

LEGISLATIVE COUNCIL BRIEF

Minimum Wage Ordinance
(Chapter 608)

Employment Ordinance
(Chapter 57)

MINIMUM WAGE ORDINANCE (AMENDMENT OF SCHEDULE 3) NOTICE 2017

EMPLOYMENT ORDINANCE (AMENDMENT OF NINTH SCHEDULE) NOTICE 2017

INTRODUCTION

At the meeting of the Executive Council on 10 January 2017, the Council ADVISED and the Chief Executive ORDERED that –

- A
- (a) the recommendation of the Minimum Wage Commission (MWC) on the revised Statutory Minimum Wage (SMW) rate of \$34.5 per hour be accepted and the effective date be set at 1 May 2017; and
 - (b) the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2017 at Annex A be made under section 16(1) of the Minimum Wage Ordinance (Cap. 608) (MWO) to implement the decisions at (a) above.

B

2. Consequential to the implementation of the revised SMW rate, the Commissioner for Labour has made the Employment Ordinance (Amendment of Ninth Schedule) Notice 2017 at Annex B in accordance with section 49A(6) of the Employment Ordinance (Cap. 57) (EO).

JUSTIFICATIONS

(A) The Proposed Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2017

3. SMW provides a wage floor to protect grassroots employees against excessively low wages, without unduly jeopardising our labour market flexibility, economic growth and competitiveness or causing significant loss in low-paid jobs. SMW is not intended to be a living wage. Under section 16(1) of MWO, the Chief Executive in Council may, by notice published in the Gazette, amend Schedule 3 to specify the SMW rate with its effective date. The statutory MWC is chaired by a non-official, comprising three members

each from the labour sector, business community, academia and the Government. According to MWO, the Chief Executive must require that a report by MWC of its recommendation about the SMW rate be made to the Chief Executive in Council at least once in every two years. The current SMW rate at \$32.5 per hour as specified in Schedule 3 to MWO has come into effect since 1 May 2015.

4. On 31 October 2016, the Chairperson of MWC submitted the MWC report to the Chief Executive in Council having conducted a comprehensive review of the SMW rate. The report is at Annex C. MWC, by consensus, recommended that the current SMW rate of \$32.5 per hour be adjusted to \$34.5 per hour, an increase of \$2 or 6.2%.

5. To review the SMW rate in an objective and balanced manner, MWC adopted an evidence-based approach by conducting comprehensive analyses of relevant information and data of various aspects, including the Annual Earnings and Hours Survey (AEHS) and the Annual Survey of Economic Activities conducted by the Census and Statistics Department (C&SD), as well as the Array of Indicators¹ and its latest data to grasp the socio-economic conditions since the implementation of SMW and its impact. In parallel, MWC analysed the written and oral submissions collected from stakeholders and members of the public through intensive and extensive consultation. All these facilitated MWC to have a more comprehensive understanding of the impact of SMW on society, the economy and different sectors (in particular the low paying sectors (LPS)² and small and medium enterprises (SMEs)), as well as views of various sectors of the community on the review of the SMW rate. MWC also took into consideration relevant factors which were pertinent to the review of the SMW rate but could not be fully quantified and the experience of reviewing minimum wage rates in other places. MWC adopted an enhanced impact assessment framework to estimate the possible impact of different SMW test levels on employees, businesses, unemployment rate and inflation, and conducted scenario testing based on the local economic outlook to take into account the time gap between recommending the SMW rate and its

¹ The Array of Indicators covered four areas of consideration, namely general economic conditions, labour market conditions, competitiveness and social inclusion.

² The first two terms (i.e. 2011-13 and 2013-15) of MWC defined LPS as sectors employing a relatively large number of low-paid employees (i.e. employees earning hourly wage within the lowest decile of the overall hourly wage distribution) or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. Based on the above criteria and the findings of 2015 AEHS, MWC considered it appropriate to continue to adopt the four LPS (covering 15 sub-sectors) identified by the first two terms of MWC. The four LPS are: (i) retail (including supermarkets and convenience stores, and other retail stores); (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes); (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (iv) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

implementation.

6. According to the data from AEHS conducted by C&SD, there were 154 500 employees with an hourly wage less than \$34.5 in May to June 2015, representing 5.2% of all employees in Hong Kong³. With reference to the more recent wage data from C&SD and assuming the Hong Kong economy would grow moderately by 2% year-on-year in real terms for the first half of 2017, MWC crudely estimated that the number of employees involved with an hourly wage less than \$34.5 in the first half of 2017 before the implementation of the recommended SMW rate would be around 74 100, representing 2.5% of all employees in Hong Kong. As set out by MWC in its report, since the labour market would keep adjusting before and after the revision of the SMW rate, and assumptions underlying the above estimates might differ from actualities, the aforesaid crude estimate (i.e. 74 100) on the number of employees involved before the implementation of the recommended SMW rate should be used for reference only and is conceptually different from the number of employees earning an hourly wage at the recommended SMW rate after its implementation. The impact of raising the SMW rate on wage would also vary across individual employees. Generally speaking, MWC envisaged that the uprating of SMW to the recommended level would raise the wages of the majority of employees involved. Taking into account the impact of knock-on effect on pay hierarchies (knock-on effect), the number of employees with pay rise owing to the uprating of SMW would eventually be greater than the number of employees involved.

7. For enterprises, taking into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contract or agreement) in addition to the statutory requirements as well as the impact of knock-on effect, MWC estimated that the total wage bill would increase by about \$660 million or approximately 0.1%⁴. MWC envisaged that the impact of the recommended SMW rate should be manageable for most sectors (including SMEs). Those enterprises that were persistently making losses or competing all along on low prices rather than productivity or output quality might be subject to greater operating pressure.

³ These figures exclude government employees, live-in domestic workers, student interns and work experience students as defined in MWO.

⁴ The additional wage bill was estimated under the scenario of a moderate economic growth at 2% year-on-year in real terms for the first half of 2017. Owing to data limitations, the estimation did not take into account all labour costs (such as premium for employees' compensation insurance) arising from the uprating of SMW. Additional wage bills were estimated with reference to the results of AEHS and the review results on the additional wage bill. As the estimates of additional wage bill by the current term of MWC were based on the enhanced framework of impact assessment, they cannot be compared directly with the corresponding figures derived from the assessments made by the first two terms of MWC.

8. Regarding the impact on the unemployment rate, MWC estimated that the recommended SMW rate would lift the overall unemployment rate by about 0.1 percentage point⁵. With the prevailing unemployment rate in Hong Kong still relatively low, and barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in labour market conditions. As for the impact on inflation, assuming a full pass-on of additional wage bill to prices of products and services and taking into account the first round of wage-price spiral effect⁶, MWC estimated that the Composite Consumer Price Index (CPI) inflation would go up by about 0.2 percentage point. As a measure of inflation on the grassroots, the corresponding rise in CPI(A) inflation would be around 0.3 percentage point⁵. 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 estimates.

9. The Government has carefully considered the report of MWC and is of the view that MWC has ably discharged its statutory function of reviewing the SMW rate with 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 \$34.5 per hour fulfils the objective of forestalling excessively low wages. The likely mild impact on enterprises and unemployment as assessed by MWC also satisfies the objectives of minimising the loss of low-paid jobs and sustaining the economic growth and competitiveness of Hong Kong. The analyses of MWC show that the recommended SMW rate strikes an optimum balance between the interests of employees and the affordability of employers. The Chief Executive in Council has accepted and adopted MWC's recommended rate of \$34.5 per hour as the revised SMW rate.

10. It is proposed that the revised SMW rate should take effect on 1 May 2017, as in the past review exercises. Counting from the gazettal of the new rate which is scheduled for 20 January 2017 (as referred to in paragraph 15 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.

⁵ The results were estimated under the scenario of a moderate economic growth at 2% year-on-year in real terms for the first half of 2017 and based on total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect.

⁶ 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 and as a result would lead to inflationary pressures surfacing at different stages.

11. The Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2017 amends Schedule 3 to MWO to add the revised SMW rate with its effective date.

(B) The Proposed Employment Ordinance (Amendment of Ninth Schedule) Notice 2017

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

13. The present monthly monetary cap in the Ninth Schedule to EO is set at \$13,300, based on the current SMW rate of \$32.5 per hour. It is proposed that if and when the revised SMW rate of \$34.5 per hour is implemented on 1 May 2017, the monthly cap should be increased to \$14,100 after rounding, in proportion to the percentage increase (i.e. 6.2%) 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 2017.

14. The Employment Ordinance (Amendment of Ninth Schedule) Notice 2017 amends the Ninth Schedule to EO to revise the monetary cap on recording hours worked and to specify that the revised monetary cap will come into force on the same day on which the new SMW rate comes into effect.

LEGISLATIVE TIMETABLE

15. The legislative timetable is –

Publication in the Gazette	20 January 2017
Tabling at the Legislative Council (LegCo)	8 February 2017

IMPLICATIONS OF THE PROPOSALS

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

PUBLIC CONSULTATION

17. MWC, in accordance with its statutory function, conducted intensive and extensive consultation, including focused consultation meetings with stakeholders of LPS, a six-week public consultation and a series of 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 met with 96 stakeholders of LPS in the focused consultation meetings and received 133 written submissions through public consultation. A total of 98 stakeholder groups also joined MWC's consultation meetings. The revision of the monetary cap on recording hours worked is consequential to the adoption of the revised SMW rate of \$34.5 per hour, and no separate public consultation is required.

PUBLICITY

18. MWC's report (at Annex C) will be uploaded onto the websites of MWC and LD on 18 January 2017. A press release will be issued and a spokesperson from LD will be made available to handle press enquiries.

ENQUIRIES

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

Labour and Welfare Bureau
Labour Department
January 2017

**Minimum Wage Ordinance (Amendment of Schedule 3)
Notice 2017**

(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 2017.

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

“\$34.5 1 May 2017”.

Clerk to the Executive Council

COUNCIL CHAMBER

2017

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 \$32.5 to \$34.5, with effect from 1 May 2017.

Employment Ordinance (Amendment of Ninth Schedule) Notice 2017

(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 2017 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

“\$13,300”

Substitute

“\$14,100”.

Commissioner for Labour

2017

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. As the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2017 increases the minimum hourly wage rate from \$32.5 to \$34.5, this Notice amends the Ninth Schedule to the Employment Ordinance to increase the monetary cap from \$13,300 per month to \$14,100 per month.

2016 Report of the Minimum Wage Commission



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Chairperson's Foreword

- 1 This is the third recommendation report on the review of the Statutory Minimum Wage (SMW) rate submitted to the Chief Executive in Council by the Minimum Wage Commission (MWC) after its establishment in 2011. Since the implementation of SMW, the macroeconomic conditions of Hong Kong have been largely stable and the overall labour market has been running smoothly. MWC has been delighted to see that the income of lower-paid employees has continued to improve in real terms. Furthermore, rises in wages have attracted more people to enter or re-enter the employment market, which has been conducive to the economic development of Hong Kong.
- 2 SMW has profound impact on various aspects, including the labour market, society and economy. Upholding the evidence-based approach, MWC conducted comprehensive analyses on information and data from statistical surveys and studies to analyse the impact on employees and businesses as well as the local labour market, prices and the overall economy upon the implementation of SMW and the revisions of the SMW rate in May 2013 and May 2015.
- 3 MWC also valued highly the views from all sectors of the community on the review of the SMW rate. It conducted focused consultation meetings with stakeholders of low paying sectors as well as extensive public consultation, and met with stakeholders to exchange and listen to their views. MWC would like to express heartfelt gratitude to stakeholders and members of the public who participated in these consultation activities or presented submissions on the review of the SMW rate. Their valuable views laid a solid foundation for MWC's deliberation and recommendation.
- 4 For the evidence-based approach adopted by MWC, the Secretariat provided thorough analyses of various data and information coupled with ample back-up and technical support. MWC would like to express appreciation to the colleagues of the Secretariat. Moreover, MWC would like to thank the Labour and Welfare Bureau, the Labour Department, the Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office and the Census and Statistics Department for their assistance in various aspects.

- 5 I would like to take this opportunity to express my sincere gratitude to all MWC Members with whom I have all along been working closely. All the Members, albeit from different sectors, put the overall interest of the community in the forefront and forged consensus on the recommended SMW rate through rational and balanced discussion. Throughout the review process, every Member fully and objectively examined various data and information, and considered different views with an open mind. Given the considerable experience, professional knowledge and pragmatic attitude of all Members, MWC has accomplished the mission of reviewing the SMW rate.
- 6 The SMW rate recommended in this report is based on the unanimous consensus and support of all MWC Members. MWC considers that the recommended SMW rate maintains an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness. I have the pleasure to submit to the Chief Executive in Council this *2016 Report of the Minimum Wage Commission*, and appeal for acceptance of and support for the recommendation unanimously reached by MWC.



JAT Sew Tong

October 2016

Membership List (as at October 2016)

Chairperson



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

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

Non-official Members (*)



A handwritten signature in black ink, appearing to read 'Bankee KWAN'.

Mr Bankee KWAN Pak Hoo, J.P.



A handwritten signature in black ink, appearing to read 'LAU Chin Shek'.

Mr LAU Chin Shek, J.P.



A handwritten signature in black ink, appearing to read 'LAU Ka Shi'.

Ms LAU Ka Shi, B.B.S.



A handwritten signature in black ink, appearing to read 'LEUNG Siu Fai'.

Professor LEUNG Siu Fai

(*) listed in alphabetical order of the surname



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

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



A handwritten signature in black ink, appearing to be 'LUM Yat Sang'.

Professor Terry LUM Yat Sang



A handwritten signature in blue ink, appearing to be 'Wing Chuen'.

Professor SUEN Wing Chuen, J.P.



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'.

Mr Kingsley WONG Kwok, J.P.

Official Members



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

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



A handwritten signature in black ink, appearing to read 'Philip Yung'.

Mr Philip YUNG Wai Hung, J.P.
*Permanent Secretary for Commerce and Economic
Development (Commerce, Industry and Tourism)*



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

Mrs Helen CHAN, J.P.
Government Economist

Secretary



Ms Betty NG Shuk Fong
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 2017, the Minimum Wage Commission (MWC) recommended that the SMW rate be adjusted from \$32.5 per hour to \$34.5 per hour, up \$2.0 (or 6.2%).

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. While SMW impacts on various aspects including the labour market, society and economy, there are diverse views and concerns in the community regarding the review of the SMW rate. To fulfil its statutory function and maintain an appropriate balance among its various objectives mentioned in paragraph II above, when reviewing the SMW rate, not only did MWC make reference to the latest data in an Array of Indicators reflecting the socio-economic and employment conditions after the implementation of SMW in May 2011 and the revisions of the SMW rate in May 2013 and May 2015, it also studied the findings of other surveys and fully considered views on the review of the SMW rate from various sectors of society so as to recommend an appropriate SMW rate.
- IV MWC unanimously agreed to adopt a consensus-building approach as its *modus operandi* and to achieve the objective of reaching consensus through rational discussions. To ensure objective and balanced discussions among MWC members without external influence, it was unanimously agreed to keep the deliberations and

discussions confidential. Noting clearly that there was a keen interest in the review of the SMW rate in the community, MWC sought to enable members of the public and stakeholders to understand its work. MWC regularly updated its webpage, issued press releases when appropriate and met the media in order to report work progress and provide the latest news and information to the public. When conducting public consultation, MWC also uploaded onto its webpage relevant information and data so as 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 The impact of the implementation of SMW on Hong Kong's socio-economic conditions hinges to a large extent on the prevailing macroeconomic conditions. For instance, favourable macroeconomic conditions would help cushion the pressure on employment and corporate profits arising from the implementation of SMW or its uprating. On the contrary, if the economy is in a downturn or even faces large external shock to the extent of putting significant pressure on corporate profits, an upward adjustment of the SMW rate would further jeopardise the business operation and employment situation. Observations on the socio-economic conditions since the implementation of SMW set the scene for the analysis of the impact of SMW.
- VI The generally stable macroeconomic conditions over the past few years largely cushioned the possible impact brought about by the implementation of SMW on employment, and lower-paid employees saw a significant improvement in their employment earnings. Yet, with the slower global economic growth in recent years, volatility in the international financial markets, and the concurrent slackening of inbound tourism and domestic demand, downside risks to the local economy remain notable. Moreover, as inflationary pressure continues to moderate, some enterprises may not be able to offset the additional costs through raising prices, which may pose more pressure on the labour market.

Chapter 4: Impact of Statutory Minimum Wage

- VII MWC discharged its statutory function by adopting an evidence-based approach, and conducted comprehensive analyses on relevant information and data from various

aspects in order to monitor the changes in the socio-economic conditions after the implementation of SMW and the revisions of the SMW rate. Drawing from various observations, MWC considered that the positive impact of the implementation of SMW outweighed the negative ones, and the impact of the revised SMW rate in 2015 was relatively modest.

- VIII MWC examined the impact of SMW since its implementation on employees, businesses, the local labour market, prices and the overall economy through analyses on the relevant data. Regarding the impact on employees, the uprating of SMW entailed a more notable improvement in the wages of lower-paid employees, which helped forestalling excessively low wages and narrowing down the wage differentials. Amid the sustained tightness of the labour market, the number of employees earning the SMW rate decreased visibly. The implementation of SMW had not constrained the room for upward wage adjustment, and there were even signs of improvement in the remuneration structure and fringe benefits of some employees.
- IX As for businesses, the implementation of SMW 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. Under the stable macroeconomic conditions over the past few years, the business growth of enterprises could largely absorb the additional labour cost pressure of SMW. However, the slowdown in inbound tourism since 2014 had more apparent impact on some low paying sectors (LPS) (such as the retail sector). The setback of businesses to a certain extent affected the ability of these sectors to absorb and pass on the costs, which undermined their profitability. Small and medium enterprises (SMEs) were constrained by resources and had even smaller room for manoeuvre. As reflected by more recent data, business sentiment had turned more cautious. The less favourable economic conditions would undoubtedly pose some challenge to enterprises in responding to the additional cost pressure from SMW.
- X Up till mid-2016, the local labour market held largely stable with the unemployment rate staying at a low level. Nonetheless, labour demand slackened almost across-the-board, and the unemployment rates of some sectors went up. The proportion of part-time employees in LPS rose further while the proportion of underemployed therein fell at the same time, suggesting that the majority of part-time employment status was voluntary in nature. Self-employment also continued to

decline. As for working hours, the implementation of SMW and its upratings did not have significant impact on working hours as a whole. However, the working hours of certain sectors saw declines, reflecting that some enterprises might need to control cost through adjusting the working hours. Separately, the implementation of SMW helped enhance the incentive to work and total labour force continued to increase, especially in respect of women and older persons. As regards prices, the uprating of SMW in May 2015 had not posed significant pressure on overall inflation. As for competitiveness, up to 2016, Hong Kong continued to rank high in overall economic freedom and competitiveness by various international organisations, and remained competitive in attracting foreign investment. Hong Kong's performance in other quantifiable indicators of competitiveness such as labour productivity and unit labour cost fared less well though in the past few years after the implementation of SMW. It is necessary to continue closely monitoring how the implementation of SMW would affect Hong Kong's future competitiveness and long-term economic development.

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

- XI MWC adopted an evidence-based approach in reviewing the SMW rate. During the review of the SMW rate, MWC analysed and considered the four main areas: Array of Indicators, views of stakeholders and members of the public, other relevant considerations and impact assessment.
- XII Array of Indicators covered the relevant data and indicators reflecting the socio-economic and employment conditions after the implementation of SMW and its upratings, including four areas, viz. general economic conditions, labour market conditions, competitiveness and social inclusion. Making reference to these indicators, MWC assessed the impact brought about by SMW. 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. The macroeconomic environment was broadly stable since the implementation of SMW, thereby cushioning the pressure induced by SMW on the economy, employment market, enterprises, etc. and benefiting low-paid employees. When reviewing and recommending the SMW rate in the current round, MWC noted that the Hong Kong economy slackened

distinctly. Private consumption expenditure recorded only a meagre real growth of 0.9% year-on-year in the first half of 2016, much lower than the average annual growth of 5.0% during the five-year period from 2011 to 2015. Overall investment spending likewise extended its decline, reflecting a visible weakening in domestic demand. Meanwhile, with various lingering downside risks to the external environment, the global economy was expected to grow at a still modest pace in the short run. On the economic outlook for the remainder of 2016 and 2017, MWC was of the view that the economic environment at the time of implementing the next SMW rate would largely depend on the local consumption market conditions and business sentiment, economic performance of major advanced economies and the Mainland as well as geopolitical developments, pace of interest rate normalisation in the United States and monetary policy developments in the major central banks, and developments in the aftermath of the United Kingdom's vote to leave the European Union. In sum, Hong Kong's economic and employment prospects would remain clouded by the slowdown in domestic demand and various uncertainties in the external environment. MWC unanimously held the view that there was a need to analyse, assess and consider the relevant data and views of stakeholders and members of the public in detail before recommending the next SMW rate.

XIII MWC conducted intensive and extensive consultation, including focused consultation meetings with trade unions, trade associations/professional institutes and employers of LPS to better understand the impact of the implementation of SMW and the two increases in the SMW rate on employers and employees of LPS; and consultation meetings with stakeholders and public consultation to collect views on the review of the SMW rate. These views facilitated MWC to have a more holistic picture of the impact of SMW on society, economy and different sectors (in particular LPS), and provided important reference in formulating the impact assessment framework for the review of the SMW rate.

XIV MWC also took into account other relevant considerations that could not be fully quantified. These included enhancing employees' quality of life, enhancing work incentive, impact on lower-skilled workers and those with less working experience, impact on wage differentials across sectors or positions, preserving the market's capacity to adjust, impact on social harmony, additional costs induced by increase in wages, impact on quality of products and services, as well as other impact of SMW yet

to fully emerge.

- XV The impact brought about by the revision of the SMW rate hinges on the economic conditions and interaction of various economic factors when the rate takes effect, and its impact would not be a one-off direct effect. MWC thus set different SMW test levels and economic scenario assumptions, and enhanced the framework of impact assessment by drawing reference from the result of the review conducted based on the actual data of wage distribution of employees, so as to analyse the additional wage bills induced by different SMW test levels and their possible impact on various aspects including 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 stated in Chapter 5 as well as iterative deliberations. In conformity with the statutory function, MWC unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$34.5 per hour.
- XVII The quantitative analyses of the potential impact on employees, businesses, unemployment rate and inflation brought about by the recommended SMW rate showed that the number of employees with an hourly wage less than \$34.5 in May to June 2015 was 154 500, representing 5.2% of all employees in Hong Kong. Based on the data of relevant surveys and making reference to the more recent wage data, MWC crudely estimated that under economic scenario 1 (i.e. assuming a year-on-year economic growth of 2% in real terms for the first half of 2017), the number of employees earning an hourly wage less than \$34.5 in the first half of 2017 before the implementation of the recommended SMW rate would be around 74 100, representing 2.5% of all employees in Hong Kong. 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 would keep adjusting before and after the revision of the SMW rate, and assumptions underlying the above estimates might differ from actualities, these estimates should be used for reference only. Based on experience upon the implementation of SMW, with the knock-on effect on pay hierarchies (knock-on effect), the number of employees receiving a pay rise attributable to the uprating of SMW was

generally larger than the number of employees earning just the SMW rate.

- XVIII For the business sector, under economic scenario 1, taking into account the wage bill relating to rest day pay and meal break pay (for employees who are granted these payments according to their employment contract or agreement) in addition to the wage bill required to comply with the statutory requirements and the impact of the knock-on effect, the total wage bill would increase by about \$660 million or approximately 0.1%. Overall speaking, the impact of raising the SMW rate might be more noticeable on some sectors but it would be unlikely for all enterprises to offset half or all of the additional wage bill by profit reduction. MWC envisaged that the impact of the recommended SMW rate would be manageable for most sectors (including SMEs).
- XIX As regards the impact assessment on the unemployment rate, under economic scenario 1, it was estimated that the recommended SMW rate would lead to an increase of around 3 100 unemployed grassroots workers and lift the overall unemployment rate by about 0.1 percentage point. Assuming the Hong Kong economy would grow at a slower pace of 1% for the first half of 2017, particularly in the case of softer domestic demand amid dampened consumer sentiment, the overall unemployment rate was estimated to rise by about 0.4 percentage point. With the prevailing unemployment rate in Hong Kong still relatively low, and barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in labour market conditions.
- XX Furthermore, 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 (i.e. prices of other items which were directly or indirectly linked to wages and inflation would also go up), under economic scenario 1, the Composite Consumer Price Index (CPI) inflation was estimated to go up by about 0.2 percentage point. As a measure of inflation on the grassroots, the corresponding rise in the CPI (A) inflation would be around 0.3 percentage point. Since 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 however be smaller than the above estimates.

XXI It should be noted that Hong Kong's economic outlook faces various uncertainties, and a precise forecast of the impact of the recommended SMW rate would not be possible. Nevertheless, in recommending the SMW rate with an evidence-based approach, MWC conducted comprehensive analyses of the information and data obtained from various statistical surveys, examined in detail the possible impact brought about by various SMW test levels under different economic scenarios with the enhanced impact assessment framework, and gave thorough consideration to the views from various sectors of the community on the review of the SMW rate, so as to take into account and balance different factors of consideration. MWC considered that the recommended rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.

Chapter 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 detailed analyses and in-depth assessment as well as thorough consideration, MWC reached a unanimous consensus on the recommendation of raising the SMW rate to \$34.5 per hour. The recommended SMW rate was the unanimous consensus of all MWC members based on an evidence-based approach and rational discussions. It was considered that the recommended rate would be conducive to the overall interest and development of Hong Kong.

1 Introduction

1.I Background and Statutory Function

1.1 The Minimum Wage Bill was passed by the Legislative Council on 17 July 2010, laying the legal foundation for the implementation of Statutory Minimum Wage (SMW) in Hong Kong. The initial SMW rate was set at \$28.0 per hour, and it took effect on 1 May 2011.

1.2 The Minimum Wage Commission (MWC) is an independent statutory body established under 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. 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.

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

1.II Composition and Membership List

1.4 Members of the current term (2015-17) of MWC were appointed by CE with a two-year tenure starting from 1 March 2015. MWC comprises three members each from the labour sector, the business sector, the academia and the Government. The Chairperson and the nine non-official members were appointed on an ad personam basis. The Labour Department and the Economic Analysis and Business Facilitation Unit of the

Financial Secretary's Office provide secretariat support to MWC.

1.5 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, S.B.S., J.P. (<i>up to 31 March 2016</i>)
	Mr Bankee KWAN Pak Hoo, J.P.
	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 Terry LUM Yat Sang (<i>from 17 June 2016</i>)
	Professor SUEN Wing Chuen, J.P.
	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, G.B.S., J.P.
	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) Mr Philip YUNG Wai Hung, J.P.
	Government Economist Mrs Helen CHAN, J.P.
Secretary	Chief Labour Officer (Statutory Minimum Wage) Mr William MAK Chi Tung (<i>up to 4 October 2015</i>) Miss Bonny WONG Wai Man (<i>from 5 October 2015 to 3 January 2016</i>) Ms Betty NG Shuk Fong (<i>from 4 January 2016</i>)

(*) listed in alphabetical order of the surname

2 Work of the Minimum Wage Commission

2.1 Underlying Principles in Discharging the Function

2.1.1 In conformity with the statutory function

2.1 According to the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong), the main function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to report to CE in Council its recommendation about the amount of the prescribed minimum hourly wage rate (the Statutory Minimum Wage (SMW) rate). In accordance with the provisions of MWO, CE has required MWC to submit the recommendation report about the SMW rate on or before 31 October 2016.

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

2.3 SMW has impact 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 fulfil its statutory function, when reviewing the SMW rate, not only did MWC make reference to the latest data in an Array of Indicators reflecting the socio-economic and employment conditions after the implementation of SMW in May 2011 and the revisions of the SMW rate in May 2013 and May 2015, it also studied the findings of other surveys and fully considered the views on the review of the SMW rate from various sectors of society 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 relevant information and data of various aspects, including: (1) statistical surveys and thematic studies, such as the Annual Earnings and Hours Survey (AEHS) and the Annual Survey of Economic Activities (ASEA) conducted by the Census and Statistics Department (C&SD), previous consultancy studies on the impact of the SMW rate on pay hierarchies in the retail and restaurant sectors commissioned by the Government, and a large number of other relevant data covered by the Array of Indicators which were released more frequently and more up-to-date (please refer to paragraph 2.11); (2) empirical data, views and information provided by members of the public and stakeholders during the consultation activities 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, MWC 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 Noting clearly that there was a keen interest in the review of the SMW rate in the community, MWC sought to enable members of the public and stakeholders to understand MWC's work. MWC regularly updated its webpage, issued press releases when appropriate and met the media in order to report its work progress and provide the latest news and information to the public. When conducting public consultation, MWC 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 by stakeholders and other members of the public about MWC's work as a result of incomplete information.

2.I.4 Consensus-building approach

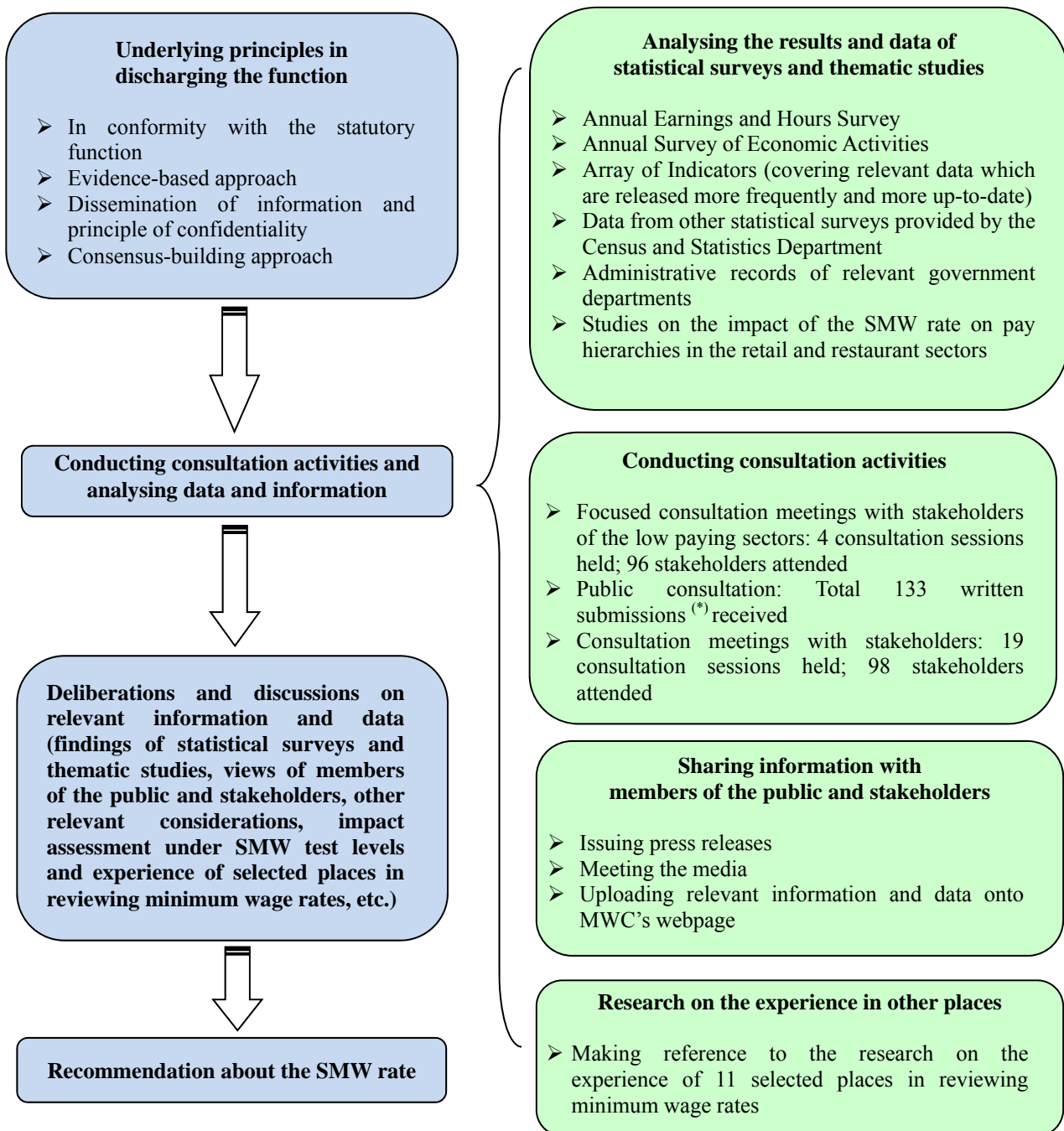
2.7 Drawing reference from the experience of the first two terms of MWC in reviewing the SMW rate, MWC unanimously agreed to adopt a consensus-building approach as its modus operandi, and to achieve the objective of reaching consensus through rational discussions. Consensus building encompasses understanding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

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

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

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

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



Note: (*) 273 signed letters were attached to one of the submissions.

2.9 In gist, MWC kick-started the review process by reviewing and analysing various data on the local socio-economic and employment conditions since the implementation of SMW, including the latest situation and trend of relevant indicators which were released and updated more frequently by C&SD. MWC then shared these relevant information and data with members of the public and stakeholders, conducted intensive and extensive consultation, and reported to the media and members of the public on MWC's 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 2015		
23 March	MWC meeting	<ul style="list-style-type: none"> To convene the first meeting of MWC (2015-17). Through MWC's webpage, to report to the public that MWC held a meeting to consider the major results of the 2014 Annual Earnings and Hours Survey (AEHS) and the 2013 Annual Survey of Economic Activities (ASEA), examine Hong Kong's latest socio-economic conditions, and agree on the housekeeping arrangements of MWC.
29 May	Meeting the media	<ul style="list-style-type: none"> To share the work and way forward of MWC.
	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 review the Array of Indicators to be considered in monitoring Hong Kong's socio-economic and employment conditions after the implementation of SMW, and discuss MWC's work plan for 2015.
9 to 10 September	Conducting focused consultation meetings with stakeholders of the low paying sectors (LPS)	<ul style="list-style-type: none"> Please refer to paragraphs 2.18 to 2.19.
11 September	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 Hong Kong's latest socio-economic and employment conditions, and discuss the views collected at the focused consultation meetings with stakeholders of LPS held on 9 and 10 September 2015.
	Uploading relevant information onto MWC's webpage for public reference	<ul style="list-style-type: none"> To report on the list of stakeholders that attended the focused consultation meetings with LPS held in September 2015.
15 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 Hong Kong's latest socio-economic and employment conditions, discuss the impact assessment framework to be considered when studying the SMW rate, and note the experience of other places in reviewing minimum wage rates.
Year 2016		
18 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 consider the major results of 2015 AEHS and 2014 ASEA, examine Hong Kong's latest socio-economic and employment conditions, and deliberate the consultation plan for the review of the SMW rate.
11 April	Issuing press release	<ul style="list-style-type: none"> To announce that MWC would launch a six-week public consultation on 11 April 2016 and invite views from various sectors of the community on the review of the SMW rate.
11 April to 22 May	Uploading relevant information and data onto MWC's webpage for public reference, and conducting public consultation to invite	<ul style="list-style-type: none"> Please refer to paragraphs 2.20 to 2.23.

Date	Events	Details
	views from various sectors of the community on the review of the SMW rate	
9 and 18 May	Issuing press releases	<ul style="list-style-type: none"> • With regard to the public consultation on the review of the SMW rate which would close on 22 May 2016, to appeal to members of the public and stakeholders for submissions on the review of the SMW rate.
23 May	Uploading relevant information onto MWC's webpage for public reference	<ul style="list-style-type: none"> • To report on the consultation work that had been undertaken/was being planned by MWC in conducting the review of the SMW rate.
14 June	Issuing press release	<ul style="list-style-type: none"> • To report that the Chief Executive had, in accordance with the Minimum Wage Ordinance, required MWC to submit the recommendation report on or before 31 October 2016.
20 to 22 June	Conducting consultation meetings with stakeholders	<ul style="list-style-type: none"> • Please refer to paragraphs 2.24 to 2.25.
24 June	Uploading relevant information onto MWC's webpage for public reference	<ul style="list-style-type: none"> • To report on the list of stakeholders that attended the consultation meetings held in June 2016.
29 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 examine Hong Kong's latest socio-economic and employment conditions as well as views collected during public consultation and consultation meetings with stakeholders, and deliberate the preliminary impact assessment results under different SMW test levels.
9 September	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 and employment conditions and deliberate the recommended SMW rate.
30 September	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 and employment conditions and deliberate the recommended SMW rate.

2.II.2 Statistical surveys and thematic studies

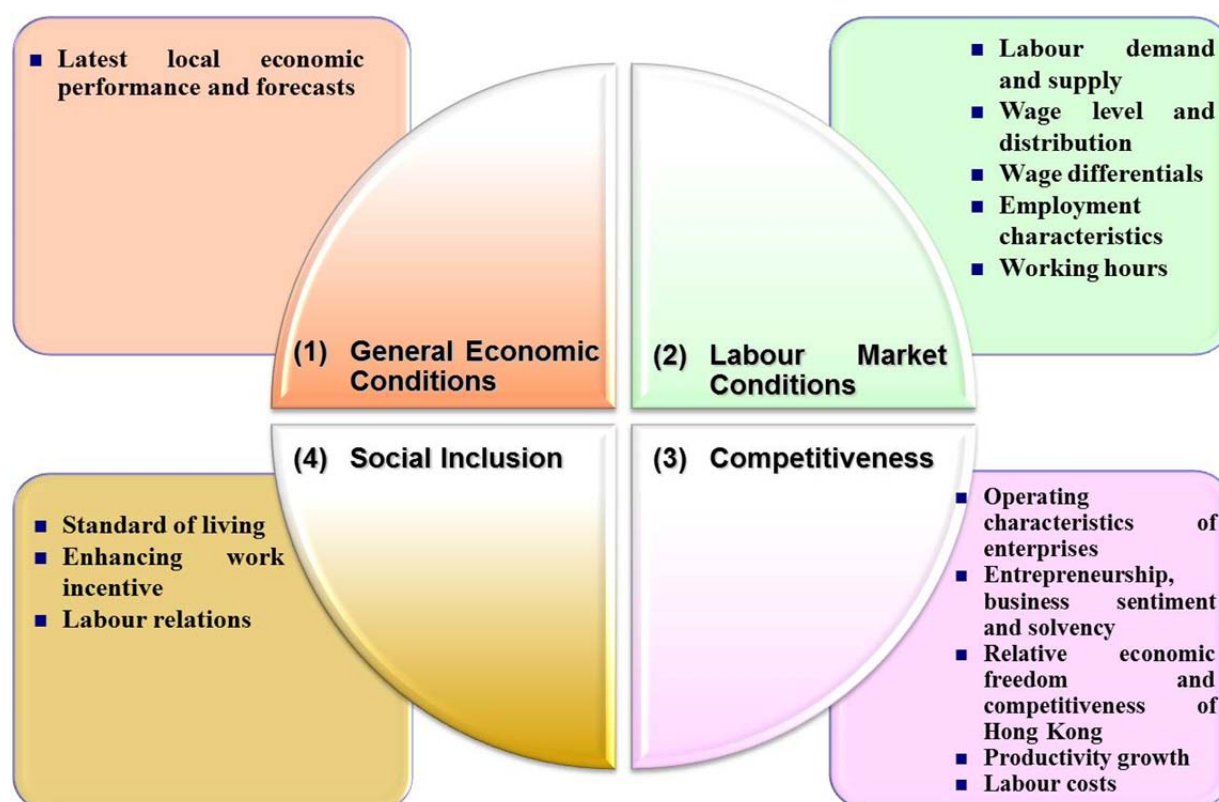
2.10 MWC adopted an evidence-based approach in deliberating the SMW rate. During the review, MWC conducted detailed and in-depth study and analyses of the relevant statistical data.

(a) Array of Indicators

2.11 In setting minimum wage rates, different places would generally make reference to a number of indicators to grasp detailed information on changes in socio-economic conditions. Drawing reference from the experience of the first two terms of MWC, it was considered that examining such information regularly and undertaking thorough

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

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



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

2.12 Among the various indicators, AEHS and ASEA conducted by C&SD provided very useful information for MWC's 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 To support MWC's review on the SMW rate, the survey methodologies of AEHS and ASEA have been enhanced accordingly. For instance, the reference period of AEHS was the second quarter for both 2009 AEHS and 2010 AEHS, while it changed to 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 maintained as May to June every year to facilitate year-on-year analysis. Moreover, with a view to conducting more precise analyses, starting from 2011 ASEA, C&SD also collected data on amortisation along 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 more frequently and more-up-to-date 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 its webpage (see paragraph 2.21) so as to invite views from members of the public and stakeholders on the review of the SMW rate.

(d) Studies on the impact of the Statutory Minimum Wage rate on the pay hierarchies 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 the pay hierarchies in two low paying sectors, viz. the retail

(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 in October 2010.

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. In 2013, the Government commissioned a consultant again to conduct a thematic study to assess the impact on the pay hierarchies in the retail and restaurant sectors after the revision of the SMW rate in 2013. When conducting the review of the SMW rate, MWC made reference to the findings of these thematic studies, and reviewed and enhanced the estimation of knock-on effect on the pay hierarchies based on the experience of the implementation of SMW and the subsequent two increases in the SMW rate.

2.II.3 Consultation activities

2.17 Apart from studying statistical data and information from other surveys, MWC also fully considered the views from various sectors of the community. To collect and understand views of members of the public and stakeholders on the review of the SMW rate, MWC conducted focused consultation meetings with stakeholders of low paying sectors (LPS)⁽²⁾ in September 2015 and launched public consultation in April to May 2016. MWC also conducted extensive consultation meetings with stakeholders in June 2016 to exchange and listen to their views. A summary of the views collected is in Section 5.II of Chapter 5.

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

2.18 In order to have further understanding on the impact of the implementation of SMW and the two increases in the SMW rate on employers and employees of LPS, MWC conducted focused consultation meetings with trade unions, trade associations/professional institutes as well as employers of these sectors from 9 to 10 September 2015. Participants included stakeholders from LPS who had been invited by the last term of MWC to attend consultation meetings, or had expressed views on the SMW rate and related issues, or had requested for meeting with MWC.

(2) According to *2014 Report of the Minimum Wage Commission*, LPS included: (a) retail; (b) restaurants; (c) estate management, security and cleaning services; and (d) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

2.19 MWC conducted four sessions of focused consultation meetings. Among the 245 stakeholders from LPS invited, 96⁽³⁾ of them attended the meetings. A list of stakeholders that attended the focused consultation meetings is in **Appendix II**.

(b) Public consultation

2.20 Upon the release of the findings of 2015 AEHS by C&SD on 18 March 2016, MWC launched a six-week public consultation from 11 April to 22 May 2016 to invite views from various sectors of the community, including members of the public and stakeholders, on the review of the SMW rate.

2.21 To launch the public consultation, relevant reference information and data were uploaded onto MWC's webpage for information and reference of members of the public and stakeholders. These comprised: (1) relevant links to the *2015 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 with various indicators, employees' entitlement to paid rest day(s) and/or paid meal break(s) analysed by sector, as well as supplementary statistical data, other relevant considerations and impact assessment. Supplementary statistical data included: (1) number and proportion of employees earning the SMW rate and earning less than different SMW test 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 all enterprises and SMEs analysed by sector.

2.22 MWC invited 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 various media (including newspapers and different modes of public transport), uploading of promotional messages onto MWC's webpage (linked to the webpages of the GovHK, Labour Department, Labour Department's Interactive Employment Services, and E-newsletter of the Support and Consultation Centre for SMEs) as well as broadcasting of radio announcements, etc.

(3) Participating stakeholders included: 41 relevant associations of the estate management, security and cleaning services sector, 22 relevant associations of the restaurant sector, 18 relevant associations of the retail sector, and 15 relevant associations of other LPS.

2.23 During the public consultation, MWC received a total of 133 written submissions, with one of these submissions attaching 273 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, Mutual Aid Committees and Owners' Committees, etc.

(c) Consultation meetings with stakeholders

2.24 In June 2016, MWC conducted consultation meetings with stakeholders, including major trade unions, major trade/employers' associations, associations of SMEs, associations of LPS (comprising trade unions, employers' associations, employers, professional institutes, etc. in these sectors), other trade/professional/employers' associations, labour policy concern groups as well as think tanks/policy research institutes. These stakeholders had been invited by MWC to attend consultation meetings in the past, or had expressed views on the SMW rate and related issues, or had requested for meeting with MWC, or were associations of LPS likely to be more affected by SMW. MWC conducted 19 sessions of consultation meetings. Among the 342 stakeholders invited, 98⁽⁴⁾ attended the meetings. A list of stakeholders that attended the consultation meetings is in **Appendix II**.

2.25 During the consultation meetings, stakeholders provided views on the specific impact of the implementation of SMW in May 2011 and the revisions of the SMW rate in May 2013 and May 2015 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. The consultation meetings served to gauge the views of stakeholders or enable them to supplement on their written submissions provided during the public consultation, so as to facilitate MWC to conduct comprehensive and objective analyses.

2.26 With the views and information collected through the above consultation activities, MWC gained a more comprehensive understanding of the impact of SMW on society,

(4) Participating stakeholders included: 4 major trade unions, 6 major trade/employers' associations, 4 SME associations, 30 relevant associations of the estate management, security and cleaning services sector, 14 relevant associations of the retail sector, 13 relevant associations of the restaurant sector, 10 relevant associations of other LPS, 7 other trade associations, 3 other professional/employers' associations, 3 labour policy concern groups and 4 think tanks/policy research institutes.

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 its duties.

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

2.27 Hong Kong does not have a long history of implementing SMW. MWC researched on 11 selected places (i.e. the Mainland, Taiwan, South Korea, the United Kingdom, France, Ireland, Germany, 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**.

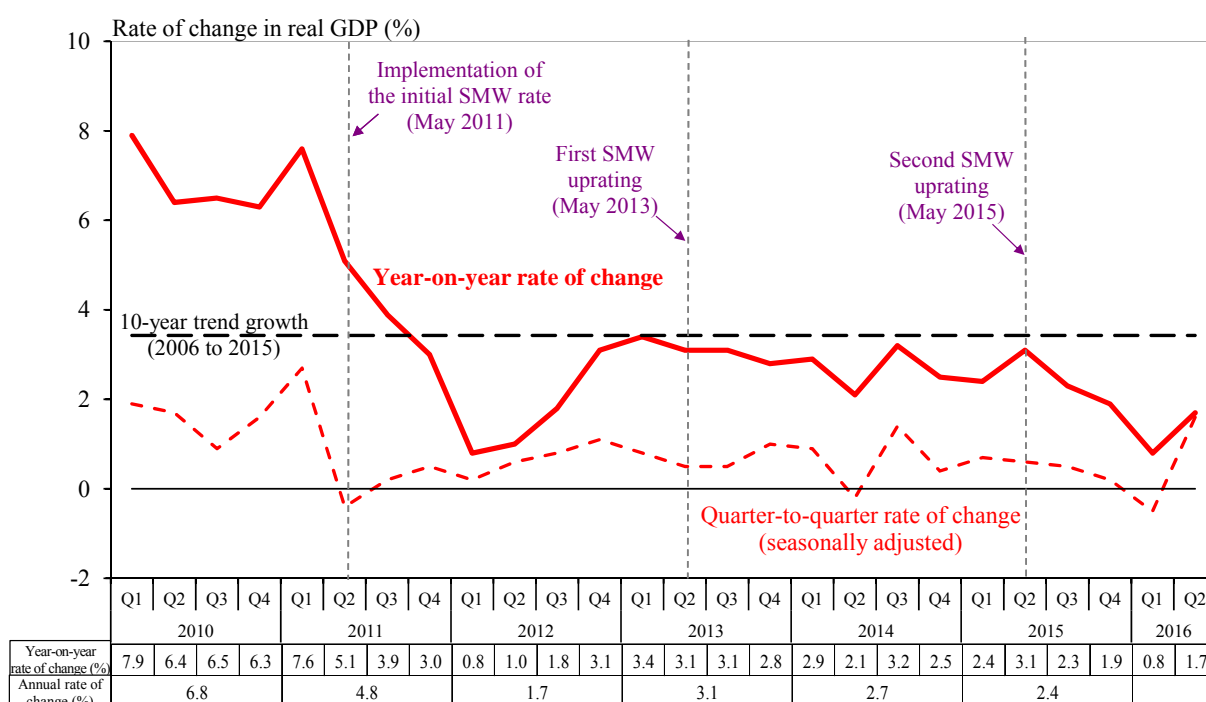
3 The Socio-economic Conditions since the Implementation of Statutory Minimum Wage

3.1 The Minimum Wage Commission (MWC) recognised that with Hong Kong being a small and highly externally-oriented economy, its business cycle fluctuations, apart from reflecting domestic factors, would also be closely tied to external economic factors. The impact of the implementation of Statutory Minimum Wage (SMW) on Hong Kong's society and economy hinges to a large extent on the prevailing macroeconomic conditions. For instance, favourable macroeconomic conditions would help cushion the pressure on employment and corporate profits brought about by the implementation of SMW or its uprating. On the contrary, if the economy is in a downturn or even faces large external shock to the extent of putting significant pressure on corporate profits, an upward adjustment of the SMW rate would further jeopardise the business operation and employment situation. This chapter summarises MWC's observations on the socio-economic conditions since the implementation of SMW, setting the scene for the analysis of the impact of SMW in Chapter 4.

3.I Macroeconomic Environment

3.I.1 Macroeconomic conditions largely stable since the implementation of SMW

3.2 Since the implementation of SMW in 2011, the Hong Kong economy has sustained expansion, and macroeconomic conditions have been largely stable. However, the changing pattern of tourist spending since 2014 has dealt a blow to the related sectors (especially the retail sector). In 2015, the global economy recorded the slowest growth since 2009, with heightened volatility in the financial markets and global trade under severe drag. As a result, Hong Kong's exports suffered a setback. The continued weakness in inbound tourism also added downward pressure on the overall economy. The Hong Kong economy grew only modestly by 2.4% in 2015, recording below-trend growth for four years in a row. The largely stable labour market has lent some support to local consumption, thereby cushioning the impact of the second upward adjustment of the SMW rate in May 2015 (Figure 3.1).

Figure 3.1 : The Hong Kong economy grew only modestly in 2015

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.

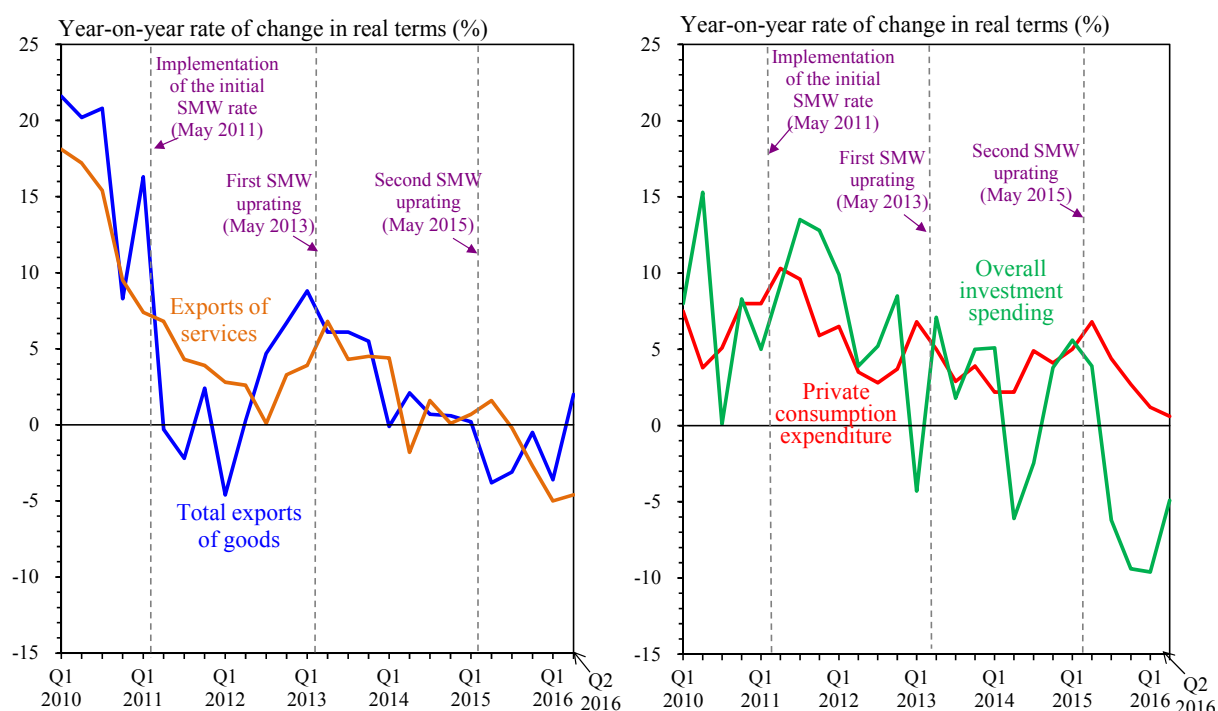
3.1.2 Downside risks to the economy still remain

3.3 The Hong Kong economy slowed noticeably further in the first half of 2016. Real Gross Domestic Product (GDP) expanded by merely 0.8% year-on-year in the first quarter, the slowest growth in four years. The second quarter saw some improvement, with a real year-on-year growth of 1.7%. Yet for the first half of 2016 as a whole, the Hong Kong economy grew only by 1.2% year-on-year. With tepid growth in the global economy, policy divergence among major central banks, and sharp gyrations in the global financial markets, the external environment was highly uncertain. In the first half of 2016, merchandise exports remained soft, while exports of services were dragged by subdued cargo and trade flows, lull in inbound tourism and slowdown in cross-border financing and funding activities. The external sector continued to see year-on-year decline in activity.

3.4 In addition, with the subdued global economic outlook and persistent downside risks denting local economic sentiment, domestic demand lost some momentum on entering 2016. The volatile financial markets, asset market correction in early 2016 and the uncertain economic prospects adversely affected local consumption demand, albeit

cushioned by a still largely stable labour market. In the first half of 2016, private consumption expenditure moderated visibly in growth, up only slightly by 0.9% from a year earlier in real terms, much slower than the 4.7% growth in 2015. Meanwhile, investment expenditure extended its decline in the first half of 2016, down 7.2% year-on-year, mainly dragged by a sharp fall in machinery and equipment acquisition. In view of the still fragile recovery of many advanced economies, policy divergence among major central banks, uncertainties brought about by the United Kingdom's vote in favour of leaving the European Union, and geopolitical tensions, both the domestic and external sectors of the Hong Kong economy are subject to many destabilising factors. Downside risks to the economy remain considerable in the near term (Figure 3.2).

Figure 3.2: Hong Kong's external trade and domestic demand still lacked momentum in the first half of 2016

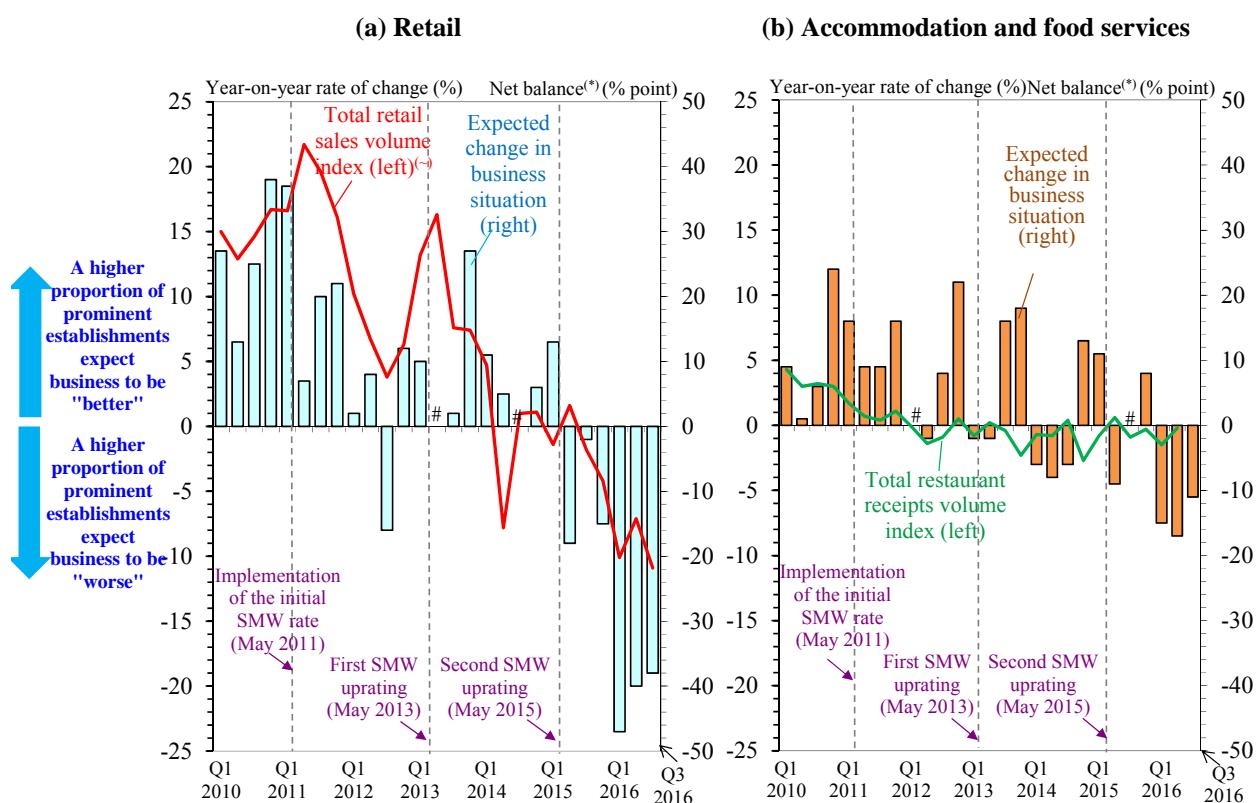


Note: Figures are subject to revision by the Census and Statistics Department when more data become available.

Source: National Income Statistics, Census and Statistics Department.

3.5 The results of the Quarterly Business Tendency Survey on prominent establishments indicated that large enterprises were generally rather cautious in their business outlook for the third quarter of 2016. The retail sector and the accommodation and food services sector, which are closely related to domestic demand and inbound tourism, were particularly pessimistic about their business prospects (Figure 3.3).

Figure 3.3: Retail, and accommodation and food services sectors took a particularly bleak view on their 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.

(~) Total retail sales volume index was up to August 2016.

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

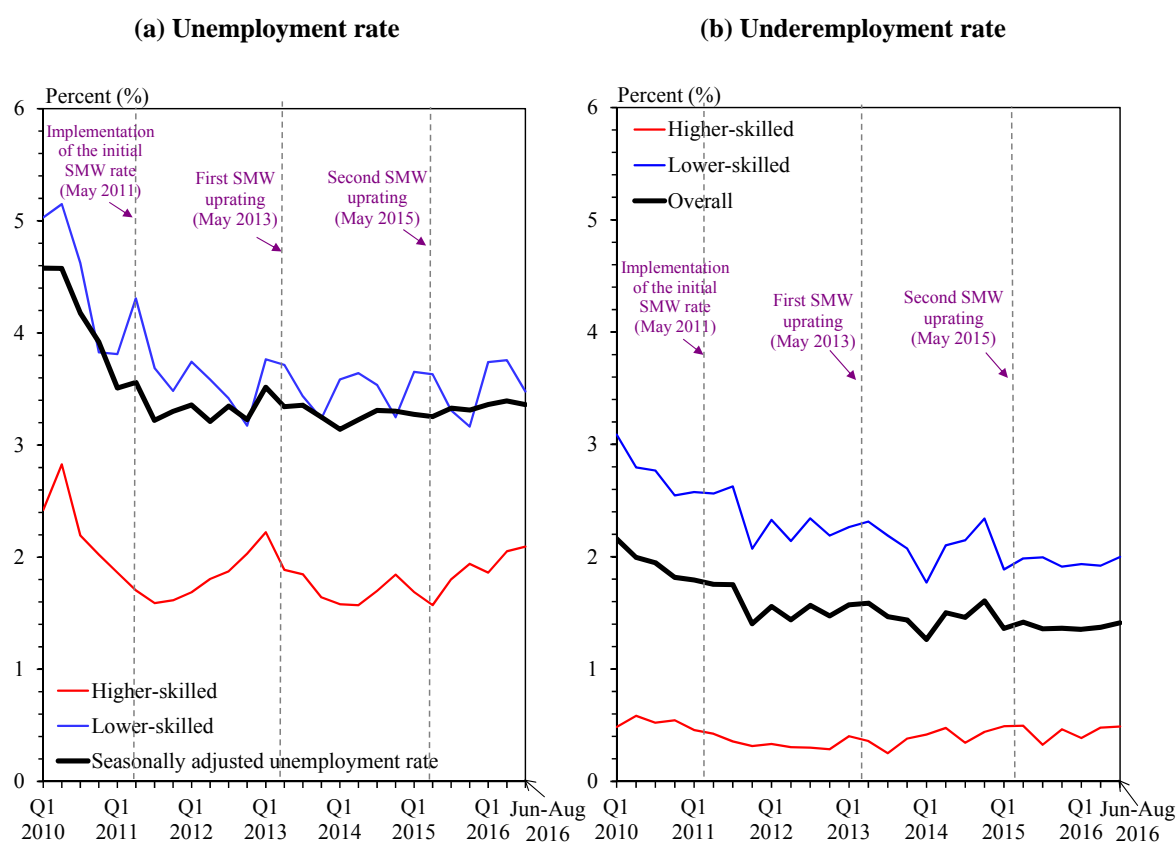
3.II Local Labour Market

3.II.1 Largely stable though with signs of rising in the unemployment rate

3.6 Although the local economy has mostly registered below-trend growth since 2011, the sturdy labour demand on the back of sustained vibrant local consumption and inbound tourism during most of the period largely helped cushion the pressure brought about by SMW on the labour market. However, with the sharp fall in visitor spending since 2014 and the slowdown in local consumption since the second half of 2015, employment growth slowed in tandem. In June to August 2016, total employment grew modestly by 0.7% year-on-year to 3 816 800, slower than the average annual growth pace of 1.7% during 2011 to 2015. Meanwhile, as the implementation of SMW helped enhance the incentive to work, the labour force likewise grew visibly over the past five years, at a pace broadly similar to the number of employed persons.

3.7 As for unemployment, the annual unemployment rate has stayed at a low level of 3.3% to 3.4% since 2011, signifying a state of full employment over the past few years. Along with the economic slowdown, the seasonally adjusted unemployment rate inched up by 0.1 percentage point to 3.4% in the first quarter of 2016, and remained at that level up till June to August (Figure 3.4). Meanwhile, the underemployment rate also stayed low at 1.4%.

Figure 3.4: Unemployment and underemployment rates stayed low since the implementation of Statutory Minimum Wage, but rose slightly on entering 2016



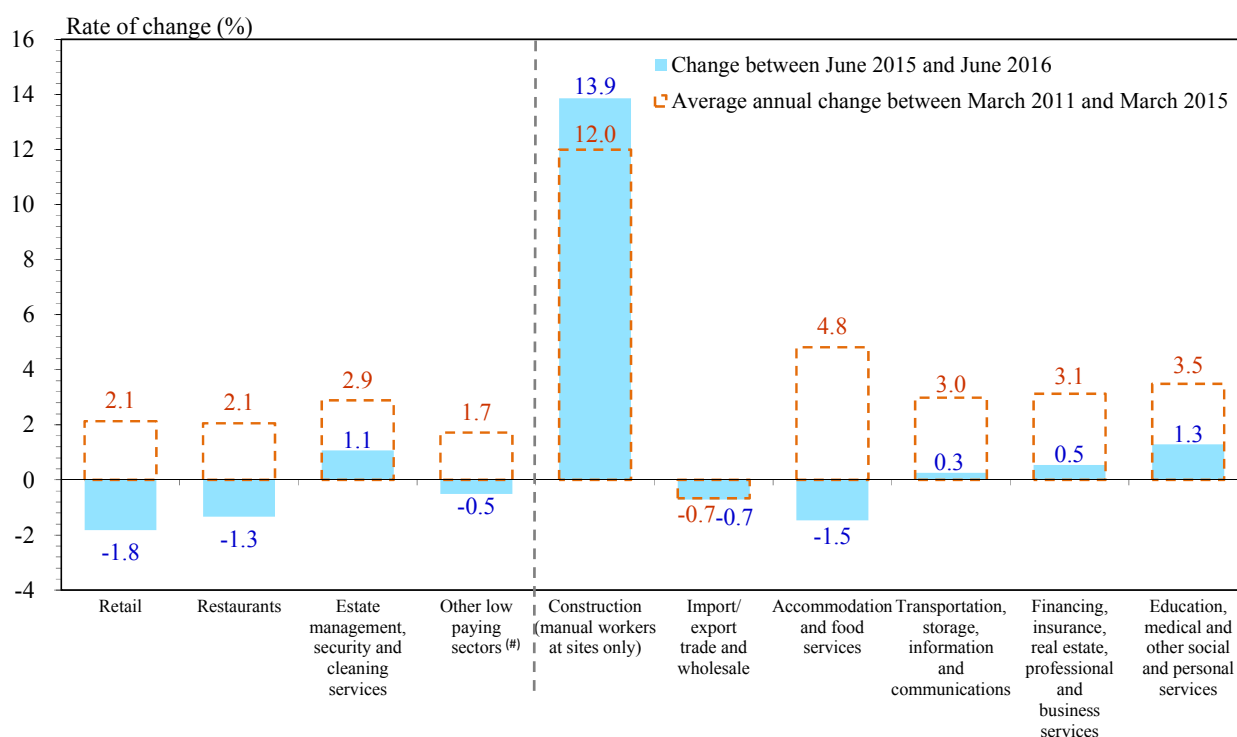
Source: General Household Survey, Census and Statistics Department.

3.II.2 Manpower resource balance eased somewhat

3.8 Analysing the trend in labour demand estimated as the sum of the number of persons engaged and vacancies in private sector establishments, it could be seen that amid sluggish external trade performance and slackened local consumption market, the overall manpower resource balance showed visible signs of easing in the recent periods, with labour demand weakening across most sectors (Figure 3.5). As at June 2016, the number of job vacancies in the private sector fell markedly by 13.0% from 78 380 in

June 2015 to 68 200, while the vacancy rate also dropped from 2.7% to 2.4% over the period.

Figure 3.5: Labour demand^(*) held sturdy after the implementation of Statutory Minimum Wage, but eased visibly in the recent periods



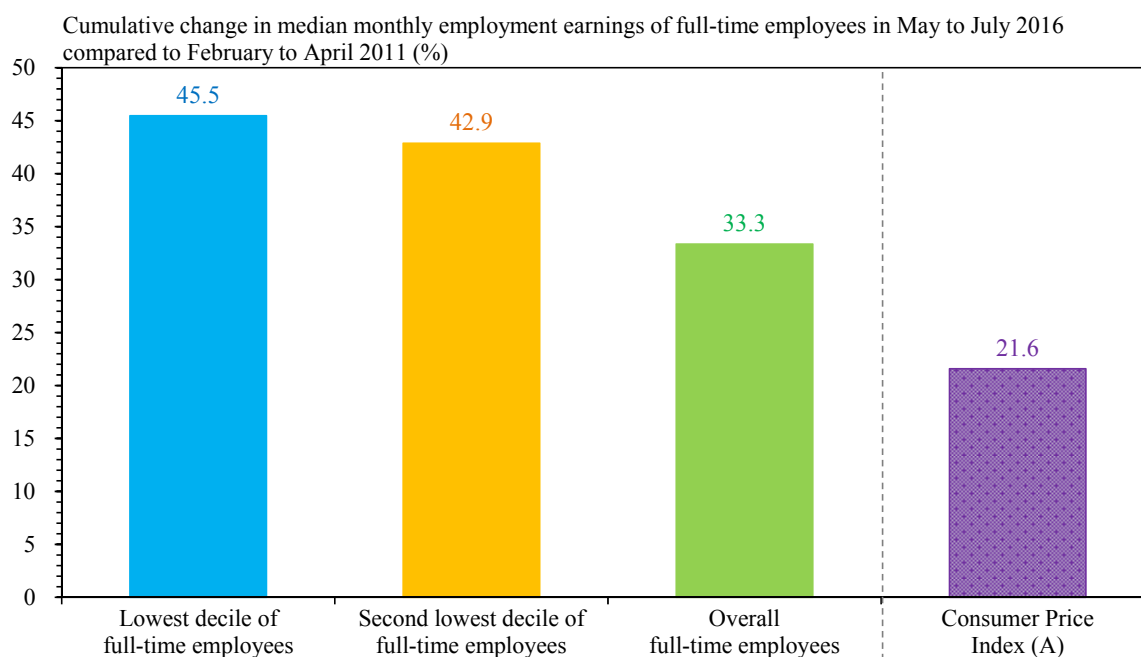
Notes: (*) Labour demand is estimated as the sum of the number of persons engaged and vacancies in private sector establishments.

(#) Including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production.

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

3.9 With the labour market holding largely stable since 2011, employment earnings continued to improve, particularly for lower-paid employees benefiting from the implementation of SMW. Comparing May to July 2016 with February to April 2011 (i.e. the quarter before the implementation of SMW), 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 appreciable cumulative increase of 45.5%, while that for all full-time employees was 33.3%. This suggested that the implementation of SMW has boosted the employment earnings of lower-paid employees more. Moreover, the median monthly employment earnings of lower-paid full-time employees rose faster than the Consumer Price Index (A) (CPI(A)) over the same period, pointing to a real improvement in their earnings (Figure 3.6).

Figure 3.6: Median monthly employment earnings of lower-paid full-time employees saw real improvement since the implementation of Statutory Minimum Wage



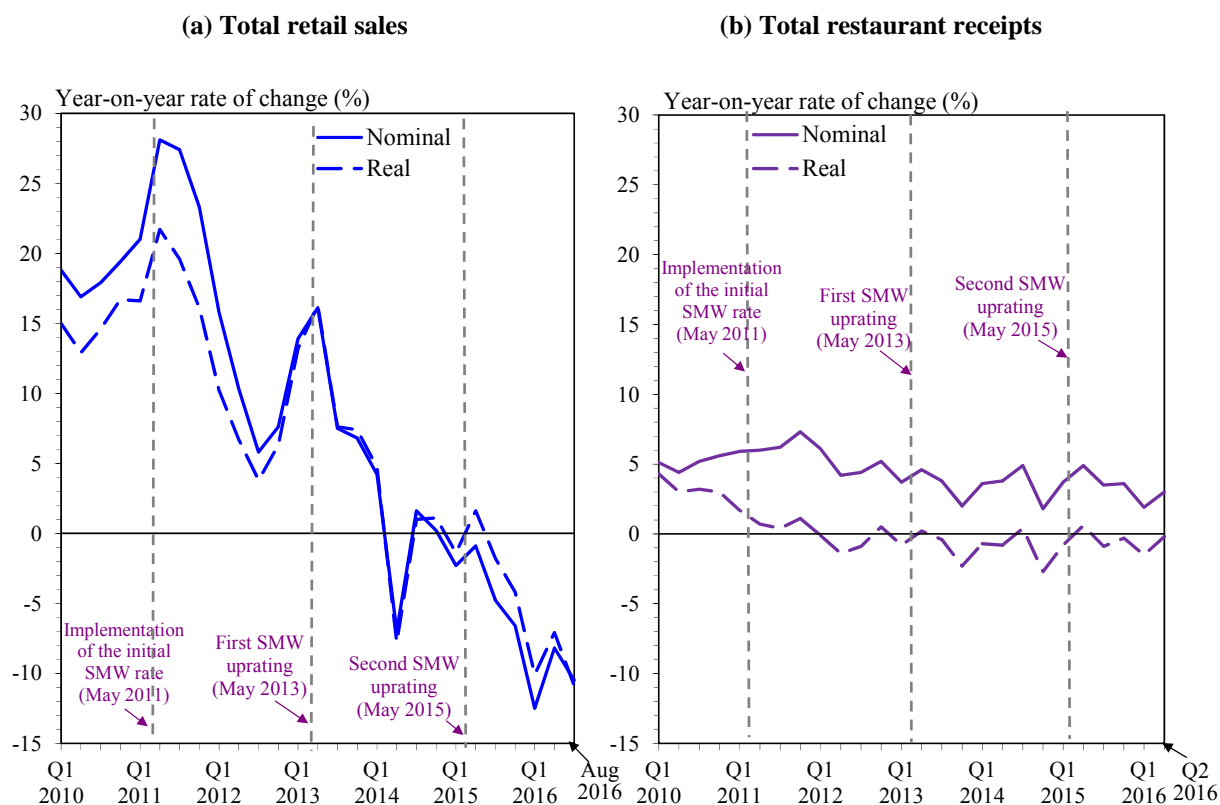
Note: Full-time employees are those who worked at least 35 hours, or those who worked less than 35 hours due to vacation during the 7 days before enumeration. Government employees and live-in domestic workers are excluded.

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

3.II.3 Employment prospects remain clouded

3.10 Over the past few years, job growth was mainly driven by domestic demand. Nonetheless, due to the changing pattern of tourist spending and the protracted fall in visitor arrivals, the retail market has been slackening since 2014. On entering 2016, local consumer sentiment also weakened, weighing further on the consumption market. The value of total retail sales recorded a noticeable year-on-year decline, with no sign of improvement up to August. Total restaurant receipts likewise kept falling in real terms (Figure 3.7). These two consumption-related sectors hired more than 500 000 employees altogether, or 15.0% of employees in Hong Kong (as of June to August 2016). The lacklustre business performance would inevitably affect the pace of job creation in these sectors, thereby putting some pressure on the employment market.

Figure 3.7: Business performance of the retail sector remained weak, while restaurant receipts continued to decline in real terms



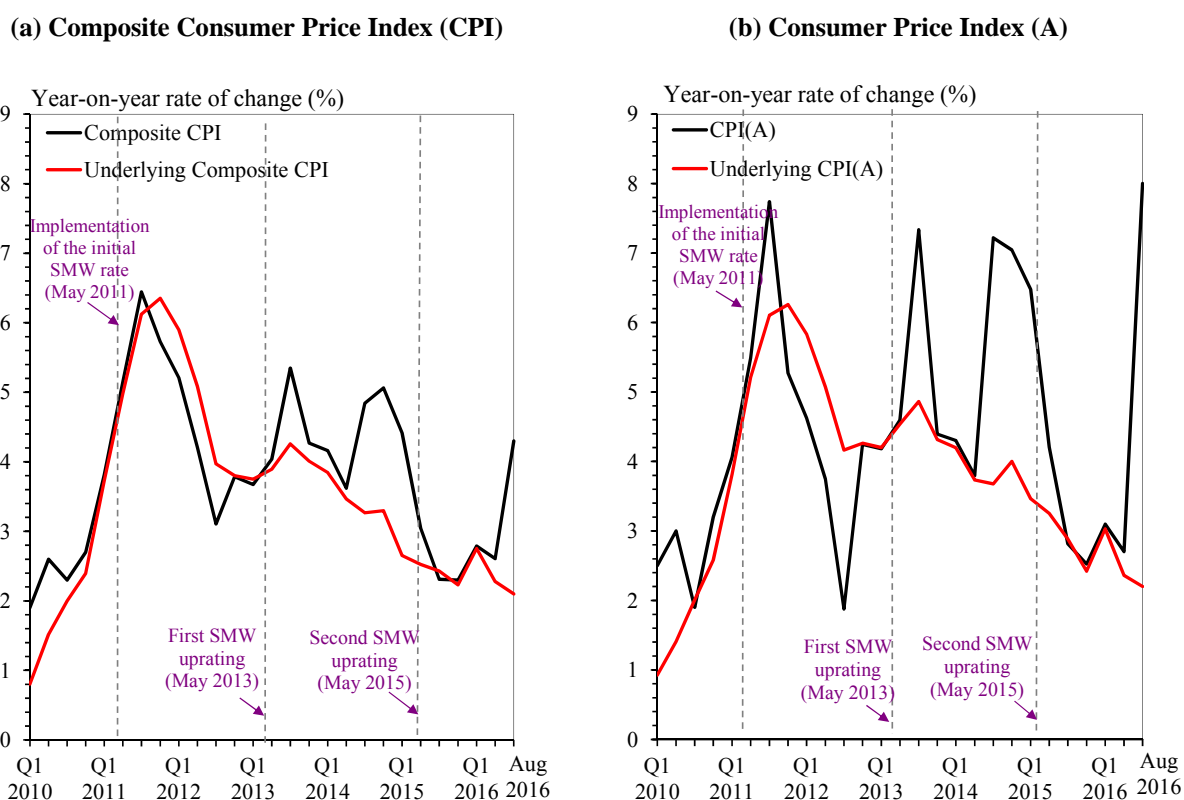
Note: Retail sales in August 2016 are provisional figures.

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

3.III Prices

3.III.1 Overall inflationary pressure eased further

3.11 Shortly upon the implementation of SMW, driven by higher domestic cost pressure, international food and commodity prices, and the rise in private housing rentals, the underlying Composite Consumer Price Index (CPI) rose by 5.3% for 2011 as a whole. Nevertheless, as imported inflation subsequently moderated and the uptrend in private housing rentals also tapered, underlying Composite CPI inflation receded progressively between 2012 and 2015 (Figure 3.8). For the first eight months in 2016, underlying Composite CPI inflation stood at 2.4%, indicating that inflationary pressure eased further. The underlying CPI(A), which is more related to the livelihood of the grassroots, displayed a similar trend.

Figure 3.8: Inflation receded gradually after a surge in 2011^(*)

Note: (*) The larger year-on-year rate of change in the Composite CPI and CPI(A) in August 2016 was mainly due to the low base of comparison resulted from the Government's payment of public housing rentals in August 2015.

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

3.12 On entering 2016, increases in commercial rentals continued to subside in tandem with the slower economic growth. Meanwhile, amid the sustained weakness of the consumption market since 2014, retail prices had embarked on a downtrend since the latter part of 2014, indicating that some retailers had cut prices to boost the sales volume. In other words, under the prevailing less favourable market conditions, enterprises may find it harder to pass on the additional costs to consumers by raising prices in order to maintain a certain level of profit (Table 3.1).

Table 3.1: Business costs, receipts and output/service prices from 2011 to the first half of 2016

	Year-on-year rate of change (%)						
	2011	2012	2013	2014	2015	2016	
						Q1	Q2
Input Costs							
Nominal wage index	8.1	5.6	4.7	4.2	4.4	3.9	3.8
Rental indices							
Private offices rental index	15.1	10.8	8.4	4.7	6.1	4.5	2.7
Private retail rental index	9.3	12.7	9.4	4.6	5.4	-0.5	-2.4
Private flatted factories rental index	8.9	11.2	11.7	8.7	8.9	5.4	4.4
Receipts							
Total retail sales value index	24.9	9.8	11.0	-0.2	-3.7	-12.5	-8.2
Total restaurant receipts value index	6.4	5.0	3.5	3.5	3.9	1.9	3.0
Output / Service Prices							
Retail sales deflator	5.5	2.9	0.0	0.0	-2.2	-2.6	-1.2
Restaurant receipts deflator	5.3	5.4	4.4	4.5	4.2	3.5	3.2
Underlying Composite Consumer Price Index	5.3	4.7	4.0	3.5	2.5	2.8	2.3
Gross Domestic Product deflator	3.9	3.5	1.8	2.9	3.6	2.3	2.0

- Notes: Rental indices for 2016 are provisional figures.
The retail sales/restaurant receipts deflators are obtained by dividing the current price values of retail sales/restaurant receipts by the corresponding volume measures and then multiplying by 100.
Figures for the Gross Domestic Product deflator are subject to revision by the Census and Statistics Department when more data become available.
- Sources: Rating and Valuation Department; Labour Earnings Survey, National Income Statistics, Monthly Retail Price Survey, Quarterly Survey of Restaurant Receipts and Purchases, and Monthly Survey on Retail Sales, Census and Statistics Department.

3.13 In sum, the generally stable macroeconomic conditions over the past few years have largely cushioned the potential impact brought about by the implementation of SMW on employment, and lower-paid employees saw a significant improvement in their employment earnings. Yet, with the slower global economic growth in recent years, volatility in the international financial markets, and the concurrent slackening of inbound tourism and domestic demand, downside risks to the local economy remain notable. Moreover, as overall inflationary pressure continues to moderate, some enterprises may not be able to offset the additional costs through raising prices, which may pose more pressure on the labour market.

3.14 Having reviewed the socio-economic conditions since the implementation of SMW, Chapter 4 analyses in detail the impact of SMW implementation by examining the changes in relevant data in the Array of Indicators.

4 Impact of Statutory Minimum Wage

4.1 The main function of the Minimum Wage Commission (MWC) is to report its recommendation about the Statutory Minimum Wage (SMW) rate to the Chief Executive in Council. In performing its statutory function, MWC must have regard to the need to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and the need to sustain Hong Kong's economic growth and competitiveness. MWC discharged its statutory function by adopting an evidence-based approach, and conducted comprehensive analyses on relevant information and data from various aspects in order to monitor the changes in the socio-economic conditions after the implementation of SMW in May 2011 and the revisions of the SMW rate in May 2013 and May 2015. These data were sourced 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 This chapter summarises MWC's major observations by analysing the relevant data on the impact of SMW since its implementation on employees, businesses, the local labour market, prices and the overall economy. It must however be stressed that the relevant impact of SMW still needs to be monitored and studied on a continual basis as Hong Kong does not have a long history of implementing SMW.

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

4.3 As mentioned in Chapter 3, the local economy sustained expansion since the implementation of SMW in May 2011, with the labour market holding largely stable and wages sustaining growth. 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), and went down further to 41 900 in May to June 2015 (with the SMW rate at \$32.5 per hour). The proportion of employees earning the SMW rate among all employees was 1.4% in May to June 2015, lower than the 6.4% when SMW was first implemented (May to June 2011). Meanwhile, the hourly wage of employees within the lowest decile in the overall hourly

wage distribution (“low-paid employees”) increased notably by 25% from \$29.3 to \$36.5 (Table 4.1). This showed that the implementation of SMW did not impede upward wage adjustments. It also reflected that with the effect of SMW and the favourable labour market conditions, wages of the majority of lower-paid employees improved notably, with some even surpassing the SMW rate.

Table 4.1: Number and percentage of employees earning the Statutory Minimum Wage rate and the hourly wage of “low-paid employees” between May to June 2011 and May to June 2015

	May to June 2011	May to June 2012	May to June 2013	May to June 2014	May to June 2015
Statutory Minimum Wage (SMW) rate	\$28.0	\$28.0	\$30.0	\$30.0	\$32.5
Number of employees earning the SMW rate (percentage among all employees)	180 600 (6.4%)	90 100 (3.1%)	98 100 (3.4%)	50 300 (1.7%)	41 900 (1.4%)
Hourly wage of “low-paid employees” (i.e. employees earning hourly wage within the lowest decile in the overall hourly wage distribution)	\$29.3	\$30.6	\$33.0	\$34.5	\$36.5

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

4.4 Similar to the situation in May to June 2013, employees earning the SMW rate in May to June 2015 were mainly females (59.9%), older employees (aged 45 and above) (71.5%), those with lower educational attainment (secondary 3 and below) (66.1%), elementary workers and service and sales workers (81.1%), or workers engaged in the low paying sectors (LPS) ⁽¹⁾ (74.2%) (Table 4.2).

(1) The first two terms (i.e. 2011-13 and 2013-15) of MWC defined LPS as sectors employing a relatively large number of low-paid employees (i.e. employees earning hourly wage within the lowest decile of the overall hourly wage distribution) or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. Based on the above criteria and the findings of the 2015 AEHS, MWC considered it appropriate to continue to adopt the four LPS identified by the first two terms of MWC and the 15 sub-sectors covered. These included: (i) retail (including supermarkets and convenience stores, and other retail stores); (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes and Hong Kong style tea cafes); (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (iv) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

According to the findings of the 2015 AEHS, in May to June 2015, the lowest decile of the hourly wage distribution of LPS was \$33.8, lower than that of all sectors (\$36.5), suggesting that there was a relatively large number of low-paid employees in LPS. Besides, 25.1% of the employees in LPS were low-paid employees. The proportion was larger than that of 9.8% for all sectors. This suggested that LPS had a relatively large proportion of low-paid employees among all employees within the sectors. The hourly wage data of other sectors did not meet the criteria of LPS as set out above. For detailed statistical data, please refer to **Table A.1 in Appendix V**.

Table 4.2: Socio-economic characteristics of employees earning the Statutory Minimum Wage rate in May to June 2013 and May to June 2015

Socio-economic characteristic	May to June 2013			May to June 2015		
	Employees earning the SMW rate (i.e. \$30.0 per hour)			Employees earning the SMW rate (i.e. \$32.5 per hour)		
	Number of persons ('000)	Proportion among all employees earning the SMW rate (%)	Proportion among all employees with the corresponding socio-economic characteristic (%)	Number of persons ('000)	Proportion among all employees earning the SMW rate (%)	Proportion among all employees with the corresponding socio-economic characteristic (%)
Total number of employees	98.1	100.0	3.4	41.9	100.0	1.4
I. Gender						
Male	42.1	43.0	2.8	16.8	40.1	1.1
Female	55.9	57.0	4.0	25.1	59.9	1.7
II. Age group						
Aged 15 to 24	10.5	10.7	4.5	3.3	7.8	1.4
Aged 25 to 34	6.9	7.1	0.9	4.8	11.5	0.6
Aged 35 to 44	14.8	15.0	2.0	3.8	9.2	0.5
Aged 45 to 54	31.0	31.6	4.2	11.5	27.4	1.5
Aged 55 and above	34.9	35.5	8.2	18.5	44.1	4.0
III. Educational attainment						
Primary and below	40.3	41.1	10.9	18.0	42.9	5.1
Secondary 1 to 3	38.4	39.2	9.1	9.7	23.2	2.2
Secondary 4 to 7	18.1	18.5	1.6	9.8	23.3	0.8
Tertiary education	1.1	1.2	0.1	4.4	10.6	0.4
IV. Occupational group						
Elementary workers	65.4	66.6	14.6	27.9	66.4	6.1
Service and sales workers	27.2	27.7	5.5	6.2	14.7	1.2
Craft workers and machine operators	1.8	1.9	0.5	0.8	2.0	0.2
Clerical support workers	2.2	2.3	0.5	3.9	9.3	0.8
Managers, administrators, professionals and associate professionals	1.5	1.5	0.1	3.2	7.6	0.3
V. Sector						
(i) Low paying sectors	84.0	85.6	10.3	31.1	74.2	3.7
1. <i>Retail</i>	<i>10.2</i>	<i>10.4</i>	<i>3.7</i>	<i>2.8</i>	<i>6.8</i>	<i>1.0</i>
Supermarkets and convenience stores	§	§	§	1.1	2.6	2.6
Other retail stores	§	§	§	1.8	4.2	0.7
2. <i>Restaurants</i>	<i>14.4</i>	<i>14.7</i>	<i>6.8</i>	<i>1.7</i>	<i>4.2</i>	<i>0.8</i>
Chinese restaurants	2.8	2.9	4.0	0.6	1.4	0.8
Non-Chinese restaurants	1.8	1.8	2.6	§	§	§
Fast food cafes	8.9	9.1	16.7	0.8	1.9	1.5
Hong Kong style tea cafes	1.0	1.0	4.3	§	§	§
3. <i>Estate management, security and cleaning services</i>	<i>53.9</i>	<i>54.9</i>	<i>23.4</i>	<i>24.3</i>	<i>57.9</i>	<i>10.2</i>
Real estate maintenance management,	18.7	19.1	16.8	10.4	24.7	9.2
Security services	12.6	12.8	34.8	5.2	12.4	12.9
Cleaning services	19.0	19.4	27.9	7.4	17.8	10.7
Membership organisations	3.6	3.7	23.8	1.3	3.1	8.3
4. <i>Other low paying sectors</i>	<i>5.5</i>	<i>5.6</i>	<i>5.9</i>	<i>2.2</i>	<i>5.4</i>	<i>2.4</i>
Elderly homes	2.1	2.1	11.1	0.9	2.0	4.3
Laundry and dry cleaning services	§	§	§	§	§	§
Hairdressing and other personal services	1.5	1.5	3.6	0.7	1.8	1.7
Local courier services	§	§	§	§	§	§
Food processing and production	0.9	0.9	4.3	0.5	1.3	2.5
(ii) Other sectors	14.1	14.4	0.7	10.8	25.8	0.5

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

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

- 4.5 Besides, among employees earning the SMW rate, the proportion of employees who were entitled to neither paid rest day(s) nor paid meal break(s) decreased from 37.3% in May to June 2013 to 25.5% in May to June 2015. This indicated that employers generally did not reduce these two fringe benefits of employees despite the increase in labour costs brought about by the implementation of SMW ⁽²⁾.
- 4.6 The above data indicated that owing to the largely favourable labour market conditions over the past few years, the income of employees sustained improvement. With the revision of the SMW rate, wages of employees originally earning just the SMW rate were raised to the revised SMW rate or above, while some lower-paid employees earning wages above the SMW rate also enjoyed corresponding pay rise along with the uprating of SMW. This suggested that the uprating of SMW did not only benefit the SMW earners, but also improved the earnings of other lower-paid employees.
- 4.7 The ensuing sections will examine in further detail the impact of the implementation of SMW on employees and businesses, as well as the local labour market, prices, the overall economy, etc.

4.II Impact on Employees

4.II.1 Changes in wages/salaries/employment earnings ⁽³⁾ of employees

- 4.8 By comparing the latest statistics on wage levels and distribution with those before the implementation of SMW, it could help analyse the changes in wages of different groups of employees before and after the implementation of SMW. The wage distribution data from AEHS ⁽⁴⁾ showed that with the one-off boosting effect of the implementation of the initial SMW rate in May 2011, the 10th percentile of monthly wages of all employees recorded a considerable year-on-year increase of almost 18% in May to June 2011. The boosting effect of the subsequent increases in the SMW rate in May 2013 and May 2015 to the wages of grassroots employees was also notable. In May to June 2013 and May to June 2015, the year-on-year increases in the 10th percentile of monthly wages of all employees and full-time employees were both higher than the increases in

(2) For detailed data on the proportion of employees earning the SMW rate with paid rest day(s) and/or paid meal break(s) in different sectors, please refer to **Table A.2 in Appendix V**.

(3) Data on wages/salaries/employment earnings were sourced from different statistical surveys conducted by C&SD. Their definitions are in **Glossary**.

(4) The reference period of the 2010 AEHS was April to June 2010, whereas that of the 2011 to 2015 rounds was May to June so as to reflect the wage distribution situation after the implementation of the initial SMW rate on 1 May 2011 and the revisions of the SMW rate on 1 May 2013 and 1 May 2015.

the corresponding median monthly wages. Between April to June 2010 and May to June 2015, the 10th percentile of monthly wages of all employees and full-time employees both recorded cumulative increases of over 40% (Table 4.3), indicating that the implementation of SMW and its upratings helped narrow the wage differentials and forestall excessively low wages.

Table 4.3: Changes in monthly wage distribution between April to June 2010 and May to June 2015

Monthly wage distribution	Monthly wage (\$) (Year-on-year rate of change (%))						Cumulative increase between April to June 2010 and May to June 2015 (%)
	April to June 2010	May to June 2011	May to June 2012	May to June 2013	May to June 2014	May to June 2015	
All employees							
10 th percentile	5,900 (3.5)	6,900 (17.7)	7,300 (4.5)	7,700 (6.0)	8,000 (4.1)	8,500 (6.3)	44.1
Median	11,800 (2.6)	12,800 (8.5)	13,400 (4.3)	14,100 (5.2)	14,800 (5.3)	15,500 (4.9)	31.5
Full-time employees							
10 th percentile	6,700 (3.1)	7,900 (17.9)	8,100 (2.3)	8,700 (7.7)	9,100 (4.9)	9,600 (5.1)	43.2
Median	12,200 (1.5)	13,200 (8.5)	14,000 (6.0)	14,900 (6.7)	15,400 (3.1)	16,200 (4.9)	32.6

Note: Monthly wage 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.

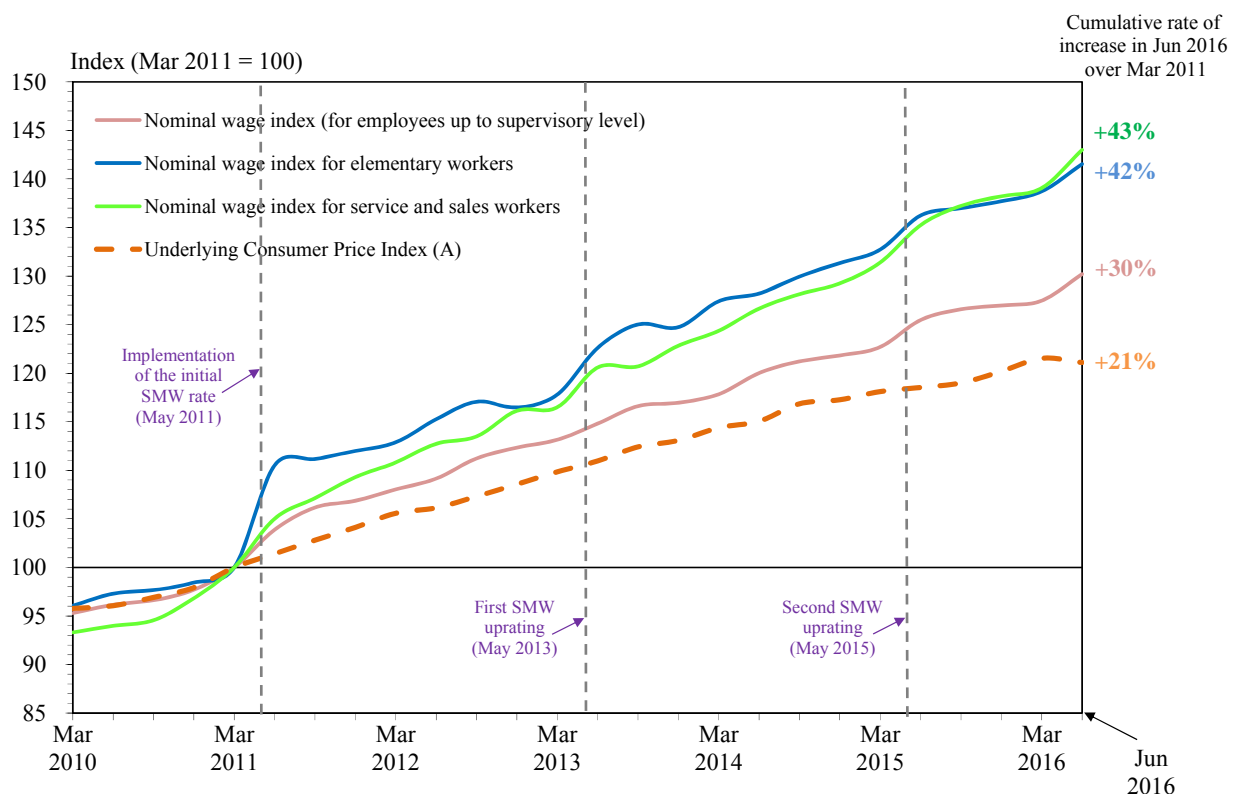
4.9 Focusing on analysing the situation of SMW uprating in 2015, in May to June 2015, the 10th percentile of monthly wages of full-time employees who were younger (aged 15 to 24) (7.8%), older (aged 45 and above) (5.9%) and with educational attainment of primary and below (6.7%) as well as the generally lower-paid full-time elementary workers (6.1%) and service and sales workers (10.8%) recorded relatively significant year-on-year increases, while for LPS with more low-paid employees engaged, the 10th percentile of monthly wages of full-time employees therein leaped by 8.0%⁽⁵⁾ year-on-year. Since April to June 2010, the 10th percentile of monthly wages of the abovementioned groups of employees increased by around 50% cumulatively. These data suggested that wages of lower-paid employees generally improved more notably than those of the employees in other groups owing to the implementation of SMW.

4.10 The wage index provided by the Labour Earnings Survey also revealed a similar phenomenon (Figure 4.1). With the SMW rate adjusted upward to \$32.5 in May 2015,

(5) For detailed data on changes in the 10th percentile and median monthly wage of full-time employees analysed by socio-economic characteristics, please refer to **Table A.3 in Appendix V**.

the impact on the nominal wages of elementary workers and service and sales workers, who were lower-paid, was particularly notable. The nominal wage indices of these two groups increased by 6.3% and 6.8% year-on-year respectively in June 2015, faster than the concurrent 4.6% increase of the overall nominal wage index. 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 faster than that of the Underlying Consumer Price Index (A) in cumulative terms, signifying that wages of employees with lower income generally saw real improvement after the implementation of SMW. Between March 2011 and June 2016, the average monthly salaries of individual lower-paid occupations such as dishwashers, security guards, cleaners, bell boys and waiters saw cumulative increases of around 40% to 50%, reaching some \$8,500 to \$12,500.

Figure 4.1: Implementation of Statutory Minimum Wage (SMW) brought about real improvement in the wages of lower-paid employees



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

4.11 From the observations above and those in Chapter 3, it could be seen that the labour market remained in a state of full employment over the past few years. Coupled with the implementation of SMW and its upratings, the income of lower-paid employees generally saw real improvement after discounting inflation.

4.II.2 Wage differentials

4.12 After the implementation of SMW, the income of lower-paid employees increased and their wage differentials with higher-paid employees were narrowed. Within the overall hourly wage distribution in May to June 2015, the 10th percentile of hourly wage increased by 5.8% year-on-year, faster than the 4.8% increase in the median hourly wage. Since May to June 2011, the 10th percentile of hourly wage rose by a cumulative 24.8%, also faster than the 20.0% increase in the median hourly wage, signifying the effect of providing wage protection to grassroots employees brought about by SMW (Table 4.4).

Table 4.4: Hourly wage distribution in May to June 2011 and May to June 2015

Percentile	May to June 2011	May to June 2015		
	Hourly wage (\$)	Hourly wage (\$)	Year-on-year rate of change ^(*) (%)	Cumulative increase since May to June 2011 ^(*) (%)
10 th	29.3	36.5	5.8	24.8
25 th	36.0	44.2	5.2	22.6
Median	52.4	62.9	4.8	20.0
75 th	82.5	100.0	5.6	21.2
90 th	143.9	167.2	4.2	16.2

Note: (*) Hourly wage was rounded to the nearest one decimal place of Hong Kong dollar. Rate of change was calculated based on unrounded figures.

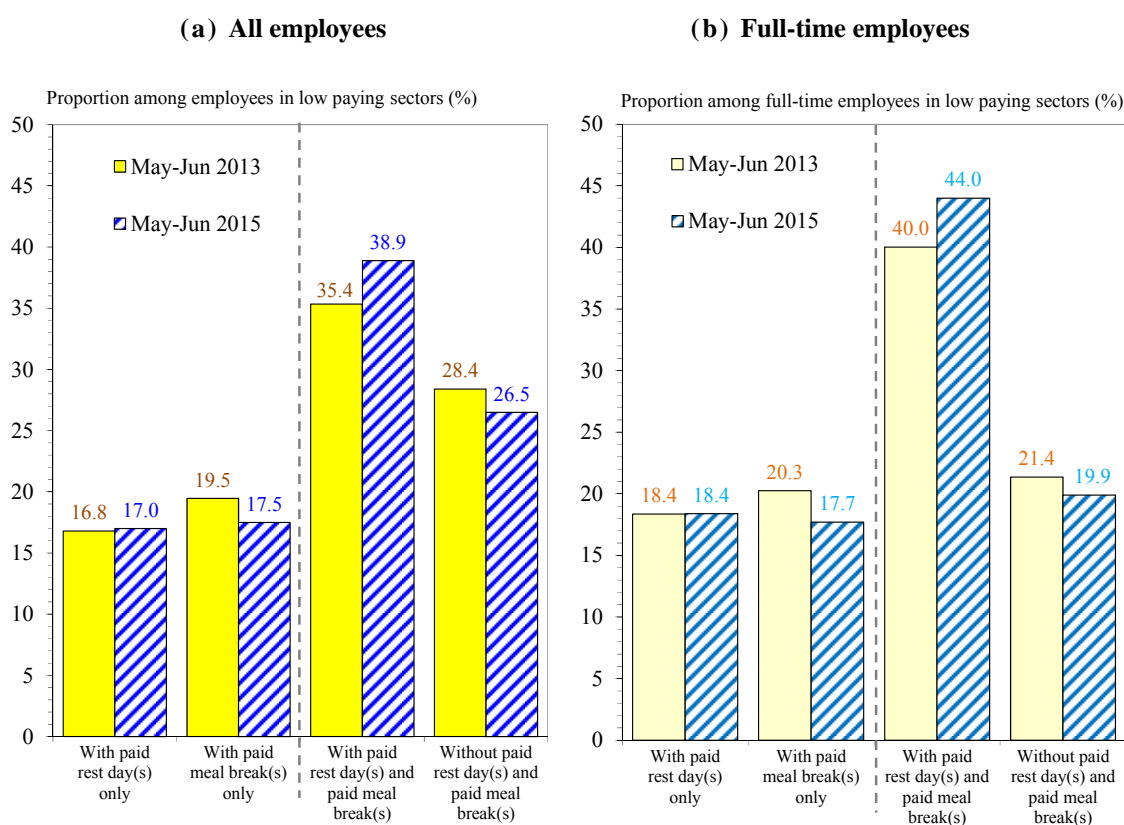
Source: Annual Earnings and Hours Survey, Census and Statistics Department.

4.II.3 Remuneration structure

4.13 Amid the tight labour market over the past few years, cost cutting through adjusting employees' remuneration package was not prevalent among enterprises, and there were even signs of improvement in the remuneration structure and fringe benefits among some employees. According to the findings of AEHS, comparing May to June 2015 with May to June 2013, the proportion of employees entitled to both paid rest day(s) and paid meal break(s) among all employees in LPS increased from 35.4% to 38.9%, while the proportion of those entitled to neither paid rest day(s) nor paid meal break(s) fell from 28.4% to 26.5%. Over the same period, the situation of full-time employees in LPS saw a similar trend (Figure 4.2)⁽⁶⁾.

(6) For detailed data on the proportion of employees within the lowest decile in the overall hourly wage distribution with paid rest day(s) and/or paid meal break(s) in different sectors, please refer to **Table A.4 in Appendix V**.

Figure 4.2: Entitlement to paid rest day(s) and/or paid meal break(s) for employees in low paying sectors in May to June 2013 and May to June 2015



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

4.14 As for other fringe benefits, the proportion of full-time employees in LPS entitled to year-end payment/bonus increased from 13.6% in May to June 2013 to 15.7% in May to June 2015. Over the same period, the proportion of full-time employees entitled to meal benefits went up from 25.1% to 25.5%.

4.15 In sum, the revised SMW rate in 2015 helped boost the income of grassroots employees and narrow their wage differentials with higher-paid employees, which to a certain extent forestalled their wages from being excessively low. Although the uprating of SMW increased labour costs, the fringe benefits (including entitlement to fringe benefits according to their employment contract or agreement) for most employees were not reduced.

4.III Impact on Businesses

4.16 While SMW effectively forestalled excessively low wages of grassroots employees, it also increased labour costs of enterprises at the same time. Labour-intensive LPS as well as small and medium enterprises (SMEs) with lower profit margins were more affected. The past experience of implementing SMW and the two increases in the

SMW rate indicated that SMW did not only directly push up the wages of grassroots employees, but also unavoidably induced knock-on effect on pay hierarchies (knock-on effect) concurrently. Enterprises had to raise the wages of other employees so as to maintain the pay differentials among different sectors and ranks, preserve staff morale and avoid turnover of talents, which indirectly led to a further increase in overall labour costs. As observed over the past few years, the extent of knock-on effect on one hand hinged on the magnitude of the uprating of SMW, and was also very much affected by the macro environment on the other. For instance, amid a tight labour market during an economic up-cycle, enterprises would need to pay higher wages to retain talents, and hence the knock-on effect would be more pronounced.

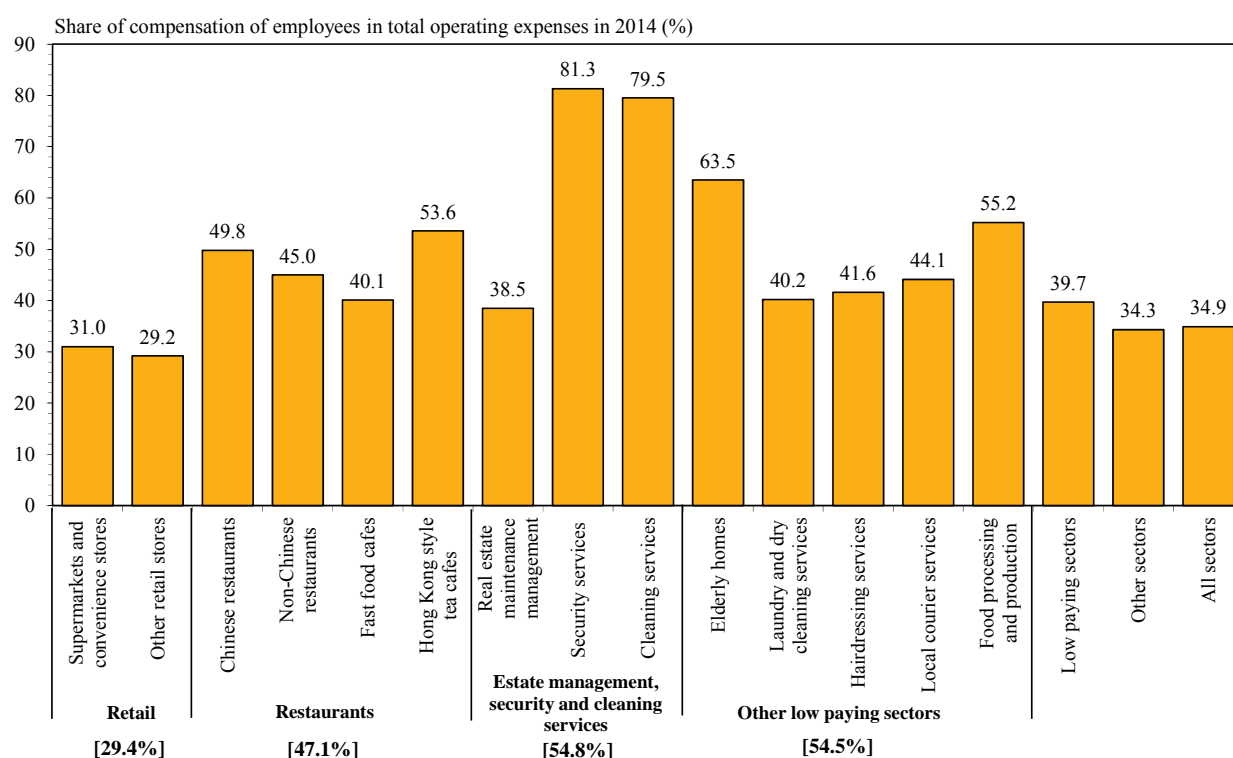
- 4.17 At the micro level, the magnitude of the knock-on effect in various sectors was not only determined by the unique factors of the sectors such as rank and remuneration structure, but also hinged on other relevant factors including their operating conditions, cost structure and manpower resource balance. Specifically, after the implementation of SMW, sectors involving more laborious work generally had to offer corresponding pay rises to employees who were already earning wages above the SMW rate, in order to prevent them from switching to other sectors offering more comfortable work environment or more stable working hours. As mentioned in paragraph 4.6, the knock-on effect induced by SMW did not only benefit employees earning the SMW rate. This suggested that enterprises also had to bear additional labour costs induced by the uprating of SMW in respect of those employees earning wages above the SMW rate.
- 4.18 The following sub-sections examine the changes in the operating characteristics of enterprises in different LPS since the implementation of SMW. Owing to the time lag in the statistical data, the analyses below were based on the latest findings of the 2014 Annual Survey of Economic Activities (ASEA)⁽⁷⁾ conducted by C&SD, which had yet to reflect the impact of the second uprating of SMW in 2015. MWC also examined the more recent data on the number of establishments, business registrations as well as bankruptcy and winding-up petitions so as to further understand the recent business situation of enterprises.

(7) The statistics from ASEA in this Report pertain to those enterprises with employees only. Data of certain individual sectors (such as membership organisations and education) are not available. Besides, as ASEA requires 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 that the preparation of such detailed data takes time, hence when MWC was reviewing and recommending the SMW rate, the 2015 ASEA findings were not yet available.

4.III.1 Cost pressure on enterprises

4.19 While different LPS had different cost structures⁽⁸⁾, the majority of LPS were labour-intensive with a rather large proportion of their total operating expenses being staff costs. Specifically, staff costs accounted for around 40% of total operating expenses for LPS as a whole in 2014, with staff costs contributing more than half of the total operating expenses in security services (81.3%), cleaning services (79.5%), elderly homes (63.5%), food processing and production (55.2%) and Hong Kong style tea cafes (53.6%) (Figure 4.3). The increase in labour costs would pose some pressure on the operations of these sectors, and these LPS would also be more affected by SMW.

Figure 4.3 : Most low paying sectors are labour-intensive



Note: Figures in square brackets denote the shares of compensation of employees in total operating expenses in the sectors in 2014.

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

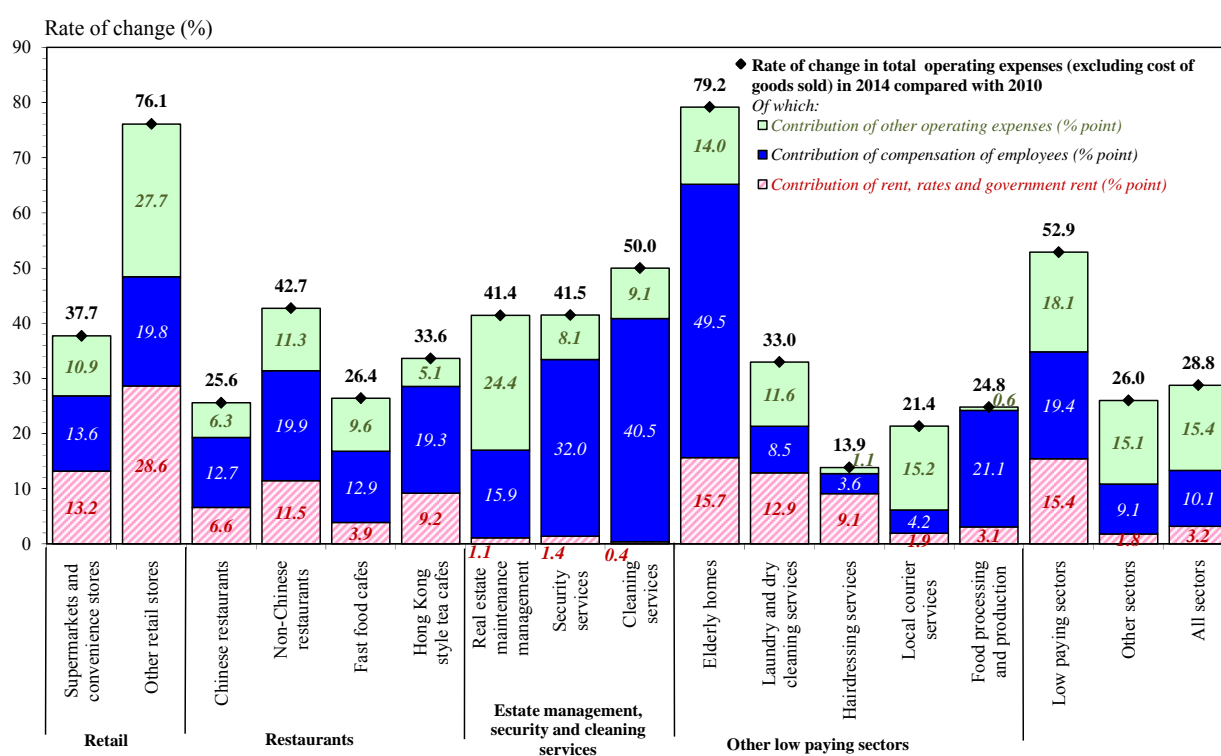
4.20 Data showed that rising staff costs was the key factor underlying the increase in total operating expenses⁽⁹⁾ in many LPS over the past few years (Figure 4.4). Since the implementation of SMW, total operating expenses of LPS as a whole saw a cumulative increase of 52.9%, of which 19.4 percentage points came from the rise in staff costs

(8) Details of the composition of total expenses analysed by sector are in **Table A.5 of Appendix V**.

(9) Total operating expenses exclude cost of goods sold. Details of the composition of total operating expenses analysed by sector are in **Table A.6 of Appendix V**.

which contributed the largest share to the rise in total operating expenses. For those highly labour-intensive sectors mentioned in paragraph 4.19, the contribution of staff costs to the increase in total operating expenses was even more apparent. Among these sectors, estate management, security and cleaning services generally had greater pricing power, and enterprises were more able to pass on additional labour costs induced by SMW to their clients (such as by raising property management fees, etc.). However, to a certain extent, this indirectly pushed up users' other operating expenses. As for other LPS such as retail, in addition to the increase in wage bills as induced by the uprating of SMW, they also had to face greater pressure from rentals which took up a relatively large share in their total operating costs (nearly 40%).

Figure 4.4 : Comparing 2014 with 2010, rising staff costs was the major factor underlying the increase in total operating expenses in many labour-intensive low paying sectors



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

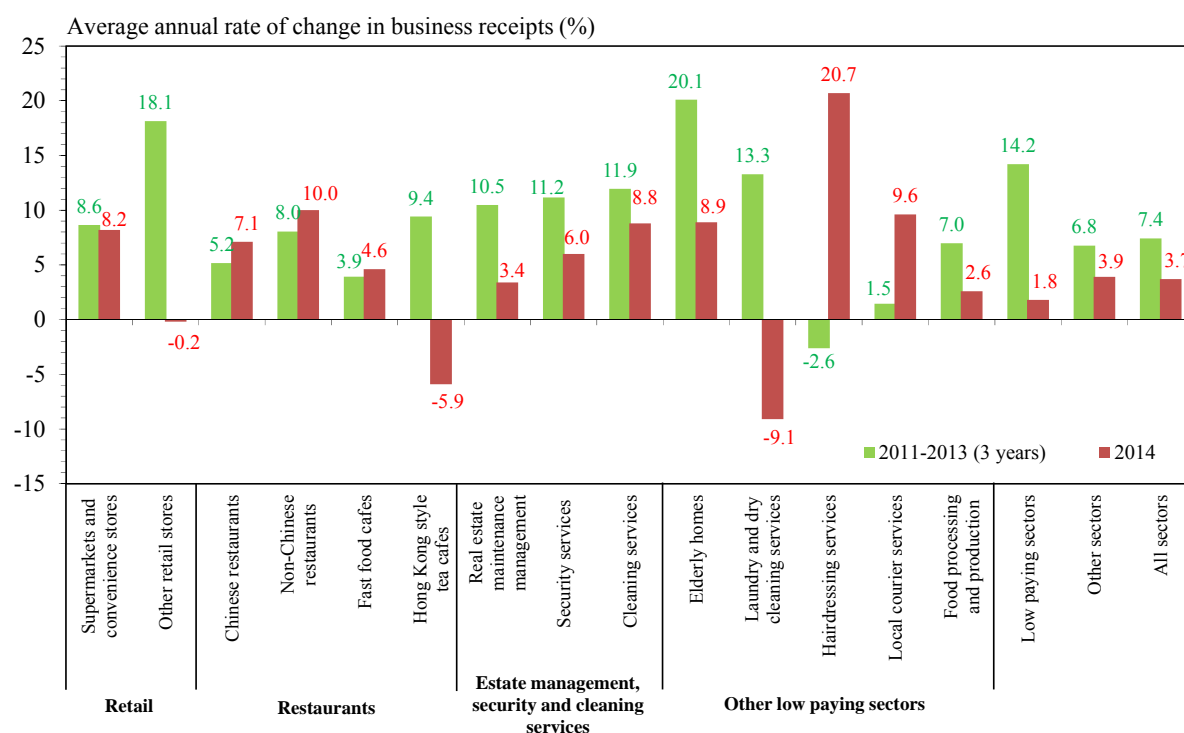
4.III.2 Corporate profitability

4.21 As observed from the above analyses, the implementation of SMW and the two increases in the SMW rate to a certain extent imposed greater labour cost pressures on LPS. Whether enterprises could absorb the additional cost pressure without undermining their profits depended mainly on whether they could pass on the increase in operating costs to their clients through raising prices. Moreover, if enterprises'

business scale could keep on expanding, their ability to absorb the rising costs would generally be better. These two conditions in turn hinged largely on the macroeconomic environment.

4.22 As stated in Section 3.1 of Chapter 3, owing to the largely stable macroeconomic conditions over the past few years, enterprises could generally absorb the pressure of additional labour costs induced by SMW. However, as inbound tourism and local consumption softened since 2014, consumption-related sectors such as retail were hard hit, and their operating environment became more difficult. In particular, business receipts of the retail sector only saw a meagre growth of 0.5% in 2014, ending the double-digit growth trend over the past years. Since the retail sector accounted for over 70% of business receipts in LPS as a whole, the slump in the sector dragged down the overall business performance of LPS. Business receipts of LPS as a whole grew only by 1.8% in 2014, far below the double-digit average annual growth rate of 14.2% in the three-year period during 2011 to 2013 (Figure 4.5).

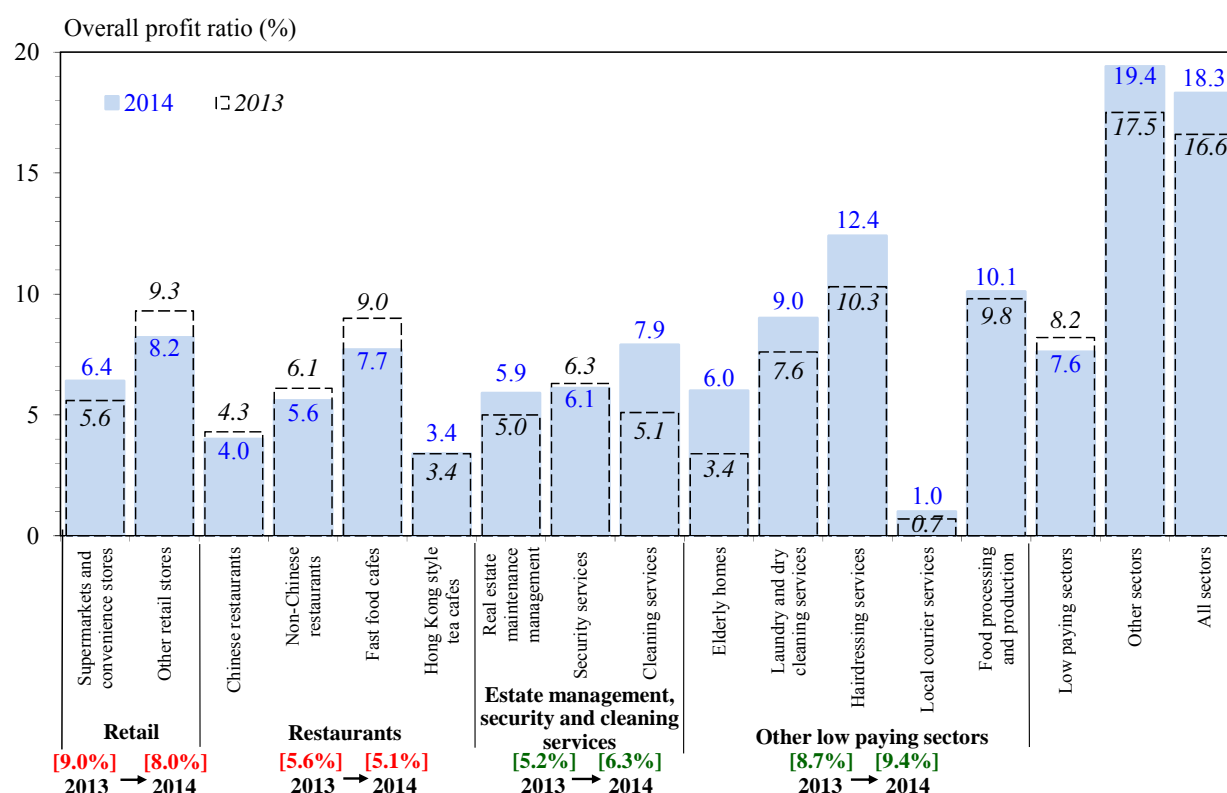
Figure 4.5 : Growth in business receipts of many low paying sectors slowed visibly in 2014



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

4.23 It is worth noting that the profitability of most labour-intensive LPS was generally weaker, and their overall profit ratios (i.e. ratios of profit⁽¹⁰⁾ to business receipts) were far lower than that of non-LPS and all sectors. Certain LPS such as Hong Kong style tea cafes, local courier services and Chinese restaurants were running on very narrow profit margins, with their overall profit ratios ranging from 1% to 4% only (Figure 4.6). In 2014, with slower business growth, profitability of LPS came under pressure. The setback in profitability was particularly noticeable in the retail sector, among which the overall profit ratio of other retail stores in 2014 was 8.2%⁽¹¹⁾, the lowest since 2009. Profit ratio of the restaurant sector was also squeezed further. Nevertheless, against the backdrop of a largely stable consumption market in 2014, the overall profit ratio of other LPS improved slightly, reflecting that enterprises could generally absorb the rising costs through business expansion.

Figure 4.6 : Profitability of the retail and restaurant sectors weakened noticeably in 2014 compared to 2013



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

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

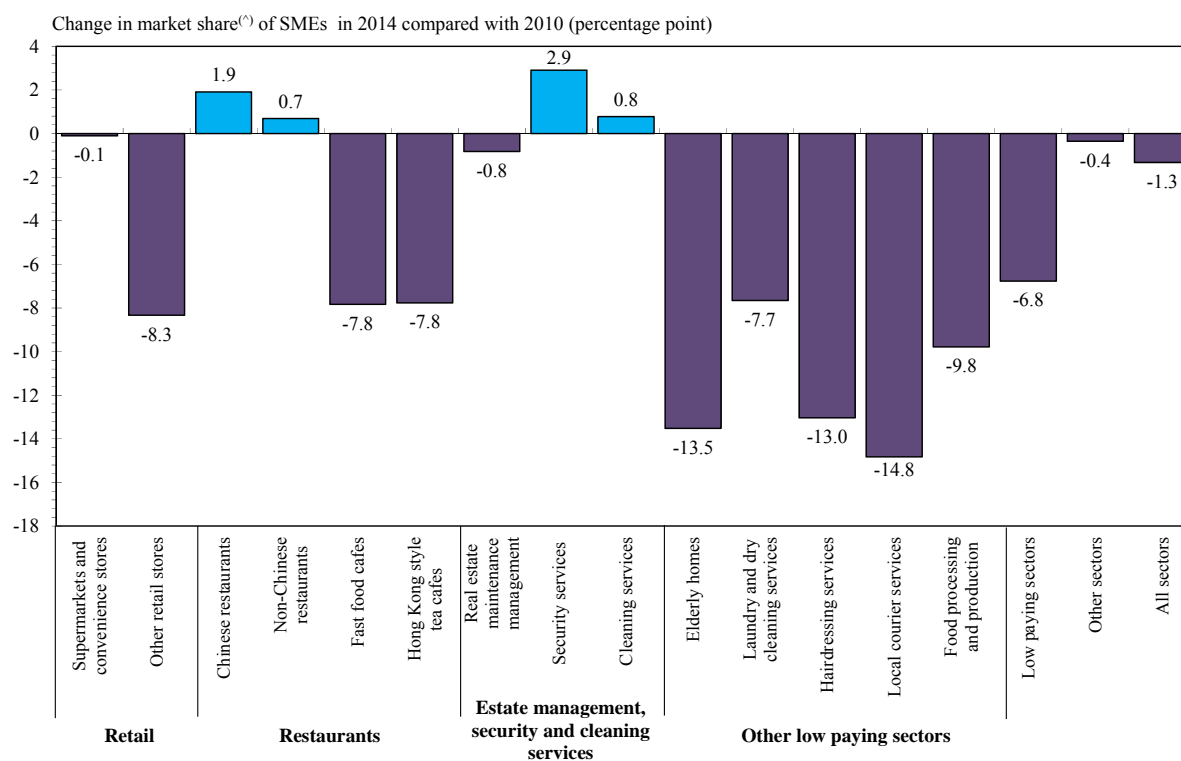
(10) In ASEAs, earnings before tax (abbreviated as profit) in 2010 refer to profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, amortisation and provisions, etc. Amortisation was also deducted from profit starting from 2011.

(11) For detailed data on the distribution of profit ratio for all enterprises in different sectors, please refer to **Table A.7 in Appendix V**.

- 4.24 Compared to large enterprises, SMEs were constrained by resources and could not benefit from economies of scale. They had less room for manoeuvre to cope with cost pressures and their profitability was generally weaker. For most LPS, the profitability of SMEs fared worse than that of the sector as a whole. Specifically, the overall profit ratio of SMEs in LPS as a whole was 3.9% ⁽¹²⁾ in 2014, which was just around half of the overall profit ratio (7.6%) for the sector as a whole, indicating that the room for SMEs to offset additional costs by compressing their profits was very limited. Since the implementation of SMW, the profits of SMEs in some LPS were visibly squeezed, particularly for supermarkets and convenience stores (down from 5.2% in 2010 to 0.5% in 2014), the restaurant sector (down from 5.1% to 3.0%), hairdressing services (down from 14.6% to 11.8%) and local courier services (down from 11.5% to 6.8%).
- 4.25 Moreover, it is noteworthy that comparing 2014 with 2010, the market share of SMEs (i.e. proportion of total business receipts of SMEs in the sector) in most LPS dropped (Figure 4.7), and much evidently in certain sectors. Besides, when faced with a downturn in their operating environment coupled with persistent increase in operating costs, some SMEs running on thin profit margins might choose to cease operations. The aforementioned sectors with lower profit margins and more noticeable falls in profit ratio included Hong Kong style tea cafes, fast food cafes, hairdressing services and local courier services. Comparing 2014 with 2010, the number of SMEs in these four sectors decreased by 5%, 12%, 22% and 31% respectively. With the sustained weakness in business performance in many sectors in 2015 and the first half of 2016, enterprises would be less able to bear the cost increases. The impact of the uprating of SMW on LPS with only thin profit margins, especially SMEs therein, warranted particular attention.

(12) For detailed data on the distribution of profit ratio of SMEs in different sectors, please refer to **Table A.8 in Appendix V**.

Figure 4.7: Comparing 2014 with 2010, the market shares of small and medium enterprises (SMEs) in most low paying sectors declined



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

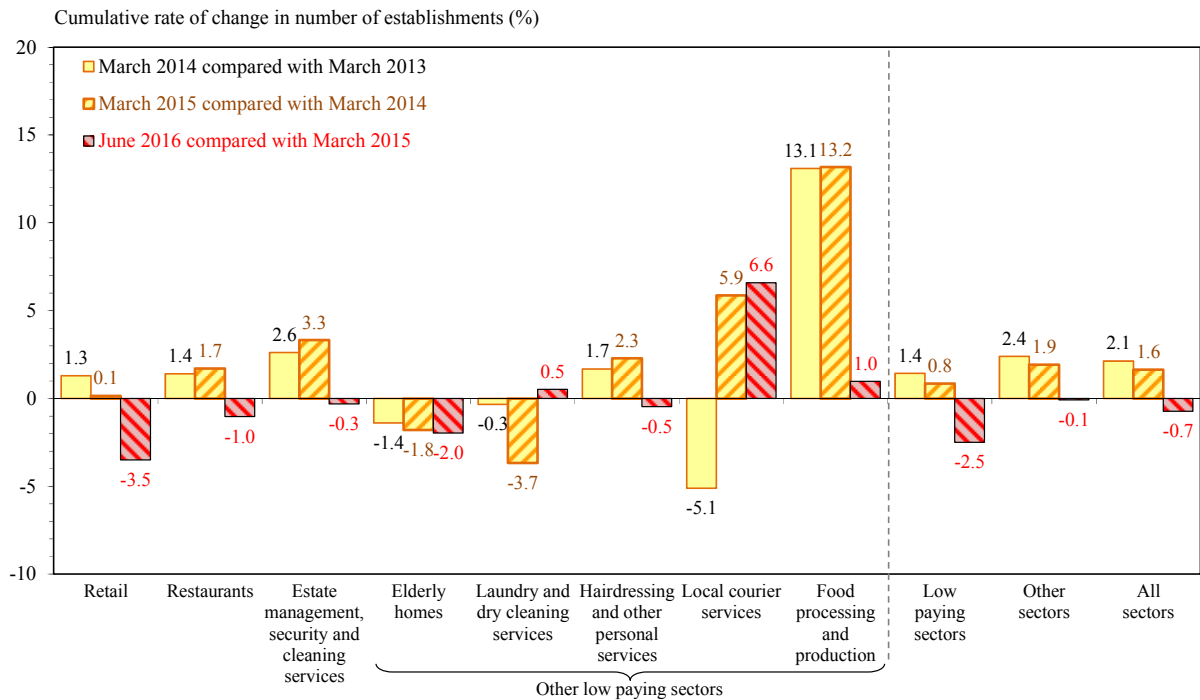
Source: Annual Survey of Economic Activities, Census and Statistics Department.

4.III.3 Entrepreneurship and business sentiment

4.26 Paragraphs 4.16 to 4.25 above mainly analysed the statistics on the operations of enterprises up till 2014. In order to understand further the recent business environment of enterprises, MWC also examined the latest data on the number of establishments, business registrations as well as bankruptcy and winding-up petitions.

4.27 According to the Quarterly Survey of Employment and Vacancies (SEV), the number of establishments in LPS showed virtually no growth in 2015. Comparing June 2016 with March 2015 (i.e. before the second uprating of SMW), the number of establishments in LPS even decreased by a cumulative 2 500 (down 2.5%) (Figure 4.8), of which the retail sector saw the most visible decline.

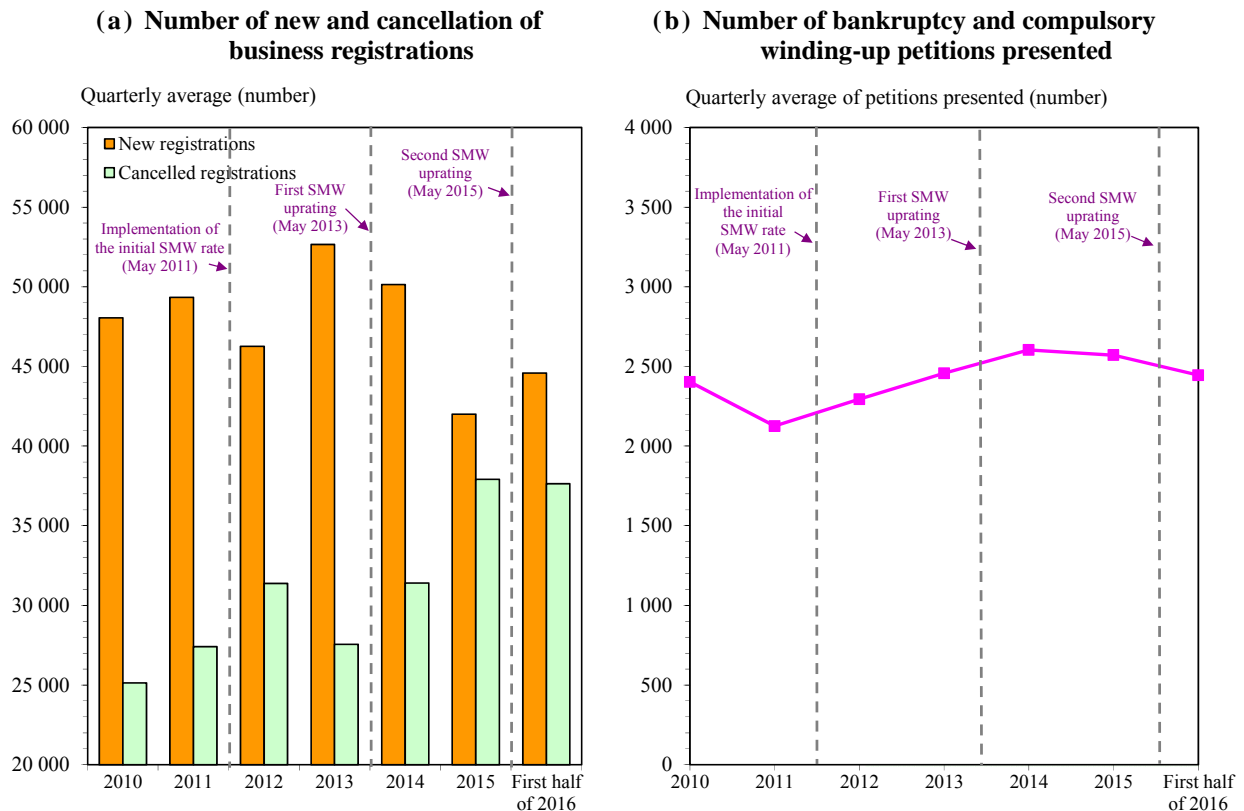
Figure 4.8: Comparing June 2016 with March 2015, the number of establishments in low paying sectors fell



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

4.28 The number of new business registrations posted a year-on-year decline for eight consecutive quarters starting from the second quarter of 2014, while the number of cancellation had been rising since the third quarter in the same year. In the first half of 2016, the quarterly average number of new business registrations only rose back slightly compared to 2015, but was still at a relatively low level compared to recent years. Over the same period, there was little change in the number of cancellation of business registrations and the number of bankruptcy and compulsory winding-up petitions presented (Figure 4.9).

Figure 4.9: Numbers of business registrations, bankruptcy and compulsory winding-up petitions from 2010 to the first half of 2016



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

4.29 In sum, labour costs of enterprises rose notably after the implementation of SMW and its upratings. This, coupled with increases in rentals and other operating expenses over the period, put certain pressure on the operations of most LPS. Moreover, in view of the visible slackening of inbound tourism in recent years, the business conditions and pricing power of many related sectors had much worsened. While some large enterprises might be able to adopt different strategies to cope with the impact of business downturn, SMEs with limited resources would find their room for operations more challenging if they had to shoulder additional cost pressures in times of business downturn. If operating costs increased drastically, SMEs might resort to reducing headcount and other costs, or even to cease operations. In 2014, the profitability of consumption-related LPS declined noticeably, whereas the market shares of SMEs in most LPS dropped, reflecting that their operating environment was rather challenging.

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

4.30 Apart from bringing about direct impact on lower-paid employees and businesses, the implementation of SMW and its upratings to a certain extent also interplayed with the

macroeconomic conditions of Hong Kong (including the labour market, prices, competitiveness, etc.). To examine the changes in the employment situation of local labour (especially those employees more affected by SMW), inflation and the medium to long-term competitiveness of Hong Kong, MWC made reference to various labour and price statistics from C&SD, and compared different economies' competitiveness indicators to enable a more comprehensive analysis.

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

4.31 Over the past few years, the Hong Kong economy sustained expansion, with the overall unemployment rate hovering at a low level and the labour market largely staying in full employment. Between the second quarter of 2011 (after the implementation of the initial SMW rate) and the second quarter of 2015 (the second uprating of SMW), the number of employees⁽¹³⁾ grew at an average annual rate of 1.8%, of which more notable increases were found among females (2.0%), younger (aged 15 to 24) (2.0%), older (aged 45 and above) (3.6%) and service and sales workers in the lower-skilled segment (2.6%) (Table 4.5). This suggested that when the SMW rate was pitched at an appropriate level, it could not only forestall excessively low wages and avoid the loss of grassroots jobs, but could also provide incentive to encourage more people to enter the labour market, thereby unleashing the labour force.

(13) Unless otherwise specified, figures exclude government employees and live-in domestic workers.

Table 4.5: Number of employees of different groups between the second quarter of 2015 and June to August 2016

	Q2 2015		Average annual rate of change in Q2 2015 over Q2 2011 (4 years) (%)	Q2 2016		June to August 2016	
	Number of persons	Year-on-year rate of change (%)		Number of persons	Year-on-year rate of change (%)	Number of persons	Year-on-year rate of change (%)
Gender							
Male	1 573 400	0.9	1.7	1 581 800	0.5	1 583 400	@
Female	1 392 500	0.8	2.0	1 399 500	0.5	1 414 100	0.8
Selected age group							
Aged 15 to 24	256 000	3.9	2.0	244 800	-4.4	262 100	-3.4
Aged 45 and above	1 263 000	1.3	3.6	1 314 200	4.1	1 312 600	2.9
Skill segment							
Higher-skilled	1 195 000	6.3	2.3	1 180 000	-1.3	1 199 500	0.4
Lower-skilled	1 770 900	-2.6	1.5	1 801 300	1.7	1 798 000	0.4
Of which: Service and sales workers	512 500	-2.4	2.6	511 800	-0.1	510 600	1.3
Elementary occupation	448 100	-3.3	1.5	465 000	3.8	468 200	1.9
Overall	2 965 900	0.8	1.8	2 981 400	0.5	2 997 500	0.4

Notes: @ Change is less than 0.05%.

Figures exclude government employees and live-in domestic workers.

Source: General Household Survey, Census and Statistics Department.

4.32 Nevertheless, on entering 2016, the unsteady global economic situation, coupled with lacklustre inbound tourism and subdued local consumption growth, added downside pressure to the local economy, and employment growth slowed visibly in tandem. In the second quarter of 2016, the number of employees increased by a mere 0.5% year-on-year in overall terms, with the seasonally adjusted unemployment rate inching up by 0.1 percentage point over the second quarter of 2015 to 3.4%. Meanwhile, the number of employees in LPS as a whole even recorded a year-on-year decrease of 1.3%, with its unemployment rate up by 0.2 percentage point to 3.5%. Among LPS, the unemployment rate of the retail sector even rose visibly by 1.7 percentage points to 5.6%. While the unemployment situation varied among persons with different socio-economic attributes, the unemployment rate rose across most groups (Table 4.6). As of June to August 2016, the seasonally adjusted unemployment rate stayed at 3.4%, while the number of unemployed persons went up by 2.4% or 3 300 over a year earlier.

Table 4.6: Unemployment rates of different groups between the second quarter of 2011 and June to August 2016

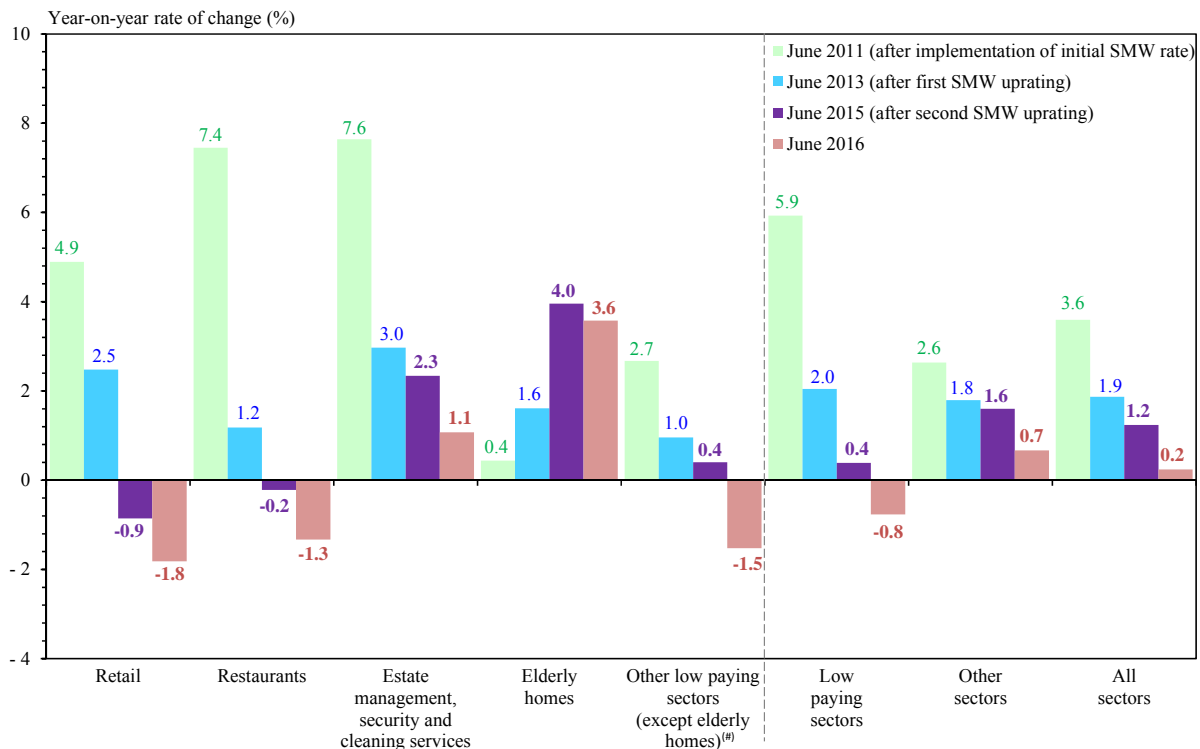
	2011	2013	2015	2016		
	Q2	Q2	Q2	Q2	June to August	
	(%)	(%)	(%)	(%)	(%)	Year-on-year change (percentage point)
Selected sector						
<i>Low paying sectors</i>	3.6	3.3	3.3	3.5	3.3	@
Retail	4.5	4.9	3.9	5.6	5.4	0.9
Restaurants	6.6	5.7	5.4	5.3	5.0	-0.4
Estate management, security and cleaning services	3.1	2.5	2.7	2.9	2.3	@
Other low paying sectors	1.5	1.1	1.9	1.5	1.4	-0.5
<i>Other sectors</i>	3.2	2.9	2.6	2.9	2.7	0.2
Gender						
Male	4.4	3.8	3.3	3.8	4.0	0.4
Female	3.0	3.0	3.3	3.1	3.2	-0.2
Age group						
15-24	10.5	9.8	11.1	10.3	11.7	-1.4
25-29	3.8	3.6	3.4	3.9	4.5	1.0
30-34	2.6	2.5	2.2	2.4	2.5	0.4
35-39	2.8	2.5	2.0	2.0	2.5	0.4
40-44	2.7	2.4	2.4	2.6	2.3	-0.3
45 and above	3.3	3.0	2.7	3.1	2.7	0.1
Skill segment						
Higher-skilled	1.7	1.9	1.6	2.1	2.1	0.4
Lower-skilled	4.3	3.7	3.6	3.8	3.5	@
Seasonally adjusted unemployment rate	3.6	3.3	3.3	3.4	3.4	0.1

Note: @ Change is less than 0.05 percentage point.

Source: General Household Survey, Census and Statistics Department.

4.33 Drawing reference from the statistics of SEV, labour demand in the private sector (estimated by the sum of the numbers of persons engaged and vacancies in private sector establishments) had been easing since the second half of 2015 (Figure 4.10). The latest statistics in June 2016 indicated that the overall number of vacancies recorded year-on-year decreases for five consecutive quarters, and labour demand for LPS as a whole weakened visibly. Although labour demand remained resilient for some LPS (such as elderly homes), the relevant figures for the retail and restaurant sectors, which made up around 60% of labour demand in LPS combined and were more affected by the weak inbound tourism and slackened local consumption, fell further, signifying that some enterprises had stopped new job openings or even started to reduce headcount.

Figure 4.10: Year-on-year rate of change in labour demand (*) of different sectors from June 2011 to June 2016



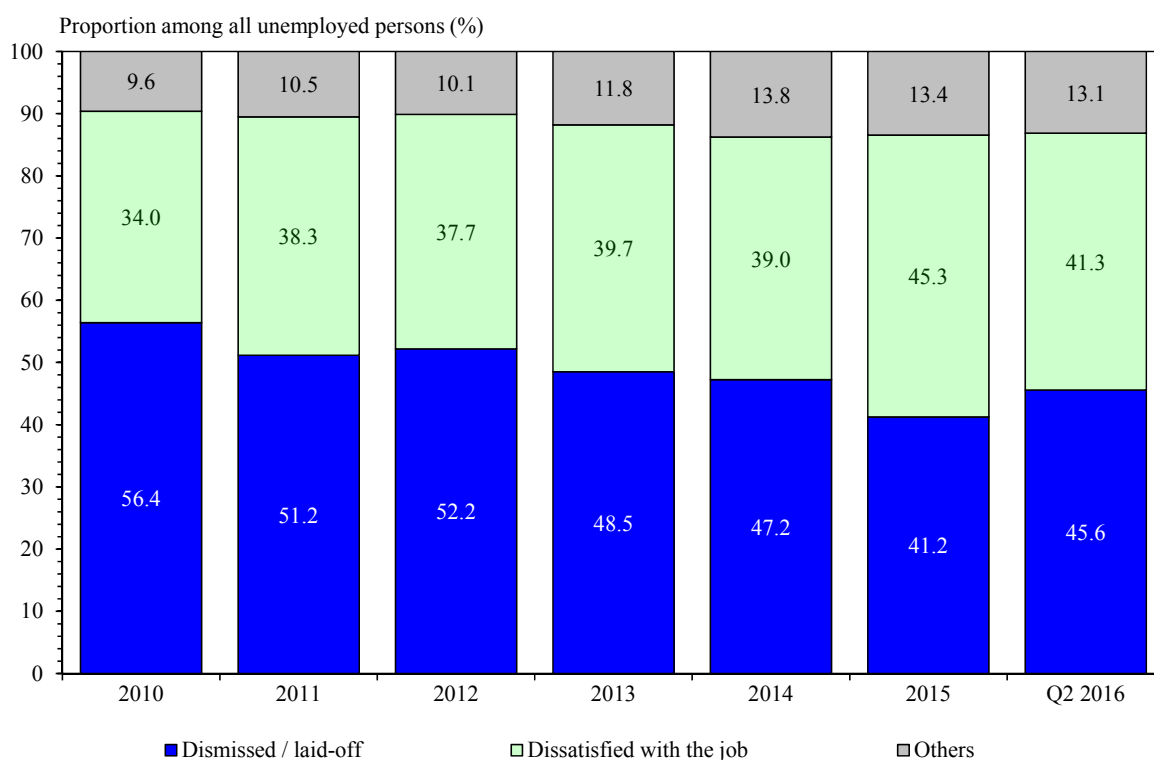
Notes: (*) Labour demand was estimated by the sum of the numbers of persons engaged and vacancies in private sector establishments.

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

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

4.34 The proportion of unemployed persons who were dismissed/laid off among all unemployed persons could indicate whether enterprises had dismissed or laid off employees owing to rising labour costs or operating difficulties. Since the implementation of SMW and its upratings, owing to the largely favourable labour market, the proportion had been on a downtrend (Figure 4.11). Nevertheless, the relevant figure saw signs of picking up recently. The proportion rose by over 4 percentage points from the annual figure of 41.2% in 2015 to 45.6% in the second quarter of 2016, signifying that some enterprises had to reduce their headcount under the worsening operating environment.

Figure 4.11: Proportion of unemployed persons among all unemployed persons analysed by reason of unemployment from 2010 to the second quarter of 2016



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

Source: General Household Survey, Census and Statistics Department.

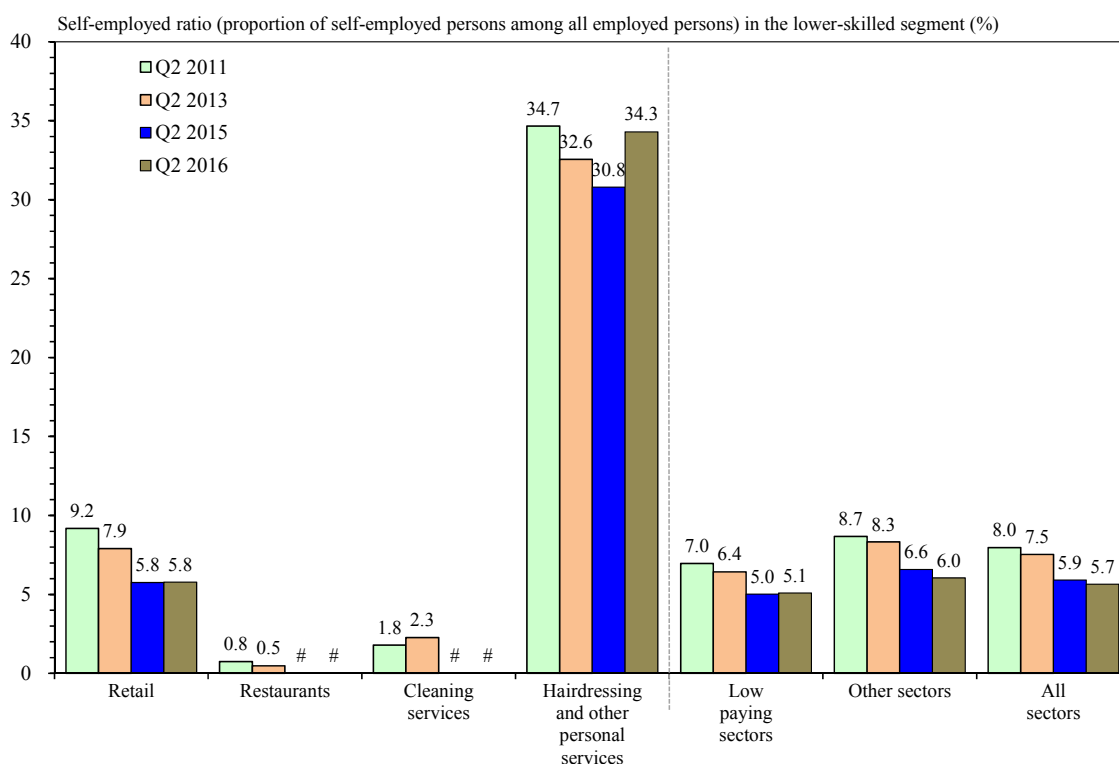
4.IV.2 Impact on the labour market (2): employment nature

4.35 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 to mitigate wage bills. There were also views that especially in times of labour shortage and recruitment difficulties, employers might be inclined to replace full-time employees by part-time employees to fill their vacancies and 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⁽¹⁴⁾ in the sector), the proportion of part-time employees and the proportion of underemployed employees among part-time employees.

4.36 Against the backdrop of a largely tight labour market, the self-employed ratio of the lower-skilled segment in LPS drifted lower. The figures in the second quarter of 2016 and June to August 2016 were both 5.1%, largely similar to the figure in the second quarter of 2015 (Figure 4.12).

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

Figure 4.12: Self-employed ratio in the lower-skilled segment from the second quarter of 2011 to the second quarter of 2016



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.

4.37 On the other hand, the proportion of part-time employees in LPS increased successively since the second quarter of 2011 to 14.3% in the second quarter of 2016 (Table 4.7). Nevertheless, the proportion of underemployed employees among part-time employees for LPS as a whole fell at the same time. Since the uprating of SMW in May 2015, the relevant proportion stayed at around 10% most of the time, far below the corresponding figure for the period right after the implementation of the initial SMW rate (the second quarter of 2011). This indicated that the majority of the employees were voluntary part-time employees who worked for shorter hours not because of underemployment. It also suggested that employers in some LPS opted to hire part-time employees to fill their vacancies in times of labour shortage and recruitment difficulties.

Table 4.7: 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 2016

Sector	Proportion of part-time employees ^(*) among all employees					Proportion of underemployed employees ^(^) among part-time employees				
	Q2 2011	Q2 2013	Q2 2015	Q2 2016	June to August 2016	Q2 2011	Q2 2013	Q2 2015	Q2 2016	June to August 2016
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Low paying sectors	11.0	11.9	13.4	14.3	15.1	18.5	12.9	9.8	10.0	10.3
Retail	9.4	10.9	11.7	14.4	14.5	14.4	12.7	10.6	10.5	13.1
Restaurants	12.7	14.4	16.3	15.9	18.7	21.7	12.9	12.8	10.3	8.4
Estate management, security and cleaning services	8.2	8.8	9.7	10.5	12.0	18.4	14.7	7.1	8.8	9.2
Other low paying sectors	17.4	15.2	19.1	18.1	15.8	19.5	11.6	6.3	9.6	10.4
Other sectors	5.7	7.0	7.1	7.2	7.2	33.0	26.9	25.0	23.2	22.7
All sectors	7.2	8.5	9.0	9.2	9.5	26.7	21.1	18.3	17.2	17.0

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

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

4.38 There were views that as SMW had pushed up labour costs, enterprises might reduce the working hours of employees concerned to alleviate cost pressure. According to data from AEHS, there was little change in the median weekly working hours of lower-skilled full-time employees in LPS as a whole in May to June 2015 over a year earlier. However, certain LPS such as food processing and production, supermarkets and convenience stores, security services, laundry and dry cleaning services and fast food cafes, etc. saw more visible declines, at around 2.6 to 6.0 hours (Table 4.8). Between May to June 2011 and May to June 2015, the respective working hours of security services, laundry and dry cleaning services, and fast food cafes decreased by around 6 hours or some 10%, reflecting that these sectors to some extent controlled cost through adjusting the working hours in order to cope with the pressure arising from wage bill increase.

4.39 Although the implementation of SMW and its upratings had not brought about significant impact on overall working hours, the relevant data should be closely

monitored in the longer run, especially at times of economic downturn where the operating conditions of some sectors weaken, which might increase the pressure to adjust employees' working hours.

Table 4.8: Median weekly working hours analysed by sector: lower-skilled full-time employees

Sector	May to June 2011	May to June 2014	May to June 2015		
	Median working hours (Hours)	Median working hours (Hours)	Median working hours (Hours)	Year-on-year change (Hours)	Year-on-year rate of change (%)
(A) Low paying sectors	54.0	54.0	54.0	--	@
1. Retail	51.4	51.0	51.9	0.9	1.8
1.1 Supermarkets and convenience stores	54.0	54.8	51.0	-3.8	-6.9
1.2 Other retail stores	51.0	51.0	52.3	1.3	2.5
2. Restaurants	56.0	54.0	54.0	--	@
2.1 Chinese restaurants	60.0	60.0	60.0	--	@
2.2 Non-Chinese restaurants	54.0	54.0	54.0	--	@
2.3 Fast food cafes	54.0	54.0	48.0	-6.0	-11.1
2.4 Hong Kong style tea cafe	60.0	56.1	56.9	0.8	1.4
3. Estate management, security and cleaning services	57.0	54.0	54.0	--	@
3.1 Real estate maintenance management	66.0	60.0	63.5	3.5	5.8
3.2 Security services	66.0	63.5	59.7	-3.8	-6.0
3.3 Cleaning services	48.0	48.0	48.0	--	@
3.4 Membership organisations	54.0	48.0	48.0	--	@
4. Other low paying sectors	49.9	50.8	49.4	-1.4	-2.8
4.1 Elderly homes	54.0	54.0	54.0	--	@
4.2 Laundry and dry cleaning services	54.0	54.0	48.0	-6.0	-11.1
4.3 Hairdressing and other personal services	48.5	50.8	49.9	-0.9	-1.8
4.4 Local courier services	44.3	44.3	49.4	5.1	11.5
4.5 Food processing and production	49.0	50.8	48.2	-2.6	-5.1
(B) Other sectors	47.3	45.7	45.7	--	@
(C) All sectors	48.0	48.0	48.0	--	@

Notes: (--) Changes are between +/- 0.05 hour.

(@) 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

4.40 Since the implementation of SMW, the increase in wages of low-paid employees and the abundant job opportunities over the past few years had helped enhance the incentive to work and encouraged more people to enter or re-enter the labour market. Data from the General Household Survey (GHS) showed that the labour force expanded persistently over the past few years, growing by 1.5% per annum on average between the second quarter of 2010 and the second quarter of 2015. Of this, the increases in females and those aged 50 and above were more notable, with their respective labour force participation rates up visibly. By the second quarter of 2016, despite the moderate economic growth, the increases in labour force and labour force participation rate for the above groups were still higher than the overall figures (Table 4.9).

Table 4.9: Labour force and labour force participation rate in the second quarter of 2015 and the second quarter of 2016

	Labour force				Labour force participation rate			
	Q2 2015	Average annual rate of change between Q2 2010 and Q2 2015 (5 years)	Q2 2016		Q2 2015	Cumulative change between Q2 2010 and Q2 2015 (5 years)	Q2 2016	
	Number of persons	Percentage (%)	Number of persons	Year-on-year rate of change (%)	(%)	(Percentage point(s))	(%)	Year-on-year change (percentage point(s))
Gender								
Male	1 989 700	0.7	2 004 400	0.7	68.6	0.3	68.6	@
Female	1 910 800	2.3	1 938 800	1.5	54.8	2.7	55.0	0.2
Selected age group								
Aged 15 to 24	324 900	1.3	307 700	-5.3	40.1	5.4	39.8	-0.3
Aged 50 and above	1 185 600	5.4	1 249 600	5.4	42.7	3.6	43.6	0.9
Overall	3 900 500	1.5	3 943 200	1.1	61.1	1.5	61.2	0.1

Note: (@) Changes are between +/- 0.05%.

Source: General Household Survey, Census and Statistics Department.

4.41 Amid a largely stable labour market, the number of unemployment cases of Comprehensive Social Security Assistance declined successively, by around 14 200 cases cumulatively or almost 50% between April 2011 and September 2016. It could be seen that an SMW rate that was pitched at an appropriate level coupled with largely stable labour market conditions did not cause a large number of people to lose their jobs and hence live on social welfare.

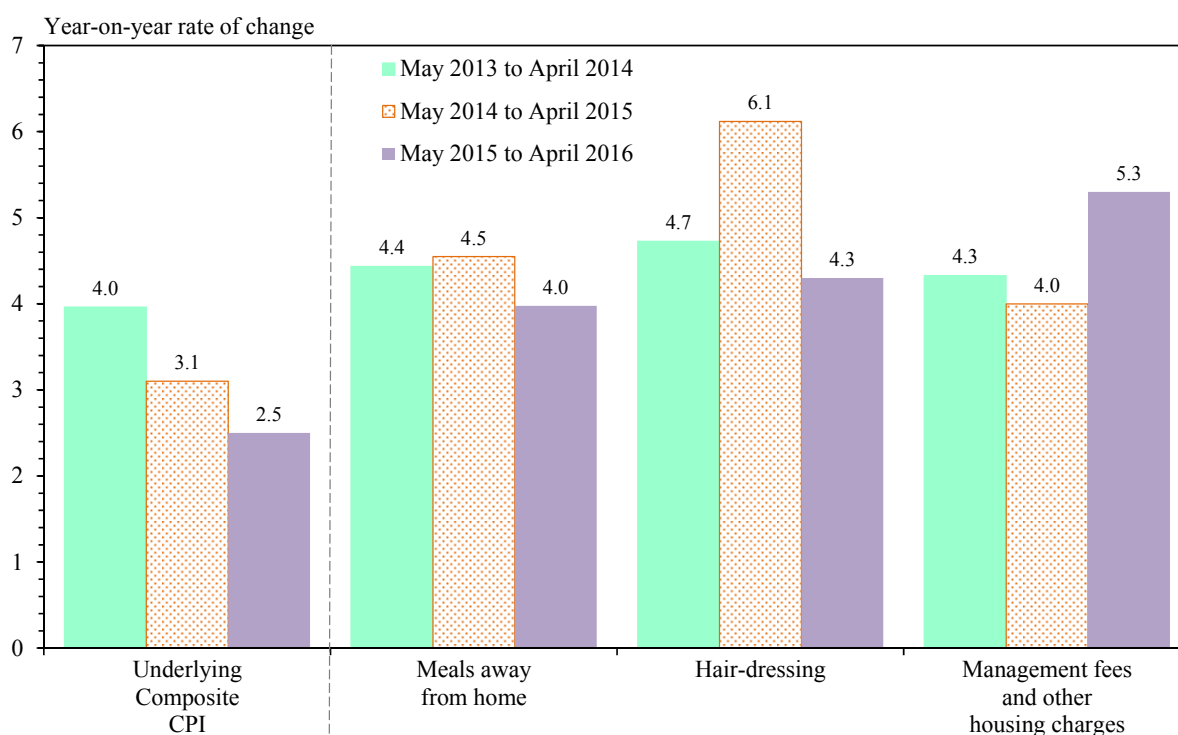
4.IV.5 Impact on the labour market (5): labour relations

4.42 Labour relations held largely stable since the implementation of SMW. Between May 2011 and September 2016, the Labour Department handled one labour dispute and 604 claim cases arising from SMW, representing 0.3% and 0.7% of the overall labour disputes and claim cases handled respectively over the period.

4.IV.6 Impact on inflation

4.43 After the second uprating of SMW in May 2015, the economy saw only modest growth, and the consumption market even started to slacken since the second half of 2015. This to a certain extent constrained the room for enterprises to raise prices. Average underlying consumer price inflation in the 12-month period from May 2015 to April 2016 was only 2.5%, indicating relatively moderate inflation pressure. It is nevertheless worth noting that although the uprating of SMW did not pose significant pressure on overall inflation, the rise in the prices of individual consumption items and services (such as management fees and other housing charges) which were more affected by staff costs was still relatively apparent (Figure 4.13).

Figure 4.13: Year-on-year rate of change in underlying Composite Consumer Price Index (CPI) during May 2013 to April 2016

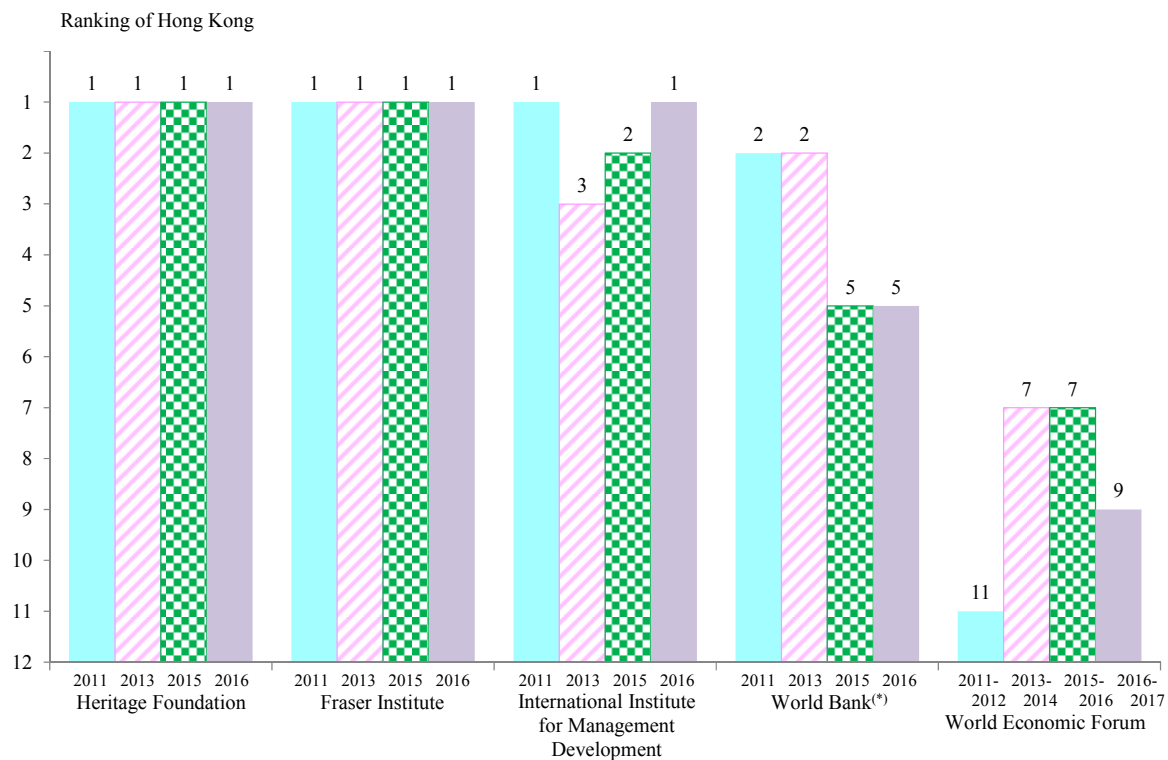


Source: Monthly Retail Price Survey, Census and Statistics Department.

4.IV.7 Impact on overall competitiveness

- 4.44 As SMW has been implemented for just five years or so, its exact impact on Hong Kong's overall competitiveness, productivity, labour costs, etc. in the medium to longer term would still warrant further monitoring. If enterprises fail to adopt mitigation strategies (such as increasing capital investment, improving production processes and enhancing staff efficiency, etc.) effectively to offset additional labour costs, uprating of SMW may in the long run affect their competitiveness.
- 4.45 The rankings in the global economic freedom and competitiveness indices compiled by various internationally recognised organisations showed that Hong Kong's rankings in many economic freedom and competitiveness indices remained high (Figure 4.14). Among them, Hong Kong continued to rank top in economic freedom by The Heritage Foundation and the Fraser Institute in 2016. As for overall competitiveness, according to the *World Competitiveness Yearbook* published by the Lausanne, Switzerland-based International Institute for Management Development, Hong Kong reclaimed the top rank globally, and also ranked high in the World Bank's *2016 Doing Business Report*. However, Hong Kong's ranking slipped down by two places in the World Economic Forum's latest *Global Competitiveness Report*. In terms of attracting foreign investment, Hong Kong still enjoyed an edge. According to the *World Investment Report 2016* of the United Nations Conference on Trade and Development, Hong Kong's inward direct investment totalled US\$175.0 billion in 2015, ranking 2nd in the world.

Figure 4.14 : Hong Kong’s global rankings of economic freedom and competitiveness ^(^) after the implementation of Statutory Minimum Wage



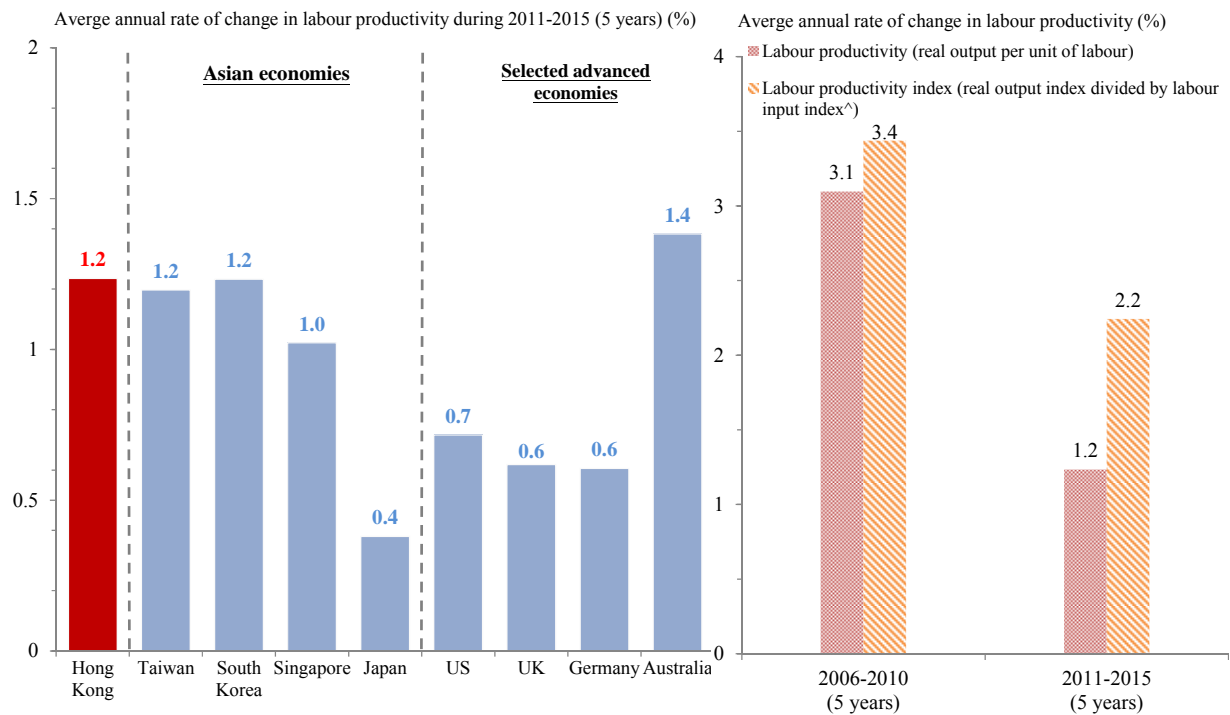
Notes: (^) Some organisations revised the previous years’ ranking. Information in the above diagram shows the revised rankings.

(*) The “2016 Doing Business Report” was published by the World Bank in October 2015.

Sources: Various ranking organisations.

4.46 Hong Kong’s labour productivity (i.e. the amount of real output produced by one unit of labour input) saw an average annual growth of 1.2% over the past five years after the implementation of SMW (i.e. during 2011 to 2015). Although the growth outpaced that of some advanced economies (such as Singapore and Japan) (Figure 4.15), it was much slower than the corresponding growth rate of 3.1% in the five-year period before the implementation of SMW (i.e. during 2006 to 2010). A similar observation was made by reference to the Labour Productivity Index compiled by C&SD when comparing the figures before and after the implementation of SMW.

Figure 4.15: Average annual rate of change in labour productivity^(*) in Hong Kong and selected economies



- Notes: (*) Labour productivity is measured by the real gross domestic product (GDP) per worker.
 (^) Labour input is measured by the man-hours worked, which is calculated as the product of the number of persons engaged and the average actual hours of work.
- Sources: Hong Kong – National Income Statistics, General Household Survey and Composite Employment Estimates, Census and Statistics Department.
 Other places – Real GDP and labour statistics from CEIC database.

4.47 As for Hong Kong's nominal unit labour cost (i.e. the average labour cost per unit of output), it grew by 4.5% per annum on average in the past five years (Figure 4.16), much faster than the increases seen in most of the selected economies. In view of this, changes in Hong Kong's long-term competitiveness should be closely monitored in future.

Figure 4.16: Average annual rate of change in nominal unit labour cost in Hong Kong and selected economies



Note: Statistics of South Korea covers the manufacturing sector only.

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

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

4.V Observations

4.48 Drawing from the various observations above, it could be seen that the positive impact of the implementation of SMW outweighed the negative ones, and the impact of the revised SMW rate in 2015 was relatively modest. Regarding the impact on employees, the uprating of SMW brought about a more notable improvement in the wages of lower-paid employees. This helped narrow down the wage differentials between the lower-paid and higher-paid employees. The number of employees earning the SMW rate also decreased visibly. This showed that amid the sustained tightness of the labour market, the implementation of SMW had not constrained the room for upward wage adjustment, and there were even signs of improvement in the remuneration structure and fringe benefits of some employees.

4.49 As for businesses, the implementation of SMW had 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. Amid the stable macroeconomic conditions over the past few years, the business growth of enterprises could largely absorb the additional labour cost

pressure brought about by SMW. However, the slowdown in inbound tourism since 2014 had more apparent impact on some LPS (such as the retail sector). The setback of businesses to a certain extent affected the ability of these sectors to absorb and pass on the costs, which undermined their profitability. SMEs were constrained by resources and had even smaller room for manoeuvre. Business sentiment had turned more cautious of late. The less favourable economic conditions would undoubtedly pose some challenge to enterprises in responding to the additional cost pressure from SMW.

- 4.50 Up till mid-2016, the local labour market held largely stable with the unemployment rate staying at a low level. Nonetheless, labour demand slackened almost across-the-board, and the unemployment rates of some sectors went up. The proportion of part-time employees in LPS rose further while the proportion of underemployed therein fell at the same time, suggesting that the majority of part-time employment status was voluntary in nature. Self-employment also continued to decline. As for working hours, the implementation of SMW and its upratings did not have significant impact on working hours as a whole, and the median weekly working hours of lower-skilled full-time employees of LPS as a whole in May to June 2015 did not register noticeable year-on-year change. Separately, the implementation of SMW helped enhance the incentive to work, and total labour force continued to increase, especially in respect of women and older persons.
- 4.51 The uprating of SMW in May 2015 had not posed significant pressure on overall inflation. As for competitiveness and business environment, up to 2016, Hong Kong continued to rank high in overall economic freedom and competitiveness by various international organisations, and remained competitive in attracting foreign investment. Hong Kong's performance in other quantifiable indicators of competitiveness such as labour productivity and unit labour cost fared less well though in the past few years after the implementation of SMW. It is necessary to continue closely monitoring how the implementation of SMW would affect Hong Kong's future competitiveness and long-term economic development. Indeed the actual impact of the implementation of SMW on different socio-economic aspects provided useful reference 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 relevant statistical data, MWC also conducted extensive consultation with various sectors of the community (including organisations representing employers and employees respectively) for views on the review of the SMW rate, and analysed and considered data and information from other researches and surveys. Below are the four main areas analysed and considered by MWC when reviewing the SMW rate:

- (a) **Array of Indicators:** To assess the impact of SMW, the relevant indicators covered the latest data reflecting socio-economic and employment conditions after the implementation of SMW and the revisions of the SMW rate in May 2013 and May 2015. 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 and its revisions in May 2013 and May 2015, 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 past reviews of the SMW rate. They did not only cover the essential considerations that MWC must take into account in discharging its function as stipulated in MWO, but also drew on the experience and considerations of other places in reviewing minimum wage rates. Figure 2.2 in Chapter 2 summarises the Array of Indicators. 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 faced with different external economic factors or when the domestic economy is in different economic cycles or growth paths, SMW can bring about very different impact.

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, thereby affecting the ability of the labour market to adjust during economic downturn. MWC had to closely monitor the changes in the labour market after the implementation of SMW and its upratings.

5.6 Indicators reflecting labour market conditions included:

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

(c) Competitiveness

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, thereby affecting Hong Kong's competitiveness, productivity, inflation and economic growth potential in the long run. Hence, competitiveness should be considered when monitoring the impact of SMW at both 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 hinges on the proportion of wage bills 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 various sectors would help 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, proportion of enterprises incurring a loss, 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 operating 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 in various sectors, etc. are indicators that could reflect the prevailing business sentiment and the business environment after the implementation of SMW and its rate adjustments.
- (iii) *Relative economic freedom and competitiveness of Hong Kong*: Examining the changes in Hong Kong's rankings in the indices of global economic freedom and competitiveness compiled by various international organisations could help

understand whether Hong Kong's perceived competitiveness had been affected after the implementation of SMW and its rate adjustments. 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 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 adjustments. This would help understand whether enterprises had made adjustments to their mode of operation to maintain competitiveness.
- (v) *Labour costs*: This 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 would facilitate more thorough understanding of the actual changes in labour costs after the implementation of SMW and its rate adjustments.

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, MWC made reference to the indicators below to indirectly examine the situation of social inclusion in a broad sense:

- (i) *Standard of living*: These included changes in the nominal and real employment earnings of employees and wage indices. These purported to monitor the changes in the earnings of low-paid workers after the implementation of SMW and its upratings 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 would 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 eventually be employed would depend on the overall labour market conditions and whether the individuals possess the skills required by enterprises. 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 adjustments 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 Chapter 3 and Chapter 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 recommended SMW 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 The macroeconomic environment has been broadly stable since the implementation of SMW, thereby cushioning the pressure induced by SMW on the economy, employment market, enterprises, etc. and benefiting low-paid employees. However, the effect brought about by SMW could be very different if the economic environment deteriorated abruptly. Taking into account the time gap between recommending the SMW rate and its implementation, in reviewing the SMW rate, MWC considered it necessary to fully consider the economic and labour market outlook and conduct scenario testing on 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 Hong Kong economy slackened distinctly. Apart from the subdued performance of external trade and inbound tourism, domestic demand, which had been the key impetus to Hong Kong's economic growth over the past few years, weakened visibly since the second half of 2015. Private consumption expenditure, which excluded visitor spending, recorded only a meagre real growth of 0.9% year-on-year in the first half of 2016. The growth rate was much lower than the average annual growth of 5.0% during the five-year period from 2011 to 2015. Meanwhile, overall investment spending extended its decline. These reflected that consumption and business sentiment turned more cautious amid the uncertain global economic outlook. The Government announced in August that the local economic growth forecast for 2016 as a whole was 1% to 2%.
- 5.15 Various downside risks to the external environment remained (see paragraph 3.4 of Chapter 3 for details). The global economy was expected to grow at a still modest pace in the short run. Although the performance of the United States and some Asian economies showed signs of improvement, the fragile economic recoveries in Europe and Japan coupled with the persistent geopolitical tensions in various parts of the world suggested that global trade flows would remain unsteady in the period ahead. As a small and open economy, Hong Kong could hardly stay unscathed.

- 5.16 Since the implementation of SMW, the labour market remained largely in full employment, with the unemployment rate staying at a relatively low level. However, as the consumption market weakened visibly as compared to the past, overall labour demand began to ease since 2015. Employment and vacancies of individual LPS (including the retail and restaurant sectors) both fell, signifying that some enterprises had ceased opening new positions or even started to reduce headcount. If the consumption market sustained its weakness and economic growth slowed further, more enterprises (especially the consumption-related LPS) might need to consider reducing headcount, scaling down the business, or even ceasing operation. How these might affect the labour market outlook was a cause for concern.
- 5.17 Overall inflationary pressure had been easing since 2011. Underlying consumer price inflation came down progressively from 5.3% in 2011 to 2.5% in 2015, and eased further to 2.4% in the first eight months of 2016. Looking ahead, for the rest of the year, given the generally mild global inflation, price pressures from both the internal and external fronts should remain muted in the short run, and the sub-trend economic growth should also contain the local cost pressure. Upside risk to inflation should be limited, and inflation would likely stay modest. In this environment, the room for enterprises to raise prices and pass on the costs would also be limited.
- 5.18 On the economic outlook for the remainder of 2016 and 2017, MWC was of the view that the economic environment at the time of implementing the next SMW rate would largely depend on the developments of the following factors:
- (a) local consumption market conditions and business sentiment;
 - (b) economic performance of major advanced economies and the Mainland as well as geopolitical developments;
 - (c) pace of interest rate normalisation in the United States and monetary policy developments in the major central banks; and
 - (d) developments in the aftermath of the United Kingdom's vote to leave the European Union.
- 5.19 In sum, Hong Kong's economic and employment prospects would remain clouded by the slowdown in domestic demand and various uncertainties in the external environment. MWC unanimously held the view that there was a need to analyse,

assess and consider the relevant data and views of stakeholders and members of the public in detail before MWC could make a recommendation on the next SMW rate.

5.II Views of Stakeholders and Members of the Public

5.20 As mentioned in Chapter 2, MWC conducted intensive and extensive consultation, including focused consultation meetings with trade unions, trade associations/professional institutes and employers of LPS to better understand the impact of the implementation of SMW and the two increases in the SMW rate on employers and employees of LPS; and consultation meetings with stakeholders and other public consultation activities to collect written and oral submissions concerning MWC's review of the SMW rate. The views of stakeholders and other members of the public were mainly concerned about the impact of the implementation of SMW and the upward adjustments as well as the review of the SMW rate. These views facilitated MWC to have a more holistic picture of the impact of SMW on society, economy and different sectors (in particular LPS), and provided important reference for MWC in formulating the impact assessment framework for the review of the SMW rate. The gist of these views is provided below.

5.II.1 Impact of Statutory Minimum Wage

(a) Impact on the economy

5.21 Some employers' associations, an association of SMEs and a think tank/policy research institute indicated that the economy had seen steady growth since the implementation of SMW. Owing to the increase in Mainland Individual Visit Scheme visitors to Hong Kong and buoyant local consumption during most of the period, the adverse impact of the implementation of SMW and its upratings on various sectors, enterprises and labour market had largely been mitigated. Besides, some employers' associations considered that many enterprises were still adapting to the uprating of the SMW rate in 2015. Its impact on various aspects including business operation, labour cost, labour market, inflation, the overall economy of Hong Kong, etc. had yet to fully surface.

5.22 Some employers' associations, employer representatives, a professional institute, an association of SMEs, a political party and other individual members of the public indicated that SMW notably raised the wages of grassroots workers and induced ripple

effects, resulting in the rise of operating cost. Enterprises needed to raise prices to offset part of the increase in labour costs, which in turn pushed up inflation.

5.23 Some trade unions, a labour policy concern group and other individual members of the public indicated that the increase in operating cost was mainly driven by rentals and price of raw materials, etc. and not by labour cost. Besides, a trade union indicated that since the implementation of SMW, there had not been a large number of business closures owing to increases in operating cost, and that business receipts of the retail and accommodation services and food services sectors all maintained their continual uptrend, suggesting that the implementation of SMW and the upward adjustments had not brought about the anticipated negative impact.

(b) Impact on the labour market

5.24 Some trade unions and labour policy concern groups indicated that the labour market had held largely stable since the implementation of SMW, with employment on a steady rise and the unemployment rate staying at a low level, and more females, middle-aged and older people joining the labour market, reflecting that SMW did not necessarily constitute an adverse impact on the employment market.

5.25 Some employers' associations, employer representatives, a political party and other individual members of the public pointed out that since the implementation of SMW brought closer or narrowed the wage differentials among employees at different ranks and among different sectors, some employees had switched to sectors with lighter duties, more pleasant work environment or more stable working hours. This made it difficult for those sectors with longer working hours or more strenuous duties or of obnoxious nature to attract new recruits and resulted in their recruitment difficulties, manpower shortage, succession gaps, etc. The implementation of SMW also caused enterprises in some sectors to offer higher wages so as to attract or retain employees.

5.26 Some employers' associations and employer representatives indicated that the manpower shortage also posed work pressure on serving employees. As a result, some employees were reluctant to shoulder more responsibilities and hence declined promotion and overtime work. Manpower shortage also resulted in decline in staff morale, employees' productivity, standard of service and quality of output, etc. An employers' association, a professional institute and an employer representative indicated that in order to deploy staff flexibly and tackle manpower shortage, some

enterprises employed more temporary and/or part-time employees and reduced staff training, leading to deterioration of service standard and manpower quality. An employers' association from the restaurant sector expressed that some enterprises had proactively improved employment terms and work environment (such as installing air-conditioning system in kitchens) to enhance the sector's attractiveness. Moreover, an employer representative from the hairdressing sector indicated that some enterprises cooperated with social enterprises or educational institutes to organise training courses to attract young people to join the sector.

5.27 Some trade unions, an employers' association and an employer representative held the view that the issues of long working hours, unpleasant work environment, relatively low wages, etc. had long existed in certain service sectors (such as cleaning services, restaurants and elderly homes). The implementation of SMW and the upward adjustments only brought those issues to the surface rather than being the main cause of manpower shortage in these sectors. Some trade unions and other individual members of the public indicated that in addition to wage level, employees also took into account other factors such as job satisfaction, employees' benefits, job nature, work environment, relationship with colleagues and supervisors, etc. during their job search. A trade union expressed that owing to manpower shortage, the workload of serving permanent and/or full-time employees in the sector had increased and it was thus more prevalent than in the past for enterprises to employ temporary and/or part-time employees during peak hours.

5.28 Some individual members of the public indicated that the implementation of SMW and its upratings had narrowed the gap between the entry salaries of grassroots workers and employees with higher educational attainment or even university graduates, thereby dampening the incentive of young people to pursue further studies and undermining upward social mobility, and hindering the development of our knowledge-based economy in the long run. An employers' association and an employer representative expressed that SMW had narrowed the wage differentials between non-skilled and skilled workers. Some serving skilled workers and young people had chosen to take up non-skilled jobs with comparable wages and lighter duties, resulting in loss of skilled workers and affecting skill transfer. An employer representative and a think tank/policy research institute indicated that SMW caused the apprenticeship system to gradually disappear. Since the implementation of SMW

and its upratings had narrowed the wage differentials between new recruits and experienced employees, enterprises preferred to hire experienced employees directly and were reluctant to provide training to employees so as to control cost, thereby affecting the training opportunities for young people and new recruits.

5.29 An employers' association, an association of SMEs, an employer representative, a think tank/policy research institute and other individual members of the public indicated that an across-the-board SMW rate, while providing wage protection to grassroots workers, reduced some employees' work motivation and deprived them of incentive to improve work performance and skills, thereby impeding the upgrading of human resources and leading to discontinuation of skills in the labour market.

5.30 Some employers' associations, an employer representative and a think tank/policy research institute pointed out that some employees worried that they might lose their entitlements to certain government subsidies or allowances as a result of further salary increase upon the uprating of SMW and thus switched to work as temporary workers and/or part-timers, and refused to work overtime or declined promotion, while some employees refused to work overtime owing to the increase in income and more stable earnings, thereby hindering the unleashing of labour force into the community.

5.31 An employers' association, a think tank/policy research institute and an employer representative indicated that owing to the rise in labour costs, some enterprises deployed technology and automated or electronic systems to reduce manpower requirement, leading to reduction in low-paid jobs and affecting the employment opportunities of grassroots workers. Furthermore, an employers' association and an employer representative pointed out that some industries scrapped, streamlined or outsourced part of their work procedures, resulting in reduction in job types and loss of professional skills.

(c) Competitiveness

5.32 *Knock-on effect on pay hierarchies and ripple effect:* Some employers' associations, a professional institute, SMEs associations and employer representatives indicated that the wages of most grassroots workers were above the SMW rate. The uprating of SMW had induced knock-on effect on pay hierarchies (knock-on effect). Apart from raising the wages of grassroots workers to meet the statutory requirement, enterprises also had to increase the wages of employees of other ranks to maintain reasonable pay

differentials among ranks and preserve staff morale. Owing to manpower shortage, even though enterprises had already offered wages above the SMW rate, they still faced recruitment difficulties and raised wages to compete with each other to retain and recruit staff. Some employers' associations and an employer representative indicated that the uprating of SMW had become an indicator of pay rise in the market. Employees earning wages above the SMW rate also expected to have comparable pay rise. Besides, some trade associations indicated that owing to ripple effect, enterprises that were not envisaged to be affected by SMW also had to raise wages to retain employees. All these led to increase in labour costs.

- 5.33 A think tank/policy research institute indicated that profit-maximising enterprises raising the wages of employees other than those grassroots workers was mainly caused by the favourable labour market conditions rather than by the increase in the SMW rate and its knock-on effect.
- 5.34 Some trade unions stated that with lower bargaining power, grassroots workers earning wages close to the SMW rate could only get a pay rise upon the uprating of SMW.
- 5.35 *Labour costs in relation to entitlements and benefits of employees:* Some employers' associations, employer representatives and a think tank/policy concern group 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, long service payment/severance payment, premium for employees' compensation insurance, etc. at the same time, which entailed significant pressures on labour costs. In the event of an economic downturn and large-scale layoff, enterprises might not be able to bear such additional expenses.
- 5.36 *Impact on SMEs:* Some employers' associations, an association of SMEs, a think tank/policy research institute and a political party indicated that the implementation of SMW and the upratings had brought about adverse impact on SMEs. As compared to large enterprises, SMEs found it more difficult to cope with the cost pressure brought about by the uprating of SMW. While large enterprises could adopt such measures as raising economic efficiency, automation, bulk purchase, etc. to cut cost, SMEs, as constrained by financial means and resources and with lower risk tolerance, could only respond by reducing staff and scaling down their businesses, making SMEs

difficult to compete with large enterprises and chain enterprises. Besides, some employers' associations indicated that with lower bargaining power, SMEs found it more difficult to pass on additional labour costs to consumers, thereby further undermining their operating capacities and competitiveness. An association of SMEs expressed that after the implementation of SMW, enterprises could no longer control labour costs by reducing staff wages. The business environment had become more challenging for SMEs.

- 5.37 *Impact on Individual Sectors:* An employers' association from the restaurant sector indicated that the situation of excessively low wages in the sector had vanished after the implementation of SMW, and both the share of overall staff costs in total operating expenses and the share of overall staff costs in business receipts of the restaurant sector had persistently increased. Knock-on effect induced by SMW coupled with ripple effect (such as increases in premium for employees' compensation insurance and management fee, etc.) led to increase in operating costs. Besides, with limited capital and venues, small and medium-sized restaurants could hardly follow the cost-cutting measures of large restaurants such as setting up central kitchen, automation, machine-assisted productions, etc., making it increasingly difficult for them to cut cost and compete with large restaurants. As a result, room for survival had been squeezed gradually for small and medium-sized restaurants while the market share of large-scale restaurants had increased. Some employers' associations and an employer representative from the restaurant sector expressed that due to manpower shortage, enterprises in the sector needed to raise wages, hire more temporary and/or part-time employees and reduce training, resulting in deterioration of service and food quality, thereby affecting the productivity of the restaurant sector and tarnishing Hong Kong's reputation as a food paradise.
- 5.38 An employers' association and an employer representative from cleaning services indicated that most enterprises in the sector passed on the additional labour costs entailed by the uprating of SMW to consumers. However, with the increase in service fee for cleaning, consumers demanded higher service quality from service providers, adding pressure on their operations. Besides, since the implementation of SMW narrowed the wage differentials of grassroots workers of different sectors, operators in cleaning services found it more difficult to attract new recruits to work in the sector, resulting in succession gap.

- 5.39 Some employers' associations and employer representatives from estate management and security services indicated that some customers were not willing to bear the additional wage bills entailed by the uprating of SMW. Operators could not pass on other relevant costs (such as premium for employees' compensation insurance, long service payment/severance payment, etc.) to customers. Enterprises had to bear the costs by reducing their profits, which added pressures on their operations. Besides, some employers' associations and some employer representatives from estate management and security services as well as incorporated owners indicated that the uprating of SMW had pushed up property management fees, adding burden on property owners. Some property owners (especially owners of single block private residential buildings) reduced the number of employees or their working hours.
- 5.40 Some employer representatives from beauty care and hairdressing services indicated that after the implementation of SMW and its upratings, enterprises only opted to hire experienced workers or temporary and/or part-time workers rather than inexperienced trainees with a view to controlling training expenses, thus depriving young people of the opportunities to join the sector through receiving training. The implementation of SMW increased grassroots workers' mobility and caused draining of junior workers (such as hair dressing assistant). Operators in the sector had to pay higher wages to retain and recruit workers.
- 5.41 An employer representative from food processing and production indicated that the implementation of SMW and its upratings caused manpower shortage in the sector. With experienced employees switching to jobs offering more pleasant and better working conditions, as well as the lack of new blood joining the sector, operators in the sector did not have sufficient experienced employees. This adversely affected the operation and development of enterprises.
- 5.42 Some employers' associations from the transport and logistics sector indicated that there was more severe staff turnover in the sector after the implementation of SMW and its upratings. Some elementary and skilled employees switched to non-skilled jobs with lighter duties and more pleasant work environment. Operators of the sector faced problems such as aging employees, difficulty in passing on job skills, etc. The business environment of the sector had become more difficult.

- 5.43 An employers' association from the retail sector indicated that the implementation of SMW and the upward adjustments induced knock-on effect, and thus enterprises had to bear additional wage bills. Overall staff costs and rentals constituted a significant share of the total operating expenses of the retail sector. With the local economy slackening, rentals of some high street shops went down but rentals of shops in shopping malls only adjusted downward slightly. Enterprises still needed to control costs to cope with the slowing economy. An employer representative from the sector expressed that with manpower shortage after the implementation of SMW, enterprises were not able to increase sales outlets, thus affecting their business development in the long run. A trade union held the view that ripple effect did not bring about significant impact on the retail sector.
- 5.44 *Business sentiment and service quality:* An association of SMEs and an employers' association 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. With the implementation of SMW and the upward adjustments, wage levels in other sectors also increased and operators of elderly homes found it more difficult to compete with other sectors in recruiting talents. Besides, the implementation of SMW had narrowed the wage differentials of employees at different ranks within the sector, reducing employees' work motivation and in turn affecting the service quality of elderly homes. Furthermore, wages and rental cost constituted a rather significant share of the total expenses of elderly homes. In particular, small and medium-sized elderly homes found it more difficult to afford the increased wages and high rentals. Many operators turned from profits to losses and some even closed down their businesses.
- 5.45 A think tank/policy research institute, an association of SMEs and an employer representative from the food processing and production sector indicated that an across-the-board SMW rate affected employees' work motivation, thus leading to deterioration of service quality and skill level. An employer representative from the retail sector pointed out that after the implementation of SMW, enterprises raised basic wages and adjusted downward other salary items (such as bonus) to balance total wage bills, thus reducing work motivation of some employees and affecting the service quality. Some employers' associations and an employer representative from

the restaurant sector indicated that the implementation of SMW and its upratings coupled with manpower shortage in the sector impaired service and food quality of the sector.

(d) Social Inclusion

5.46 *Work incentive:* Some trade unions and a labour policy concern group indicated that the implementation of SMW and its upratings boosted people's incentive to work. As a result, employment and labour force increased, while the number of unemployment cases of CSSA fell. Since the implementation of SMW in 2011, the overall labour market held stable and the unemployment rate remained at low levels. Wage improvement attracted more people (in particular females, the middle-aged and older people) to enter or re-enter the labour market.

5.47 *Standard of living:* Some trade unions, employers' associations, an incorporated owner, a political party and other individual members of the public held the view that the implementation of SMW ensured grassroots workers could receive a certain level of income and enjoy more stable living. Employees did not need to work overtime to earn a higher income and could choose to spend more time with their families, thereby improving their quality of life. Besides, some trade unions, labour policy concern groups, a think tank/policy research institute and other individual members of the public indicated that as rising price had eroded the purchasing power of wages, grassroots workers found it difficult to maintain their living and there had not been any real improvement in their standard of living. On the other hand, some employers' associations, a political party and other individual members of the public indicated that the upratings had led to increase in prices and cost of living, causing the living standard of many people (in particular retirees, the middle class and employees who did not benefit from SMW) to decline.

5.48 *Impact on vulnerable groups:* A labour policy concern group held the view that the implementation of SMW encouraged more females, middle-aged and older people to enter the labour market. Besides, after the implementation of SMW, hourly wages of employees with disabilities were generally raised. Yet, as some employers reduced the working hours of employees or even laid off employees, their monthly income might not be necessarily increased. The stakeholder concerned wished that after completing productivity assessment, employees with disabilities in need would be

subsidised with wage allowance to meet their living expenses. A trade union, an employers' association, an employer representative, a professional/employer association, a think tank/policy research institute and other 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 were inclined to engage employees with higher capabilities, hence undermining the employment opportunities of older people, females, unskilled workers and employees with disabilities. Some employers hired fewer inexperienced young people and offered them fewer internship opportunities, thus making it difficult for young people to accumulate work experience. An employers' association and an employer representative indicated that since wage levels of elementary occupations were comparable, more employees switched to work in sectors (such as security services) with more pleasant work environment and lighter duties, thereby affecting the employment opportunities of older people working in related occupations.

5.49 *Labour relations:* An employers' association and an employer representative held the view that the implementation of SMW coupled with manpower shortage led to increase in workload for some serving employees. Besides, some enterprises hired more temporary and/or part-time employees with higher hourly wages. These arrangements dampened employees' morale and affected the relationship between them. Some enterprises adopted measures such as reducing 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

5.50 Some employers' associations, employer representatives, SMEs associations, professional/employer associations, think tanks/policy research institutes, political parties and a labour policy concern group held the view that downside risks increased since 2015, with the uncertain global economic outlook, economic slowdown in the Mainland and the moderating local economy. With the drop of incoming visitors, the performance of the retail sector (in particular high-end retailers) was hit hard, and the performance of the restaurant sector, tourism and the related sectors turned weaker. Total exports of goods and exports of services also declined. Some enterprises were

cautious in their outlook and anticipated losses in their business operations. To reduce risk, these enterprises tried to minimise investment or strived to continue operating until the rental agreements expired or businesses could no longer stand. Hiring sentiments declined visibly. Some enterprises tackled staff turnover by internal redeployment, while some anticipated layoff or even business closure in the second half of the year. These stakeholders were of the view that the uprating of SMW would impose a heavy burden on enterprises (in particular SMEs). They suggested that when reviewing the SMW rate, MWC should consider prudently the challenging global and local economic conditions, the austere pressures faced by the business sector as well as the affordability of enterprises. They generally suggested that the SMW rate should be maintained at its current level of \$32.5 per hour.

5.51 A trade union held the view that the Hong Kong economy was only moderating rather than in contraction and enterprises should not be over-pessimistic. This trade union indicated that for the retail sector, sales of jewellery, valuable gifts, durable goods, etc., which had seen fast growth in the past few years, was only returning to a more healthy level upon the slump. A trade union also indicated that although the sales of high-end to middle-level products declined, with the change in spending pattern of the general public, the sales of middle to low-end products (including daily commodities) could still hold up or even increased slightly. Besides, a trade union expressed that in view of the slowing economy, the SMW rate should all the more be increased to protect the living of grassroots workers.

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

5.52 Some employers' associations pointed out that as the SMW rate was increased only in 2015, many enterprises were still adapting to the uprating. Its impact on enterprises, labour market, inflation and society had yet to fully surface. An employers' association suggested that a comprehensive impact assessment on the implementation of SMW had to be conducted. There was also a view that other than assessing the impact of SMW on the overall economy, MWC should also assess the risks to individual LPS and SMEs. A labour policy concern group was of the view that when reviewing the SMW rate, MWC inclined to adopt the more classical economic theory in its economic analysis, and suggested that MWC could make reference to different schools of economic theories. A think tank/policy research institute suggested that against the backdrop of deteriorating local economy, a large-scale social experiment

could be carried out by radically raising the SMW rate to over \$100 to allow all possible negative impact (such as a sharp rise in the unemployment rate, business closures, etc.) related to the implementation of SMW to surface all at once, so as to verify whether SMW should exist.

(c) Wage floor

5.53 Some trade unions, labour policy concern groups and a think tank/policy research institute 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 so that wage level could catch up with inflation and allow grassroots workers to meet their living expenses.

5.54 Some employers' associations, a professional institute and an association of SMEs 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. Besides, some employers' association and a think tank/policy research institute were of the view that with the implementation of SMW, the aim of forestalling excessively low wages had been achieved, and most enterprises employed workers with wages above the SMW rate. Hence employees' wages should be adjusted on their own based on supply and demand of the labour market. These stakeholders generally suggested that the SMW rate should be maintained at \$32.5 per hour.

(d) Standard of living

5.55 Some employers' associations, a professional institute, an employer representative, an association of SMEs and a mutual aid committee indicated that if the SMW rate was to increase again, enterprises would be more inclined to pass on the additional labour costs to consumers, which would exacerbate inflation and grassroots workers would not be benefited after all. They hence suggested maintaining the SMW rate at \$32.5 per hour.

5.56 Some trade unions, labour policy concern groups and a think tank/policy research institute indicated 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. Besides, the SMW rate should be adjusted in line with inflation and be

reviewed annually so as to avoid employees' purchasing power being eroded by inflation. At the same time, employers did not need to face a larger increase in wage bills every two years and it would be easier for the market to absorb its impact. When setting the SMW rate, impact of inflation on the time lag in implementing the revised SMW rate should also be taken into consideration. However, some employers' associations and a labour policy concern group held the view that the present arrangement of reviewing the SMW rate at least once in every two years was more suitable as it could accord protection to employees and at the same time provide sufficient time for enterprises to adapt and assess the SMW rate and its impact. Besides, some employers' associations indicated that the review of the SMW rate should be shelved temporarily.

5.57 Some trade unions held the view that the SMW rate should not be lower than the CSSA level so as to allow grassroots workers to meet the basic living expenses and to encourage employment. Some labour policy concern groups were supportive of the implementation of the Low-income Working Family Allowance Scheme as SMW could not meet the needs of all families with different number of family members. Some trade unions and labour policy concern groups held the view that the SMW rate should be raised to \$35 to \$45 per hour in order to meet the basic needs of employees and those of their families. These stakeholders indicated that since pay rise in the overall labour market was higher than that of the uprating of SMW, the upward adjustment of SMW was conceivably manageable for enterprises. Some trade unions and labour policy concern groups suggested that the SMW rate be raised to \$39 to \$40 per hour. They held the view that according to the reference information and data from MWC's review of the SMW rate, the proposed rates would have limited impact on wage bills of enterprises (including SMEs) and inflation, and should be manageable for enterprises. In addition, a trade union and a labour policy concern group recommended that the SMW rate should not be higher than \$35 per hour or should be maintained at its current level.

(e) Business environment

5.58 Some employers' associations, SMEs associations, a professional/employer association and a think tank/policy research institute pointed out that with limited financial means, resources and competitiveness, it was more difficult for SMEs to cope with the cost pressures arising from the uprating of SMW, or to pass on the

additional costs to consumers. As a result, SMW had greater impact on SMEs. The uprating of SMW would undermine the survival of SMEs further, and some enterprises might be closed down or relocated to other places with lower wage level. These stakeholders suggested that the SMW rate should be maintained at \$32.5 per hour. On the other hand, a think tank/policy research institute and a professional/employer association indicated that if the SMW rate was to increase, they found it acceptable to be raised to \$34 or not higher than \$35 per hour. An employer representative indicated that the upward adjustment of the SMW rate should not exceed inflation.

5.59 Some employers' associations, political parties and an employer representative 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.

5.60 Some employers' associations, think tanks/policy research institutes, an employer representative and a professional/employer association suggested that when reviewing the SMW rate, MWC should consider changes in the global financial markets, Hong Kong's overall economic development, business environment, labour market conditions, social atmosphere, affordability of enterprises (in particular SMEs), ripple effect induced by SMW as well as the impact of SMW on various aspects including human resources, inflation and livelihood, etc.

5.61 Some trade unions, a labour policy concern group and other individual members of the public held the view that the difficulties of doing business faced by enterprises were caused by many factors (such as increase in rentals), and such difficulties should not be attributed solely to the implementation of SMW and the upward adjustments. Besides, a trade union indicated that when faced with a slow-growing economy and rising operating costs, employers should not respond by only cutting staff costs (such as by reducing working hours and freezing salary); they should rather consider reducing other expenses (such as rentals) first.

(f) Property management fee

5.62 Some employer representatives from the estate management sector, incorporated owners and other individual members of the public held the view that SMW had resulted in a significant increase in property management fee. If the SMW rate were

to be adjusted upwards, property management fees would be pushed up further. Many property owners (especially owners of single block private residential buildings) would not be able to afford the increase. When reviewing the SMW rate, MWC should consider the affordability of households and business operators and maintain the SMW rate at \$32.5 per hour. Some incorporated owners indicated that the uprating of SMW was not a must, and wage level should adjust by itself based on the supply and demand in the market.

(g) Proposed indicators

- 5.63 A labour policy concern group 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 family member, so as to ensure that the earnings of employees were sufficient to support their families. Besides, some labour policy concern groups indicated that adjustment of the SMW rate should make reference to the findings on basic needs from surveys, on the premise that there would be standard working hours (eight hours of work per day) so that employees would not need to work for long hours to meet their living expenses.
- 5.64 A trade union and a think tank/policy research institute indicated that the annual rate of increase in the SMW rate should be higher than the overall employees' wage growth. Besides, a trade union and a labour policy concern group proposed that reference be made to the annual pay adjustment of civil servants in the lower salary band.
- 5.65 A political party suggested that MWC should include productivity factor in the Array of Indicators so as to allow wage level to adequately reflect the value added as contributed by grassroots workers to the overall economy. Besides, a trade union and a labour policy concern group suggested that in order to help assess the impact of SMW on grassroots workers, indicators on impact on standard of living and impact on vulnerable groups should be added.
- 5.66 Some trade unions and a labour policy concern group suggested that when reviewing the SMW rate, reference should be made to median wage. A trade union indicated that the SMW rate should be set at 60% of the median hourly wage of the implementation year of the newly revised SMW rate, or the SMW rate should cover

no fewer than 15% of all employees. Besides, there were suggestions of adopting the 10th percentile of hourly wage as the SMW rate, or reference should be made to the median hourly wage of elementary workers as the starting point of setting the SMW rate.

5.67 A trade union and a labour policy concern group indicated that when setting the SMW rate, consideration should also be given to the positive impact of the uprating of SMW on the community and on improving the livelihood of grassroots workers (such as sharing the fruits of economic prosperity with workers, narrowing of income disparity, promotion of social harmony, etc.) and should not be tilted to the possible impact of SMW on the business environment.

5.68 A trade union and other individual members of the public indicated that the SMW rate should be indexed to the consumer price index or local economic growth. An employers' association indicated that MWC should gradually establish a more comprehensive, prudent and objective assessment mechanism. A trade union, a think tank/policy research institute and other individual members of the public expressed that a more accurate, scientific, reasonable and highly feasible reference basis or review formula should be established in the long run. Besides, reference should be made to the experience of the implementation of SMW in the Mainland and other places.

(h) Views of individual members of the public

5.69 As regards views of individual members of the public, some held the view that with the increase in prices, it was difficult for grassroots workers to cope with their living expenses. The SMW rate should be adjusted upwards so that grassroots workers could maintain a reasonable standard of living or enjoy real improvement in their livelihood. They suggested that the SMW rate should be raised to the range of \$34.5 to \$50 per hour. On the other hand, some individual members of the public indicated that the uprating of SMW would push up inflation, leading to the vicious cycle of wage-price spiral and lowering the living standard of citizens. Some individual members of the public indicated that in view of Hong Kong's slowing economy and uncertain economic outlook, the current SMW rate at \$32.5 per hour should be maintained or even adjusted downwards. As regards the SMW review cycle, some 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 impact of SMW could be reflected by changes in statistical figures. Hence, in reviewing the SMW rate, apart from drawing reference to the experience of the past reviews of the SMW rate and the views collected during consultation, MWC also took into account other relevant considerations that could not be fully quantified:

- (a) **Enhancing employees' quality of life:** Benefiting from the uprating of SMW, employees could enjoy pay rises which would in turn increase their consumption power and improve their quality of life;
- (b) **Enhancing work incentive:** Wage increases induced by the implementation of SMW and the upward adjustments, coupled with the generally 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 lower-skilled workers and those with less working experience:** Although SMW provided wage protection to the lower-skilled or lower-productivity employees (such as older people, the less-educated, people with disabilities, etc.), in the face of higher labour costs, employers might however tend to hire employees with higher capabilities, thereby undermining the employment opportunities of these people. Some employers might also hire fewer inexperienced young people and offer them fewer training and internship opportunities, making it difficult for young people to accumulate work experience;
- (d) **Impact on wage differentials across sectors or positions:** With SMW applying across-the-board, some grassroots workers could choose to work in different sectors, occupations, districts and/or enterprises while still making a comparable income. This would however aggravate staff turnover in certain sectors. To some extent, the enterprises concerned had to offer higher wage rates to retain or

- attract talents, thereby further pushing up labour costs and 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 were to be raised to an excessively high level, SMW would undermine the flexibility of different sectors and enterprises to respond to changes in their operating environment. Preserving some room for the market's wage adjustment would be conducive to the sustainable development of all sectors;
 - (f) **Impact on social harmony:** The implementation of SMW and the upward adjustments enabled low-income employees to share the fruits of economic development and thus helped promote social harmony. Nevertheless, as grassroots workers, enterprises and other people (including those not directly benefiting from SMW) held different views on the SMW rate, it would take time to narrow this divergence;
 - (g) **Additional costs induced by wage increase:** The implementation of SMW and the upward adjustments had additional cost implications on business risks, premium for employees' compensation insurance, long service payment, 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 the upward adjustments. Nevertheless, this might reduce the incentive of some employees to improve their performance or take up extra workload, especially in times of labour shortage, thereby affecting service quality. Moreover, enterprises that failed to pass on the SMW-induced additional costs to consumers might have to reduce the quality of their products or services; and
 - (i) **Other impact of SMW yet to fully emerge:** The long-term impact of SMW for instance, impact on profitability and long-term operating strategies of enterprises, impact on Hong Kong's competitiveness, labour productivity and 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 impact on employees, businesses, labour market and economy as a whole. After considering the past experience of reviewing the SMW rate, relevant socio-economic indicators and views of stakeholders and members of the public, and drawing reference from the framework of impact assessment of MWC in the past, MWC set different SMW test levels and economic scenario assumptions to analyse the additional wage bills induced by different SMW test levels, and their possible impact on various aspects including employees, businesses, unemployment rate and inflation.
- 5.72 MWC had no pre-conceived stance on the adjustment direction of the SMW rate. After considering the views of stakeholders and other members of the public, examining 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, MWC was of the view that a downward adjustment of the SMW rate was not appropriate in the current review. Nevertheless, this did not preclude the possibility that MWC might consider recommending a downward adjustment of the SMW rate in future, as and when supported by sufficient data or information.
- 5.73 Based on the above considerations and drawing reference from the past experience of MWC in conducting impact assessment, MWC decided to set the SMW test levels from an hourly wage of \$32.5 to \$40.0 at \$0.5 per interval (16 test levels in total) in conducting the impact assessment. Setting different SMW test levels to conduct impact assessment was to facilitate MWC to make objective and prudent judgment while striking a balance among various objectives and needs. It did not suggest MWC had any pre-established stance on whether and to what extent the SMW rate should be adjusted.
- 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 pay and meal break pay, if applicable) might also rise after the SMW rate adjustment. Some enterprises might need to offer pay rises to employees who were already earning

wages above the SMW rate because of knock-on effect in order to prevent them from switching to other sectors offering higher wages, more comfortable work environment or more stable working hours. As observed from the experience since the implementation of SMW as well as the findings of the two thematic studies on knock-on effect in the retail and restaurant sectors⁽¹⁾ and the Annual Earnings and Hours Survey (AEHS), it could be seen that the impact of knock-on effect induced by the implementation of the initial SMW rate was very pronounced, while the corresponding impact of the two subsequent increases in the SMW rate was relatively mild. As such, it could be deduced that the greater the magnitude of the uprating of SMW, the greater the knock-on effect that might be induced. In the light of the above, with reference to the views of stakeholders and other members of the public collected during consultation, MWC found it necessary for the current review to continue to consider the additional wage bill arising from knock-on effect.

- 5.75 In the current review, MWC examined comprehensively the actual wage distribution of employees in different sectors from AEHS over the past few years and analysed thoroughly the magnitude of annual pay rise of lower-paid employees in order to review in detail the estimated additional wage bills induced by the past two increases in the SMW rate.
- 5.76 The findings of the review revealed that owing to the time gap between the recommended SMW rate by MWC and its implementation, the wages of some lower-paid employees had been raised to a higher level before the implementation of the recommended SMW rate, even above the revised SMW rate. The “additional wage bill required to comply with statutory requirement” (see [Appendix IV](#)) was therefore less than the original estimates. The “knock-on effect” induced by the past two increases in the SMW rate was however greater than that envisaged by MWC at the time of its recommendations. On the whole, at the overall macroeconomic level, there was no notable divergence between the additional wage bills estimated during the past two reviews of the SMW rate and the findings of the review conducted based on actual data⁽²⁾.

(1) These 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.

(2) The results of the review showed that based on actual data, when the SMW rate was increased to \$30.0 in May 2013, the additional wage bill involved was about 0.24% of the total wage bill, not far from the estimate by the first-term MWC of about 0.31%. When the SMW rate was increased to \$32.5 in May 2015, the

- 5.77 Summing up its observations on the socio-economic and employment conditions after the increases in the SMW rate (Chapter 4) and the findings of the review conducted based on actual data, MWC enhanced the assessment on additional wage bills faced by enterprises to estimate the proportion of employees involved and the increase in additional wage bills with knock-on effect taken into account under different economic scenario assumptions, and on that basis estimated other impact on enterprises and the overall economy (such as the unemployment rate and inflation).
- 5.78 In view of the time gap mentioned above, MWC drew reference from the past experience of SMW rate reviews and conducted scenario testing on the economic conditions in the first half of 2017. After iterative discussions, it was considered appropriate to conduct stress tests under four economic scenarios to assess the potential impact of different SMW test levels should they be implemented in the first half of 2017 under different economic environments. Table 5.1 sets out these four economic scenario assumptions.

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

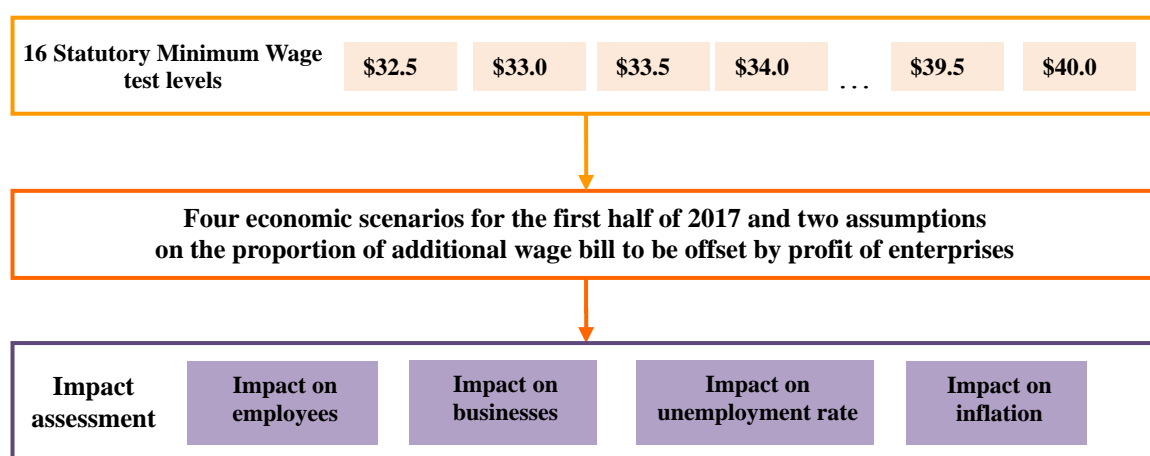
Economic Scenario	Assumption on real year-on-year economic growth for the first half of 2017
1	+2%
2	+1%
3	0%
4	-2%

- 5.79 In setting different economic scenarios, MWC considered that downside risks to the Hong Kong economy might increase and thus included economic 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 the vastly different impact that different SMW test levels might bring about under different economic environments.
- 5.80 Apart from the above, MWC also adopted two assumptions on the proportion of additional wage bill to be offset by profit (viz. by assuming that the enterprises offset

additional wage bill involved was about 0.13% of the total wage bill, while the estimate by the second-term MWC was about 0.18%.

the additional wage bill in half or in full respectively) so as to assess the impact of SMW rate adjustment on corporate profits. The framework of impact assessment covered 16 different SMW test levels, 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 5.1 summarises the framework of impact assessment.

Figure 5.1: Framework of impact assessment



5.81 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 detailed in [Appendix IV](#). The impact assessment results for the recommended SMW rate are analysed in detail in Chapter 6.

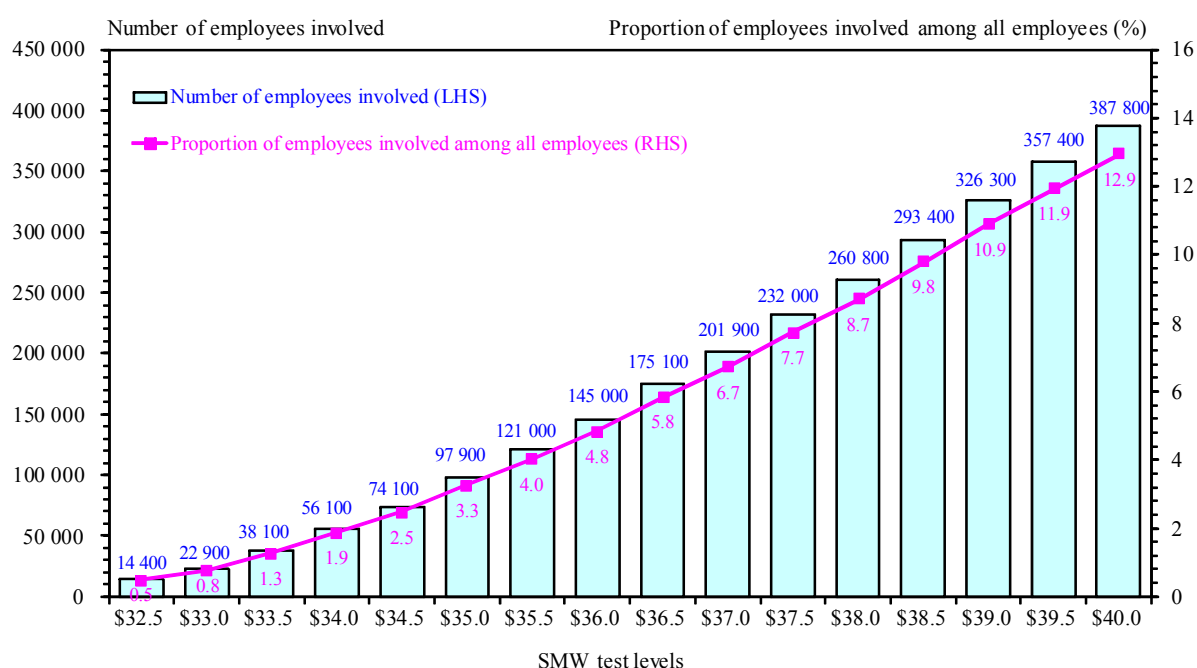
5.IV.2 Impact assessment results under different Statutory Minimum Wage test levels

(a) Impact on employees

5.82 When assessing the impact of SMW on employees, MWC made reference to the wage distribution data of 2015 AEHS and various wage data from the Census and Statistics Department, and crudely estimated the number and proportion of employees with hourly wage below the SMW test level (i.e. the number of employees involved) in the first half of 2017 before the implementation of the recommended SMW rate under different economic scenarios and wage growth conditions. Specifically, at the SMW test levels of \$32.5 and \$40.0 under economic scenario 1, the respective numbers of employees involved were estimated to be 14 400 and 387 800, representing 0.5% and

12.9% of all employees in Hong Kong respectively (Figure 5.2). It is noteworthy that under different economic scenarios, the estimated number of employees involved would be different. For example, in times of more favourable economic conditions and buoyant labour market, employees would generally enjoy larger wage increases and hence the estimated number of employees involved under different SMW test levels would be relatively smaller, and vice versa.

Figure 5.2: Estimated number and proportion of employees involved under different Statutory Minimum Wage (SMW) test levels and economic scenario 1^(^)



Notes: (^) Employees involved only included those with an hourly wage of \$32.5 when the SMW test level is at \$32.5. As for other test levels, employees involved referred to those with an hourly wage below the respective level. Details are in [Appendix IV](#).
“LHS” refers to the left hand side and “RHS” refers to the right hand side.

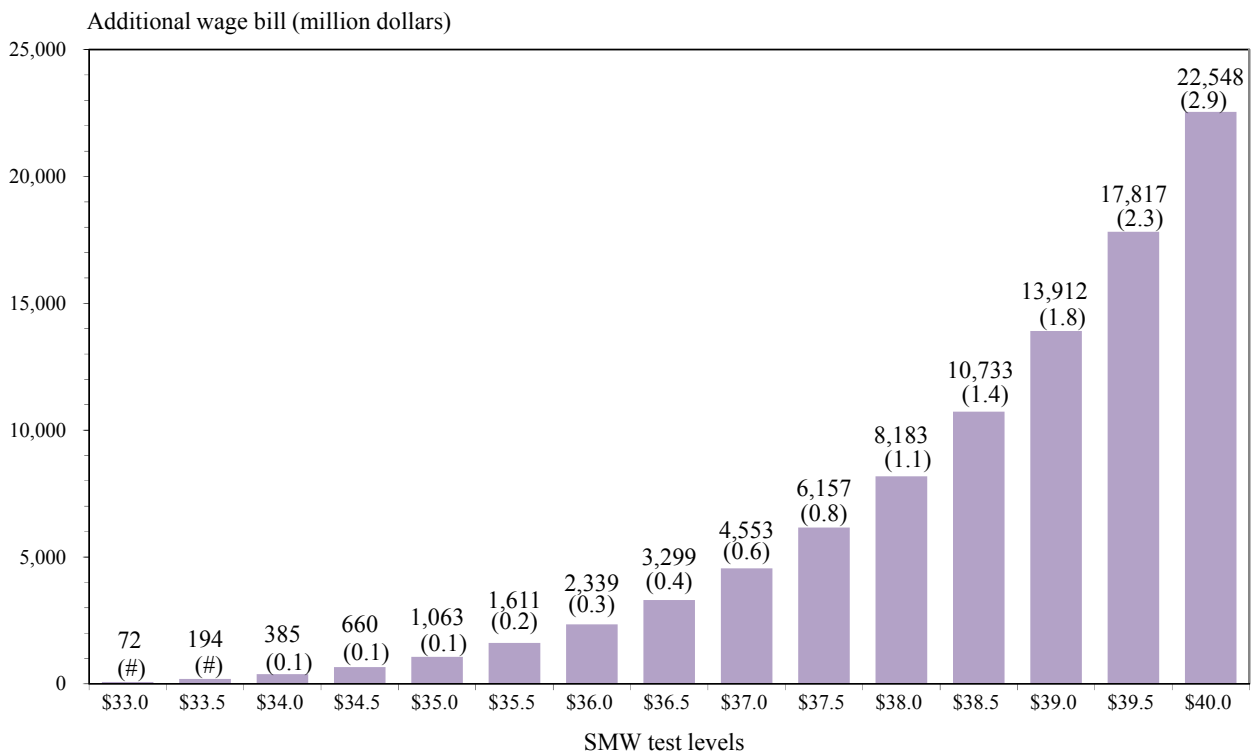
Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey and different wage data.

(b) Impact on businesses

5.83 MWC estimated the total additional wage bills under different SMW test levels based on the enhanced methodology, including the following three components: (i) the additional amount payable by enterprises for raising the hourly wages of all employees involved to the SMW test levels to meet the legal requirement (“additional wage bill required to comply with the statutory requirement”); (ii) the additional wage bill relating to rest day pay and meal break pay (for employees who are granted these payments according to their employment contract or agreement) for employees

involved; and (iii) the additional wage bill induced by the impact of knock-on effect. Figure 5.3 shows the estimated annual additional wage bills under different SMW test levels and economic scenario 1. For instance, at the SMW test levels of \$33.0 and \$40.0 under economic scenario 1, the estimated annual additional wage bills would range from \$72 million to \$22.548 billion, representing less than 0.1% and 2.9% of the total wage bill respectively. It should be emphasised that due to data limitations, the estimated annual additional wage bills did not include all the other additional labour costs (such as premium for employees' compensation insurance, etc.) arising from the uprating of SMW. Besides, it is noteworthy that since it was assumed that the paces of economic and wage growth were relatively slower under other economic scenarios, the estimated number of employees involved would be larger and the corresponding estimated annual additional wage bill would also be larger.

Figure 5.3: Estimated annual additional wage bills under different Statutory Minimum Wage (SMW) test levels and economic scenario 1



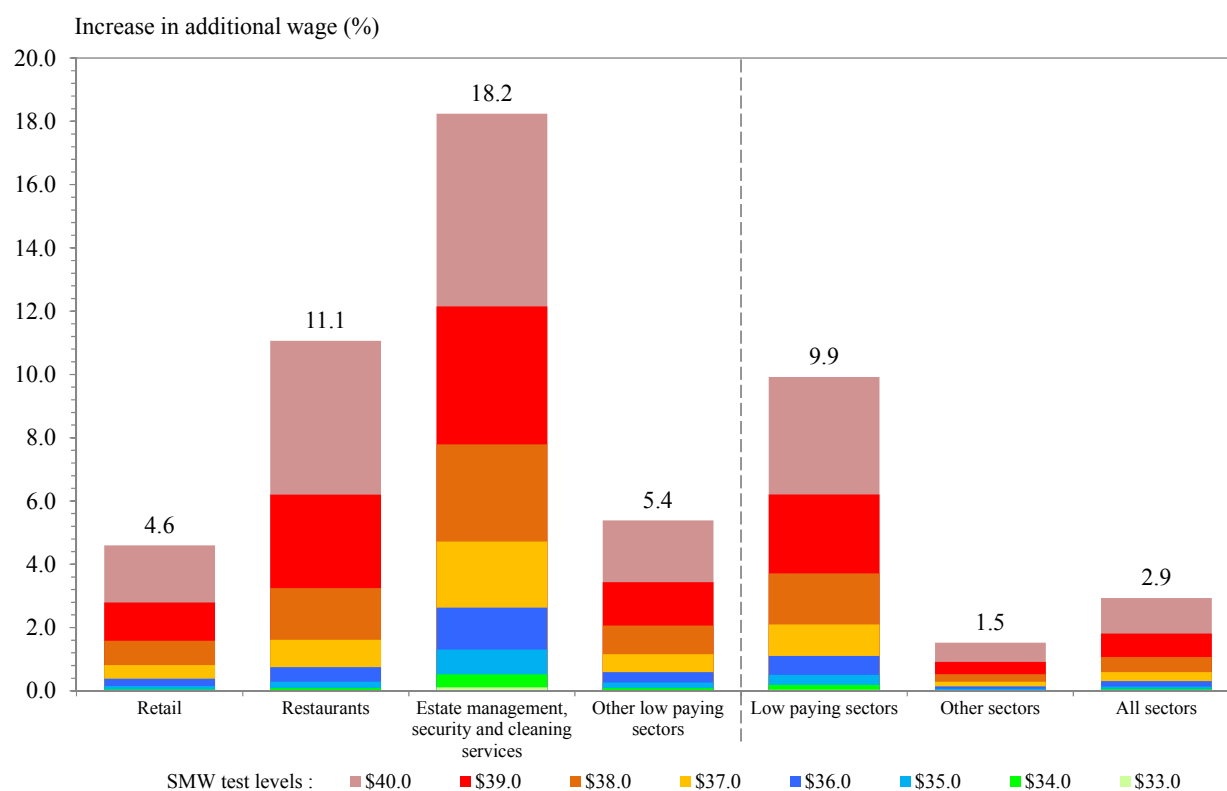
Notes: Figures shown in the diagram are the annual additional wage bills. Details are in [Appendix IV](#).
 Figures in bracket shown the additional wage bill in proportion of total wage bill.

(#) Less than 0.05%.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey and the review results on additional wage bills.

5.84 As different sectors had different modes of operation, cost structure and profitability, the impact of the SMW rate varied with the business cycles of the sectors and the labour supply and demand conditions therein. For instance, with more low-paid employees in estate management, security and cleaning services, the increase in additional wage bill in the sector as a whole resulting from the uprating of SMW ranged from 0.1% (at the SMW test level of \$33.0) to 18.2% (at the SMW test level of \$40.0), higher than those in other sectors. The estimated increase in additional wage bills analysed by sector under different SMW test levels and economic scenario 1 is shown in Figure 5.4.

Figure 5.4: Estimated increase in additional wage bill analysed by sector under different Statutory Minimum Wage (SMW) test levels and economic scenario 1



Note: Figures shown in the diagram are the estimated increase in additional wage bill at the SMW test level of \$40.0.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey and the review results on additional wage bills.

5.85 Besides, MWC analysed the additional wage bills induced by different SMW test levels and the changes in profitability of enterprises and of sectors as a whole, and conducted stress tests to assess the affordability of relevant sectors 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 and overall profit analysed by sector

under different SMW test levels and economic scenario 1 based on the above two assumptions is set out in Table 5.2 and Table 5.3. Figure 5.5 and Figure 5.6 show the number of enterprises turning from profits to losses and the estimated number of employees in these enterprises respectively under different SMW test levels and economic scenario 1 on the basis of the two above-mentioned assumptions.

Table 5.2: Estimated change in overall profit ratio ^(^) analysed by sector under different Statutory Minimum Wage (SMW) test levels and economic scenario 1

	Retail	Restaurants	Estate management, security and cleaning services	Other low paying sectors	Other sectors
Overall profit ratio (2014)	8.0%	5.1%	6.3%	9.4%	19.4%
SMW test level	Change in overall profit ratio (percentage point)				
\$33.0	#	#	# to -0.1	#	#
\$33.5	#	#	-0.1 to -0.2	#	#
\$34.0	#	#	-0.2 to -0.3	#	#
\$34.5	#	#	-0.2 to -0.5	#	#
\$35.0	#	# to -0.1	-0.4 to -0.7	# to -0.1	#
\$35.5	#	-0.1	-0.5 to -1.1	-0.1	#
\$36.0	#	-0.1 to -0.2	-0.7 to -1.4	-0.1 to -0.2	#
\$36.5	#	-0.2 to -0.3	-1.0 to -2.0	-0.1 to -0.2	#
\$37.0	# to -0.1	-0.2 to -0.5	-1.3 to -2.6	-0.1 to -0.3	#
\$37.5	# to -0.1	-0.3 to -0.7	-1.7 to -3.3	-0.2 to -0.4	#
\$38.0	-0.1	-0.5 to -0.9	-2.1 to -4.3	-0.3 to -0.5	# to -0.1
\$38.5	-0.1 to -0.2	-0.6 to -1.3	-2.7 to -5.3	-0.3 to -0.7	# to -0.1
\$39.0	-0.1 to -0.2	-0.9 to -1.8	-3.3 to -6.6	-0.4 to -0.9	# to -0.1
\$39.5	-0.1 to -0.3	-1.2 to -2.4	-4.1 to -8.2	-0.5 to -1.1	-0.1
\$40.0	-0.2 to -0.4	-1.6 to -3.1	-5.0 to -10.0	-0.7 to -1.4	-0.1

Notes: (^) Only including enterprises with employees.

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. Details are in [Appendix IV](#).

Between 0 and -0.05.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, 2014 Annual Survey of Economic Activities and the review results on additional wage bills.

Table 5.3: Estimated change in overall profit ^(^) analysed by sector under different Statutory Minimum Wage (SMW) test levels and economic scenario 1

	Retail	Restaurants	Estate management, security and cleaning services	Other low paying sectors	Other sectors
Overall profit ratio (2014)	8.0%	5.1%	6.3%	9.4%	19.4%
SMW test level	Change in overall profit (%)				
\$33.0	#	#	-0.5 to -1.0	#	#
\$33.5	#	-0.1 to -0.2	-1.3 to -2.7	-0.1	#
\$34.0	#	-0.2 to -0.5	-2.4 to -4.9	-0.1 to -0.2	#
\$34.5	# to -0.1	-0.5 to -0.9	-3.9 to -7.7	-0.2 to -0.4	#
\$35.0	-0.1	-0.8 to -1.6	-5.8 to -11.7	-0.4 to -0.7	#
\$35.5	-0.1 to -0.2	-1.3 to -2.7	-8.3 to -16.6	-0.6 to -1.1	# to -0.1
\$36.0	-0.2 to -0.4	-2.1 to -4.2	-11.4 to -22.9	-0.8 to -1.6	# to -0.1
\$36.5	-0.3 to -0.6	-3.1 to -6.2	-15.5 to -30.9	-1.2 to -2.3	-0.1
\$37.0	-0.4 to -0.8	-4.5 to -9.0	-20.5 to -40.9	-1.6 to -3.1	-0.1
\$37.5	-0.6 to -1.2	-6.5 to -12.9	-26.5 to -52.9	-2.1 to -4.2	-0.1 to -0.2
\$38.0	-0.8 to -1.6	-9.1 to -18.1	-33.6 to -67.3	-2.8 to -5.5	-0.1 to -0.3
\$38.5	-1.1 to -2.1	-12.6 to -25.2	-42.3 to -84.5	-3.6 to -7.2	-0.2 to -0.3
\$39.0	-1.4 to -2.8	-17.3 to -34.6	-52.5 to -105.0	-4.6 to -9.2	-0.2 to -0.4
\$39.5	-1.8 to -3.6	-23.3 to -46.5	-64.7 to -129.4	-5.8 to -11.6	-0.3 to -0.6
\$40.0	-2.3 to -4.6	-30.9 to -61.7	-79.0 to -158.1	-7.2 to -14.4	-0.4 to -0.7

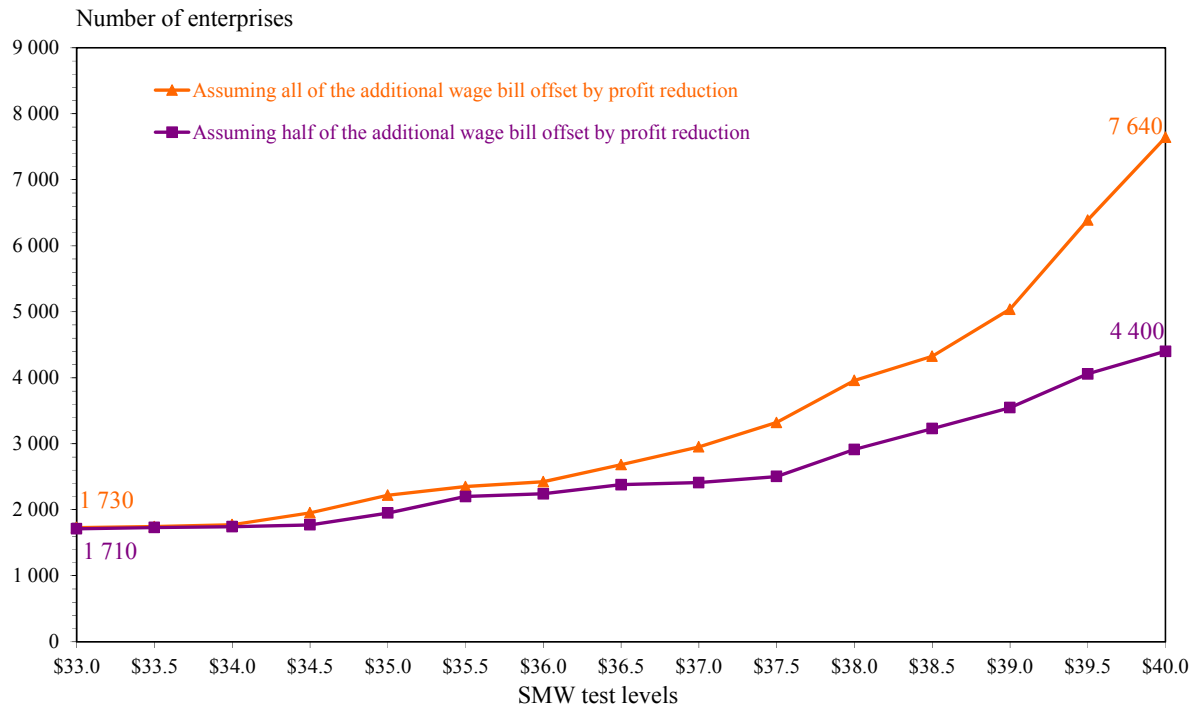
Notes: (^) Only including enterprises with employees.

The range of the changes in overall profit was estimated based on the assumptions that enterprises offset the additional wage bills in half or in full by profit. Details are in [Appendix IV](#).

Between 0 and -0.05.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, 2014 Annual Survey of Economic Activities and the review results on additional wage bills.

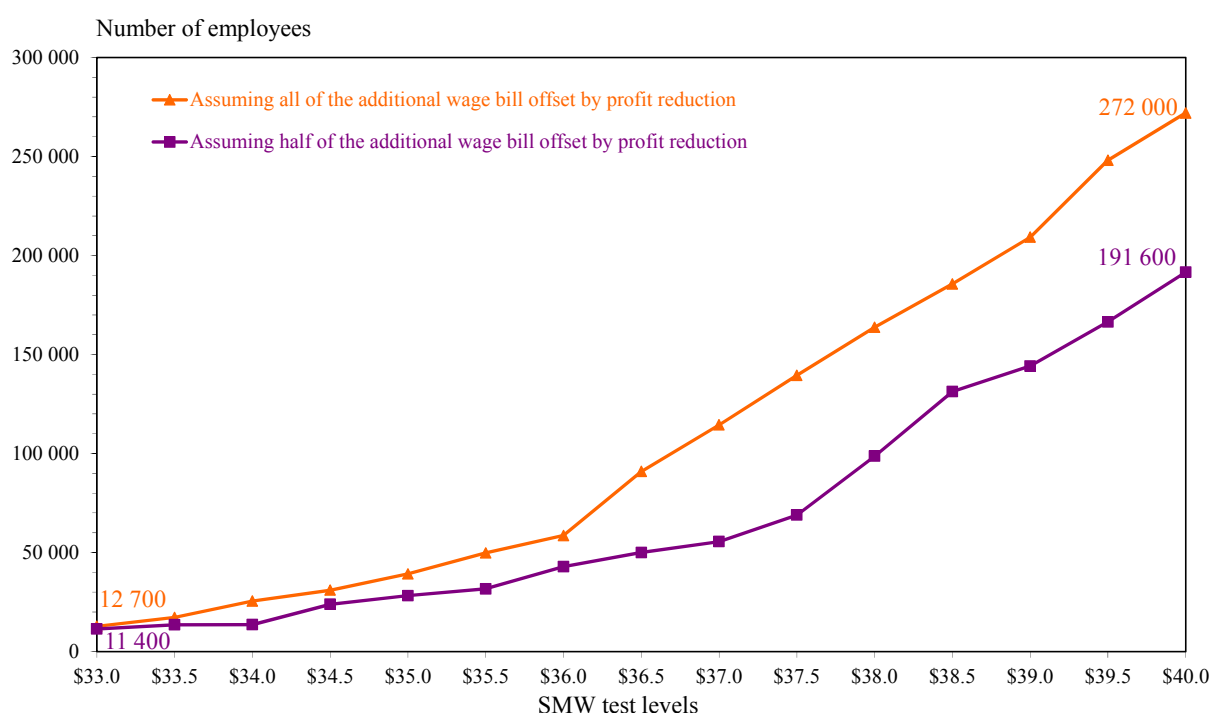
Figure 5.5: Estimated number of enterprises ^(^) turning from profits to losses under different Statutory Minimum Wage (SMW) test levels and economic scenario 1



Notes: (^) Only including enterprises with employees. Not including those enterprises without business receipts and local representative offices of overseas companies.
 The above results were estimated based on the assumptions that enterprises offset the additional wage bills in half or in full by profit. Figures shown in the diagrams are the assessment results at the SMW test levels of \$33.0 and \$40.0. Details are in **Appendix IV**.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, 2014 Annual Survey of Economic Activities and the review results on additional wage bills.

Figure 5.6: Estimated number of employees in enterprises^(^) turning from profits to losses under different Statutory Minimum Wage (SMW) test levels and economic scenario 1



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

The above results were estimated based on the assumptions that enterprises offset the additional wage bills in half or in full by profit. Figures shown in the diagrams are the assessment results at the SMW test levels of \$33.0 and \$40.0. Details are in [Appendix IV](#).

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, 2014 Annual Survey of Economic Activities and the review results on additional wage bills.

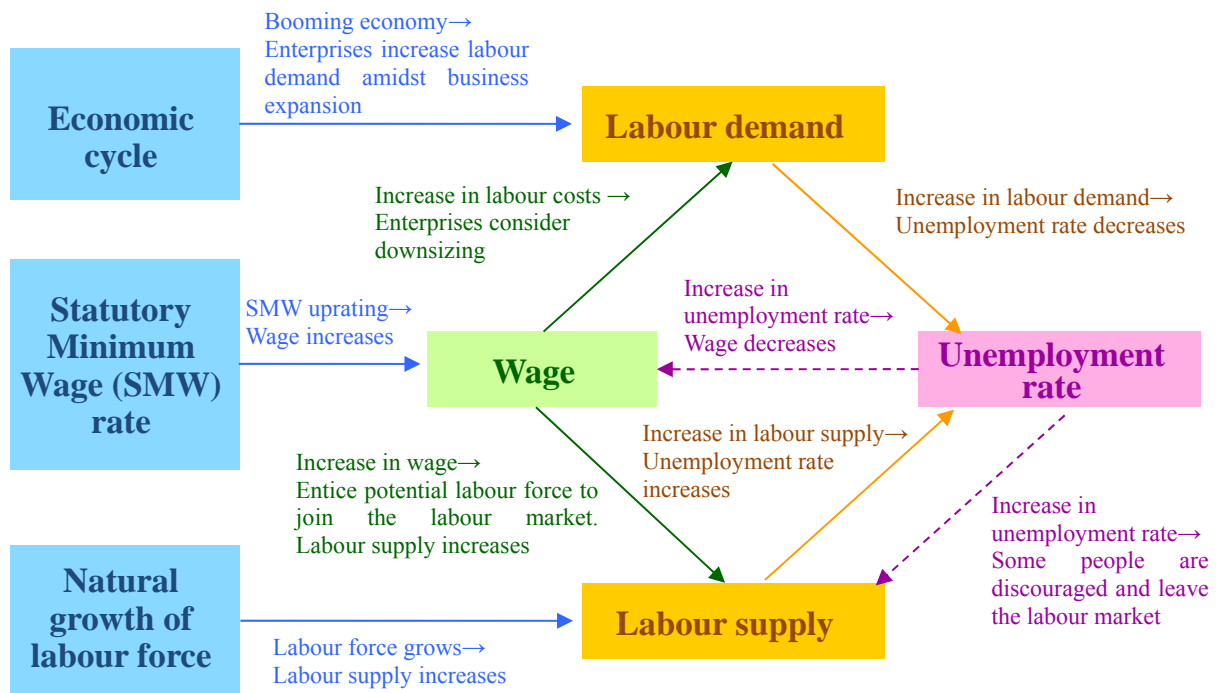
(c) Assessment of the impact on unemployment rate

5.86 Adjustment of the SMW rate inevitably affects labour supply and demand and in turn the unemployment rate. When enterprises face increase in labour costs, the hiring sentiment of employers would be hampered to a certain extent and this would result in lower labour demand. On the other hand, a pay rise entices more potential workforce to enter or re-enter the labour market, thereby boosting labour supply.

5.87 Labour supply and demand are also affected by different factors, including the macroeconomic environment and population growth. On the demand side, when the pace of business expansion slows during an economic downturn, reduction in staff recruitment or even layoff, etc. would lead to a rise in the 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.

5.88 It is noteworthy that the adjustment of the SMW rate would bring about progressive and interactive changes in labour supply and demand, and its impact would not just surface in a one-off direct manner. In assessing the impact of SMW on the unemployment rate, the interactions among economic cycles, wage level, and labour supply and demand would therefore need to be taken into account as depicted in Figure 5.7.

Figure 5.7: Interactions between different factors and labour supply and demand under the framework of impact assessment



5.89 To analyse the dynamic impact among various economic factors above, MWC constructed an econometric model with 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⁽³⁾ workers and the overall unemployment rate, under different economic scenarios. The results of the impact assessment are set out in Table 5.4 and Table 5.5.

(3) Grassroots occupations include elementary occupations and service and sales workers. In May to June 2015 (i.e. after the revised SMW rate was implemented), the share of these occupations was about 80% of all low-paid employees (i.e. employees within the lowest decile of the overall hourly wage distribution). Analysing the number of grassroots workers helped MWC focus on the impact of SMW on low-paid employees.

Table 5.4: 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
\$33.0	1 000	13 200	25 400	48 400
\$33.5	1 700	14 000	26 200	49 400
\$34.0	2 400	14 800	27 100	50 200
\$34.5	3 100	15 500	27 900	51 200
\$35.0	4 200	16 700	29 200	52 600
\$35.5	5 000	17 600	30 100	53 700
\$36.0	6 100	18 700	31 300	55 100
\$36.5	7 300	20 000	32 700	56 600
\$37.0	8 900	21 600	34 400	58 500
\$37.5	10 500	23 400	36 300	60 600
\$38.0	12 600	25 500	38 500	63 200
\$38.5	14 900	28 000	41 000	66 100
\$39.0	17 500	30 700	43 800	69 300
\$39.5	20 500	33 700	47 000	73 000
\$40.0	24 600	38 000	51 500	78 100

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

Table 5.5: 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
\$33.0	#	0.3	0.6	1.2
\$33.5	#	0.3	0.7	1.2
\$34.0	0.1	0.4	0.7	1.3
\$34.5	0.1	0.4	0.7	1.3
\$35.0	0.1	0.4	0.7	1.3
\$35.5	0.1	0.4	0.8	1.4
\$36.0	0.2	0.5	0.8	1.4
\$36.5	0.2	0.5	0.8	1.4
\$37.0	0.2	0.5	0.9	1.5
\$37.5	0.3	0.6	0.9	1.5
\$38.0	0.3	0.6	1.0	1.6
\$38.5	0.4	0.7	1.0	1.7
\$39.0	0.4	0.8	1.1	1.7
\$39.5	0.5	0.8	1.2	1.8
\$40.0	0.6	0.9	1.3	1.9

Note: (#) Less than 0.05 percentage point.

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

(d) Impact on inflation

5.90 When faced with increase in wage bills, enterprises might alleviate the 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 impact of additional wage bills on Composite Consumer Price Index (CPI) inflation would be less than 0.1 percentage point and 1.8 percentage points at the SMW test levels of \$33.0 and \$40.0 respectively. MWC also assessed the impact on CPI (A) inflation. The results are set out in Figure 5.8.

Figure 5.8: Estimated impact on inflation under different Statutory Minimum Wage (SMW) test levels and economic scenario 1



Notes: Figures shown in the diagrams are the assessment results estimated based on the additional wage bills estimated under economic scenario 1 at the SMW test levels of \$33.0 and \$40.0. Details are in **Appendix IV**.

(#) Less than 0.05 percentage point.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey and the review results on additional wage bills.

5.91 In sum, the impact brought about by an increase in the SMW rate hinges on the economic conditions and the interaction of various economic factors when the rate takes effect, and its impact would not be a one-off direct effect. Noting the complexity of and rapid changes in the economic environment and labour market, MWC strived to incorporate these dynamics in the impact assessment to the extent possible by setting different economic scenarios and conducting a forward-looking estimation so as to comprehensively and objectively assess the possible impact of the revised SMW rate on employees, businesses, unemployment rate and inflation. Apart from impact assessment, MWC also analysed and took into account views of members of the public and stakeholders and other relevant factors which were not fully quantifiable, as well as the experience of the implementation of SMW and the two increases in the SMW rate over the past few years.

5.92 Nonetheless, as Hong Kong does not have a long history of implementing SMW, and MWC could only make reference to the experience of the past two increases in the SMW rate, the impact assessment would inevitably have limitations and involve a number of assumptions. Since different sectors would keep on adjusting before and after the revision of the SMW rate, the assumptions adopted by the impact assessment would likely differ from the situation after the implementation of the recommended SMW rate. Although MWC believed that the above assessment results have certain reference value, the relevant assessment framework remains subject to continual review and enhancement when sufficient data have been accumulated after SMW has been implemented for a longer period of time.

6 The Recommended Statutory Minimum Wage Rate

6.I 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 report its recommendation about the Statutory Minimum Wage (SMW) rate to the Chief Executive (CE) in Council when required by CE to do so. MWO stipulates that in performing its function, MWC must have regard to the need:

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

6.2 To review the SMW rate in an objective and balanced manner, MWC adopted an evidence-based approach by conducting comprehensive analyses of relevant information and data of various aspects, including the Annual Earnings and Hours Survey (AEHS) and the Annual Survey of Economic Activities conducted by the Census and Statistics Department (C&SD), as well as the Array of Indicators and its latest data (including labour supply and demand, unemployment rate, gross domestic product, price forecasts, etc.) to grasp the socio-economic conditions since the implementation of SMW (see Chapter 3) and its impact (see Chapter 4). In parallel, MWC analysed the written and oral submissions collected from stakeholders and members of the public through intensive and extensive consultation (see Chapter 5). All these facilitated MWC to have a more comprehensive understanding of the impact of SMW on society, economy and different sectors (in particular the low paying sectors (LPS) and small and medium enterprises (SMEs)), as well as views of various sectors of the community on the review of the SMW rate. They also provided important reference for MWC in formulating the impact assessment framework for reviewing the SMW rate. MWC also took into consideration relevant factors which were pertinent 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](#)). In this review, MWC enhanced the impact assessment framework after fully examining

the experience gained since the implementation of SMW (see Section 5.IV of Chapter 5 and **Appendix IV**). At the same time, MWC recognised that the impact of the implementation of SMW on Hong Kong's society and economy would hinge to a large extent on the macroeconomic conditions. During the current review of the SMW rate, MWC noted that the Hong Kong economy slackened distinctly and various downside risks still prevailed in the external environment. To have due regard to the time gap between recommending the SMW rate and its implementation, different scenarios on the local economic outlook were included in the impact assessment so as to give more thorough consideration in reviewing the SMW rate (see Chapter 5).

- 6.3 MWC conducted detailed analyses and in-depth assessment and made thorough consideration of the different aspects mentioned above as well as iterative deliberations. In conformity with its statutory function, MWC unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$34.5 per hour (by \$2.0 or 6.2%). After comprehensive analyses and assessment of possible impact on various aspects, MWC considered that the recommended rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness. The ensuing sections set out quantitative analyses of the possible impact on employees, businesses, unemployment rate and inflation brought about by the recommended SMW rate.

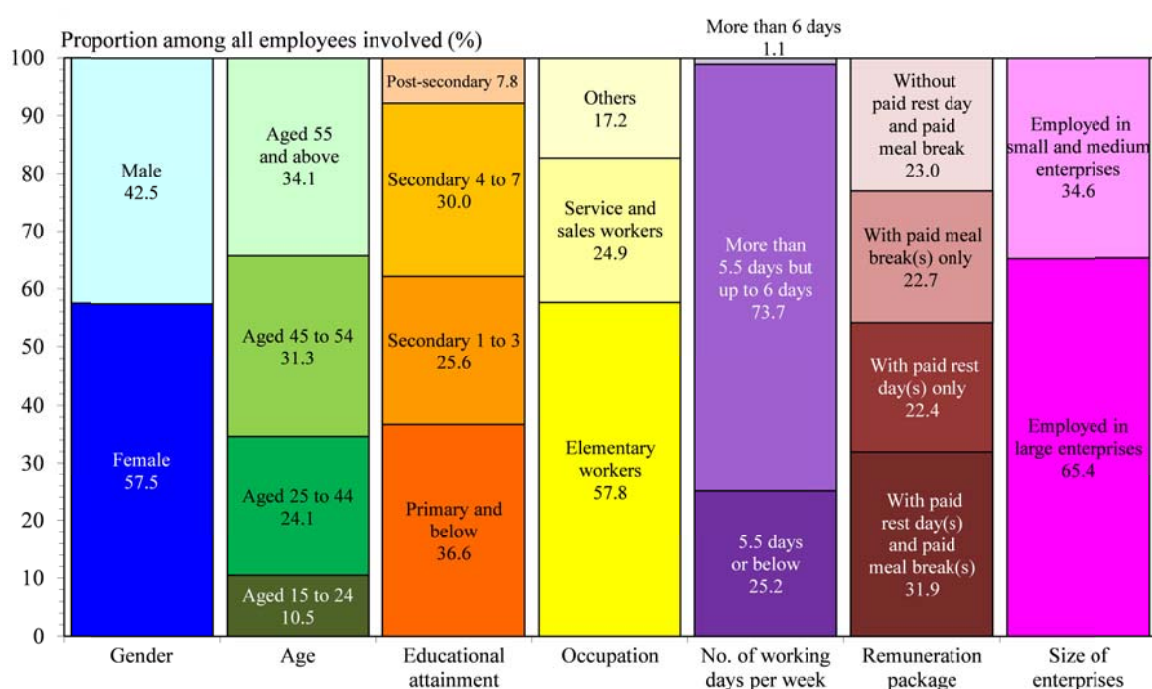
6.II Impact on Employees

6.II.1 Number and proportion of employees involved

- 6.4 The implementation of the recommended SMW rate (i.e. \$34.5) will directly affect 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), frequency of adjusting the minimum wage rate, etc. vary among different places. It is thus inappropriate to directly compare the number of employees involved and coverage of minimum wage rates in different places.

6.5 According to the data from AEHS conducted by C&SD, there were 154 500 employees with an hourly wage less than \$34.5 in May to June 2015, representing 5.2% of all employees in Hong Kong, of whom a relatively large number were female (57.5%), older (aged 45 and above) (65.4%), or with lower educational attainment (secondary 3 and below) (62.3%). Most of them were elementary workers as well as service and sales workers (82.8%), and employees with more working days per week (exceeding 5.5 days) (74.8%), entitled to paid rest day(s) and/or paid meal break(s) (77.0%), and working in large enterprises (65.4%) (Figure 6.1). Analysed by sector, the majority of these employees worked in LPS (73.7%), with most of them engaged in estate management, security and cleaning services, accounting for 44.4% of all employees with an hourly wage less than \$34.5.

Figure 6.1: Socio-economic characteristics of employees with an hourly wage less than \$34.5 in May to June 2015



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 Based on the wage distribution data of 2015 AEHS and making reference to the more recent wage data from C&SD, MWC crudely estimated that under economic scenario 1 (i.e. assuming a year-on-year economic growth of 2% in real terms for the first half of 2017), the number of employees involved with an hourly wage less than \$34.5 in the first half of 2017 before the implementation of the recommended SMW rate would be around 74 100, representing 2.5% of all employees in Hong Kong (see Section 5.IV.2

in Chapter 5). In general, under favourable economic conditions with faster wage growth, the number and proportion of employees involved would be relatively lower, and vice versa. It is noteworthy that as the number of posts and wages of employees in various sectors were subject to varying degrees of changes after May to June 2015, the socio-economic characteristics of the abovementioned employees involved would differ to a certain extent from those shown in Figure 6.1.

6.7 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 would keep adjusting before and after the revision of the SMW rate, and assumptions underlying the above estimates might differ from actualities, these estimates should be used for reference only. It should also be pointed out that the aforesaid crude estimate by MWC refers to the number of employees involved **before** the implementation of the recommended SMW rate, which is conceptually different from the number of employees earning an hourly wage at the SMW rate **after** its implementation. These two figures should not be mixed up and cannot be directly compared with each other. Based on experience upon the implementation of SMW, with the knock-on effect on pay hierarchies (knock-on effect), the number of employees receiving a pay rise attributable to the uprating of SMW was generally larger than the number of employees earning just the SMW rate.

6.II.2 Increase in wages of employees involved

6.8 To take a full-time employee earning the SMW rate (i.e. \$32.5) in May to June 2015 as an example, assuming other factors remaining the same, it was estimated that the monthly wage would increase by about \$500 to some \$8,600⁽¹⁾ per month after the SMW rate is raised to the recommended level (i.e. \$34.5). As pointed out in paragraph 6.7, experience in the past few years indicated that with the tight overall manpower resource balance, the uprating of SMW benefited not only the employees involved, but also employees earning wages above the SMW rate as they were granted corresponding wage increases.

(1) The figures were estimated with reference to the data from the 2015 AEHS which showed that the average weekly working hours of a full-time employee earning the SMW rate (i.e. \$32.5) in May to June 2015 were 57.3 hours. The monthly wage was estimated based on the definition of wages under MWO and hence did not include employees' rest day pay and meal break pay granted according to their employment contract or agreement.

- 6.9 The impact of raising the SMW rate on wage would vary across individual employees. Generally speaking, it was however envisaged that the uprating of SMW to the recommended level would raise the wages of the majority of employees involved⁽²⁾. Taking into account the impact of knock-on effect, the number of employees with pay rise owing to the uprating of SMW would eventually be greater than the number of employees involved.

6.III Impact on Businesses

- 6.10 In recommending the SMW rate, apart from forestalling excessively low wages, MWC had 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 some enterprises with only thin profits to turn from profits to losses or even to cease operations, thus increasing the unemployment risk of the employees concerned. In assessing the impact of the recommended rate, MWC conducted detailed analyses with regard to the circumstances of different sectors to fully consider their respective cost structure and profitability.

6.III.1 Additional wage bill

- 6.11 The most direct impact of implementing the recommended SMW rate on enterprises would be pushing up staff costs. Under economic scenario 1, taking into account the wage bill relating to rest day pay and meal break pay (for employees who are granted these payments according to their employment contract or agreement) in addition to the wage bill required to comply with the statutory requirements and the impact of knock-on effect, the total wage bill would increase by about \$660 million or approximately 0.1%⁽³⁾. Under other economic scenarios with the assumption of

(2) Academic research indicated that the marginal propensity to consume (i.e. the increase in consumption with respect to every \$1 of income increase) of low-income persons tended to be higher than that of high-income persons, suggesting that the uprating of SMW might be conducive to increasing consumption expenditure. By making reference to the results from AEHS and the latest 2014/15 Household Expenditure Survey, MWC crudely estimated that the net increase in private consumption expenditure would be around \$95 million under economic scenario 1. Taking into account the impact on private consumption expenditure of grassroots workers being laid off owing to the uprating of SMW (estimated to be some 3 100 workers), the net increase in private consumption expenditure would however be smaller, at around \$48 million.

(3) Owing to data limitations, the estimated additional wage bill did not take into account all labour costs (such as premium for employees' compensation insurance) arising from the uprating of SMW. Additional wage bills were estimated with reference to the results of AEHS and the review results on the additional wage bill. Details are in [Appendix IV](#). As the estimates of additional wage bill by the current term of MWC were based on the enhanced framework of impact assessment, they cannot be compared directly with the corresponding figures derived from the assessments made by the last two terms of MWC.

worse economic conditions, wage growth would be relatively slower, implying a larger number of employees involved and the additional wage bill incurred would hence be higher than relevant estimates under economic scenario 1 (Table 6.1).

Table 6.1: Estimated additional wage bills analysed by sector

Sector	Economic scenario 1		Economic scenario 2		Economic scenario 3		Economic scenario 4	
	(\$Mn)	Percentage share among all sectors (%)	(\$Mn)	Percentage share among all sectors (%)	(\$Mn)	Percentage share among all sectors (%)	(\$Mn)	Percentage share among all sectors (%)
(A) Low paying sectors	408.1	61.8	433.6	61.5	461.0	61.4	509.5	60.6
1. Retail	40.5	6.1	43.0	6.1	45.5	6.1	52.7	6.3
1.1 Supermarkets and convenience stores	8.8	1.3	9.4	1.3	9.8	1.3	12.3	1.5
1.2 Other retail stores	31.7	4.8	33.7	4.8	35.7	4.8	40.4	4.8
2. Restaurants	51.3	7.8	54.3	7.7	57.1	7.6	63.3	7.5
2.1 Chinese restaurants	27.9	4.2	29.7	4.2	31.1	4.1	34.5	4.1
2.2 Non-Chinese restaurants	13.4	2.0	13.8	2.0	14.5	1.9	15.7	1.9
2.3 Fast food cafes	*	*	*	*	*	*	*	*
2.4 Hong Kong style tea cafes	*	*	*	*	*	*	*	*
3. Estate management, security and cleaning services	292.9	44.4	311.7	44.2	332.8	44.4	365.6	43.5
3.1 Real estate maintenance management	125.7	19.0	137.6	19.5	152.3	20.3	176.8	21.0
3.2 Security services	69.3	10.5	72.3	10.3	74.1	9.9	75.9	9.0
3.3 Cleaning services	88.0	13.3	90.8	12.9	93.3	12.4	97.9	11.7
3.4 Membership organisations	9.9	1.5	11.0	1.6	13.1	1.7	15.1	1.8
4. Other low paying sectors	23.4	3.5	24.6	3.5	25.6	3.4	28.0	3.3
4.1 Elderly homes	9.2	1.4	9.7	1.4	10.0	1.3	10.8	1.3
4.2 Laundry and dry cleaning services	*	*	*	*	*	*	*	*
4.3 Hairdressing and other personal services	7.2	1.1	7.6	1.1	7.8	1.0	8.4	1.0
4.4 Local courier services	*	*	*	*	*	*	*	*
4.5 Food processing and production	5.6	0.9	6.0	0.9	6.4	0.9	7.3	0.9
(B) Other sectors	251.9	38.2	271.3	38.5	289.4	38.6	330.7	39.4
(C) All sectors	660.0	100.0	705.0	100.0	750.4	100.0	840.2	100.0

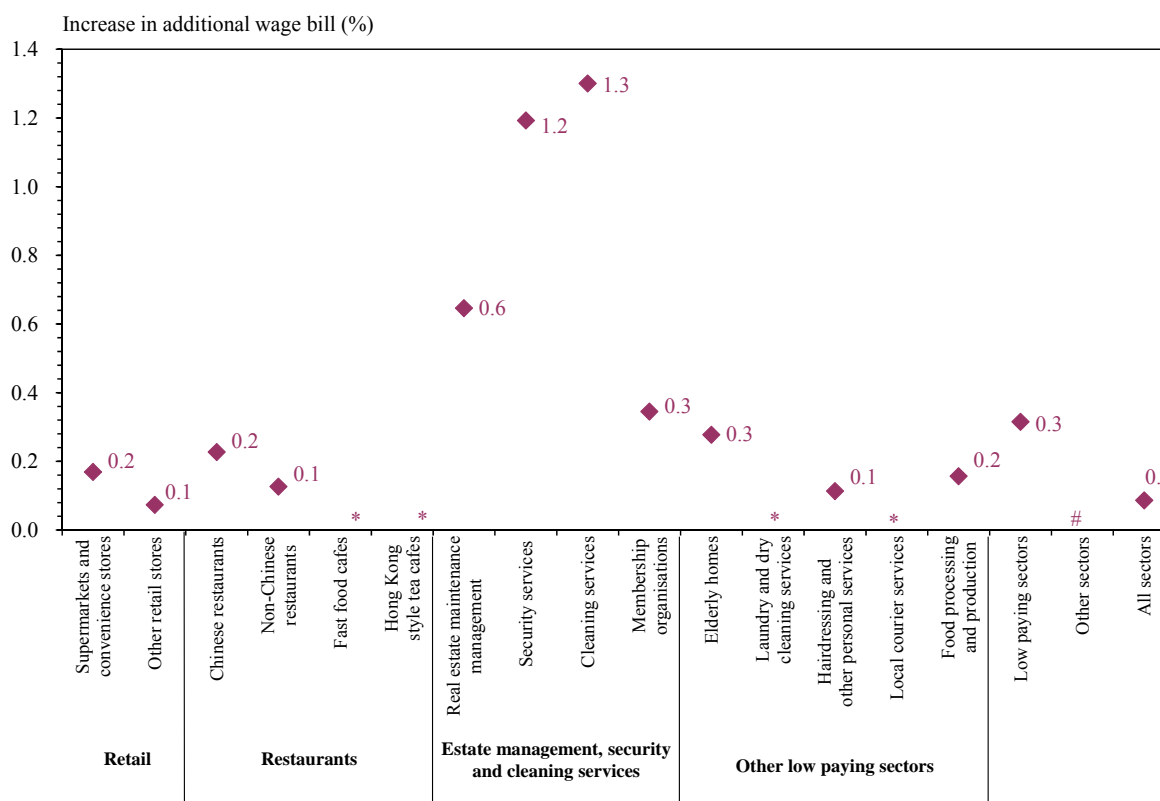
Notes: The above results were estimated based on total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect. Details are in [Appendix IV](#). The four economic scenarios with assumptions on the real economic growth for the first half of 2017 are set out in Table 5.1.

Owing to rounding, individual figures may not add up to totals.

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

Source: Estimated with reference to the results of the Annual Earnings and Hours Survey and the review results on the additional wage bill.

- 6.12 As shown in Table 6.1, under economic scenario 1, the additional wage bill of LPS as a whole would account for around 61.8% of the total additional wage bill, with estate management, security and cleaning services sector taking up the major share. As stated in Chapter 4, rising staff costs was one of the key factors underlying the increase in total operating expenses in many LPS (especially the highly labour-intensive sectors) over the past few years. Furthermore, being generally weaker than large enterprises in terms of profitability, pricing power and resource management, SMEs would usually be more affected by the uprating of SMW.
- 6.13 To gauge the possible cost pressure of the recommended SMW rate on different sectors, MWC estimated the increase in additional wage bill for each sector, after taking full account of the impact of knock-on effect. It is noteworthy that the magnitude of the impact of knock-on effect would vary with the operating characteristics, rank, remuneration structure, etc. of different sectors as stated in **Appendix IV**. The impact of knock-on effect would be greater in sectors with multi-layered grade structures, narrower pay differentials between adjacent ranks and more low-paid employees. Past experience suggested that the knock-on effect was more pronounced in certain sectors (like the restaurant sector).
- 6.14 As shown in Figure 6.2, under economic scenario 1, the additional wage bill for LPS as a whole would represent an increase of about 0.3%, while the impact on other sectors would be less. The increases in additional wage bill would be apparently higher in some labour-intensive LPS, including cleaning services (1.3%), security services (1.2%) and real estate maintenance management (0.6%).

Figure 6.2: Estimated increase in additional wage bill analysed by sector under economic scenario 1

Notes: The above results were estimated based on total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect. Details are in [Appendices IV & V](#).

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

Less than 0.05%.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey and the review results on the additional wage bill.

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

6.15 When faced with various cost pressures (including cost of goods sold, compensation of employees, rent, rates and government rent, as well as other operating expenses), enterprises would likely adopt different strategies to absorb or pass on the impact of rise in costs. Profit reduction would usually be regarded as a last resort. However, as stated in Section 4.III.2 of Chapter 4, the overall profit ratios of LPS were generally lower than those of other sectors, and the profitability of consumption-related sectors such as retail had weakened visibly amid the successive slackening of inbound tourism and local consumption since 2014. Any further pressures on profits owing to cost increases would render the operating environment of LPS increasingly difficult. Meanwhile, SMEs were generally in a weaker position of pricing and cost control as compared with large enterprises, and their profitability would be more susceptible to cost increases. Given the above factors, MWC assessed the affordability of enterprises in different sectors to cope with the recommended SMW rate under less

favourable conditions based on the respective assumptions of enterprises offsetting half or all of the additional wage bills by profit reduction.

- 6.16 According to MWC's estimation, the impact of the recommended SMW rate on the overall profit ratios of most sectors should be relatively mild. For LPS as a whole, under economic scenario 1, even assuming the additional wage bill would be fully offset by profit reduction, overall profit would drop by 0.7%, and the corresponding profit ratio would decrease only slightly by 0.1 percentage point. For some more labour-intensive LPS (such as security services and cleaning services), however, the additional wage bills would still have greater impact on their profitability. Even assuming these enterprises would offset half of their additional wage bills by profit, their overall profits were estimated to decrease by about 6% to 7%, and their profit ratios were estimated to fall by 0.4 percentage point to 0.5 percentage point (Table 6.2 and Table 6.3).

Table 6.2: Estimated change in overall profit analysed by sector after enterprises offsetting half or all of the additional wage bills by profit under economic scenario 1^(#)

Sector	All enterprises		
	Overall profit ratio in 2014 (%)	Change in overall profit after offsetting <u>half</u> of the additional wage bills by profit (%)	Change in overall profit after offsetting <u>all</u> of the additional wage bills by profit (%)
(A) Low paying sectors	7.6	-0.3	-0.7
1. Retail	8.0	*	-0.1
1.1 Supermarkets and convenience stores	6.4	-0.1	-0.2
1.2 Other retail stores	8.2	*	-0.1
2. Restaurants	5.1	-0.5	-0.9
2.1 Chinese restaurants	4.0	-0.9	-1.7
2.2 Non-Chinese restaurants	5.6	-0.3	-0.6
2.3 Fast food cafes	7.7	-0.2	-0.4
2.4 Hong Kong style tea cafes	3.4	-0.6	-1.2
3. Estate management, security and cleaning services ^(^)	6.3	-3.9	-7.7
3.1 Real estate maintenance management	5.9	-1.9	-3.9
3.2 Security services	6.1	-7.1	-14.2
3.3 Cleaning services	7.9	-5.9	-11.8
4. Other low paying sectors	9.4	-0.2	-0.4
4.1 Elderly homes	6.0	-1.2	-2.3
4.2 Laundry and dry cleaning services	9.0	-0.3	-0.5
4.3 Hairdressing services	12.4	-0.1	-0.3
4.4 Local courier services	1.0	-0.9	-1.8
4.5 Food processing and production	10.1	-0.1	-0.2
(B) Other sectors	19.4	*	*
(C) All sectors	18.3	*	*

Notes:(#) Only including enterprises with employees. The above results were estimated based on total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect. 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, 2014 Annual Survey of Economic Activities and the review results on the additional wage bill.

Table 6.3: Estimated change in overall profit ratio analysed by sector after enterprises offsetting half or all of the additional wage bills by profit under economic scenario 1^(#)

Sector	All enterprises		
	Overall profit ratio in 2014 (%)	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	7.6	*	-0.1
1. Retail	8.0	*	*
1.1 Supermarkets and convenience stores	6.4	*	*
1.2 Other retail stores	8.2	*	*
2. Restaurants	5.1	*	*
2.1 Chinese restaurants	4.0	*	-0.1
2.2 Non-Chinese restaurants	5.6	*	*
2.3 Fast food cafes	7.7	*	*
2.4 Hong Kong style tea cafes	3.4	*	*
3. Estate management, security and cleaning services ^(^)	6.3	-0.2	-0.5
3.1 Real estate maintenance management	5.9	-0.1	-0.2
3.2 Security services	6.1	-0.4	-0.9
3.3 Cleaning services	7.9	-0.5	-0.9
4. Other low paying sectors	9.4	*	*
4.1 Elderly homes	6.0	-0.1	-0.1
4.2 Laundry and dry cleaning services	9.0	*	*
4.3 Hairdressing services	12.4	*	*
4.4 Local courier services	1.0	*	*
4.5 Food processing and production	10.1	*	*
(B) Other sectors	19.4	*	*
(C) All sectors	18.3	*	*

Notes:(#) Only including enterprises with employees. The above results were estimated based on total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect. Details are in **Appendix IV**.

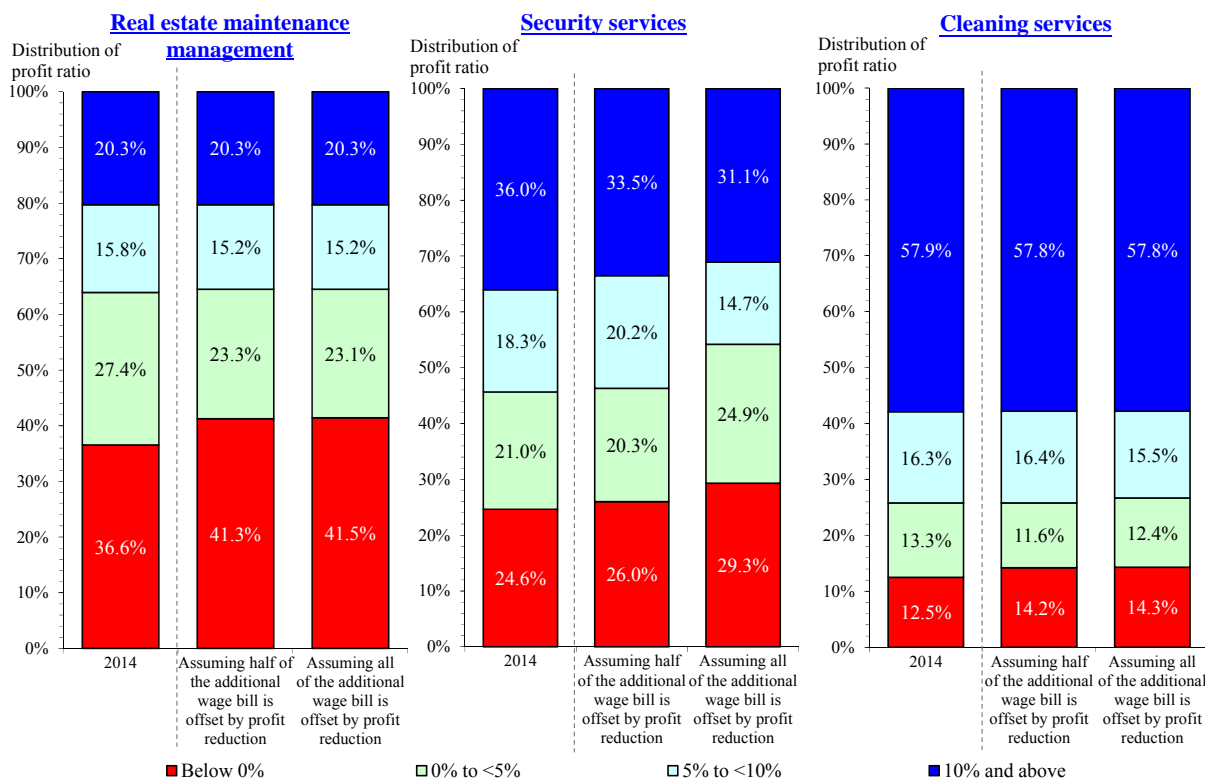
(^) Estate management, security and cleaning services do not include membership organisations.

* Between 0 and -0.05.

Sources: Estimated with reference to the results of the Annual Earnings and Hours Survey, 2014 Annual Survey of Economic Activities and the review results on the additional wage bill.

6.17 Analysing further the changes in the distributions of profit ratio in the more affected estate management, security and cleaning services sector, it could be seen that among the enterprises in the real estate maintenance management, security services and cleaning services sectors in 2014, about 27.4%, 21.0% and 13.3% respectively of them only made thin profits (with an overall profit ratio between 0% and 5%) (Figure 6.3). For enterprises in these sectors, the uprating of SMW would unavoidably increase their risk of turning from profits to losses. Those making thin profits would in particular face greater pressures on their operations, not to mention those already making losses which would possibly suffer even greater losses. That said, as these more affected sectors have stronger pricing power in general, it is anticipated that they would be able to pass on a significant portion of additional wage bills to consumers, and the chance of massive business closure would be relatively small.

Figure 6.3: Estimated distribution of profit ratio in estate management, security and cleaning services



Notes: Only including enterprises with employees. Not including those enterprises without business receipts and local representative offices of overseas companies. The above results were estimated based on total wages of employees (including rest day pay 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, 2014 Annual Survey of Economic Activities and the review results on the additional wage bill.

6.18 Based on the above estimated changes in the profit ratios of various sectors, and assuming enterprises offset half or all of the additional wage bills by profit reduction, it was estimated that in overall terms the additional wage bill would cause about 1 770 and 1 950 enterprises to turn from profits to losses respectively, accounting for about 0.8% and 0.9% of enterprises in Hong Kong. Overall speaking, 23 900 and 31 000 employees were engaged in these enterprises respectively, accounting for about 0.9% and 1.2% of all employees (Table 6.4).

Table 6.4: 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 among all enterprises in Hong Kong (%)	Number of employees engaged in these enterprises	Proportion among all employees (%)
Half	1 770	0.8	23 900	0.9
All	1 950	0.9	31 000	1.2

Note: (^) Only including enterprises with employees. Not including those enterprises without business receipts and local representative offices of overseas companies. The above results were estimated based on total wages of employees (including rest day pay 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, 2014 Annual Survey of Economic Activities and the review results on the additional wage bill.

6.19 It is worth noting that under the constraints of up-front investments and tenancy agreements or owing to their operating strategies, enterprises incurring losses might not cease operations immediately. However, these enterprises might consider restructuring, downsizing (including laying off staff) or even closing down in the long run. Those enterprises that were persistently making losses or competing all along on low prices rather than productivity or output quality might be subject to greater operating pressure, thereby entailing some impact on the labour market. Nevertheless, with these enterprises closing 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. Overall speaking, the impact of raising the SMW rate might be more noticeable on some sectors but it would be unlikely for enterprises to offset half or all of the additional wage bill by profit reduction. Hence MWC envisaged that the impact of the recommended SMW rate would be manageable for most sectors (including SMEs).

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

6.20 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 27.8% of the employees involved had been working in the same organisation for five years or more in May to June 2015. Based on the total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect, it was estimated that the increase in employers' liability of long service payment⁽⁴⁾ under economic scenario 1 would be around \$84 million or up by 4.2% as a result of the uprating of SMW to the recommended level. Yet this amount would account for only 0.01% of the total wage bill for all employees, suggesting a rather mild impact. As an employee is entitled to long service payment only if he/she has been continuously employed by the same employer for not less than five years⁽⁵⁾, the impact might even be smaller for those sectors hiring more short-term staff.

6.21 When recommending the SMW rate, MWC considered the possible impact on businesses from various aspects in order to assess whether the favourable business environment and competitiveness of Hong Kong could continue. 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

6.22 The impact of SMW on the unemployment rate would be determined by the dynamics between labour supply and demand as well as wages under different economic scenarios. The uprating of SMW would lead to pay rise for grassroots employees and might entice more people to join the labour market. However, the additional labour costs might prompt enterprises to streamline and downsize, thereby putting upward pressure on the unemployment rate. If the macroeconomic environment was

(4) The estimates of long service payment were based on the number of employees involved, the respective increases in wages and years of service, and the assumption that long service payment would not be offset by the accrued benefits from employers' contributions made to the Mandatory Provident Fund.

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

favourable and enterprises could create sufficient new jobs to absorb labour supply, the pressure arising from the uprating of SMW on the unemployment rate would be relieved. On the contrary, if the economy slackened and enterprises slowed down their pace of job creation or even downsized, the labour market would be unable to fully absorb the growth of the labour force, which might result in greater upward pressure on the unemployment rate.

6.23 To facilitate comprehensive assessment of the possible impact of adjusting the SMW rate on the number of unemployed grassroots workers and the 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) and wages under different economic conditions.

6.24 The assessment results showed that assuming the Hong Kong economy would grow moderately by 2% year-on-year for the first half of 2017 (i.e. economic scenario 1), it was estimated that the recommended SMW rate would lead to an increase of around 3 100⁽⁶⁾ unemployed grassroots workers and lift the overall unemployment rate by about 0.1 percentage point. Assuming the economy would grow at a slower pace of 1% (i.e. economic scenario 2), particularly in the case of softer domestic demand amid dampened consumer sentiment, the overall unemployment rate was estimated to rise by about 0.4 percentage point. With the prevailing unemployment rate in Hong Kong still relatively low, and barring any abrupt economic downturn, the recommended SMW rate would unlikely trigger a marked deterioration in labour market conditions (Table 6.5).

(6) The above results were estimated based on total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect. Details are in [Appendix IV](#).

Table 6.5: 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	3 100	0.1
2	15 500	0.4
3	27 900	0.7
4	51 200	1.3

Note: (^) The above results were estimated based on total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect. Details are in [Appendix IV](#).

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

6.IV.2 Impact on inflation

6.25 To consider the potential maximum impact on inflation brought about by the uprating of SMW to the recommended level, MWC assumed a full pass-on of additional wage bill to prices of products and services and took into account the first round of wage-price spiral effect (i.e. prices of other items which were directly or indirectly linked to wages and inflation would also go up). It was estimated that under economic scenario 1, the Composite Consumer Price Index (CPI) inflation would go up by about 0.2 percentage point⁽⁷⁾. As a measure of inflation on the grassroots, the corresponding rise in CPI(A) inflation would be around 0.3 percentage point. 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 estimates.

6.V Observations

6.26 The impact assessment set out in this chapter was based on MWC's past experience in reviewing the SMW rate and involved a number of assumptions, with the main objective to conduct stress tests on the possible conditions induced by the uprating of SMW and to assess the possible potential impact of the recommended rate on various macro aspects. At the micro-level, however, given the uniqueness and diversities of

(7) The above results were estimated based on total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect. Details are in [Appendix IV](#).

enterprises in terms of operating mode, type of goods/services supplied, supply and demand conditions as well as profitability, it would be difficult for MWC to predict the individual outcomes faced by different enterprises after the increase of the SMW rate to the recommended level. As such, the above impact assessment results should not be taken as an exact forecast of all actualities upon the implementation of the recommended SMW rate.

- 6.27 It should be noted that Hong Kong's economic outlook faced various uncertainties, and a precise forecast of the impact of the recommended SMW rate would not be possible. Nonetheless, in recommending the SMW rate with an evidence-based approach, MWC conducted comprehensive analyses of the information and data obtained from various statistical surveys, examined in detail the possible impact brought about by various SMW test levels under different economic scenarios with the enhanced impact assessment framework, and gave thorough consideration to the views from various sectors of the community on the review of the SMW rate, so as to take into account and balance different factors of consideration. MWC noted that views of different stakeholders on the review of the SMW rate were diverse and the recommended rate might not be able to satisfy the demands of each and every sector of society. Nevertheless, MWC considered that the recommended rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.
- 6.28 During MWC's consultation, some stakeholders commented 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 the aim of forestalling excessively low wages had been achieved after the implementation of SMW, the legislative intent of SMW should be to set a wage floor to protect grassroots workers only, and SMW should not be taken as a welfare policy or a poverty alleviation measure. MWC appreciates the community's concerns over the problems of poverty (including the problem of the working poor and whether the basic needs for living of individual employees and their families could be met). However, SMW mainly aims to set a wage floor to forestall excessively low wages. Even though SMW helps raise the employment earnings of low-paid workers, it is by no means and should not be the only way of resolving working poverty. Besides, since the

employment terms and working hours of employees as well as their family situations and needs vary, it is difficult to meet the needs of the families of all employees by relying on the uprating of SMW.

6.29 Besides, some stakeholders during the consultation period suggested anchoring the SMW rate on changes in such indicators as wages, prices or economic growth. Considering that SMW may bring about far-reaching impact on various aspects like the labour market, society, economy, inflation, productivity, competitiveness, wage levels, etc. and these factors, bearing their own weight, would interact with each other and adjust with different socio-economic environments, a formula indexation of the SMW rate to individual indicators would not enable MWC to consider the multiple relevant factors and their interactions in a comprehensive and timely manner, nor to strike an appropriate balance amongst them. In reviewing the SMW rate, MWC fully considered various factors, with its existing methodology comparable with those for reviewing minimum wage rate in many other places (see **Appendix III**).

7 Recommendation

- 7.1 According to the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong), the main function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to report its recommendation about the Statutory Minimum Wage (SMW) rate to CE in Council. SMW impacts on various aspects including the labour market, society and economy, and there are diverse views and concerns about the review of the SMW rate in the community. With 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 more frequently and more up-to-date), MWC also deliberated 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, and conducted stress tests under four economic scenarios to assess the potential impact of each SMW test level under different economic conditions. After detailed analyses and in-depth assessment as well as thorough consideration, MWC reached a unanimous consensus on the recommendation of raising the SMW rate to \$34.5 per hour, representing an increase of 6.2%.
- 7.2 According to the data from the 2015 Annual Earnings and Hours Survey, there were 154 500 employees with an hourly wage less than \$34.5 in May to June 2015, representing 5.2% of all employees in Hong Kong. Making reference to the more recent wage data from the Census and Statistics Department, MWC crudely estimated that under economic scenario 1 (i.e. assuming a year-on-year economic growth of 2% in real terms for the first half of 2017), the number of employees involved with an hourly wage less than \$34.5 in the first half of 2017 before the implementation of the recommended SMW rate would be around 74 100, representing 2.5% of all employees in Hong Kong. As the labour market would keep adjusting before and after the revision of the SMW rate, and assumptions underlying the above estimates might differ from actualities, these estimates should be used for reference only. Although the impact of uprating of SMW on wages would vary across individual employees, it was anticipated in overall terms that the increase of the SMW rate to the recommended level would raise the wages of the majority of employees involved. Taking into account the impact of

knock-on effect on pay hierarchies (knock-on effect), the number of employees with pay rise attributable to the uprating of SMW would eventually be greater than the number of employees involved.

- 7.3 Regarding total wage bill, under economic scenario 1, taking into account the wage bill relating to rest day pay and meal break pay (for employees who are granted these payments according to their employment contract or agreement) in addition to the wage bill required to comply with the statutory requirements and the impact of knock-on effect, the total wage bill would increase by about \$660 million or approximately 0.1%. Although the small and medium enterprises are in general in a weaker position of pricing and cost control as compared with large enterprises, and their profitability is more susceptible to cost increase, based on MWC's assessments on the change in overall profit and the number of enterprises turning from profits to losses, the impact of the recommended SMW rate on the overall profit ratios of most sectors should be relatively mild. It was envisaged that enterprises in general should be able to cope with the recommended rate which would not induce a significant impact on the overall business environment and incentives for business start-up.
- 7.4 As regards the impact assessment on the unemployment rate, assuming that the Hong Kong economy would grow moderately by 2% year-on-year for the first half of 2017, it was estimated that the recommended SMW rate would lead to an increase of around 3 100 unemployed grassroots workers and lift the overall unemployment rate by about 0.1 percentage point. Assuming the economy would grow at a slower pace of 1%, the overall unemployment rate was estimated to rise by 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 labour market conditions.
- 7.5 For the impact assessment on inflation, 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, MWC estimated that the Composite Consumer Price Index inflation would go up by about 0.2 percentage point under economic scenario 1. As a measure of inflation on the grassroots, the corresponding rise in the Consumer Price Index (A) inflation would be around 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 above estimates.

- 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 together with in-depth and rational discussions, MWC considered that the upward adjustment of the SMW rate to \$34.5 per hour would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.
- 7.7 The recommended SMW rate was reached with the unanimous consensus of all MWC members based on an evidence-based approach and rational discussions. It was considered that the recommended rate would be conducive to the overall interest and development of Hong Kong.

Appendix I

Array of Indicators Considered by the Minimum Wage Commission and their 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 other places	Hong Kong: National Income Statistics, GHS and Composite Employment Estimates, C&SD Other places: Real GDP and employment data in CEIC database

Summary of Indicators	Statistical Indicators	Data Sources
5. Labour costs	Nominal unit labour cost in Hong Kong and other places	Hong Kong: National Income Statistics, GHS and Labour Earnings Survey, C&SD Other places: 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 (unemployed for 6 months or above) persons	GHS, C&SD
	Unemployment cases of Comprehensive Social Security Assistance	Social Welfare Department
3. Labour relations	Number of disputes and claim cases	Labour Department

Appendix II

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

II.1. Focused Consultation Meetings with Low Paying Sectors in September 2015

Name of Organisation	
1.	A. S. Watson & Co. Ltd. 屈臣氏有限公司
2.	Association of Professional Personnel (Hotels, Food & Beverage) 酒店及飲食專業人員協會
3.	Bakery, Confectionery and Cake Trade Workers Union 麵包糖果餅業食品職工會
4.	Belle Worldwide Limited 百麗環球有限公司
5.	Bossini Enterprises Ltd. 堡獅龍企業有限公司
6.	Buckingham Restaurant 金漢宮宴會廳
7.	Café de Coral Holdings Ltd. 大家樂集團有限公司
8.	Catering and Hotels Industries Employees General Union 飲食及酒店業職工總會
9.	Centurion Facility Company Limited 世紀服務有限公司
10.	Centuryan Environmental Services Group Limited 新紀元環保服務集團有限公司
11.	Chamber of Security Industry 保安業商會
12.	City Cut Hair & Beauty Salon 匠髮廊
13.	Cleaning Service Industry Workers Union 清潔服務業職工會
14.	Community Care and Nursing Home Workers General Union 社區及院舍照顧員總工會
15.	Creative Property Services Consultants Limited 創毅物業服務顧問有限公司
16.	Crocodile Garments Ltd. 鱷魚恤有限公司
17.	D & G Development Limited 瑞華行發展有限公司
18.	Dragon Guard Security Limited 龍衛保安有限公司
19.	Eating Establishment Employees General Union 飲食業職工總會
20.	Environmental Services Contractors Alliance (Hong Kong) 香港環境衛生業界大聯盟
21.	Environmental Services Operatives Union 環境服務從業員工會
22.	Express Security Limited 警衛國際有限公司
23.	Fairwood Holdings Ltd. 大快活集團有限公司
24.	Fai-To, Kato for the Elderly Holding Limited 輝濤、嘉濤護老集團有限公司

Name of Organisation	
25.	Food and Beverage Industry Employees General Union 食品及飲品業僱員總會
26.	Food and Beverage Management and Professional Staff Association 飲食業管理專業人員協會
27.	Fung (1937) Management Ltd. 馮氏 (1937) 管理有限公司
28.	Gold Rice Bowl Restaurant 金飯碗餐廳
29.	Guardian Property Management Ltd. 佳定物業管理有限公司
30.	Hang Yick Properties Management Ltd. 恒益物業管理有限公司
31.	Happiness Cuisine 囍慶藝廚酒家
32.	Hong Kong & Kowloon Electrical Appliances Merchants Association Ltd. 港九電器商聯會有限公司
33.	Hong Kong Air Freight Transport and Express Transport Employees Union 香港航空貨運及速遞業工會
34.	Hong Kong Beauty and Fitness Professionals General Union 香港美容健體專業人員總會
35.	Hong Kong Buildings Management and Security Workers General Union 香港物業管理及保安職工總會
36.	Hong Kong Department Stores & Commercial Staff General Union 香港百貨、商業僱員總會
37.	Hong Kong Environmental Services, Logistics and Cleaning Employees Association 香港環保、物流及清潔從業員協會
38.	Hong Kong Federation of Restaurants & Related Trades Ltd. 香港餐飲聯業協會有限公司
39.	Hong Kong Food Council Limited 香港食品業總會有限公司
40.	Hong Kong Guards Ltd. 香港警衛有限公司
41.	Hong Kong Hair Dressing & Make-Up Trade Workers General Union 香港理髮化粧業職工總會
42.	Hong Kong Jewellers' & Goldsmiths' Association 香港珠石玉器金銀首飾業商會
43.	Hong Kong Retail Management Association 香港零售管理協會
44.	Hong Kong Services Industry Employees Association 香港服務業僱員協會
45.	Hong Kong Union of Chinese Workers in Western Style Employment 香港洋務工會
46.	Hong Yip Service Co. Ltd. 康業服務有限公司
47.	Hotels, Food & Beverage Employees Association 酒店及餐飲從業員協會
48.	Imperial Bird's Nest International Co. Limited 官燕棧國際有限公司
49.	Institution of Dining Art 稻苗學會

Name of Organisation	
50.	ISS EastPoint Property Management Ltd. 置邦物業管理有限公司
51.	Jones Lang LaSalle Management Services Ltd. 仲量聯行物業管理有限公司
52.	Kai Shing Management Services Ltd. 啟勝管理服務有限公司
53.	Koon Wah Food & Preserved Fruit Factory Limited 冠華食品菓子廠有限公司
54.	Kuen Kee Roasted Meat 權記燒臘
55.	Laundry Trade Employees' Union 洗熨業職工會
56.	Law's Cleaning Services Limited 羅氏清潔服務有限公司
57.	LHGroup 叙福樓集團
58.	Magic Clean Environmental Services Limited 壹清潔環境服務有限公司
59.	Man Fook Jewellery Holdings Limited 萬福珠寶集團有限公司
60.	Man Shing Cleaning Service Company Limited 萬成清潔服務有限公司
61.	Nice Property Management Limited 嘉怡物業管理有限公司
62.	Personal and Community Services Workers General Union 個人及社區服務行業職工總會
63.	Pioneer Management Limited 領先管理有限公司
64.	Pizza Hut Hong Kong Management Limited 香港必勝客管理有限公司
65.	Pollution & Protection Services Limited 寶聯環衛服務有限公司
66.	Pricerite Stores Limited 實惠家居有限公司
67.	Professional Security Services Limited 專業護衛有限公司
68.	Property Management Administrative and Clerical Staff Association 物業管理行政及文職人員協會
69.	Prosperity Land Cleaning Service Limited 豐寧清潔服務有限公司
70.	Savills Property Management Ltd. 第一太平戴維斯物業管理有限公司
71.	Service Industry General Union 服務業總工會
72.	Shiu Hang Cleaning Services Co. Limited 兆恆清潔服務有限公司
73.	Shui On Nursing Home Holdings Limited 瑞安護老院集團有限公司
74.	Since Salon Limited (No Chinese Name)
75.	Sun Lok Restaurant 新樂茶餐廳
76.	Supermarkets & Chain Stores Employees General Union 超市及連鎖店僱員總會
77.	Synergis Management Services Ltd. 新昌管理服務有限公司
78.	Tai Hing Worldwide Development Ltd. 太興環球發展有限公司
79.	Tai Woo Restaurant 太湖海鮮城
80.	Tao Heung Group 稻香集團
81.	Taste of Asia Group Limited 亞洲國際餐飲集團有限公司
82.	The Alchemist Cafe Bistro 牧羊少年咖啡·茶·酒館

Name of Organisation	
83.	The Dairy Farm Company Ltd. 牛奶有限公司
84.	The Elderly Services Association of Hong Kong 香港安老服務協會
85.	The Federation of Environmental and Hygiene Services 中港澳環衛總商會
86.	The Federation of Hong Kong Property Management Industry Ltd. 香港物業管理聯會有限公司
87.	The Hong Kong Association of Property Management Companies Ltd. 香港物業管理公司協會有限公司
88.	The Hong Kong General Union of Security & Property Management Industry Employees 香港護衛及物業管理從業員總會
89.	The Hong Kong Institute of Housing 香港房屋經理學會
90.	The Hong Kong Security Association 香港保安業協會
91.	Tsui Wah Group 翠華集團
92.	Urban Property Management Ltd. 富城物業管理有限公司
93.	Wai Tat Cleaning Service Co. Ltd. 威達清潔服務有限公司
94.	Yee Hop Cleaning Co. 義合清潔公司
95.	Yee Tai Cleaning Company Limited 怡泰清潔有限公司
96.	Yip's Cleaning Service Company Limited 葉氏清潔服務有限公司

II.2. Consultation Meetings in June 2016

Name of Organisation	
1.	A. S. Watson & Co. Ltd. 屈臣氏有限公司
2.	Association of Hong Kong Employees in Wine, Spirit and Food Shops and Super-Markets 香港洋酒食品超級市場職員協會
3.	Association of Restaurant Managers 現代管理（飲食）專業協會
4.	Caritas Community Development Service 明愛社區發展服務
5.	Centuryan Environmental Services Group Limited 新紀元環保服務集團有限公司
6.	Chamber of Security Industry 保安業商會
7.	Chinese & Western Food Workers Union 中西飲食業職工會
8.	City Cut Hair & Beauty Salon 匠髮廊
9.	Creative Property Services Consultants Limited 創毅物業服務顧問有限公司
10.	Dragon Guard Security Limited 龍衛保安有限公司
11.	Eating Establishment Employees General Union 飲食業職工總會
12.	Employers' Federation of Hong Kong 香港僱主聯合會
13.	Environmental Services Contractors Alliance (Hong Kong) 香港環境衛生業界大聯盟
14.	Environmental Services Operatives Union 環境服務從業員工會
15.	Excellent Smart Property Management Limited 佳潤物業管理有限公司
16.	Express Security Limited 警衛國際有限公司
17.	Federation of Hong Kong Industries 香港工業總會
18.	Food and Beverage Management and Professional Staff Association 飲食業管理專業人員協會
19.	Fung Retailing Limited 馮氏零售集團有限公司
20.	Good Excel Property Consultants Limited 卓安物業顧問有限公司
21.	Guardian Property Management Ltd. 佳定物業管理有限公司
22.	Hair and Make-up Stylish Image Designers General Union 髮型化妝整體形象設計師總會
23.	Hang Yick Properties Management Ltd. 恒益物業管理有限公司
24.	Happiness Cuisine 囍慶藝廚酒家
25.	Hong Kong & Kowloon Electrical Appliances Merchants Association Ltd. 港九電器商聯會有限公司
26.	Hong Kong & Kowloon Motor Boats & Tug Boats Association Ltd. 港九電船拖輪商會有限公司
27.	Hong Kong Air Freight Transport and Express Transport Employees Union 香港航空貨運及速遞業工會

Name of Organisation	
28.	Hong Kong and Kowloon Trades Union Council 港九工團聯合總會
29.	Hong Kong Apparel Society Ltd. 香港製衣同業協進會有限公司
30.	Hong Kong Beauty and Fitness Professionals General Union 香港美容健體專業人員總會
31.	Hong Kong Business Community Joint Conference 香港各界商會聯席會議
32.	Hong Kong Catering Industry Association 香港飲食業聯合總會
33.	Hong Kong Chinese Reform Association 香港華人革新協會
34.	Hong Kong Confederation of Trade Unions 香港職工會聯盟
35.	Hong Kong Department Stores & Commercial Staff General Union 香港百貨、商業僱員總會
36.	Hong Kong Environmental Services, Logistics and Cleaning Employees Association 香港環保、物流及清潔從業員協會
37.	Hong Kong Federation of Restaurants & Related Trades Ltd. 香港餐飲聯業協會有限公司
38.	Hong Kong General Chamber of Commerce 香港總商會
39.	Hong Kong General Chamber of Social Enterprises Limited 香港社會企業總會有限公司
40.	Hong Kong Hair & Beauty Merchants Association 香港美髮美容業商會
41.	Hong Kong Institute of Human Resource Management 香港人力資源管理學會
42.	Hong Kong Jewellers' & Goldsmiths' Association 香港珠石玉器金銀首飾業商會
43.	Hong Kong Professionals and Senior Executives Association 香港專業及資深行政人員協會
44.	Hong Kong Promotion Association for Small and Medium Enterprises 香港中小企業發展促進會
45.	Hong Kong Retail Management Association 香港零售管理協會
46.	Hong Kong Securities Association Limited 香港證券業協會有限公司
47.	Hong Kong Shipper's Council 香港付貨人委員會
48.	Hong Kong SME Development Federation Limited 香港中小企促進聯會
49.	Hong Yip Service Co. Ltd. 康業服務有限公司
50.	Hotels, Food & Beverage Employees Association 酒店及餐飲從業員協會
51.	Imperial Bird's Nest International Co. Limited 官燕棧國際有限公司
52.	Institution of Dining Art 稻苗學會
53.	Jackeline Beauty Salon 綠葉療膚中心
54.	Johnson Cleaning Services Co. Ltd. 莊臣有限公司
55.	Kai Shing Management Services Ltd. 啟勝管理服務有限公司

Name of Organisation	
56.	Kuokon Security Limited 港安警衛有限公司
57.	Law's Cleaning Services Limited 羅氏清潔服務有限公司
58.	Magic Clean Environmental Services Limited 壹清潔環境服務有限公司
59.	Momentum 107 107 動力
60.	Oxfam Hong Kong 樂施會
61.	Pizza Hut Hong Kong Management Limited 香港必勝客管理有限公司
62.	Pollution & Protection Services Limited 寶聯環衛服務有限公司
63.	Pricerite Stores Limited 實惠家居有限公司
64.	Prosperity Land Cleaning Service Limited 豐寧清潔服務有限公司
65.	Public Omnibus Operators Association Ltd. 公共巴士同業聯會有限公司
66.	Sa Sa Cosmetic Co. Ltd. 莎莎化妝品有限公司
67.	Service Industry General Union 服務業總工會
68.	Shiu Hang Cleaning Services Co. Limited 兆恆清潔服務有限公司
69.	Sino Administration Services Ltd. 信和行政服務有限公司
70.	SME Global Alliance 中小企國際聯盟
71.	Swan Hygiene Services Limited 時運服務有限公司
72.	Swire Resources Ltd. 太古資源有限公司
73.	Synergis Management Services Ltd. 新昌管理服務有限公司
74.	Tai Woo Restaurant 太湖海鮮城
75.	Tao Heung Group 稻香集團
76.	The Association for Hong Kong Catering Services Management Ltd. 香港餐務管理協會
77.	The Chinese General Chamber of Commerce 香港中華總商會
78.	The Chinese Manufacturers' Association of Hong Kong 香港中華廠商聯合會
79.	The Dairy Farm Company Ltd. 牛奶有限公司
80.	The Elderly Services Association of Hong Kong 香港安老服務協會
81.	The Federation of Hong Kong & Kowloon Labour Unions 港九勞工社團聯會
82.	The Federation of Hong Kong Footwear Limited 香港鞋業（1970）總會有限公司
83.	The Federation of Hong Kong Property Management Industry Ltd. 香港物業管理聯會有限公司
84.	The Hong Kong Chinese Importers' & Exporters' Association 香港中華出入口商會
85.	The Hong Kong Council of Social Service 香港社會服務聯會
86.	The Hong Kong Federation of Trade Unions 香港工會聯合會

Name of Organisation	
87.	The Hong Kong Food Council Limited 香港食品委員會有限公司
88.	The Hong Kong General Chamber of Small and Medium Business 香港中小型企業總商會
89.	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
90.	The Hong Kong Security Association 香港保安業協會
91.	The Laundry Association of Hong Kong 香港洗衣商會
92.	The Lion Rock Institute 獅子山學會
93.	The Wing On Department Stores (HK) Ltd. 永安百貨有限公司
94.	Tonwell Security Limited 通宏護衛有限公司
95.	Tsuen Wan District Tourists and Passengers Omnibus Operators Association 荃灣區旅運巴士同業聯會
96.	Tsui Wah Group 翠華集團
97.	Urban Property Management Ltd. 富城物業管理有限公司
98.	Wai Tat Cleaning Service Co. Ltd. 威達清潔服務有限公司

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 protects the basic living of workers and their family members and is an important means to ensure that workers (particularly low-income workers) can have reasonable remuneration	<ul style="list-style-type: none"> ◇ 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 provides the minimum standards for working conditions so as to protect workers' rights and interests, strengthen the employee-employer relationships and promote social and economic development	<ul style="list-style-type: none"> ◇ 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 different industries ➤ Survey and statistical figures on household income and expenditure
South Korea	Minimum wage stabilises workers' life and improves the quality of labour force, thereby contributing to the sound development of the national economy	<ul style="list-style-type: none"> ◇ 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"> ➤ Economic growth ➤ Employment situation ➤ Earnings situation ➤ Productivity ➤ Impact of past increases in the national minimum wage ➤ Legislative changes ➤ Views of stakeholders
France	Minimum wage ensures low-paid workers can enjoy a certain living standard and share the fruits of economic development	<ul style="list-style-type: none"> ✧ 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	Without creating significant adverse consequences for employment and competitiveness, minimum wage is designed to assist as many low-paid workers as is reasonably practicable, set at a rate that is fair and sustainable, and, where adjustment is	<ul style="list-style-type: none"> ✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Changes in earnings ➤ Changes in currency exchange rates ➤ Changes in income distribution ➤ Changes in unemployment, employment and productivity generally and in sectors most affected ➤ International comparisons (particularly with Great Britain and Northern Ireland) ➤ Need for job creation

Place studied	Concept	Criteria for reviewing minimum wage rate
	appropriate, adjusted incrementally and progressively increased over time	<ul style="list-style-type: none"> ➤ Likely effect of the proposed minimum wage level on levels of employment and unemployment, cost of living and national competitiveness
Germany	Minimum wage aims to protect workers from unreasonably low wages	<ul style="list-style-type: none"> ✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Providing workers with an appropriate minimum level of protection ➤ Enabling fair and functioning conditions of competition ➤ Not jeopardising employment ➤ Collective wage developments
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 disabilities whose productivity is affected by a disability ➤ Encouraging collective bargaining
New Zealand	Minimum wage is to protect the real income of low-paid workers while minimising job losses	<ul style="list-style-type: none"> ✧ Major considerations and criteria: <ul style="list-style-type: none"> ➤ Inflation (using Consumers Price Index as the indicator) ➤ Wage growth (using median wage as the indicator) ➤ Restraint on employment ➤ Labour productivity ➤ Effects of minimum wage increases on social assistance received, business growth,

Place studied	Concept	Criteria for reviewing minimum wage rate
		<p>hours worked by employees, workers who are earning at a rate slightly higher than the minimum wage</p> <ul style="list-style-type: none"> ➤ Affordability for Government ➤ International standing of the minimum wage rate ➤ Impact on industries ➤ Other government policies
The United States	Federal minimum wage aims to maintain the minimum standard of living of workers without substantially curtailing employment	<p>✧ Major considerations and criteria:</p> <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 is to provide workers with protection on their basic rights	Price index, employment conditions, economic conditions, productivity and other related factors are taken into account by a majority of the Provinces

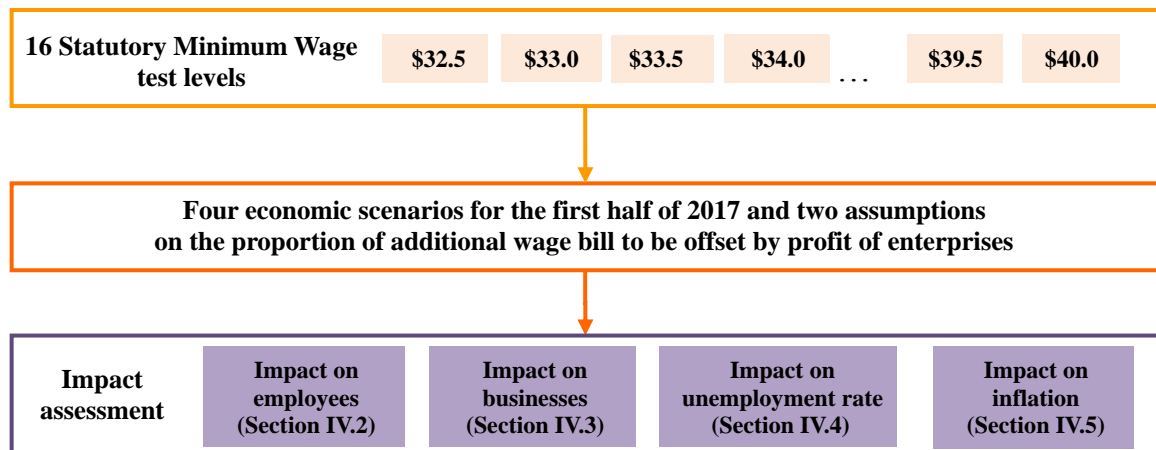
Appendix IV

Methodology of Impact Assessment

IV.1 Introduction

IV.1.1 Section 5.IV of Chapter 5 has briefly set 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 different Statutory Minimum Wage (SMW) test levels on employees, businesses, unemployment rate and inflation. The framework is summarised in Figure IV.1.

Figure IV.1: Framework of impact assessment



IV.2 Impact Assessment on Employees

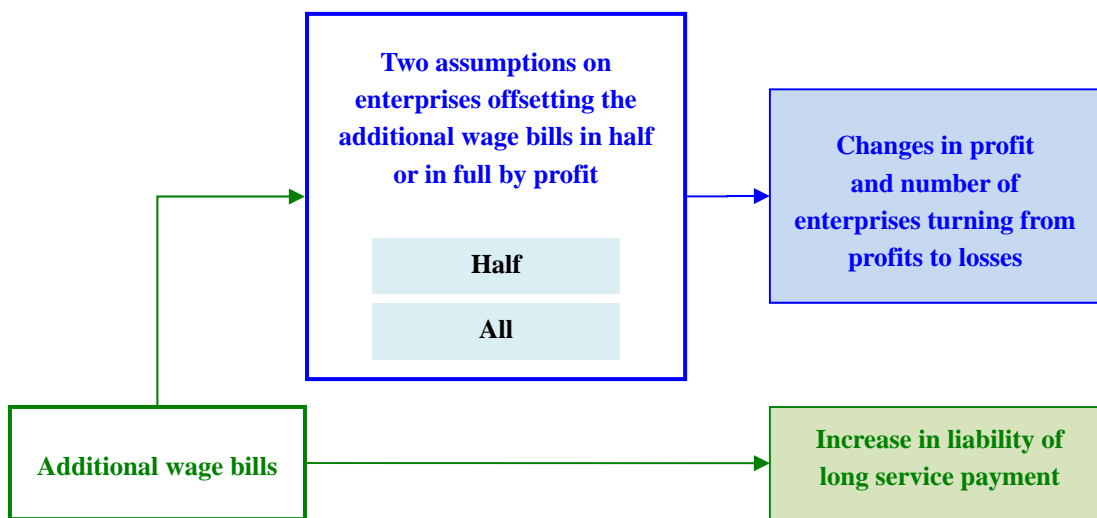
IV.2.1 Employees involved refer to employees with hourly wages below the SMW test levels. Considering that when the recommended SMW rate, if adopted, is implemented in the first half of 2017, the wages of some of the employees involved may have been raised above the recommended SMW rate, the number of employees involved may be less than that shown in the wage distribution of 2015. Apart from data on wage distribution from the 2015 Annual Earnings and Hours Survey (AEHS) of the Census and Statistics Department (C&SD), MWC also took into account the economic and labour market conditions up to August 2016 and the wage data from the General Household Survey (GHS) and the Labour Earnings Survey compiled by C&SD. Based on the four economic scenario assumptions on real economic growth for the first half of 2017 (see Table 5.1), MWC crudely estimated the number and proportion of

employees involved before the implementation of the recommended SMW rate in the first half of 2017.

IV.3 Impact Assessment on Businesses

IV.3.1 An assessment of the impact of different SMW test levels on businesses has been conducted. 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) Additional wage bills

IV.3.2 Additional wage bills include the following three components: (i) the additional amount payable by enterprises for raising the hourly wages of all employees involved to the SMW test levels to meet the legal requirement (“additional wage bill required to comply with the statutory requirement”); (ii) the additional wage bill relating to the rest day pay and meal break pay (for employees who are granted these payments according to their employment contract or agreement) for employees involved; and (iii) the additional wage bill induced by the impact of knock-on effect on pay hierarchies (knock-on effect).

IV.3.3 For the “additional wage bill required to comply with the statutory requirement” which is projected from the estimated number of employees involved under different economic scenarios set out in Section IV.2 and the consequential rest day pay and meal break pay, the estimation was based on the assumption that the employees involved who were originally entitled to rest day pay and/or meal break pay would continue to

enjoy these benefits, with corresponding increases in the rest day pay and/or meal break pay along with rises in their hourly wages.

- IV.3.4 The magnitude of the impact of knock-on effect varies with the operating characteristics, rank and remuneration structure, etc. of different sectors. The impact would be more pronounced in sectors with multi-layered grade structures, narrower pay differentials between adjacent ranks and more lower-paid employees. Summing up the experiences since the implementation of SMW (see Chapter 4 and Chapter 5) and making reference to the two previous Government-commissioned thematic studies on knock-on effect in the retail and restaurant sectors⁽¹⁾ conducted by consultants, MWC examined thoroughly the actual wage distribution of employees in different sectors from AEHS over the past few years, and reviewed in detail the direct and indirect impact (the latter being the impact of knock-on effect) of the two increases in the SMW rate in May 2013 and May 2015 on labour costs in the current assessment. As evident in the review, the actual magnitude of the impact of knock-on effect on different sectors hinges very much on the extent of the uprating of SMW. A relatively modest uprating would result in a relatively mild impact of knock-on effect, whereas a relatively sizeable uprating, hence a relatively larger increase in additional wage bill, would induce a relatively pronounced impact of knock-on effect.
- IV.3.5 Taking for instance the experience from the first increase in the SMW rate (in May 2013), for all sectors as a whole, the additional wage bill induced by the impact of knock-on effect was 1.9 times (i.e. knock-on multiplier) the “additional wage bill required to comply with the statutory requirement”, suggesting that a \$1 increase in the “additional wage bill required to comply with the statutory requirement” would entail a \$1.9 increase in the additional wage bill due to the impact of knock-on effect. In the second increase in the SMW rate (in May 2015), the corresponding knock-on multiplier was 1.7 times. The review outcome also indicated that the knock-on effect was particularly significant in sectors with multi-layered grade structures (e.g. the restaurant sector).
- IV.3.6 Data from the above review provided useful information for the current impact assessment, which facilitated MWC to make corresponding enhancements on an

(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.

evidence-based basis while estimating the knock-on effect induced by different SMW test levels. It should, however, be noted that as the enhanced assessment was made on the basis of the experience from only two increases in the SMW rate, the relevant estimation inevitably had its limitations. The assessment framework would remain subject to continual enhancement when sufficient data have been accumulated after SMW has been implemented for a longer period of time.

(b) Changes in profit situation and number of enterprises turning from profits to losses

IV.3.7 The assessment on changes in profit and number of enterprises turning from profits to losses was made with reference to 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 based on the latest (i.e. 2014) findings of the Annual Survey on Economic Activities (ASEA)⁽²⁾. The changes in overall profit situation and profit ratio distribution of individual sectors, as well as the number of enterprises turning from profits to losses in individual sectors, were estimated based on the additional wage bills under different SMW test levels and economic scenarios, and the two assumptions on enterprises offsetting the additional wage bills in half or in full by profit.

(c) Increase in liability of long service payment

IV.3.8 The estimation on increase in liability of long service payment was based on the number of employees who had worked in the same organisation for five years or above⁽³⁾ obtained from the AEHS. The increases in their monthly salaries after the adjustment of the SMW rate were estimated. Such increases were then multiplied by

(2) The data from the statistical survey reveal the operating situation of enterprises before the implementation of the revised SMW rate in May 2015. As the results of the 2015 ASEA were not yet available when MWC conducted the review and made recommendation on the SMW rate, the impact assessment of SMW on businesses was conducted based on the latest data available (i.e. results of the 2014 ASEA).

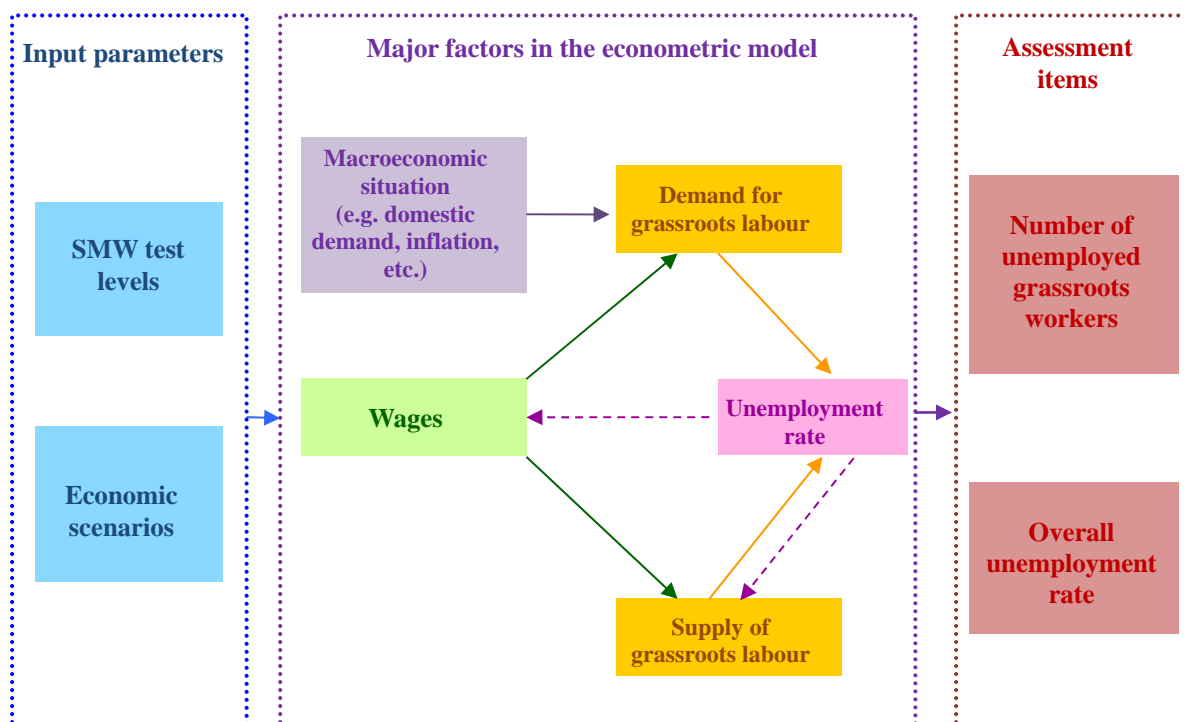
(3) According to the Employment Ordinance, an employee who has been employed under a continuous contract for not less than five years, and satisfies one of the following criteria will be entitled to long service payment. The criteria include: the employee is dismissed, but is not summarily dismissed 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 grounds of old age. Owing to data limitations, the assessment did not take into account employees who are not entitled to long service payment for reason of not satisfying the above criteria.

two-thirds and years of service so as to estimate the additional liability of long service payment that might be faced by enterprises ⁽⁴⁾.

IV.4 Impact Assessment on Unemployment Rate

IV.4.1 MWC estimated the impact on unemployment rate under different SMW test levels by analysing the economic data (including real economic growth rate, inflation rate, consumption expenditure in the domestic market and wage statistics released by C&SD) over the past ten years or so, and adopting an econometric model as quantitative framework. The assessment methodology, the two input parameters to the dynamic interaction among major factors in the econometric model, and the assessment items are as follows (Figure IV.3):

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



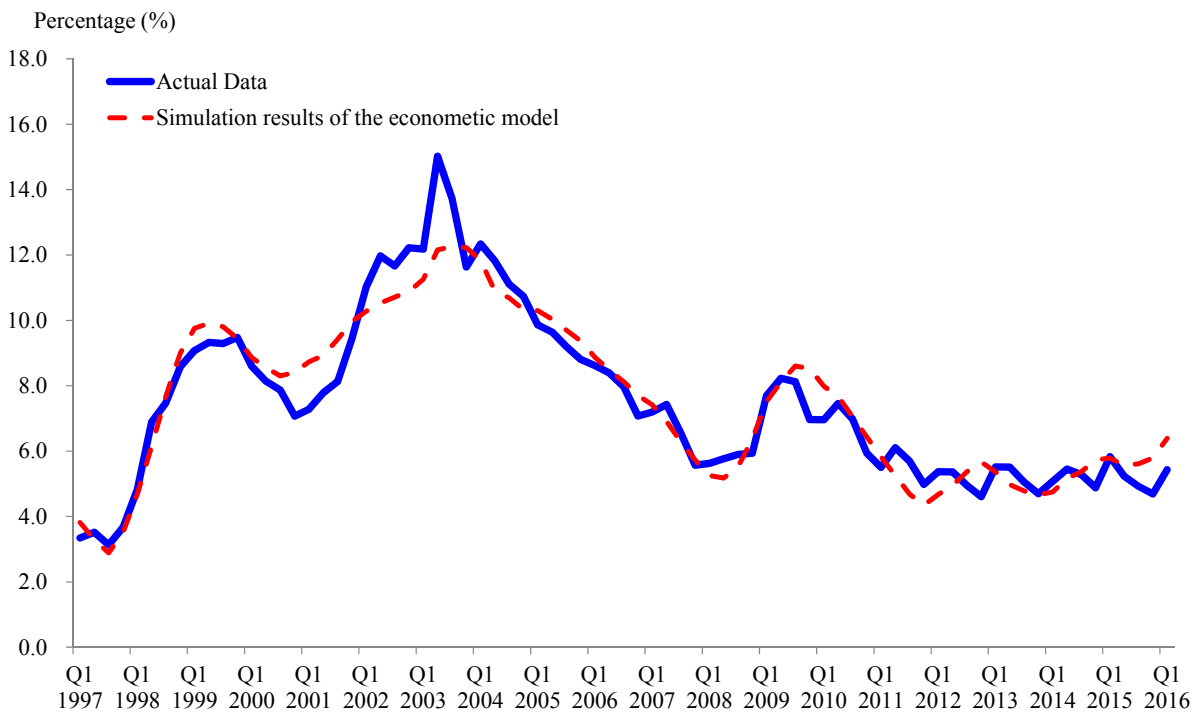
- (a) **SMW test levels:** The wage increases of grassroots employees were estimated under different SMW test levels.
- (b) **Economic scenarios:** To analyse the potential impact of the SMW rate adjustment under different scenarios, MWC made assumptions on four economic scenarios for the first half of 2017 in estimating the market demand

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

for grassroots employees (i.e. persons engaged in elementary occupations, and service and sales workers) under these scenarios.

IV.4.2 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 the actual data rather closely, suggesting 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 of unemployed grassroots workers and grassroots employees (excluding government employees and live-in domestic workers).

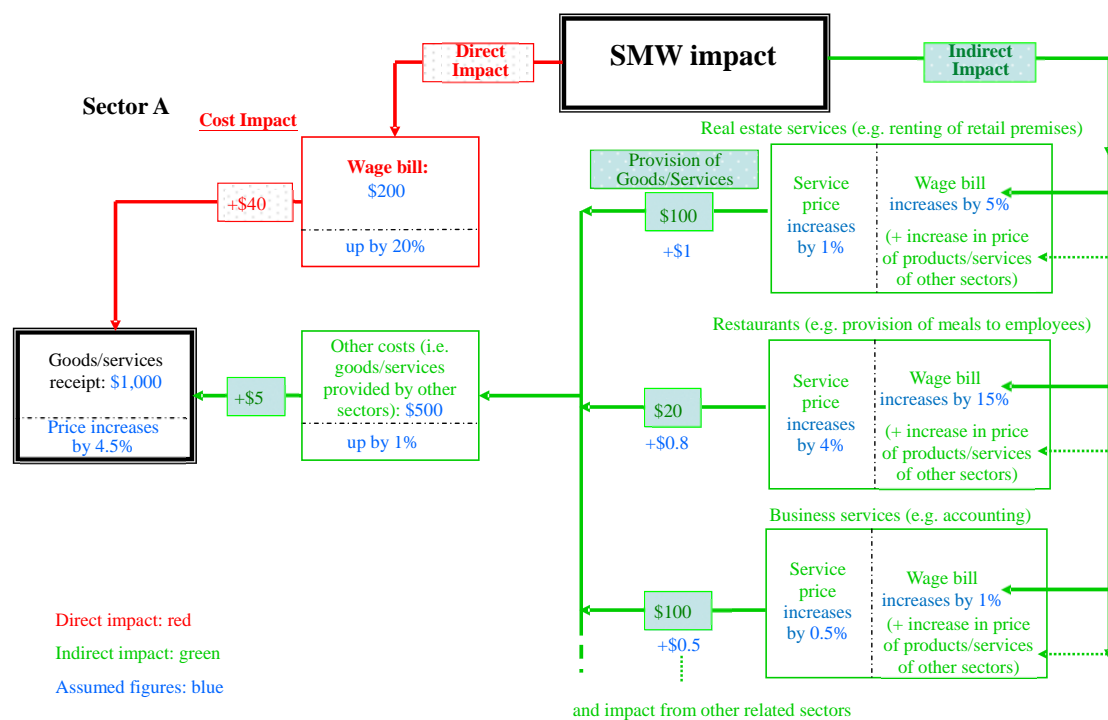
Sources: General Household Survey, Census and Statistics Department; estimates by the econometric model.

IV.5 Impact Assessment on Inflation

IV.5.1 When assessing the impact of different SMW test levels on prices of products or services as well as inflation, a full pass-on of the increase in direct and indirect costs to the prices of products and services was assumed. Increase in direct cost refers to the increase in an enterprise's wage bill directly arising from the increase in wages of

its employees under different SMW test levels and economic scenarios, 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 on products or services and cost structures of the relevant sectors.

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



IV.5.2 Regarding the impact on inflation, MWC first estimated the increases in prices of products or services in the related sectors, then multiplied them by the relevant weightings in the Composite Consumer Price Index (CPI) and CPI(A) to assess the lifting effect on these two price indices. In addition, the estimate also included 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 and as a result would lead to inflationary pressures surfacing at different stages. It should however be noted that the assessment could only cover the first round effect.

Appendix V

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- 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 2013 and May to June 2015

Sector ^(Note 2)	Employees within the lowest decile in the overall hourly wage distribution					
	May to June 2013 (i.e. employees with hourly wage less than \$33.0)			May to June 2015 (i.e. employees with hourly wage less than \$36.5)		
	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	212.4	26.1	30.0	209.4	25.1	33.8
1. Retail	40.1	14.5	32.0	55.0	19.4	35.0
1.1 Supermarkets and convenience stores	12.5	30.4	31.2	17.5	41.6	33.8
1.2 Other retail stores	27.7	11.8	32.3	37.6	15.6	35.3
2. Restaurants	49.9	23.3	30.8	37.7	17.2	35.0
2.1 Chinese restaurants	13.3	19.0	31.3	10.0	13.9	35.6
2.2 Non-Chinese restaurants	8.2	11.9	32.3	7.8	11.0	36.0
2.3 Fast food cafes	24.6	46.3	30.0	17.5	32.5	34.0
2.4 Hong Kong style tea cafes	3.9	17.5	32.0	2.3	10.5	36.1
3. Estate management, security and cleaning services	104.8	45.4	30.0	98.5	41.5	32.5
3.1 Real estate maintenance management	47.3	42.6	30.0	48.3	43.0	32.8
3.2 Security services	18.2	50.4	30.0	15.8	39.3	32.5
3.3 Cleaning services	34.9	51.3	30.0	30.5	44.0	32.5
3.4 Membership organisations	4.3	28.6	30.0	4.0	25.4	32.7
4. Other low paying sectors	17.6	19.0	31.2	18.1	19.0	34.4
4.1 Elderly homes	5.6	29.9	30.0	5.7	28.4	33.5
4.2 Laundry and dry cleaning services	1.6	27.1	30.6	1.2	21.8	35.0
4.3 Hairdressing and other personal services	4.9	11.9	32.3	5.6	12.9	35.0
4.4 Local courier services	1.4	26.5	30.2	1.0	20.5	35.3
4.5 Food processing and production	4.1	19.2	31.6	4.7	21.5	33.3
(B) Other sectors	65.9	3.1	38.2	85.4	3.9	41.4
5. Manufacturing	4.1	4.6	36.4	5.0	5.8	39.6
6. Construction	§	§	44.6	§	§	49.8
7. Import/export trade and wholesale	12.0	2.5	37.8	19.3	4.1	40.7
8. Accommodation and food services	4.2	8.2	33.9	6.6	12.6	35.5
9. Transportation, storage, courier services, information and communications	15.5	4.4	37.2	12.3	3.5	40.2
10. Financing, insurance, real estate, professional and business services	10.1	2.4	41.4	14.1	3.1	44.4
11. Education, medical and other social and personal services	17.4	4.1	37.4	22.9	5.1	40.0
12. Others	§	§	50.0	§	§	52.3
(C) All sectors	278.3	9.5	33.0	294.8	9.8	36.5

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

(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 2013 and May to June 2015

Sector ^(Note 2)	Proportion of employees earning the SMW rate (i.e. \$30.0 per hour) among all employees earning the SMW rate in respective sector in May to June 2013 (%)				Proportion of employees earning the SMW rate (i.e. \$32.5 per hour) among all employees earning the SMW rate in respective sector in May to June 2015 (%)			
	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	20.3	13.3	27.4	39.0	9.1	19.7	41.4	29.8
1. Retail	§	§	§	56.2	§	§	§	46.9
1.1 Supermarkets and convenience stores	§	§	§	§	§	§	§	§
1.2 Other retail stores	§	§	§	§	§	§	§	§
2. Restaurants	§	§	§	44.1	§	§	§	50.1
2.1 Chinese restaurants	§	§	§	20.9	§	§	§	§
2.2 Non-Chinese restaurants	§	§	§	§	§	§	§	§
2.3 Fast food cafes	§	§	§	62.0	§	§	§	94.5
2.4 Hong Kong style tea cafes	§	§	§	§	§	§	§	§
3. Estate management, security and cleaning services	20.4	18.1	26.0	35.5	7.7	23.2	40.8	28.3
3.1 Real estate maintenance management	25.0	12.2	26.4	36.3	§	§	§	35.8
3.2 Security services	§	§	§	§	§	§	§	§
3.3 Cleaning services	3.3	23.5	17.6	55.6	§	§	§	27.5
3.4 Membership organisations	§	§	§	§	§	§	§	68.5
4. Other low paying sectors	14.6	10.0	47.1	28.2	§	§	§	§
4.1 Elderly homes	§	§	§	27.2	§	§	§	§
4.2 Laundry and dry cleaning services	§	§	§	§	§	§	§	§
4.3 Hairdressing and other personal services	§	§	§	§	§	§	§	§
4.4 Local courier services	§	§	§	§	§	§	§	§
4.5 Food processing and production	§	§	§	§	§	§	§	§
(B) Other sectors	19.8	25.9	26.8	27.5	42.1	36.0	8.4	13.4
5. Manufacturing	§	§	§	§	§	§	§	§
6. Construction	§	§	§	§	§	§	§	§
7. Import/export trade and wholesale	§	§	§	§	§	§	§	14.9
8. Accommodation and food services	§	§	§	§	§	§	§	§
9. Transportation, storage, courier services, information and communications	§	§	§	33.6	§	§	§	§
10. Financing, insurance, real estate, professional and business services	§	§	§	§	§	§	§	§
11. Education, medical and other social and personal services	13.0	33.1	30.6	23.3	§	§	§	§
12. Others	§	§	§	§	§	§	§	§
(C) All sectors	20.2	15.1	27.3	37.3	17.6	24.0	32.9	25.5

Notes: (1) For employees who are granted rest day pay and/or meal break pay according to their employment contract or agreement. Employees do not include those not covered by SMW (i.e. government employees, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance).

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

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

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

Table A.3 Changes in the 10th percentile and median monthly wage of full-time employees ^(Note 1) analysed by socio-economic characteristics in May to June 2015

Socio-economic characteristic	10 th percentile monthly wage ^(Note 2) in May to June 2015			Median monthly wage ^(Note 2) in May to June 2015		
	Monthly Wage (\$)	Year-on-year rate of change (%)	Cumulative change over April to June 2010 (%)	Monthly Wage (\$)	Year-on-year rate of change (%)	Cumulative change over April to June 2010 (%)
Age group						
Aged 15 to 24	9,200	7.8	51.1	12,100	5.2	40.5
Aged 25 to 34	10,300	2.8	29.1	16,500	4.2	29.5
Aged 35 to 44	10,300	3.0	38.4	18,800	5.1	29.3
Aged 45 to 54	9,100	2.3	47.7	16,800	6.1	36.9
Aged 55 and above	8,500	6.3	46.6	13,600	5.6	39.6
Educational attainment						
Primary and below	8,000	6.7	48.1	11,200	6.1	41.1
Secondary 1 to 3	8,500	4.2	42.5	13,000	8.3	39.8
Secondary 4 to 7	10,000	5.6	41.6	15,000	2.4	30.4
Tertiary education	12,000	§	18.6	25,000	3.4	22.9
Occupational group						
Elementary workers	8,100	6.1	49.3	10,800	5.5	46.0
Service and sales workers	9,100	10.8	51.6	12,600	5.1	39.9
Craft workers and machine operators	11,000	§	54.2	18,200	7.1	45.6
Clerical support workers	9,200	0.5	28.9	13,200	5.6	29.4
Managers, administrators, professionals and associate professionals	13,300	2.4	21.0	26,000	5.3	27.6
Sector ^(Note 3)						
Low paying sectors	8,400	8.0	52.2	11,800	6.5	40.6
Retail	9,000	9.5	50.8	12,800	6.3	34.3
Restaurants	8,900	9.1	48.2	12,000	7.9	38.6
Estate management, security and cleaning services	8,100	7.0	51.0	11,000	7.5	52.8
Other low paying sectors	8,500	4.9	54.5	11,500	9.5	45.3
Other sectors	10,500	5.0	33.8	18,900	6.6	33.2

- Notes: (1) Employees do not include those not covered by Statutory Minimum Wage (i.e. government employees, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance). For the definition of full-time employees in the Annual Earnings and Hours Survey, please refer to **Glossary**.
- (2) Monthly wage is rounded to the nearest hundred. Percentage change is derived from unrounded figures.
- (3) Please refer to Table C.1 for coverage of individual sectors.
- § In between -0.05% and 0.05%.

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

Table A.4 Proportion of employees^(Note 1) 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 2013 and May to June 2015

Sector ^(Note 2)	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 (%)				Proportion of employees within the lowest decile in the overall hourly wage distribution (i.e. hourly wage less than \$36.5) (i.e. low-paid employees) among all low-paid employees in respective sector in May to June 2015 (%)			
	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	27.6	16.1	23.3	32.9	28.8	18.3	25.7	27.2
1. Retail	26.4	8.0	17.6	48.0	34.9	14.9	25.6	24.6
1.1 Supermarkets and convenience stores	18.1	7.9	21.3	52.6	21.9	4.2	44.0	29.9
1.2 Other retail stores	30.1	8.1	15.9	45.9	40.9	19.8	17.1	22.2
2. Restaurants	31.4	5.8	24.6	38.1	38.7	8.9	15.3	37.1
2.1 Chinese restaurants	40.3	13.6	21.0	25.1	49.5	21.0	15.5	14.1
2.2 Non-Chinese restaurants	44.6	11.3	30.3	13.8	§	§	§	16.2
2.3 Fast food cafes	§	§	§	56.8	30.1	4.3	4.7	61.0
2.4 Hong Kong style tea cafes	§	§	§	15.6	§	§	§	26.1
3. Estate management, security and cleaning services	26.0	24.9	23.4	25.6	21.6	25.3	27.6	25.5
3.1 Real estate maintenance management	38.1	16.6	25.5	19.7	25.4	8.7	38.3	27.6
3.2 Security services	§	§	§	6.7	32.8	18.9	36.5	11.8
3.3 Cleaning services	5.3	40.7	11.5	42.6	9.1	56.0	7.8	27.0
3.4 Membership organisations	§	§	§	33.9	26.0	17.1	14.4	42.5
4. Other low paying sectors	29.3	10.6	32.8	27.3	29.1	10.6	36.5	23.7
4.1 Elderly homes	§	§	§	22.4	17.8	10.2	57.2	14.8
4.2 Laundry and dry cleaning services	§	§	§	§	§	§	§	60.1
4.3 Hairdressing and other personal services	50.2	11.9	21.0	17.0	§	§	§	15.2
4.4 Local courier services	§	§	§	§	§	§	§	50.0
4.5 Food processing and production	§	§	§	41.7	38.9	14.1	17.0	29.9
(B) Other sectors	45.4	28.6	12.6	13.3	55.0	22.8	11.7	10.4
5. Manufacturing	§	§	§	35.7	26.8	23.4	17.3	32.5
6. Construction	§	§	§	§	§	§	§	§
7. Import/export trade and wholesale	46.2	35.2	8.9	9.7	63.0	23.2	2.8	10.9
8. Accommodation and food services	§	§	§	§	§	§	§	12.9
9. Transportation, storage, courier services, information and communications	51.9	26.9	8.4	12.7	50.6	17.5	23.0	8.9
10. Financing, insurance, real estate, professional and business services	47.5	33.8	7.7	10.9	44.8	36.8	8.3	10.1
11. Education, medical and other social and personal services	38.3	28.2	19.8	13.7	56.8	22.6	15.1	5.5
12. Others	§	§	§	§	§	§	§	§
(C) All sectors	31.9	19.0	20.8	28.3	36.4	19.6	21.6	22.3

Notes: (1) For employees who are granted rest day pay and/or meal break pay according to their employment contract or agreement. Employees do not include those not covered by Statutory Minimum Wage (i.e. government employees, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance).

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

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

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

Table A.5 Composition of total expenses^(Note 1) analysed by sector in 2012 and 2014

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 expenses	
	2012	2014	2012	2014	2012	2014	2012	2014
(A) Low paying sectors	59.1	57.0	10.0	11.6	16.6	17.1	14.3	14.4
1. Retail	71.1	68.1	10.5	12.2	8.9	9.4	9.4	10.3
1.1 Supermarkets and convenience stores	73.7	73.0	9.4	9.8	8.0	8.4	8.9	8.8
1.2 Other retail stores	70.8	67.6	10.7	12.5	9.0	9.5	9.5	10.5
2. Restaurants	36.2	34.4	14.2	15.6	30.8	30.9	18.8	19.1
2.1 Chinese restaurants	36.7	34.0	12.5	13.4	32.1	32.9	18.7	19.7
2.2 Non-Chinese restaurants	35.1	35.2	16.6	19.0	31.1	29.2	17.3	16.6
2.3 Fast food cafes	34.4	32.5	14.2	14.7	26.6	27.1	24.8	25.8
2.4 Hong Kong style tea cafes	39.7	36.5	14.3	15.7	32.0	34.0	14.0	13.8
3. Estate management, security and cleaning services	1.0	0.9	0.9	1.6	50.5	54.3	47.6	43.2
3.1 Real estate maintenance management	1.3	1.2	0.8	1.7	34.2	38.1	63.7	59.0
3.2 Security services	0.7	0.9	1.6	2.0	81.1	80.6	16.7	16.5
3.3 Cleaning services	#	#	0.7	0.8	79.9	79.5	19.4	19.7
4. Other low paying sectors	53.4	53.5	5.9	6.8	25.1	25.4	15.6	14.4
4.1 Elderly homes	10.9	14.2	15.1	17.3	56.3	54.4	17.6	14.0
4.2 Laundry and dry cleaning services	6.8	7.9	10.4	16.0	39.8	37.0	43.0	39.1
4.3 Hairdressing services	10.5	8.6	30.1	30.5	39.1	38.0	20.3	22.8
4.4 Local courier services	#	#	4.3	4.4	48.2	44.1	47.4	51.5
4.5 Food processing and production	68.6	68.9	2.3	2.5	16.5	17.1	12.6	11.5
(B) Other sectors	63.9	62.3	1.8	1.9	12.5	12.9	21.9	22.8
5. Manufacturing	85.2	81.6	1.1	1.5	8.8	10.5	4.9	6.4
6. Construction	22.9	19.8	0.9	1.1	28.1	28.4	48.2	50.7
7. Import/export trade and wholesale	87.4	87.2	0.8	0.8	4.7	4.6	7.2	7.3
8. Accommodation and food services	19.8	18.0	10.3	11.8	36.1	35.6	33.9	34.6
9. Transportation, storage, courier services, information and communications	2.5	2.6	2.6	2.9	16.3	17.0	78.7	77.4
10. Financing, insurance, real estate, professional and business services	0.2	0.3	5.5	5.5	43.5	42.5	50.8	51.7
11. Social and personal services	^							
12. Others	61.0	60.5	2.6	2.6	11.1	11.8	25.3	25.2
(C) All sectors	63.4	61.7	2.6	3.0	12.9	13.4	21.1	21.9

Notes: (1) Only including 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.

In between 0 and 0.05%.

^ Data are not released.

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

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

Table A.6 Composition of total operating expenses^(Note 1) analysed by sector in 2012 and 2014

Sector ^(Note 2)	Proportion of total operating expenses in respective sector (%)					
	Rent, rates and government rent		Compensation of employees ^(Note 3)		Other operating expenses	
	2012	2014	2012	2014	2012	2014
(A) Low paying sectors	24.5	26.9	40.7	39.7	34.9	33.4
1. Retail	36.4	38.3	30.9	29.4	32.7	32.3
1.1 Supermarkets and convenience stores	35.8	36.4	30.5	31.0	33.8	32.7
1.2 Other retail stores	36.5	38.5	30.9	29.2	32.6	32.3
2. Restaurants	22.3	23.8	48.3	47.1	29.4	29.1
2.1 Chinese restaurants	19.8	20.3	50.7	49.8	29.5	29.8
2.2 Non-Chinese restaurants	25.6	29.3	47.9	45.0	26.6	25.7
2.3 Fast food cafes	21.7	21.7	40.6	40.1	37.8	38.2
2.4 Hong Kong style tea cafes	23.7	24.7	53.1	53.6	23.2	21.7
3. Estate management, security and cleaning services	0.9	1.6	51.0	54.8	48.1	43.6
3.1 Real estate maintenance management	0.8	1.7	34.7	38.5	64.5	59.7
3.2 Security services	1.6	2.1	81.6	81.3	16.8	16.6
3.3 Cleaning services	0.7	0.8	79.9	79.5	19.4	19.7
4. Other low paying sectors	12.6	14.6	53.9	54.5	33.5	30.9
4.1 Elderly homes	17.0	20.2	63.2	63.5	19.8	16.4
4.2 Laundry and dry cleaning services	11.1	17.4	42.7	40.2	46.1	42.5
4.3 Hairdressing services	33.6	33.4	43.7	41.6	22.7	25.0
4.4 Local courier services	4.3	4.4	48.2	44.1	47.4	51.5
4.5 Food processing and production	7.3	7.9	52.7	55.2	40.0	36.9
(B) Other sectors	4.9	5.2	34.5	34.3	60.6	60.6
5. Manufacturing	7.7	8.1	59.3	57.2	33.0	34.7
6. Construction	1.1	1.3	36.4	35.5	62.5	63.2
7. Import/export trade and wholesale	6.1	6.6	36.9	36.0	56.9	57.4
8. Accommodation and food services	12.8	14.4	44.9	43.4	42.3	42.2
9. Transportation, storage, courier services, information and communications	2.7	3.0	16.7	17.5	80.6	79.5
10. Financing, insurance, real estate, professional and business services	5.5	5.6	43.6	42.6	50.9	51.8
11. Social and personal services	^					
12. Others	6.7	6.5	28.4	29.8	64.9	63.7
(C) All sectors	7.1	7.8	35.2	34.9	57.6	57.2

Notes: (1) Only including enterprises with employees.

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

(3) Compensation of employees includes wages and salaries, payments in kind and employer's social security expenditure.

^ Data are not released.

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

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

Table A.7 Distribution^(Note 1) of profit ratio^(Note 2) of all enterprises^(Note 3) analysed by sector in 2012 and 2014

Sector ^(Note 4)	2012					2014				
	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	38 910	8.4	-2.8	4.5	11.7	37 280	7.6	#	5.1	11.1
1. Retail	22 850	9.3	-8.4	3.1	11.4	21 190	8.0	-0.7	5.0	10.0
1.1 Supermarkets and convenience stores	50	5.7	0.7	3.3	5.4	50	6.4	-1.2	2.3	4.7
1.2 Other retail stores	22 790	9.7	-8.4	3.1	11.4	21 140	8.2	-0.7	5.0	10.0
2. Restaurants	10 160	5.7	-1.5	4.5	9.9	10 070	5.1	0.3	3.6	10.0
2.1 Chinese restaurants	2 320	5.0	-2.3	3.7	10.4	2 070	4.0	-0.4	2.7	11.8
2.2 Non-Chinese restaurants	4 100	6.4	-2.4	5.2	9.6	4 390	5.6	1.6	4.0	10.4
2.3 Fast food cafes	800	8.2	1.0	8.6	13.4	890	7.7	-1.7	5.2	8.9
2.4 Hong Kong style tea cafes	2 930	3.1	1.2	4.0	8.4	2 710	3.4	-0.6	3.1	8.6
3. Estate management, security and cleaning services	1 780	4.4	1.5	7.4	19.4	1 990	6.3	0.8	8.5	25.8
3.1 Real estate maintenance management	570	4.1	1.4	4.8	13.4	550	5.9	-3.0	1.7	8.5
3.2 Security services	290	4.8	1.0	5.6	11.1	350	6.1	0.4	5.4	10.8
3.3 Cleaning services	910	5.2	3.3	12.9	27.7	1 090	7.9	4.0	22.8	48.7
4. Other low paying sectors	4 140	8.9	1.4	7.5	16.4	4 030	9.4	2.0	8.6	21.7
4.1 Elderly homes ^(Note 5)	750	4.4	-4.1	1.5	7.3	800	6.0	1.5	4.7	10.9
4.2 Laundry and dry cleaning services	640	7.1	0.8	12.6	23.3	580	9.0	4.6	14.6	24.7
4.3 Hairdressing services	1 800	9.0	5.0	12.5	18.1	1 630	12.4	0.6	17.8	25.7
4.4 Local courier services	160	-1.4	0.7	9.1	11.5	180	1.0	2.5	9.2	18.2
4.5 Food processing and production	800	10.1	-0.3	3.8	10.9	840	10.1	-0.6	4.9	12.3
(B) Other sectors	181 220	15.9	-0.5	5.1	17.1	178 140	19.4	-1.2	4.5	18.0
5. Manufacturing	6 250	5.5	0.3	6.4	22.8	5 230	5.1	-0.1	9.4	21.7
6. Construction	15 810	5.0	0.6	4.4	11.4	16 970	7.1	-0.2	5.6	15.9
7. Import/export trade and wholesale	82 120	6.6	-0.6	3.2	11.9	76 310	6.9	-0.9	2.7	10.9
8. Accommodation and food services	3 660	30.4	2.2	8.9	18.2	3 740	27.7	-0.4	6.7	21.7
9. Transportation, storage, courier services, information and communications	16 850	8.1	-1.0	5.5	20.2	17 540	8.6	-6.1	3.8	15.1
10. Financing, insurance, real estate, professional and business services	34 650	50.9	-4.7	6.4	28.5	36 000	58.3	-3.2	10.0	33.0
11. Social and personal services	^									
12. Others	^	34.9	-0.5	0.2	12.5	^	33.1	3.6	14.1	22.4
(C) All sectors	220 130	15.2	-0.9	5.0	16.0	215 430	18.3	-1.1	4.7	16.1

- Notes: (1) Not including those enterprises without business receipts and local representative offices of overseas companies.
(2) Earnings before tax ratio (abbreviated as profit ratio) refers to ratio of profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, provisions; etc. to business receipts.
(3) Only including enterprises with employees.
(4) Please refer to Table C.1 for coverage of individual sectors.
(5) In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.

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.8 Distribution ^(Note 1) of profit ratio ^(Note 2) of small and medium ^(Note 3) enterprises ^(Note 4) analysed by sector in 2012 and 2014

Sector ^(Note 5)	2012					2014				
	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	37 150	3.5	-3.1	4.4	11.7	35 550	3.9	#	5.1	11.2
1. Retail	22 420	3.7	-8.5	3.1	11.4	20 770	3.9	-0.7	5.1	10.0
1.1 Supermarkets and convenience stores	40	3.0	0.7	3.3	5.4	50	0.5	-1.2	2.2	4.3
1.2 Other retail stores	22 380	3.7	-8.5	3.1	11.4	20 720	3.9	-0.7	5.1	10.0
2. Restaurants	9 430	2.5	-1.7	4.4	9.8	9 520	3.0	0.3	3.8	10.0
2.1 Chinese restaurants	1 790	0.3	-6.2	2.2	11.2	1 670	0.9	-1.7	3.4	12.1
2.2 Non-Chinese restaurants	3 990	3.5	-2.8	5.2	9.1	4 300	4.3	1.6	4.0	10.4
2.3 Fast food cafes	750	7.4	0.1	8.6	13.2	870	7.4	-1.7	5.2	8.6
2.4 Hong Kong style tea cafes	2 900	2.7	1.1	4.0	8.4	2 680	2.7	-0.6	3.1	8.6
3. Estate management, security and cleaning services	1 400	7.4	3.1	9.3	26.6	1 520	8.6	2.3	9.0	38.5
3.1 Real estate maintenance management	420	5.6	1.4	4.8	13.4	370	5.3	-10.0	0.2	7.5
3.2 Security services	190	9.6	1.0	6.4	18.0	250	11.0	-6.4	5.2	10.8
3.3 Cleaning services	790	10.1	4.3	14.3	28.2	900	13.0	8.5	25.8	49.2
4. Other low paying sectors	3 900	4.3	1.4	7.5	16.4	3 740	6.1	1.2	8.9	21.9
4.1 Elderly homes ^(Note 6)	630	4.6	-4.8	1.1	7.3	690	7.0	-0.9	4.7	10.9
4.2 Laundry and dry cleaning services	630	12.4	0.8	12.6	23.3	550	13.6	4.6	18.1	24.7
4.3 Hairdressing services	1 800	9.1	5.0	12.5	18.1	1 610	11.8	0.4	17.8	26.3
4.4 Local courier services	130	3.9	1.0	9.1	11.7	160	6.8	2.7	11.2	18.2
4.5 Food processing and production	710	2.5	-0.3	3.7	7.1	730	3.9	-0.6	2.9	12.3
(B) Other sectors	177 340	10.1	-0.6	5.1	17.2	173 640	13.0	-1.3	4.4	18.0
5. Manufacturing	6 040	7.8	0.5	6.4	23.2	5 030	6.8	-0.1	9.6	23.0
6. Construction	15 330	4.1	0.7	5.4	11.4	16 450	6.8	-0.2	5.6	15.9
7. Import/export trade and wholesale	81 240	6.2	-0.7	3.2	11.9	75 170	5.8	-0.9	2.7	10.9
8. Accommodation and food services	3 510	10.8	1.4	8.7	17.5	3 560	12.6	-1.2	6.2	21.2
9. Transportation, storage, courier services, information and communications	16 150	4.7	-1.0	5.5	20.5	16 770	4.0	-6.8	3.8	15.1
10. Financing, insurance, real estate, professional and business services	33 740	44.8	-4.9	6.3	28.4	34 980	61.0	-3.3	9.9	33.0
11. Social and personal services										
12. Others	^	3.3	-0.5	0.2	12.5	^	8.5	3.6	14.1	14.3
(C) All sectors	214 490	9.8	-1.0	5.0	16.0	209 190	12.6	-1.2	4.7	16.1

- Notes: (1) Not including those enterprises without business receipts and local representative offices of overseas companies.
(2) Earnings before tax ratio (abbreviated as profit ratio) refers to ratio of profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, provisions; etc. to business receipts.
(3) Small and medium enterprises refer to those enterprises with fewer than 50 persons engaged.
(4) Only including enterprises with employees.
(5) Please refer to Table C.1 for coverage of individual sectors.
(6) In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.
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.9 Distribution of weekly working hours analysed by sector in May to June 2013 and May to June 2015: All full-time employees ^(Note 1)

Sector ^(Note 2)	May to June 2013					May to June 2015				
	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	713.5	26.3	48.0	54.0	60.0	735.4	26.4	48.0	53.3	60.0
1. Retail	239.2	8.8	45.7	50.8	54.8	246.7	8.9	46.4	51.0	56.3
1.1 Supermarkets and convenience stores	30.1	1.1	48.5	54.0	58.8	33.0	1.2	48.0	49.8	60.0
1.2 Other retail stores	209.1	7.7	45.0	49.9	54.0	213.7	7.7	46.2	51.0	56.1
2. Restaurants	179.6	6.6	51.0	54.0	60.0	183.6	6.6	49.0	54.0	60.0
2.1 Chinese restaurants	67.2	2.5	54.0	60.0	60.0	69.5	2.5	54.0	60.0	60.7
2.2 Non-Chinese restaurants	59.6	2.2	49.9	54.0	60.0	61.3	2.2	49.9	54.0	60.0
2.3 Fast food cafes	32.2	1.2	48.0	53.4	54.0	32.3	1.2	48.0	49.4	54.8
2.4 Hong Kong style tea cafes	20.6	0.8	54.0	57.0	60.0	20.5	0.7	51.9	57.0	60.0
3. Estate management, security and cleaning services	210.8	7.8	48.0	54.0	66.0	217.8	7.8	48.0	51.0	66.0
3.1 Real estate maintenance management	109.5	4.0	48.0	60.0	70.5	110.5	4.0	48.0	54.0	69.2
3.2 Security services	35.3	1.3	48.0	62.8	72.0	39.0	1.4	48.0	57.2	72.0
3.3 Cleaning services	53.6	2.0	48.0	48.0	54.0	55.2	2.0	46.3	48.0	54.0
3.4 Membership organisations	12.4	0.5	43.7	48.0	57.0	13.1	0.5	40.6	44.7	54.0
4. Other low paying sectors	83.8	3.1	48.0	49.6	54.4	87.3	3.1	45.0	49.3	55.4
4.1 Elderly homes	18.4	0.7	46.2	54.0	66.0	19.5	0.7	46.7	54.0	66.0
4.2 Laundry and dry cleaning services	4.7	0.2	48.0	50.7	58.9	4.5	0.2	44.3	49.5	55.4
4.3 Hairdressing and other personal services	38.0	1.4	48.0	51.0	54.0	39.6	1.4	44.8	49.2	54.8
4.4 Local courier services	4.7	0.2	44.3	45.7	49.4	4.3	0.2	44.3	49.4	49.4
4.5 Food processing and production	18.0	0.7	44.3	48.0	54.2	19.4	0.7	45.7	48.0	54.0
(B) Other sectors	1 996.9	73.7	40.6	44.3	48.5	2 049.3	73.6	40.6	44.2	48.0
5. Manufacturing	88.5	3.3	43.2	48.0	51.0	83.5	3.0	41.6	45.7	49.4
6. Construction	260.7	9.6	46.2	51.5	54.0	276.9	9.9	45.0	48.5	54.0
7. Import/export trade and wholesale	456.7	16.9	40.6	43.2	45.7	452.9	16.3	40.6	41.6	45.1
8. Accommodation and food services	§	§	§	§	§	§	§	§	§	§
9. Transportation, storage, courier services, information and communications	339.9	12.5	40.6	45.7	51.7	339.6	12.2	40.6	45.3	51.0
10. Financing, insurance, real estate, professional and business services	415.0	15.3	40.6	40.6	44.3	437.0	15.7	40.6	40.6	45.0
11. Education, medical and other social and personal services	370.8	13.7	40.6	44.3	48.0	394.4	14.2	40.6	44.3	48.0
12. Others	§	§	§	§	§	§	§	§	§	§
(C) All sectors	2 710.4	100.0	40.6	45.7	53.3	2 784.7	100.0	40.6	45.3	51.5

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

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

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

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

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

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

Table A.10 Distribution of weekly working hours analysed by sector in May to June 2013 and May to June 2015: Lower-skilled full-time employees ^(Note 1)

Sector ^(Note 2)	May to June 2013					May to June 2015				
	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	616.2	38.0	48.0	54.0	60.0	633.4	38.5	48.0	54.0	60.0
1. Retail	196.6	12.1	46.8	51.0	55.3	204.4	12.4	47.8	51.9	57.0
1.1 Supermarkets and convenience stores	23.0	1.4	48.0	54.0	57.4	27.8	1.7	48.0	51.0	60.0
1.2 Other retail stores	173.6	10.7	46.2	51.0	55.0	176.6	10.7	47.6	52.3	56.7
2. Restaurants	163.8	10.1	51.0	54.0	60.0	167.1	10.1	48.5	54.0	60.0
2.1 Chinese restaurants	61.1	3.8	54.0	60.0	60.0	62.9	3.8	54.0	60.0	62.3
2.2 Non-Chinese restaurants	54.4	3.4	51.0	54.0	60.0	55.9	3.4	49.9	54.0	60.0
2.3 Fast food cafes	28.3	1.7	48.0	53.9	54.0	28.6	1.7	47.7	48.0	54.0
2.4 Hong Kong style tea cafes	20.0	1.2	54.0	57.0	60.0	19.7	1.2	51.9	56.9	60.0
3. Estate management, security and cleaning services	181.4	11.2	48.0	54.0	66.0	185.8	11.3	48.0	54.0	66.0
3.1 Real estate maintenance management	86.6	5.3	51.7	66.0	72.0	86.5	5.3	48.0	63.5	72.0
3.2 Security services	33.8	2.1	48.0	63.0	72.0	36.9	2.2	48.0	59.7	72.0
3.3 Cleaning services	52.8	3.2	48.0	48.3	54.0	53.9	3.3	47.8	48.0	54.0
3.4 Membership organisations	8.2	0.5	45.7	51.0	66.0	8.5	0.5	43.4	48.0	60.4
4. Other low paying sectors	74.4	4.6	48.0	50.8	54.8	76.1	4.6	45.0	49.4	55.4
4.1 Elderly homes	15.4	1.0	46.8	54.0	66.0	16.3	1.0	47.1	54.0	66.0
4.2 Laundry and dry cleaning services	4.2	0.3	48.0	50.8	58.9	3.2	0.2	41.6	48.0	54.0
4.3 Hairdressing and other personal services	36.2	2.2	48.0	51.2	54.0	37.4	2.3	44.8	49.9	54.8
4.4 Local courier services	4.0	0.2	44.3	48.0	49.4	3.8	0.2	46.6	49.4	50.3
4.5 Food processing and production	14.6	0.9	45.2	48.0	54.4	15.3	0.9	47.1	48.2	54.0
(B) Other sectors	1 007.2	62.0	42.0	47.8	52.9	1 013.6	61.5	40.6	45.7	51.0
5. Manufacturing	52.0	3.2	44.3	48.0	53.2	46.5	2.8	43.4	48.0	53.1
6. Construction	199.2	12.3	48.0	53.1	54.0	208.2	12.6	47.0	49.9	54.0
7. Import/export trade and wholesale	220.0	13.6	40.6	43.4	46.2	214.3	13.0	40.6	42.0	45.3
8. Accommodation and food services	§	§	§	§	§	§	§	§	§	§
9. Transportation, storage, courier services, information and communications	210.3	13.0	44.3	48.2	54.0	208.3	12.6	42.0	48.0	54.9
10. Financing, insurance, real estate, professional and business services	115.5	7.1	40.6	41.3	45.7	125.1	7.6	40.4	41.5	45.7
11. Education, medical and other social and personal services	167.3	10.3	42.5	46.2	49.0	167.7	10.2	41.7	45.3	48.9
12. Others	§	§	§	§	§	§	§	§	§	§
(C) All sectors	1 623.4	100.0	44.3	48.0	54.0	1 647.0	100.0	43.2	48.0	54.0

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

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

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

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

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

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

B. Impact Assessment

Table B.1 Socio-economic characteristics of employees ^(Note 1) with hourly wage less than \$34.5 in May to June 2015

Socio-economic characteristic	Employees with hourly wage less than \$34.5			Proportion of employees with the corresponding socio-economic characteristic among all employees ^(Note 4) (%)
	Number of persons ('000)	Proportion among all employees with the corresponding socio-economic characteristic ^(Note 2) (%)	Proportion among all employees with hourly wage less than \$34.5 ^(Note 3) (%)	
Employees with hourly wage less than \$34.5	154.5	100.0	100.0	5.2
I. Gender				
Female	88.9	6.2	57.5	48.0
Male	65.6	4.2	42.5	52.0
II. Age group				
Aged 15 to 24	16.2	7.1	10.5	7.6
Aged 25 to 34	18.3	2.4	11.9	25.9
Aged 35 to 44	18.9	2.4	12.2	25.8
Aged 45 to 54	48.3	6.4	31.3	25.2
Aged 55 and above	52.8	11.4	34.1	15.5
III. Educational attainment				
Primary and below	56.6	16.0	36.6	11.8
Secondary 1 to 3	39.6	9.0	25.6	14.6
Secondary 4 to 7	46.3	4.0	30.0	38.5
Tertiary education	12.0	1.1	7.8	35.2
IV. Employment nature				
Full-time	138.5	5.0	89.7	92.9
Part-time	15.9	7.5	10.3	7.1
V. Contractual status				
Permanent	135.5	5.1	87.7	89.0
Fixed-term contract	15.5	6.6	10.0	7.8
Casual	3.5	3.7	2.3	3.2
VI. Occupational group				
Managers, administrators, professionals and associate professionals	6.0	0.5	3.9	39.5
Clerical support workers	16.2	3.2	10.5	16.7
Craft workers and machine operators	4.5	1.3	2.9	11.5
Service and sales workers	38.5	7.5	24.9	17.1
Elementary workers	89.3	19.5	57.8	15.3
VII. Weekly working days				
Less than or equal to 5 days	29.3	2.5	19.0	39.1
More than 5 days but up to 5.5 days	9.7	1.5	6.3	22.1
More than 5.5 days but up to 6 days	113.9	9.9	73.7	38.2
More than 6 days	1.6	8.4	1.1	0.7
VIII. Basis of wage rate				
Monthly	105.8	4.1	68.5	85.5
Daily	§	§	§	§
Hourly	39.4	18.5	25.5	7.1
Others	§	§	§	§

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

(2) For example, female employees with hourly wage less than \$34.5 accounted for 6.2% of all female employees, and so on.

(3) For example, female employees accounted for 57.5% of all employees with hourly wage less than \$34.5, and so on.

(4) For example, female employees accounted for 48.0% 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 total wage bill ^(Note 1) under the recommended Statutory Minimum Wage (SMW) rate (i.e. \$34.5 per hour) analysed by sector

Sector ^(Note 2)	Estimated increase in wage bill based on the recommended Statutory Minimum Wage rate (i.e. 34.5 per hour)							
	Economic scenario 1 ^(Note 3)		Economic scenario 2 ^(Note 3)		Economic scenario 3 ^(Note 3)		Economic scenario 4 ^(Note 3)	
	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)	(\$Mn)	(%)
(A) Low paying sectors	408.1	0.3	433.6	0.3	461.0	0.4	509.5	0.4
1. Retail	40.5	0.1	43.0	0.1	45.5	0.1	52.7	0.1
1.1 Supermarkets and convenience stores	8.8	0.2	9.4	0.2	9.8	0.2	12.3	0.2
1.2 Other retail stores	31.7	0.1	33.7	0.1	35.7	0.1	40.4	0.1
2. Restaurants	51.3	0.2	54.3	0.2	57.1	0.2	63.3	0.2
2.1 Chinese restaurants	27.9	0.2	29.7	0.2	31.1	0.3	34.5	0.3
2.2 Non-Chinese restaurants	13.4	0.1	13.8	0.1	14.5	0.1	15.7	0.1
2.3 Fast food cafes	*	*	*	*	*	*	*	*
2.4 Hong Kong style tea cafes	*	*	*	*	*	*	*	*
3. Estate management, security and cleaning services	292.9	0.8	311.7	0.9	332.8	1.0	365.6	1.0
3.1 Real estate maintenance management	125.7	0.6	137.6	0.7	152.3	0.8	176.8	0.9
3.2 Security services	69.3	1.2	72.3	1.2	74.1	1.3	75.9	1.3
3.3 Cleaning services	88.0	1.3	90.8	1.3	93.3	1.4	97.9	1.4
3.4 Membership organisations	9.9	0.3	11.0	0.4	13.1	0.5	15.1	0.5
4. Other low paying sectors	23.4	0.2	24.6	0.2	25.6	0.2	28.0	0.2
4.1 Elderly homes	9.2	0.3	9.7	0.3	10.0	0.3	10.8	0.3
4.2 Laundry and dry cleaning services	*	*	*	*	*	*	*	*
4.3 Hairdressing and other personal services	7.2	0.1	7.6	0.1	7.8	0.1	8.4	0.1
4.4 Local courier services	*	*	*	*	*	*	*	*
4.5 Food processing and production	5.6	0.2	6.0	0.2	6.4	0.2	7.3	0.2
(B) Other sectors	251.9	#	271.3	#	289.4	#	330.7	0.1
(C) All sectors	660.0	0.1	705.0	0.1	750.4	0.1	840.2	0.1

Notes: (1) Increase in wage bill refers to the additional wage bill compared with the original wage bill when the wages of all employees earning hourly wage rates below the recommended hourly wage rate (i.e. \$34.5 per hour) are raised to the recommended level, other things being equal. Additional wage bill in the statistical table includes three components: (i) the additional amount payable by enterprises for raising the hourly wages of all employees involved to the recommended SMW rate to meet the legal requirement (“additional wage bill required to comply with the statutory requirement”); (ii) the additional wage bill relating to the rest day pay and meal break pay (for employees who are granted these payments according to their employment contract or agreement) for employees involved; and (iii) the additional wage bill induced by the impact of knock-on effect on pay hierarchies. Employees do not include those not covered by SMW (i.e. government employees, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance).

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

(3) Economic scenarios 1 to 4 assume the real year-on-year economic growth for the first half of 2017 to be 2%, 1%, 0% and -2% respectively.

In between 0 and 0.05%.

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

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

Sources: Estimate based on Annual Earnings and Hours Survey and the review results on additional wage bills.

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	155, 562-563	155, 562-563, 561901, 561903	155, 562-563	155
9. Transportation, storage, courier services, information and communications	H, J excluding 5322	H, J excluding 5322	H, J excluding 5321-2	H, J excluding 53
10. Financing, insurance, real estate, professional and business services	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81
11. Education, medical and other social and personal services	O-S excluding 873, 949, 9601, 960201, 9603-9	P-S excluding 873, 9601, 960201 and part of 851, 852, 853 and 86	P-S excluding 873, 949, 9601-2	O-S excluding 87, 94, 96-99
12. Others	D-E	B, D-E	B, D-E	A-B, D-E

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

Abbreviations

AEHS	Annual Earnings and Hours Survey
ASEA	Annual Survey of Economic Activities
C&SD	Census and Statistics Department
CE	Chief Executive
Composite CPI	Composite Consumer Price Index
CPI	Consumer Price Index
CPI(A)	Consumer Price Index (A)
CSSA	Comprehensive Social Security Assistance
First-term MWC	Minimum Wage Commission (2011-13)
First two terms of MWC	Minimum Wage Commission (2011-13 and 2013-15)
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 (2015-17)
MWO	Minimum Wage Ordinance
PMWC	Provisional Minimum Wage Commission
Second-term MWC	Minimum Wage Commission (2013-15)
SEV	Quarterly Survey of Employment and Vacancies
SME	Small and medium enterprise
SMW	Statutory Minimum Wage
UK	United Kingdom
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 calculated by dividing the total amount of wage bill paid to a category of employees in the month by the total number of employees of that category on the survey reference date in the month.</p> <p>Please refer to “Nominal wage index” for the definition of wage rate under LES.</p>
Business receipts	<p>Business receipts include service receipts, receipts from sales of goods, commissions, rental, interest and other income, but do not include gain on disposal of financial asset, property, machinery and equipment.</p>
Compensation of employees	<p>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 \$5,500 to \$24,499 during the period of October 2014 to September 2015, relating to some 50% of all households in Hong Kong).
Craft workers and machine operators	Craft workers and machine operators refer to craft and related workers, plant and machine operators and assemblers.
Depreciation	<p>Depreciation refers to the amount by which the value of fixed assets has declined during the reference period owing to utilisation and obsolescence.</p> <p>ASEA has started to collect statistics on depreciation since 2010.</p>
Earnings	Earnings for 2010 and before refer to earnings before tax; gain/loss on disposal of financial asset, property, machinery and equipment; bad debts/write-off; amortisation; and provisions. Starting from 2011, amortisation is deducted from earnings.
Earnings before tax ratio (abbreviated as profit ratio)	<p>Profit ratio refers to the ratio of earnings to business receipts.</p> <p>Please refer to “Earnings” for its definition.</p>
Elementary workers	<p>Elementary workers refer to persons engaged in the following occupational groups:</p> <ul style="list-style-type: none"> (i) In the Annual Earnings and Hours Survey (AEHS), elementary occupations refer to persons who mainly use hand-held tools and often some physical effort to carry out simple and routine tasks. Examples include cleaners, security guards, building caretakers, messengers, delivery workers, couriers, dishwashers, freight handlers, lift operators, labourers/general workers, hand packers, and card/pamphlet distributors; (ii) In the General Household Survey (GHS), elementary occupations include street vendors, domestic helpers and cleaners, messengers, private security guards, watchmen, freight handlers, lift operators, construction labourers, hand packers, and agricultural and fishery labourers; (iii) In LES, miscellaneous non-production workers include general workers, messengers/office assistants, drivers, bell boys, cleaners, dishwashers and building attendants, etc.

Glossary	Definition
Employed persons/persons engaged	<p>In GHS, employed persons include persons aged 15 or over who satisfy the following situation:</p> <ul style="list-style-type: none"> (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 who 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>Unless otherwise specified, employees involved refer to employees earning an hourly wage less than the Statutory Minimum Wage (SMW) test levels.</p>
Enterprise	<p>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>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>

Glossary	Definition
First round of wage-price spiral effect	The first round of wage-price spiral effect refers to the increase in prices of other items which are directly or indirectly linked to wages and inflation, beyond the direct and indirect impact of SMW on prices.
Full-time employees	<p>In AEHS, full-time employees refer to employees who cannot be classified as part-time employees following the definition as adopted in the survey.</p> <p>In GHS, full-time employees refer to employees who worked 35 hours or more during 7 days before enumeration or worked less than 35 hours due to vacation during the 7-day period.</p> <p>Please refer to “Part-time employees” for its definition.</p>
Grassroots employees	Grassroots employees include elementary occupations; and service and sales workers.
Higher-skilled employees/occupational groups	Higher-skilled employees/occupational groups include managers and administrators, professionals and associate professionals.
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	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.
Labour force participation rate	Labour force participation rate refers to the proportion of labour force in the total land-based non-institutional population aged 15 or over.
Labour productivity	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).

Glossary	Definition
Labour Productivity Index	Labour Productivity Index is compiled by dividing a real output index by a labour input index. It shows how efficient labour input is used for generating real output.
Large enterprises	Large enterprises refer to those enterprises with 50 or more persons engaged.
Lower-skilled employees/occupational groups	<p>In AEHS, lower-skilled employees/ occupational groups include elementary occupations; service and sales workers; craft and related workers, plant and machine operators and assemblers; and clerical support workers.</p> <p>In GHS, lower-skilled employees/ occupational groups include elementary occupations; service and sales workers; craft and related workers, plant and machine operators and assemblers; clerical support workers; and other occupations.</p>
Low-paid employees	Low-paid employees refer to employees with hourly rates falling within the lowest decile of the hourly wage distribution of all employees.
Low paying sectors (LPS)	LPS refer to LPS (covering 15 sub-sectors) as adopted by the Minimum Wage Commission, which include: (i) retail (including supermarkets and convenience stores, and other retail stores); (ii) restaurants (including Chinese restaurants, non-Chinese restaurants, fast food cafes, and Hong Kong style tea cafes); (iii) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (iv) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).
Market share of small and medium enterprises (SMEs)	<p>Market share of SMEs refers to the proportion of total business receipts of SMEs in the sector.</p> <p>Please refer to “Small and medium enterprises” for its definition.</p>
Median hourly wage	In AEHS, the hourly wages of all employees are arranged in ascending order (i.e. from the smallest value to the largest value), the median hourly wage refers to the hourly wage of the employee who ranks in the middle of all the employees concerned.

Glossary	Definition
Monthly employment earnings	<p>In GHS, monthly employment earnings refer to earnings received from all employments during the month before enumeration (including wage and salary, bonus, commission, tips, housing allowance, overtime allowance, attendance allowance and other cash allowances but excluding back pays).</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>In LES, 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>Unless otherwise specified, other sectors refer to non-LPS 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 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> <p>In GHS, part-time employees are persons who worked less than 35 hours during the 7 days before enumeration. Those who worked less than 35 hours due to vacation during the 7-day period are not counted.</p>
Percentiles	<p>Percentiles refer to the 99 values that divide an ordered data set into 100 equal parts (in terms of number of observations).</p> <p>The 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.</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>Service and sales workers refer to persons engaged in the following occupational groups:</p> <p>(i) In AEHS, service and sales workers refer to persons providing personal services related to travel, catering, personal care; or demonstrate and sell goods in wholesale or retail shops and similar establishments, as well as at stalls and on markets. Examples include flight attendants and travel guides, cooks and waiters, care workers, hairdressers and beauticians, personal services workers, wholesale and retail sales persons in shops, and shop assistants;</p> <p>(ii) In GHS, service and sales workers include air hostesses and travel guides, house stewards, cooks and waiters, baby-sitters, hairdressers and beauticians, rank and file of the police and other discipline services, transport conductors and other service workers, wholesale and retail salesmen in shops, shop assistants, and fashion models;</p> <p>(iii) In LES, service workers include waiters/waitresses, cooks, guards, etc.</p>
Small and medium enterprises (SMEs)	SMEs refer to those enterprises with fewer than 50 persons engaged.
Total expenses	<p>Total expenses include total operating expenses and cost of goods sold.</p> <p>Please refer to “Total operating expenses” for its definition.</p>
Total operating expenses	For 2010 and before, total operating expenses include compensation of employees; rent; rates; interest expenses; electricity; water; fuel; repair and maintenance; insurance costs; depreciation charges, etc., but do not include cost of goods sold; tax; gain/loss on disposal of financial asset, property, machinery and equipment; bad debts/write-off; amortisation; and provisions. Starting from 2011, amortisation is included in total operating expenses.

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)	Underlying CPI denotes CPI compiled upon netting out the effects of all Government's one-off relief measures.
Unemployed grassroots workers	<p>Unemployed grassroots workers are estimated based on the number of unemployed persons (not including re-entrants into the labour force who were unemployed) whose previous occupations were elementary occupations or service and sales workers in GHS.</p> <p>Please refer to "Unemployment rate" for the definition of unemployed persons.</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 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, Gender 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 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 job market. The potential negative impact of SMW on the labour market has been cushioned to a great extent by the largely stable macroeconomic conditions and the business growth of enterprises over the past five 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 about by SMW. On the other hand, while Hong Kong's global rankings in economic freedom, competitiveness and business environment have so far remained high, the other quantifiable indicators of competitiveness, including labour productivity growth, have fared less favourably in recent years. 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 \$34.5 per hour is an increase of \$2 per hour or 6.2% over the current SMW rate of \$32.5. Data from the 2015 Annual Earnings and Hours Survey conducted by the Census and Statistics Department revealed that the number of employees earning less than \$34.5 per hour in May to June 2015 was around 154 500 or 5.2% of all employees in Hong Kong¹. A relatively large number of them were female (57.5%); older employees (aged 45 and above) (65.4%); of lower educational attainment (secondary three and below) (62.3%); elementary workers, and service and sales workers (82.8%); and working in LPS (73.7%). Assuming the Hong Kong economy would grow moderately by 2% year-on-year in real terms for the first half of 2017, the Minimum Wage Commission (MWC) crudely estimated that in the first half of 2017 before the implementation of the recommended SMW rate, the number of employees involved earning an hourly wage less than \$34.5 would be around 74 100, representing

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

2.5% of all employees in Hong Kong². In general, under favourable economic conditions with faster wage growth, the number and proportion of employees involved would be relatively lower, and vice versa. 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. As set out by MWC in its report, since the labour market would keep adjusting before and after the revision of the SMW rate, and assumptions underlying the above estimates might differ from actualities, these estimates should be used for reference only. Based on experience upon the implementation of SMW, with the knock-on effect on pay hierarchies (knock-on effect), the number of employees receiving a pay rise attributable to the uprating of SMW was generally larger than the number of employees earning just at the SMW rate.

3. According to MWC's assessment, taking into account rest day pay and meal break pay (for employees who are granted these payments according to their employment contract or agreement) in addition to the statutory requirements as well as the impact of knock-on effect, the total additional wage bill would be around \$660 million, representing an increase of approximately 0.1% under the scenario of moderate economic growth. The additional wage bill for LPS as a whole would represent an increase of about 0.3%, while the impact on other sectors would be relatively less. The increases in additional wage bill would be apparently higher in some labour-intensive LPS, including cleaning services (up by 1.3%), security services (up by 1.2%) and real estate maintenance management (up by 0.6%). As enterprises would likely adopt different strategies to absorb or mitigate the rise in costs, MWC envisaged that the impact of the recommended SMW rate should be manageable for most sectors (including SMEs).

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 tend to have greater pricing power in general and should be able to pass on a considerable portion of the cost burden to consumers through price increase. In contrast, SMEs with generally thinner profit margins and limited scope for manoeuvre are likely to be affected more.

² As stated in the report of MWC, the number of employees involved before the implementation of the recommended SMW rate is conceptually different from the number of employees earning an hourly wage at the recommended SMW rate after its implementation. Taking into account the changes in the number of jobs and wages of employees in various sectors after May to June 2015, the socio-economic characteristics of the employees involved would differ to a certain extent from those observed in May to June 2015.

5. Uprating of SMW would incur additional labour costs and might prompt some enterprises to streamline and downsize, thereby putting upward pressure on the unemployment rate. The eventual impact on the unemployment rate would hinge crucially on the macroeconomic conditions when the recommended SMW rate is implemented. In the assessment of MWC, assuming the Hong Kong economy would grow moderately by 2% year-on-year in real terms for the first half of 2017, the recommended SMW rate would lead to an increase of around 3 100 unemployed grassroots workers and lift the overall unemployment rate by about 0.1 percentage point³. Under a less favourable scenario with slower economic growth at 1% in real terms for the first half of 2017, the overall unemployment rate was estimated to rise 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 is unlikely to trigger a marked deterioration in labour market conditions.

6. To the extent that some enterprises could 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, MWC estimated that the Composite Consumer Price Index (CPI) inflation would go up by about 0.2 percentage point. As a measure of inflation on the grassroots, the corresponding rise in CPI(A) inflation would be around 0.3 percentage point³. With its greater pressures arising 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 actual impact of the recommended SMW rate will depend 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 and May 2015 suggests that favourable economic conditions would significantly relieve the pressure of SMW on the labour market and businesses, and the impact would fall mostly on inflation. However, the considerable external uncertainties continue to cast a shadow over 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

³ The results were estimated under the scenario of a moderate economic growth at 2% year-on-year in real terms for the first half of 2017 and based on total wages of employees (including rest day pay and meal break pay, if applicable) and the impact of knock-on effect.

even without the additional impact from a higher SMW rate.

8. MWC considered that the recommended SMW rate would maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong's economic growth and competitiveness.

Sustainability implications

9. The increased SMW rate would have positive impact on income distribution and on improving self-reliance, family solidarity and social cohesion. However, those enterprises that are persistently making losses or competing on prices rather than quality may be subject to greater operation pressure.

Family implications

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

Gender implications

11. 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.

Financial implications

12. 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 not provide any top-up payment in these adjustment exercises.

13. 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. Nevertheless, making reference to the change in CSSA caseloads after the implementation of SMW⁵, and assuming that the economic and labour market situation will remain largely stable, we estimate that the recommended SMW rate will not have any effect on increasing the CSSA expenditure.

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

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 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 2016, there were 14 448 unemployment cases and 5 299 low earnings cases out of a total of 237 658 CSSA cases, which represented respective decreases of 51% and 62% 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.