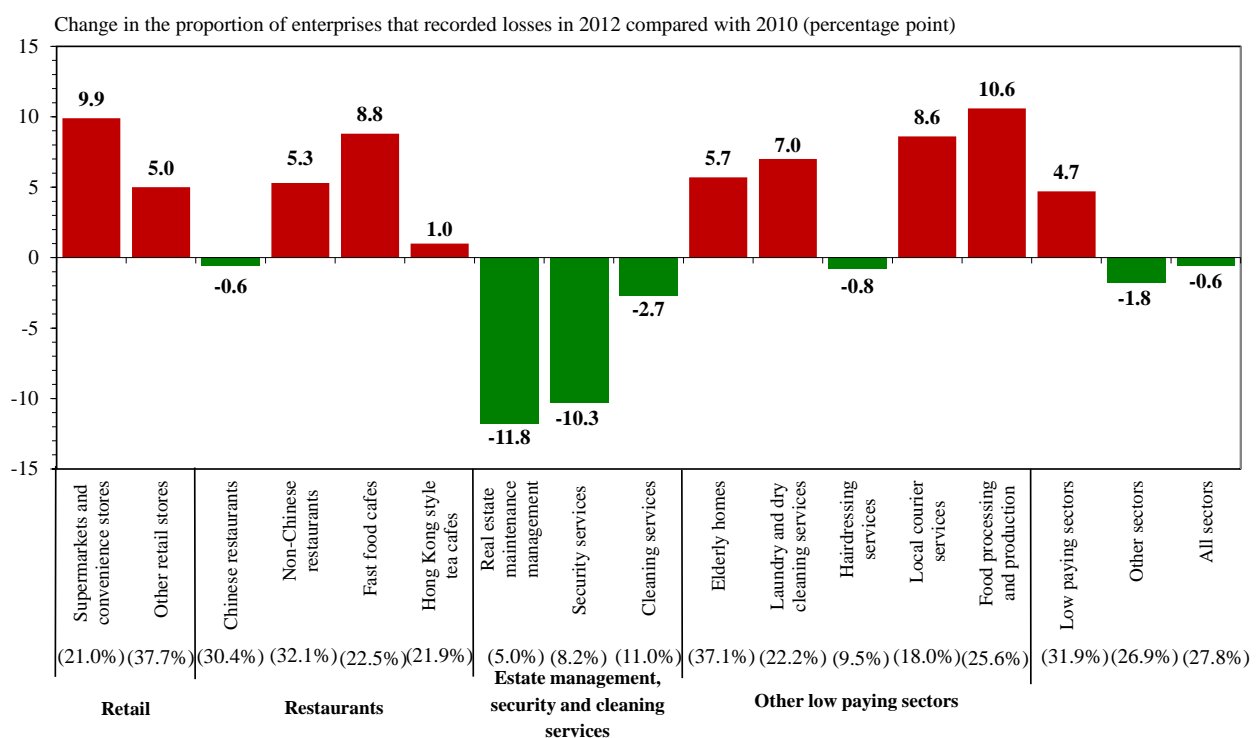


Source: Annual Survey of Economic Activities, Census and Statistics Department.

(11) Earnings before tax (abbreviated as profit) in 2010 refer to profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions; etc. Amortisation was also deducted from profit in 2012.

4.34 The data on profit ratio distribution also helped us understand the ability of enterprises to offset additional costs by profit. Although the overall profit ratio of LPS increased slightly from 7.6% in 2010 to 8.4% in 2012, the increase was mainly contributed by the marked increase in the overall profits of the retail sector. Indeed, over the two-year period, the proportion of enterprises that recorded losses went up by 4.7 percentage points to 31.9% for LPS as a whole (Figure 4.14), representing an increase of over 3 000 enterprises. The majority of these enterprises were from other retail stores and non-Chinese restaurants. Besides, the proportion of enterprises recording losses rose significantly in some LPS (such as food processing and production, supermarkets and convenience stores, fast food cafes and local courier services). This showed that some enterprises originally running at thin profit margins might have turned from profits to losses. Should the business environment become more challenging, these enterprises might face higher risks of scaling down or even closing down, in turn putting the livelihood of their employees at stake.

Figure 4.14: Comparing 2012 with 2010, the proportion of enterprises that recorded losses in low paying sectors increased

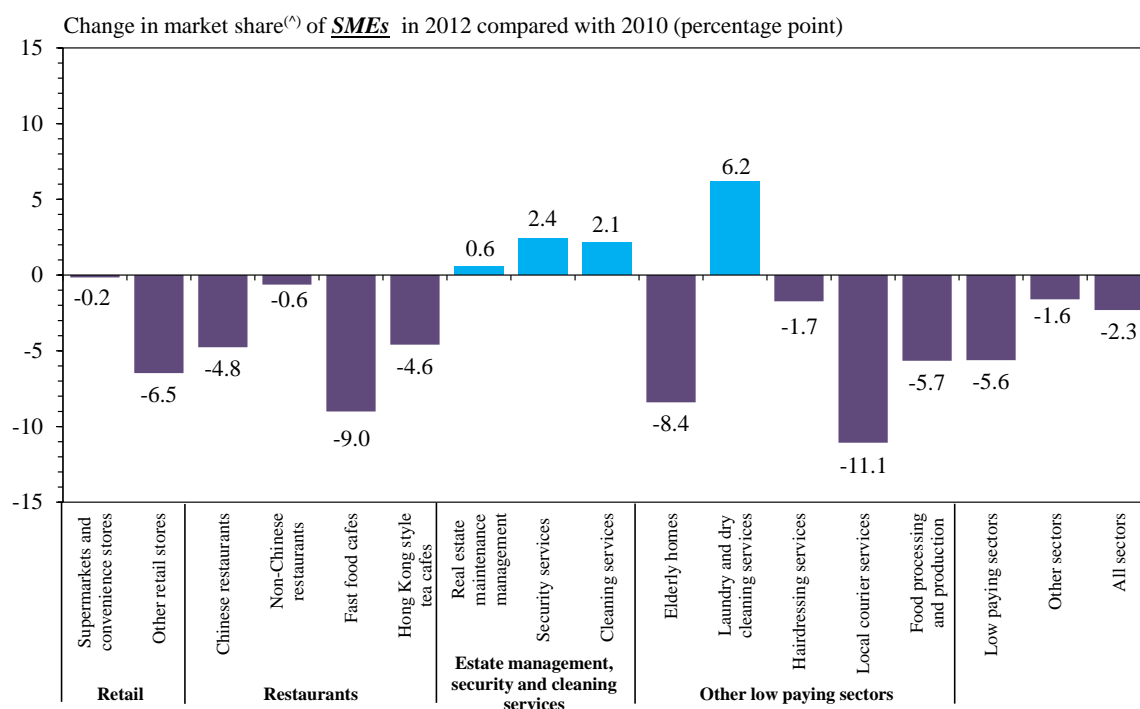


Note: Figures in brackets are the proportions of enterprises that recorded losses in 2012 in the sectors.
Source: Annual Survey of Economic Activities, Census and Statistics Department.

4.35 We could also focus on the analysis of the profitability of SMEs. As the business receipts of SMEs in LPS registered a much lower growth rate than that of large enterprises between 2010 and 2012, the market share (i.e. proportion of total business receipts of SMEs in the sector) of SMEs in LPS fell. Within LPS, more noticeable decreases were seen in local courier services (down by 11.1 percentage points), fast food cafes (down by 9.0 percentage points) and elderly homes (down by 8.4 percentage points) (Figure 4.15). The decline in the market share of SMEs in LPS mainly occurred in 2011, while no discernible changes were observed in 2012.

4.36 Besides, constrained by lack of resources, SMEs were generally less capable of raising prices and controlling costs when compared to large enterprises, typically resulting in lower profit ratios. Between 2010 and 2012, the average profit ratio of SMEs for LPS as a whole fell slightly from 3.9% in 2010 to 3.5% in 2012 (Figure 4.16). Indeed, except for the retail sector, the overall profit ratios of SMEs in most LPS in 2012 were lower than that in 2010, with the restaurant sector recording the most significant dip. For instance, the overall profit ratio of SMEs in Chinese restaurants went down drastically from 2.1% in 2010 to 0.3% in 2012, signifying virtually no profit.

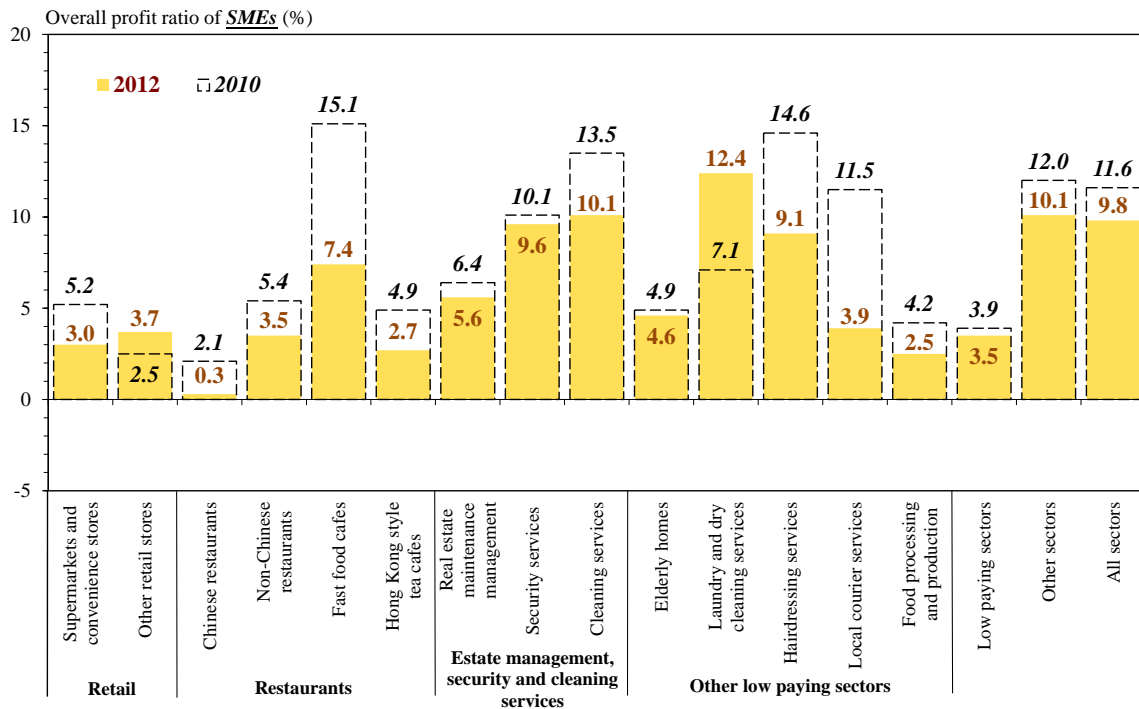
Figure 4.15: Comparing 2012 with 2010, the market share of small and medium enterprises (SMEs) in most low paying sectors fell



Note: (^) Percentage of business receipts of SMEs in the sector.

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

Figure 4.16: Comparing 2012 with 2010, the profit ratios of small and medium enterprises (SMEs) in most low paying sectors also fell



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

4.III.3 Entrepreneurship and business sentiment

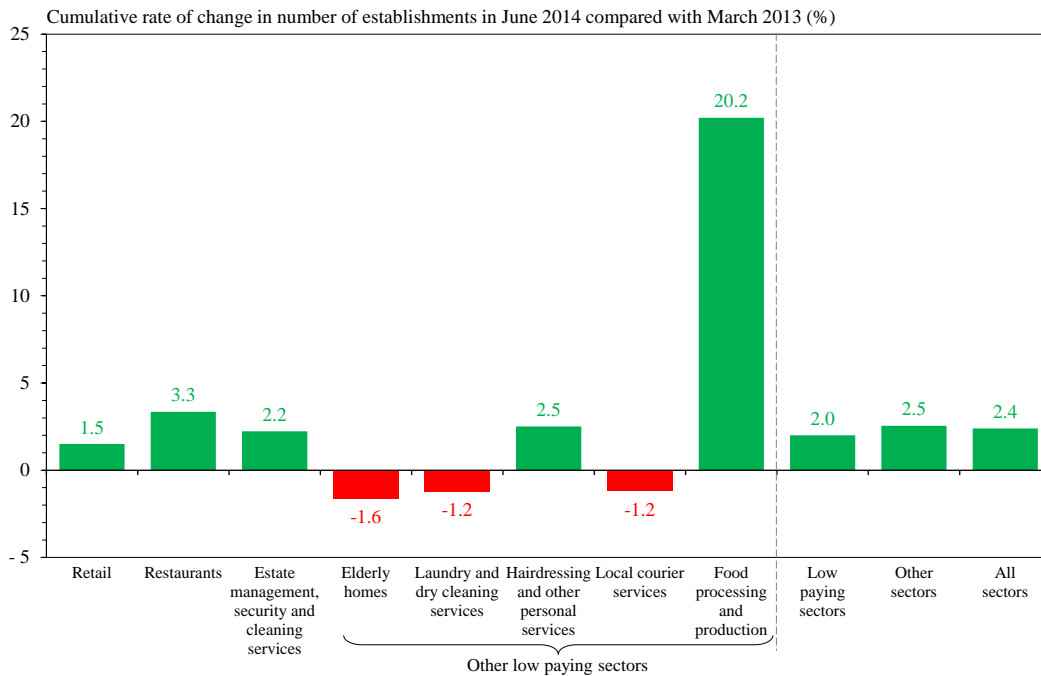
4.37 Paragraphs 4.25 to 4.36 above mainly analysed the changes in the business environment of enterprises after the implementation of SMW. We could have a more updated view on the recent business environment through examining data on the number of establishments, number of business registrations, as well as bankruptcy and winding-up petitions in the more recent periods.

4.38 Figures from the Quarterly Survey of Employment and Vacancies (SEV) showed that the number of establishments in LPS reached a record high of 99 100 in June 2014, representing a year-on-year increase of 1.9% and a cumulative increase of 1 900 establishments (up by 2.0%) as compared with March 2013 (before the uprating of SMW) (Figure 4.17). Nevertheless, the number of establishments in some LPS, such as elderly homes, local courier services, and laundry and dry cleaning services, saw some decreases upon the implementation of the revised SMW rate.

4.39 Besides, the quarterly average number of new business registrations rose notably in the first half of 2014, whereas the number of cancellation of business registrations and the

number of bankruptcy and winding-up petitions presented were broadly comparable to the figures of 2013 (Figure 4.18), suggesting that business sentiment held largely stable up to the second quarter of 2014.

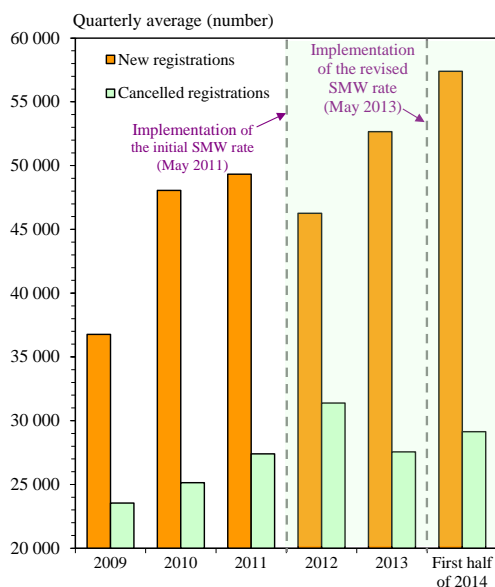
Figure 4.17: Change in number of establishments in different sectors between March 2013 and June 2014



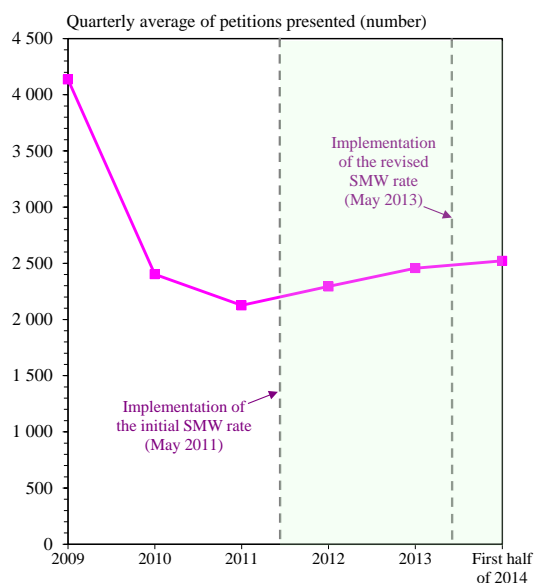
Source: Quarterly Survey of Employment and Vacancies, Census and Statistics Department.

Figure 4.18: Numbers of business registrations, and bankruptcy and compulsory winding-up petitions between 2009 and the first half of 2014

(a) Number of new and cancellation of business registrations



(b) Number of bankruptcy and compulsory winding-up petitions presented



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

4.40 In sum, the labour costs of enterprises rose notably after the implementation of SMW. This, coupled with increases in rentals and other operating expenses over the period, put pressure on the operation of most LPS. Although enterprises might have adopted different mitigation measures, the profitability of many LPS in 2012 turned markedly weaker as compared with 2010. The proportion of enterprises recording losses was also on the rise, indicating that some LPS faced quite a challenging business environment. The largely stable macroeconomic environment and labour market conditions over the past few years had, to a certain extent, alleviated the pressure on the operation of enterprises brought about by SMW and by the upsurge of other business costs. Nevertheless, with generally lower profit ratios, SMEs were obviously more affected. Their market shares also fell noticeably.

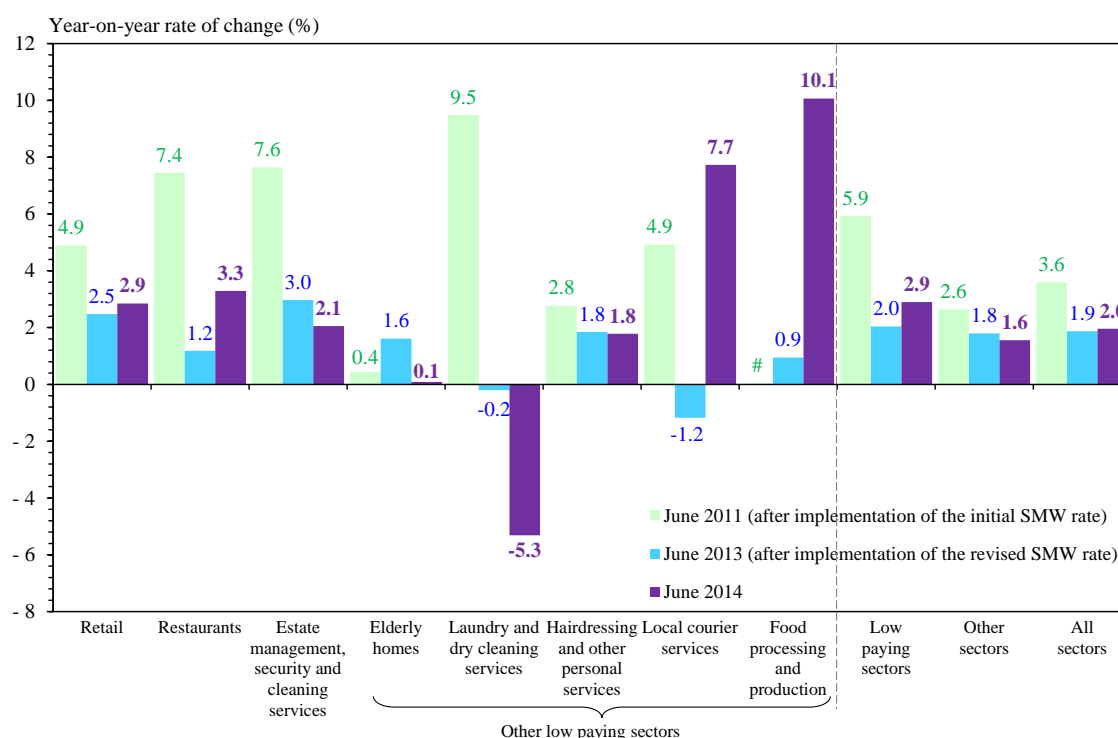
4.IV Impact on the Local Labour Market, Prices and Overall Economy

4.41 Apart from bringing about direct impact on lower-paid employees and enterprises at the micro level, the implementation of SMW, to a certain extent, also affected the overall economy of Hong Kong (including in areas like labour market, prices and competitiveness). The detailed analyses and discussions are as follows.

4.IV.1 Impact on the labour market (1): employment conditions

4.42 Despite the increase in labour costs since the implementation of SMW, the labour demand of enterprises remained sturdy in overall terms on the back of Hong Kong's generally favorable economic conditions. With reference to the data from SEV, labour demand (crudely estimated from the sum of the number of persons engaged and vacancies in private sector establishments) kept rising over the past few years, with the labour demand for LPS as a whole growing at a faster pace than that of the other sectors (Figure 4.19). The latest figure of June 2014 showed that the labour demand for LPS as a whole recorded a year-on-year increase of 2.9%, suggesting that the employment conditions of LPS held broadly stable up to mid-2014.

Figure 4.19: Year-on-year rate of change in labour demand (*) of different sectors between June 2011 and June 2014



Notes: (*) Labour demand was crudely estimated from the sum of the number of persons engaged and vacancies in private sector establishments.

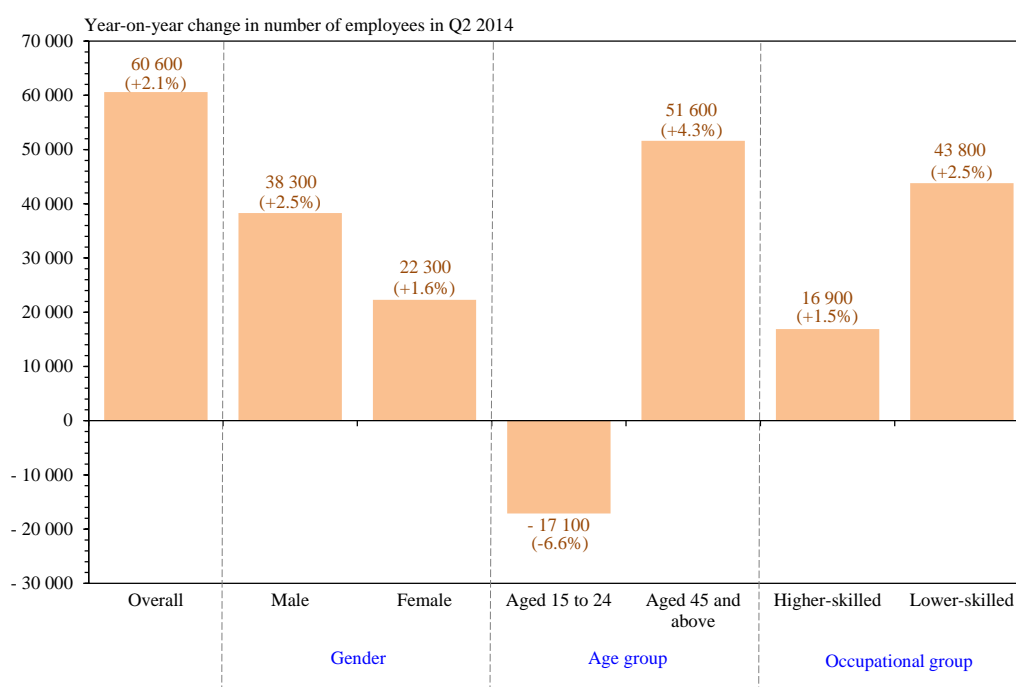
(#) Change is less than 0.05%.

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

4.43 Although the economy decelerated in the first half of 2014, the labour market still held largely stable till the second quarter of the year, with the seasonally adjusted unemployment rate at 3.2%. Compared with the second quarter of 2013, the number of employees⁽¹²⁾ increased by 60 600 (up by 2.1%), contributed mainly by male, older (aged 45 and above) and lower-skilled (mainly elementary workers, and service and sales workers) employees (Figure 4.20). Over the same period, the unemployment rates of these groups stayed at relatively low levels as well (Table 4.5). Nevertheless, it is worth noting that with inbound tourism and local consumption softening noticeably in recent months, the labour market also showed some early signs of slackening. As at June to August 2014, the seasonally adjusted employment rate was 3.3%, up slightly by 0.1 percentage point as compared with that of the second quarter of 2014.

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

Figure 4.20: Change in number of employees with different socio-economic characteristics in the second quarter of 2014, compared with the second quarter of 2013



Notes: Figures in brackets are year-on-year rates of change in the number of employees in the second quarter of 2014. Figures exclude government employees and live-in domestic workers.
Source: General Household Survey, Census and Statistics Department.

Table 4.5: Unemployment rates of different groups between the second quarter of 2011 and June to August 2014

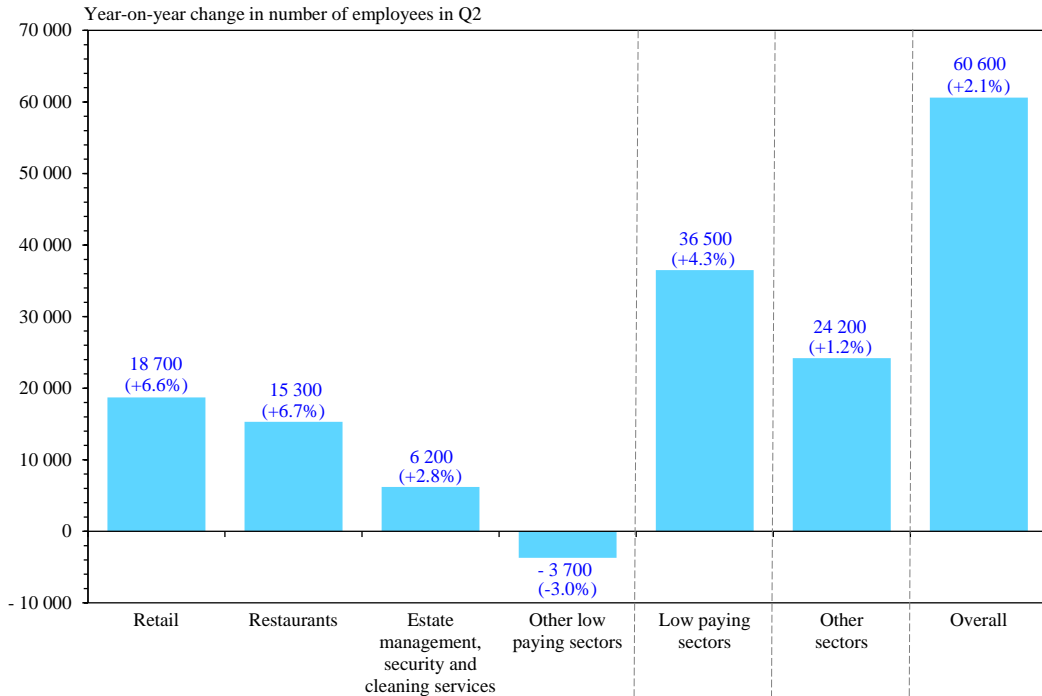
	2011	2013	2014	2014	
	Q2	Q2	Q2	June to August	
	(%)	(%)	(%)	(%)	Year-on-year change (percentage point)
Gender					
Male	4.4	3.8	3.5	3.6	-0.2
Female	3.0	3.0	3.1	3.3	+0.1
Age group					
Aged 15 to 24	10.5	9.8	9.1	12.1	+0.7
Aged 45 and above	3.3	3.0	3.0	2.5	-0.1
Occupational group					
Higher-skilled	1.7	1.9	1.6	1.6	-0.2
Lower-skilled	4.3	3.7	3.6	3.5	@
Seasonally adjusted unemployment rate	3.6	3.3	3.2	3.3	-0.1

Note: @ Change is less than 0.05 percentage point.
Source: General Household Survey, Census and Statistics Department.

4.44 After the implementation of the revised SMW rate, the number of employees in most LPS (in particular the retail and restaurant sectors) increased. In the second quarter of 2014, the number of employees in LPS as a whole increased by 36 500 year-on-year (up by 4.3%) (Figure 4.21). As at the second quarter of 2014, the unemployment rates of

different LPS still stayed at relatively low levels (Figure 4.22), whereas the figure in June to August 2014 was 0.2 percentage point above its year-ago level.

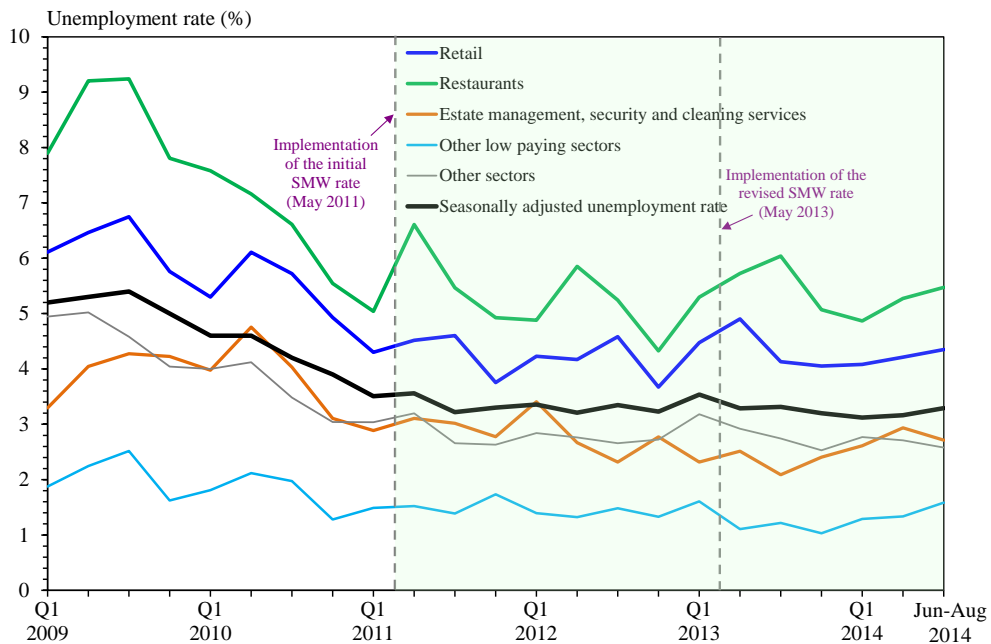
Figure 4.21: Change in number of employees in different sectors in the second quarter of 2014, compared with the second quarter of 2013



Notes: Figures in brackets are year-on-year rates of change in number of employees in the second quarter of 2014. Figures exclude government employees and live-in domestic workers.

Source: General Household Survey, Census and Statistics Department.

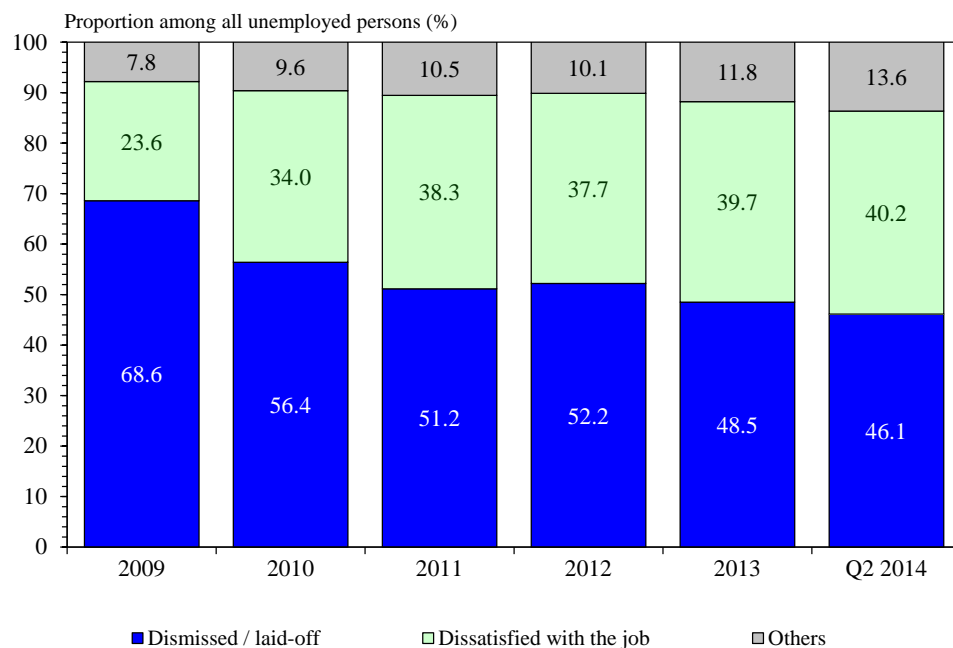
Figure 4.22: Unemployment rates in selected sectors between the first quarter of 2009 and June to August 2014



Source: General Household Survey, Census and Statistics Department.

4.45 The proportion of unemployed persons who were dismissed/laid off among all unemployed persons could also indicate whether enterprises had dismissed or laid off employees due to rising labour costs or operating difficulties. Since the implementation of SMW in May 2011, the proportion of unemployed persons who were dismissed/laid off among all unemployed persons showed no visible increase. The corresponding proportion for the second quarter in 2014 was 46.1%, which was lower than the annual figures in the past few years (Figure 4.23).

Figure 4.23: Proportion of unemployed persons among all unemployed persons analysed by reason of unemployment between 2009 and the second quarter of 2014



Note: Owing to rounding, individual percentages may not add up to 100%.
Source: General Household Survey, Census and Statistics Department.

4.IV.2 Impact on the labour market (2): employment nature

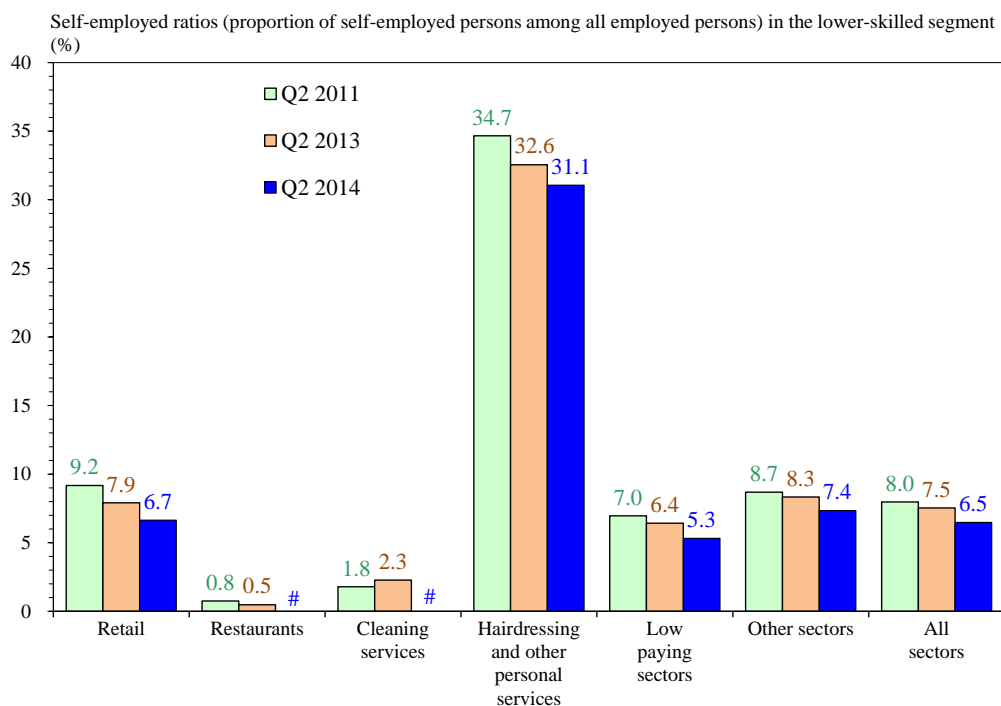
4.46 There were views that the implementation of SMW would cause some employers to request their employees to change the mode of service provision to self-employment, for the purpose of mitigating the wage bills. There were also views that employers might replace full-time employees by part-time employees to cut costs. Hence, MWC had been closely monitoring the changes in the self-employed ratio (i.e. the proportion of self-employed persons among all employed persons⁽¹³⁾ in the sector), the proportion of part-time employees and the proportion of underemployed employees among part-time employees.

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

4.47 Against the backdrop of a tight labour market between 2011 and mid-2014, the self-employed ratio of the lower-skilled segment in LPS drifted lower since the implementation of SMW in May 2011. The figure in the second quarter of 2014 was 5.3%, lower than the 6.4% in the second quarter of 2013. This ratio was also below the corresponding ratios for other sectors (Figure 4.24).

4.48 On the other hand, the ratio of part-time employees in LPS rose (Table 4.6). Nevertheless, the ratio of underemployed employees among part-time employees dropped substantially at the same time, indicating that the majority of the latter were voluntary part-time employees. Hence, they worked for shorter hours not due to underemployment. Also, it reflected that employers of some LPS opted for hiring part-time employees to fill their vacancies in times of labour shortage and recruitment difficulties.

Figure 4.24: Self-employed ratio in the lower-skilled segment between the second quarter of 2011 and the second quarter of 2014



Notes: (#) Figures are not released due to relatively large sampling error.
Figures for other low paying sectors are also not released due to relatively large sampling error.
Figures exclude government employees and live-in domestic workers.

Source: General Household Survey, Census and Statistics Department.

Table 4.6: Proportion of part-time employees among all employees and proportion of underemployed employees among part-time employees analysed by sector between the second quarter of 2011 and June to August 2014

Sector	Proportion of part-time employees ^(*) among all employees				Proportion of underemployed employees ^(^) among part-time employees			
	Q2 2011	Q2 2013	Q2 2014	June to August 2014	Q2 2011	Q2 2013	Q2 2014	June to August 2014
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
(A) Low paying sectors	11.0	11.9	13.7	12.9	18.5	12.9	10.4	10.8
1. Retail	9.4	10.9	12.4	12.3	14.4	12.7	10.2	10.1
2. Restaurants	12.7	14.4	16.0	15.9	21.7	12.9	11.9	10.4
3. Estate management, security and cleaning services	8.2	8.8	9.1	8.6	18.4	14.7	12.2	14.0
4. Other low paying sectors	17.4	15.2	21.2	16.5	19.5	11.6	6.8	9.3
(B) Other sectors	5.7	7.0	7.4	7.1	33.0	26.9	24.5	23.9
(C) All sectors	7.2	8.5	9.3	8.8	26.7	21.1	18.2	18.1

Notes: (*) Part-time employees are persons who work less than 35 hours (absence due to leave are not counted) during the 7 days before enumeration.

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

Figures exclude government employees and live-in domestic workers.

Source: General Household Survey, Census and Statistics Department.

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

4.49 There were views that as SMW had pushed up labour costs, enterprises might reduce the working hours of the relevant employees to alleviate such cost pressure. According to the data from AEHS, the year-on-year change in the median weekly working hours of lower-skilled full-time employees in most LPS in May to June 2013 was not notable (Table 4.7). More visible decreases were recorded only in security services (down by 4.5%), food processing and production (down by 4.1%), and laundry and dry cleaning services (down by 3.5%). More recent findings from GHS showed that the average weekly working hours of lower-skilled full-time employees (excluding government employees and live-in domestic workers) in the second quarter of 2014 were 46.5 hours ⁽¹⁴⁾, similar to its year-ago level. To this end, the uprating of SMW in 2013 did

(14) 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 Minimum Wage Ordinance (MWO) as deployed in AEHS, the figures are not directly comparable with those compiled in AEHS. Nevertheless, the survey results could be regarded as crude indicators reflecting the more recent changes in employees' working hours.

not bring about significant impact on the working hours of lower-skilled full-time employees.

4.50 The 2013 Study on Knock-on Effect also showed that the contractual monthly working hours of most of the matched target employees in the retail and restaurant sectors remained unchanged in September 2013 over a year earlier. Only 3.1% and 1.8% of the matched target employees in these two sectors respectively had their contractual working hours slashed, suggesting that the revised SMW rate did not substantially affect working hours. Also, the monthly wages of most of these employees either increased or remained unchanged.

Table 4.7: Median weekly working hours analysed by sector: lower-skilled full-time employees

Sector ^(^)	May to June 2012	May to June 2013	Year-on-year rate of change (%)
(A) Low paying sectors	54.0	54.0	@
1. Retail	51.0	51.0	@
1.1 Supermarkets and convenience stores	54.0	54.0	@
1.2 Other retail stores	51.0	51.0	@
2. Restaurants	54.0	54.0	@
2.1 Chinese restaurants	60.0	60.0	@
2.2 Non-Chinese restaurants	54.0	54.0	@
2.3 Fast food cafes	54.0	53.9	-0.2
2.4 Hong Kong style tea cafe	57.0	57.0	@
3. Estate management, security and cleaning services	54.0	54.0	@
3.1 Real estate maintenance management	66.0	66.0	@
3.2 Security services	66.0	63.0	-4.5
3.3 Cleaning services	49.5	48.3	-2.4
3.4 Membership organisations	49.5	51.0	+3.0
4. Other low paying sectors	49.9	50.8	+1.7
4.1 Elderly homes	54.0	54.0	@
4.2 Laundry and dry cleaning services	52.6	50.8	-3.5
4.3 Hairdressing and other personal services	49.9	51.2	+2.8
4.4 Local courier services	46.8	48.0	+2.5
4.5 Food processing and production	50.1	48.0	-4.1
(B) Other sectors	46.5	47.8	+2.6
(C) All sectors	48.0	48.0	@

Notes: (^) Please refer to **Table C.1 of Appendix V** for the coverage of various sectors.

@ Changes are between +/- 0.05%.

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

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

4.IV.4 Impact on the labour market (4): incentive to work

4.51 After the implementation of SMW, the increase in the wages of low-paid employees, coupled with the abundant job opportunities in recent years, helped enhance the incentive to work and encouraged more people to enter or re-enter the labour market. The data from GHS showed that the labour force persistently expanded over the past few years, reaching the near record-high level of 3 872 300 persons in the second quarter of 2014. Compared with the second quarter of 2011, this represented a cumulative increase of 170 700 persons (up by 4.6%). Among them, the increases in females and older persons (including those aged 50 to 59 and 60 and above) were more notable, with cumulative increases of 129 300 persons (up by 7.4%) and 183 700 persons (up by 18.8%) respectively. The labour force participation rates of these groups also increased visibly (Table 4.8).

Table 4.8: Cumulative change in labour force and labour force participation rate between the second quarter of 2011 and the second quarter of 2014

	Labour force				Labour force participation rate		
	Q2 2011	Q2 2014	Cumulative change in Q2 2014 over Q2 2011		Q2 2011	Q2 2014	Cumulative change in Q2 2014 over Q2 2011
	(Number of person)	(Number of person)	Number of person	Rate of change (%)	(%)	(%)	Change in percentage point(s)
Gender							
Male	1 944 500	1 985 900	+41 400	+2.1	68.5	68.6	+0.1
Female	1 757 200	1 886 500	+129 300	+7.4	53.0	54.4	+1.4
Age group							
Aged 15 to 24	307 700	304 300	-3 400	-1.1	35.2	37.2	+2.0
Aged 50 to 59	781 100	890 000	+108 900	+13.9	68.4	71.2	+2.8
Aged 60 and above	198 100	272 900	+74 800	+37.8	15.5	18.6	+3.1
Overall	3 701 700	3 872 300	+170 700	+4.6	60.1	60.9	+0.8

Source: General Household Survey, Census and Statistics Department.

4.52 With a persistently tight labour market, the number of unemployment cases of Comprehensive Social Security Assistance saw a sustained decline of 15.6% from 23 139 in April 2013 to 19 531 in August 2014. Comparing with April 2011, there was a cumulative decrease of approximately 9 700 cases or almost one third. This showed that under a favourable macroeconomic environment, an SMW rate that is pitched at an

appropriate level would not cause a sizeable number of people to lose their jobs and hence live on social welfare.

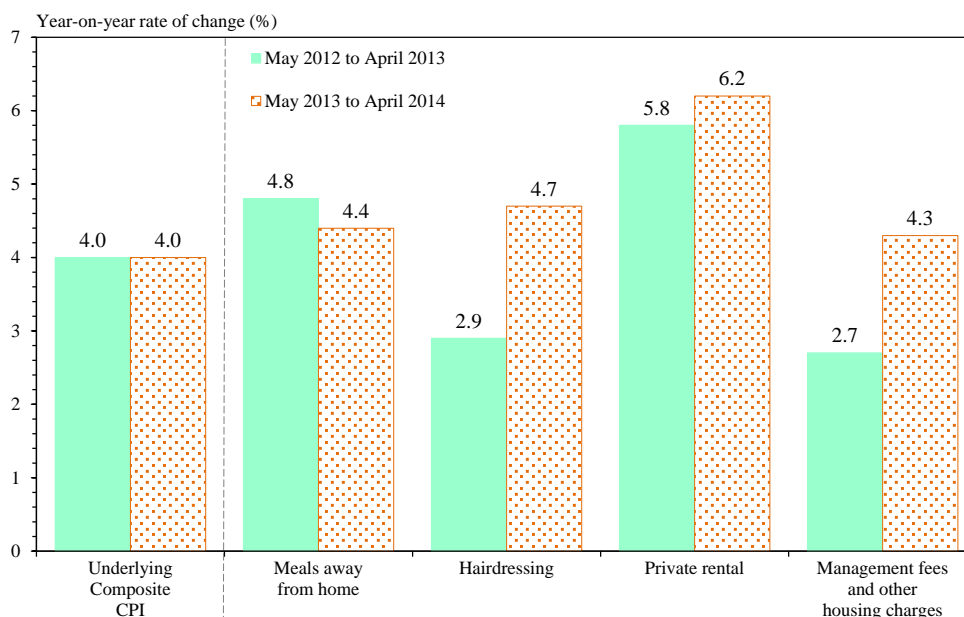
4.IV.5 Impact on the labour market (5): labour relations

4.53 Labour relations held largely stable before and after the revision of the SMW rate. Between May 2011 and September 2014, the Labour Department handled one labour dispute and 495 claim cases arising from SMW, representing 0.4% and 0.8% of the total labour disputes and claim cases handled respectively over the same period.

4.IV.6 Impact on inflation

4.54 Although the prices of consumption items (such as hairdressing as well as management fees and other housing charges), which were more susceptible to the impact of wage costs, rose faster since the uprating of SMW in May 2013, impact of the revised rate on the overall inflation seemed largely contained. It was conceivably attributable to the moderate economic growth in 2013 that somewhat limited the capacity of enterprises to raise prices. The underlying Composite Consumer Price Index in May 2013 to April 2014 recorded a year-on-year increase of 4.0%, similar to the increase in the preceding 12-month period (Figure 4.25).

Figure 4.25: Year-on-year rate of change in underlying Composite Consumer Price Index (CPI) between May 2012 and April 2014



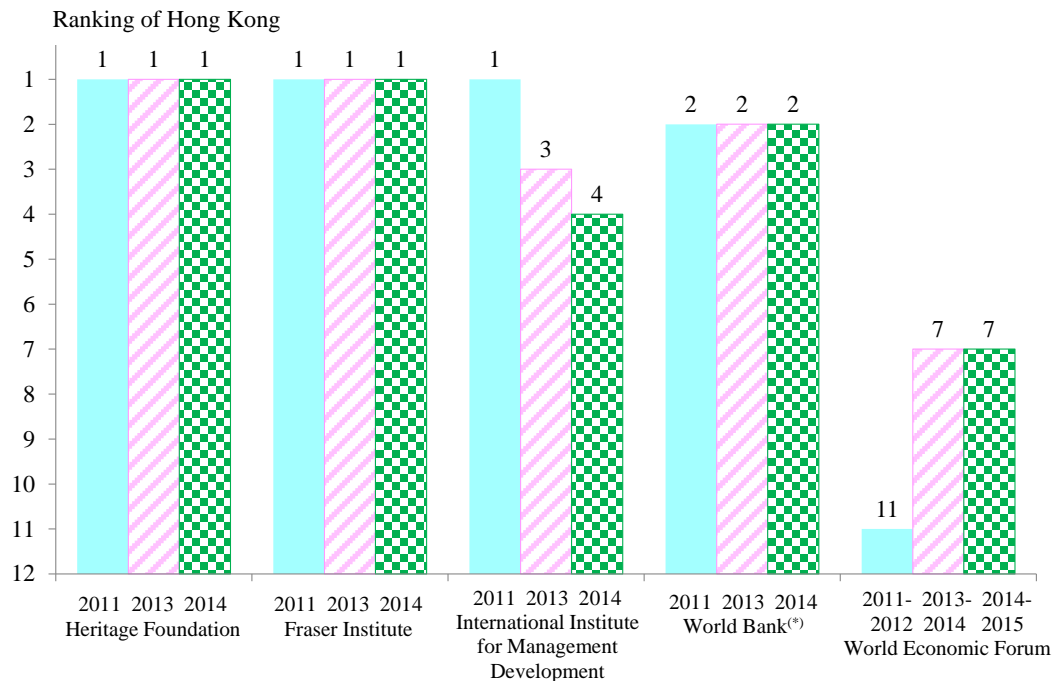
Source: Monthly Retail Price Survey, Census and Statistics Department.

4.IV.7 Impact on overall competitiveness

4.55 As SMW has been implemented for just some three years, its actual impact on Hong Kong's overall competitiveness, productivity, labour costs, etc in the medium to longer term still warrants further monitoring. If enterprises fail to adopt mitigation strategies (such as increasing capital investment, improving production processes and enhancing staff efficiency, etc) to offset additional labour costs, the uprating of SMW may in the long run affect their competitiveness.

4.56 We made reference to the rankings in the global economic freedom and competitiveness indices compiled by various internationally recognised organisations so as to monitor whether there was any noticeable change in Hong Kong's competitiveness since the implementation of SMW. Data showed that Hong Kong's rankings in these indices of economic freedom and competitiveness continued to stay high (Figure 4.26). For instance, in terms of economic freedom, Hong Kong was rated the world's freest economy by The Heritage Foundation for 20 consecutive years (January 2014) and was ranked the freest economy in the world by the Fraser Institute in its *Economic Freedom of the World Report* (October 2014). In terms of business environment, Hong Kong remained in the 2nd place in the World Bank's *2014 Doing Business Report*. As for overall competitiveness, according to the *World Competitiveness Yearbook* published by the Lausanne, Switzerland-based International Institute for Management Development, Hong Kong's ranking dropped from the 1st in 2011 to the 3rd in 2013 and the 4th in 2014, whereas the World Economic Forum's *Global Competitiveness Reports* showed that Hong Kong's ranking climbed from the 11th in 2011 - 2012 to the 7th in 2014 - 2015.

**Figure 4.26 : Hong Kong’s global rankings of economic freedom and competitiveness ^(^)
after the implementation of Statutory Minimum Wage**



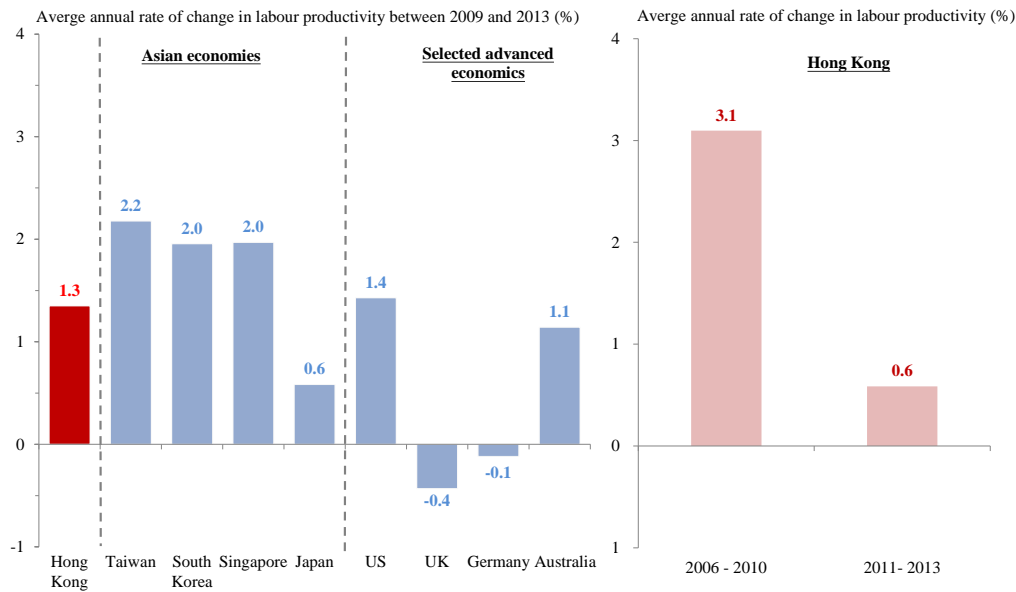
Notes: (*) The “Doing Business 2014” reported was published by the World Bank in October 2013.

(^) Some organisations revised the previous years’ ranking. Information in the above diagram show the revised rankings.

Sources: Various ranking organisations.

4.57 Besides, while the average annual growth of labour productivity (i.e. the amount of real output produced by one unit of labour inputs) in Hong Kong outpaced that of some advanced economies (such as Australia, Germany and the United Kingdom) over the past five years, it was apparently lagging behind other economies in the region (such as Taiwan, South Korea and Singapore) (Figure 4.27). In particular, during the three years (i.e. between 2011 and 2013) after the implementation of SMW, labour productivity only recorded an average annual growth of 0.6%, much lower than the corresponding growth rate of 3.1% in the five-year period (i.e. between 2006 and 2010) before the implementation of SMW.

Figure 4.27: Average annual rate of change in labour productivity of Hong Kong and selected economies



Note: Labour productivity was 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.

4.58 As for Hong Kong’s nominal unit labour cost (i.e. the average labour cost per unit of output), it grew by 3.1% on average per annum in the past five years (Figure 4.28), faster than the increases seen in most Asian economies and selected advanced economies, mainly on account of its upsurge between 2011 and 2013 after the implementation of SMW and the uprating.

Figure 4.28: Average annual rate of change in nominal unit labour cost of Hong Kong and selected economies



Note: Statistics of South Korea covered 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, CEID and Datastream databases.

4.59 Hong Kong still has an edge in attracting foreign investment. According to the World Investment Report 2014 of the United Nations Conference on Trade and Development, Hong Kong's foreign direct investment totalled US\$77.0 billion in 2013, ranked the 4th in the world, albeit down slightly by one place as compared with 2012. Also, as at the second quarter of 2014, the period-end direct investment liabilities were HK\$11,809.9 billion, up by 10.9% year-on-year. Nonetheless, we still have to closely monitor the changes in Hong Kong's long term competitiveness.

4.V Observations

4.60 Drawing from the various observations above, it could be seen that the positive impacts of the implementation of SMW outweighed the negative ones. Besides, the impact of the revised SMW rate in 2013 was relatively modest. Regarding the impact on employees, wages of the lower-paid employees improved significantly since the implementation of the initial SMW rate. The wage differentials also narrowed among some occupational groups and within some sectors. On the back of a persistently tight labour market, the implementation of SMW neither limited the scope for upward wage adjustment in the labour market nor made it more prevalent for enterprises to reduce the fringe benefits of their employees to control labour costs.

4.61 As for enterprises, the implementation of SMW has led to a visible increase in labour costs which, coupled with the rise in other operating costs, posed some pressure on the operation of enterprises. Fortunately, most sectors have benefited from the largely stable macroeconomic conditions over some three years in the past since the implementation of SMW with business expanding till 2012. The number of establishments stayed on the rise and the hiring sentiment of enterprises remained largely positive. The implementation of SMW had no discernible impact on the labour market so far. Nevertheless, profitability weakened for some LPS, in particular SMEs, as they were constrained by their own business performance and lack of resources, and were thus unable to completely alleviate the additional cost pressure. Yet on the whole, the implementation of SMW did not bring about significant adverse impact on entrepreneurship and business sentiment.

4.62 Besides, the local labour market held largely stable up to mid-2014. Compared to a year ago, the number of employees increased in overall terms. The unemployment rate

stayed at a low level. Although the proportion of part-time employees rose amidst labour shortage, the underemployment situation did not worsen. There was also no notable change in the self-employment situation. The impact of the SMW rate on working hours was likewise relatively mild. Meanwhile, the implementation of SMW rendered some boost to the wage level, thereby helping to enhance the incentive to work. Total labour force showed sustained increase, contributed mainly by females and older persons.

- 4.63 The upward revision in the SMW rate in 2013 was relatively modest, with no visible impact on overall inflation. As to the impact on competitiveness and business environment, Hong Kong's rankings in many indices of overall economic freedom and competitiveness compiled by various international organisations remained high up to 2014. Although there was a slight drop in the ranking of foreign direct investment, Hong Kong still had an edge in attracting foreign investment in overall terms. Nevertheless, it is worth noting that Hong Kong's performance in other quantifiable indicators of competitiveness like labour productivity and unit labour cost had lagged behind other selected economies during these few years after the implementation of SMW. In the long run, there is a need to closely monitor how these developments would affect the competitiveness of Hong Kong. In sum, the experiences gained from the implementation of SMW provided us with very important references for the review of the SMW rate.

5 Considerations Underlying the Recommendation of the Statutory Minimum Wage Rate

5.1 According to the Minimum Wage Ordinance (MWO), the function of the Minimum Wage Commission (MWC) is to report its recommendation about the Statutory Minimum Wage (SMW) rate to the Chief Executive (CE) in Council. In performing its function, MWC must have regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and the need to sustain Hong Kong's economic growth and competitiveness. MWC adopted an evidence-based approach in reviewing the SMW rate. Apart from making reference to the relevant statistical data, MWC also studied the findings obtained from other surveys and conducted extensive consultation to fully consider views on the review of the SMW rate from various sectors of the community. Below are the four main areas analysed and considered by MWC when reviewing the SMW rate:

- (a) **Array of Indicators:** To assess the impacts of SMW, the relevant indicators covered the socio-economic and employment conditions after the implementation of SMW in May 2011 and the revision of the SMW rate in May 2013, as well as the latest relevant data. In view of the time gap between the review of the SMW rate and the implementation of the recommended rate, MWC also conducted scenario testing based on the local economic outlook so as to adopt a more holistic approach in reviewing the SMW rate;
- (b) **Views of stakeholders and members of the public:** MWC actively solicited and gauged the views of stakeholders and members of the public on the impact of the SMW rate on society, economy and different sectors (in particular the low paying sectors (LPS), and small and medium enterprises (SMEs)) and on the review of the SMW rate;
- (c) **Other relevant considerations:** These included considerations which could not be fully covered by the Array of Indicators, but were related to the review of the SMW rate; and

- (d) **Impact assessment:** Assessments were conducted on the additional wage bills entailed by the recommended SMW rate, as well as the impact which might be brought upon employees, businesses, unemployment rate and inflation.

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

5.I Array of Indicators

5.I.1 The Array of Indicators considered by the Minimum Wage Commission

5.2 To monitor the socio-economic and employment conditions after the implementation of SMW in May 2011 and its uprating in May 2013, the Array of Indicators identified by MWC covered the following four areas: (a) general economic conditions; (b) labour market conditions; (c) competitiveness; and (d) social inclusion. The Array of Indicators considered by MWC was based on the relevant indicators considered during the review of the initial SMW rate. They did not only cover the key factors for consideration as stipulated in the statutory function of MWC, but also made reference to the experience and factors considered in the review of minimum wage rates in other places. Table 2.2 in Chapter 2 summarises the Array of Indicators considered by MWC. The relevant indicators (including sources of data) are listed in **Appendix I**. Details of the Array 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, were of utmost importance in the Array of Indicators for examining the impact of SMW and reviewing the SMW rate. Hong Kong is a highly externally-oriented economy. When Hong Kong is facing different external economic factors or when the domestic economy is at different cyclical positions or on different growth paths, SMW can bring about very different impacts.

5.4 The indicators identified by MWC under this area included the latest local economic performance (the growth rate of real Gross Domestic Product (GDP) and its major expenditure components) and the Consumer Price Index (CPI). In addition, to better understand the changes in short-term economic conditions, MWC also made reference to forecasts of GDP and prices as well as indicators reflecting the views of enterprises on the outlook for short-term business performance and number of persons

engaged, etc.

(b) Labour market conditions

5.5 The labour market is the first segment that would be affected by SMW. The implementation of SMW and its uprating would directly increase the business costs of enterprises, and some of them might need to adopt mitigation measures such as downsizing, thereby potentially leading to job loss. Besides, the introduction of a wage floor has limited the flexibility of downward adjustment in wages and would affect the capability of the labour market to adjust during economic downturn. Therefore, MWC had to closely monitor the changes in the labour market after the implementation of SMW and its uprating.

5.6 Indicators reflecting labour market conditions included:

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

(c) **Competitiveness**

5.7 The implementation of SMW and its uprating would increase the wage bills of enterprises. SMEs and enterprises in LPS in particular would face greater cost pressure. This might also push up the unit labour cost in the economy as a whole, and might affect Hong Kong's competitiveness, productivity, inflation and economic growth potential in the long run. Hence, competitiveness should be considered when monitoring the impact of SMW at both the micro and macro levels.

5.8 Indicators reflecting competitiveness included:

- (i) *Operating characteristics of enterprises*: The extent of impact of SMW on different sectors varies with the size of wage bills relative to the total operating costs, as well as the proportion of low-paid employees of individual sectors. The overall competition environment and profitability of individual sectors are crucial indicators to assess whether the sectors concerned are able to cope with the pressure arising from cost increase. Hence, analysing the operating characteristics of enterprises in various sectors helped MWC monitor the impact of SMW on different sectors at the micro level, with a view to ensuring that the recommended SMW rate would not bring about substantial negative impact on the overall economic activities and competitiveness. The relevant indicators included profit ratios, share of staff costs in total operating expenses, ratios of enterprises running under deficit, etc. Apart from examining these business performance indicators, MWC also made reference to the latest statistical data on business receipts, sales value, etc of certain sectors, as well as rental indices of commercial properties so as to understand the prevailing business environment of enterprises.
- (ii) *Entrepreneurship, business sentiment and solvency*: The numbers of new and cancelled business registrations, bankruptcy and compulsory winding-up petitions presented, the number of establishments of various sectors, etc are indicators that could reflect the current business sentiment and the business environment after the implementation of SMW and its rate adjustment.
- (iii) *Relative economic freedom and competitiveness of Hong Kong*: Examining the changes in Hong Kong's rankings in the indices of economic freedom and competitiveness compiled by various international organisations helped

understand whether Hong Kong's perceived competitiveness had been affected after the implementation of SMW and its rate adjustment. Moreover, MWC also considered data that reflected the latest trend of inward direct investment to examine whether Hong Kong's attractiveness to foreign investment had changed.

(iv) *Productivity growth*: This indicator measured the change in labour productivity (i.e. the amount of real output produced by one unit of labour input) of enterprises in Hong Kong after the implementation of SMW and its rate adjustment. This helped understand whether adjustments had been made to the mode of operation in different sectors to maintain competitiveness.

(v) *Labour costs*: This indicator measured the nominal unit labour costs of Hong Kong and selected economies and showed the average labour cost required to produce a unit of output. This facilitated more thorough understanding about the actual changes in labour costs after the implementation of SMW and its rate adjustment.

5.9 The two indicators under items (i) and (ii) in paragraph 5.8 above assessed the characteristics and conditions pertinent to the competitiveness of various sectors in Hong Kong at the sectoral and enterprise levels, while the three indicators under items (iii), (iv) and (v) reflected the actual and perceived competitiveness of Hong Kong at the macro level.

(d) Social inclusion

5.10 There were also a number of views in the community suggesting that apart from comparing and analysing the changes in employment earnings and consumer prices to gauge the overall living standard and purchasing power of low-paid employees, social inclusion should also be taken into account in monitoring the impact of SMW. For instance, SMW might enhance the incentive to work and encourage people not in the labour market to join the workforce. Meanwhile, as it might take time for employers and employees to adapt to the implementation of SMW, labour relations might also be affected.

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

- (i) *Standard of living*: These indicators included changes in the nominal and real employment earnings of employees, the nominal and real wage indices and the relevant analyses of the employment earnings of full-time employees by decile. These purported to monitor the changes in the earnings of low-paid workers after the implementation of SMW and its rate adjustment from different angles.
- (ii) *Enhancing work incentive*: In general, SMW could enhance the incentive to work and encourage economically inactive people to seek employment. This would not only improve their livelihood, but also facilitate their integration into society and expand their social circles. This would also help increase the supply of labour, although whether these people could be eventually employed would depend on the labour demand of enterprises and the skills of the individuals. The relevant indicators included labour force participation rate, numbers of long term unemployed (i.e. unemployed for six months or above) and unemployment cases of Comprehensive Social Security Assistance (CSSA).
- (iii) *Labour relations*: Some stakeholders and members of the public indicated that the implementation of SMW and its rate adjustment might have impact on labour relations. As such, MWC also made reference to the number of labour disputes and claim cases since the implementation of SMW.

5.I.2 Impact of Statutory Minimum Wage

5.12 In Chapters 3 and 4, we have respectively analysed the socio-economic conditions since the implementation of SMW and the impact of SMW on employees and businesses as well as the local labour market, prices and the macro economy based on the changes in the relevant data from the Array of Indicators. These evidence-based analyses laid an important foundation for the review of the SMW rate and facilitated MWC to carry out rational and objective discussions on the rate. The experience in implementing SMW up till now demonstrated that with the SMW rate set at an appropriate level, an appropriate balance could be maintained between forestalling excessively low wages and minimising the loss of low-paid jobs, whilst giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.

5.13 Since the implementation of SMW in May 2011 and its uprating in May 2013, Hong Kong's macroeconomic conditions have been broadly stable with resilient domestic demand, thereby cushioning to a large extent the pressure induced by SMW on the

economy, employment market, enterprises, etc while benefiting low-paid employees. Nevertheless, when the economic situation changes, SMW might bring about different impacts. Taking into account the time gap between recommending the SMW rate and its implementation, in reviewing the SMW rate, MWC considered it necessary to conduct scenario testing for the economic conditions at the time when the recommended rate is implemented.

5.I.3 Economic and labour market outlook

5.14 When reviewing and recommending the SMW rate in the current round, MWC noted that the domestic demand, which had been the key impetus to our economic growth over the past few years, weakened noticeably. Taking the retail sector as an example, although total retail sales already reverted to positive year-on-year growth in August 2014, there was still a 1.0% decline in real terms in the first eight months of 2014 in aggregate over a year earlier, in stark contrast to the double-digit average annual growth rate of 12.0% in the three-year period from 2011 to 2013. This was partly owing to the slower growth in visitor arrivals and the change in visitor spending pattern (for example, decreases in expenditure on major big-ticket items like jewellery, watches and clocks, valuable gifts, etc). Private consumption expenditure, in which visitors' spending was not included, grew slightly at 1.4% year-on-year in real terms in the first half of 2014. The increase was much lower than the average annual growth rate of 5.6% in the past three years, reflecting weaker consumer sentiment among local residents. Coupled with the unsatisfactory performance of investment expenditure and exports, growth momentum slackened in the first half of 2014 and the overall economic performance was worse than what was expected early in the year. In August 2014, the Government revised downward the forecast of annual economic growth for 2014 as a whole, from the range of 3% to 4% announced in early 2014 to the range of 2% to 3%, adding that the downside risk on both internal and external fronts had increased.

5.15 In addition, the "Occupy Movement" caused disruptions to business activities of such sectors as retail, catering, tourism, transportation, etc. Yet whether this would further dent the consumer sentiment of local residents and incoming visitors remains to be seen.

5.16 Externally, the recovery of the United States economy was not yet strong enough to

transform into stronger import demand, which in turn affected trade and manufacturing activities in Asia. As for the Eurozone and Japanese economies, with weaknesses re-emerging recently and the lingering constraints posed by various structural issues, there was no ground for optimism in their economic prospects. At the same time, persistent geopolitical tensions in various parts of the world also cast a shadow over global trade flows in the period ahead. As a small and externally-oriented economy, Hong Kong can hardly stay unscathed. Moreover, the exact timetable for normalisation of monetary policy in the United States remained unclear. With the interest rate upcycle drawing close, the interaction between the expected interest rate movements and global capital flows might trigger considerable fluctuations in the global asset prices, to the extent of further curtailing local consumer confidence.

5.17 Thanks to the relatively stable macroeconomic environment since the implementation of SMW, the unemployment rate has all along stayed at relatively low levels. Nevertheless, if the recent weakness in domestic demand was to persist and lead to further slowdown in economic growth, enterprises (especially those in LPS which are mostly consumption-related) might cease to create new jobs or even cut back their manpower needs. These factors have added uncertainties to the outlook of the local labour market.

5.18 As regards inflation, thanks to the slower increase in rentals and modest imported inflation, underlying consumer price inflation progressively came down from 5.3% in 2011 to 4.0% in 2013. The underlying inflation rate in the first eight months of 2014 eased further to 3.5%. While inflation was largely stable, international food and commodity prices might still exhibit volatility and, coupled with the global liquidity glut as a result of the prevailing low interest rate policy maintained by various countries, might generate potential upward pressure on domestic prices.

5.19 On the economic conditions of the remaining months of 2014 and 2015, MWC was of the view that the economic environment at the time of implementing the recommended SMW rate would largely depend on the developments of the following factors:

- (a) conditions of local consumption market and the overall economic outlook of Hong Kong;

- (b) global economic performance and geopolitical development;
- (c) pace and specific measures of normalisation of monetary policy in the United States; and
- (d) Hong Kong's potential inflationary pressure.

5.20 In sum, the short-term outlook for the Hong Kong economy was clouded by considerable uncertainties. These included geopolitical tensions in various parts of the world, the pace of the normalisation of monetary policy in the United States, global capital flows, etc on the external fronts. Domestically, the trend of inbound tourism and whether domestic demand would slacken further also remained a source of uncertainty. Given the increased downside risks to the Hong Kong economy, MWC unanimously held the view that there was a need to analyse, assess and consider in detail the relevant data and views of stakeholders and members of the public before MWC could make a recommendation on the next SMW rate.

5.II Views of Stakeholders and Members of the Public

5.21 As mentioned in Chapter 2, MWC conducted intensive and extensive consultation including public consultation and consultation meetings to collect written and oral submissions from stakeholders and members of the public. These views were mainly concerned about the impact of the implementation of SMW and its uprating as well as the review of the SMW rate. These views provided important reference for MWC in formulating the framework of impact assessment and facilitated us to have a more complete picture of the impact of the implementation of SMW and its uprating on society, economy and different sectors (in particular LPS). The main points of these views are summarised below.

5.II.1 Impact of Statutory Minimum Wage

(a) Impact on the economy

5.22 Some employers' associations and employer representatives indicated that for most of the periods following the implementation of SMW in May 2011, our economy saw sustained expansion as a result of the increase in Mainland visitors to Hong Kong and hectic infrastructure works. Thanks to all these, the implementation of SMW and its uprating did not have severe adverse impact on various sectors and enterprises. Besides, some employers' associations and employer representatives indicated that the

impact of SMW on the economy could only emerge after a period of time. When the consultation on the review of the SMW rate was conducted (i.e. from April to June 2014), the revised SMW rate had been in force for just over one year since its implementation in May 2013. As enterprises were still adapting to the uprating, its impact on labour market, enterprises and the overall economy of Hong Kong had yet to fully emerge.

5.23 Some employers' associations, SMEs associations, employer representatives, a political party and individual members of the public indicated that as the implementation of SMW and its uprating raised the wage level of grassroots workers and induced ripple effects, enterprises might need to raise prices to offset part of the increase in labour costs, which in turn became one of the factors pushing up inflation.

5.24 Some trade unions indicated that as price changes were affected by many factors (such as land price, rentals, raw materials, etc), the uptick in inflation could not be attributed solely to SMW. The implementation of SMW neither induced the negative impact as originally expected nor resulted in a large number of business closures. Since the implementation of SMW, the share of staff costs in total operating expenses in LPS did not increase but actually decreased. Some slight increase in this share was observed in certain sectors (such as the restaurant sector) only. Meanwhile, the number of enterprises and employees for LPS as a whole did not decrease as a result of the rise in labour costs, but increased alongside the expansion of business activities. SMW even enhanced the purchasing power of some employees, thereby benefiting the economy.

(b) Impact on the labour market

5.25 Some trade unions and labour policy concern groups indicated that the number of job vacancies did not drop significantly after the implementation of SMW. On the contrary, total employment went up persistently, indicating that SMW did not necessarily bring about adverse impact on the employment market.

5.26 Some employers' associations, employer representatives, think tanks/policy research institutes, professional associations and individual members of the public pointed out that the implementation of SMW narrowed the wage differentials among different ranks and among different sectors, which increased employees' mobility in the labour market. Some employees had switched to sectors with lighter duties, more pleasant

working environment and stable working hours, resulting in labour shortage and succession gaps in sectors with longer working hours, more strenuous duties or even of obnoxious nature. The enterprises concerned had to offer wages higher than the prevailing SMW rate so as to recruit or retain employees.

- 5.27 Some trade unions and employer representatives held the view that the issues of long working hours, unpleasant working environment, etc had long existed in certain sectors such as restaurants and elderly homes. The implementation of SMW and its uprating only brought those issues to the surface within a shorter period of time rather than being the cause of labour shortage in these sectors. The employment terms, working environment as well as the mode of operation of these sectors should be improved to attract and retain talents.
- 5.28 Some employers' associations and individual members of the public indicated that the implementation of SMW and its uprating had narrowed the gap between the entry salaries of grassroots workers and employees with higher educational attainment or even university graduates, dampening the incentive of young people to pursue further studies and undermining upward social mobility. Besides, the implementation of SMW and its uprating had narrowed the wage differentials among new recruits and experienced employees. As a result, enterprises preferred to hire experienced employees and were less likely to employ apprentices and summer interns, thereby affecting the training opportunities of young people and new recruits.
- 5.29 Some employers' associations and employer representatives indicated that after the implementation of SMW, some young people put more emphases on wage levels and neglected whether good training at work was provided or not, thus affecting their promotion prospects. Besides, some employees only expected pay rise arising from SMW uprating and did not actively seek promotion and better pay through improvement in their own performance. This would impede the overall upgrading of human resources.
- 5.30 Some employers' associations indicated that some enterprises employed more part-time employees for flexible staff deployment. Besides, some employers' associations and employer representatives pointed out that some employees worried that they might lose their entitlements to certain government subsidies or allowances as a result of salary increase following SMW uprating and thus switched to work as

part-timers, and declined to work overtime or to accept promotion. This would hinder the unleashing of labour force into society.

(c) Competitiveness

- 5.31 *Knock-on effect on pay hierarchy and ripple effect:* Some employers' associations, SMEs associations, employer representatives and other professional/employer associations indicated that the implementation of SMW and its uprating had induced knock-on effect on pay hierarchy (knock-on effect). Apart from raising the wages of grassroots workers to the SMW rate, enterprises also had to raise the wages of employees of other ranks to maintain reasonable pay differentials among ranks and preserve staff morale, leading to a significant increase in labour costs.
- 5.32 Some employers' associations, SMEs associations and employer representatives indicated that enterprises faced recruitment difficulties even though they had already offered wage levels above the SMW rate. Owing to manpower shortage, enterprises competed to retain and recruit staff by raising wages, resulting in significant increase in labour costs.
- 5.33 Some employers' associations indicated that with the significant pay rise for employees in LPS or lower-skilled occupations after the implementation of SMW, 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. Besides, some trade associations indicated that owing to ripple effect, enterprises that had not envisaged to be affected by SMW also had to raise wages to retain employees, thereby leading to an increase in their labour costs.
- 5.34 *Labour costs in relation to entitlements and benefits of employees:* Some employers' associations, employer representatives and professional associations indicated that the uprating of SMW also affected employees' statutory entitlements which varied with wage levels. Employers had to face increases in employers' contributions to the Mandatory Provident Fund, premium for employees' compensation insurance, etc at the same time. Enterprises thus felt significant pressures on the labour costs.
- 5.35 *Impact on SMEs and individual sectors:* Some employers' associations, think tanks/policy research institutes and SMEs associations indicated that SMW had brought about adverse impact on SMEs with low profit margins. In comparison,

large enterprises had stronger bargaining power and the ability to set prices, and hence could raise prices by stages to offset the increase in labour costs. With relatively less bargaining power, SMEs found it more difficult to pass on additional labour costs to consumers. Their operating capacities and competitiveness could be easily undermined. Given their smaller scale as well as limited resources and manpower, SMEs could hardly adopt measures such as economies of scale, automation, downsizing, etc to cope with the increase in labour costs as large enterprises did. Besides, since the implementation of SMW, SMEs could no longer hire grassroots workers with relatively lower wages. The business environment had become more challenging for them.

- 5.36 Some employers' associations and employer representatives from the restaurant sector indicated that as their trade was labour intensive, the implementation of SMW and its uprating, coupled with manpower shortage, had pushed up their wage levels. Labour costs of the sector had significantly increased but business turnover could not catch up with the rise in wages, leading to the rising shares of overall staff costs in total operating expenses and posing a heavy burden on operators in the sector. Some large-scale restaurants adopted measures including downsizing and automation to cope with the increase in labour costs. However, with limited financial means and resources, small and medium-sized restaurants could hardly follow the cost-cutting measures adopted by large restaurants, making it increasingly difficult for them to compete with large restaurants. Eventually, some operators even dropped out of the market.
- 5.37 Some trade unions from the restaurant sector indicated that to reduce labour costs, some enterprises employed lower-paid elementary workers to replace experienced workers, rendering it not possible to pass on professional skills in the sector.
- 5.38 An employers' association from cleaning services indicated that most enterprises in the sector passed on the additional labour costs entailed by SMW uprating to consumers. As enterprises had to offset the additional wage bills brought about by the increase in wages of employees of other ranks as well, the increase in service fee might be even more than that entailed directly by SMW uprating. Besides, owing to manpower shortage in the sector, enterprises had to pay wages higher than the SMW rate to recruit suitable employees, which in turn increased labour costs.

- 5.39 Some employers' associations and employer representatives from estate management and security services pointed out that although most estate management companies could pass on the additional wage bills entailed by SMW uprating directly to occupants, occupants demanded a higher service quality at the same time. Operators in the sector thus faced greater pressures on their operations. Besides, as a result of the booming property market in the past few years, the completion of new housing estates and buildings created additional demand for labour in estate management and security services. This led to manpower shortage in the sector and pushed up wage levels and labour costs. An employers' association from estate management services pointed out that the number of enterprises in security services had reduced significantly, signifying the adverse impact of SMW on the sector.
- 5.40 Some employers' associations and employer representatives from estate management and security services, incorporated owners and individual members of the public indicated that SMW uprating had pushed up property management fees. To reduce their expenses, some property owners with limited financial means (especially owners of single block private residential buildings) reduced the number of security guards, shortened their working hours or even completely ceased employing security guards.
- 5.41 Some trade unions from beauty care and hairdressing services indicated that after the implementation of SMW and its uprating, enterprises preferred to hire experienced workers rather than inexperienced trainees with a view to controlling training expenses, thus depriving young people of opportunities to join the sector through receiving training.
- 5.42 Some employers' associations and an employer representative from food processing and production indicated that the implementation of SMW and its uprating caused manpower shortage in the sector. With experienced employees switching to jobs with lighter duties and more attractive working conditions, as well as the lack of new blood joining the sector, enterprises did not have sufficient manpower to maintain operations. This led to closure of some enterprises in the sector.
- 5.43 Some employers' associations from the transport and logistics sector indicated that their sector faced more severe staff turnover since the implementation of the revised SMW rate. Many elementary and frontline employees switched to jobs with lighter duties or sectors which offered higher wages. Owing to manpower shortage and the

increase in labour costs, the business environment of the sector had become more difficult.

5.44 *Business sentiment and service quality:* Some SMEs associations, employers' associations and employer representatives from elderly homes indicated that owing to the obnoxious nature of the sector, operators persistently suffered from manpower shortage and faced difficulty in attracting young people and new recruits to work in elderly homes. Since the implementation of SMW and its uprating, pay rise in other sectors exacerbated staff turnover in the sector and in turn affected the service quality of elderly homes. Besides, as labour and rental costs constituted a rather significant share of the total expenses of elderly homes, some operators started to downsize or even closed down their businesses owing to their failure to cope with the increase in operating costs.

5.45 Some think tanks/policy research institutes and SMEs associations indicated that an across-the-board SMW rate affected employees' work motivation, thus leading to deterioration of service quality. Some employer representatives from the retail sector pointed out that in the past, lower-paid employees persistently improved their performance in order to earn higher wages (including commission and bonus). However, after the implementation of SMW, as employees were guaranteed a certain level of wages, their motivation to seek continuous improvements in performance subsided, thus affecting the service quality. Some employers' associations from the restaurant sector and SMEs associations indicated that in order to reduce the wage bills, some enterprises resorted to downsizing which impaired service quality.

(d) Social Inclusion

5.46 *Work incentive:* Some trade unions indicated that the implementation of SMW and its uprating boosted people's incentive to work. As a result, the labour force participation rates of different age groups as well as the overall labour force participation rate increased. The number of unemployment cases of CSSA fell as well. Over the past three years, the unemployment rate remained at low levels, while the total labour force increased, showing that wage improvement attracted more people (including women) to enter or re-enter the labour market.

5.47 *Standard of living:* Some trade unions, employers' associations, employer representatives, incorporated owners, a political party and individual members of the

public held the view that the revised SMW rate ensured grassroots workers could receive a certain level of income, hence raising their purchasing power and improving their standard of living. However, some trade unions and individual members of the public indicated that rising inflation had eroded the purchasing power of wages. As a result, the revised SMW rate had not brought about any real improvement in the standard of living of grassroots workers as originally anticipated.

5.48 On the other hand, some employers' associations and individual members of the public indicated that the revised SMW rate had pushed up inflation, causing the living standard of many people (in particular retirees, the middle class and employees who did not benefit from SMW) to decline.

5.49 *Employment opportunities of vulnerable groups:* Some trade unions held the view that the employment opportunities of the youngsters and the older people had not been affected by the implementation of SMW and its uprating. The unemployment rates of these age groups even dropped. A representative from social enterprises indicated that SMW had provided wage protection to some of the employees with disabilities who possessed higher capabilities, while also benefiting other employees with disabilities who had opted for productivity assessment. Some trade unions, employers' associations, SMEs associations, employer representatives, think tanks/policy research institutes and individual members of the public raised concern about the impact of SMW on the employment of vulnerable groups. They were of the view that with the increase in labour costs, some employers might tend to engage employees with higher capabilities, hence undermining the employment opportunities of the elderly, less-educated and employees with disabilities. Some employers also hired fewer inexperienced young people and offered them lesser internship opportunities, thus making it difficult for young people to accumulate work experience.

5.50 Some employers' associations and individual members of the public indicated that since more employees switched to work in security services, older security guards were replaced by those who were younger and more capable, thereby affecting the employment opportunities of older security guards.

5.51 *Labour relations:* Some employers' associations, professional organisations and think tanks/policy research institutes held the view that since the implementation of SMW,

some enterprises had to adopt measures such as downsizing, reducing employees' working hours, reducing training, etc to cope with the additional labour costs, thereby affecting labour relations within the enterprises concerned.

5.II.2 Review of the Statutory Minimum Wage rate

(a) Economic forecast

5.52 Some employers' associations, SMEs associations, employer representatives, think tanks/policy research institutes and professional associations held the view that at the time when the consultation on the review of the SMW rate was conducted (i.e. April to June 2014), the global economic conditions were unsteady and the performance of the retail sector turned markedly weaker. There were concerns over Hong Kong's economic development and the uncertain outlook. In the event of an economic downturn, SMW might impose a heavy burden on enterprises (in particular SMEs). When reviewing the SMW rate, MWC should consider the flexibility for enterprises to adjust their labour costs in times of economic downturn. MWC should also consider factors such as global economic changes as well as economic forecasts and reports on economic prospects, etc so as to assess Hong Kong's economic outlook in a prudent and objective manner.

5.53 A think tank/policy research institute anticipated the economic growth of Hong Kong in the coming two years would be similar to that at present. Some trade unions held the view that the economic development of Hong Kong was stable and the demand for labour was strong and one should not be over-pessimistic about Hong Kong's economic outlook.

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

5.54 Some employers' associations pointed out that in general, the actual impact of SMW would emerge only gradually over a longer period of time. They held the view that as the time period between the implementation of the revised SMW rate on 1 May 2013 and the review of the SMW rate by MWC was less than two years, there was insufficient time for the actual impact brought about by the revised SMW rate to surface. MWC should only commence the review of the SMW rate when adequate data and evidence were available.

(c) Wage floor

5.55 Some trade unions, labour policy concern groups and think tanks/policy research institutes held the view that the setting of the SMW rate should not be solely for forestalling excessively low wages. Rather, it should be guided by the principle of assisting workers to meet their personal needs as well as those of their families. They also suggested reviewing the SMW rate annually.

5.56 Some employers' associations, employer representatives, think tanks/policy research institutes and a professional institute held the view that SMW should only protect grassroots workers by setting a wage floor. It should not be perceived as a welfare policy or a poverty alleviation measure. With the implementation of SMW, the aim of forestalling excessively low wages had been achieved. Meanwhile, enterprises should be allowed to adjust employees' wage level in light of the economic situation, their business operations, the labour market conditions as well as employees' performance. These stakeholders also held the view that the existing arrangement of reviewing the SMW rate at least once in every two years could accord protection to employees, and at the same time provide sufficient time for the business sector to adapt to and to assess the SMW rate and its impact. Besides, some employer associations held the views that they could only accept the existing arrangement of reviewing the SMW rate at least once in every two years. If the SMW rate was to be reviewed annually, there might be more arguments in the community. These stakeholders generally suggested that the SMW rate should be maintained at its current level of \$30 per hour.

(d) Standard of living

5.57 Some employers' associations, SMEs associations and employer representatives indicated that if the SMW rate was reviewed too frequently or set at an excessively high level, enterprises would be inclined to pass on the additional labour costs to consumers, which would exacerbate inflation and add burden to the livelihood of grassroots workers. They hence suggested maintaining the SMW rate at its current level of \$30 per hour.

5.58 Some trade unions, labour policy concern groups and think tanks/policy research institutes held 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, MWC should put emphasis on the basic needs of individual employees and their families. These stakeholders generally indicated that the SMW rate should be adjusted in line with inflation and be reviewed annually so that the wage growth of lower-paid employees would keep up with inflation so as to avoid employees' purchasing power being eroded. Besides, employers did not need to face a larger increase in wage bills every two years. Some trade unions held the view that 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 revised SMW rate in 2015.

5.59 Some trade unions and labour policy concern groups held the view that the SMW rate should not be lower than the CSSA level so as to allow employees to meet the basic living expenses of the employees and their families and attract CSSA recipients to enter or re-enter the labour market.

5.60 Some trade unions and labour policy concern groups held the view that the SMW rate should be raised to \$35 to \$40 per hour so as to meet the basic needs of employees and their families. They expected the proposed rate would have limited impact on enterprises' wage bills and profit ratios and should be manageable for enterprises. On the other hand, some trade unions and labour policy concern groups recommended that the SMW rate should be raised to the range of \$31 to \$34 per hour.

(e) **Business environment**

5.61 Some employers' associations, SMEs associations, employer representatives and think tanks/policy research institutes pointed out that with limited financial means and competitiveness, SMEs were unable to leverage on economies of scale to control costs like what larger enterprises did. They also found it more difficult to pass on the additional costs to consumers. As a result, SMW had greater impact on SMEs and an excessively high SMW rate would undermine their survival. SMEs might eventually be squeezed out of the market by large enterprises. With an uncertain economic outlook, uprating of SMW would pose further challenges to the operation of SMEs, dampen the incentive for business start-up or even result in business closures. Hence, it was suggested that the SMW rate should be maintained at its current level of \$30 per hour. On the other hand, some employers' associations and SMEs associations indicated that they found it acceptable for the SMW rate to be raised to \$32 to \$33 per hour.

5.62 Some employers' associations and employer representatives held the view that in reviewing the SMW rate, 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. MWC should also consider Hong Kong's overall economic development and business environment as well as the impact of SMW on various aspects including human resources, inflation, livelihood, etc.

5.63 Some trade unions held the view that the difficulties of doing business faced by enterprises were caused by many factors (such as rentals increase), and such difficulties should not be attributed solely to the implementation of SMW and its uprating. On the other hand, some SMEs associations and employers' associations from the restaurant sector indicated that the operation of many small and medium-sized restaurants relied heavily on manual operation. Wages rather than rentals accounted for the largest proportion of their operating costs.

(f) Property management fee

5.64 Some employers' associations from the estate management sector and incorporated owners held the view that the implementation of SMW and its uprating had resulted in a significant increase in property management fee. Uprating of SMW would further push up property management fee. Many property owners (especially owners of single block private residential buildings) would not be able to bear the increase. It was hence suggested that the SMW rate should be maintained at its current level of \$30 per hour. On the other hand, some incorporated owners indicated that they found it acceptable for the SMW rate to be raised to \$32 to \$33 per hour.

(g) Proposed indicators

5.65 Some labour policy concern groups pointed out that in reviewing the SMW rate, MWC should consider the "dependency ratio" i.e. the average number of dependent family members (such as child and elderly person) supported by one employed person so as to ensure that the earnings of employees were sufficient to support their families. Besides, some trade unions and labour policy concern groups indicated that reference should be made to the findings on basic needs from surveys conducted by relevant organisations and other research institutes and suggested an independent survey on basic needs should be conducted. These stakeholders also suggested that reference should be made to the Social Security Assistance Index of Prices compiled by the

Census and Statistics Department, which reflected the impact of price changes on recipients of CSSA, so as to assess the impact of price changes on grassroots workers.

- 5.66 Some labour policy concern groups pointed out that uprating of SMW could help alleviate the poverty situation. Some trade unions suggested that MWC should consider the poverty line when reviewing the SMW rate and set the SMW rate based on the poverty line.
- 5.67 Some SMEs associations and a political party suggested that MWC should include productivity factor in the Array of Indicators so as to allow the SMW rate to adequately reflect the value added to the overall economy brought about by the job nature of grassroots workers.
- 5.68 A think tank/policy research institute pointed out that the ratio of the current SMW rate of \$30 per hour to the median hourly wage of all employees (in May to June 2013, the revised SMW rate was 52.2% of the median hourly wage (\$57.5)) in Hong Kong was already higher than those in other places. Besides, a labour policy concern group suggested that reference should be made to the experience of the Mainland where the SMW rate was set at 40% of the average wage.

(h) Views of individual members of the public

- 5.69 During the public consultation, some individual members of the public held the view that rising inflation had kept eroding the purchasing power of wages and the revised SMW rate could not catch up with the increase in prices. Those members of the public with this view considered that the SMW rate had to be adjusted upwards so that grassroots workers could maintain a reasonable standard of living. They generally suggested that the SMW rate should be raised to the range of \$31 to \$40 per hour; some suggested even a higher wage rate, such as \$65. On the other hand, some individual members of the public indicated that uprating of SMW would push up inflation, leading to the vicious cycle of wage-price spiral and lowering the living standard of people (in particular retirees, the middle class and employees who did not benefit from SMW). They hence suggested maintaining the SMW rate at its current level of \$30 per hour and some even suggested downrating. As regards the SMW review cycle, some individual members of the public held the view that the current arrangement to review the SMW rate at least once in every two years should be maintained and thus disagreed with annual review; whereas some other individual

members of the public held the view that the SMW rate should be reviewed annually.

5.III Other Relevant Considerations

5.70 Although the Array of Indicators identified by MWC already covered data in four areas, namely general economic conditions, labour market conditions, competitiveness and social inclusion, not all the impacts of SMW could be reflected by changes in statistics. Hence, in reviewing the SMW rate, MWC drew reference to the experience of the review of the initial SMW rate and the views collected during consultation so as to take into account other relevant considerations that could not be fully quantified:

- (a) **Enhancing employees' quality of life:** Benefiting from SMW uprating, employees could enjoy some increase in their income. This would in turn increase their consumption power and improve their quality of life;
- (b) **Enhancing work incentive:** Wage increase induced by the implementation of SMW and its uprating, coupled with the favourable employment situation sustained over recent years, attracted more people to enter or re-enter the labour market and encouraged those who used to live on social welfare to become self-reliant;
- (c) **Impact on vulnerable groups:** In the face of increasing labour costs, employers might tend to hire employees with higher capabilities, thereby undermining the employment opportunities of the vulnerable groups (such as the elderly, the less-educated, people with disabilities, etc) despite the wage protection offered. Some employers might also hire fewer inexperienced young people and offer them fewer internship opportunities, making it difficult for young people to accumulate work experience;
- (d) **Impact on wage differentials across sectors or positions:** With the SMW rate applying to all sectors, some grassroots workers might switch to jobs in different sectors, districts, enterprises and/or occupations while still making a comparable income. This would aggravate staff turnover in certain sectors. To some extent the enterprises concerned also had to offer more competitive wage rates to retain or attract talents, thereby further pushing up labour costs and exerting additional inflationary pressure;

- (e) **Preserving the market's capacity to adjust:** While imposing a wage floor, SMW would also limit the flexibility of wage adjustment. If the rate is raised to an excessively high level, SMW would undermine the flexibility of different sectors and enterprises to cope with changes in their respective operating environment. Preserving the market's capacity to adjust would be conducive to the sustainable development of all sectors;
- (f) **Impact on social harmony:** The implementation of SMW and its uprating enabled low-income employees to share the fruits of economic development and thus helped promote social harmony. On the other hand, as grassroots workers, enterprises and other people (including those not directly benefiting from SMW) might hold different views on the SMW rate, it would actually take time to narrow this divergence;
- (g) **Additional costs induced by increase in wages:** The implementation of SMW and its uprating induced additional cost implications on business risks, labour insurance premiums, long service payments, contributions to the Mandatory Provident Fund, etc;
- (h) **Impact on quality of products and services:** Employees could enjoy wage protection after the implementation of SMW and its uprating. Nevertheless, this might reduce the incentive of some employees to improve their performance or take up extra workload, hence affecting service quality. Moreover, enterprises that failed to pass on the SMW-induced additional costs to consumers might have to reduce the quantity and quality of their products as well as quality of their services; and
- (i) **Other impact of SMW yet to fully emerge:** The long-term impact of SMW (for instance, impact on profitability and the operating strategies of enterprises, Hong Kong's competitiveness, productivity as well as attractiveness to foreign investment in the long run, etc) might not have fully emerged.

5.IV Impact Assessment

5.IV.1 Framework and scope of impact assessment

5.71 MWC recognised that SMW would have profound impacts on employees, businesses, labour market and economy as a whole. Taking into consideration the past experience

in reviewing the SMW rate, relevant socio-economic indicators and views of stakeholders and members of the public, and by drawing reference to the assessment framework of the first-term MWC, MWC set different SMW test levels and economic scenario assumptions to analyse the additional wage bills brought about by different SMW test levels, as well as the potential impact on employees, enterprises, unemployment rate and inflation.

- 5.72 MWC did not have any pre-established stance on the direction of the adjustment of the SMW rate. After considering the views of stakeholders and members of the public, closely monitoring the macroeconomic performance, labour market conditions, price changes and short-term economic outlook since the implementation of the revised SMW rate, and undertaking thorough discussion, we were of the view that a downward adjustment of the SMW rate was not appropriate in the current round. Nevertheless, this does not preclude the possibility that MWC might consider recommending a downward adjustment of the SMW rate in the future, as and when supported by sufficient data or information.
- 5.73 Based on the above considerations and drawing reference from the experience of the first-term MWC in conducting impact assessment, we conducted impact assessment on SMW test levels from an hourly wage of \$30.0 to \$37.0 at \$0.5 per interval (i.e. 15 test levels in total). Setting different SMW test levels to conduct impact assessment aimed at facilitating MWC to make objective and prudent judgment whilst striking a balance among various objectives and needs. It did not suggest MWC having any pre-established stance on whether and to what extent the SMW rate should be adjusted.
- 5.74 MWC also noted that apart from the increase in wage bills for enterprises to comply with the requirements of MWO, other labour costs (such as rest day and meal break pay, if applicable) might also rise after the revision of the SMW rate. Some enterprises might face further increase in additional wage bills arising from knock-on effect to maintain wage differentials among employees of different ranks. However, the findings of both the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors and the Annual Earnings and Hours Survey (AEHS) showed that as the increase in the SMW rate in May 2013 was relatively mild, the knock-on effect was modest as compared with that induced by the implementation of the initial SMW rate. From these findings, it could be deduced that the greater the magnitude of SMW uprating, the greater the knock-on effect that might

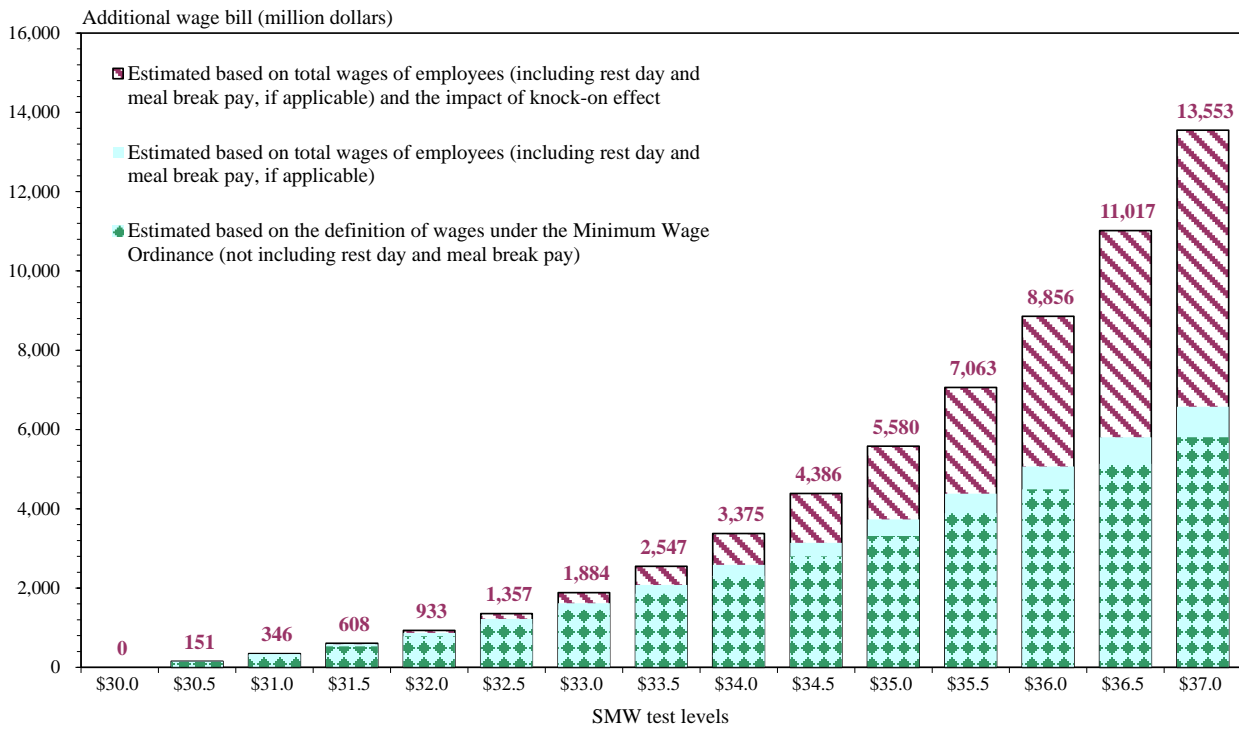
be induced. Based on the past experience in the implementation of SMW and its uprating, and with reference to the views of stakeholders and members of the public collected by MWC during consultation, MWC found it necessary for this review to continue to consider the additional wage bill arising from knock-on effect.

5.75 Using the same approach adopted by the first-term MWC, we estimated the additional wage bills based on three sets of wage bill definition. The first set of additional wage bill was estimated based on the definition of wages under MWO which did not include rest day and meal break pay of employees. The second set was the total wage bill, i.e. the first set of wage bill plus the rest day and meal break pay (for employees who were granted these payments according to their employment contract or agreement) of employees. The third set was total wage bill plus the amount of additional wage bill induced by knock-on effect. In estimating these three sets of wage bill, we mainly made reference to the findings of AEHS and the studies on the knock-on effect in the retail and restaurant sectors ⁽¹⁾.

5.76 Figure 5.1 shows the estimated annual additional wage bill under the 15 SMW test levels based on the three sets of wage bill definition mentioned above. For instance, at the SMW test levels of \$30.5 and \$37.0, the annual additional wage bills (estimated based on total wages received by employees (with rest day and meal break pay included, if applicable) plus the additional wage bill induced by the impact of knock-on effect) would be \$151 million and \$13.553 billion, representing 0.1% and 2.0% of the total wage bill in 2013 respectively. It should be emphasised that due to data limitations, the estimated additional wage bills did not include all the other additional labour costs (such as premium for employees' compensation insurance) arising from uprating of SMW.

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

Figure 5.1: Estimated annual additional wage bills under different Statutory Minimum Wage (SMW) test levels



Note: The above results were estimated based on the additional wage bills imputed under three definitions. Figures shown in the diagrams are the annual additional wage bills estimated based on total wages of employees (including rest day and meal break pay, if applicable) and the impact of knock-on effect. Details are in [Appendix IV](#).

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

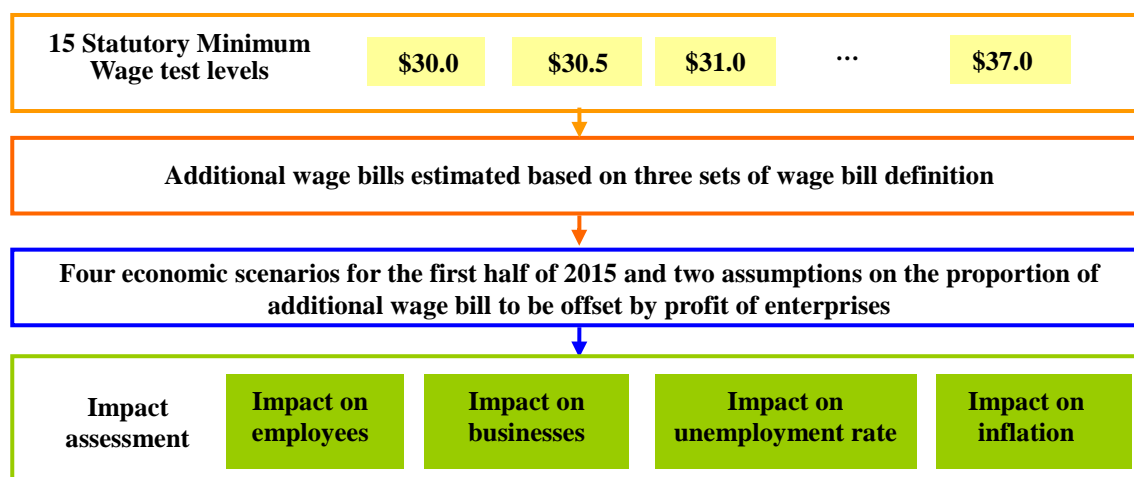
5.77 Besides, in view of the time gap mentioned in paragraph 5.13, MWC conducted scenario testing for the economic conditions in the first half of 2015. After iterative discussions, we considered it appropriate to conduct stress tests under four different economic scenarios to assess the potential impact of implementing the recommended SMW rate should such rate be implemented in the first half of 2015. Table 5.1 sets out the assumptions on these four economic scenarios.

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

Economic scenario	Assumption on real economic growth for the first half of 2015, year-on-year rate of change
1	+2.5%
2	+1.5%
3	+0.0%
4	-1.0%

- 5.78 Noting that the downside risks to the Hong Kong economy had increased over the past few months, MWC included Scenario 4 in order to assess the situation in times of economic downturn. It must be stressed that such assumptions are not to be taken as economic forecasts. They merely aimed to help facilitate an understanding of vastly different impacts that the recommended SMW rate might bring about under different macroeconomic environments.
- 5.79 Apart from the above, MWC also adopted two assumptions on the proportion of additional wage bill to be offset by profit (by assuming that the enterprises offset the additional wage bill in half or in full respectively) so as to assess the impact of SMW rate adjustment on corporate profits. In sum, we adopted a framework of impact assessment, covering 15 different SMW test levels and three sets of wage bill definition, as well as four economic scenarios and two assumptions on the proportion of additional wage bill to be offset by profit of enterprises, to conduct comprehensive assessments of the impact of SMW rate adjustment on employees, businesses, unemployment rate and inflation. Figure 5.2 summarises the framework of impact assessment.

Figure 5.2: Framework of impact assessment



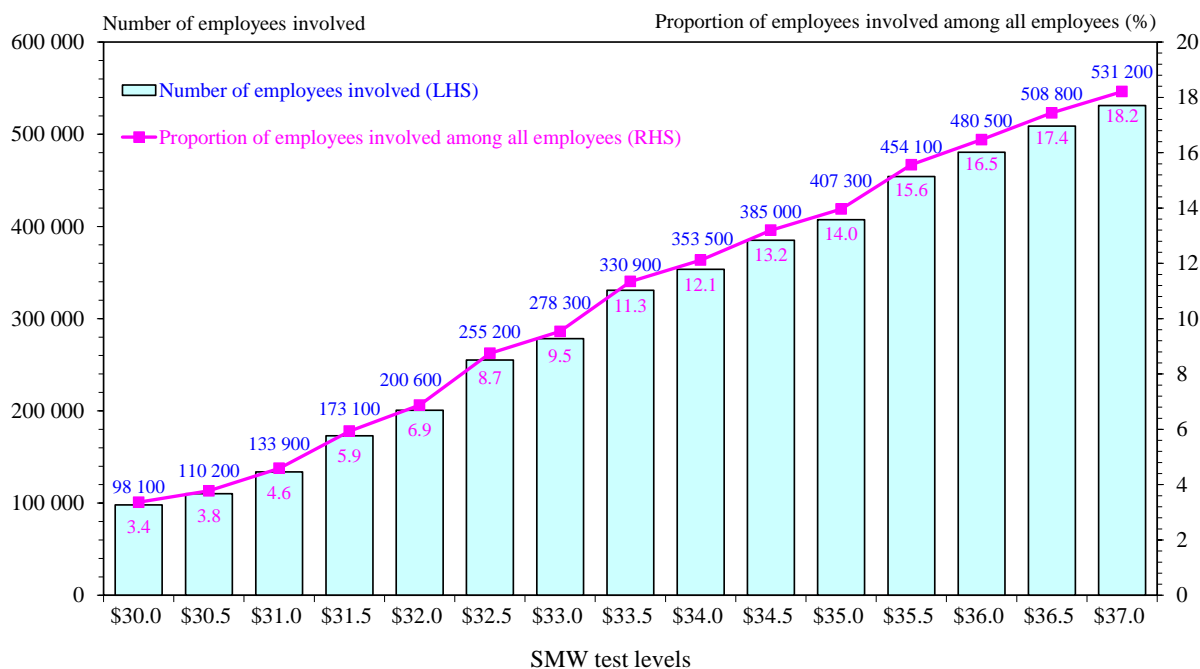
- 5.80 The following paragraphs summarise the factors considered by MWC when designing the framework of impact assessment. The methodology and major assumptions of impact assessment are in [Appendix IV](#). The impact assessment results for the recommended SMW rate are analysed in detail in Chapter 6.

5.IV.2 Impact assessment results under different Statutory Minimum Wage test levels

(a) Impact on employees

5.81 Assessment of the impact of the SMW rate on employees mainly involved analysing the number and proportion of employees involved (i.e. employees with an hourly wage below the SMW test level in May to June 2013), their socio-economic characteristics and magnitude of wage increases under different SMW test levels. Specifically, the corresponding numbers of employees involved at the SMW test levels of \$30.5 and \$37.0 were 110 200 and 531 200, representing 3.8% and 18.2% of all employees in Hong Kong respectively (Figure 5.3). The magnitude of their wage increases ranged from 1.5% to 1.6%, and 12.8% to 26.5% respectively (Figure 5.4).

Figure 5.3: Estimated number and proportion of employees involved ^(^)

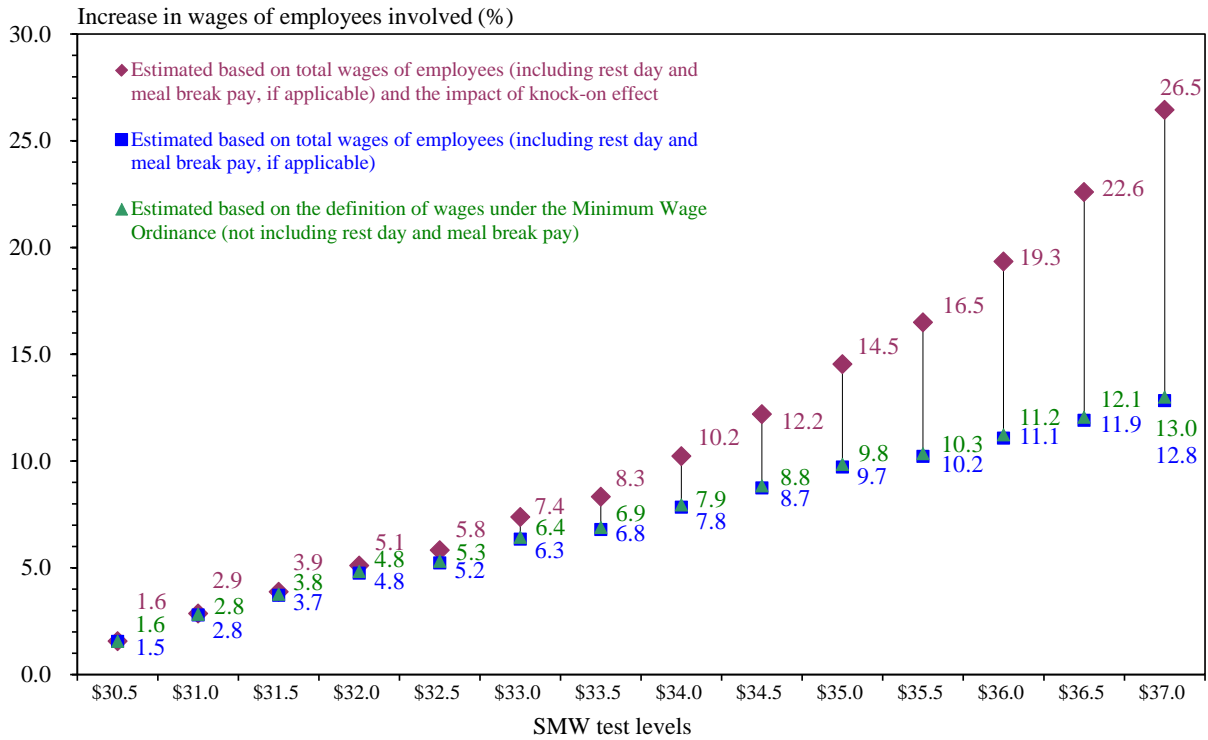


Notes: ^(^) Employees involved only included those with an hourly wage of \$30.0 when the Statutory Minimum Wage test level is at \$30.0. As for other test levels, employees involved referred to those with an hourly wage below the respective level.

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

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

Figure 5.4: Estimated increase in wages of employees involved



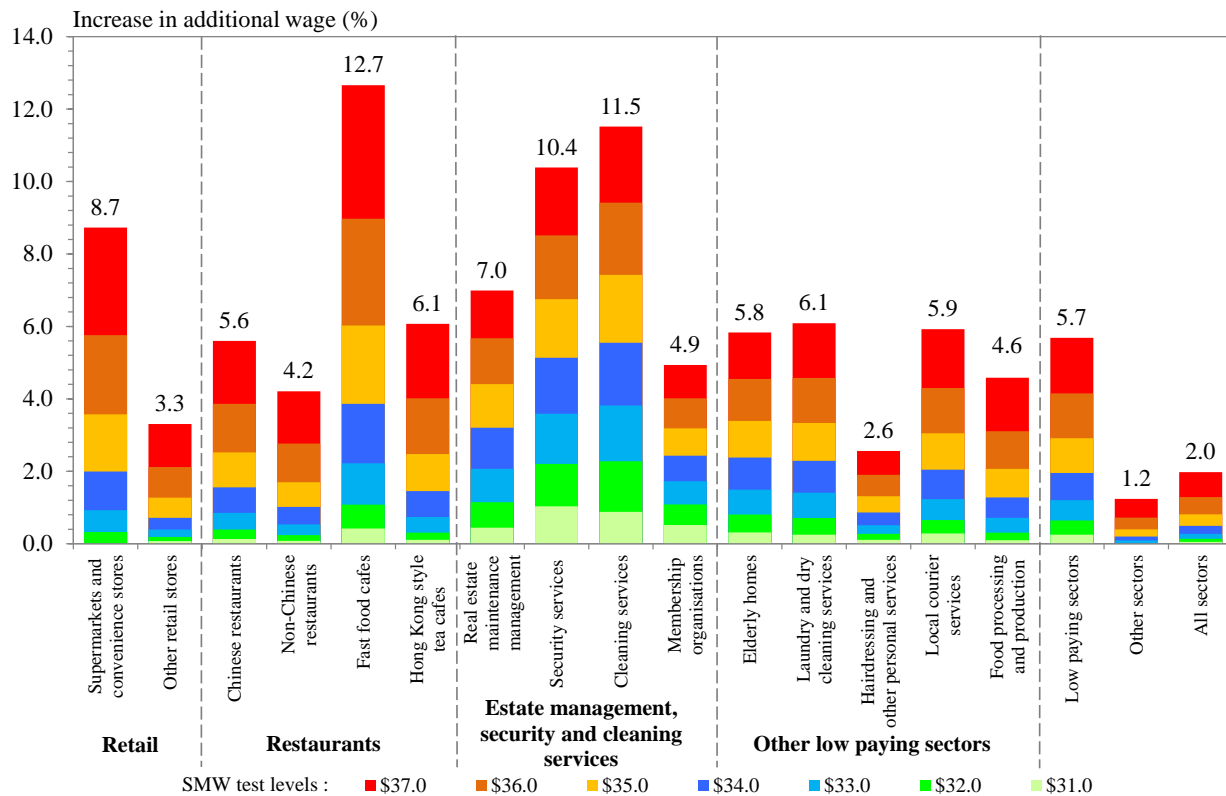
Note: The above results were estimated based on additional wage bills imputed under three different definitions. Details are in [Appendix IV](#).

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

(b) Impact on businesses

5.82 The impact of the SMW rate varied among different sectors as their mode of operation, cost structure and profitability were different. For instance, with more low-paid employees in cleaning services, the increase in additional wage bill (estimated based on total wages of employees and the impact of knock-on effect) in the sector resulting from uprating of SMW ranged from 0.4% (at the SMW test level of \$30.5) to 11.5% (at the SMW test level of \$37.0), which was higher than those in other sectors. The estimated increase in additional wage bill analysed by sector under different SMW test levels is shown in Figure 5.5.

Figure 5.5: Estimated increase in additional wage bill ^(^) analysed by sector under different Statutory Minimum Wage (SMW) test levels



Note: (^) Additional wage bills were estimated based on the total wages received by employees and the impact of knock-on effect. Figures shown in the diagram are the estimated increase in additional wage bill at the SMW test level of \$37.0.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

5.83 Assessment of the impact of the revised SMW rate on businesses mainly involved analysing the changes in the profitability of enterprises and of sectors as a whole under different SMW test levels. We conducted stress tests to assess the affordability of sectors under different SMW test levels based on the assumptions that enterprises offset their additional wage bills in half or in full by profit. The impact on the overall profit ratio analysed by sector under different SMW test levels based on the above two assumptions is set out in Table 5.2. Figure 5.6 and Figure 5.7 show the number of enterprises turning from profits to losses and the estimated number of employees in these enterprises under different SMW test levels and on the basis of the two abovementioned assumptions respectively.

Table 5.2: Estimated change in overall profit ratio analysed by sector under different Statutory Minimum Wage (SMW) test levels ^(^)

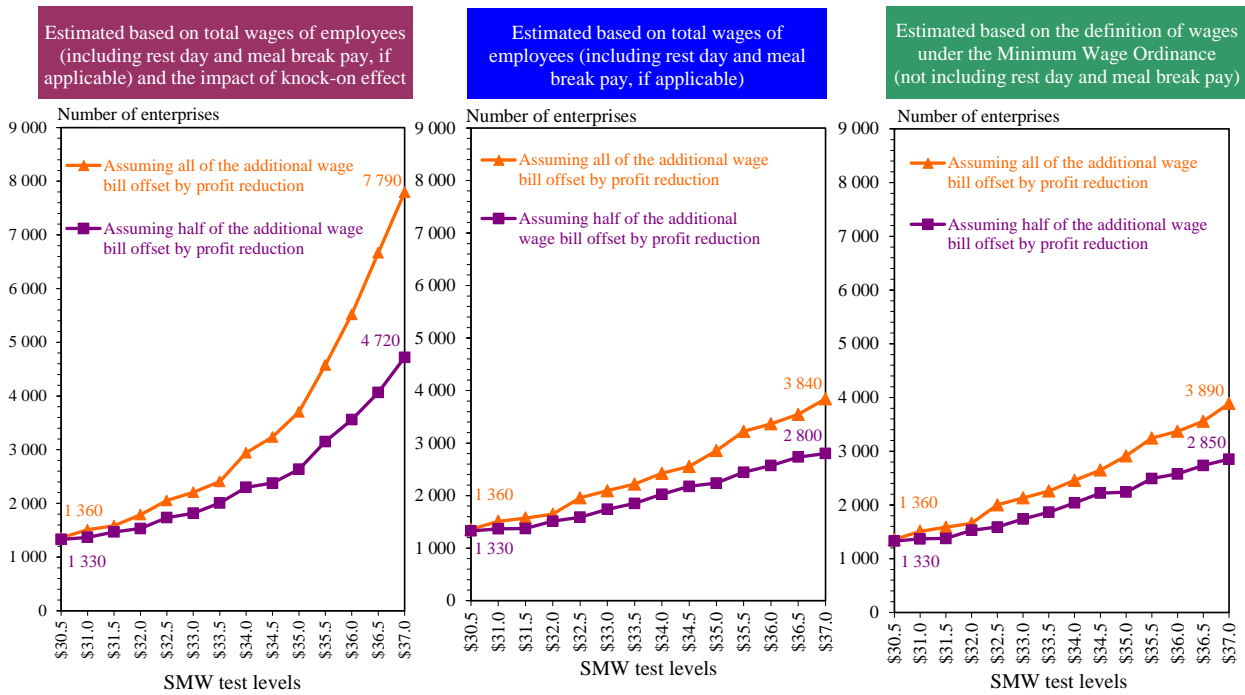
	Retail	Restaurants	Estate management, security and cleaning services	Other low paying sectors	Other sectors
Overall profit ratio (2012)	9.3%	5.7%	4.4%	8.9%	15.9%
SMW test level	Change in overall profit ratio (percentage point)				
\$30.5	#	#	# to -0.1	#	#
\$31.0	#	# to -0.1	-0.1 to -0.2	#	#
\$31.5	#	# to -0.1	-0.2 to -0.3	# to -0.1	#
\$32.0	#	-0.1	-0.3 to -0.5	# to -0.1	#
\$32.5	#	-0.1 to -0.2	-0.3 to -0.7	-0.1	#
\$33.0	#	-0.1 to -0.3	-0.4 to -0.9	-0.1 to -0.2	#
\$33.5	#	-0.2 to -0.4	-0.6 to -1.1	-0.1 to -0.3	#
\$34.0	# to -0.1	-0.2 to -0.6	-0.7 to -1.4	-0.1 to -0.3	#
\$34.5	# to -0.1	-0.3 to -0.7	-0.8 to -1.6	-0.2 to -0.4	#
\$35.0	# to -0.1	-0.3 to -0.9	-0.9 to -1.9	-0.2 to -0.5	# to -0.1
\$35.5	# to -0.1	-0.4 to -1.2	-1.1 to -2.2	-0.2 to -0.6	# to -0.1
\$36.0	-0.1 to -0.2	-0.5 to -1.4	-1.2 to -2.5	-0.3 to -0.7	# to -0.1
\$36.5	-0.1 to -0.2	-0.5 to -1.7	-1.4 to -2.8	-0.3 to -0.9	# to -0.1
\$37.0	-0.1 to -0.3	-0.6 to -2.1	-1.5 to -3.1	-0.4 to -1.0	# to -0.2

Notes: (^) The range of the changes in overall profit ratio was estimated based on the assumptions that enterprises offset the additional wage bills in half or in full by profit, and the additional wage bills imputed under three different definitions. Details are in **Appendix IV**.

Between 0 and -0.05.

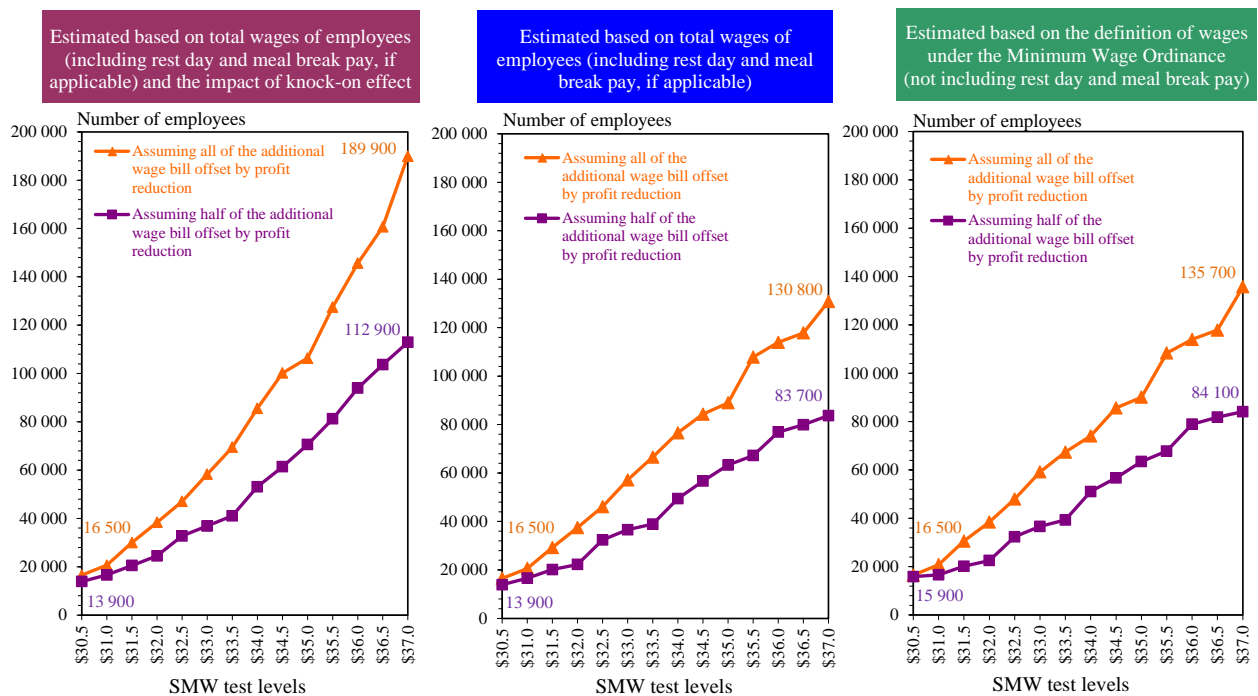
Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

Figure 5.6: Estimated number of enterprises turning from profits to losses under different Statutory Minimum Wage (SMW) test levels ^(A)



Notes: ^(A) Only include enterprises with employees.
 The above results were estimated based on the assumptions that enterprises offset the additional wage bills in half or in full by profit, and the additional wage bills imputed under three different definitions. Figures shown in the diagrams are the assessment results at the SMW test levels of \$30.5 and \$37.0. Details are in [Appendix IV](#).
 Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, 2012 Annual Survey of Economic Activities, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

Figure 5.7: Estimated number of employees in enterprises turning from profits to losses under different Statutory Minimum Wage (SMW) test levels



Note: The above results were estimated based on the assumptions that enterprises offset the additional wage bills in half or in full by profit and the additional wage bills imputed under three different definitions. Figures shown in the diagrams are the assessment results at the SMW test levels of \$30.5 and \$37.0. Details are in [Appendix IV](#).

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, 2012 Annual Survey of Economic Activities, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

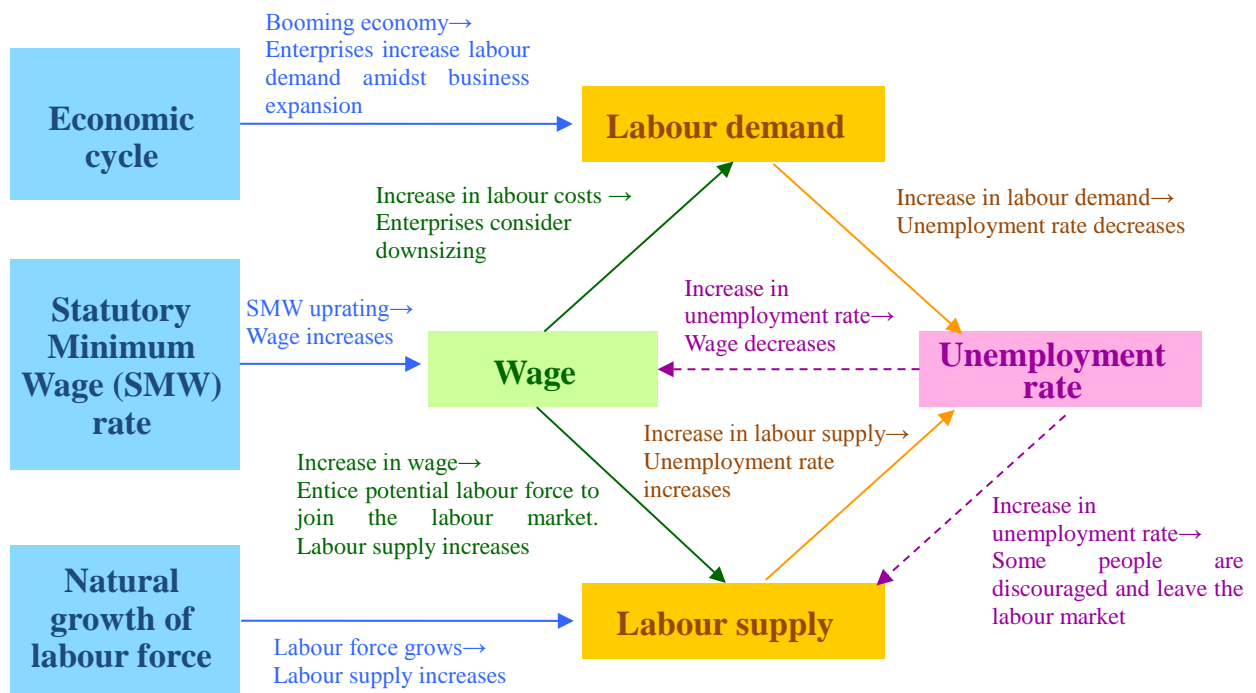
(c) Assessment of the impact on unemployment rate through dynamic analysis of labour supply and demand

5.84 Adjustment of the SMW rate inevitably affects labour supply and demand, and in turn unemployment rate. For instance, the increase in labour costs of enterprises induced by pay rises may hamper the hiring sentiment of employers and result in lower labour demand. At the same time, a pay rise entails better income prospects for employees and may entice more potential workforce to enter or re-enter the labour market, thereby boosting labour supply.

5.85 Also, labour supply and demand are affected by different economic factors, including the macroeconomic conditions and population growth. On the demand side, reduction in staff recruitment or even layoff when the pace of business expansion slows during an economic downturn would lead to a rise in unemployment rate. On the supply side, the natural growth of the labour force would result in additional labour supply. If the pace of job creation in the market could not catch up with the increase in labour supply, there would also be upward pressure on the unemployment rate.

5.86 It should be noted that the adjustment of the SMW rate would bring about some successive and interactive changes in labour demand and supply as mentioned above. The impact of the adjustment would not be just a one-off and direct effect. Therefore, in assessing the impact of SMW on the unemployment rate, the interactions among economic cycles, level of wages, and labour supply and demand would need to be taken into account as depicted in Figure 5.8.

Figure 5.8: Interactions between different factors and labour supply and demand under the framework of impact assessment



5.87 To analyse the dynamic impacts among various economic factors above, MWC constructed an econometric model using past economic data to quantify their historical relationships for rendering objective assessment of the possible impact of different SMW test levels on the unemployment rate, including the number of unemployed grassroots⁽²⁾ workers and the overall unemployment rate, under different economic scenarios. The results of the impact assessment are set out in Table 5.3 and Table 5.4 respectively.

(2) Grassroots occupations include elementary occupations and service and sales workers. In May to June 2013 (i.e. after the revised SMW rate was implemented), the share of these occupations was above 90% of all low-paid employees (i.e. employees within the lowest decile of the overall hourly wage distribution). By analysing the number of grassroots workers, it helped MWC focus on the impact of SMW on low-paid employees.

Table 5.3: Estimated impact on the number of unemployed grassroots workers under different Statutory Minimum Wage (SMW) test levels

SMW test level	Impact on the number of unemployed grassroots workers			
	Economic scenario 1	Economic scenario 2	Economic scenario 3	Economic scenario 4
\$30.5	2 300	12 600	27 900 to 28 000	38 100
\$31.0	3 500	13 800	29 100 to 29 200	39 300 to 39 400
\$31.5	4 300 to 4 500	14 700 to 14 800	30 000 to 30 200	40 200 to 40 400
\$32.0	5 300 to 5 700	15 700 to 16 000	31 100 to 31 400	41 300 to 41 600
\$32.5	5 800 to 6 400	16 100 to 16 700	31 600 to 32 100	41 700 to 42 300
\$33.0	6 800 to 7 800	17 200 to 18 200	32 600 to 33 600	42 800 to 43 800
\$33.5	7 300 to 8 700	17 600 to 19 100	33 000 to 34 500	43 300 to 44 800
\$34.0	8 200 to 10 500	18 600 to 20 900	34 100 to 36 400	44 300 to 46 700
\$34.5	9 100 to 12 400	19 500 to 22 800	35 000 to 38 300	45 200 to 48 600
\$35.0	10 000 to 14 600	20 400 to 25 000	35 900 to 40 600	46 200 to 50 900
\$35.5	10 500 to 16 400	20 900 to 26 800	36 400 to 42 400	46 700 to 52 800
\$36.0	11 300 to 19 000	21 700 to 29 500	37 200 to 45 100	47 500 to 55 500
\$36.5	12 100 to 22 100	22 500 to 32 600	38 000 to 48 200	48 300 to 58 600
\$37.0	13 000 to 25 600	23 400 to 36 200	38 900 to 51 900	49 200 to 62 300

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

Source: Estimate by the econometric model. Details are in [Appendix IV](#).

Table 5.4: Estimated impact on the overall unemployment rate under different Statutory Minimum Wage (SMW) test levels

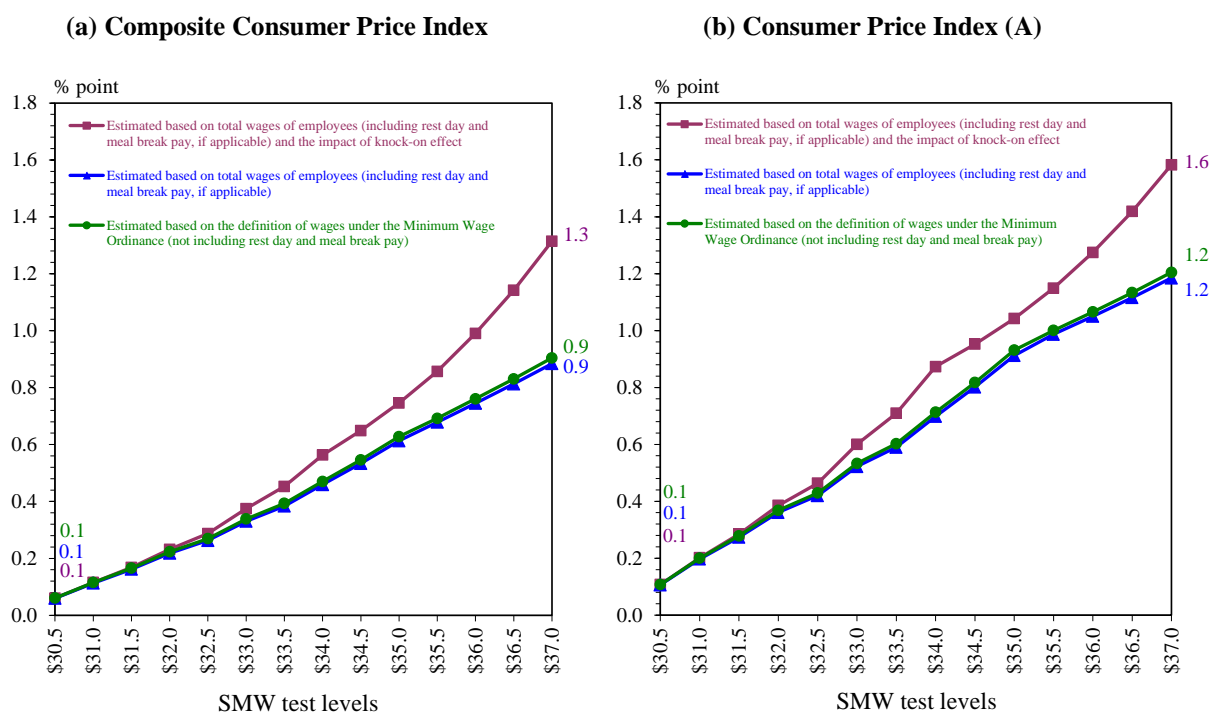
SMW test level	Impact on the overall unemployment rate (percentage point)			
	Economic scenario 1	Economic scenario 2	Economic scenario 3	Economic scenario 4
\$30.5	0.1	0.3	0.7	1.0
\$31.0	0.1	0.3	0.7	1.0
\$31.5	0.1	0.4	0.8	1.0
\$32.0	0.1	0.4	0.8	1.0
\$32.5	0.1 to 0.2	0.4	0.8	1.0 to 1.1
\$33.0	0.2	0.4 to 0.5	0.8	1.1
\$33.5	0.2	0.4 to 0.5	0.8 to 0.9	1.1
\$34.0	0.2 to 0.3	0.5	0.9	1.1 to 1.2
\$34.5	0.2 to 0.3	0.5 to 0.6	0.9 to 1.0	1.1 to 1.2
\$35.0	0.3 to 0.4	0.5 to 0.6	0.9 to 1.0	1.2 to 1.3
\$35.5	0.3 to 0.4	0.5 to 0.7	0.9 to 1.1	1.2 to 1.3
\$36.0	0.3 to 0.5	0.5 to 0.7	0.9 to 1.1	1.2 to 1.4
\$36.5	0.3 to 0.5	0.6 to 0.8	0.9 to 1.2	1.2 to 1.5
\$37.0	0.3 to 0.6	0.6 to 0.9	1.0 to 1.3	1.2 to 1.5

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

Source: Estimate by the econometric model. Details are in [Appendix IV](#).

(d) Impact on inflation

5.88 When faced with higher wage bills, enterprises might alleviate cost pressures by raising the prices of products or services, leading to a rise in consumer price inflation. Assuming a full pass-on of additional wage bills to consumers and taking into account the first round of wage-price spiral effect, the impacts of additional wage bills estimated based on the definition of wages under MWO on Composite CPI would be 0.1 percentage point and 0.9 percentage point at the SMW test levels of \$30.5 and \$37.0 respectively. Taking into account the total wages received by employees (including rest day and meal break pay, if applicable) plus the additional wage bills brought about by the impact of knock-on effect, the impact on inflation would be 0.1 percentage point and 1.3 percentage points respectively. MWC also assessed the impact on CPI (A) inflation. The results are set out in Figure 5.9.

Figure 5.9: Estimated 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 the SMW test levels of \$30.5 and \$37.0. Details are in [Appendix IV](#).

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

5.89 In sum, the impact brought about by an adjustment of the SMW rate depends on the macroeconomic condition and its interactions with various economic factors when the rate takes effect. The impact would not be just a one-off and direct effect. Noting the complexity of and the rapid changes in the labour market, MWC strived to incorporate these dynamics in the impact assessment to the extent possible and also examined the potential impact of the recommended SMW rate on different segments of the economy from different perspectives.

5.90 In the framework of impact assessment, MWC also took into account economic outlook, views of stakeholders and members of the public, and other relevant factors which were not fully quantifiable. Reference was also made to the experience in the implementation of SMW and its uprating over the past few years in conducting a comprehensive and objective assessment on the potential impacts on employees, businesses, unemployment rate and inflation brought about by SMW. Nonetheless, with SMW only being implemented in Hong Kong for slightly more than three years, the impact assessment would have inherent limitations. From the general experiences

of other places (such as the United Kingdom and Australia), an assessment on the exact impact of minimum wage on different socio-economic and employment aspects would only be conducted after minimum wage has been implemented for a longer period of time.

6 The Recommended Statutory Minimum Wage Rate

6.1 The Recommended Statutory Minimum Wage Rate

6.1 The Minimum Wage Commission (MWC) is an independent statutory body established under Part 3 of the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong) with the main function to, when required by the Chief Executive (CE) to do so, report its recommendation about the Statutory Minimum Wage (SMW) rate to CE in Council. MWO stipulates that in performing its function, MWC must have regard to the need:

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

6.2 To review the SMW rate in an objective and balanced manner, MWC adopted an evidence-based approach by conducting comprehensive examination of the information and data obtained from various statistical surveys and taking full account of the views from various sectors of the community. Apart from undertaking detailed analyses of the wage distribution data from the Annual Earnings and Hours Survey (AEHS) conducted by the Census and Statistics Department (C&SD), MWC also made reference to the Array of Indicators and its latest data (including labour supply and demand, unemployment rate, Gross Domestic Product and price forecasts, etc) to grasp the latest socio-economic conditions (see Chapter 3) and the impact of SMW (see Chapter 4). Meanwhile, MWC conducted intensive and extensive consultation to collect written and oral submissions from stakeholders and members of the public. These views facilitated us to have a more comprehensive understanding of the impact of the implementation and uprating of SMW on society, economy and different sectors (in particular the low paying sectors (LPS) and small and medium enterprises (SMEs)), as well as concerns of various sectors of the community on the review of the SMW rate. MWC also took into account considerations which were relevant to the review of the SMW rate but could not be fully quantified (see Chapter 5) and the experience of reviewing minimum wage rates in other places (see **Appendix III**). MWC also constructed various scenarios on the local economic outlook to have due regard to the

time gap between recommending the SMW rate and its implementation so as to give more thorough consideration when reviewing the SMW rate (see Chapter 5).

- 6.3 During the review process of the SMW rate, MWC conducted detailed analyses and in-depth assessment and made thorough consideration of the different aspects mentioned above, as well as went through iterative deliberations. In conformity with the statutory function, MWC unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$32.5 per hour (by \$2.5 or 8.3%). Having conducted detailed analyses and assessment of the possible impact on various aspects of the recommended rate, we considered that the recommended rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, whilst giving due regard to the need to sustain Hong Kong's economic growth and competitiveness. Quantitative analyses of the possible impact on employees, businesses, unemployment rate and inflation brought about by the recommended SMW rate will be discussed in the ensuing paragraphs.

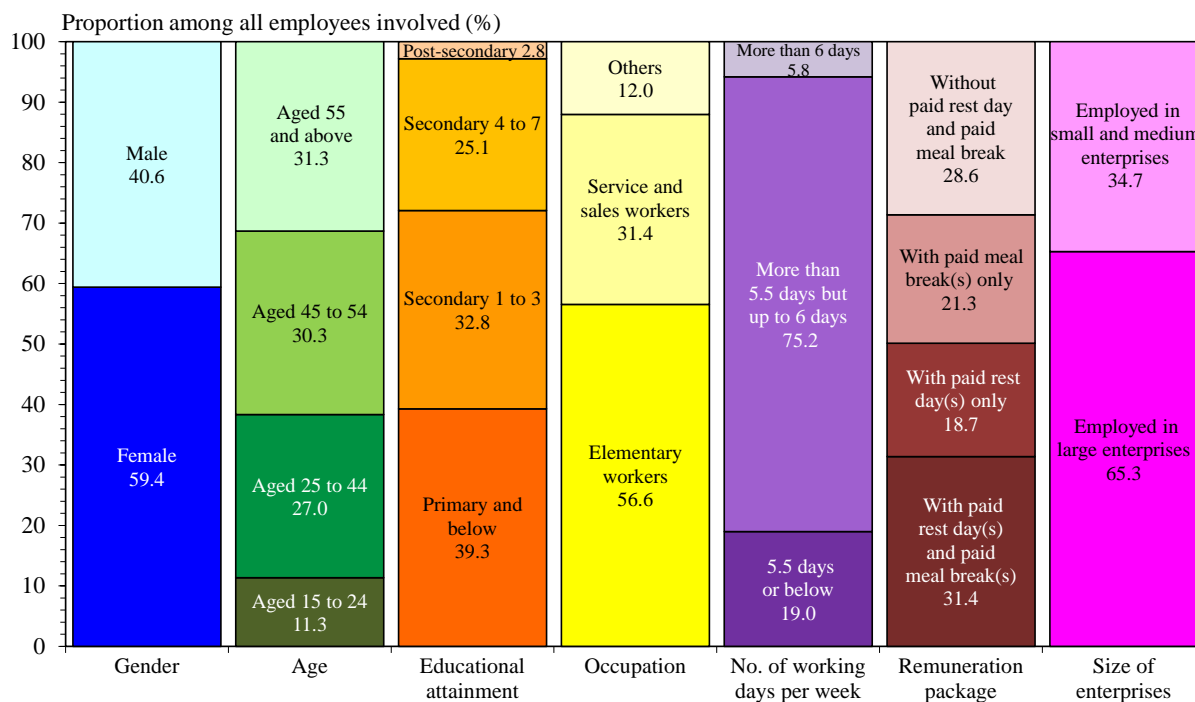
6.II Impact on Employees

6.II.1 Number and proportion of employees involved

- 6.4 The recommended SMW rate will directly affect all employees with an hourly wage below the recommended level (i.e. employees involved). According to the experience of reviewing minimum wage rates in other places, the number of employees involved and its proportion among all employees (i.e. the coverage) generally reflect the outcome of the relevant recommendation only, and are not meant to be the main objective and consideration in setting the rate. Besides, the socio-economic situation, labour market conditions (such as wage distribution), the frequency of adjusting the minimum wage rate, etc are not the same in different places. It is not appropriate to directly compare the number of employees involved and coverage of minimum wage rates in different places.
- 6.5 Data from AEHS conducted by C&SD revealed that the number of employees with an hourly wage less than \$32.5 in May to June 2013 was 255 200, with a coverage of 8.7%. Among the 255 200 employees involved, a relatively large number of them were females (59.4%), older employees (aged 45 and above) (61.7%), or employees with lower educational attainment (secondary 3 and below) (72.1%). Most of them

were elementary workers, and service and sales workers (88.0%), and employees with more working days per week (exceeding 5.5 days) (81.0%), entitled to paid rest day(s) and/or paid meal break(s) (71.4%), and working in large enterprises (65.3%) (Figure 6.1).

Figure 6.1: Socio-economic characteristics of employees involved

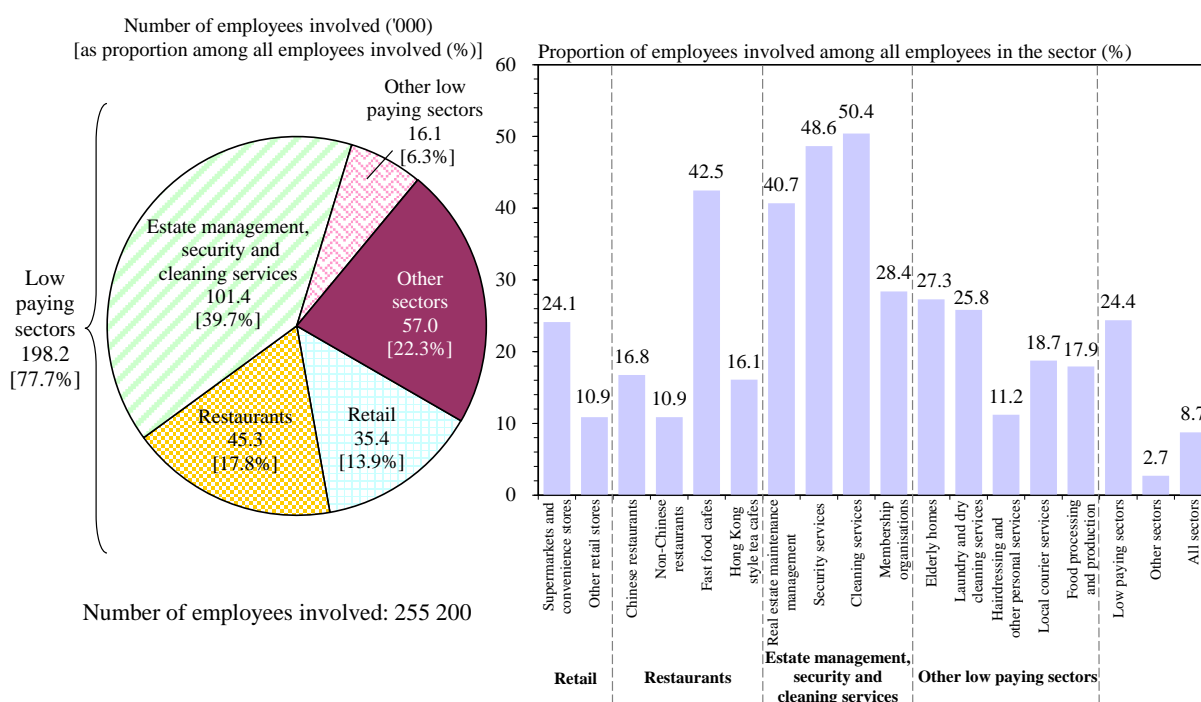


Note: Owing to rounding, the sum of individual figures may not be the same as the total.

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

6.6 Analysed by sector, most of the employees involved worked in LPS (77.7%), with most of them engaged in estate management, security and cleaning services, accounting for 39.7% of all employees involved. The proportion of employees involved among all employees in LPS was also markedly higher than that in other sectors. Nearly half of the employees in cleaning services and security services were earning an hourly wage below the recommended SMW rate (Figure 6.2). As such, the uprating of SMW would have more significant impact on these LPS.

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



Note: Owing to rounding, the sum of individual figures may not be the same as the total.
Source: Annual Earnings and Hours Survey, Census and Statistics Department.

6.7 It is noteworthy that the aforesaid number of employees involved and coverage were estimated based on the data from the 2013 AEHS reflecting the relevant situation in May to June 2013. The changes in wages of employees after the survey period would affect the number and proportion of employees involved. As mentioned in Section 4.II.1, the wages of the lower-paid employees continued to rise after the uprating of SMW in May 2013. Amidst the sustained moderate economic expansion, enhanced experience or skills, better qualifications and other factors, wages of some of the employees involved might have increased, even to a level above the recommended SMW rate. Besides, the job creation/loss along with the changes in economic environment after the survey period would also affect the number and proportion of employees involved.

6.8 In view of this, taking into account the latest data from the General Household Survey and the Labour Earnings Survey, and based on the assumptions on different economic scenarios as mentioned in Section 5.IV.1, we crudely estimated that in the first half of 2015 and at the time just before the SMW rate is raised to the recommended level, the number of employees earning an hourly wage less than \$32.5 would be approximately 150 000, accounting for about 5% of all employees. MWC endeavoured to conduct a

forward-looking estimation so as to take into account the time gap between recommending the SMW rate and its implementation. Nevertheless, as the labour market keeps adjusting before and after the revision of the SMW rate, the assumptions underlying the above estimates (including job creation/loss at different income levels and the changes in wages of individual employees) might be different from the situation after the implementation of the recommended SMW rate. Thus, these estimates should be used for reference only.

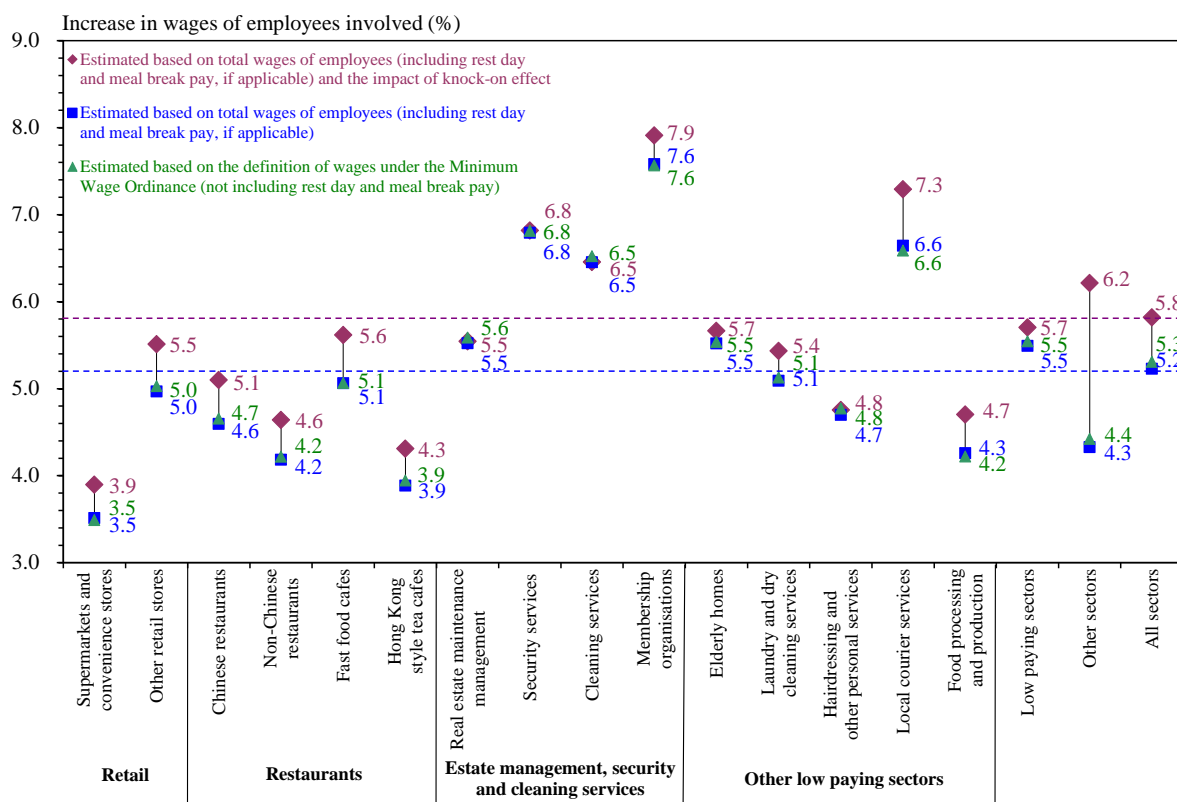
6.II.2 Increase in wages of employees involved

6.9 Other things being unchanged, when the hourly wages of all the employees involved are adjusted upwards to the recommended SMW rate, their average wage increase would be 5.2% to 5.3% ⁽¹⁾. Given the generally lower prevailing hourly wages in estate management, security and cleaning services, the average wage increase of employees involved therein would be more notable (Figure 6.3).

6.10 In assessing the impact of the recommended SMW rate, MWC has also paid regard to the impact of knock-on effect on pay hierarchies (knock-on effect) so as to have a more comprehensive assessment. Taking into account the impact of knock-on effect, the average wage increase of employees involved would be even higher, estimated at 5.8%. As the knock-on effect might be more pronounced in retail, restaurants and other sectors, the further increase in average wage of employees involved in these sectors would be more significant. In contrast, the impact of knock-on effect in estate management, security and cleaning services would be relatively mild (Figure 6.3).

(1) Calculated based on the definition of wages under MWO and total wages (i.e. wages plus rest day and meal break pay of employees (for employees who are granted these payments according to their employment contract or agreement)). Details are in **Appendix IV**.

Figure 6.3: Estimated increase in wages of employees involved analysed by sector



Note: The above results were estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix IV](#).

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

6.11 To take a full-time employee earning the SMW rate (i.e. \$30.0) in May to June 2013 as an example, other things being unchanged, it was estimated that the monthly wage would increase by about \$600 to \$8,100⁽²⁾ per month after the SMW rate is raised to the recommended level. It should be noted that the impact of the recommended SMW rate on monthly wage would vary among individual employees according to their circumstances. For instance, some employees might seek to work longer hours in order to earn a higher income, while some might reduce their working hours due to various reasons (such as the pursuit of work-life balance). Overall speaking, it is anticipated that the uprating of SMW to the recommended level would raise the wages of the majority of employees involved.

(2) The figures were estimated with reference to the data from the 2013 AEHS, which showed that the average weekly working hours of a full-time employee earning the SMW rate (i.e. \$30.0) in May to June 2013 were 57.6 hours. The monthly wage was estimated based on the definition of wages under MWO and hence do not include employees' rest day and meal break pay granted according to their employment contract or agreement.

6.II.3 Impact on wage differentials

- 6.12 As mentioned in Section 4.II.2, SMW had brought about a visible positive effect on the income of lower-paid employees, thereby narrowing the wage differentials between these employees and those of higher ranks. The possible impact of the recommended SMW rate on wage differentials could be gauged by examining the ratios of the recommended SMW rate to the hourly wages at different percentiles of various sectors.
- 6.13 For LPS as a whole, the ratio of the recommended SMW rate to the 25th percentile hourly wage was around 1, indicating that the recommended SMW rate was higher than the hourly wages of near one-fourth of employees therein in May to June 2013. Among LPS, the hourly wages of employees engaged in security services and cleaning services were generally lower, and the recommended SMW rate was nearly the same as the median hourly wages in the sectors in May to June 2013. In other words, the recommended SMW rate should be able to raise the hourly wages of around half of the employees in these sectors (Table 6.1). As the recommended SMW rate would narrow the wage differentials across ranks, it might possibly also induce knock-on effect to some extent. MWC has taken this factor into account when examining the impact of the recommended SMW rate so as to make the assessment more comprehensive.

Table 6.1 : Ratio of the recommended Statutory Minimum Wage (SMW) rate to hourly wages at different percentiles by sector

Sector	Ratio of the recommended SMW rate to		
	25 th percentile hourly wage of the sector	Median hourly wage of the sector	75 th percentile hourly wage of the sector
(A) Low paying sectors	1.00	0.86	0.65
1. Retail	0.94	0.79	0.60
1.1 Supermarkets and convenience stores	1.00	0.92	0.78
1.2 Other retail stores	0.93	0.77	0.56
2. Restaurants	0.98	0.87	0.67
2.1 Chinese restaurants	0.96	0.81	0.61
2.2 Non-Chinese restaurants	0.92	0.81	0.65
2.3 Fast food cafes	1.05	0.98	0.86
2.4 Hong Kong style tea cafes	0.96	0.86	0.69
3. Estate management, security and cleaning services	1.07	0.98	0.74
3.1 Real estate maintenance management	1.05	0.96	0.65
3.2 Security services	1.08	0.99	0.81
3.3 Cleaning services	1.08	1.00	0.85
3.4 Membership organisations	1.06	0.78	0.44
4. Other low paying sectors	0.95	0.81	0.59
4.1 Elderly homes	1.01	0.84	0.61
4.2 Laundry and dry cleaning services	1.01	0.87	0.69
4.3 Hairdressing and other personal services	0.91	0.81	0.59
4.4 Local courier services	1.00	0.80	0.67
4.5 Food processing and production	0.96	0.83	0.58
(B) Other sectors	0.67	0.48	0.30
(C) All sectors	0.81	0.57	0.35

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

6.14 In sum, the recommended SMW rate would raise the income of employees with lower pay and less wage bargaining power, and help narrow the wage differentials between lower-paid employees and employees of higher ranks.

6.III Impact on Businesses

6.15 In recommending the SMW rate, apart from forestalling excessively low wages, MWC has to take account of the affordability of enterprises in order to sustain Hong Kong's economic growth and competitiveness. An excessively high SMW rate would limit the flexibility of wage adjustments, push up labour costs for enterprises, and cause many enterprises to turn from profits to losses or even close down, which might eventually lead to job loss of the employees concerned. As the cost structure and profitability vary from sector to sector, the recommended SMW rate would bring them different impacts. In assessing the impact of the recommended rate, MWC has conducted detailed analyses with regard to the circumstances of different sectors.

6.III.1 Additional wage bill

6.16 The impact of the recommended SMW rate on enterprises is largely determined by the additional wage bill entailed (i.e. the additional wage bill arising from enterprises raising employees' wages to the recommended SMW rate). Based on the definition of wages under MWO, the estimated additional wage bill arising from the recommended SMW rate for all enterprises would be about \$1.10 billion. Taking into account rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement) beyond the statutory requirements and the impact of knock-on effect, the total additional wage bill would be higher at around \$1.36 billion, representing an increase of approximately 0.2% ⁽³⁾ (Table 6.2). As stated above, although the amount of additional wage bill might be smaller than estimated as some of the employees involved might have their wages raised in 2014 and 2015 before the implementation of the recommended SMW rate, the uprating of SMW to the recommended level would still inevitably increase the wage bill for enterprises when they recruit new employees.

(3) Due to data limitations, the estimated additional wage bills do not take into account all labour costs (such as labour insurance) arising from uprating of SMW. Additional wage bills were estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors. Details of the methodology of estimating additional wage bills are in [Appendix IV](#).

Table 6.2: Estimated additional wage bills of the implementation of the initial Statutory Minimum Wage (SMW) rate and its upratings

Additional wage bill of the implementation of the initial SMW rate (\$28.0) as estimated by the Provisional Minimum Wage Commission (2009-11)		Additional wage bill (*) of the uprating of SMW to \$30.0 as estimated by the first-term MWC (2011-13)		Additional wage bill (*) of the uprating of SMW to the recommended rate (\$32.5) as estimated by the current term of MWC (2013-15)	
(\$ Million)	Increase (%)	(\$ Million)	Increase (%)	(\$ Million)	Increase (%)
3,290.3	0.6	1,350.5 to 1,996.2	0.2 to 0.3	1,099.4 to 1,357.3	0.2

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

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

6.17 Analysed by the additional wage bills imputed under three different definitions by sector, the additional wage bill of LPS as a whole would account for around 76% to 82% of the total additional wage bill, with the largest percentage share (46% to 52%) in estate management, security and cleaning services. Besides, the additional wage bills for sectors such as membership organisations, Hong Kong style tea cafes, other retail stores, elderly homes and non-Chinese restaurants would be mainly felt by SMEs. Uprating of SMW may thus have greater impact on SMEs in these sectors (Table 6.3).

Table 6.3: Estimated additional wage bills analysed by sector

Sector	Estimated additional wage bill based on the definition of wages under the Minimum Wage Ordinance (not including rest day and meal break pay)			Estimated additional wage bill based on total wages (including rest day and meal break pay, if applicable) received by employees			Estimated additional wage bill based on total wages (including rest day and meal break pay, if applicable) received by employees and the impact of knock-on effect		
	(\$ Million)	Percentage share among all sectors (%)	Additional wage bill of SMEs as percentage share of additional wage bills in respective sector (%)	(\$ Million)	Percentage share among all sectors (%)	Additional wage bill of SMEs as percentage share of additional wage bills in respective sector (%)	(\$ Million)	Percentage share among all sectors (%)	Additional wage bill of SMEs as percentage share of additional wage bills in respective sector (%)
(A) Low paying sectors	906.3	82.4	26.4	991.4	81.3	26.1	1,029.4	75.8	27.0
1 Retail	110.3	10.0	70.5	121.3	9.9	70.2	134.6	9.9	70.2
1.1 Supermarkets and convenience stores	22.4	2.0	49.1	24.6	2.0	48.6	27.3	2.0	48.6
1.2 Other retail stores	88.0	8.0	76.0	96.8	7.9	75.7	107.3	7.9	75.7
2 Restaurants	151.4	13.8	36.9	167.2	13.7	36.7	185.5	13.7	36.7
2.1 Chinese restaurants	50.0	4.5	18.9	56.0	4.6	18.8	62.1	4.6	18.8
2.2 Non-Chinese restaurants	26.7	2.4	67.6	29.9	2.5	68.1	33.2	2.4	68.1
2.3 Fast food cafes	63.0	5.7	28.2	68.7	5.6	27.4	76.2	5.6	27.4
2.4 Hong Kong style tea cafes	11.7	1.1	91.3	12.6	1.0	91.5	14.0	1.0	91.5
3 Estate management, security and cleaning services	574.2	52.2	11.6	625.3	51.3	11.4	628.4	46.3	11.5
3.1 Real estate maintenance management	257.4	23.4	9.9	279.9	22.9	9.3	281.0	20.7	9.3
3.2 Security services	120.1	10.9	2.8	132.0	10.8	2.6	132.5	9.8	2.6
3.3 Cleaning services	167.4	15.2	5.6	181.3	14.9	5.7	181.4	13.4	5.7
3.4 Membership organisations	29.2	2.7	97.9	32.1	2.6	97.3	33.5	2.5	97.3
4 Other low paying sectors	70.4	6.4	55.5	77.5	6.4	53.4	80.9	6.0	52.8
4.1 Elderly homes	30.2	2.7	73.3	31.3	2.6	73.4	32.1	2.4	73.4
4.2 Laundry and dry cleaning services	5.8	0.5	49.9	6.3	0.5	48.0	6.7	0.5	48.0
4.3 Hairdressing and other personal services	19.2	1.7	56.7	21.8	1.8	54.0	22.0	1.6	54.0
4.4 Local courier services	4.1	0.4	*	4.7	0.4	*	5.2	0.4	*
4.5 Food processing and production	11.1	1.0	*	13.5	1.1	*	14.9	1.1	*
(B) Other sectors	193.1	17.6	58.9	228.4	18.7	58.3	328.0	24.2	58.3
(C) All sectors	1,099.4	100.0	32.1	1,219.8	100.0	32.1	1,357.3	100.0	34.5

Notes: The above results were estimated based on the additional wage bills imputed under three different definitions. Details are in **Appendix IV**.

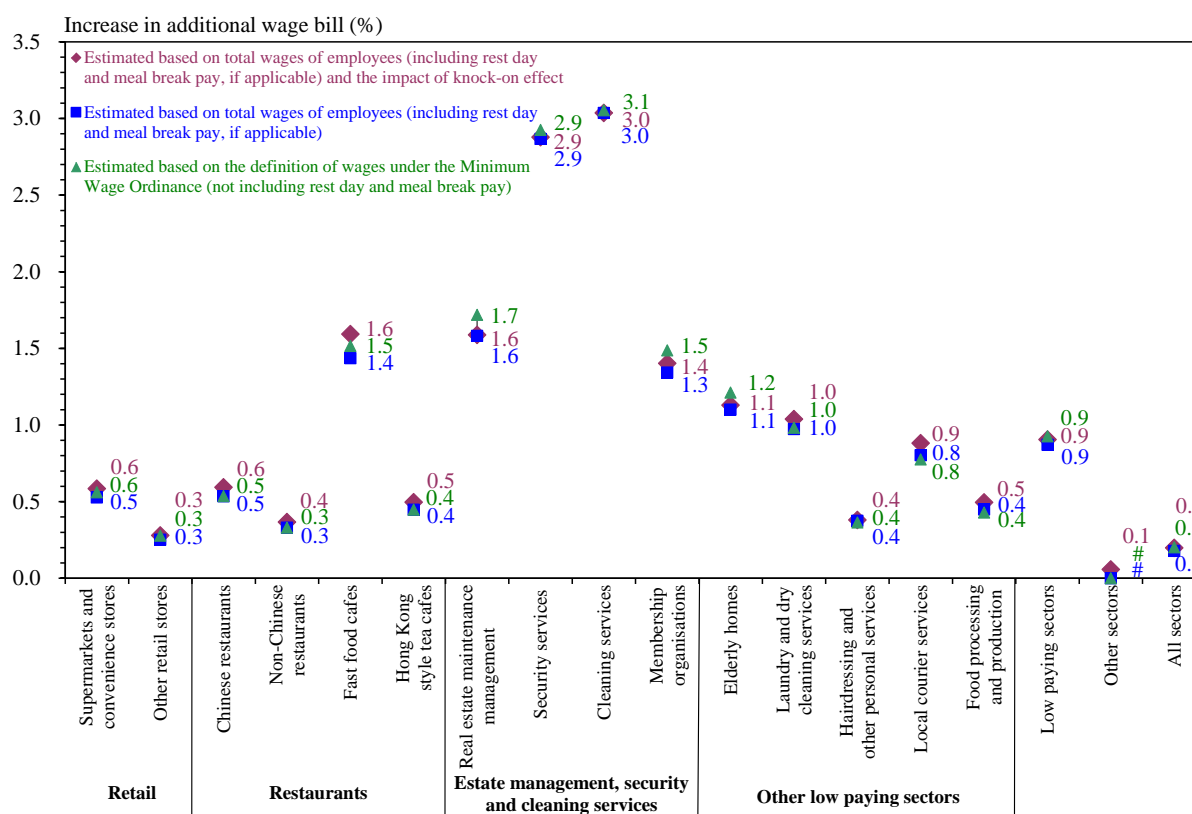
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total.

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

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

6.18 Besides, examining the estimated increase in additional wage bill across sectors helps shed light on the pressure that might be induced by the recommended SMW rate on various sectors. As shown in Figure 6.4, for LPS as a whole, additional wage bill would increase by about 0.9%, much higher than the 0.1% for other sectors. The increases would be more notable in some sub-sectors, such as cleaning services (3.0% to 3.1%), security services (2.9%), real estate maintenance management (1.6% to 1.7%), and fast food cafes (1.4% to 1.6%).

Figure 6.4: Estimated increase in additional wage bill analysed by sector



Notes: The above results were estimated based on the additional wage bills imputed under three different definitions. Details are in **Appendix IV**.

Less than 0.05%.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

6.III.2 Change in overall profit ratio and number of enterprises turning from profits to losses

6.19 When faced with various cost pressures (including costs of goods sold, compensation of employees, rental, rates and Government rent, as well as other operating expenses), enterprises would likely adopt different strategies to absorb or mitigate the rise in costs. Profit reduction is usually considered as a last resort. However, as stated in

Section 4.III.2, the profitability of certain LPS weakened visibly between 2010 and 2012, among which local courier services even recorded an overall loss of 1.4% in 2012. Against the backdrop of economic slowdown, the extent for enterprises to raise prices would also be somewhat limited. As most LPS are labour intensive in nature, it would be rather difficult for them to offset the additional wage bills through adopting various measures to cut labour costs in the short run. Amidst the increasing downside risks to the economy and moderated growth in domestic demand, the profitability of certain enterprises would suffer somewhat as a result of limited room for raising prices. Moreover, since the overall profit ratios of LPS are lower than that of other sectors, any further downward pressures on profits would render their operating environment increasingly difficult. Added to this, SMEs in general find themselves in a weaker position of pricing and cost control as compared with large enterprises and their profitability is more susceptible to cost increase. Given the above factors, MWC assessed, on the assumptions that enterprises offset half or all of the additional wage bills by profit reduction, the affordability of enterprises (in particular sectors and SMEs with lower profit ratios) to cope with the recommended SMW rate under less favourable conditions.

- 6.20 We expect that the impact of the recommended SMW rate on the overall profit ratios of most sectors would be mild. For retail, restaurants and other LPS, even if the additional wage bills are fully offset by profit reduction, the overall profit ratios would drop by less than 0.1 percentage point to 0.2 percentage point. However, in respect of some LPS which are more labour intensive, the additional wage bills would have greater impact on their profitability. For security services, cleaning services, and small and medium-sized elderly homes, even if these enterprises would offset half of their additional wage bills by profit, their overall profit ratios are expected to decrease by 0.3 percentage point to 0.6 percentage point (Table 6.4).

Table 6.4: Estimated change in overall profit ratio analysed by sector after enterprises offset half or all of the additional wage bills by profit^(#)

Sector	All enterprises			Small and medium enterprises		
	Overall profit ratio in 2012 (%)	Change in overall profit ratio after offsetting <u>half</u> of the additional wage bills by profit (percentage point)	Change in overall profit ratio after offsetting <u>all</u> of the additional wage bills by profit (percentage point)	Overall profit ratio in 2012 (%)	Change in overall profit ratio after offsetting <u>half</u> of the additional wage bills by profit (percentage point)	Change in overall profit ratio after offsetting <u>all</u> of the additional wage bills by profit (percentage point)
(A) Low paying sectors	8.4%	-0.1	-0.1	3.5%	* to -0.1	-0.1
1 Retail	9.3%	*	*	3.7%	*	* to -0.1
1.1 Supermarkets and convenience stores	5.7%	*	-0.1	3.0%	* to -0.1	-0.1
1.2 Other retail outlets	9.7%	*	*	3.7%	*	* to -0.1
2 Restaurants	5.7%	-0.1	-0.2	2.5%	-0.1	-0.1 to -0.2
2.1 Chinese restaurants	5.0%	-0.1	-0.2	0.3%	-0.1	-0.1
2.2 Non-Chinese restaurants	6.4%	* to -0.1	-0.1	3.5%	* to -0.1	-0.1
2.3 Fast food cafes	8.2%	-0.2	-0.4 to -0.5	7.4%	-0.2	-0.3
2.4 Hong Kong-style tea cafes	3.1%	-0.1	-0.2	2.7%	-0.1	-0.2
3 Estate management, security and cleaning services ^(^)	4.4%	-0.3 to -0.4	-0.7	7.4%	-0.3	-0.5 to -0.6
3.1 Real estate maintenance management	4.1%	-0.2	-0.4	5.6%	-0.2	-0.4
3.2 Security services	4.8%	-0.6	-1.2	9.6%	-0.2 to -0.3	-0.5
3.3 Cleaning services	5.2%	-0.6	-1.2	10.1%	-0.5	-0.9
4 Other low paying sectors	8.9%	-0.1	-0.1	4.3%	-0.1	-0.2
4.1 Elderly homes	4.4%	-0.2	-0.4	4.6%	-0.3	-0.6
4.2 Laundry and dry cleaning services	7.1%	-0.1 to -0.2	-0.3	12.4%	-0.1	-0.3
4.3 Hairdressing	9.0%	-0.1	-0.1	9.1%	-0.1	-0.1
4.4 Local courier services	-1.4%	-0.2	-0.3 to -0.4	3.9%	-0.1 to -0.2	-0.3
4.5 Food processing and production	10.1%	*	-0.1	2.5%	*	*
(B) Other sectors	15.9%	*	*	10.1%	*	*
(C) All sectors	15.2%	*	*	9.8%	*	*

Notes: (#) Only include enterprises with employees. The range of the above results was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix IV](#).

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

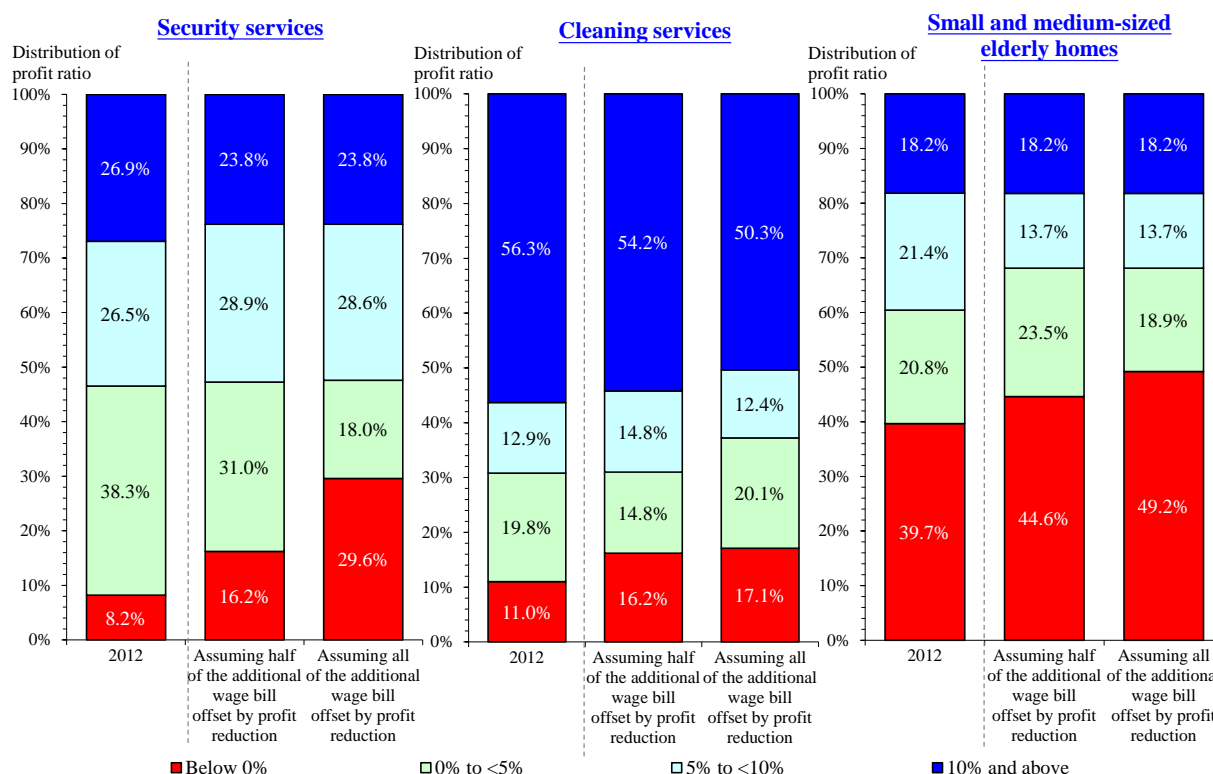
* Between 0 and -0.05.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Annual Survey of Economic Activities, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

6.21 A further analysis of the estimated changes in the distributions of profit ratio provides a better understanding of the profitability of the three sub-sectors (security services, cleaning services, and small and medium-sized elderly homes) that are more likely to be affected (Figure 6.5). For security services, although the proportion of enterprises with losses was only 8.2%, the recommended SMW rate might turn many enterprises in the sector that are making tiny profits (i.e. with an overall profit ratio between 0% and 5%)

from profits to losses. The distribution of profit ratio of cleaning services was rather polarised and the proportion of enterprises turning from profits to losses would be lower than that of security services. As security services and cleaning services have greater pricing power in general and are expected to be able to pass on a significant proportion of additional wage bills to consumers, the chance of massive business closure would be relatively small in these sectors. For small and medium-sized elderly homes, about 40% of the enterprises already recorded losses. The additional wage bill would inevitably pose further pressure on their profits. Of particular concern are those elderly homes that are subject to the Government's subsidy regulations, which thus have little room to pass on the additional costs. Overall speaking, while the impact of the uprating of SMW on some sectors may be more noticeable, enterprises are not likely to offset all or only half of the additional wage bill by profit reduction. It is expected that the additional wage bill entailed by the recommended SMW rate should be manageable for most enterprises (including LPS and SMEs).

Figure 6.5: Estimated distribution of profit ratio in security services, cleaning services, and small and medium-sized elderly homes



Notes: Only include enterprises with employees. The above results were estimated based on total wages of employees (including rest day and meal break pay, if applicable) and the impact of knock-on effect. Owing to rounding, individual percentage may not add up to 100%.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Annual Survey of Economic Activities, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

6.22 Based on the above estimated change in the profit ratio of various sectors, and assuming enterprises offset half or all of the additional wage bills by profit reduction, it was estimated that the additional wage bill would cause about 1 590 to 1 730 enterprises, and 1 960 to 2 050 enterprises to turn from profits to losses respectively, accounting for about 0.7% to 0.8% and 0.9% of enterprises in Hong Kong. Among enterprises turning from profits to losses, over 90% would be SMEs, albeit only accounting for less than 1.0% of all SMEs. Overall speaking, 32 400 to 32 800 employees, and 46 100 to 48 000 employees were engaged in these enterprises, accounting for about 1.3% and 1.8% to 1.9% of all employees respectively (Table 6.5).

Table 6.5: Estimated number of enterprises turning from profits to losses and the number of employees engaged in these enterprises

Proportion of additional wage bills assumed to be offset by profit reduction	Enterprises turning from profits to losses ^(^)			
	Number (enterprises)	Proportion of small and medium enterprises (%)	Number of employees engaged in these enterprises	Proportion among all employees (%)
Half	1 590 to 1 730	95.6 to 96.0	32 400 to 32 800	1.3
All	1 960 to 2 050	94.6 to 94.8	46 100 to 48 000	1.8 to 1.9

Note: (^) Only include enterprises with employees. The range of the above results was estimated based on the additional wage bills imputed under three different definitions. Details are in **Appendix IV**.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Annual Survey of Economic Activities, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

6.23 It is worth noting that under the constraints of up-front investments and tenancy agreements or owing to their operating strategies, enterprises incurring losses may not close down immediately. However, in the long run, these enterprises might consider restructuring, downsizing (including laying off staff) or even closing down. Enterprises that are persistently making losses or competing all along on low prices rather than productivity or output quality may be subject to greater operating pressure, thereby entailing some impact on the labour market. Nevertheless, when these enterprises close down, their market shares might be taken up by other existing enterprises or by newly established ones and some of the laid-off employees might be hired by other enterprises. As it is unlikely that enterprises would offset all of the additional wage bill by profit reduction, MWC envisaged that the impact of the recommended SMW rate would be largely manageable for most sectors.

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

- 6.24 With the SMW rate raised to the recommended level, part of the labour costs associated with statutory entitlements of employees, such as the liability of long service payment, might also increase. According to the data from AEHS, around one-fourth of the employees involved had been working in the same organisation for five years or above in May to June 2013. Estimated based on total wages (including rest day and meal break pay, if applicable) and the impact of knock-on effect, the increase in employers' liability of long service payment would be around \$126.1 million or up by 5.6% as a result of the uprating of SMW to the recommended level, accounting for only 0.02% of the total wage bill of all employees. The impact would be rather slight. As an employee is entitled to long service payment only if he/she has been continuously employed by the same employer for not less than five years⁽⁴⁾, the impact might be even smaller for those sectors hiring more short-term staff.
- 6.25 When recommending the SMW rate, MWC considered the possible impact on businesses from various aspects in order to safeguard the favourable business environment and competitiveness of Hong Kong. From the above assessment results, MWC envisaged that the recommended SMW rate would be manageable for enterprises, and should not cause significant impact on the overall business environment and incentives for business start-up.

6.IV Impact on Overall Unemployment Rate and Inflation

6.IV.1 Impact on overall unemployment rate

- 6.26 The impact of SMW on the unemployment rate is determined by the dynamics between labour supply and demand, and wages under different economic scenarios. Uprating of SMW would lead to pay rise of grassroots employees and might entice more people to join the labour market. However, it would also incur additional labour costs and might prompt enterprises to streamline and downsize, which would in turn exert upward pressure on the unemployment rate. Nevertheless, when the macroeconomic environment is favourable and enterprises create sufficient new jobs to absorb labour supply, the pressure arising from uprating of SMW on the unemployment rate would be

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

somehow relieved. On the contrary, if the economy slackens and the pace of job creation in the corporate sector slows down, the labour market might not even be able to fully absorb the natural growth of the labour force, thereby resulting in a greater upward pressure on the unemployment rate.

6.27 Such impact, as mentioned in Section 5.IV.2, would gradually emerge as the labour market adjusts after uprating of SMW. In order to conduct a comprehensive assessment of the possible impact of SMW rate adjustment on the number of unemployed grassroots workers and overall unemployment rate, MWC made reference to the economic data (including real economic growth rate, inflation rate, total consumption expenditure in the domestic market and wages statistics released by C&SD) in the past decade or so to construct an econometric model to analyse the dynamics of the labour market in respect of grassroots workers (including labour supply and demand, and unemployment situation) and wages under different economic conditions.

6.28 The assessment results showed that assuming the Hong Kong economy would grow moderately by 2.5% in the first half of 2015 (i.e. economic scenario 1), it was estimated that the recommended SMW rate would lead to an increase of 5 800 to 6 400⁽⁵⁾ unemployed grassroots workers. The impact on the overall unemployment rate would be about 0.1 percentage point to 0.2 percentage point. With slower economic growth at 1.5% (i.e. economic scenario 2), particularly in the case of softer domestic demand amidst dampened consumer sentiment, the increase in the overall unemployment rate was estimated to be about 0.4 percentage point. With the prevailing unemployment rate in Hong Kong still relatively low, barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in the labour market (Table 6.6).

(5) The range of the above results was estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix IV](#).

Table 6.6: Estimated increase in the number of unemployed grassroots workers and overall unemployment rate under different economic scenarios

Economic scenario	Increase in number of unemployed grassroots workers ^(^)	Increase in overall unemployment rate ^(^) (percentage point(s))
1	5 800 to 6 400	0.1 to 0.2
2	16 100 to 16 700	0.4
3	31 600 to 32 100	0.8
4	41 700 to 42 300	1.0 to 1.1

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

Source: Estimated by the econometric model. Details are in [Appendix IV](#).

6.IV.2 Impact on inflation

6.29 To consider the potential maximum impact on inflation brought about by the uprating of SMW to the recommended level, we assume a full pass-on of additional wage bill to prices of products and services and take into account the first round of wage-price spiral effect (i.e. prices of other items which were directly or indirectly linked to wages and inflation would also go up). It was estimated that the Composite Consumer Price Index (CPI) would go up by about 0.3 percentage point ⁽⁶⁾. As a measure of inflation on the grassroots, the corresponding rise in CPI(A) would be around 0.4 percentage point to 0.5 percentage point ⁽⁶⁾. With its greater pressures entailed from additional wage bills and stronger pricing power, price increases of services provided by the estate management, security and cleaning services sector might be more apparent. Nevertheless, as it would be unlikely for all enterprises to fully pass on the additional wage bill to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the above estimate.

6.V Observations

6.30 We have to emphasise that the impact assessment was based on a series of assumptions with a view to conducting stress tests on the possible impact of SMW rate adjustment on various aspects. As enterprises are unique in terms of their operating modes, types of goods/services supplied, supply and demand conditions, and profitability, it is

⁽⁶⁾ The above results were estimated based on the additional wage bills imputed under three different definitions. Details are in [Appendix IV](#).

difficult to predict precisely the actual responses of different enterprises after the SMW rate is raised to the recommended level. As such, the above impact assessment results should not be taken as an accurate forecast of all the actual conditions upon the implementation of the recommended SMW rate.

6.31 It should be noted that a precise assessment of the impact of the recommended SMW rate is not possible, especially when Hong Kong's economic outlook is surrounded by considerable uncertainties. Nevertheless, in recommending the SMW rate based on an evidence-based approach, MWC already examined the possible impact brought about by various SMW test levels under different economic scenarios in detail, made every effort to conduct comprehensive analyses of the information and data obtained from various statistical surveys, and gave thorough consideration to the views from various sectors of the community so as to cover and strike a balance among all the factors of consideration. We understand that views of different stakeholders on the review of the SMW rate are diverse and the recommended rate may still fall short of the expectations of some sectors of society. Nevertheless, MWC considered that the recommended rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, whilst giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.

6.32 During MWC's consultation, some stakeholders pointed out that the SMW rate should be set at a level that could meet the basic needs for living of individual employees and their families. On the other hand, other stakeholders considered that SMW should only set a wage floor to protect grassroots workers, but should not be deployed as a welfare policy or a poverty alleviation measure. MWC understands the community's concerns about the problems of poverty (including the problem of the working poor and whether the basic needs for living of individual employees and their families could be met). It is, however, noteworthy that the main objective of SMW implementation is to set a wage floor to forestall excessively low wages. Although SMW helps raise the employment earnings of low-paid workers, it is by no means and should not be conceived as the only solution to eradicate working poverty. Besides, the employment terms and working hours of employees vary, and so do their family situations and needs. As such, we should not rely on uprating of SMW to meet the needs of the families of all employees.

6.33 Besides, during the consultation period, some stakeholders suggested anchoring the SMW rate on changes in such indicators as wages and prices etc. Having considered that SMW may bring about possible impact on various aspects like the labour market, society, economy, inflation, productivity, competitiveness, wage levels, and these factors would interact with each other and adjust in tandem with changes in the socio-economic environment, a mechanical indexation of the SMW rate to individual indicators is unable to fully consider the various relevant factors and their interactions, and also fails to take into account flexibly the changing circumstances and needs of our society, economy and labour market. In reviewing the SMW rate, MWC has fully considered various factors and the existing methodology adopted is also consistent with those for conducting similar reviews in other places (see **Appendix III**).

7 Recommendation

- 7.1 The statutory function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to report its recommendation about the Statutory Minimum Wage (SMW) rate to CE in Council. SMW impacts on various aspects including the labour market, society and economy. Various sectors of the community also have diverse views and concerns about the review of the SMW rate. Adopting an evidence-based approach, MWC reviewed the SMW rate in a comprehensive, objective and balanced manner. Apart from making reference to the statistics in an Array of Indicators (including a large number of indicators which were released and updated more frequently), MWC also studied in detail the findings of other surveys and fully considered the views on the review of the SMW rate from various sectors of the community. MWC also took into account other relevant considerations that could not be fully quantified, the incentive to work of the grassroots and the impact of price changes on the purchasing power of employees, and conducted impact assessment under different SMW test levels. After carrying out detailed analyses and in-depth assessment as well as undertaking thorough consideration, we unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$32.5 per hour, representing an increase of 8.3%.
- 7.2 According to the data from the 2013 Annual Earnings and Hours Survey, around 255 200 employees would be covered by the recommended SMW rate, accounting for 8.7% of all employees. MWC crudely estimated that in the first half of 2015 and at the time just before the SMW rate is raised to the recommended level, the number of employees earning an hourly wage of less than \$32.5 would be approximately 150 000, accounting for about 5% of all employees. As the labour market keeps adjusting, the assumptions underlying the above estimates (including job creation/loss at different income levels and the changes in wages of individual employees) might be different from the situation after the implementation of the recommended SMW rate. Thus, these estimates should be used for reference only. While some employers might take into account their own circumstances to adopt mitigation measures to control labour costs, MWC believed that the recommended SMW rate would raise the wages of the majority of employees involved, even though its impact on monthly wages would vary among individual employees.

- 7.3 Regarding total wage bill, 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 the statutory requirements, together with the impact of knock-on effect on pay hierarchies on the additional labour costs, the total additional wage bill arising from the recommended SMW rate would be around \$1.36 billion, representing an increase of approximately 0.2%. Based on our assessments on the change in overall profit ratio and the number of enterprises turning from profits to losses, even having considered that small and medium enterprises (SMEs) already have thinner profit margins and are also generally less able to raise prices and control cost as compared to large enterprises, the impact of the additional wage bill would be relatively modest and should be largely manageable for most sectors and enterprises (including low paying sectors and SMEs).
- 7.4 As regards the impact assessment on the unemployment rate, assuming that the Hong Kong economy would grow moderately by 2.5% in the first half of 2015, it was estimated that the recommended SMW rate would lead to an increase of 5 800 to 6 400 unemployed grassroots workers. The impact on the overall unemployment rate would be about 0.1 percentage point to 0.2 percentage point. With slower economic growth at 1.5%, the increase in the overall unemployment rate was estimated to be about 0.4 percentage point. With the prevailing unemployment rate in Hong Kong still relatively low, barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in the labour market.
- 7.5 MWC recognised the concerns from various sectors of the community about the impact of SMW on inflation, and thus conducted impact assessment in this regard. Assuming a full pass-on of additional wage bill to prices of products and services and taking into account the first round of wage-price spiral effect, the Composite Consumer Price Index was estimated to go up by about 0.3 percentage point. Nevertheless, as it would be unlikely for all enterprises to fully pass on the additional wage bill to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the aforementioned estimate.
- 7.6 Based on the above evidence-based analyses and assessment, having considered the risks on unemployment brought about by the implementation of the recommended SMW rate under different economic scenarios, and upon iterative deliberations as well as in-depth and rational discussions, we considered that the upward adjustment of the SMW rate to

\$32.5 per hour would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, whilst giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.

- 7.7 The recommended SMW rate was reached with the unanimous consensus of all MWC members based on an evidence-based approach and rational discussion. We trust that the recommended rate would be positively received by the majority of the sectors of the community and would also be conducive to the overall interest and development of Hong Kong.

Appendix I

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

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

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

Summary of Indicators	Statistical Indicators	Data Sources
5. 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
Area Considered (4): Social Inclusion		
1. Standard of living	Wage indices / indices of payroll per person engaged	Labour Earnings Survey, C&SD
	Employment earnings of full-time employees analysed by decile group	GHS, C&SD
	Average monthly employment earnings	GHS, C&SD
2. Enhancing work incentive	Labour force participation rate	GHS, C&SD
	Number of long-term (unemployed 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

Appendix II

List of Stakeholders that Attended Consultation Meetings (listed in alphabetical order)

Name of Organisation	
1.	A. S. Watson & Co. Ltd. 屈臣氏有限公司
2.	Advance Caterers Ltd. 駿昇飲食有限公司
3.	Association of Professional Personnel (Hotels, Food & Beverage) 酒店及飲食專業人員協會
4.	Association of Restaurant Managers 現代管理（飲食）專業協會
5.	Belle Worldwide Limited 百麗環球有限公司
6.	Business and Professionals Federation of Hong Kong 香港工商專業聯會
7.	Catering and Hotels Industries Employees General Union 飲食及酒店業職工總會
8.	Centuryan Environmental Services Group Limited 新紀元環保服務集團有限公司
9.	Chamber of Security Industry Limited 保安業商會
10.	Cleaning Service Industry Workers Union 清潔服務業職工會
11.	Cleaning Workers Union 清潔工人職工會
12.	Dah Chong Hong Holdings Ltd. 大昌行集團有限公司
13.	Eating Establishment Employees General Union 飲食業職工總會
14.	Employers' Federation of Hong Kong 香港僱主聯合會
15.	Environmental Services Contractors Alliance (Hong Kong) 香港環境衛生業界大聯盟
16.	Environmental Services Operatives Union 環境服務從業員工會
17.	Express Security Limited 警衛國際有限公司
18.	Fairwood Holdings Ltd. 大快活集團有限公司
19.	Federation of Hong Kong Industries 香港工業總會
20.	Federation of International SME Ltd. 國際中小企聯合商會
21.	Food and Beverage Industry Employees General Union 食品及飲品業僱員總會
22.	Food and Beverage Management and Professional Staff Association 飲食業管理專業人員協會
23.	Forum Restaurant (1977) Ltd. 富臨飯店（1977）有限公司
24.	Good World Food & Beverage (Holdings) Co. Ltd. 好世界飲食（集團）有限公司
25.	Guardian Property Management Ltd. 佳定物業管理有限公司
26.	Hang Yick Properties Management Ltd. 恒益物業管理有限公司

Name of Organisation	
27.	Happiness Cuisine 囍慶藝廚酒家
28.	Hiu Kwong Nursing Service Limited 曉光護老服務有限公司
29.	Hong Kong & Kowloon Electrical Appliances Merchants Association Ltd. 港九電器商聯會有限公司
30.	Hong Kong & Kowloon Motor Boats & Tug Boats Association Ltd. 港九電船拖輪商會有限公司
31.	Hong Kong and Kowloon Trades Union Council 港九工團聯合總會
32.	Hong Kong Beauty and Fitness Professionals General Union 香港美容健體專業人員總會
33.	Hong Kong Buildings Management and Security Workers General Union 香港物業管理及保安職工總會
34.	Hong Kong Business Community Joint Conference 香港各界商會聯席會議
35.	Hong Kong Catering Industry Association 香港飲食業聯合總會
36.	Hong Kong Catholic Commission for Labour Affairs 香港天主教勞工事務委員會
37.	Hong Kong CFS & Logistics Association Limited 香港集裝箱貨倉及物流服務聯會有限公司
38.	Hong Kong Chinese Reform Association 香港華人革新協會
39.	Hong Kong Christian Service 香港基督教服務處
40.	Hong Kong Confederation of Trade Unions 香港職工會聯盟
41.	Hong Kong Container Drayage Services Association Limited 香港貨櫃拖運業聯會有限公司
42.	Hong Kong Democratic Foundation 香港民主促進會
43.	Hong Kong District Tourists and Passengers Omnibus Operators Association 香港區旅運巴士同業聯會
44.	Hong Kong Environmental Services, Logistics and Cleaning Employees Association 香港環保、物流及清潔從業員協會
45.	Hong Kong Federation of Restaurants & Related Trades 香港餐飲聯業協會
46.	Hong Kong Federation of Women 香港各界婦女聯合協進會
47.	Hong Kong Food Council Limited 香港食品業總會有限公司
48.	Hong Kong General Chamber of Commerce 香港總商會
49.	Hong Kong General Chamber of Social Enterprises Limited 香港社會企業總會有限公司
50.	Hong Kong Hair & Beauty Merchants Association 香港美髮美容業商會
51.	Hong Kong Hair Dressing & Make-Up Trade Workers General Union 香港理髮化妝業職工總會

Name of Organisation	
52.	Hong Kong Institute of Human Resource Management 香港人力資源管理學會
53.	Hong Kong Logistics Association 香港物流協會
54.	Hong Kong People Management Association 香港人才管理協會
55.	Hong Kong Professionals and Senior Executives Association 香港專業及資深行政人員協會
56.	Hong Kong Retail Management Association 香港零售管理協會
57.	Hong Kong Securities Association Limited 香港證券業協會有限公司
58.	Hong Kong Small and Medium Enterprises Association 香港中小型企業聯合會
59.	Hong Kong SME Development Federation Ltd. 香港中小企促進聯會
60.	Hong Kong SME Forum 香港中小企商會聯席會議
61.	Hong Kong Social Enterprise Incubation Centre Limited 香港社會企業策劃有限公司
62.	Hong Kong Social Security Society 香港社會保障學會
63.	Hong Kong Waste Disposal Industry Association 香港廢物處理業協會
64.	Hong Kong Women Development Association Limited 香港婦聯
65.	Hong Kong Women Workers' Association 香港婦女勞工協會
66.	Institution of Dining Art 稻苗學會
67.	Johnson Cleaning Services Co. Ltd. 莊臣有限公司
68.	Jones Lang LaSalle Management Services Ltd. 仲量聯行物業管理有限公司
69.	Kam Hing Food Factory Ltd. 錦興食品集團
70.	Kowloon District Tourists and Passengers Omnibus Operators Association 九龍區旅運巴士同業聯會
71.	Kwong Fuk Elderly Care Centre (Tuen Mun) Limited 廣福護老院（屯門）有限公司
72.	Lok Ma Chau China-Hong Kong Freight Association 落馬洲中港貨運聯會
73.	Magic Clean Environmental Services Limited 壹清潔環境服務有限公司
74.	Momentum 107 107 動力
75.	Oxfam Hong Kong 樂施會
76.	People's Alliance for Minimum Wage 民間爭取最低工資聯盟
77.	Pricerite Stores Limited 實惠家居有限公司
78.	Public Omnibus Operators Association 公共巴士同業聯會
79.	Sa Sa Cosmetic Co. Ltd. 莎莎化妝品有限公司
80.	Savills Property Management Ltd. 第一太平戴維斯物業管理有限公司

Name of Organisation	
81.	SME Global Alliance 中小企國際聯盟
82.	Sun Lok Restaurant 新樂茶餐廳
83.	Swan Hygiene Services Limited 時運服務有限公司
84.	The British Chamber of Commerce in Hong Kong 香港英商會
85.	The Chinese General Chamber of Commerce 香港中華總商會
86.	The Chinese Manufacturers' Association of Hong Kong 香港中華廠商聯合會
87.	The Dairy Farm Company Ltd. 牛奶有限公司
88.	The Elderly Services Association of Hong Kong 香港安老服務協會
89.	The Federation of Environmental and Hygiene Services 中港澳環衛總商會
90.	The Federation of Hong Kong & Kowloon Labour Unions 港九勞工社團聯合會
91.	The Federation of Hong Kong Property Management Industry Ltd. 香港物業管理聯合會有限公司
92.	The Hong Kong Association of Property Management Companies Ltd. 香港物業管理公司協會有限公司
93.	The Hong Kong Chinese Importers' & Exporters' Association 香港中華出入口商會
94.	The Hong Kong Council of Social Service 香港社會服務聯合會
95.	The Hong Kong Federation of Commerce for Small and Medium Enterprises 香港中小企業工商聯合會
96.	The Hong Kong Federation of Trade Unions 香港工會聯合會
97.	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
98.	The Hong Kong Institute of Housing 香港房屋經理學會
99.	The Hong Kong Security Association 香港保安業協會
100.	The Hong Kong Shippers' Council 香港付貨人委員會
101.	The Laundry Association of Hong Kong 香港洗衣商會
102.	The Lion Rock Institute 獅子山學會
103.	The Wing On Department Stores (HK) Ltd. 永安百貨有限公司
104.	Tsuen Wan District Tourists and Passengers Omnibus Operators Association 荃灣區旅運巴士同業聯合會
105.	Tuen Mun District Tourists and Passengers Omnibus Operators Association 屯門區旅運巴士同業聯合會
106.	Urban Property Management Ltd. 富城物業管理有限公司
107.	(No English name) 天主教家庭工資關注組

Appendix III

Experience of Reviewing Minimum Wage Rates in Other Places

Place studied	Concept	Criteria for reviewing minimum wage rate
The Mainland (Beijing, Shanghai, Guangdong and Shenzhen)	Minimum wage is an important means to protect the basic living of workers and their family members so as to ensure that workers (particularly low-income workers) can have reasonable remuneration	✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Minimum cost of living for a worker and the average number of his/her dependants ➤ Average wage levels ➤ Labour productivity ➤ Employment conditions ➤ Economic development differentials among regions
Taiwan	Minimum wage is the lowest standard of employment conditions with a number of indicators taken into account in setting its rate	✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Conditions of economic development ➤ Wholesale price index ➤ Retail price index ➤ Overall income and average individual income ➤ Labour productivity of different industries and employment situation ➤ Workers' wages in various sectors ➤ Survey and statistical figures on household income and expenditure
South Korea	Minimum wage takes into account the living needs of workers as well as a number of indicators so as to balance various interests	✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Cost of living of workers ➤ Wages of kindred workers ➤ Labour productivity ➤ Ratio of workers' compensation to national income

Place studied	Concept	Criteria for reviewing minimum wage rate
The United Kingdom	Minimum wage aims to help as many low-paid workers as possible without damaging their employment prospects	<ul style="list-style-type: none"> ✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ State and prospects for the economy ➤ Employment and unemployment levels ➤ Impact of the national minimum wage ➤ International comparisons and developments of other places ➤ Likely impact of current and forthcoming legislation ➤ Evidence provided by stakeholders
France	Minimum wage ensures low-paid workers can enjoy a certain living standard and have a share in the economic development	<ul style="list-style-type: none"> ✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Change in price index ➤ Increase in the purchasing power of overall average wage ➤ Needs of workers and their families ➤ Economic considerations (e.g. economic conditions, productivity, employment level, overall wages and income level, etc) ➤ Political and social considerations ➤ Views of the National Collective Bargaining Commission and the Group of Experts
Ireland	Minimum wage is one of the components in safeguarding the living standard of nationals	<ul style="list-style-type: none"> ✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Movement in employees earnings ➤ Relevant exchange rate movement ➤ Likely impact on unemployment and employment rates, inflation and competitiveness

Place studied	Concept	Criteria for reviewing minimum wage rate
Australia	Minimum wage is to establish and maintain a safety net of fair minimum wage	<ul style="list-style-type: none"> ✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Performance and competitiveness of the national economy, including productivity, business competitiveness and viability, inflation and employment growth ➤ Promoting social inclusion through increased workforce participation ➤ Relative living standards and the needs of low-paid workers ➤ Principle of equal remuneration for work of equal or comparable value ➤ Providing a comprehensive range of fair minimum wages to junior employees, employees to whom training arrangements apply and employees with a disability
New Zealand	Minimum wage is to balance the protection of the real income of low-paid workers with minimising job losses.	<ul style="list-style-type: none"> ✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Inflation, using Consumer Price Index as the indicator ➤ Wage growth, using median wage as the indicator ➤ Restraint on employment ➤ Other relevant factors (including impacts on industries, fiscal impact on the public sectors and the interface with other government policies)
The United States	Federal minimum wage aims to maintain the minimum standard of living of workers without substantially curtailing employment	<ul style="list-style-type: none"> ✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Cost of living ➤ Productivity in the manufacturing sector ➤ Wage level ➤ Affordability of employers to wage increase
Canada	Minimum wage takes account of the living needs of workers as well as a number of indicators so as to balance various interests	In general, cost of living, economic conditions, Consumer Price Index and other related factors are taken into account by the Provinces

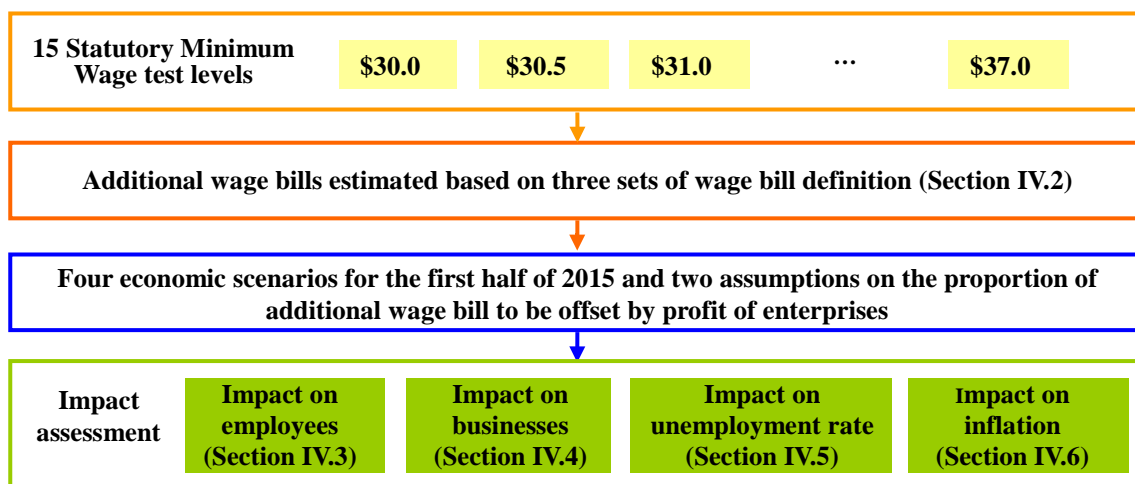
Appendix IV

Methodology of Impact Assessment

IV.1 Introduction

IV.1.1 Section 5.IV briefly sets out the factors considered by the Minimum Wage Commission (MWC) in designing the framework of impact assessment. This Appendix elaborates on the methodology and major assumptions adopted by MWC in assessing the possible impact of the Statutory Minimum Wage (SMW) rate adjustment on employees, businesses, unemployment rate and inflation. The framework is summarised in Figure IV.1.

Figure IV.1: Framework of impact assessment



IV.2 Estimated Additional Wage Bill

IV.2.1 Additional wage bill in the impact assessment refers to the difference between the original wage bill and the wage bill after enterprises raise the hourly wages of all employees earning less than the SMW test level to that level, assuming all other factors (such as number of employees and structure of employees' occupation, skill level and working experience) remain unchanged.

IV.2.2 We continued to adopt the three sets of wage bill definition as adopted by the first-term MWC to estimate the annual additional wage bills:

- (a) **Additional wage bill estimated based on the definition of wages under the Minimum Wage Ordinance**, which does not include rest day and meal break

pay of employees who are granted these payments according to their employment contract or agreement. We estimated the additional wage bills under this item and item (b) below mainly based on the findings of the Annual Earnings and Hours Survey (AEHS) conducted by the Census and Statistics Department (C&SD);

- (b) **Additional wage bill estimated based on the total wages received by employees** (i.e. item (a) above, plus rest day and meal break pay of employees (for those who are granted these payments according to their employment contract or agreement)). In estimating the additional wage bill under this item, we assumed that employees entitled to rest day and/or meal break pay would continue to enjoy these benefits after their hourly wages were adjusted to the SMW test level, and their rest day and/or meal break pay would also increase with the rise in their hourly wages; and
- (c) **Additional wage bill estimated based on the total wages received by employees (i.e. item (b) above) plus the impact of 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 two thematic studies on the knock-on effect in the retail and restaurant sectors ⁽¹⁾ (studies on knock-on effect) and AEHS. These studies and surveys provided data for reference and information for analysing the impact of knock-on effect on the retail and restaurant sectors as well as other sectors respectively.

IV.2.3 The magnitude of the impact of knock-on effect varies with the operating characteristics, rank and remuneration structure, etc of different sectors. The impact of knock-on effect would be more pronounced in sectors with multi-layered grade structures, narrower pay differentials between adjacent ranks and more lower-paid employees. As observed from the findings of the two studies on knock-on effect and AEHS, the magnitude of the impact of knock-on effect would also be affected by the extent of SMW uprating. A relatively moderate uprating would result in a relatively mild impact of knock-on effect, whereas a relatively sizeable uprating (hence a more discernible increase in additional wage bill) would induce a relatively pronounced

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

impact of knock-on effect. When more ranks are involved, the impact of knock-on effect would also be more noticeable. As a result, the additional wage bill borne by enterprises that intend to maintain the pay differentials among employees of different ranks might be larger.

IV.2.4 By making reference to the methodology adopted by the first-term MWC for examining the impact of knock-on effect, and based on the findings of the two studies on knock-on effect and AEHS, we derived the knock-on multipliers for various sectors (Table IV.1) so as to estimate the additional wage bills under item (c) of paragraph IV.2.2.

Table IV.1 : Estimated knock-on effect multipliers ^(*) for low paying sectors

Low Paying Sectors ^(^)	Knock-on effect induced by a 1% increase in additional wage bill (percentage point)
Retail	0.35
Restaurants	0.17
Real estate maintenance management and security services	# ^(@)
Cleaning services	# ^(@)
Membership organisations	0.03
Elderly homes	0.02
Laundry and dry cleaning services	0.07
Hairdressing and other personal services	0.03
Local courier services	0.13
Food processing and production	0.24

Notes: (*) By multiplying the knock-on effect multipliers and the increase in additional wage bill (i.e. the increase under item (b) of paragraph IV.2.2) under different Statutory Minimum Wage (SMW) test levels together, further increase in wage bills induced by knock-on effect and hence the additional wage bills under item (c) of paragraph IV.2.2 can be derived.

(^) With less than 1% of employees in other sectors earning hourly wages at just the SMW rate, the additional wage bill resulting from compliance with adjustment of the SMW rate is very small. However, with SMW uprating, the pay differentials between other sectors and low paying sectors would narrow. To retain staff, employers in other sectors might have to offer pay rises to employees whose original wages were already above the SMW rate. Thus, the impact of knock-on effect on other sectors would be more discernible vis-à-vis additional wage bill arising merely from compliance with statutory requirements. For other sectors, the multiplier was estimated to be 10.13.

(@) In these low paying sectors, there were fewer ranks and over 20% of the employees earned hourly wages at just the SMW rate (i.e. \$30.0 per hour). Though enterprises might have to offer pay rises to employees whose hourly wages were already above the SMW rate to maintain staff morale and pay differentials among different ranks, the additional wage bills involved should be relatively small.

Between 0 and 0.005.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

IV.3 Impact Assessment on Employees

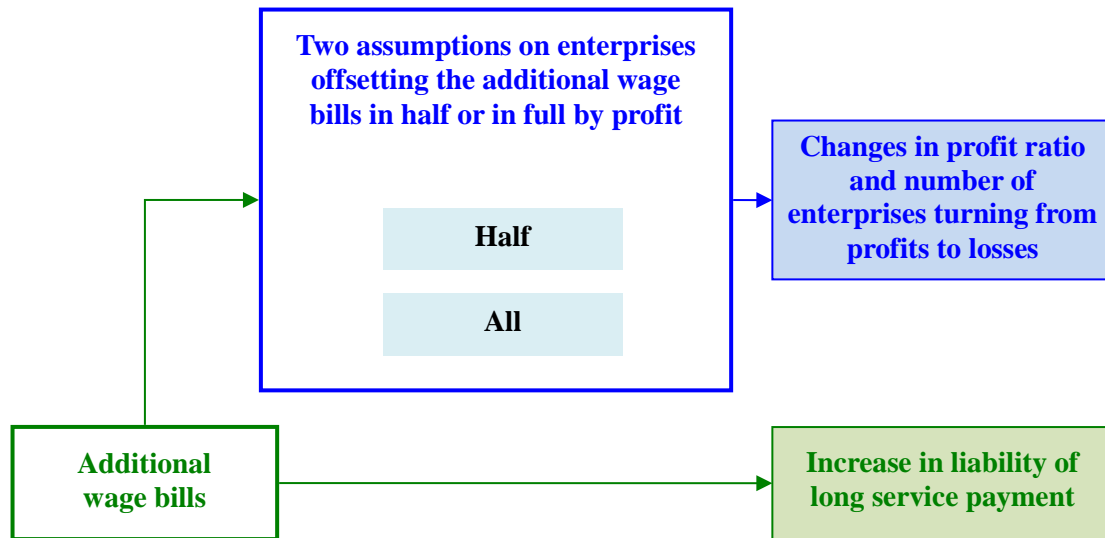
IV.3.1 We conducted an assessment of the impact of different SMW test levels on employees. The main assessment items are as follows:

- (a) **Number and proportion of employees involved:** Employees involved refer to employees with hourly wages below the SMW test levels. The number of employees involved was estimated based on the findings of the 2013 AEHS on wage distribution of employees in May to June 2013. However, we were aware that should the recommended SMW rate be accepted and implemented in the first half of 2015, the wages of some of the employees involved might have been raised above the recommended SMW rate by then and the number of employees involved might be lower than the estimate made on the basis of the wage distribution data of 2013. In view of this, we also made reference to the latest data from the General Household Survey (GHS) and the Labour Earnings Survey compiled by C&SD, as well as taking into account various economic scenarios, to estimate the number and proportion of employees involved before the implementation of the recommended SMW rate in the first half of 2015.
- (b) **Increase in wages of employees involved:** This refers to the average increase in wages after the hourly wages of all employees involved were raised to different SMW test levels, assuming that other factors remained unchanged.

IV.4 Impact Assessment on Businesses

IV.4.1 We conducted an assessment of the impact of different SMW test levels on businesses. The methodology and items are as follows (Figure IV.2):

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



- (a) **Changes in profit ratio and number of enterprises turning from profits to losses:** By making reference to the findings of the latest (i.e. 2012) Annual Survey on Economic Activities (ASEA)⁽²⁾ available when reviewing and making recommendation on the SMW rate, we obtained data on staff costs (including wage bills and costs of other relevant benefits, such as employers' contribution to the Mandatory Provident Fund) of various sectors. We then estimated the changes in overall profit ratio and profit ratio distribution of individual sectors, as well as the number of enterprises turning from profits to losses in individual sectors, based on the additional wage bills brought about by different SMW test levels and the two assumptions on enterprises offsetting the additional wage bills in half or in full by profit.
- (b) **Increase in liability of long service payment:** Based on the data from the 2013 AEHS, we estimated the number of employees involved who have worked in the same organisations for five years or above⁽³⁾ and the increase in their monthly salaries after the adjustment of the SMW rate, which was multiplied by two-thirds and years of service so as to estimate the potential

(2) The data from the statistical survey reveal the operating situation of enterprises before the implementation of the revised SMW rate in May 2013. As the results of the 2013 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 2012 ASEA).

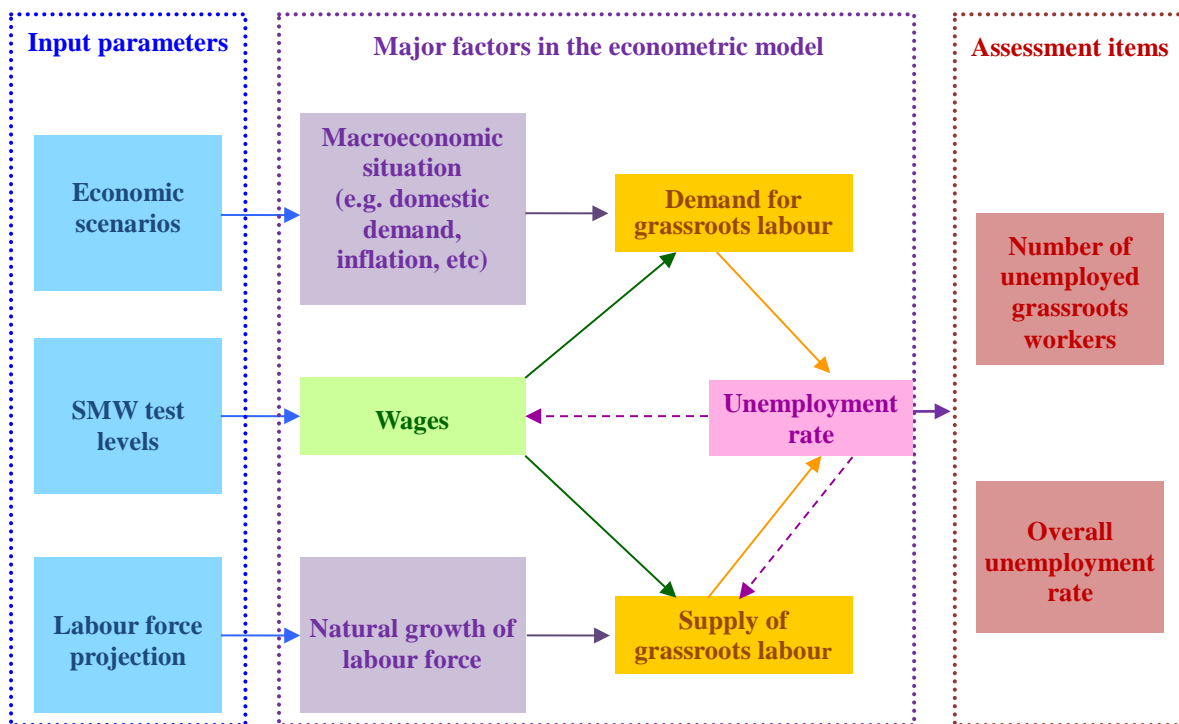
(3) According to the Employment Ordinance, an employee who has been employed under a continuous contract for not less than five years, and satisfies one of the following criteria will be entitled to long service payment. The criteria include: the employee is dismissed, but is not summarily dismissed due to serious misconduct or is not dismissed by reason of redundancy; or the employee's employment contract of a fixed term expires without being renewed; or the employee dies; or the employee resigns on grounds of ill health; or the employee, aged 65 or above, resigns on ground of old age. Owing to data limitations, the assessment did not take into account employees who are not entitled to long service payment for reason of not satisfying the above criteria.

additional liability of long service payment that might be faced by enterprises⁽⁴⁾.

IV.5 Impact Assessment on Unemployment Rate

IV.5.1 By analysing the economic data (including real economic growth rate, inflation rate, total consumption expenditure in the domestic market and wages statistics released by C&SD) over the past some ten years and making use of an econometric model, we conducted an impact assessment on the unemployment rate under different SMW test levels. The assessment methodology, dynamics among major factors in the econometric model, three input parameters adopted and main assessment items are as follows (Figure IV.3):

Figure IV.3: Methodology for assessing the impact on unemployment rates under different Statutory Minimum Wage (SMW) test levels



- (a) **Economic scenarios:** To analyse the impact of the SMW rate adjustment under different economic scenarios, we made assumptions on the economic conditions in the first half of 2015 and took into account four economic scenarios (see Table 5.1) in estimating the demand for grassroots employees (i.e. persons engaged in elementary occupations, and service and sales workers) under these scenarios.

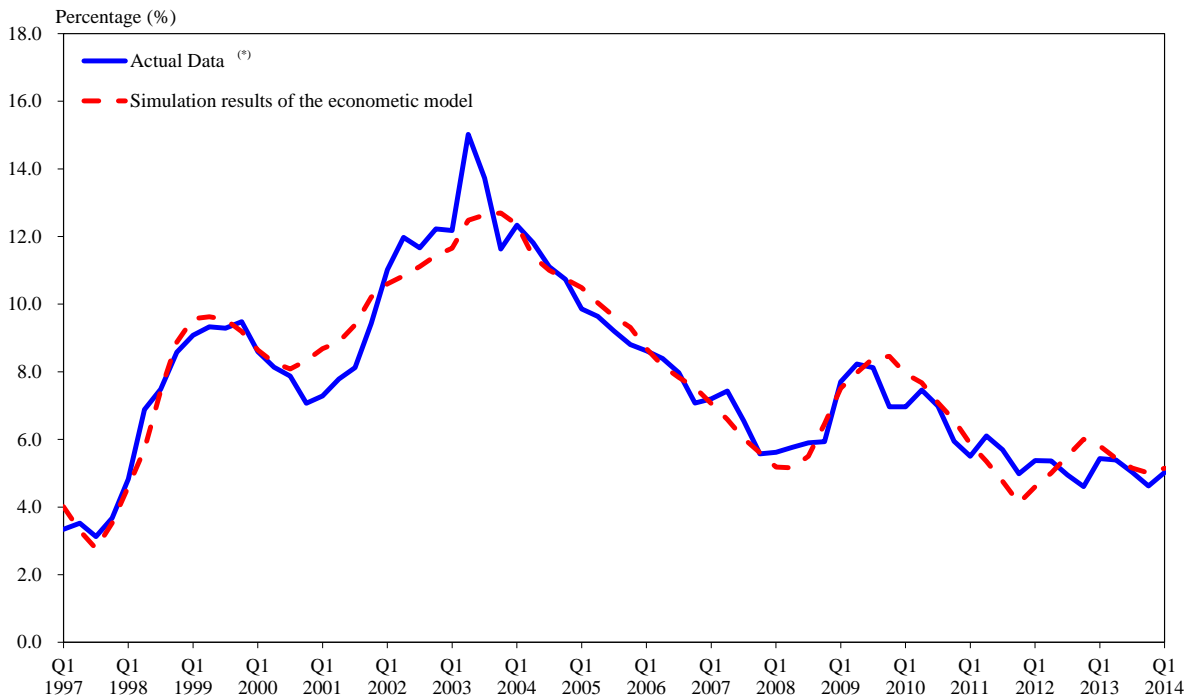
(4) The estimate did not take into account the amount of long service payment that could be offset by the part of the accrued benefits from employers' contributions made to the Mandatory Provident Fund.

- (b) **SMW test levels:** The wage increases of grassroots employees were estimated under different SMW test levels.
- (c) **Labour force projection:** By making reference to the labour force projections compiled by the C&SD in 2013, we computed the natural growth of total labour force and the estimates on the corresponding growth of grassroots labour force.

IV.5.2 In assessing the impact on the unemployment rate, we first computed the number of unemployed grassroots workers assuming that the SMW rate remained unchanged and the real economic growth rate was 2.5% for the first half of 2015 (i.e. “economic scenario 1”). This was adopted as the base case. We then estimated the increase in the wages of grassroots employees under different SMW test levels so as to estimate the corresponding number of unemployed grassroots workers under different economic scenarios. By comparing the figures with those in the base case, we derived the changes in the number of unemployed grassroots workers under different SMW test levels and economic scenarios. As regards total labour force projection, we concurrently made reference to: (a) the total labour force obtained from GHS; (b) the labour force projections compiled by C&SD in 2013; and (c) the labour force enticed by SMW uprating under different economic scenarios as estimated by the econometric model. We also comprehensively analysed the number of unemployed grassroots workers and the total labour force mentioned above to estimate the changes in the overall unemployment rate under different SMW test levels and economic scenarios.

IV.5.3 Figure IV.4 compares the actual unemployment situation of grassroots employees with the corresponding results simulated by the econometric model. As shown in the figure, the simulation results of the econometric model resemble rather closely to the actual data, reflecting that the model can largely explain the changes in unemployment situation in the past and can therefore be used for an objective assessment of the impact of different SMW test levels on unemployment rate under different economic scenarios.

Figure IV.4: Unemployment situation of grassroots employees^(*)



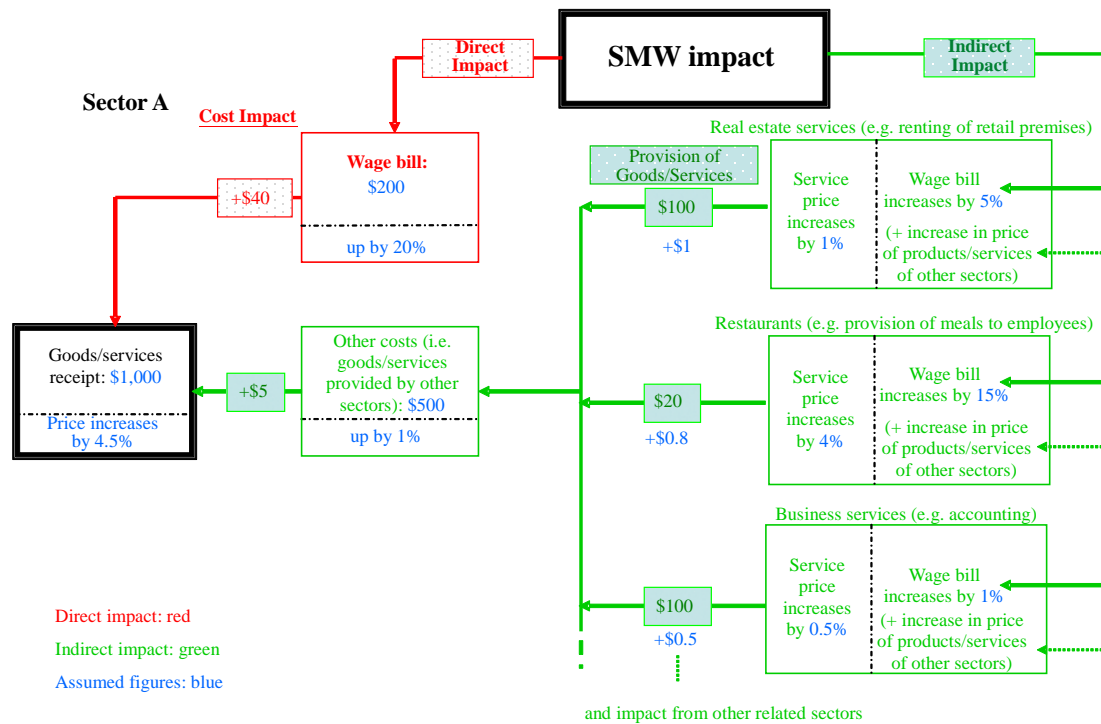
Note: (*) Unemployment situation of grassroots employees refers to the ratio of unemployed grassroots workers to the total number unemployed grassroots workers and grassroots employees (excluding employees in the Government and live-in domestic workers).

Sources: General Household Survey, Census and Statistics Department; estimates by the econometric model.

IV.6 Impact Assessment on Inflation

IV.6.1 When assessing the impact of different SMW test levels on prices of products or services as well as inflation, we assumed a full pass-on of the increase in direct and indirect costs to the prices of products and services. Increase in direct cost refers to the increase in an 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 other expenses (such as rent, transport and courier service, etc) arising from the increase in prices of products or services of other enterprises. Figure IV.5 shows the impact of increase in direct and indirect costs on prices of products or services. The impact on prices was estimated with reference to the detailed statistical data and cost structures of products or services of the relevant sectors.

Figure IV.5: Illustration on the relationship between additional wage bills arising from Statutory Minimum Wage (SMW) and direct and indirect costs of enterprises



IV.6.2 Regarding the impact of SMW on inflation, we first estimated the increases in prices of products or services in the related sectors and multiplying them by the relevant weightings in the Composite Consumer Price Index (CPI) and CPI(A) to assess the impact on these two price indices. Besides, we also estimated the first round of wage-price spiral effect, i.e. a series of price hikes caused by 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, that would lead to inflationary pressures surfacing at different stages. It should, however, be noted that the impact assessment could only cover the first round effect.

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Statistical Appendices

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- Table B.3 Estimated increase in total wage bill under the recommended Statutory Minimum Wage rate (i.e. \$32.5 per hour) analysed by sector

C. Coverage of Sectors

- Table C.1 Coverage of sectors

A. Low-paid Employees and Low Paying Sectors

Table A.1 Number of employees ^(Note 1) within the lowest decile in the overall hourly wage distribution analysed by sector in May to June 2011 and May to June 2013

Sector ^(Note 2)	Employees within the lowest decile in the overall hourly wage distribution					
	May to June 2011 (i.e. employees with hourly wage less than \$29.3)			May to June 2013 (i.e. employees with hourly wage less than \$33.0)		
	No. of persons ('000)	Proportion among all employees in respective sector (%)	Lowest decile hourly wage in respective sector (\$)	No. of persons ('000)	Proportion among all employees in respective sector (%)	Lowest decile hourly wage in respective sector (\$)
(A) Low paying sectors	231.4	29.8	28.0	212.4	26.1	30.0
1. Retail	45.7	17.4	28.0	40.1	14.5	32.0
1.1 Supermarkets and convenience stores	14.5	35.7	28.0	12.5	30.4	31.2
1.2 Other retail stores	31.2	14.1	28.3	27.7	11.8	32.3
2. Restaurants	50.1	24.3	28.0	49.9	23.3	30.8
2.1 Chinese restaurants	11.5	17.0	28.1	13.3	19.0	31.3
2.2 Non-Chinese restaurants	10.8	16.3	28.3	8.2	11.9	32.3
2.3 Fast food cafes	22.2	43.5	28.0	24.6	46.3	30.0
2.4 Hong Kong style tea cafes	5.7	26.6	28.0	3.9	17.5	32.0
3. Estate management, security and cleaning services	114.1	52.3	28.0	104.8	45.4	30.0
3.1 Real estate maintenance management	48.7	45.5	28.0	47.3	42.6	30.0
3.2 Security services	20.9	64.3	28.0	18.2	50.4	30.0
3.3 Cleaning services	40.7	63.4	28.0	34.9	51.3	30.0
3.4 Membership organisations	3.9	26.7	28.0	4.3	28.6	30.0
4. Other low paying sectors	21.5	23.7	28.0	17.6	19.0	31.2
4.1 Elderly homes	6.8	36.4	28.0	5.6	29.9	30.0
4.2 Laundry and dry cleaning services	1.7	29.6	28.0	1.6	27.1	30.6
4.3 Hairdressing and other personal services	7.2	17.8	28.0	4.9	11.9	32.3
4.4 Local courier services	0.6	10.7	29.2	1.4	26.5	30.2
4.5 Food processing and production	5.2	25.9	28.0	4.1	19.2	31.6
(B) Other sectors	48.0	2.4	34.7	65.9	3.1	38.2
5. Manufacturing	3.6	3.8	31.7	4.1	4.6	36.4
6. Construction	3.4	1.4	38.0	§	§	44.6
7. Import/export trade and wholesale	10.8	2.3	34.1	12.0	2.5	37.8
8. Accommodation and food services	§	§	30.9	4.2	8.2	33.9
9. Transportation, storage, information and communications	9.2	2.7	34.1	15.5	4.4	37.2
10. Financing, insurance, real estate, professional and business services	6.4	1.6	37.8	10.1	2.4	41.4
11. Education, medical and other social and personal services	11.9	2.9	33.7	17.4	4.1	37.4
12. Others	§	§	48.1	§	§	50.0
(C) All sectors	279.4	10.0	29.3	278.3	9.5	33.0

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.

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

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

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

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

Table A.2 Proportion of employees ^(Note 1) earning the Statutory Minimum Wage (SMW) rate with paid rest day(s) and/or paid meal break(s) in May to June 2011 and May to June 2013

Sector ^(Note 2)	Proportion of employees earning the initial SMW rate (i.e. \$28.0 per hour) among all employees earning the initial SMW rate in respective sector in May to June 2011 (%)				Proportion of employees earning the revised SMW rate (i.e. \$30.0 per hour) among all employees earning the revised SMW rate in respective sector in May to June 2013 (%)			
	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)	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)
(A) Low paying sectors	17.2	13.4	27.9	41.5	20.3	13.3	27.4	39.0
1. Retail	21.0	9.0	15.2	54.8	§	§	§	56.2
1.1 Supermarkets and convenience stores	24.5	16.7	7.9	50.8	§	§	§	§
1.2 Other retail stores	19.4	5.3	18.5	56.7	§	§	§	§
2. Restaurants	24.9	4.6	27.4	43.1	§	§	§	44.1
2.1 Chinese restaurants	33.6	16.7	22.5	27.2	§	§	§	20.9
2.2 Non-Chinese restaurants	§	§	§	44.1	§	§	§	§
2.3 Fast food cafes	§	§	§	50.0	§	§	§	62.0
2.4 Hong Kong style tea cafes	§	§	§	39.0	§	§	§	§
3. Estate management, security and cleaning services	14.1	18.8	32.6	34.5	20.4	18.1	26.0	35.5
3.1 Real estate maintenance management	16.1	18.4	37.8	27.7	25.0	12.2	26.4	36.3
3.2 Security services	§	§	§	12.7	§	§	§	§
3.3 Cleaning services	1.8	24.7	17.1	56.3	3.3	23.5	17.6	55.6
3.4 Membership organisations	§	§	§	37.3	§	§	§	§
4. Other low paying sectors	12.8	6.4	24.9	56.0	14.6	10.0	47.1	28.2
4.1 Elderly homes	§	§	§	43.6	§	§	§	27.2
4.2 Laundry and dry cleaning services	§	§	§	§	§	§	§	§
4.3 Hairdressing and other personal services	§	§	§	67.6	§	§	§	§
4.4 Local courier services	§	§	§	§	§	§	§	§
4.5 Food processing and production	§	§	§	§	§	§	§	§
(B) Other sectors	32.6	18.2	13.0	36.3	19.8	25.9	26.8	27.5
5. Manufacturing	§	§	§	48.2	§	§	§	§
6. Construction	§	§	§	§	§	§	§	§
7. Import/export trade and wholesale	§	§	§	33.2	§	§	§	§
8. Accommodation and food services	§	§	§	§	§	§	§	§
9. Transportation, storage, information and communications	31.6	23.7	15.6	29.1	§	§	§	33.6
10. Financing, insurance, real estate, professional and business services	§	§	§	20.3	§	§	§	§
11. Education, medical and other social and personal services	§	§	§	56.3	13.0	33.1	30.6	23.3
12. Others	§	§	§	§	§	§	§	§
(C) All sectors	18.8	13.9	26.4	40.9	20.2	15.1	27.3	37.3

Notes: (1) For employees who are granted rest day and/or meal break pay according to their employment contract or agreement. 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.

§ Estimates are not released due to relatively large sampling error.
Owing to rounding, individual percentages may not add up to 100%.

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

Table A.3 Proportion of employees ^(Note1) within the lowest decile in the overall hourly wage distribution with paid rest day(s) and/or paid meal break(s) in May to June 2011 and May to June 2013

Sector ^(Note 2)	Proportion of employees within the lowest decile in the overall hourly wage distribution (i.e. hourly wage less than \$29.3) (i.e. low-paid employees) among all low-paid employees in respective sector in May to June 2011 (%)				Proportion of employees within the lowest decile in the overall hourly wage distribution (i.e. hourly wage less than \$33.0) (i.e. low-paid employees) among all low-paid employees in respective sector in May to June 2013 (%)			
	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)	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)
(A) Low paying sectors	21.8	15.7	26.7	35.8	27.6	16.1	23.3	32.9
1. Retail	30.7	11.2	14.2	43.9	26.4	8.0	17.6	48.0
1.1 Supermarkets and convenience stores	35.5	10.8	10.6	43.2	18.1	7.9	21.3	52.6
1.2 Other retail stores	28.5	11.4	15.9	44.2	30.1	8.1	15.9	45.9
2. Restaurants	28.2	5.6	31.4	34.9	31.4	5.8	24.6	38.1
2.1 Chinese restaurants	32.5	14.1	27.9	25.5	40.3	13.6	21.0	25.1
2.2 Non-Chinese restaurants	29.7	7.2	30.9	32.2	44.6	11.3	30.3	13.8
2.3 Fast food cafes	§	§	§	43.5	§	§	§	56.8
2.4 Hong Kong style tea cafes	§	§	§	25.1	§	§	§	15.6
3. Estate management, security and cleaning services	16.3	22.9	30.4	30.4	26.0	24.9	23.4	25.6
3.1 Real estate maintenance management	21.2	16.3	38.0	24.4	38.1	16.6	25.5	19.7
3.2 Security services	§	§	§	14.7	§	§	§	6.7
3.3 Cleaning services	2.3	38.6	13.9	45.2	5.3	40.7	11.5	42.6
3.4 Membership organisations	§	§	§	35.0	§	§	§	33.9
4. Other low paying sectors	17.0	10.6	23.0	49.3	29.3	10.6	32.8	27.3
4.1 Elderly homes	§	§	§	37.7	§	§	§	22.4
4.2 Laundry and dry cleaning services	§	§	§	75.9	§	§	§	§
4.3 Hairdressing and other personal services	16.1	10.6	11.2	62.1	50.2	11.9	21.0	17.0
4.4 Local courier services	§	§	§	§	§	§	§	§
4.5 Food processing and production	§	§	§	§	§	§	§	41.7
(B) Other sectors	40.9	22.8	10.8	25.6	45.4	28.6	12.6	13.3
5. Manufacturing	§	§	§	41.7	§	§	§	35.7
6. Construction	§	§	§	15.6	§	§	§	§
7. Import/export trade and wholesale	41.3	25.8	10.0	22.9	46.2	35.2	8.9	9.7
8. Accommodation and food services	§	§	§	§	§	§	§	§
9. Transportation, storage, information and communications	32.5	28.2	14.1	25.3	51.9	26.9	8.4	12.7
10. Financing, insurance, real estate, professional and business services	§	§	§	18.9	47.5	33.8	7.7	10.9
11. Education, medical and other social and personal services	39.6	16.0	10.8	33.6	38.3	28.2	19.8	13.7
12. Others	§	§	§	§	§	§	§	§
(C) All sectors	25.1	16.9	24.0	34.0	31.9	19.0	20.8	28.3

Notes: (1) For employees who are granted rest day and/or meal break pay according to their employment contract or agreement. 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.

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

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

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

Table A.4 Composition of total expenses^(Note 1) analysed by sector in 2010 and 2012

Sector ^(Note 2)	Proportion of total expenses in respective sector (%)							
	Cost of goods sold		Rent, rates and government rent		Compensation of employees ^(Note 3)		Other operating costs ^(Note 4)	
	2010	2012	2010	2012	2010	2012	2010	2012
(A) Low paying sectors	57.3	59.1	11.0	10.0	17.6	16.6	14.1	14.3
1. Retail	70.0	71.1	11.7	10.5	9.4	8.9	8.9	9.4
1.1 Supermarkets and convenience stores	73.1	73.7	9.9	9.4	7.8	8.0	9.2	8.9
1.2 Other retail stores	69.6	70.8	11.9	10.7	9.6	9.0	8.9	9.5
2. Restaurants	36.4	36.2	15.0	14.2	29.5	30.8	19.2	18.8
2.1 Chinese restaurants	35.5	36.7	12.2	12.5	32.2	32.1	20.1	18.7
2.2 Non-Chinese restaurants	36.5	35.1	19.3	16.6	28.1	31.1	16.1	17.3
2.3 Fast food cafes	35.0	34.4	15.4	14.2	24.6	26.6	25.1	24.8
2.4 Hong Kong style tea cafes	40.4	39.7	14.2	14.3	31.2	32.0	14.3	14.0
3. Estate management, security and cleaning services	1.0	1.0	1.3	0.9	54.2	50.5	43.6	47.6
3.1 Real estate maintenance management	1.4	1.3	1.3	0.8	38.1	34.2	59.2	63.7
3.2 Security services	0.2	0.7	1.5	1.6	82.9	81.1	15.4	16.7
3.3 Cleaning services	0.3	#	0.8	0.7	78.5	79.9	20.3	19.4
4. Other low paying sectors	54.8	53.4	5.7	5.9	22.9	25.1	16.6	15.6
4.1 Elderly homes	10.9	10.9	18.3	15.1	57.1	56.3	13.7	17.6
4.2 Laundry and dry cleaning services	6.7	6.8	9.5	10.4	41.9	39.8	41.8	43.0
4.3 Hairdressing services	9.1	10.5	26.3	30.1	39.8	39.1	24.8	20.3
4.4 Local courier services	0.0	0.0	3.4	4.3	49.3	48.2	47.3	47.4
4.5 Food processing and production	68.8	68.6	2.1	2.3	14.9	16.5	14.2	12.6
(B) Other sectors	63.3	63.9	1.7	1.8	12.5	12.5	22.4	21.9
5. Manufacturing	82.8	85.2	1.3	1.1	9.1	8.8	6.8	4.9
6. Construction	19.8	22.9	1.0	0.9	27.2	28.1	52.0	48.2
7. Import/export trade and wholesale	87.4	87.4	0.7	0.8	4.8	4.7	7.1	7.2
8. Accommodation and food services	20.0	19.8	10.5	10.3	34.6	36.1	34.9	33.9
9. Transportation, storage, information and communications	1.3	2.5	2.4	2.6	15.6	16.3	80.7	78.7
10. Financing, insurance, real estate, professional and business services	0.6	0.2	5.3	5.5	44.0	43.5	50.2	50.8
11. Education, medical and other social and personal services	Data are not released							
12. Others	Data are not released							
(C) All sectors	62.8	63.4	2.6	2.6	13.0	12.9	21.7	21.1

- Notes: (1) Only include enterprises with employees.
(2) Please refer to Table C.1 for coverage of individual sectors.
(3) Compensation of employees includes wages and salaries, payments in kind and employer's social security expenditure.
(4) Other operating costs of 2010 do not include amortization, while those of 2012 include amortization.
In between 0 and 0.05%.
Owing to rounding, individual percentages may not add up to 100%.

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

Table A.5 Composition of total operating expenses ^(Note 1) analysed by sector in 2010 and 2012

Sector ^(Note 2)	Proportion of total operating expenses in respective sector (%)					
	Rent, rates and government rent		Compensation of employees ^(Note 3)		Other operating costs ^(Note 4)	
	2010	2012	2010	2012	2010	2012
(A) Low paying sectors	25.7	24.5	41.3	40.7	33.0	34.9
1. Retail	38.9	36.4	31.4	30.9	29.7	32.7
1.1 Supermarkets and convenience stores	36.8	35.8	29.0	30.5	34.1	33.8
1.2 Other retail stores	39.1	36.5	31.7	30.9	29.2	32.6
2. Restaurants	23.5	22.3	46.3	48.3	30.2	29.4
2.1 Chinese restaurants	18.9	19.8	49.9	50.7	31.2	29.5
2.2 Non-Chinese restaurants	30.3	25.6	44.3	47.9	25.3	26.6
2.3 Fast food cafes	23.6	21.7	37.8	40.6	38.6	37.8
2.4 Hong Kong style tea cafes	23.7	23.7	52.3	53.1	24.0	23.2
3. Estate management, security and cleaning services	1.3	0.9	54.7	51.0	44.0	48.1
3.1 Real estate maintenance management	1.3	0.8	38.6	34.7	60.1	64.5
3.2 Security services	1.5	1.6	83.0	81.6	15.4	16.8
3.3 Cleaning services	0.8	0.7	78.8	79.9	20.4	19.4
4. Other low paying sectors	12.6	12.6	50.7	53.9	36.7	33.5
4.1 Elderly homes	20.5	17.0	64.2	63.2	15.3	19.8
4.2 Laundry and dry cleaning services	10.2	11.1	44.9	42.7	44.8	46.1
4.3 Hairdressing services	28.9	33.6	43.8	43.7	27.3	22.7
4.4 Local courier services	3.4	4.3	49.3	48.2	47.3	47.4
4.5 Food processing and production	6.8	7.3	47.7	52.7	45.5	40.0
(B) Other sectors	4.7	4.9	34.1	34.5	61.2	60.6
5. Manufacturing	7.4	7.7	53.0	59.3	39.6	33.0
6. Construction	1.2	1.1	33.9	36.4	64.9	62.5
7. Import/export trade and wholesale	5.8	6.1	37.9	36.9	56.3	56.9
8. Accommodation and food services	13.2	12.8	43.2	44.9	43.6	42.3
9. Transportation, storage, information and communications	2.4	2.7	15.8	16.7	81.8	80.6
10. Financing, insurance, real estate, professional and business services	5.3	5.5	44.2	43.6	50.4	50.9
11. Education, medical and other social and personal services	Data are not released					
12. Others						
(C) All sectors	6.9	7.1	34.9	35.2	58.3	57.6

- Notes: (1) Only include enterprises with employees.
(2) Please refer to Table C.1 for coverage of individual sectors.
(3) Compensation of employees includes wages and salaries, payments in kind and employer's social security expenditure.
(4) Other operating costs of 2010 do not include amortization, while those of 2012 include amortization. Owing to rounding, individual percentages may not add up to 100%.

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

Table A.6 Distribution^(Note 1) of profit ratio^(Note 2) of all enterprises^(Note 3) analysed by sector in 2010 and 2012

Sector ^(Note 4)	2010					2012				
	Number of enterprises	Profit ratio (%)				Number of enterprises	Profit ratio (%)			
		Overall	25 th percentile	Median	75 th percentile		Overall	25 th percentile	Median	75 th percentile
(A) Low paying sectors	33 840	7.6	-1.3	5.0	12.0	38 910	8.4	-2.8	4.5	11.7
1. Retail	17 890	8.1	-4.8	3.3	9.7	22 850	9.3	-8.4	3.1	11.4
1.1 Supermarkets and convenience stores	50	5.5	1.1	2.7	5.7	50	5.7	0.7	3.3	5.4
1.2 Other retail stores	17 840	8.4	-4.8	3.3	9.7	22 790	9.7	-8.4	3.1	11.4
2. Restaurants	9 960	5.6	#	5.0	12.0	10 160	5.7	-1.5	4.5	9.9
2.1 Chinese restaurants	2 200	2.4	-4.4	3.5	10.1	2 320	5.0	-2.3	3.7	10.4
2.2 Non-Chinese restaurants	3 930	6.3	-0.2	4.1	9.4	4 100	6.4	-2.4	5.2	9.6
2.3 Fast food cafes	1 010	11.0	2.3	10.8	23.5	800	8.2	1.0	8.6	13.4
2.4 Hong Kong style tea cafes	2 820	5.1	0.9	5.2	11.9	2 930	3.1	1.2	4.0	8.4
3. Estate management, security and cleaning services	1 650	6.3	1.8	9.8	22.3	1 780	4.4	1.5	7.4	19.4
3.1 Real estate maintenance management	560	7.0	0.5	5.6	17.2	570	4.1	1.4	4.8	13.4
3.2 Security services	260	4.1	1.6	5.3	14.6	290	4.8	1.0	5.6	11.1
3.3 Cleaning services	820	6.0	2.7	15.7	23.4	910	5.2	3.3	12.9	27.7
4. Other low paying sectors	4 350	9.6	1.9	11.7	19.9	4 140	8.9	1.4	7.5	16.4
4.1 Elderly homes ^(Note 5)	610	4.7	-2.4	3.7	15.6	750	4.4	-4.1	1.5	7.3
4.2 Laundry and dry cleaning services	650	10.8	3.1	5.9	18.7	640	7.1	0.8	12.6	23.3
4.3 Hairdressing services	2 060	13.9	8.6	18.4	23.8	1 800	9.0	5.0	12.5	18.1
4.4 Local courier services	260	6.6	1.9	8.7	15.5	160	-1.4	0.7	9.1	11.5
4.5 Food processing and production	760	10.0	0.1	4.1	11.9	800	10.1	-0.3	3.8	10.9
(B) Other sectors	166 560	16.9	-1.5	4.4	16.6	181 220	15.9	-0.5	5.1	17.1
5. Manufacturing	5 580	5.8	2.4	8.5	21.4	6 250	5.5	0.3	6.4	22.8
6. Construction	13 590	5.6	1.2	6.8	12.8	15 810	5.0	0.6	4.4	11.4
7. Import/export trade and wholesale	79 030	5.9	-1.9	2.5	10.3	82 120	6.6	-0.6	3.2	11.9
8. Accommodation and food services	3 640	24.4	-3.1	5.3	12.5	3 660	30.4	2.2	8.9	18.2
9. Transportation, storage, information and communications	14 630	11.9	-0.4	5.8	17.1	16 850	8.1	-1.0	5.5	20.2
10. Financing, insurance, real estate, professional and business services	30 450	53.1	-5.3	8.6	30.7	34 650	50.9	-4.7	6.4	28.5
11. Education, medical and other social and personal services						^				
12. Others	^	38.4	-0.1	4.3	9.5	^	34.9	-0.5	0.2	12.5
(C) All sectors	200 400	16.1	-1.5	4.4	15.7	220 130	15.2	-0.9	5.0	16.0

- Notes: (1) Only include enterprises with business receipts (including local representative offices of overseas companies).
(2) Earnings before tax ratio (abbreviated as profit ratio) of 2010 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 receipt. For 2012, amortisation is deducted from profit when profit ratio is calculated.
(3) Only include enterprises with employees.
(4) Please refer to Table C.1 for coverage of individual sectors.
(5) In calculating figures for business receipts and profit, subsidies from government and other organisations are also included.
In between -0.05% and 0.05%.
^ Data are not released.
Number of enterprises is rounded to the nearest ten.
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.
- Source: Annual Survey of Economic Activities, Census and Statistics Department.

Table A.7 Distribution^(Note 1) of profit ratio^(Note 2) of small and medium^(Note 3) enterprises^(Note 4) analysed by sector in 2010 and 2012

Sector ^(Note 5)	2010					2012				
	Number of enterprises	Profit ratio (%)				Number of enterprises	Profit ratio (%)			
		Overall	25 th percentile	Median	75 th percentile		Overall	25 th percentile	Median	75 th percentile
(A) Low paying sectors	32 150	3.9	-1.3	5.0	12.1	37 150	3.5	-3.1	4.4	11.7
1. Retail	17 490	2.6	-4.8	3.3	9.7	22 420	3.7	-8.5	3.1	11.4
1.1 Supermarkets and convenience stores	50	5.2	1.1	2.5	5.7	40	3.0	0.7	3.3	5.4
1.2 Other retail stores	17 440	2.5	-4.8	3.3	9.7	22 380	3.7	-8.5	3.1	11.4
2. Restaurants	9 280	5.1	0.5	5.1	12.1	9 430	2.5	-1.7	4.4	9.8
2.1 Chinese restaurants	1 680	2.1	0.7	5.2	12.5	1 790	0.3	-6.2	2.2	11.2
2.2 Non-Chinese restaurants	3 800	5.4	-0.2	4.1	9.4	3 990	3.5	-2.8	5.2	9.1
2.3 Fast food cafes	980	15.1	2.6	10.8	24.3	750	7.4	0.1	8.6	13.2
2.4 Hong Kong style tea cafes	2 810	4.9	0.9	5.2	11.6	2 900	2.7	1.1	4.0	8.4
3. Estate management, security and cleaning services	1 220	8.7	1.9	13.2	23.9	1 400	7.4	3.1	9.3	26.6
3.1 Real estate maintenance management	410	6.4	0.4	6.3	17.3	420	5.6	1.4	4.8	13.4
3.2 Security services	170	10.1	1.9	8.9	19.1	190	9.6	1.0	6.4	18.0
3.3 Cleaning services	650	13.5	8.6	18.4	24.9	790	10.1	4.3	14.3	28.2
4. Other low paying sectors	4 170	6.1	1.9	11.7	19.9	3 900	4.3	1.4	7.5	16.4
4.1 Elderly homes ^(Note 6)	540	4.9	-2.5	4.2	15.6	630	4.6	-4.8	1.1	7.3
4.2 Laundry and dry cleaning services	630	7.1	3.1	5.9	18.7	630	12.4	0.8	12.6	23.3
4.3 Hairdressing services	2 060	14.6	9.7	18.4	23.8	1 800	9.1	5.0	12.5	18.1
4.4 Local courier services	240	11.5	3.1	9.4	17.5	130	3.9	1.0	9.1	11.7
4.5 Food processing and production	700	4.2	0.1	3.9	11.9	710	2.5	-0.3	3.7	7.1
(B) Other sectors	162 900	12.0	-1.7	4.3	16.4	177 340	10.1	-0.6	5.1	17.2
5. Manufacturing	5 390	4.5	2.5	8.5	21.9	6 040	7.8	0.5	6.4	23.2
6. Construction	13 230	5.3	1.2	6.8	12.8	15 330	4.1	0.7	5.4	11.4
7. Import/export trade and wholesale	78 130	4.7	-2.0	2.5	10.2	81 240	6.2	-0.7	3.2	11.9
8. Accommodation and food services	3 510	7.0	-3.8	5.3	12.2	3 510	10.8	1.4	8.7	17.5
9. Transportation, storage, information and communications	13 980	8.4	-0.5	5.7	17.1	16 150	4.7	-1.0	5.5	20.5
10. Financing, insurance, real estate, professional and business services	29 580	58.8	-5.8	8.6	30.7	33 740	44.8	-4.9	6.3	28.4
11. Education, medical and other social and personal services	^									
12. Others	^	5.1	-0.1	4.3	9.5	^	3.3	-0.5	0.2	12.5
(C) All sectors	195 050	11.6	-1.5	4.4	15.7	214 490	9.8	-1.0	5.0	16.0

- Notes: (1) Only include enterprises with business receipts (including local representative offices of overseas companies).
(2) Earnings before tax ratio (abbreviated as profit ratio) of 2010 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 receipt. For 2012, amortisation is deducted from profit when profit ratio is calculated.
(3) Small and medium enterprises refer to those enterprises with fewer than 50 persons engaged.
(4) Only include enterprises with employees.
(5) Please refer to Table C.1 for coverage of individual sectors.
(6) In calculating figures for business receipts and profit, subsidies from government and other organisations are also included.
^ Data are not released.
Number of enterprises is rounded to the nearest ten.
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.
- Source: Annual Survey of Economic Activities, Census and Statistics Department.

Table A.8 Distribution of weekly working hours analysed by sector in May to June 2011 and May to June 2013: All full-time employees ^(Note 1)

Sector ^(Note 2)	May to June 2011					May to June 2013				
	Full-time employees		Weekly working hours (hours)			Full-time employees		Weekly working hours (hours)		
	Number ('000)	Percent (%)	25 th percentile	Median	75 th percentile	Number ('000)	Percent (%)	25 th percentile	Median	75 th percentile
(A) Low paying sectors	689.9	26.4	48.0	54.0	60.0	713.5	26.3	48.0	54.0	60.0
1. Retail	228.9	8.8	44.4	51.0	59.1	239.2	8.8	45.7	50.8	54.8
1.1 Supermarkets and convenience stores	30.3	1.2	48.0	54.0	65.5	30.1	1.1	48.5	54.0	58.8
1.2 Other retail stores	198.6	7.6	44.3	49.9	57.0	209.1	7.7	45.0	49.9	54.0
2. Restaurants	178.0	6.8	49.9	55.0	60.0	179.6	6.6	51.0	54.0	60.0
2.1 Chinese restaurants	65.0	2.5	51.0	60.0	64.2	67.2	2.5	54.0	60.0	60.0
2.2 Non-Chinese restaurants	59.7	2.3	49.9	54.0	60.0	59.6	2.2	49.9	54.0	60.0
2.3 Fast food cafes	33.9	1.3	48.5	54.0	57.0	32.2	1.2	48.0	53.4	54.0
2.4 Hong Kong style tea cafes	19.4	0.7	51.2	60.0	60.7	20.6	0.8	54.0	57.0	60.0
3. Estate management, security and cleaning services	200.5	7.7	48.0	54.0	66.0	210.8	7.8	48.0	54.0	66.0
3.1 Real estate maintenance management	105.4	4.0	48.0	60.0	66.0	109.5	4.0	48.0	60.0	70.5
3.2 Security services	31.4	1.2	48.0	66.0	72.0	35.3	1.3	48.0	62.8	72.0
3.3 Cleaning services	52.2	2.0	48.0	48.0	57.0	53.6	2.0	48.0	48.0	54.0
3.4 Membership organisations	11.6	0.4	40.5	48.0	55.4	12.4	0.5	43.7	48.0	57.0
4. Other low paying sectors	82.4	3.2	45.7	49.4	57.7	83.8	3.1	48.0	49.6	54.4
4.1 Elderly homes	18.0	0.7	46.7	54.0	66.0	18.4	0.7	46.2	54.0	66.0
4.2 Laundry and dry cleaning services	4.5	0.2	45.5	54.0	59.3	4.7	0.2	48.0	50.7	58.9
4.3 Hairdressing and other personal services	37.9	1.5	46.2	48.5	57.0	38.0	1.4	48.0	51.0	54.0
4.4 Local courier services	4.8	0.2	41.8	45.2	51.0	4.7	0.2	44.3	45.7	49.4
4.5 Food processing and production	17.2	0.7	47.1	48.0	54.0	18.0	0.7	44.3	48.0	54.2
(B) Other sectors	1 920.7	73.6	40.6	44.3	48.5	1 996.9	73.7	40.6	44.3	48.5
5. Manufacturing	89.2	3.4	44.3	48.0	50.8	88.5	3.3	43.2	48.0	51.0
6. Construction	228.0	8.7	46.8	49.9	55.1	260.7	9.6	46.2	51.5	54.0
7. Import/export trade and wholesale	458.5	17.6	40.6	44.2	45.7	456.7	16.9	40.6	43.2	45.7
8. Accommodation and food services	§	§	§	§	§	§	§	§	§	§
9. Transportation, storage, information and communications	326.0	12.5	40.6	45.5	54.0	339.9	12.5	40.6	45.7	51.7
10. Financing, insurance, real estate, professional and business services	396.7	15.2	40.6	41.5	45.7	415.0	15.3	40.6	40.6	44.3
11. Education, medical and other social and personal services	360.2	13.8	40.6	44.3	48.0	370.8	13.7	40.6	44.3	48.0
12. Others	§	§	§	§	§	§	§	§	§	§
(C) All sectors	2 610.5	100.0	41.1	45.7	53.9	2 710.4	100.0	40.6	45.7	53.3

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. For the definition of full-time employees in the Annual Earnings and Hours Survey, please refer to [Glossary](#).

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

§ Estimates are not released due to relatively large sampling error. Number of employees is rounded to the nearest hundred. Percentage is derived from unrounded figures. Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

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

Table A.9 Distribution of weekly working hours analysed by sector in May to June 2011 and May to June 2013: Lower-skilled full-time employees ^(Note 1)

Sector ^(Note 2)	May to June 2011					May to June 2013				
	Lower-skilled full-time employees		Weekly working hours (hours)			Lower-skilled full-time employees		Weekly working hours (hours)		
	Number ('000)	Percent (%)	25 th percentile	Median	75 th percentile	Number ('000)	Percent (%)	25 th percentile	Median	75 th percentile
(A) Low paying sectors	596.1	38.8	48.0	54.0	60.0	616.2	38.0	48.0	54.0	60.0
1. Retail	187.1	12.2	45.5	51.4	60.0	196.6	12.1	46.8	51.0	55.3
1.1 Supermarkets and convenience stores	24.4	1.6	48.0	54.0	65.5	23.0	1.4	48.0	54.0	57.4
1.2 Other retail stores	162.7	10.6	45.0	51.0	57.3	173.6	10.7	46.2	51.0	55.0
2. Restaurants	164.1	10.7	49.4	56.0	60.0	163.8	10.1	51.0	54.0	60.0
2.1 Chinese restaurants	59.7	3.9	51.9	60.0	64.2	61.1	3.8	54.0	60.0	60.0
2.2 Non-Chinese restaurants	55.1	3.6	50.3	54.0	60.0	54.4	3.4	51.0	54.0	60.0
2.3 Fast food cafes	30.4	2.0	48.0	54.0	57.0	28.3	1.7	48.0	53.9	54.0
2.4 Hong Kong style tea cafes	18.8	1.2	51.0	60.0	60.7	20.0	1.2	54.0	57.0	60.0
3. Estate management, security and cleaning services	171.9	11.2	48.0	57.0	66.0	181.4	11.2	48.0	54.0	66.0
3.1 Real estate maintenance management	84.6	5.5	51.0	66.0	72.0	86.6	5.3	51.7	66.0	72.0
3.2 Security services	30.2	2.0	48.0	66.0	72.0	33.8	2.1	48.0	63.0	72.0
3.3 Cleaning services	50.0	3.2	48.0	48.0	57.0	52.8	3.2	48.0	48.3	54.0
3.4 Membership organisations	7.2	0.5	44.9	54.0	57.7	8.2	0.5	45.7	51.0	66.0
4. Other low paying sectors	73.0	4.7	46.3	49.9	57.7	74.4	4.6	48.0	50.8	54.8
4.1 Elderly homes	15.6	1.0	48.0	54.0	66.0	15.4	1.0	46.8	54.0	66.0
4.2 Laundry and dry cleaning services	3.9	0.3	45.5	54.0	60.0	4.2	0.3	48.0	50.8	58.9
4.3 Hairdressing and other personal services	35.4	2.3	46.2	48.5	57.0	36.2	2.2	48.0	51.2	54.0
4.4 Local courier services	4.1	0.3	40.9	44.3	49.9	4.0	0.2	44.3	48.0	49.4
4.5 Food processing and production	14.1	0.9	48.0	49.0	54.0	14.6	0.9	45.2	48.0	54.4
(B) Other sectors	942.0	61.2	42.3	47.3	53.5	1 007.2	62.0	42.0	47.8	52.9
5. Manufacturing	46.8	3.0	44.3	48.0	54.0	52.0	3.2	44.3	48.0	53.2
6. Construction	169.4	11.0	48.0	51.0	56.1	199.2	12.3	48.0	53.1	54.0
7. Import/export trade and wholesale	220.2	14.3	40.6	44.3	48.0	220.0	13.6	40.6	43.4	46.2
8. Accommodation and food services	§	§	§	§	§	§	§	§	§	§
9. Transportation, storage, information and communications	193.0	12.5	42.2	48.0	58.6	210.3	13.0	44.3	48.2	54.0
10. Financing, insurance, real estate, professional and business services	112.4	7.3	40.6	42.2	46.2	115.5	7.1	40.6	41.3	45.7
11. Education, medical and other social and personal services	157.5	10.2	44.3	45.1	49.4	167.3	10.3	42.5	46.2	49.0
12. Others	§	§	§	§	§	§	§	§	§	§
(C) All sectors	1 538.1	100.0	44.3	48.0	56.2	1 623.4	100.0	44.3	48.0	54.0

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. For the definition of lower-skilled employees and full-time employees in the Annual Earnings and Hours Survey, please refer to **Glossary**.

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

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

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

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

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

B. Impact Assessment

Table B.1 Socio-economic characteristics of employees^(Note 1) involved (i.e. employees with hourly wage less than \$32.5 in May to June 2013)

Socio-economic characteristics	Employees with hourly wage less than \$32.5			Proportion of employees with the corresponding socio-economic characteristics among all employees ^(Note 4) (%)
	Number of persons ('000)	Proportion among all employees with the corresponding socio-economic characteristics ^(Note 2) (%)	Proportion among all employees with hourly wage less than \$32.5 ^(Note 3) (%)	
Employees involved (Employees with hourly wage less than \$32.5)	255.2	100.0	100.0	8.7
I. Gender				
Female	151.6	10.8	59.4	48.1
Male	103.6	6.8	40.6	51.9
II. Age group				
Aged 15 to 24	29.0	12.4	11.3	8.0
Aged 25 to 34	25.9	3.4	10.1	26.2
Aged 35 to 44	43.0	5.7	16.9	25.9
Aged 45 to 54	77.4	10.4	30.3	25.5
Aged 55 and above	79.9	18.9	31.3	14.5
III. Educational attainment				
Primary and below	100.2	27.1	39.3	12.7
Secondary 1 to 3	83.8	19.7	32.8	14.6
Secondary 4 to 7	64.0	5.6	25.1	39.3
Tertiary education	7.2	0.7	2.8	33.5
IV. Employment nature				
Full-time	213.7	7.9	83.7	92.9
Part-time	41.5	20.1	16.3	7.1
V. Contractual status				
Permanent	221.0	8.5	86.6	89.6
Fixed-term contract	23.2	10.7	9.1	7.4
Casual	11.0	12.8	4.3	2.9
VI. Occupational group				
Managers, administrators, professionals and associate professionals	5.2	0.5	2.0	38.7
Clerical support workers	19.2	3.9	7.5	17.0
Craft workers and machine operators	6.3	1.8	2.5	12.0
Service and sales workers	80.1	16.2	31.4	16.9
Elementary workers	144.4	32.3	56.6	15.3
VII. Weekly working days				
Less than or equal to 5 days	36.4	3.2	14.3	39.4
More than 5 days but up to 5.5 days	12.0	2.3	4.7	17.7
More than 5.5 days but up to 6 days	191.9	16.5	75.2	39.9
More than 6 days	14.8	17.2	5.8	3.0
VIII. Basis of wage rate				
Monthly	162.8	6.6	63.8	84.8
Daily	§	§	§	6.9
Hourly	82.8	36.9	32.4	7.7
Others	§	§	§	0.6

- 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) For example, female employees with hourly wage less than \$32.5 accounted for 10.8% of all female employees, and so on.
- (3) For example, female employees accounted for 59.4% of all employees with hourly wage less than \$32.5, and so on.
- (4) For example, female employees accounted for 48.1% of all employees, and so on.
- § Estimates are not released due to relatively large sampling error.
- Number of employees is rounded to the nearest hundred. Percentage is derived from unrounded figures. Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

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

Table B.2 Estimated increase in wages of employees^(Note 1) involved (i.e. employees with hourly wage less than \$32.5 in May to June 2013) analysed by sector

Sector ^(Note 2)	Estimated increase in wages based on the definition of wages under the Minimum Wage Ordinance (not including rest day and meal break pay)		Estimated increase in wages based on total wages (including rest day and meal break pay, if applicable) received by employees		Estimated increase in wages based on total wages (including rest day and meal break pay, if applicable) received by employees and the impact of knock-on effect	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
(A) Low paying sectors	906.3	5.5	991.4	5.5	1,029.4	5.7
1 Retail	110.3	4.6	121.3	4.6	134.6	5.1
1.1 Supermarkets and convenience stores	22.4	3.5	24.6	3.5	27.3	3.9
1.2 Other retail stores	88.0	5.0	96.8	5.0	107.3	5.5
2 Restaurants	151.4	4.7	167.2	4.6	185.5	5.1
2.1 Chinese restaurants	50.0	4.7	56.0	4.6	62.1	5.1
2.2 Non-Chinese restaurants	26.7	4.2	29.9	4.2	33.2	4.6
2.3 Fast food cafes	63.0	5.1	68.7	5.1	76.2	5.6
2.4 Hong Kong style tea cafes	11.7	3.9	12.6	3.9	14.0	4.3
3 Estate management, security and cleaning services	574.2	6.2	625.3	6.1	628.4	6.1
3.1 Real estate maintenance management	257.4	5.6	279.9	5.5	281.0	5.5
3.2 Security services	120.1	6.8	132.0	6.8	132.5	6.8
3.3 Cleaning services	167.4	6.5	181.3	6.5	181.4	6.5
3.4 Membership organisations	29.2	7.6	32.1	7.6	33.5	7.9
4 Other low paying sectors	70.4	5.1	77.5	5.0	80.9	5.2
4.1 Elderly homes	30.2	5.5	31.3	5.5	32.1	5.7
4.2 Laundry and dry cleaning services	5.8	5.1	6.3	5.1	6.7	5.4
4.3 Hairdressing and other personal services	19.2	4.8	21.8	4.7	22.0	4.8
4.4 Local courier services	4.1	6.6	4.7	6.6	5.2	7.3
4.5 Food processing and production	11.1	4.2	13.5	4.3	14.9	4.7
(B) Other sectors	193.1	4.4	228.4	4.3	328.0	6.2
(C) All sectors	1,099.4	5.3	1,219.8	5.2	1,357.3	5.8

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

Sources: Estimated based on Annual Earnings and Hours Survey, Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

Table B.3 Estimated increase in total wage bill under the recommended Statutory Minimum Wage rate (i.e. \$32.5 per hour) analysed by sector

Sector ^(Note 2)	Estimated increase in total wage bill based on the definition of wages under the Minimum Wage Ordinance (not including rest day and meal break pay)		Estimated increase in total wage bill based on total wages (including rest day and meal break pay, if applicable) received by employees (Note 1)		Estimated increase in total wage bill based on total wages (including rest day and meal break pay, if applicable) received by employees and the impact of knock-on effect	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
(A) Low paying sectors	906.3	0.9	991.4	0.9	1,029.4	0.9
1. Retail	110.3	0.3	121.3	0.3	134.6	0.3
1.1 Supermarkets and convenience stores	22.4	0.6	24.6	0.5	27.3	0.6
1.2 Other retail stores	88.0	0.3	96.8	0.3	107.3	0.3
2. Restaurants	151.4	0.6	167.2	0.6	185.5	0.7
2.1 Chinese restaurants	50.0	0.5	56.0	0.5	62.1	0.6
2.2 Non-Chinese restaurants	26.7	0.3	29.9	0.3	33.2	0.4
2.3 Fast food cafes	63.0	1.5	68.7	1.4	76.2	1.6
2.4 Hong Kong style tea cafes	11.7	0.4	12.6	0.4	14.0	0.5
3. Estate management, security and cleaning services	574.2	2.2	625.3	2.0	628.4	2.0
3.1 Real estate maintenance management	257.4	1.7	279.9	1.6	281.0	1.6
3.2 Security services	120.1	2.9	132.0	2.9	132.5	2.9
3.3 Cleaning services	167.4	3.1	181.3	3.0	181.4	3.0
3.4 Membership organisations	29.2	1.5	32.1	1.3	33.5	1.4
4. Other low paying sectors	70.4	0.6	77.5	0.6	80.9	0.6
4.1 Elderly homes	30.2	1.2	31.3	1.1	32.1	1.1
4.2 Laundry and dry cleaning services	5.8	1.0	6.3	1.0	6.7	1.0
4.3 Hairdressing and other personal services	19.2	0.4	21.8	0.4	22.0	0.4
4.4 Local courier services	4.1	0.8	4.7	0.8	5.2	0.9
4.5 Food processing and production	11.1	0.4	13.5	0.4	14.9	0.5
(B) Other sectors	193.1	#	228.4	#	328.0	0.1
(C) All sectors	1,099.4	0.2	1,219.8	0.2	1,357.3	0.2

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.

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

In between 0 and 0.05%.

Sources: Estimated based on Annual Earnings and Hours Survey, Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors.

C. Coverage of Sectors

Table C.1 Coverage of sectors

Sector	Annual Earnings and Hours Survey	Annual Survey of Economic Activities	Quarterly Survey of Employment and Vacancies	General Household Survey
	Hong Kong Standard Industrial Classification Version 2.0 ^(Note 1)			
(A) Low paying sectors				
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 ^(Note 2)				
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 communication	H, J excluding 5322	H, J excluding 5322	H, J excluding 5321-2	H, J excluding 53
10. Financing, insurance, real estate, professional and business services	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81
11. Education, medical and other social and personal services	O-S excluding 873, 949, 9601, 960201, 9603-9	P-S excluding 873, 9601, 960201 and part of 851, 852, 853 and 86	P-S excluding 873, 949, 9601-2	O-S excluding 87, 94, 96-99
12. Others	D-E	B, D-E	B, D-E	A-B, D-E

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

Abbreviations

2011 Study on Knock-on Effect	Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors
2013 Study on Knock-on Effect	2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors
AEHS	Annual Earnings and Hours Survey
ASEA	Annual Survey of Economic Activities
C&SD	Census and Statistics Department
CE	Chief Executive
CCPI	Composite Consumer Price Index
CPI(A)	Consumer Price Index (A)
CPI	Consumer Price Index
CSSA	Comprehensive Social Security Assistance
First-term MWC	Minimum Wage Commission (2011-13)
GDP	Gross Domestic Product
GHS	General Household Survey
HSIC V2.0	Hong Kong Standard Industrial Classification Version 2.0
Knock-on effect	Knock-on effect on pay hierarchies
LES	Labour Earnings Survey
LPS	Low paying sectors
MWC	Minimum Wage Commission (2013-15)
MWO	Minimum Wage Ordinance
PMWC	Provisional Minimum Wage Commission
SEV	Quarterly Survey of Employment and Vacancies
SME	Small and medium enterprise
SMW	Statutory Minimum Wage
Studies on Knock-on Effect	Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors, and 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors
US	United States

Glossary (listed in alphabetical order)

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

Glossary	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. households with average monthly household expenditure within the range of \$4,500 to \$18,499 between October 2009 and September 2010, covering some 50% of all households in Hong Kong).
Craft workers and machine operators	Craft workers and machine operators refer to craft and related workers, plant and machine operators and assemblers in the Annual Earnings and Hours Survey (AEHS); and craft and related workers, and plant and machine operators and assemblers in the General Household Survey (GHS).
Depreciation	<p>Depreciation refers to the amount by which the value of fixed assets has declined during the reference period owing to utilisation and obsolescence.</p> <p>ASEA has started to collect statistics on depreciation since 2010.</p>
Direct investment liabilities	<p>Direct investment liabilities refer to direct investment claims by a non-Hong Kong resident on a Hong Kong resident enterprise. Typical examples of direct investment liabilities are multinational corporations' branches and subsidiaries operating in Hong Kong.</p> <p>Direct investment refers to external investment in which an investor of an economy acquires a lasting interest and a significant degree of influence or an effective voice in the management of an enterprise located in another economy. For statistical purpose, an effective voice is taken as being equivalent to a holding of 10% or more of the voting power in an enterprise. Direct investment comprises equity and investment fund shares and debt instruments. Equity and investment fund shares include equity in branches, shares in subsidiaries and associates, investment fund shares and reinvestment of earnings, which consist of the investors' share of earnings not distributed by branches, subsidiaries, associates or investment fund. Debt instruments mainly involve inter-company debt transactions. These include short-term and long-term borrowing and lending of funds between parent companies and their branches, subsidiaries and associates.</p>
Earnings	In this report, earnings for 2010 and before refer to earnings before tax; gain/loss on disposal of financial asset, property, machinery and equipment; bad debts/write-off; amortisation; and provisions. Starting from 2011, amortisation is deducted from earnings.

Glossary	Definition
Earnings before tax ratio (abbreviated as profit ratio)	<p>In this report, profit ratio refers to the ratio of earnings to business receipts.</p> <p>Please refer to “Earnings” for its definition.</p>
Elementary workers	<p>In this report, elementary workers refer to persons engaged in the following occupational groups:</p> <ul style="list-style-type: none"> (i) 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; (ii) In GHS, elementary occupations include street vendors, domestic helpers and cleaners, messengers, private security guards, watchmen, freight handlers, lift operators, construction labourers, hand packers, and agricultural and fishery labourers; (iii) In LES, miscellaneous non-production workers include general workers, messengers/office assistants, drivers, bell boys, cleaners, dishwashers and building attendants/guards, etc.

Glossary	Definition
Employed persons/persons engaged	<p>In GHS, employed persons include all persons aged 15 or over who satisfy the following situation:</p> <ul style="list-style-type: none"> (i) should be engaged in performing work for pay or profit during the 7 days before enumeration; or (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). <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"> (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; (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 (iii) part-time employees and employees on night/irregular shifts working for at least one hour on the survey reference date.

Glossary	Definition
Employees	<p>In AEHS, employees include all employees under the coverage of the Minimum Wage Ordinance (MWO). Specifically, MWO applies to all employees with the following exceptions:</p> <ul style="list-style-type: none"> (i) family members who live in the same dwelling as the employer; (ii) employees defined in the Contracts for Employment Outside Hong Kong Ordinance; (iii) persons serving under crew agreements under the Merchant Shipping (Seafarers) Ordinance, or on board a ship which is not registered in Hong Kong; (iv) apprentices whose contracts of apprenticeship have been registered under the Apprenticeship Ordinance; (v) student interns or work experience students as exempted by MWO; (vi) live-in domestic workers; and (vii) Government employees. <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>
Employees involved	<p>In this report, unless otherwise specified, employees involved refer to employees earning an hourly wage below the recommended Statutory Minimum Wage level.</p>
Enterprise	<p>In this report, an enterprise consists of one or more establishments which engage, under a single ownership or control, in one or predominantly one kind of economic activity at one or more locations.</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, such as an individual factory, a workshop, a retail shop or an 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>

Glossary	Definition
Full-time employees	<p>In GHS, full-time employees refer to employees who worked 35 hours or more during 7 days before enumeration or worked less than 35 hours due to leave during the 7-day period.</p> <p>In AEHS, full-time employees refer to employees who cannot be classified as part-time employees.</p> <p>Please refer to “Part-time employees” for its definition.</p>
Grassroots employees	<p>In this report, grassroots employees include elementary occupations; and service and sales workers.</p>
Higher-skilled employees/occupational groups	<p>In this report, higher-skilled employees/occupational groups include managers and administrators, professionals and associate professionals.</p>
Hourly wages	<p>Starting from 2011, the method for deriving hourly wages in AEHS has taken into account the definitions of hours worked and wages payable under MWO. Hourly wages are derived by dividing the amount of wages paid to an employee in the wage period, with deduction of the payments related to rest days and meal breaks which are not regarded as working hours, by the number of working hours in the same wage period.</p> <p>Please refer to “Wages” for its definition.</p> <p>Please refer to “Working hours” for its definition.</p>
Labour force	<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 (such as real Gross Domestic Product (GDP) or real value added) by labour input (such as total hours worked or total persons engaged).</p>
Large enterprises	<p>In this report, large enterprises refer to those enterprises with 50 or more persons engaged.</p>

Glossary	Definition
Lower-skilled employees/occupational groups	<p>For the statistical figures of AEHS, lower-skilled employees/occupational groups include elementary occupations; service and sales workers; craft and related workers, plant and machine operators and assemblers; and clerical support workers.</p> <p>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>
Low paying sectors (LPS)	<p>In this report, low paying sectors refer to low paying sectors (covering 15 sub-sectors) as adopted by the Minimum Wage Commission, which include: (i) retail (including supermarkets and convenience stores, and other retail stores); (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes); (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (iv) other low paying sectors (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).</p>
Matched target employees	<p>In the 2013 Study on Impact of Revised Statutory Minimum Wage Rate on Pay Hierarchies in the Retail and Restaurant Sectors (2013 Study on Knock-on Effect), matched target employees refer to those employees working at the same rank, with the same employment nature (full-time/part-time) and in the same outlet in September 2012 and September 2013, as well as (i) with monthly wages below \$15,000 in September 2012 for those in Chinese restaurants and other retail stores; or (ii) with monthly wages below \$12,500 in September 2012 for those in other sub-sectors (including supermarkets and convenience stores, non-Chinese restaurants, fast food cafes and Hong Kong style tea cafes).</p> <p>In the Study on Knock-on Effect of Statutory Minimum Wage on Pay Hierarchies in the Retail and Restaurant Sectors (2011 Study on Knock-on Effect), matched target employees refer to those employees working at the same rank, with the same employment nature (full-time/part-time) and in the same outlet in September 2010 and September 2011, as well as (i) with monthly wages below \$13,000 in September 2010 for those in Chinese restaurants; or (ii) with monthly wages below \$11,500 in September 2010 for those in other enterprises.</p>

Glossary	Definition
Monthly contractual working hours	<p>In 2011 Study on Knock-on Effect and 2013 Study on Knock-on Effect, the number of contractual working hours refers 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.</p>
Monthly employment earnings	<p>In GHS, 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).</p>
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"> (i) basic wages/salaries (including paid holidays and leave); (ii) commission and tips (tips received directly from customers are excluded); (iii) shift allowance; (iv) cost-of-living allowance; (v) meal allowance/benefits; (vi) good attendance bonus; (vii) guaranteed year-end bonus; and (viii) other regular and guaranteed bonuses and allowances.

Glossary	Definition
Other sectors	<p>In this report, unless otherwise specified, other sectors refer to non-low paying sectors including: (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 worked less than 35 hours during the 7 days before enumeration. Those who worked 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"> (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 (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 (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). <p>However, persons who usually work 24 hours per shift are excluded, regardless of the number of usual days of work per week.</p>
Percentiles	<p>Percentiles refer to the 99 values that divide an ordered data set into 100 equal parts (in terms of number of observations).</p> <p>The p^{th} percentile is the value which delineates the lowest $p\%$ of observations of an ordered data set, where p can be any integer value from 1 to 99. The 25th percentile, 50th percentile and 75th percentile are equal to the first (lower) quartile, median and third (upper) quartile hourly wage respectively.</p>
Real Wage Index	<p>Real Wage Index is obtained by deflating the Nominal Wage Index by 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 its definition.</p>

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

Glossary	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 satisfying one of the following situations:</p> <ul style="list-style-type: none"> (i) has been available for additional work during the 7 days before enumeration; or (ii) has sought additional work during the 30 days before enumeration. <p>Working short hours is considered involuntary if it is due to slack work, material shortage, mechanical breakdown or inability to find a full-time job. Following this definition, employed persons taking no-pay leave due to slack work during the 7 days before enumeration are also classified as underemployed if they work less than 35 hours or are on leave even for the whole period during the 7-day period.</p>
Underlying Consumer Price Index	Underlying CPI denotes CPI compiled upon netting out the effects of all Government's one-off relief measures.
Unemployed grassroots workers	<p>In GHS, unemployed grassroots workers refer to unemployed persons (not including re-entrants into the labour force who were unemployed) whose previous occupations were elementary occupations or service and sales workers.</p> <p>Please refer to "Unemployment rate" for its definition.</p>

Glossary	Definition
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"> (i) not have had a job and should not have performed any work for pay or profit during the 7 days before enumeration; and (ii) have been available for work during the 7 days before enumeration; and (iii) have sought work during the 30 days before enumeration. <p>However, if a person aged 15 or over fulfils the conditions (i) and (ii) above but has not sought work during the 30 days before enumeration because he/she believes that work is not available, he/she is still classified as unemployed, being regarded as a so-called “discouraged worker”.</p> <p>Notwithstanding the above, the following types of persons are also classified as unemployed:</p> <ul style="list-style-type: none"> (i) persons without a job, have sought work but have not been available for work because of temporary sickness; and (ii) persons without a job, have been available for work but have not sought work because they: <ul style="list-style-type: none"> ✧ have made arrangements to take up a new job or to start business on a subsequent date; or ✧ are expecting to return to their original jobs (e.g. casual workers are usually called back to work when service is need).
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>

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

Glossary	Definition
Working hours	<p>Starting from 2011, the method for deriving the number of working hours in AEHS has taken into account the definition of hours worked under MWO. The number of working hours compiled in the 2011 AEHS refers to the sum of:</p> <ul style="list-style-type: none"> (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 (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>Besides, hours of work in GHS refer to the number of hours which an employed person actually worked in all employment during the 7 days before enumeration. All paid and unpaid hours worked at the place of work are included, but meal breaks are excluded.</p>

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Economic, Sustainability, Family 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. The implementation of SMW since May 2011 has helped to boost the income of grassroots employees. Owing to the improved income prospects, more people, especially the female and the older employees, have been enticed to enter or re-enter the labour force. The potential negative impact of SMW on the labour market has also been cushioned to a large extent by the broadly stable macroeconomic environment over the past three years or so. However, profitability has weakened for some low paying sectors (LPS) and small and medium enterprises (SMEs) which have been less capable of coping with additional cost pressure, including the increase in labour costs brought by SMW. Besides, while Hong Kong's global rankings in economic freedom, competitiveness and business environment have so far remained high, the performance in other quantifiable indicators of competitiveness has lagged behind many regional economies during the few years after the implementation of SMW. It is subject to further observation as to how these developments would affect the competitiveness of Hong Kong in the long run.

2. The recommended SMW rate of \$32.5 per hour is an increase of \$2.5 per hour or 8.3% over the current SMW rate of \$30.0. Data from the 2013 Annual Earnings and Hours Survey conducted by the Census and Statistics Department revealed that the number of employees earning less than \$32.5 per hour in May to June 2013 was 255 200, accounting for 8.7% of all employees in Hong Kong¹. A relatively large number of these 255 200 employees were female (59.4%); older employees (aged 45 and above) (61.7%); of lower educational attainment (secondary three and below) (72.1%); elementary workers, and service and sales workers (88.0%); and working in LPS (77.7%). The Minimum Wage Commission (MWC) crudely estimated that in the first half of 2015 and at the time just before the SMW rate is raised to the recommended level, the number of employees earning an hourly wage less than \$32.5 would be approximately 150 000, accounting for

¹ These figures exclude employees in the Government, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance.

around 5% of all employees. It should be noted that as set out by MWC in its report, since the labour market keeps adjusting, the assumptions underlying the above estimates (including job creation or loss at different income levels and the changes in wages of individual employees) might be different from the situation after the implementation of the recommended SMW rate. Thus, these estimates should be used for reference only.

3. According to MWC's assessment, based on the definition of wages under the Minimum Wage Ordinance (Cap. 608) (MWO), the estimated additional wage bill arising from the recommended SMW rate for all enterprises would be about \$1.10 billion. Taking into account rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement) beyond the statutory requirements as well as the impact of knock-on effect, the total additional wage bill would be higher at around \$1.36 billion, representing an increase of approximately 0.2%. Regarding LPS as a whole, the increase in the additional wage bill was estimated at about 0.9%. There would be more noticeable cost impact on cleaning services (up by 3.0%), security services (up by 2.9%), real estate maintenance management (up by 1.6%), fast food cafes (up by 1.6%) and elderly homes (up by 1.1%). But the impact on most other sectors should be modest. As enterprises are likely to adopt different strategies to absorb or mitigate the rise in costs, MWC envisaged that the additional labour cost would be manageable for most businesses.

4. Feedback from extensive consultation with the affected trades conducted by MWC after the implementation of SMW indicates that sectors like real estate maintenance management, security services and cleaning services have greater pricing power in general and could be able to pass on a considerable portion of the cost burden to consumers through price increase. In contrast, elderly homes, especially small and medium-sized ones which already have thin profit margins and limited scope of adopting mitigation measures, are likely to be affected more.

5. Uprating of SMW would incur additional labour costs and might prompt enterprises to streamline and downsize, which would in turn exert an upward pressure on the unemployment rate. The eventual impact on the unemployment rate will hinge crucially on the macroeconomic conditions when the recommended SMW rate is implemented. In the assessment of MWC, if the Hong Kong economy would grow by 2.5% in the first half of 2015, the recommended SMW rate would lead to an increase of 5 800 to 6 400 unemployed grassroots workers, thereby raising the overall unemployment rate by about 0.1

percentage point to 0.2 percentage point². Under a less favourable scenario with slower economic growth at 1.5% in the first half of 2015, the overall unemployment rate was estimated to increase by about 0.4 percentage point. As the prevailing unemployment rate in Hong Kong is still relatively low, barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in the labour market.

6. To the extent that some enterprises can pass on additional wage bill to consumers through charging higher prices, consumer price inflation would go higher as a result. Assuming a full pass-on of the additional wage bill to prices of products and services, it was estimated by MWC that the Composite Consumer Price Index (CPI) would go up by about 0.3 percentage point. As a measure of inflation on the grassroots, the corresponding rise in CPI(A) would be around 0.4 percentage point to 0.5 percentage point³. With its greater pressures entailed from additional wage bill and stronger pricing power, price increases of services provided by the estate management, security and cleaning services sector might be more apparent. Nevertheless, as it is unlikely for all enterprises to fully pass on the additional wage bill to consumers, the actual impact of the recommended SMW rate on inflation should be smaller than the above estimation.

7. Overall, the impact of the recommended SMW rate depends much on the economic conditions at the time of its implementation. The experience of implementing SMW in May 2011 and adjusting the SMW rate in May 2013 suggests that favourable economic conditions would significantly relieve the pressure of SMW on the labour market and business environment, and the impact would fall mostly on inflation. However, the weaker growth momentum of domestic demand in the past few quarters, as well as the disruptions brought

² The former set of figures (i.e. 5 800 for unemployed grassroots workers and 0.1 percentage point for unemployment rate) was estimated on the basis of total wages received by employees (i.e. wages as defined in MWO plus rest day and meal break pay (for employees who are granted these payments according to their employment contract or agreement)). The latter set of figures (i.e. 6 400 for unemployed grassroots workers and 0.2 percentage point for unemployment rate) was estimated on the basis of total wages received by employees as well as the impact of knock-on effect.

³ For CPI(A), the former figure (i.e. 0.4 percentage point) was estimated on the basis of total wages received by employees (i.e. wages as defined in 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. 0.5 percentage point) was estimated on the basis of total wages received by employees as well as the impact of knock-on effect. As for Composite CPI, the figure (i.e. 0.3 percentage point) was both the estimation based on total wages received by employees, and the estimation based on total wages received by employees as well as the impact of knock-on effect.

about by the recent “Occupy Movement” to local business activities, have added downside risks to the near-term outlook for the Hong Kong economy and labour market. As such, the impact of SMW could be more pronounced if business growth and labour demand were to moderate even without the additional impact from a higher SMW rate.

Sustainability implications

8. By enhancing the protection of vulnerable workers through increasing the SMW rate, 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.

Family implications

9. The proposal seeks to protect grassroots employees by raising the statutory wage floor to the recommended SMW rate. While there is no significant or direct impact on families, increasing the SMW rate is likely to improve the livelihood and the sense of ability of employees, thereby imposing positive impact on their sense of responsibility towards their families. This would be conducive to family cohesion.

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 top-up payment to certain subvented bodies and government service contractors on a one-off and exceptional basis. For subsequent revisions of the SMW rate, as it is expected that their effect should be more modest in financial terms and could be better anticipated at the tendering stage of subsequent contracts, the Government would provide no top-up payment in these adjustment exercises.

11. It is difficult to estimate the precise net effect of the recommended SMW rate on the Comprehensive Social Security Assistance (CSSA) expenditure, which would depend on the economic and labour market situation as well as how the recommended SMW rate impacts on employment and the profile of those affected⁴.

⁴ The current labour market situation is largely stable and it is anticipated that the impact of the recommended SMW rate is unlikely to lead to a marked deterioration in the labour market. Nonetheless, the employment situation will hinge on the overall economic performance of Hong Kong. In case of economic downturn, older and young and inexperienced workers as well as workers with lower education and lower skills are more vulnerable to employment

Nevertheless, making reference to the change in CSSA caseloads upon the implementation of the revised SMW rate⁵, and assuming the economic and labour market situation will remain largely stable, we estimate that the recommended SMW rate will not have any effect on increasing the CSSA expenditure.

12. The Government's policy to pay its employees no less favourably than the prevailing SMW rate stipulated under 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.

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.

⁵ As at November 2014, there were 19 002 unemployment cases and 7 653 low earnings cases out of a total of 253 825 CSSA cases, which represented respective decreases of 35% and 45% over 29 206 unemployment cases and 13 992 low earnings cases out of a total of 282 351 CSSA cases in April 2011 before the initial SMW rate took effect.