



2020 Report of the Minimum Wage Commission

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Chairperson's Foreword

- 1 The Statutory Minimum Wage (SMW) was implemented on 1 May 2011 to provide statutory wage protection for grassroots employees while giving due regard to the need to sustain economic growth and competitiveness of Hong Kong. The Minimum Wage Commission (MWC) is tasked with the important mission of reporting to the Chief Executive (CE) in Council its recommendation about the SMW rate in accordance with the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong).
- 2 As in previous years, the MWC was committed to ensuring that its statutory function was completed effectively and properly. Adopting an evidence-based approach, the MWC not only examined and analysed relevant data and information comprehensively with a view to keeping abreast of Hong Kong's latest economic and labour market situations, but also took account of other considerations that could not be fully quantified, as well as impact assessment results.
- 3 Furthermore, the MWC conscientiously listened to views from the community, paying attention especially to stakeholders of low-paying sectors. In view of the COVID-19 epidemic (the epidemic) and relevant social distancing measures, the MWC, after careful consideration, decided to extend the consultation period from the original six weeks to eight weeks to allow more time for members of the public to express their views on the review of the SMW rate in lieu of physical consultation meetings. The views received from public consultation provided useful reference for the MWC. On behalf of the MWC, I would like to express my heartfelt gratitude to members of the public and all stakeholders for their participation in the public consultation amidst the epidemic.
- 4 Albeit from different sectors, Members of the MWC all appreciated that they should put the common good of the community first and base their deliberations on the review of the SMW rate on the objectives of forestalling excessively low wages, minimising the loss of low-paid jobs and sustaining Hong Kong's economic growth and competitiveness. As the Chairperson of the MWC, I am much obliged to all Members for their dedication and invaluable contribution to keeping deliberations in a rational, candid and balanced manner.

- 5 Since the implementation of SMW in 2011 and up to the first half of 2019, Hong Kong's labour market stayed tight and the implementation and upratings of SMW boosted significantly the wages of low-paid employees. The knock-on effect of the upratings also brought about pay rises to employees with wages above the SMW rate. However, hard hit by social incidents, the Hong Kong economy, which had already been weakened by a synchronised global economic slowdown and escalated China-US trade tensions, deteriorated sharply and fell into a recession in the second half of 2019. Upon entering 2020, the economic recession in Hong Kong deepened at an unprecedented scale as the epidemic seriously disrupted a wide range of economic activities. Meanwhile, the labour market showed further deterioration with the unemployment rate notably surging to 6.2% in the second quarter of 2020, the highest in over 15 years. While inflationary pressure continues to ease in the near term, the possibility of deflation cannot be ruled out. The challenges brought by the epidemic, the tense China-US relations and heightened geopolitical tensions all add tremendous uncertainties to the short-term economic outlook of Hong Kong. Against such a complicated and difficult economic situation, the current round of review on the SMW rate was more challenging than before.
- 6 I was very pleased to note that despite the unprecedented challenges in this epidemic, the austere labour market conditions and gloomy economic outlook, Members were not inclined to recommend a downward adjustment of the SMW rate. Views exchanged focused on whether to recommend maintaining the existing SMW rate or an upward revision, and if so, the extent and basis for doing so. As always, the MWC must work within the confines of its remit and adopt an evidence-based approach. Taking into account the prevailing economic recession and seriously impacted business environment, also being mindful that upward adjustment of the SMW rate in these circumstances could exacerbate job losses, especially among low-income and grassroots employees, making

them even harder hit in these difficult times, majority consensus was reached for putting forward a recommendation to maintain the existing SMW rate of \$37.50 per hour. I have the pleasure of submitting to the CE in Council this *2020 Report of the Minimum Wage Commission*.

A handwritten signature in black ink, appearing to read "Priscilla Wong". The signature is fluid and cursive, with a large initial 'P' and 'W'.

Priscilla WONG Pui-sze

October 2020

Executive Summary

Chapter 1: Introduction

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

Chapter 2: Work of the Minimum Wage Commission

- II To discharge its statutory function, MWC adopted an evidence-based approach when reviewing the SMW rate. In addition to regularly monitoring the Array of Indicators (AoIs), MWC also extensively and intensively consulted various sectors of the community on the review of the SMW rate, and took into consideration other factors that were pertinent to the SMW rate review but could not be fully quantified. At the same time, MWC made reference to the impact assessment results of various SMW test levels (test levels) under different economic scenario assumptions.
- III Drawing on the experiences of the past four terms of MWC in reviewing the SMW rate, MWC agreed to recommend SMW rate by taking the overall interest of the community as the major premise and through rational and objective discussions. To ensure objective and impartial discussions among MWC members without external influence, members unanimously agreed to keep the deliberations and discussions confidential. Nonetheless, MWC released the latest news and information on its webpage, and met the media to report its work progress to the public. When conducting the public consultation, MWC also uploaded onto its webpage the relevant reference data and information so as to facilitate members of the public and stakeholders to provide their views to MWC on the review of the SMW rate.

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

- IV The impact of the implementation of SMW on Hong Kong's socio-economic conditions hinges, to a large extent, on the macroeconomic environment. Favourable macroeconomic conditions would help cushion the pressure on employment and corporate profits brought about by the implementation and upratings of SMW. On the contrary, if the economy is trending down or even facing a huge external shock, an uprating of SMW would further jeopardise the business environment and employment situation. At the same time, apart from having a direct bearing on lower-paid employees and enterprises, the implementation and upratings of SMW would also, to a certain extent, affect other aspects of the Hong Kong economy (including the labour market and prices).
- V The labour market in Hong Kong stayed tight since the implementation of SMW in 2011 and up to the first half of 2019 (the fourth uprating of SMW was in May 2019). During this period, the implementation and upratings of SMW boosted the wages of low-paid employees notably. Employment earnings of grassroots employees saw significant improvements which exceeded the inflation in the same period. Moreover, the knock-on effect on pay hierarchies (knock-on effect) also brought about pay rises to some employees earning hourly wages above the SMW rate. This shows that the upratings of SMW not only forestalled excessively low wages, but also helped improve the wages of low-paid employees. On the other hand, SMW helped encourage more people to enter or re-enter the labour market, thereby unleashing more manpower to cope with labour demand. The business growth of enterprises could largely absorb the additional costs arising from SMW over the same period. Generally speaking, overall inflation was largely moderate since the implementation of SMW, and the past four upratings of SMW did not pose significant pressure on overall inflation. Overall, the positive impact of SMW outweighed its negative impact.
- VI However, the Hong Kong economy deteriorated abruptly and fell into recession in the second half of 2019 as it was hit by the local social incidents. In 2019, the economy posted the first annual contraction since 2009. Upon entering 2020, the COVID-19 epidemic (the epidemic) seriously disrupted a wide range of economic activities and the recession deepened. The Hong Kong economy contracted sharply by 9.0% year-on-year in the first half of 2020, the largest half-yearly decline on record. The extent of recession

was more serious than those seen in 1997-98 Asian Financial Crisis and 2008-09 Global Financial Crisis. The local epidemic situation was also rather volatile, causing serious disruptions to the local consumption-related economic activities. Hard hit by the epidemic, many enterprises implemented cost-saving measures such as shortening business hours, closing down branches, requesting their staff to take no-pay leave, or even laying off employees. Meanwhile, the labour market deteriorated abruptly and the unemployment rate surged. The seasonally adjusted unemployment rate surged from 2.8% in the second quarter of 2019 to 6.2% in the second quarter of 2020, the highest in over 15 years. While the labour market in June to August 2020 already reflected the support from the Employment Support Scheme, total employment decreased by 5.7% or around 220 000 as compared to that before the recession (i.e. the second quarter of 2019). The extent of employment losses was even more drastic than those in the past episodes of economic contraction. More than 80% of the job losses were in lower skilled jobs. As for consumer prices, inflation continued to ease amid subdued economic conditions. The underlying composite consumer price inflation was 1.8% for the first eight months of 2020 combined, lower than the annual average of 3.0% in 2019.

- VII An appropriate SMW rate can encourage more people to enter or re-enter the labour market, thereby unleashing more manpower to cope with labour demand, though a balance has to be maintained between forestalling excessively low wages and minimising the loss of low-paid jobs. Since the start of 2020, the overall economic and labour market conditions in Hong Kong were austere, and the economic outlook is faced with an unusually high degree of uncertainty. The impact of the adjustment of the SMW rate on employees and enterprises warrants particular attention. Considering that the low-paying sectors (LPS) have weaker profitability and have less room of manoeuvring when facing a deteriorated economic environment, the impact of the adjustment of the SMW rate on these sectors also warrants a particularly close watch.

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

- VIII MWC adopted an evidence-based approach in reviewing the SMW rate. When reviewing the SMW rate, MWC analysed and considered four main areas, viz. AOs, views of members of the public and stakeholders, other relevant considerations and impact assessment.

- IX AoIs covered the four areas of general economic conditions, labour market conditions, competitiveness and social inclusion. These data facilitated MWC to monitor the socio-economic and employment conditions after the implementation and rate adjustments of SMW, and also helped MWC assess the impact brought about by SMW and analyse the economic and labour market outlook. As for the short-term economic outlook, the evolving epidemic situation, coupled with the tense China-US relations and heightened geopolitical tensions, add tremendous uncertainties to Hong Kong's short-term economic outlook. Hard hit by the epidemic, the business environment of many sectors, including tourism, food and beverage services, retail, accommodation services, would remain very challenging in the short term. Employers' hiring sentiment is expected to remain cautious in the near term, thereby continuing to put pressure on the labour market. As such, the unemployment rate will conceivably stay at relatively high levels for some time. As for inflation, price pressures should remain tame in the near term in view of the subdued economic conditions, and the possibility of deflation cannot be ruled out. MWC already took into account all of the above factors in the current round of review of the SMW rate.
- X MWC conducted extensive and intensive consultation, including focused consultation meetings with stakeholders of LPS to gain a deeper understanding of the impact of SMW on LPS; and public consultation to collect submissions on the review of the SMW rate from members of the public and stakeholders. These views facilitated MWC to gain a more comprehensive understanding of the impact of SMW on the economy, society, employment conditions, various sectors (in particular LPS) and small and medium enterprises in Hong Kong; and provided MWC with important reference in formulating the impact assessment framework for the review of the SMW rate.
- XI MWC also took into account other relevant considerations that could not be fully quantified. These included enhancing employees' quality of life, enhancing work incentive, impact on workers with relatively lower bargaining power and less work experience, impact on wage differentials across sectors or positions, preserving the market's capacity to adjust, impact on social harmony, additional costs induced by wage increase, impact on quality of products and services, as well as other impacts of SMW yet to fully emerge.

XII MWC recognised that SMW would have profound and far-reaching impact on the society, employees, enterprises, labour market and the economy as a whole. Hence, MWC made reference to the results of the impact assessment of different test levels. In view of the time gap between the review of the SMW rate and the implementation of the recommended rate, when conducting the impact assessment, MWC made assumptions on four different economic scenarios in the first half of 2021, with reference to the most updated data and economic situation at the time and also the experience of previous rounds of SMW rate reviews, so as to make forward-looking estimations as far as possible.

Chapter 5: Impact Assessment Results

XIII The results of the impact assessment were one of the many factors that MWC will take into consideration when reviewing the SMW rate. MWC estimated the possible impacts of various test levels on employees, enterprises, unemployment rate and inflation under the four economic scenario assumptions. The Hong Kong economy entered recession in the third quarter of 2019. Since then, the labour market continued to worsen and the unemployment rate surged. The extent of losses of grassroots jobs was even more severe than those in the past episodes of economic contraction. As Hong Kong's short-term economic outlook is faced with an unusually high degree of uncertainty, the impact of the adjustment of the SMW rate on employees and enterprises warrants particular attention. When reviewing the SMW rate, MWC had to take into account factors of various aspects, in order to arrive at an appropriate recommendation of the SMW rate.

Chapter 6: Recommendation

XIV Wages of grassroots employees improved notably during the period between the implementation of SMW and its fourth uprating. Its cumulative increase also exceeded the inflation over the same period. Benefiting from the implementation and upratings of SMW in the past and the relatively tight labour market back then, low-paid employees enjoyed pay rises which in turn improved their quality of life.

XV However, amidst the local social incidents, global economic slowdown and China-US trade tensions, the Hong Kong economy deteriorated abruptly and fell into a recession in the second half of 2019. The overall economy posted the first annual contraction since 2009 in 2019. Upon entering 2020, the epidemic seriously disrupted a wide range of economic activities and the recession deepened. Various sectors were struggling to

operate, with the business environment of the tourism sector and such LPS as food and beverage services and retail being particularly austere.

- XVI The labour market deteriorated abruptly as a result of the epidemic. Even with the support of the Employment Support Scheme to the labour market, the seasonally adjusted unemployment rate in June to August 2020 remained elevated at 6.1% and the underemployment rate rose to 3.8%. Employment declined around 220 000, over 80% of which were lower-skilled jobs. Hong Kong's short-term economic outlook is faced with an unusually high degree of uncertainty. The labour market will continue to be under high pressure. The unemployment rate will conceivably stay at a relatively high levels for some time. Amidst the gloomy economic conditions, the Government already announced a pay freeze for civil servants and the Minimum Allowable Wage and food allowance for foreign domestic helpers also remained unchanged.
- XVII As for consumer prices, inflation continued to ease in 2020. The underlying Composite Consumer Price Index (CPI) inflation was only 0.1% for July and August 2020 combined. The underlying CPI(A), which is more relevant to the livelihood of the grassroots, showed a similar trend. Price pressures on both external and domestic fronts should remain tame in the near term in view of the subdued global and local economic conditions, and the possibility of deflation cannot be ruled out.
- XVIII There were views from the community that the SMW rate should be adjusted downwards if the evidence-based approach is to be strictly adhered to, considering the blow of unprecedented scale to the Hong Kong economy, the extremely difficult business environment faced by the enterprises, and the highly uncertain economic outlook.
- XIX On the other hand, uprating of SMW would, to a certain extent, lead to increases in wage bills and other labour costs for enterprises. Some enterprises might also need to offer pay rises to some employees earning hourly wages above the SMW rate because of the knock-on effect. Upon an increase in labour costs, some enterprises might further reduce recruitment, or even lay off employees or cease operations, thereby increasing the risks of unemployment of the employees concerned (especially low-paid employees). As the prevailing economic environment in Hong Kong was particularly austere, the risks from this aspect became rather visible.
- XX There were views that the livelihood of grassroots employees was severely affected by the

double blows of the weak economic conditions and the raging of epidemic. The increase of the expenditures on purchasing anti-epidemic supplies also further added their burden. In addition, earnings of many low-paid employees were reduced during the epidemic due to no-pay leave and/or wage reduction, and that the business environment faced by enterprises should improve post-epidemic, these views considered that the SMW rate should be adjusted upwards by an extent no less than the inflation, so that the basic living expenses of low-paid employees could be met and the purchasing power of their wages would not be eroded by inflation.

XXI MWC balanced the various factors and considered the latest economic and employment data which reflected that the Hong Kong economy was in a deep recession with elevated unemployment rate, and that consumer prices might adjust downwards owing to the weak economic conditions, and the possibility of deflation could not be ruled out. Even if the economy might rebound next year from the trough, it would be difficult for the economic activity level to return to that before the recession in a short period of time. Facing the weak economic environment, adjusting the SMW rate upwards might result in further loss of low-paid jobs, in turn affecting the employment opportunities of the vulnerable groups.

XXII Upholding the objective of taking the overall interest of the community as the major premise and to reach a unanimous consensus through rational and objective discussions, MWC agreed not to adopt any proposals for adjusting the SMW rate downwards after careful consideration of the relevant data and factors, so as to avoid further impacting on earnings of low-paid employees. Nevertheless, taking into account the blow of unprecedented scale faced by the Hong Kong economy and the highly uncertain economic outlook, the majority of the members came up with the consensus that an upward adjustment of the SMW rate was not supported. The recommendation of MWC in this review was to maintain the SMW rate at \$37.5 per hour.

1 Introduction

1.I Background and Statutory Function

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

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

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

1.3 The past four terms (i.e. 2011-13, 2013-15, 2015-17 and 2017-19) of MWC adopted an evidence-based approach in reviewing the SMW rate. After conducting extensive consultation and considering the views from the community, as well as performing prudent and objective analysis and undergoing iterative discussions, MWC reported to CE in Council in October 2012, October 2014, October 2016 and October 2018 respectively, with the recommendations about the SMW rate subsequently endorsed by CE in Council. After the relevant subsidiary legislation was passed by the Legislative Council, the SMW rate was adjusted upwards to \$30.0, \$32.5, \$34.5 and \$37.5 on 1 May 2013, 1 May 2015, 1 May 2017 and 1 May 2019 respectively.

1.II Composition and Membership List

1.4 Members of the current term (2019-21) of MWC were appointed by CE with a two-year tenure starting from 1 March 2019. MWC comprises three members each from the labour sector, the business sector, the academia and the Government. The Chairperson and the nine non-official members were appointed on an ad personam basis. The Labour Department and the Office of the Government Economist of the Financial Secretary's Office provide secretariat support for MWC.

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



Chairperson	Ms Priscilla WONG Pui-sze, B.B.S., J.P. (front row: middle)
Non-official Members (*)	Mr CHAN Wing-on, J.P. (back row: 3 rd from left)
	Mr LAU Chin-shek, J.P. (back row: middle)
	Professor Paul LAU Sau-him (back row: 2 nd from left)
	Ms Juan LEUNG Chung-yan, M.H. (front row: 2 nd from left)
	Professor Terry LUM Yat-sang (back row: 3 rd from right)
	Dr Billy MAK Sui-choi (back row: 2 nd from right)
	Ms NG Wai-yee, M.H., J.P. (front row: 3 rd from right)
	Ms Malina NGAI Man-lin, J.P. (front row: 2 nd from right)
	Mrs Katherine NGAN NG Yu-ying, M.H., J.P. (front row: 3 rd from left)

Official Members	Permanent Secretary for Labour and Welfare Ms CHANG King-yiu, J.P. (front row: 1 st from left)
	Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) Ms Eliza LEE Man-ching, J.P. (front row: 1 st from right)
	Government Economist Mr Andrew AU Sik-hung, J.P. (back row: 1 st from left)
Secretary	Chief Labour Officer (Statutory Minimum Wage) Ms Betty NG Shuk-fong (back row: 1 st from right)

(*) 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 2020.

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. To discharge its statutory function, when reviewing the SMW rate, MWC not only made reference to relevant data and information, but also fully considered the views on the review of the SMW rate from the community so as to recommend an appropriate SMW rate.

2.1.2 Evidence-based approach

2.3 SMW impacts on various aspects in Hong Kong, including the society, the economy, the labour market and inflation, while the community also has diverse views and concerns about the review of the SMW rate. To deliberate on the SMW rate in an objective and balanced manner, MWC adopted an evidence-based approach and analysed comprehensively the data and information related to the socio-economic and employment conditions, including the data from the Annual Earnings and Hours Survey (AEHS) and the Annual Survey of Economic Activities (ASEA) conducted by the Census and Statistics Department (C&SD), and a large number of other relevant data covered by the Array of Indicators (AoIs) which were released more frequently and more up-to-date (see paragraphs 2.9 to 2.12). MWC also examined the data, views and information provided by members of the public and stakeholders during the consultation activities conducted by MWC. After making reference to the aforementioned data and information, MWC also

conducted impact assessment for various hourly wage test levels and considered other factors which were pertinent to the review of the SMW rate but could not be fully quantified so as to recommend an appropriate SMW rate.

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

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

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

2.I.4 Overall interest of the community as major premise

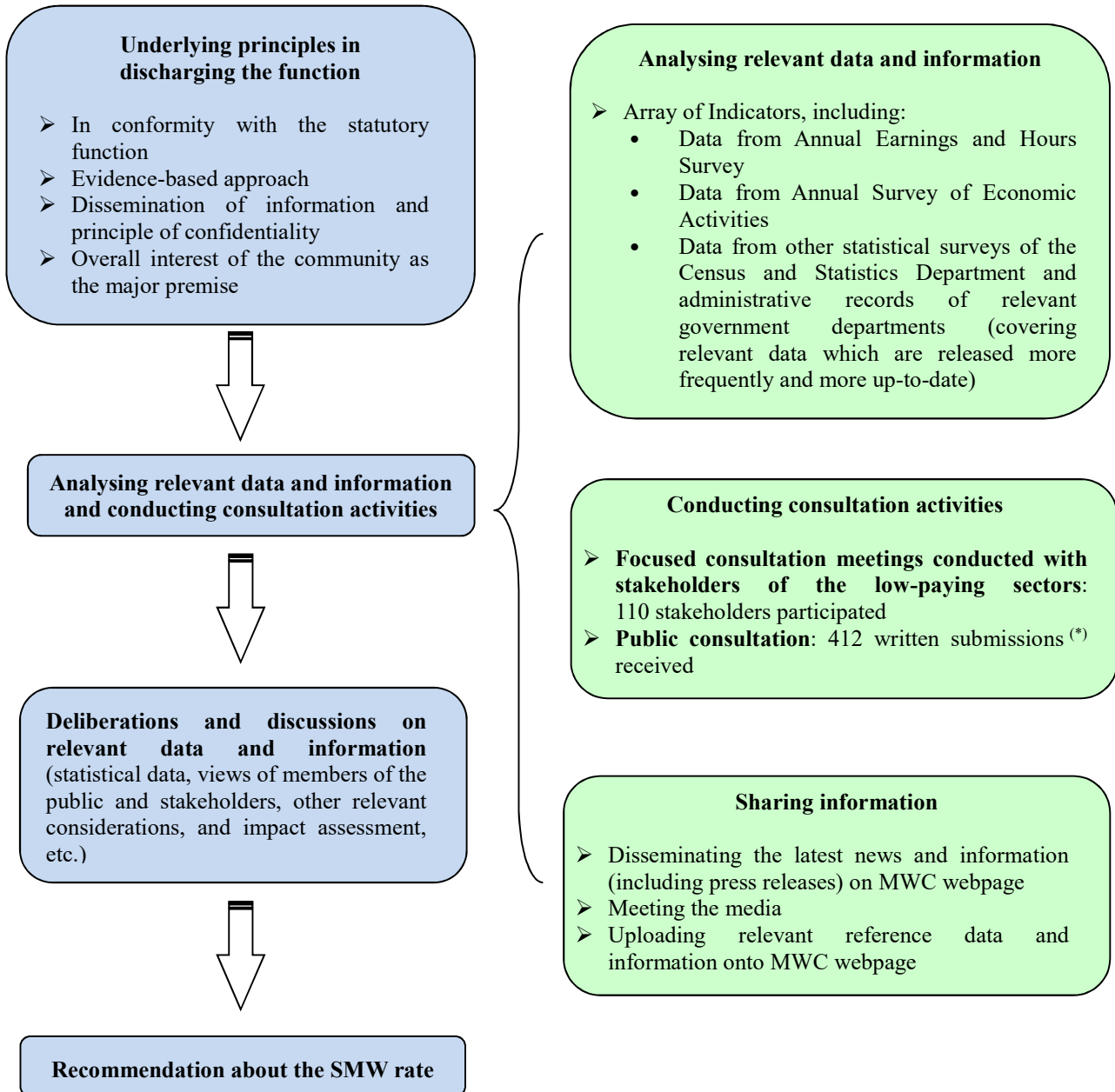
2.6 Drawing on the experiences of the past four terms of MWC in reviewing the SMW rate, MWC agreed to recommend an appropriate SMW rate by taking the overall interest of the community as the major premise and through rational and objective discussions.

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

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

2.7 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: (*) 153 member signatures and 530 signed letters with identical content were attached to two of the submissions respectively.

2.8 Major activities and work of MWC are summarised in Table 2.1.

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

Date	Events	Details
Year 2019		
25 March	MWC meeting	<ul style="list-style-type: none"> To convene the first meeting of MWC (2019-21). To receive the major results of the 2018 Annual Earnings and Hours Survey (AEHS) and the 2017 Annual Survey of Economic Activities (ASEA), and agree on the housekeeping arrangements of MWC.
26 June	MWC meeting	<ul style="list-style-type: none"> To convene the second meeting. To discuss MWC's work plan for 2019, and review the Array of Indicators to be considered in monitoring Hong Kong's socio-economic and employment conditions after the implementation and upratings of Statutory Minimum Wage (SMW), and examine the latest conditions of the various indicators.
16 September	Consultation activities	<ul style="list-style-type: none"> To conduct focused consultation meetings with stakeholders of the low paying sectors (LPS) (Please refer to paragraph 2.15).
17 September	Dissemination of information	<ul style="list-style-type: none"> To upload onto the MWC webpage the list of stakeholders that attended the focused consultation meetings with LPS held in September 2019.
15 October	Dissemination of information	<ul style="list-style-type: none"> To meet and brief the media on the work of MWC.
	MWC meeting	<ul style="list-style-type: none"> To convene the third 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 16 September 2019.
5 December	MWC meeting	<ul style="list-style-type: none"> To convene the fourth meeting. To examine Hong Kong's latest socio-economic and employment conditions, and discuss the impact assessment framework and methodology to be adopted when reviewing the SMW rate.
Year 2020		
30 March	MWC meeting	<ul style="list-style-type: none"> To convene the fifth meeting. To receive the major results of 2019 AEHS and 2018 ASEA, examine Hong Kong's latest socio-economic and employment conditions, and deliberate on MWC's work plan for 2020 and the consultation arrangements for the review of the SMW rate.
22 April	Dissemination of information	<ul style="list-style-type: none"> To upload relevant reference data and information onto MWC webpage. To issue a press release to announce that MWC launched an eight-week public consultation from 22 April 2020 and invited views from the community on the review of the SMW rate.
22 April to 16 June	Consultation activities	<ul style="list-style-type: none"> To conduct public consultation on the review of the SMW rate (Please refer to paragraphs 2.16 to 2.19).
24 April	Dissemination of information	<ul style="list-style-type: none"> To issue a press release to report that the Chief Executive (CE) had, in accordance with the Minimum Wage Ordinance, required MWC to submit the recommendation report about the SMW rate to the CE in Council on or before 31 October 2020.
5 June	Dissemination of information	<ul style="list-style-type: none"> To issue a press release to appeal to members of the public and stakeholders for submissions to MWC on the review of the SMW rate before the end of public consultation period.
17 June	Dissemination of information	<ul style="list-style-type: none"> To report on the consultation work that had been undertaken by MWC in conducting the review of the SMW rate.

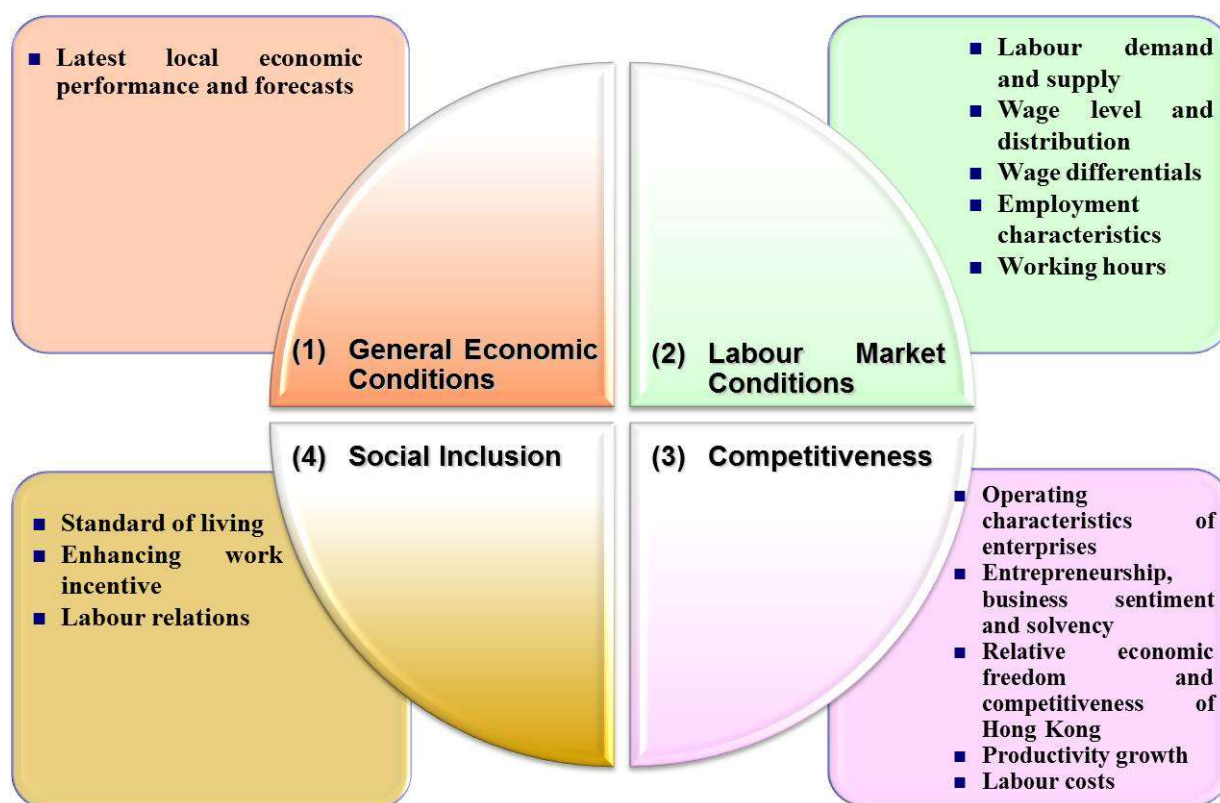
Date	Events	Details
23 June	MWC meeting	<ul style="list-style-type: none"> To convene the sixth meeting. To examine Hong Kong's latest socio-economic and employment conditions, discuss major considerations in the review of the SMW rate and main assumptions to be adopted in the impact assessment, and the initial views collected during public consultation.
18 August	MWC meeting	<ul style="list-style-type: none"> To convene the seventh meeting. To examine Hong Kong's latest socio-economic and employment conditions, discuss the views collected during the eight-week public consultation and the impact assessment results of different SMW test levels.
25 August	MWC meeting	<ul style="list-style-type: none"> To convene the eighth meeting. To examine Hong Kong's latest socio-economic and employment conditions, and deliberate on the SMW rate to be recommended to CE in Council.
3 September	MWC meeting	<ul style="list-style-type: none"> To convene the ninth meeting. To deliberate on the SMW rate to be recommended to the CE in Council.

2.II.2 Relevant data and information

2.9 Drawing reference from the experience of the past four terms of MWC, MWC considered that examining and monitoring regularly the latest data which reflected the socio-economic and employment conditions, and analysing thoroughly the relevant quantitative indicators would be useful for the review of the SMW rate.

2.10 Based on the relevant indicators adopted in the past reviews of the SMW rate, MWC examined the feasibility and appropriateness of adding more indicators. MWC considered that it should continue to adopt AoIs, which covered the four areas of consideration (namely general economic conditions, labour market conditions, competitiveness and social inclusion), in Figure 2.2. The relevant indicators covered the essential considerations that MWC must take into account in discharging its statutory function, thereby providing important information for MWC's review of the SMW rate. AoIs and their data sources are listed in **Appendix I**.

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



2.11 AoIs included data from AEHS and ASEA, two annual surveys conducted by C&SD which provided highly useful and important information for MWC's review of the SMW rate. AEHS provided comprehensive data on the level and distribution of employees' wages, as well as the employment and demographic characteristics of employees in Hong Kong. These data enabled MWC to conduct detailed analyses so as to understand the socio-economic characteristics of employees of different wage levels. ASEA provided statistical data on the business performance and operating characteristics of enterprises in various sectors, which facilitated MWC to understand business receipts, operating expenses, compensation of employees and gross surplus of different sectors.

2.12 Apart from the annual 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, so as to closely monitor the latest situation and trend of the socio-economic and employment conditions. These data mainly came from other statistical surveys conducted by C&SD (such as the General Household Survey and the Monthly Retail Price Survey which were released monthly, as well as the Labour Earnings Survey and Quarterly Survey of Employment and Vacancies which were released quarterly) and administrative

records of other government departments (such as the Inland Revenue Department and Official Receiver's Office).

- 2.13 MWC also uploaded the data of AoIs and relevant links onto its webpage (see paragraph 2.17) so as to facilitate members of the public and stakeholders to express their views on the review of the SMW rate.

2.II.3 Consultation activities

- 2.14 Apart from studying statistical data and other relevant information, MWC also fully considered the views from the community. To solicit and understand the views of members of the public and stakeholders on the review of the SMW rate, MWC conducted focused consultation meetings with stakeholders of the LPS ⁽¹⁾ in September 2019, and conducted public consultation from April to June 2020 (see Section 4.II of Chapter 4).

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

- 2.15 MWC conducted focused consultation meetings with stakeholders of LPS (including trade unions, trade associations/professional institutes and employers) on 16 September 2019 in order to get an in-depth understanding on the impact of the implementation of SMW and its past four upratings on LPS. MWC conducted a total of four sessions of focused consultation meetings. Among the 388 stakeholders invited (including stakeholders of LPS and other stakeholders whom had been invited by MWC to attend consultation meetings previously, and those who had expressed views on the SMW rate and related issues or had requested meetings with MWC before), 110 ⁽²⁾ of them participated in the

(1) MWC defined LPS as sectors employing a relatively large number of low-paid employees (i.e. employees with hourly wage rates below the 10th percentile of the overall hourly wage distribution) or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. In the light of the more recent employment situation of low-paid employees in different sectors, the current term of MWC had updated the coverage of LPS. The LPS identified by the current term of MWC included: (a) retail trade (including supermarkets and convenience stores, and other retail stores); (b) food and beverage services (including Chinese restaurants, non-Chinese restaurants, fast food cafes, Hong Kong style tea cafes, and other food and beverage services); (c) estate management, security and cleaning services (including real estate maintenance management, security services, cleaning services, and membership organisations); and (d) other LPS (including elderly homes, laundry and dry cleaning services, hairdressing and other personal services, local courier services, and food processing and production).

(2) Including 40 stakeholders of estate management, security and cleaning services, 25 stakeholders of the food and beverage services, 24 stakeholders of the retail trade, and 21 stakeholders of other LPS.

meetings. A list of the stakeholders that attended the focused consultation meetings is in **Appendix II**.

(b) Public consultation

2.16 MWC launched an eight-week public consultation⁽³⁾ from 22 April to 16 June 2020 to invite members of the public and stakeholders to provide their views on the review of the SMW rate to MWC.

2.17 To facilitate the public consultation, relevant reference data and information were uploaded onto the MWC webpage, including the latest data on AoIs reflecting the socio-economic and employment conditions after the implementation of SMW and its four upratings; other relevant considerations relating to the review of the SMW rate; an outline of the impact assessment to be considered by MWC in reviewing the SMW rate; and supplementary statistical data⁽⁴⁾.

2.18 Besides, MWC solicited submissions from members of the public and stakeholders through various media and channels, including issuing press releases; broadcasting radio announcements; posting advertisements on various newspapers; disseminating consultation messages on different modes of public transport; advertising at territory-wide second pouch boxes of the Hongkong Post; broadcasting promotional messages at the Home Affairs Enquiry Centres in various districts; sending appeal letters to stakeholders and about 12 000 incorporated owners, mutual aid committees and owners' committees, etc.; and providing hyperlinks to the MWC webpage on the Government webpages (such as the webpages of the GovHK, Labour Department and Labour Department's Interactive Employment Service), E-newsletter of the Support and Consultation Centre for Small and Medium Enterprises, newspapers and media mobile applications, so as to publicise the public consultation of MWC more widely. An electronic form was also provided on the MWC webpage to facilitate members of the public to provide their views.

(3) In the light of the COVID-19 epidemic and after careful consideration, MWC decided not to convene consultation meetings so as to reduce the risk of virus transmission. The public consultation was extended from six weeks to eight weeks, so as to facilitate members of the public and stakeholders to submit their views.

(4) Supplementary statistical data provided were based on the results of the 2019 AEHS.

- 2.19 Through the public consultation, MWC received a total of 412 written submissions⁽⁵⁾. These submissions came from members of the public and organisations from different sectors including trade unions, trade/employers' associations, small and medium enterprises (SMEs) associations, associations of LPS, other trade associations, labour policy concern groups, think tanks/policy research institutes, as well as owners' committees, etc.
- 2.20 Through the consultation activities mentioned above, MWC gained a more comprehensive understanding of the impact of SMW on Hong Kong's economy, society, employment conditions, various sectors (in particular LPS) and SMEs, and collected views from members of the public and stakeholders on the review of the SMW rate. These provided MWC with a solid foundation and references in discharging its duties.

2.II.4 Other relevant considerations

- 2.21 Although AoIs identified by MWC already covered the data in the four areas of general economic conditions, labour market conditions, competitiveness and social inclusion, not all impact of SMW could be quantified and reflected by changes in figures. Hence, in reviewing the SMW rate, MWC also took into account other relevant considerations that could not be fully quantified (see Section 4.III of Chapter 4).

2.II.5 Impact assessment

- 2.22 MWC recognised that SMW would have profound and far-reaching impact on employees, enterprises, labour market and the economy as a whole. After drawing reference from the framework of impact assessment adopted by MWC in previous rounds, and considering the experiences of reviewing the SMW rate in the past, relevant socio-economic indicators and the views of members of the public and stakeholders, MWC set different SMW test levels (test levels) and economic scenario assumptions to analyse the possible impact induced by different test levels on employees, enterprises, unemployment rate and inflation (see Section 4.IV of Chapter 4 and Chapter 5).

(5) 153 member signatures and 530 signed letters with identical content were attached to two of the submissions respectively.

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

- 3.1 The main function of the Minimum Wage Commission (MWC) is to report its recommendation about the Statutory Minimum Wage (SMW) rate to the Chief Executive in Council. By adopting an evidence-based approach, MWC conducted comprehensive analyses of data and information of various aspects in order to monitor the socio-economic and employment conditions after the implementation of SMW in May 2011 and its four upratings. The data analysed by MWC were mainly drawn from a number of statistical surveys of the Census and Statistics Department (C&SD) and the administrative records of other relevant government departments (see Chapter 2).
- 3.2 This chapter, through analyses of relevant data, summarises MWC's observations on the changes in various aspects of the socio-economic conditions in Hong Kong since the implementation of SMW, and elaborates on SMW's impact on enterprises, inflation, employees⁽¹⁾ and the local labour market.

3.1 The Macroeconomic Conditions since the Implementation of Statutory Minimum Wage

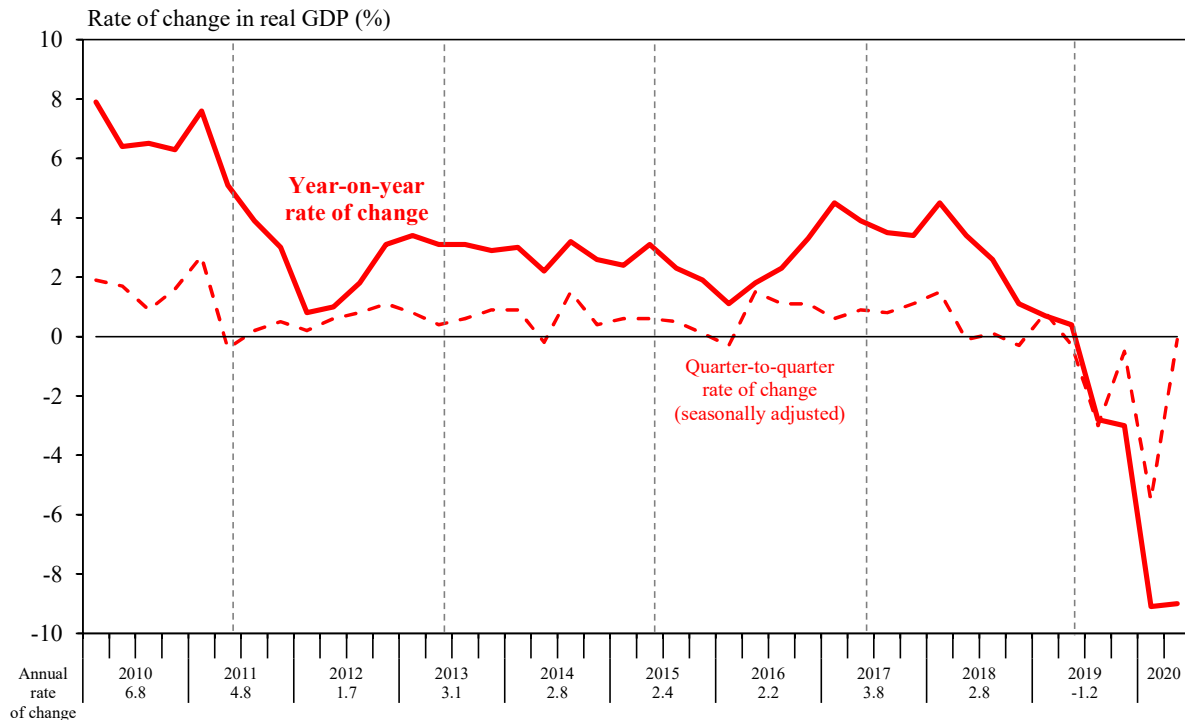
- 3.3 MWC recognises that the impact of the implementation of SMW on Hong Kong's socio-economic conditions hinges, to a large extent, on the macroeconomic environment. Favourable macroeconomic conditions would help cushion the pressure on employment and corporate profits brought about by the implementation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

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

3.I.1 The Hong Kong economy remained largely stable between 2011 and 2018, but deteriorated abruptly since mid-2019 and fell into recession

3.4 SMW was implemented in 2011. During the seven years between 2011 and 2018, the macroeconomic environment in Hong Kong was largely stable, with sustained economic expansion and real Gross Domestic Product (GDP) growth averaging 2.7% per annum (Figure 3.1). However, affected by the global economic slowdown and China-US trade tensions, Hong Kong's economic growth began to moderate visibly in the later part of 2018. As the local social incidents dealt a heavy blow to economic sentiment and consumption- and tourism-related activities, the economy deteriorated abruptly and fell into recession in the second half of 2019. After recording a moderate year-on-year growth of 0.5% in the first half of 2019, the Hong Kong economy contracted sharply by 2.9% in the second half of the year and by 1.2% for the year as a whole, the first annual decline since 2009. Upon entering 2020, the COVID-19 epidemic (the epidemic) dealt a blow of unprecedented scale to both the global and local economy, seriously disrupting a wide range of economic activities. The global economy fell into a deep recession in the second quarter and the Hong Kong economy contracted sharply by 9.0% year-on-year in the first half of 2020, the largest half-yearly decline on record. Although the local epidemic was largely under control during May to early July 2020 and businesses of some sectors showed some relative improvement at one time, the third wave of local epidemic started in July and seriously disrupted local consumption-related economic activities again. Before effective vaccines are widely available, the threat of the epidemic will continue to cloud the global economic outlook. As the widespread travel restrictions are expected to remain in place, it would be difficult for inbound tourism, which has been at a standstill since early 2020, to recover visibly in a short period of time. In addition, the political, economic and trade tensions between China and the US add tremendous uncertainties to Hong Kong's short-term economic outlook. Hard hit by the epidemic, the business environment of many sectors, including tourism, food and beverage services, retail, accommodation services, etc., will remain very challenging in the short term.

Figure 3.1: The Hong Kong economy deteriorated abruptly in the second half of 2019 and fell into recession; affected by the epidemic, the economic recession deepened in the first half of 2020



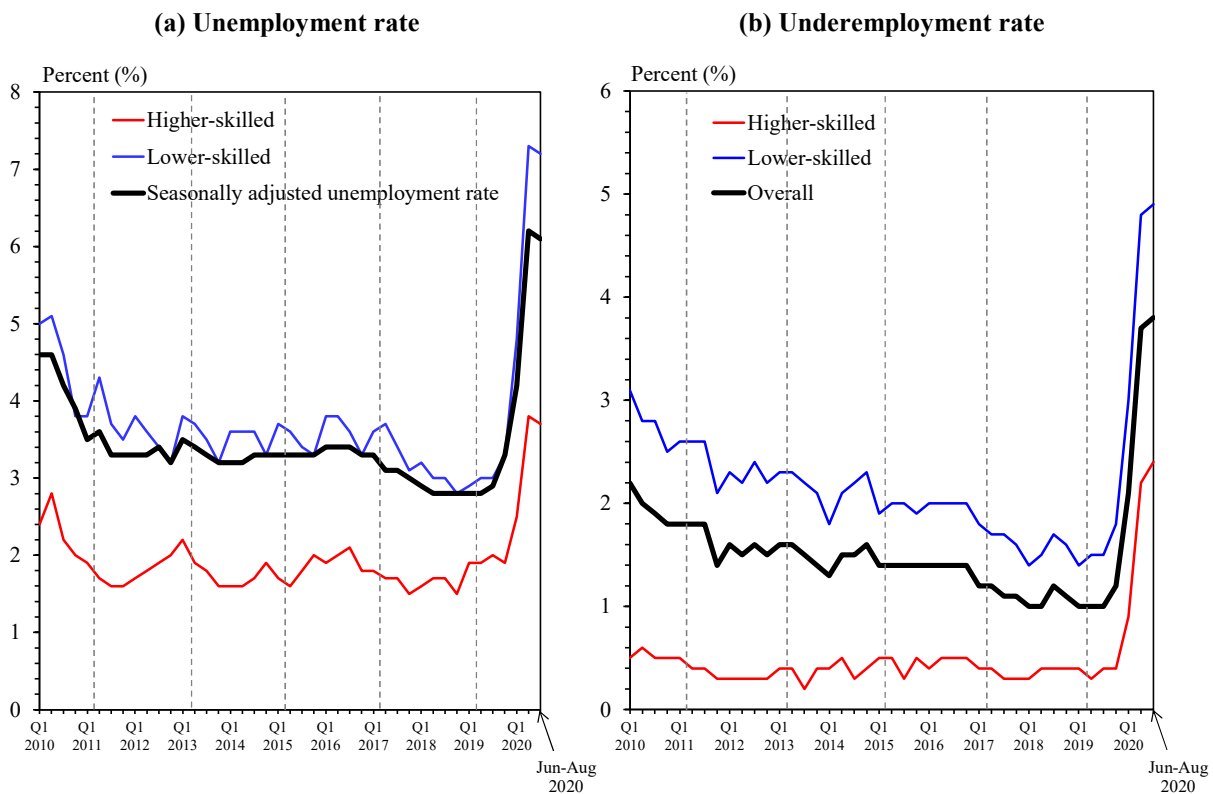
Notes: Figures are subject to revision by the Census and Statistics Department when more data become available.
The black vertical dotted lines denote the implementation/revision of SMW.
Source: National Income Statistics, Census and Statistics Department.

3.1.2 The labour market remained tight since the implementation of SMW and up to mid-2019, but then deteriorated as the economy fell into recession

3.5 The labour market remained tight since the implementation of SMW in 2011 and up to the second quarter of 2019. The annual unemployment rates stayed at low levels of 3.3% to 3.4% between 2011 and 2016, and then went down gradually to 3.1% in 2017 and 2.8% in 2018, with the latter being the lowest since 1997. The seasonally adjusted unemployment rate remained low at 2.8% in the first half of 2019 despite slower economic growth in Hong Kong. According to the General Household Survey (GHS), employment increased cumulatively by 9.0% (or about 318 000) between February to April 2011 (i.e. before the implementation of SMW) and the second quarter of 2019. Meanwhile, the labour force grew cumulatively by 8.2% (or about 300 000). These developments mainly reflected the ample new jobs available in the market brought about by the sustained growth of the Hong Kong economy during the period. In addition, the implementation of SMW also improved the income prospect for some people, thereby enhancing their incentive to work.

3.6 However, as the Hong Kong economy fell into recession in the second half of 2019, the pressure on the labour market increased notably. Upon entering 2020, the labour market deteriorated abruptly as a result of the epidemic. The seasonally adjusted unemployment rate soared from 2.8% in the second quarter of 2019 to 6.2% in the second quarter of 2020, the highest in over 15 years (Figure 3.2). Meanwhile, some enterprises, in the face of a challenging business environment, requested their staff to take no-pay leave. The underemployment rate rose to 3.7% in the second quarter of 2020, the highest in nearly 17 years. As labour demand fell sharply, employment saw a sharp year-on-year decline of 6.2% in the second quarter of 2020. Furthermore, in response to the abrupt deterioration in economic conditions, some people chose to leave the labour force for the time being when losing their jobs. The labour force participation rate fell to 59.4% in the second quarter of 2020 (the 59.1% registered in March to May 2020 was the record low), and the labour force saw a year-on-year decline of 2.8% in the same period. As the local epidemic was largely under control during May to early July and the implementation of the Employment Support Scheme provided support, the labour market saw signs of stabilisation at the end of the second quarter and the beginning of the third quarter. However, the third wave of local epidemic started in July, putting the labour market under pressure again. More recent statistics showed that, in June to August, the seasonally adjusted unemployment rate remained elevated at 6.1% and the underemployment rate rose to 3.8%, the highest since the Severe Acute Respiratory Syndrome (SARS) epidemic. Employment decreased by 5.7% or around 220 000 as compared to that before the recession (i.e. the second quarter of 2019). The decline in employment was more drastic than those in the several episodes of economic contraction in the past two decades or so. More than 80% of the job losses were in lower-skilled jobs.

Figure 3.2: Unemployment and underemployment rates increased visibly from low levels since mid-2019. More recent statistics showed that both remained elevated



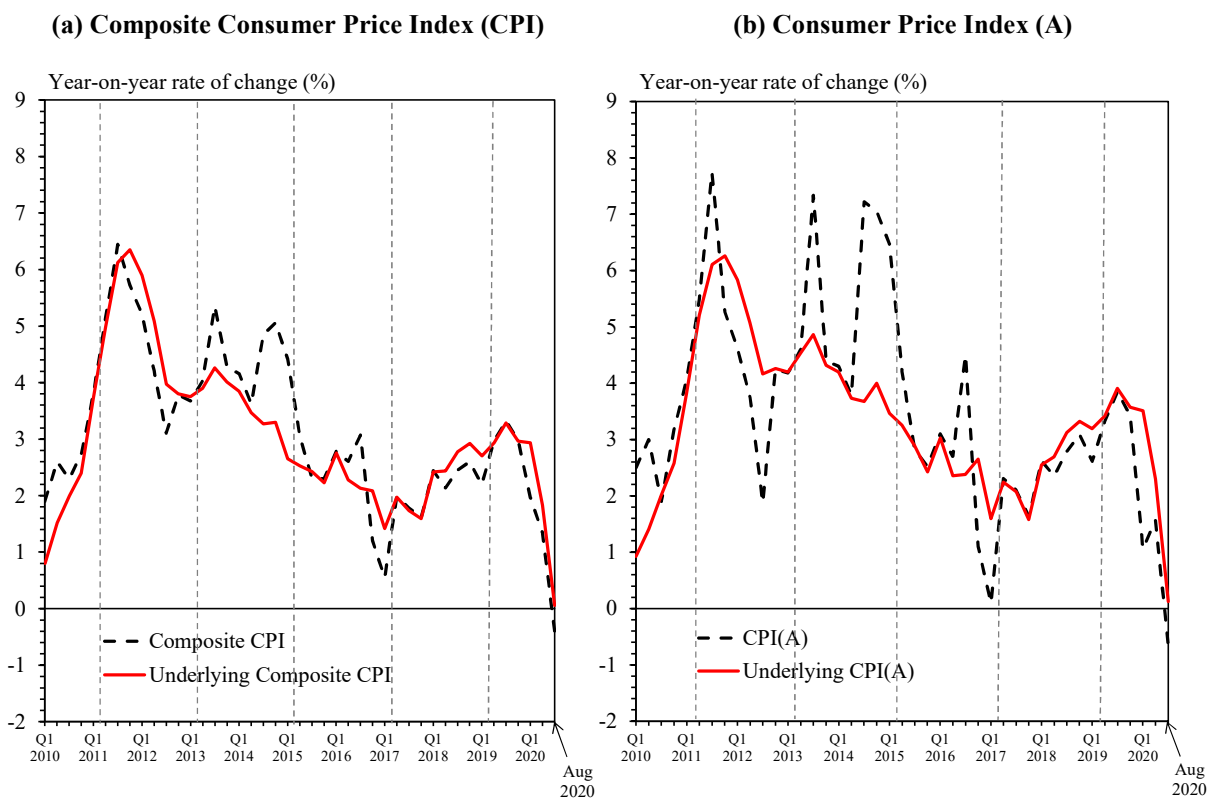
Note: The black vertical dotted lines denote the implementation/revision of SMW.
 Source: General Household Survey, Census and Statistics Department.

3.1.3 Overall inflation remained largely moderate

3.7 In the period shortly after the implementation of SMW, driven by higher domestic cost pressure, surging international food and commodity prices and rising private housing rentals, the underlying Composite Consumer Price Index (CPI) rose by 5.3% in 2011. Nevertheless, between 2012 and 2017, with the uptrend in private housing rentals tapering off and external price pressure being largely contained, the underlying Composite CPI inflation witnessed a moderating trend during the period (Figure 3.3). In 2018, the underlying Composite CPI inflation went up somewhat as a result of the accelerated increases in residential rentals and prices of basic foodstuffs. Inflation went up further in 2019, mainly due to the sharp increase in pork prices amid the reduced supply of fresh pork since May that year, but overall inflation remained at a moderate level. Upon entering 2020, the increase in private housing rentals moderated and the price pressures on many other consumption items receded amid the economic recession. In addition, the impact of the surge in pork prices, which started in mid-2019, began to dissipate in May 2020. Inflation continued to ease as a result. In July and August 2020, prices of meals bought away from home turned to a year-on-year decline as the third wave of local

epidemic started in July. The price pressures on many other major CPI components also receded further. In terms of the underlying Composite CPI, inflation moderated noticeably further to 0.2% and 0.1% in July and August respectively. For the first eight months of 2020 combined, the underlying Composite CPI inflation was 1.8%. The underlying CPI(A), which is more relevant to the livelihood of the grassroots, showed a similar trend. Price pressures on both external and domestic fronts should remain tame in the remainder of 2020 in view of the subdued global and local economic conditions, and the possibility of deflation cannot be ruled out.

Figure 3.3: Inflation rose but remained moderate in 2018 and 2019, and it continued to ease upon entering 2020^(*)



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

The black vertical dotted lines denote the implementation/revision of SMW.

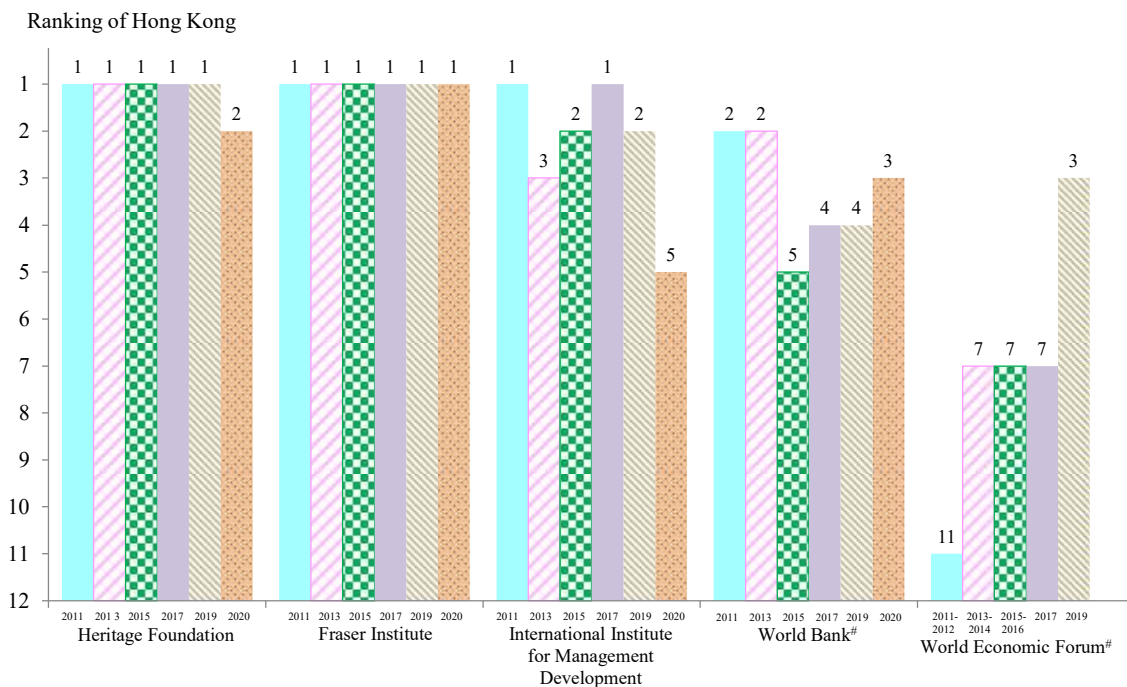
Source: Monthly Retail Price Survey, Census and Statistics Department.

3.1.4 Overall competitiveness

3.8 Though the implementation of SMW can forestall excessively low wages for employees, it increases the operating costs of enterprises at the same time. If some enterprises fail to adopt effective mitigation strategies (such as increasing capital investment, streamlining production processes and enhancing staff productivity) to offset the increase in labour costs, upratings of SMW might affect their competitiveness in the long run.

3.9 As shown in the global rankings compiled by various internationally recognised organisations, Hong Kong’s rankings in economic freedom and competitiveness remained high (Figure 3.4). For instance, Hong Kong was ranked 1st and 2nd in economic freedom by the Fraser Institute and the Heritage Foundation respectively in 2020. As for overall competitiveness, Hong Kong was ranked 3rd, 3rd and 5th in the world respectively in the *2020 Doing Business Report* published by the World Bank in 2019, the *Global Competitiveness Report* published by the World Economic Forum in 2019 and the *World Competitiveness Yearbook* published by the Lausanne, Switzerland-based International Institute for Management Development in 2020. According to the *World Investment Report 2020* of the United Nations Conference on Trade and Development, Hong Kong’s foreign direct investment inflows totalled US\$68 billion in 2019, ranking 7th in the world. MWC will continue to monitor closely the changes in Hong Kong’s competitiveness in the future.

Figure 3.4: Hong Kong’s global rankings in various economic freedom and competitiveness indices^(^) remained high



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

(#) The latest rankings and the 2011 / 2011-2012 rankings in the two reports are not directly comparable as different compilation methods were used.

Sources: Various ranking organisations.

3.II Socio-economic Characteristics and Sectoral Distribution of Employees Earning the Statutory Minimum Wage Rate

3.10 According to the findings of the Annual Earnings and Hours Survey (AEHS)⁽²⁾, 21 200 employees were earning the SMW rate in the reference period of May to June 2019 (with the SMW rate at \$37.5 per hour), representing 0.7% of all employees. These figures were below their corresponding levels of 26 700 and 0.9% in May to June 2017 (with the SMW rate at \$34.5 per hour) as well as 180 600 and 6.4% when SMW was just implemented (i.e. in May to June 2011 with the SMW rate at \$28 per hour) (Table 3.1).

Table 3.1: Number and share of employees earning the Statutory Minimum Wage (SMW) rate

	May to June 2011	May to June 2012	May to June 2013	May to June 2014	May to June 2015	May to June 2016	May to June 2017	May to June 2018	May to June 2019
SMW rate (per hour)	\$28.0	\$28.0	\$30.0	\$30.0	\$32.5	\$32.5	\$34.5	\$34.5	\$37.5
Number of employees earning the SMW rate (as a share among all employees)	180 600 (6.4%)	90 100 (3.1%)	98 100 (3.4%)	50 300 (1.7%)	41 900 (1.4%)	22 900 (0.8%)	26 700 (0.9%)	17 300 (0.6%)	21 200 (0.7%)

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

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

(2) The reference period of the 2010 AEHS was April to June 2010, whereas that of the 2011 to 2019 rounds was May to June so as to reflect the wage distribution after the implementation of the initial SMW rate in May 2011 and the subsequent upratings in May of 2013, 2015, 2017 and 2019.

- 3.11 Analysed by socio-economic characteristics, employees earning the SMW rate in May to June 2019 were mainly older employees (aged 45 and above) (74.4%), those with lower educational attainment (secondary 3 and below) (82.4%), and elementary workers and service and sales workers (90.4%). Analysed by sector, a majority of the employees earning the SMW rate were engaged in the low-paying sectors (LPS)⁽³⁾ (74.9%). The above situation was largely similar to that in May to June 2017⁽⁴⁾ (Table 3.2).
- 3.12 However, it must be noted that the results of the AEHS conducted in May to June 2019 have not reflected the impact of the economic recession and the deterioration in the labour market since mid-2019. MWC will continue to monitor the situation of employees earning the SMW rate in the future.

(3) MWC defined LPS as sectors employing a relatively large number of low-paid employees (i.e. employees with hourly wage rates below the 10th percentile of the overall distribution) or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. In light of the more recent employment situation of low-paid employees in different sectors, the current term of MWC has updated the coverage of LPS. LPS identified by the current term of MWC include: (i) retail trade (including supermarkets and convenience stores, and other retail stores); (ii) food and beverage services (including Chinese restaurants, non-Chinese restaurants, fast food cafes, Hong Kong style tea cafes, and other food and beverage services); (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 2019 AEHS, the 10th percentile of hourly wage of LPS in May to June 2019 was \$40.5, lower than that of all sectors (\$43.9), indicating that LPS employed relatively more low-paid employees. In addition, the proportion of low-paid employees among all employees in LPS was 22.4%, larger than that of 9.9% for all sectors, indicating that the proportion of low-paid employees among all employees was relatively larger in LPS. For detailed statistical data, please refer to **Table A.1 in Appendix V**.

(4) In this report, the AEHS statistics for 2018 and 2019 were compiled based on the classification of LPS and other sectors identified by the current term of MWC. Due to data limitations, the corresponding statistics for the years before were compiled based on the classification of LPS and other sectors previously identified.

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

Socio-economic characteristics / sectors	May to June 2017			May to June 2019		
	Employees earning the SMW rate (i.e. \$34.5 per hour)			Employees earning the SMW rate (i.e. \$37.5 per hour)		
	Number of persons ('000)	Proportion among all employees earning the SMW rate (%)	Proportion among all employees in the corresponding category (%)	Number of persons ('000)	Proportion among all employees earning the SMW rate (%)	Proportion among all employees in the corresponding category (%)
Total number of employees	26.7	100.0	0.9	21.2	100.0	0.7
I. Gender						
Male	10.9	41.0	0.7	9.7	45.7	0.6
Female	15.7	59.0	1.1	11.5	54.3	0.8
II. Age group						
Aged 15 to 24	1.1	4.1	0.5	0.5	2.4	0.2
Aged 25 to 34	2.2	8.2	0.3	1.7	8.1	0.2
Aged 35 to 44	3.4	12.6	0.4	3.2	15.1	0.4
Aged 45 to 54	6.0	22.7	0.8	3.6	16.9	0.5
Aged 55 and above	14.0	52.4	2.9	12.2	57.5	2.4
III. Educational attainment						
Primary and below	15.3	57.3	4.4	12.3	58.0	3.5
Secondary 1 to 3	6.1	23.1	1.4	5.2	24.4	1.2
Secondary 4 to 7	4.3	16.3	0.4	§	§	§
Tertiary education	0.9	3.3	0.1	§	§	§
IV. Occupational group						
Elementary workers	20.0	75.1	4.3	16.5	77.9	3.4
Service and sales workers	4.1	15.3	0.8	2.6	12.5	0.5
Craft workers and machine operators	0.3	1.2	0.1	§	§	§
Clerical support workers	0.6	2.3	0.1	1.0	4.6	0.2
Managers, administrators, professionals and associate professionals	1.6	6.1	0.1	§	§	§
V. Sector						
(i) Low-paying sectors (LPS)^	21.9	82.0	2.6	15.9	74.9	1.9
1. <i>Retail</i>	2.0	7.4	0.7	0.9	4.2	0.3
Supermarkets and convenience stores	§	§	§	§	§	§
Other retail stores	§	§	§	§	§	§
2. <i>Food and beverage services</i>	1.0	3.6	0.4	1.5	7.1	0.6
Chinese restaurants	§	§	§	§	§	§
Non-Chinese restaurants	§	§	§	§	§	§
Fast food cafes	0.6	2.3	1.1	1.1	5.4	2.1
Hong Kong style tea cafes	§	§	§	§	§	§
Other food and beverage services^	n.a.	n.a.	n.a.	§	§	§
3. <i>Estate management, security and cleaning services</i>	16.8	63.0	6.9	11.4	53.9	4.6
Real estate maintenance management	4.5	17.0	4.0	4.8	22.5	4.2
Security services	3.2	11.9	7.2	2.0	9.7	4.6
Cleaning services	8.0	30.0	11.4	3.9	18.2	5.3
Membership organisations	1.1	4.1	6.9	0.8	3.5	4.7
4. <i>Other low-paying sectors</i>	2.1	7.9	2.2	2.1	9.8	2.1
Elderly homes	0.5	2.0	2.6	§	§	§
Laundry and dry cleaning services	§	§	§	§	§	§
Hairdressing and other personal services	0.6	2.4	1.5	0.6	2.9	1.4
Local courier services	§	§	§	§	§	§
Food processing and production	0.8	3.0	3.4	0.8	3.9	3.5
(ii) Other sectors^	4.8	18.0	0.2	5.3	25.1	0.2

Notes: (§) Figures are not released due to relatively large sampling error.
n.a. Not applicable.

(^) The impact of the changes in the classification of LPS and other sectors on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2019 can still be broadly compared with the corresponding figures of 2017.

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

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

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

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

- 3.13 Past experience showed that SMW effectively forestalled excessively low wages, though at the same time it also increased labour costs of enterprises. Specifically, the upratings of SMW not only directly pushed up the wages of employees just earning the SMW rate, but also led enterprises to raise the wages of other employees so as to maintain the pay differentials among different sectors and ranks to maintain staff morale and avoid loss of talents. Such knock-on effect on pay hierarchies (knock-on effect) indirectly led to a further increase in overall labour costs. Generally speaking, enterprises in labour-intensive LPS and small and medium enterprises (SMEs) with lower profit margins in general were more affected by the increases in labour costs.
- 3.14 The changes in the operating characteristics of enterprises in different LPS⁽⁵⁾ since the implementation of SMW are elaborated in the ensuing paragraphs. However, when comparing the data before the implementation of SMW (i.e. 2010) with those after (e.g. latest data in 2018), it should be noted that changes in data from enterprises over the period depended on many factors. Other than the impact of the implementation of SMW and its subsequent upratings, the macroeconomic environment, business trends in the respective sectors, competition within the sectors, the enterprises' business strategies, etc., were all important factors affecting the enterprises' performance. In addition, it should be noted that the results of the 2018 Annual Survey of Economic Activities (ASEA) have yet to reflect the impact of the abrupt deterioration in macroeconomic conditions and labour market since 2019⁽⁶⁾. When reviewing the SMW rate, MWC constantly monitored other statistical data which were released more frequently and were more up-to-date, so as to understand the latest situation of various sectors.

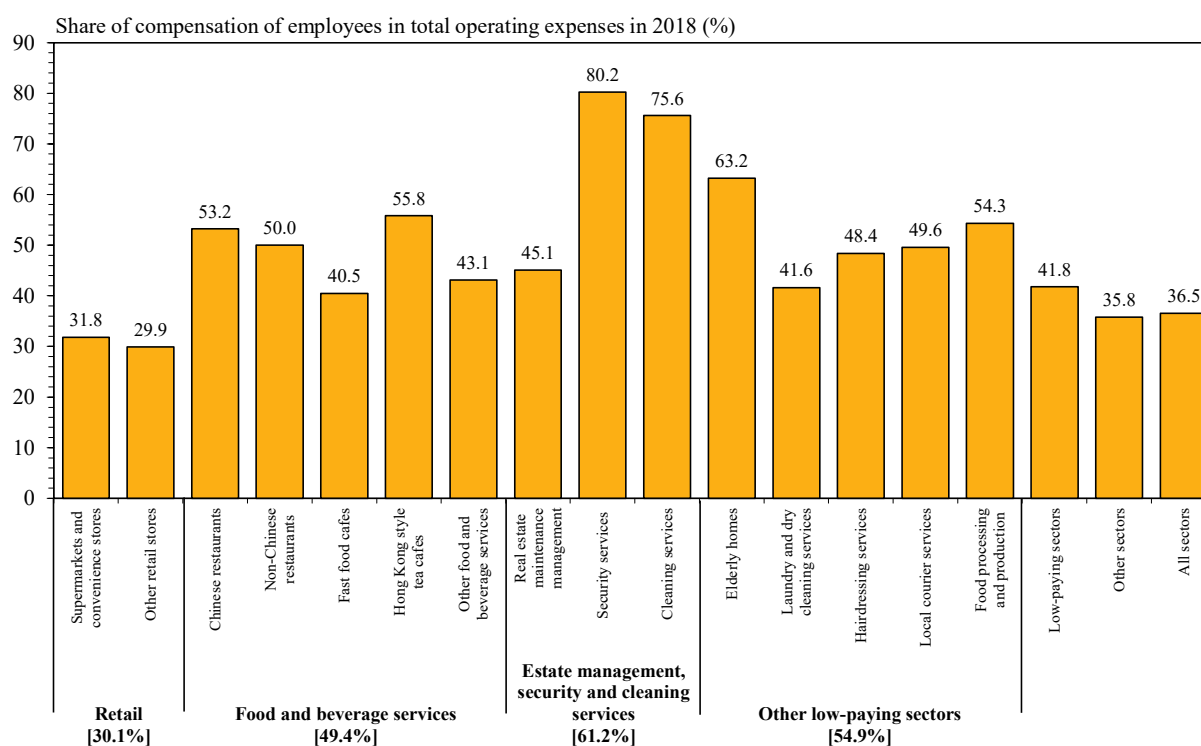
(5) The analyses were based on the findings of the 2018 Annual Survey of Economic Activities (ASEA) conducted by C&SD. The statistics from ASEA in this report only pertain to those enterprises with employees and data of certain sectors (such as membership organisations and education) are not available. In addition, as aforementioned, the current term of MWC has updated the coverage of LPS. In this report, the 2018 ASEA statistics were compiled based on the latest LPS classification, while the figures in 2010 were compiled based on the LPS classification before revision. Caution should be exercised when interpreting the changes in ASEA figures between 2010 and 2018.

(6) Since it takes time to prepare the detailed data of ASEA, the 2019 ASEA findings were not available when MWC was conducting this round of review and deliberating the recommended SMW rate. MWC understood that the overall business situation of enterprises conceivably saw rather significant changes in 2019 and 2020, as the economy fell into recession in the second half of 2019 and the recession deepened due to the epidemic upon entering 2020.

3.III.1 Cost pressure on enterprises

3.15 While different LPS had different cost structures⁽⁷⁾, the majority of LPS were labour-intensive with a rather large proportion of their total operating expenses being labour costs⁽⁸⁾. Specifically, compensation of employees accounted for around 40% of total operating expenses for LPS as a whole in 2018, and it accounted for over half of the total operating expenses in security services (80.2%), cleaning services (75.6%), elderly homes (63.2%), Hong Kong style tea cafes (55.8%), food processing and production (54.3%) and Chinese restaurants (53.2%) (Figure 3.5). Changes in labour costs would have a more visible impact on the total operating expenses of these LPS and as such, these LPS would be more affected by SMW.

Figure 3.5: Labour costs accounted for a rather large proportion of total operating expenses in most low-paying sectors



Note: Figures in square brackets denote the shares of compensation of employees to total operating expenses in the sectors in 2018.

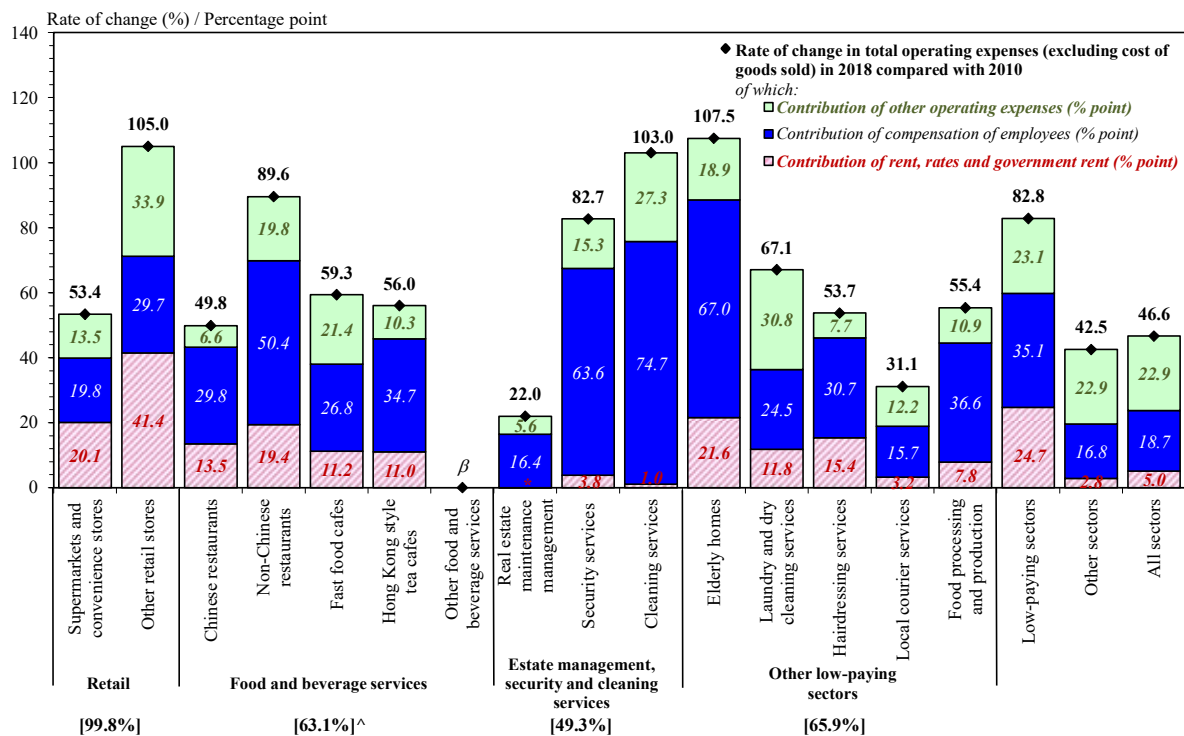
Source: Annual Survey of Economic Activities, Census and Statistics Department.

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

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

3.16 When comparing 2018 with 2010, the increase in compensation of employees was larger than that in total operating expenses in many LPS (Figure 3.6). During this period, total operating expenses for LPS as a whole saw a cumulative increase of 82.8%. Meanwhile, compensation of employees went up by 84.9%, contributing 35.1 percentage points to the increase in total operating expenses. The increase in compensation of employees hence had a larger impact on the total operating expenses than other cost components. Such impact was even more apparent for those labour-intensive sectors mentioned in paragraph 3.15. As for the retail sector, apart from the increase in wage bills induced by SMW upratings, enterprises in this sector were also more visibly affected by the movements of rentals, as rentals took up a relatively larger proportion of their total operating expenses (around 40%).

Figure 3.6: Comparing 2018 with 2010, compensation of employees was the most apparent factor behind the cumulative increase in total operating expenses in low-paying sectors



Notes: Figures in square brackets denote rate of change in total operating expenses (excluding cost of goods sold) in 2018 compared with 2010.

(β) The change between 2010 and 2018 is not available.

(^) Only includes Chinese restaurants, non-Chinese restaurants, fast food cafes and Hong Kong style tea cafes.

(*) Between -0.05 percentage point and 0.05 percentage point.

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

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

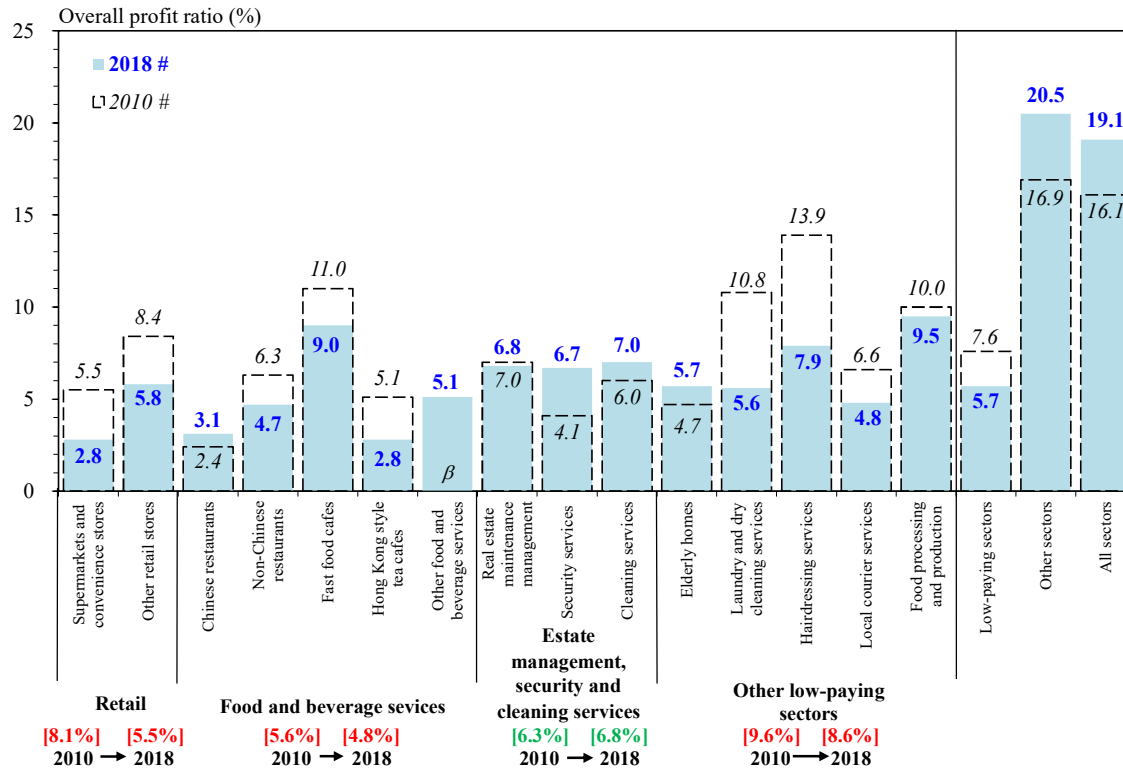
3.III.2 Corporate profitability

- 3.17 The implementation and upratings of SMW to some extent imposed greater labour cost pressure on LPS. Whether enterprises could maintain their profitability in the face of additional cost pressure depended on whether they could enhance operational efficiency, compress expenses or pass on the increase in operating costs to clients by raising prices. Moreover, if enterprises' business scale could keep expanding, their ability to absorb the increase in costs would generally be better. The two conditions above hinged largely on the macroeconomic environment.
- 3.18 Thanks to the sustained expansion of the Hong Kong economy between 2010 and 2018, enterprises could generally absorb the additional labour cost pressure stemming from SMW. Nonetheless, the profit ratio (i.e. ratios of profit⁽⁹⁾ to business receipts) of the retail sector remained low in recent years. It was 5.5% in 2018, noticeably lower than that of 8.1% in 2010 (Figure 3.7). Certain sub-sectors of LPS such as laundry and dry cleaning services and hairdressing services also saw similar trends.
- 3.19 It is worth noting that the profitability of most LPS was generally weaker than that of non-LPS. Within LPS, the profit ratios of Chinese restaurants, Hong Kong style tea cafes and supermarkets and convenience stores were only about 3%⁽¹⁰⁾ in 2018.

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

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

Figure 3.7: Enterprises could generally absorb the additional labour cost pressure stemming from Statutory Minimum Wage, but the profitability of the retail sector was weaker in recent years and some sub-sectors of low-paying sectors (LPS) also saw similar trends



Notes: Figures in square brackets denote the profit ratios of the sectors in the specified years.
 (#) The profit ratios in 2010 are based on the LPS classification before revision, whereas the 2018 figures are based on the revised classification.
 (β) The profit ratio in 2010 is not available.

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

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

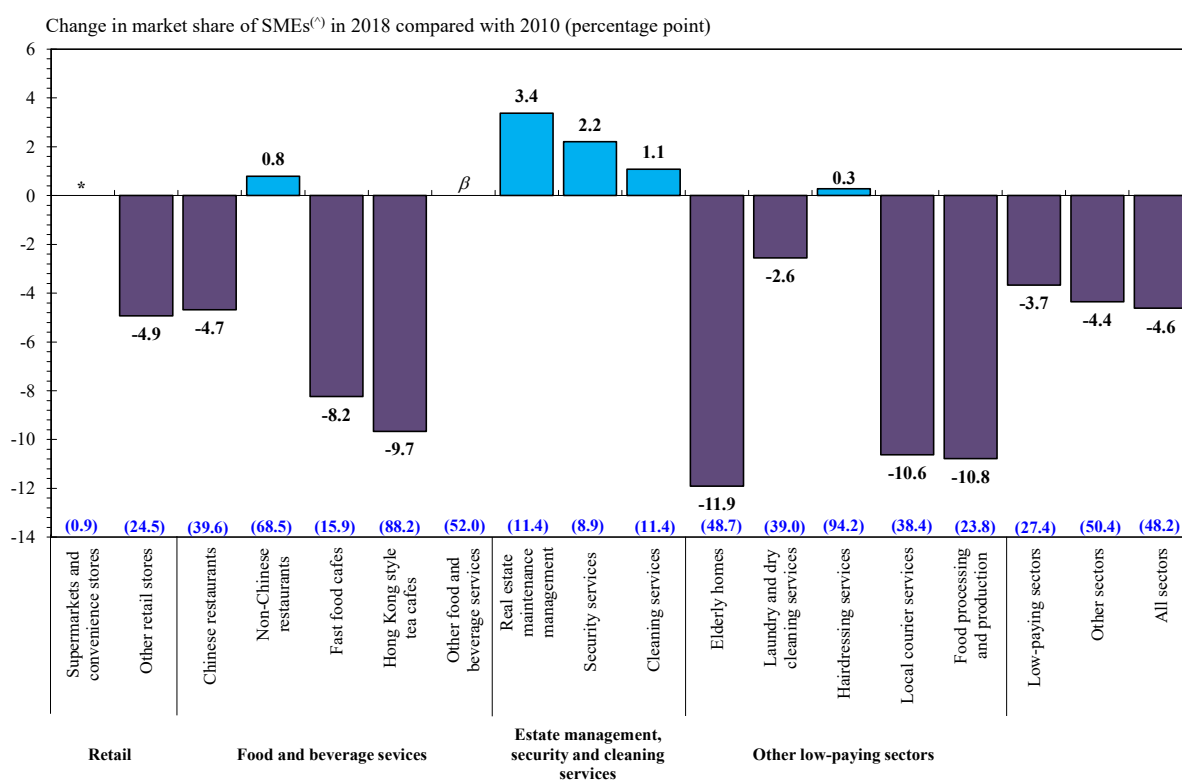
3.20 While there was little change in the overall profit ratio of SMEs in LPS since the implementation of SMW, most of their profitability was weaker than that of their sector as a whole. Compared to large enterprises, SMEs were constrained by resources and might not be able to benefit from economies of scale and more effective management. They were also generally less capable of passing on and coping with costs, and had less flexibility in deploying their resources. Specifically, the overall profit ratio of SMEs in LPS was 3.4%⁽¹¹⁾ in 2018, which was only around 60% of the overall profit ratio (5.7%) for LPS. SMEs in Chinese restaurants and supermarkets and convenience stores only earned meagre profit in 2018, with their profit ratios being just 1.1% and 1.9% respectively.

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

3.21 When comparing 2018 with 2010, the market share of SMEs (i.e. proportion of business receipts of SMEs among the total in the sector) in LPS fell (Figure 3.8), with particularly noticeable declines in certain sectors. This might reflect the ongoing process of “survival of the fittest” in these sectors.

3.22 For those SMEs already running on thin profit margins, apart from having less room of manoeuvring than their larger counterparts when facing an abrupt deterioration in business environment, they were also less capable of tiding themselves over by squeezing profits during difficult times. If SMEs operating under the conditions of thin profit margins and increasing operating costs were hit with a negative shock, they might have to lay off employees, or even cease operations.

Figure 3.8: Comparing 2018 with 2010, the market share of small and medium enterprises^(^) declined



Notes: (^) Proportion of business receipts of SMEs among the total in the sector.
 Figures in brackets denote the market share of SMEs in the sector in 2018.
 (β) The change between 2010 and 2018 is not available.
 (*) Between -0.05 percentage point and 0.05 percentage point.

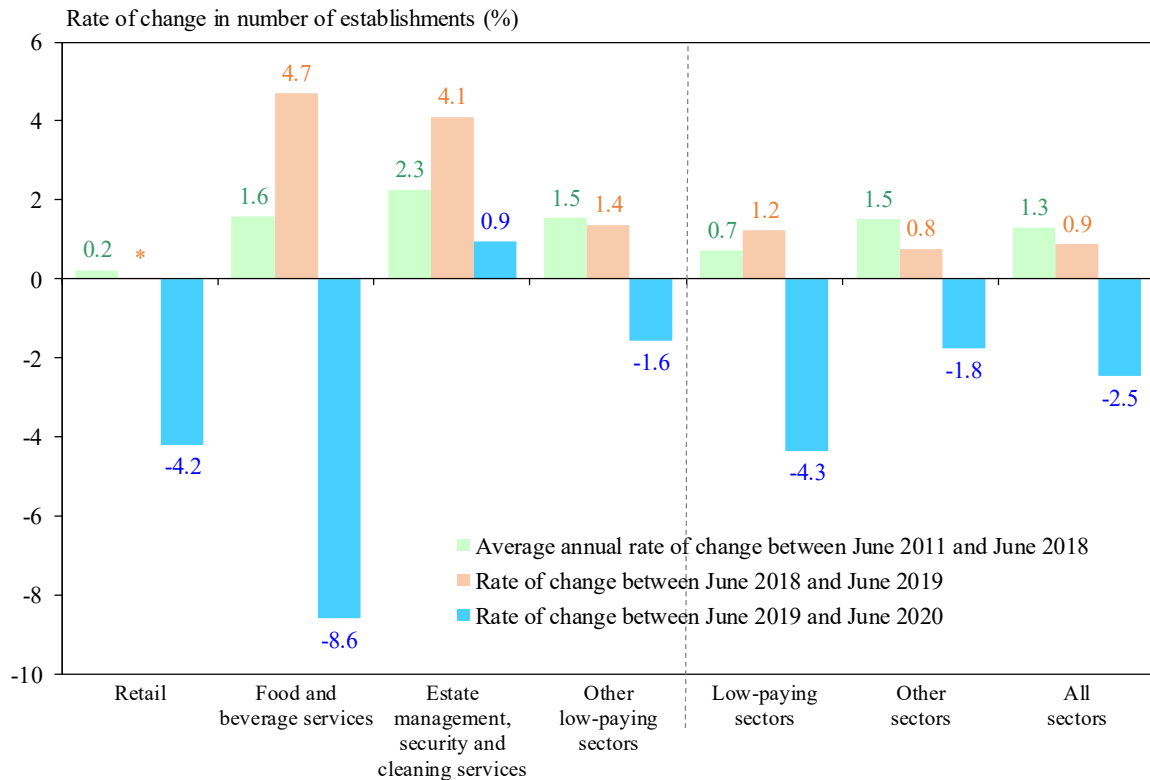
Source: Annual Survey of Economic Activities, Census and Statistics Department.

3.III.4 Entrepreneurship and business sentiment

3.23 Business sentiment did not show visible signs of deterioration since the implementation of SMW and up to the first half of 2019. According to the Quarterly Survey of

Employment and Vacancies (SEV), the number of establishments in LPS increased by 0.7% per annum between June 2011 and June 2018. Although the operating environment of Hong Kong was subsequently affected by the China-US trade tensions, year-on-year increases in the number of establishments were recorded in most LPS and other sectors in June 2019. However, the number of establishments fell sizably year-on-year in June 2020, as the Hong Kong economy fell into recession in the third quarter of 2019, and a wide range of economic activities were seriously disrupted by the epidemic since early 2020. Dragged by the particularly austere business environment in the retail and food and beverage services sectors, the number of establishments in LPS as a whole plummeted by 4.3%, visibly larger than the decline of 1.8% in other sectors (Figure 3.9).

Figure 3.9: Number of establishments in low-paying sectors as a whole increased steadily between June 2011 and June 2019, but plummeted in June 2020 due to the severe economic recession

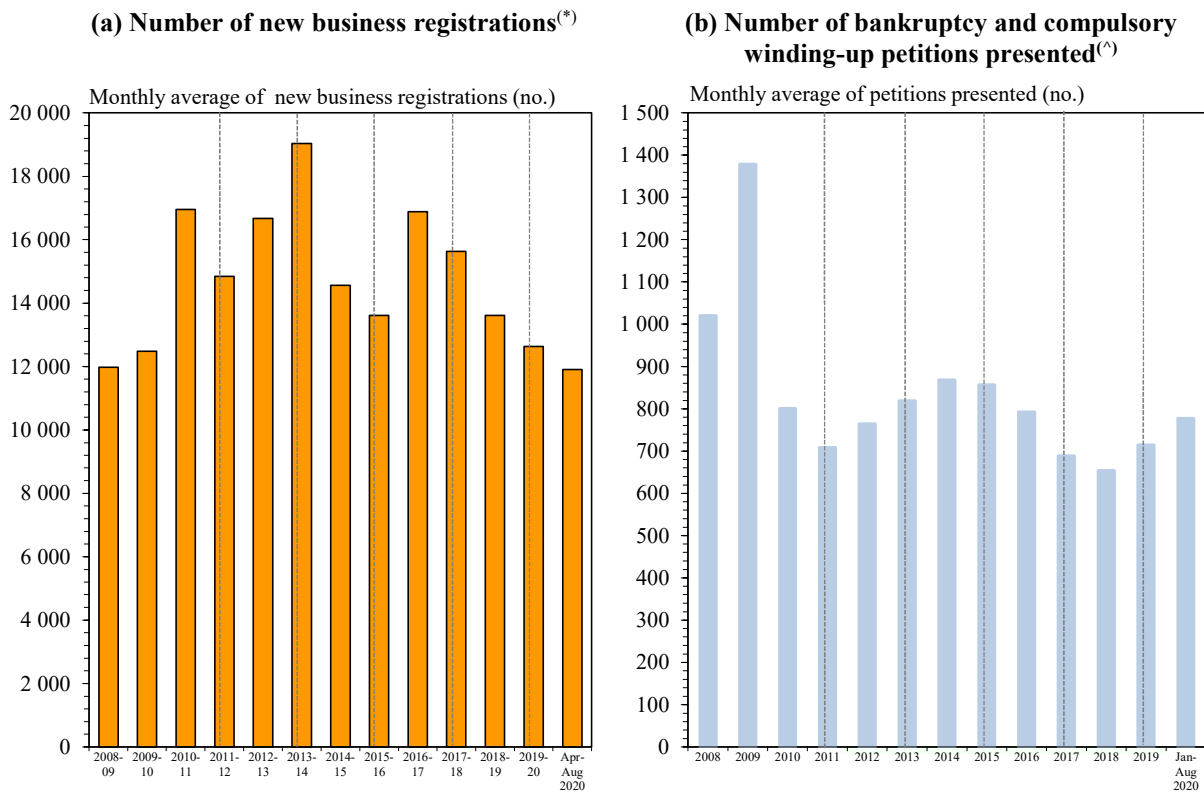


Note: (*) Between -0.05% and 0.05%.

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

3.24 The number of new business registrations was on a downtrend since the fiscal year of 2017-18. The number of bankruptcy and compulsory winding-up petitions presented was on a decline between 2015 and 2018, but rebounded in 2019 and the first eight months of 2020 (Figure 3.10).

Figure 3.10: Number of new business registrations and bankruptcy and compulsory winding-up petitions presented



Notes: (*) The figures were quite influenced by the measures of waiving the business registration fee and should be interpreted carefully.

The black vertical dotted lines denote the implementation/revision of SMW.

(^) Special work arrangement was in place for the Judiciary in certain periods between January and April 2020, and normal services have been resumed since May 2020. The figures in 2020 might therefore be affected by such arrangements and should be interpreted with caution.

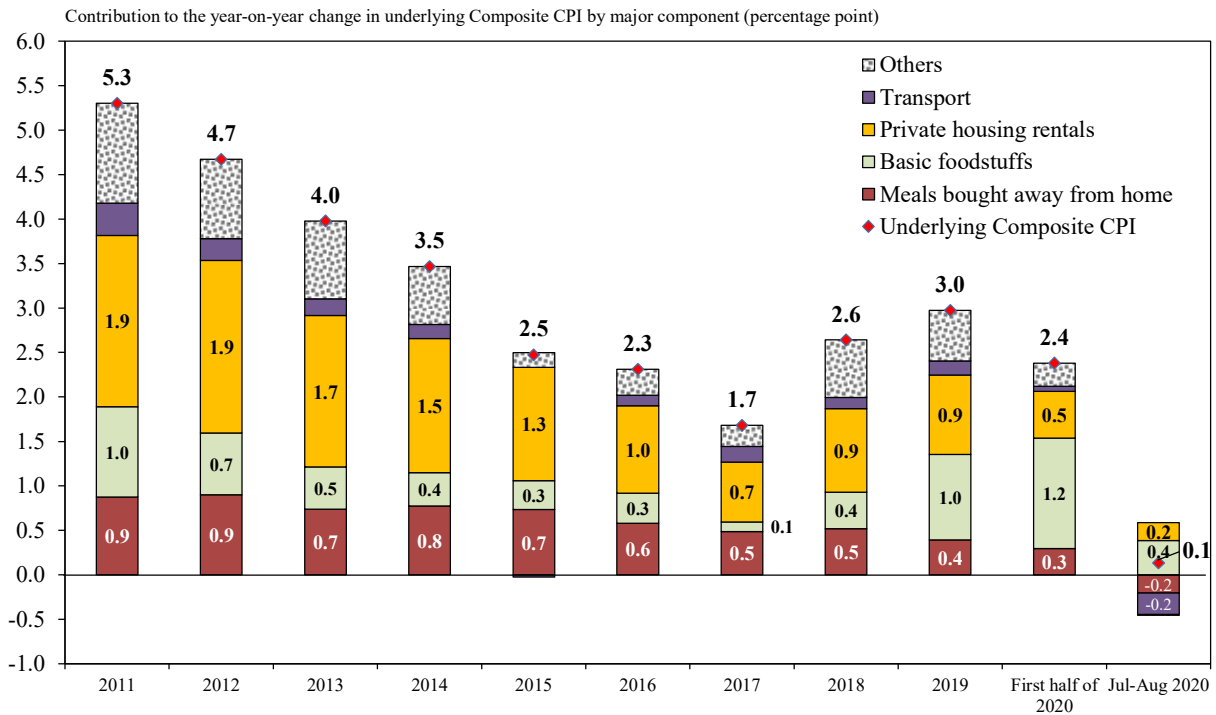
Sources: Inland Revenue Department and Official Receiver's Office.

3.III.5 Impact on inflation

3.25 The inflation trend in recent years was mainly driven by the movements of private housing rentals and prices of basic foodstuffs (i.e. foodstuffs except meals bought away from home). For example, the pickup in CPI inflation in 2019 mainly stemmed from the sizable increases in the prices of pork (an item of the basic foodstuffs) amid reduced supply of fresh pork since May that year (Figure 3.11). CPI inflation eased notably in July and August 2020. The main reasons were not only the turn to decline in prices of meals bought away from home due to the epidemic and the fall in transportation prices as a result of the extra MTR fare rebate, but also the narrower increases in private housing rentals and prices of basic foodstuffs. Generally speaking, overall inflation was largely moderate since the implementation of SMW, and the past four upratings of SMW did not pose significant pressure on overall inflation. Nonetheless, since some enterprises which were more affected by labour costs had better ability to pass on their costs, certain services

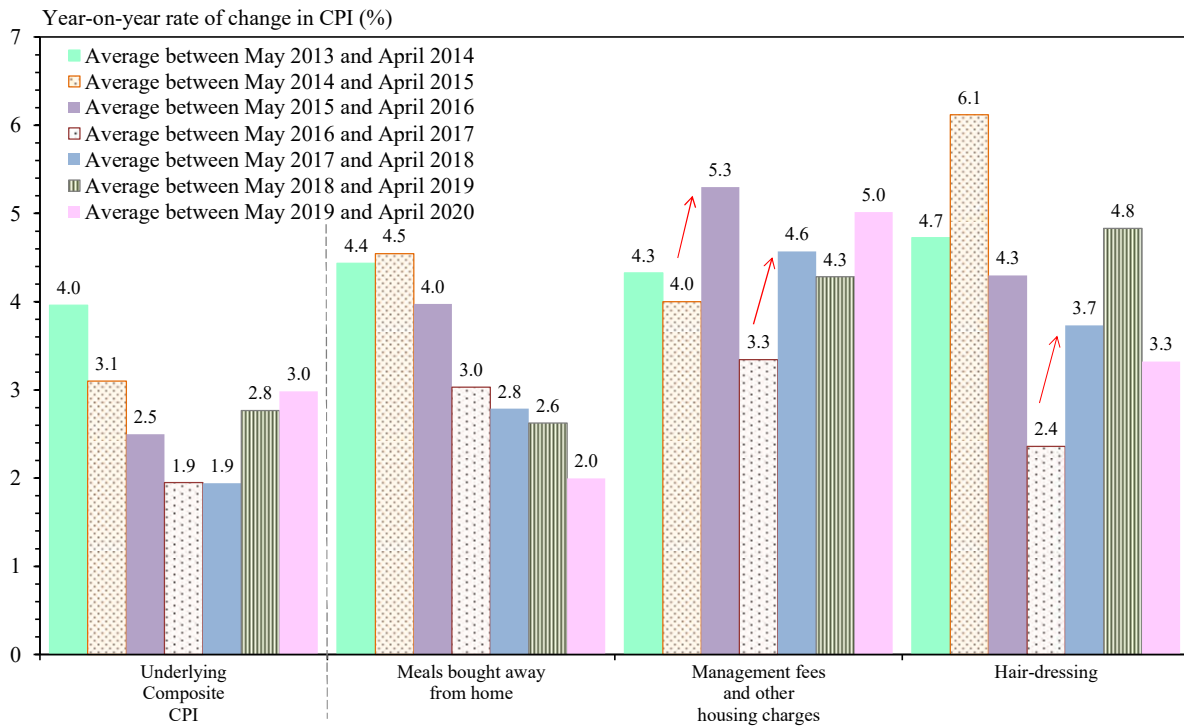
saw relatively visible price increases. Specifically, residential estate management had greater pricing power in general, and it was relatively easier for enterprises in this sector to pass on additional labour costs induced by SMW to their clients, such as by raising property management fees (Figure 3.12).

Figure 3.11: The inflation trend in recent years was mainly driven by the movements of private housing rentals and prices of basic foodstuffs



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

Figure 3.12: Overall inflation was largely moderate, though price increases in some services were relatively visible



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

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

3.IV.1 Impact of Statutory Minimum Wage upratings on low-paid employees

3.26 As mentioned in paragraph 3.13, the upratings of SMW not only directly benefited those employees originally earning wages below the new SMW rate, but also induced pay rises of some employees originally earning wages above that rate owing to the knock-on effect. Therefore, the situation of both SMW-earners and low-paid employees (i.e. employees with hourly wage rates below the 10th percentile of the overall distribution) should be considered in order to gain a comprehensive understanding of the stimulus effect of SMW upratings on employees' wages.

3.27 Between May 2011 (i.e. when the initial SMW rate took effect) and May 2019 (i.e. upon the fourth uprating of SMW), the SMW rate rose cumulatively by 33.9% from \$28 per hour to \$37.5 per hour, exceeding the inflation over the same period (the headline and underlying Composite CPIs increased cumulatively by 26.9% and 26.7% respectively between May 2011 and May 2019). According to the findings of AEHS, the 10th percentile hourly wage of all employees rose by a cumulative 50.2% in May to June

2019 over May to June 2011, visibly higher than the 39.3% increase in the corresponding median hourly wage over the same period (Table 3.3) and the rate of increase in the SMW rate from \$28 per hour to \$37.5 per hour. The above rates of wage growth were also all higher than the inflation over the same period, signifying real improvement in the wages of low-paid employees. On a year-on-year comparison, the 10th percentile hourly wage of all employees recorded an increase of 4.8% in May to June 2019, also higher than the 3.0% increase in the underlying Composite CPI over the same period. The above indicated that amid the tight labour market in the past, upratings of SMW not only could forestall excessively low wages, but could also help bring about real wage improvement for low-paid employees.

Table 3.3 : Hourly wage distribution

Percentile	May to June 2011	May to June 2019		
	Hourly wage (\$)	Hourly wage (\$)	Year-on-year rate of change ^(*) (%)	Cumulative increase since May to June 2011 ^(*) (%)
10 th	29.3	43.9	4.8	50.2
25 th	36.0	52.2	4.3	44.8
Median	52.4	73.0	3.6	39.3
75 th	82.5	114.9	3.4	39.2
90 th	143.9	186.2	2.5	29.4

Notes: (*) Rates of change/cumulative increase were calculated based on unrounded figures.

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

3.28 As for monthly wages, the 10th percentile monthly wage of full-time employees⁽¹²⁾ increased by 4.4% year-on-year in May to June 2019, above the underlying Composite CPI inflation (3.0%) over the same period. For LPS, which employed relatively more low-paid employees, the 10th percentile monthly wage of full-time employees increased by 4.2% year-on-year, similar to the overall increase for all sectors. The 10th percentile monthly wage of full-time employees in the food and beverage services sector, estate management, security and cleaning services sector and other LPS increased by 5.2%, 3.3% and 4.2% year-on-year respectively. Nevertheless, the 10th percentile monthly wage of full-time employees in the retail sector only edged up by 0.1% year-on-year. This was partly related to the reduction in employees' working hours as retail sales weakened in the first half of 2019.

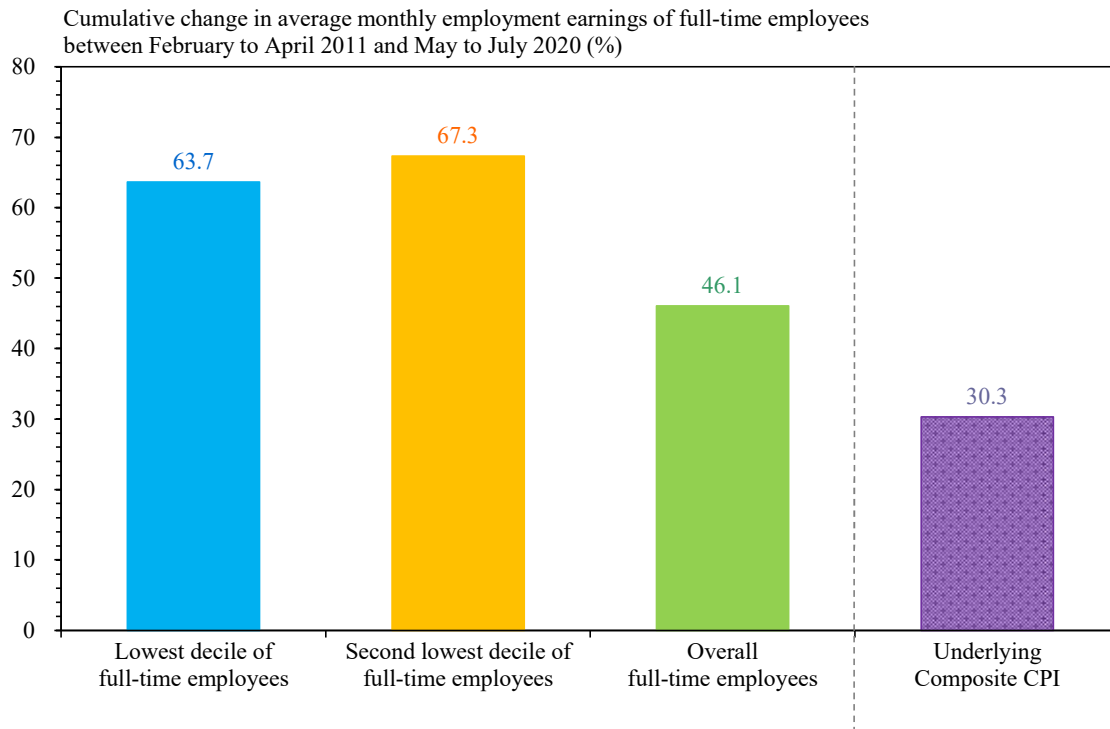
(12) Please refer to **Glossary** for the definition of full-time employees under AEHS.

- 3.29 Analysed by socio-economic characteristics, the 10th percentile monthly wage of full-time employees with educational attainment of primary and below recorded a relatively visible year-on-year increase (5.6%) in May to June 2019. The corresponding figures for persons in the age groups of 35 to 44 (8.1%) and 15 to 24 (5.9%), and service and sales workers (6.7%) also recorded relatively notable year-on-year increases⁽¹³⁾.
- 3.30 According to statistics from GHS (though the data cannot be directly compared with those from AEHS) and comparing with the period before the implementation of SMW (i.e. February to April 2011), the average monthly employment earnings of full-time employees in the lowest decile group⁽¹⁴⁾ recorded a notable cumulative increase of 63.7% in May to July 2020, while the corresponding figure for all full-time employees was 46.1%. Both were visibly higher than the cumulative increase of the underlying Composite CPI (30.3%) over the same period, indicating that, compared with the situation before the implementation of SMW, grassroots workers saw real improvement in their earnings (Figure 3.13).

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

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

Figure 3.13: Comparing with February to April 2011 (i.e. before the implementation of Statutory Minimum Wage), the average monthly employment earnings of lower-paid full-time employees improved in real terms in May to July 2020



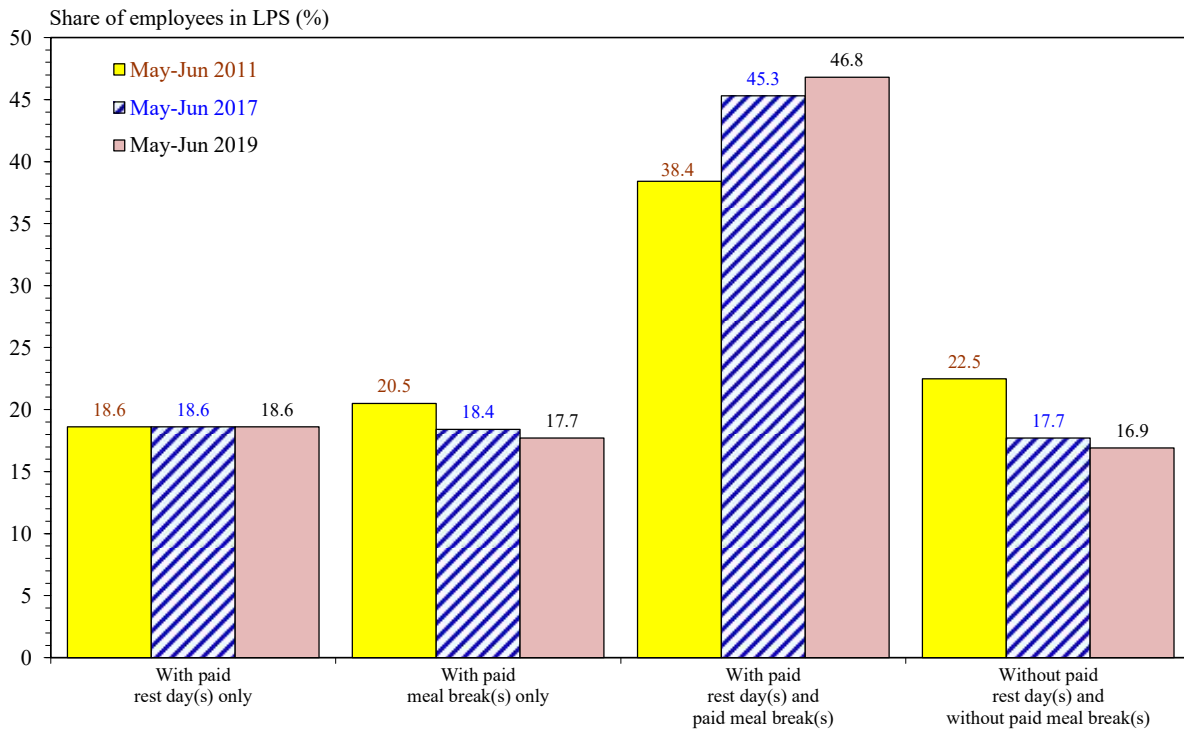
Sources: General Household Survey and Monthly Retail Price Survey, Census and Statistics Department.

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

3.31 The upratings of SMW induced an increase in labour costs and enterprises might cut costs by adjusting employees' remuneration package. Nevertheless, the persistently tight labour market since the implementation of SMW in 2011 and up to the first half of 2019 not only drove steady increases in employees' wages, but also led many enterprises to enhance the remuneration structure and fringe benefits for employees to attract new recruits and reduce staff turnover. Hence, the situation in which a large number of enterprises cut costs by adjusting employees' remuneration package did not occur during that period. According to the findings of AEHS, between May to June 2017 and May to June 2019, the proportion of full-time employees entitled to both paid rest day(s) and paid meal break(s) in LPS as a whole increased from 45.3% to 46.8%, while the proportion of those entitled to neither fell from 17.7% to 16.9% (Figure 3.14). As for other fringe benefits, the proportion of full-time employees in LPS entitled to year-end payment/bonus was 14.7% in May to June 2019, slightly lower than that of 15.8% in May to June 2017 but higher than that of 13.4% in May to June 2011. However, since the figures from AEHS were up to mid-2019, the data concerned had yet to reflect the impact of the abrupt

deterioration in economic conditions since mid-2019 on the remuneration structure and fringe benefits of employees.

Figure 3.14: Remuneration structure and fringe benefits of full-time employees in low-paying sectors (LPS) improved since the implementation of Statutory Minimum Wage and up to the first half of 2019



Note: The impact of the changes in the classification of LPS and other sectors on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2019 can still be broadly compared with the corresponding figures of 2017 and before.

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

3.32 There were views that the implementation of SMW might cause some employers to offer employees part-time positions with shorter working hours to replace full-time employees, or request their employees to change the mode of service provision to self-employment, in order to reduce wage bills and cut costs. Hence, MWC has been closely monitoring the changes in the proportion of part-time employees among all employees, the proportion of underemployed employees (i.e. employees who have been available for additional work but can only take up part-time positions) among part-time employees and the self-employed ratio (i.e. the proportion of self-employed persons among employed persons⁽¹⁵⁾).

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

- 3.33 The labour market remained tight since the implementation of SMW in 2011 and up to the first half of 2019. According to data from the GHS, although the proportion of part-time employees among all employees in LPS increased from 11.0% in the second quarter of 2011 to 14.1% in the second quarter of 2019, the proportion of underemployed employees among part-time employees in LPS plummeted from 18.5% to 6.5% over the same period (Table 3.4). This suggested that most of the part-timers were voluntary in nature. On the other hand, there was little change in the self-employed ratio in the lower-skilled segment of LPS over the same period. The ratio was 7.0% in the second quarter of 2011 and 6.3% in the second quarter of 2019 (Figure 3.15).
- 3.34 Nonetheless, the business environment of enterprises was hit hard by the local social incidents in the second half of 2019 and the outbreak of the epidemic in 2020. Many enterprises implemented cost-saving measures such as shortening business hours and requesting their staff to take no-pay leave. In June to August 2020, the proportion of part-time employees in LPS increased noticeably to 18.5% from 14.1% in the second quarter of 2019. The proportion of underemployed employees among part-time employees also rose markedly to 30.3% from 6.5% over the same period. However, the self-employed ratio in the lower-skilled segment of LPS remained low at 6.6%, similar to the corresponding ratio (6.3%) in the second quarter of 2019.

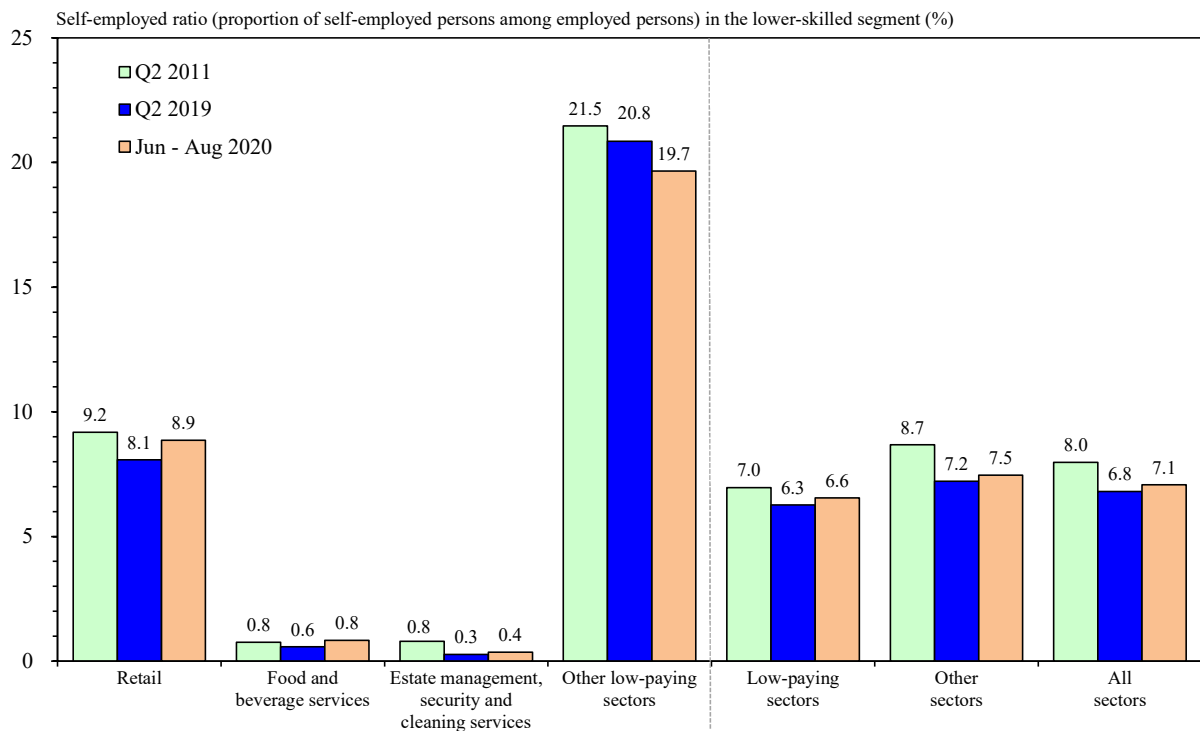
Table 3.4: Proportion of part-time employees among all employees and proportion of underemployed employees among part-time employees

Sector	Proportion of part-time employees among all employees					Proportion of underemployed employees ^(^) among part-time employees				
	Q2 2011	Q2 2017	Q2 2019	Q2 2020	Jun to Aug 2020	Q2 2011	Q2 2017	Q2 2019	Q2 2020	Jun to Aug 2020
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Low-paying sectors	11.0	14.0	14.1	19.3	18.5	18.5	7.2	6.5	28.6	30.3
Retail	9.4	12.7	12.5	19.2	17.2	14.4	8.7	8.2	28.3	26.2
Food and beverage services	12.7	16.4	18.4	25.1	26.9	21.7	5.1	6.3	34.4	37.4
Estate management, security and cleaning services	8.2	10.7	11.2	11.7	11.4	18.4	7.5	3.5	17.8	17.7
Other low-paying sectors	17.4	18.5	14.7	25.0	21.0	19.5	7.7	7.8	29.3	35.4
Other sectors	5.7	7.3	7.9	11.7	11.5	33.0	19.7	15.2	29.7	31.4
All sectors	7.2	9.2	9.7	13.9	13.5	26.7	14.2	11.5	29.3	31.0

Note: ^(^) Underemployed employees are employees who involuntarily worked less than 35 hours during the 7 days before enumeration; and (i) have sought additional work during the 30 days before enumeration; or (ii) have been available for additional work during the 7 days before enumeration. According to this definition, employees 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 during the 7-day period or were even on leave during the entire period.

Source: General Household Survey, Census and Statistics Department.

Figure 3.15 : Self-employed ratio in the lower-skilled segment stayed low in June to August 2020



Source: General Household Survey, Census and Statistics Department.

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

3.35 There were views that as SMW pushed up labour costs, enterprises might reduce the working hours and/or the number of employees to alleviate cost pressure. Moreover, the economic downturn might also induce enterprises to adopt the same strategies to control costs. According to the data from AEHS, the median weekly working hours of lower-skilled full-time employees in LPS as a whole stayed at 54.0 hours per week between May to June 2011 and May to June 2017, but decreased to 52.5 hours per week and 51.9 hours per week respectively in May to June 2018 and May to June 2019. In particular, the corresponding figures for retail, food and beverage services, and estate management, security and cleaning services decreased on a year-on-year basis in May to June 2019 (Table 3.5), reflecting, to an extent, that LPS adjusted working hours to control cost. It should be noted that the data above had yet to reflect the further impact on working hours that could be brought about by the economic recession which started in the third quarter of 2019.

3.36 Although data from GHS cannot be directly compared with those from AEHS, more recent data from GHS might better reflect the pressure faced by the labour market of late. According to data from GHS, the average weekly working hours of lower-skilled full-time employees in LPS as a whole at one time dropped to 48.5 hours per week in February to April 2020, 3.6% lower than that in the second quarter of 2019. This conceivably reflected to a large extent the adjustments made by enterprises in response to the heavy blows dealt to their businesses by the social incidents, the threat of the epidemic and the necessary anti-epidemic measures since the second half of 2019. The corresponding figure of working hours rebounded more recently to 49.6 hours per week in June to August, though it was still 1.3% below that in the second quarter of 2019.

Table 3.5: Median weekly working hours: lower-skilled full-time employees

Sector	May to June 2011	May to June 2018	May to June 2019		
	Median weekly working hours (Hours)	Median weekly working hours (Hours)	Median weekly working hours (Hours)	Year-on-year change (Hours)	Year-on-year rate of change (%)
(A) Low-paying sectors (LPS)[^]	54.0	52.5	51.9	-0.6	-1.1
1. Retail	51.4	49.5	49.0	-0.5	-0.9
1.1 Supermarkets and convenience stores	54.0	53.4	53.5	0.1	0.3
1.2 Other retail stores	51.0	48.1	48.1	--	@
2. Food and beverage services [^]	56.0	55.1	54.0	-1.1	-2.0
2.1 Chinese restaurants	60.0	58.5	57.7	-0.8	-1.4
2.2 Non-Chinese restaurants	54.0	54.0	54.0	--	@
2.3 Fast food cafes	54.0	54.0	52.5	-1.5	-2.8
2.4 Hong Kong style tea cafes	60.0	57.0	54.8	-2.2	-3.9
2.5 Other food and beverage services [^]	n.a.	54.0	51.0	-3.0	-5.6
3. Estate management, security and cleaning services	57.0	54.0	51.7	-2.3	-4.3
3.1 Real estate maintenance management	66.0	63.1	59.5	-3.6	-5.6
3.2 Security services	66.0	66.0	63.0	-3.0	-4.5
3.3 Cleaning services	48.0	48.0	48.0	--	@
3.4 Membership organisations	54.0	49.4	48.0	-1.4	-2.8
4. Other low-paying sectors	49.9	48.0	48.0	--	@
4.1 Elderly homes	54.0	54.0	54.0	--	@
4.2 Laundry and dry cleaning services	54.0	54.0	51.7	-2.3	-4.3
4.3 Hairdressing and other personal services	48.5	48.0	48.0	--	@
4.4 Local courier services	44.3	45.7	44.3	-1.4	-3.0
4.5 Food processing and production	49.0	48.7	48.0	-0.7	-1.3
(B) Other sectors[^]	47.3	45.0	44.8	-0.2	-0.5
(C) All sectors	48.0	48.0	48.0	--	@

Notes: (^) The impact of the changes in the classification of LPS and other sectors on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2018 and 2019 can still be broadly compared with the corresponding figures of 2011.

(--) Between -0.05 hour and 0.05 hour.

(@) Between -0.05% and 0.05%.

n.a. Not applicable.

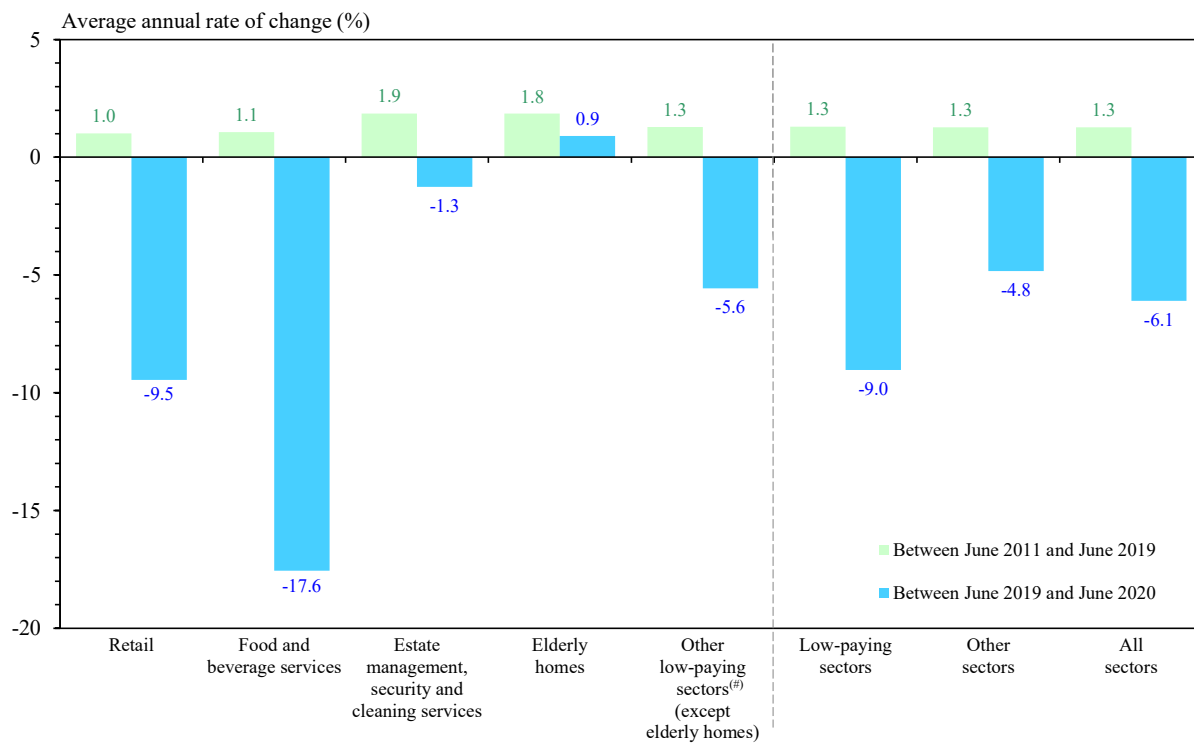
Weekly working hours were rounded to one decimal place. Year-on-year rate of change was calculated based on unrounded figures.

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

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

3.37 The labour market stayed tight since the implementation of SMW in 2011 and up to the first half of 2019. Labour demand in LPS was generally on an increasing trend during this period. However, hit by the local social incidents and subsequently the epidemic, economic activities contracted and labour demand decreased notably since the second half of 2019. Based on the data from SEV, labour demand (estimated by the sum of the numbers of persons engaged and vacancies in private sector establishments) in LPS decreased sharply by 9.0% year-on-year in June 2020. The epidemic brought inbound tourism to a standstill since February 2020. The declines in labour demand in the retail sector and food and beverage services sector were particularly notable, with both sectors recording the largest declines on record in June 2020 (Figure 3.16).

Figure 3.16 : Labour demand^(*) in low-paying sectors fell sizably in June 2020



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

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

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

- 3.38 Between the second quarter of 2011 (i.e. when the initial SMW rate was implemented) and the second quarter of 2019 (i.e. upon the fourth uprating of the SMW), the labour market remained tight and the implementation of SMW helped attract more people to enter or re-enter the labour market. According to GHS, the labour force⁽¹⁶⁾ grew by 0.7% per annum on average over the period (Table 3.6). The total number of employees grew at an average annual rate of 1.1% over the same period (Table 3.7). Of this, the number of employees aged 50 and above increased notably, and the labour force participation rate of this age group increased visibly by 3.0 percentage points to 43.0% during the period, partly offsetting the pressure on the labour force brought about by population ageing.
- 3.39 However, as the economy entered recession in the third quarter of 2019, and a wide range of economic activities were hard hit by the epidemic since early 2020, the labour market deteriorated sharply and there was a severe loss of jobs. Compared with the second quarter of 2019 before the economic recession, the total number of employees decreased noticeably by 7.0% to around 2 791 000 in June to August 2020. Lower-skilled employees were particularly hard hit (their number declined by 10.4% to around 1 532 000). The labour force also declined noticeably by 2.2% to around 3 560 000. The labour force participation rate declined visibly by 1.0 percentage point to 57.5% over the same period, indicating that some people, in response to the sharp deterioration in economic conditions, chose to leave the labour market for the time being after losing their jobs. It can be anticipated that when economic conditions return to normal, many of these people may choose to re-enter the labour market.

(16) Excluding foreign domestic helpers.

Table 3.6: Labour force and labour force participation rate

	Labour force ^(^)				Labour force participation rate ^(^)			
	Q2 2019		Jun to Aug 2020		Q2 2019		Jun to Aug 2020	
	(Number of persons)	Average annual change as compared to Q2 2011 (8 years) (%)	(Number of persons)	Cumulative change as compared to Q2 2019 (%)	(%)	Cumulative change as compared to Q2 2011 (8 years) (percentage point)	(%)	Cumulative change as compared to Q2 2019 (percentage point)
Gender								
Male	1 977 500	0.2	1 930 200	-2.4	67.4	-1.1	66.2	-1.2
Female	1 663 800	1.3	1 629 400	-2.1	50.6	1.5	49.8	-0.8
Selected age group								
Aged 15 to 49	2 343 900	-0.7	2 291 900	-2.2	73.2	2.1	72.9	-0.3
Aged 50 and above	1 297 400	3.8	1 267 700	-2.3	43.0	3.0	41.6	-1.4
Overall	3 641 400	0.7	3 559 600	-2.2	58.5	0.1	57.5	-1.0

Note: (^) Figures exclude foreign domestic helpers.

Source: General Household Survey, Census and Statistics Department.

Table 3.7: Number of employees and unemployment rate of different groups

	Number of employees				Unemployment rate ^(^)			
	Q2 2019		Jun to Aug 2020		Q2 2019		Jun to Aug 2020	
	(Number of persons)	Average annual change as compared to Q2 2011 (8 years) (%)	(Number of persons)	Cumulative change as compared to Q2 2019 (%)	(%)	Cumulative change as compared to Q2 2011 (8 years) (percentage point)	(%)	Cumulative change as compared to Q2 2019 (percentage point)
Gender								
Male	1 551 300	0.7	1 432 200	-7.7	3.5	-0.9	7.7	4.2
Female	1 449 500	1.5	1 359 300	-6.2	2.7	-0.8	6.2	3.5
Selected age group								
Aged 15 to 49	1 972 300	-0.5	1 830 100	-7.2	3.5	-0.7	7.4	3.9
Aged 50 and above	1 028 500	4.7	961 400	-6.5	2.5	-0.9	6.3	3.8
Skill segment								
Higher-skilled	1 290 200	2.1	1 259 500	-2.4	1.9	0.2	3.7	1.8
Lower-skilled	1 710 600	0.3	1 532 000	-10.4	3.5	-1.3	8.4	4.9
Of which :								
Service and sales workers	501 600	1.0	421 600	-16.0	3.5	-1.4	10.0	6.5
Elementary occupations	461 900	1.1	409 400	-11.4	4.2	-1.6	8.7	4.5
Overall	3 000 800	1.1	2 791 500	-7.0	3.1 (2.8)	-0.9 (-0.8)	7.0 (6.1)	3.9 (3.3)

Notes: (^) Figures exclude foreign domestic helpers.

Figures in brackets denote the seasonally adjusted unemployment rate (include foreign domestic helpers).

Source: General Household Survey, Census and Statistics Department.

3.40 The labour market remained tight between April 2011 and June 2019. The number of unemployment cases of Comprehensive Social Security Assistance (CSSA) declined continuously, by around 17 500 cases or 60% cumulatively.

3.41 However, as the economy entered recession in the third quarter of 2019, the number of unemployment cases of CSSA increased. In early 2020, the labour market deteriorated sharply due to the outbreak of the epidemic. The number of unemployment cases of CSSA rose sharply to 18 800 in August 2020, representing a cumulative increase of around 60% (or around 7 000 cases) when compared with June 2019. In addition, the proportion of unemployed persons who were dismissed or laid off among all unemployed persons increased visibly from 43.0% in the second quarter of 2019 to 53.8% in June to August 2020.

3.42 Overall speaking, the data collected so far showed that an SMW rate set at an appropriate level could achieve its functions of not only forestalling excessively low wages and avoiding the loss of grassroots jobs, but also encouraging more people to enter or re-enter the labour market, thereby unleashing more manpower to cope with labour demand. However, the labour market worsened successively since mid-2019 due to the economic recession. The situation has to be closely monitored.

3.IV.5 Labour relations

3.43 Labour relations held largely stable since the implementation of SMW. The number of SMW-related claim cases handled by the Labour Department decreased substantially in recent years. In the first 12 months after the implementation of SMW (May 2011 to April 2012), the number of SMW-related claim cases was 231, representing 1.3% of all claim cases handled during the period. In 2019 and from January to August 2020, such cases amounted to 23 and 11, both corresponding to 0.2% of all claim cases handled during the respective periods.

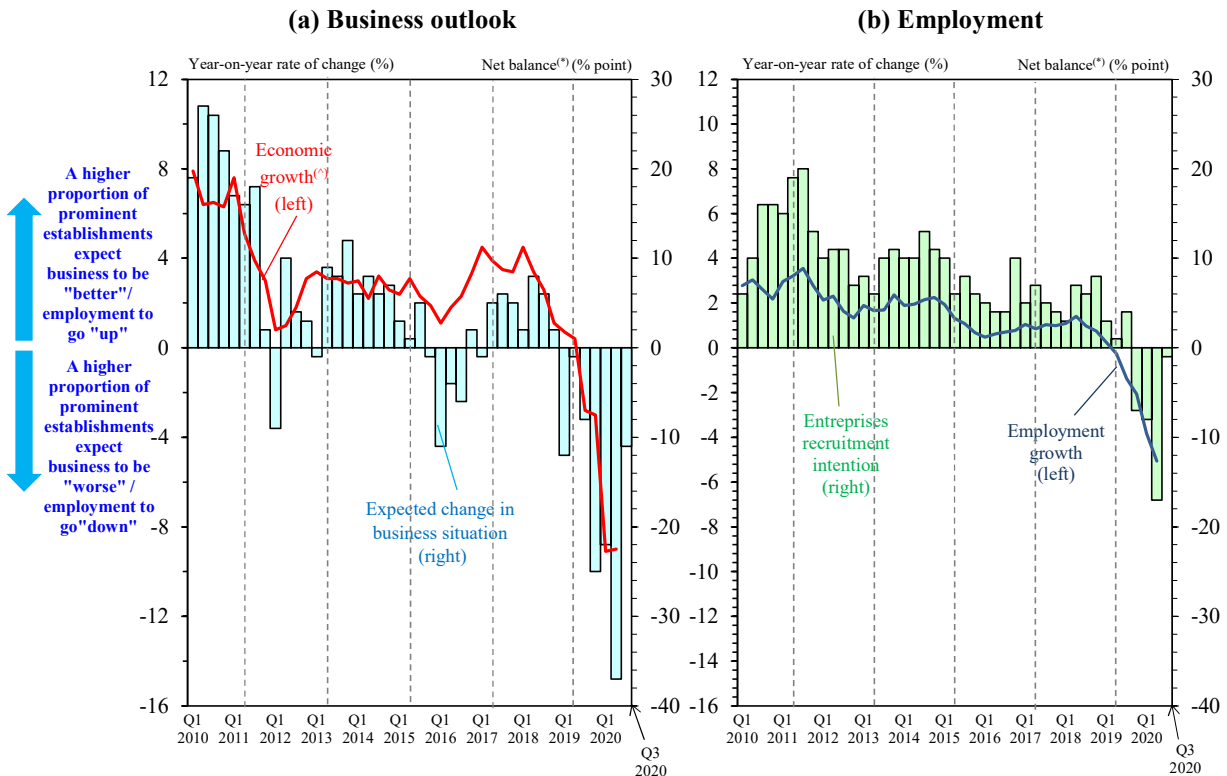
3.V Observations

- 3.44 Based on the observations from various aspects above, the impact of the implementation and upratings of SMW on lower-paid employees and enterprises hinged, to a large extent, on the macroeconomic environment at the time.
- 3.45 Hong Kong's labour market stayed tight since the implementation of SMW in 2011 and up to the first half of 2019. During this period, the implementation and upratings of SMW boosted the wages of low-paid employees notably. Moreover, the knock-on effect of the upratings also brought about pay rises to some employees earning hourly wages above the SMW rate. This shows that the upratings of SMW not only forestalled excessively low wages, but also helped improve the wages of low-paid employees. On the other hand, the implementation and upratings of SMW also helped enhance the incentive to work and encourage more people to enter or re-enter the labour market. Total labour force stayed on the rise during the period, particularly so for persons aged 50 and above. The labour force participation rate of this age group increased visibly, partly offsetting the pressure on the labour force brought about by population ageing.
- 3.46 The business growth of enterprises could largely absorb the additional costs arising from SMW over the same period. However, the median weekly working hours of lower-skilled full-time employees in LPS as a whole decreased in 2018 and 2019, reflecting, to an extent, that LPS adjusted working hours to control cost. Nonetheless, many enterprises enhanced the remuneration structure and fringe benefits for employees to attract new recruits and reduce staff turnover, leading to improvements in employees' remuneration structure and fringe benefits. In addition, while the proportion of part-time employees in LPS rose, the proportion of underemployed employees engaging in part-time jobs fell, suggesting that the majority of part-timers were voluntary in nature. It can therefore be seen that amid a tight labour market, the positive impact of SMW on enterprises and employees outweighed the negative impact.
- 3.47 However, the economy deteriorated abruptly and entered recession in the second half of 2019. Subsequently affected by the epidemic, the recession deepened upon entering 2020. The extent of recession was unprecedented, being even more serious than those seen in the 1997-98 Asian Financial Crisis and the 2008-09 Global Financial Crisis. The labour market was increasingly under pressure and the unemployment rate surged. Job

loss was even more drastic than those in the past episodes of economic contraction. Hard hit by the epidemic, many enterprises implemented cost-saving measures such as shortening business hours, closing down branches and requesting their staff to take no-pay leave. The data of June to August 2020 showed that the proportion of part-time employees and the proportion of underemployed employees among part-time employees in LPS rose visibly from the corresponding levels in the second quarter of 2019 (i.e. before the economic recession). Considering that LPS have weaker profitability and have less room of manoeuvring when facing a deteriorated economic environment, the situation in these sectors warrants a close watch.

- 3.48 The survey conducted between June and early July 2020 showed that business sentiment among large enterprises was still negative, though it had already improved notably when compared with the very pessimistic sentiment earlier in the year as the local epidemic was largely under control at the time (Figure 3.17). However, the third wave of local epidemic started in July seriously disrupted local consumption-related economic activities again and thwarted the recovery of local economic activities. Before effective vaccines are widely available, the threat of the epidemic will continue to cloud the global economic outlook. As the widespread travel restrictions are expected to remain in place, it would be difficult for inbound tourism, which has been at a standstill since early 2020, to recover visibly in a short period of time. In addition, the external environment is expected to remain difficult amid the tense political, economic and trade relationships between China and the US. Hong Kong's economic outlook is faced with an unusually high degree of uncertainty. Nevertheless, Hong Kong's overall competitiveness has remained strong and Hong Kong has been ranking high in economic freedom and overall competitiveness in the rankings compiled by various international organisations since the implementation of SMW.

Figure 3.17: Survey conducted between June and early July 2020 showed that business sentiment among large enterprises was still negative, though it had already improved notably when compared with the very pessimistic sentiment in the first half of the year; however, the figures have yet to reflect the impact of the third wave of local epidemic started in July



Notes: The black vertical dotted lines denote the implementation/revision of Statutory Minimum Wage. The Quarterly Business Tendency Survey is conducted in general between the beginning of the final month of the previous quarter and the middle of the first month of the quarter concerned. For example, the enumeration period of the survey of the third quarter of 2020 was from 2 June 2020 to 9 July 2020.

(*) Net balance refers to the difference between the percentage of establishments choosing "better" and that choosing "worse" in terms of expected change in business situation; and between that choosing "up" and that choosing "down" in terms of expected change in number of persons engaged.

(^) Figures are subject to revision by the Census and Statistics Department when more data become available.

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

3.49 In sum, an SMW rate set at an appropriate level can encourage more people to enter or re-enter the labour market, thereby unleashing more manpower to cope with labour demand, though a balance has to be maintained between forestalling excessively low wages and minimising the loss of low-paid jobs. The economy entered recession in the third quarter of 2019. Since then, the labour market continued to worsen, the unemployment rate surged and there was a severe loss of grassroots jobs. As Hong Kong's short-term economic outlook is faced with an unusually high degree of uncertainty, the impact of the adjustment of the SMW rate on employees and enterprises warrants particular attention. When reviewing the SMW rate, MWC must take into account various factors in order to arrive at an appropriate recommended SMW rate.

4 Considerations Underlying the Recommendation of the Statutory Minimum Wage Rate

4.1 According to the Minimum Wage Ordinance (MWO), the Minimum Wage Commission (MWC), in performing its function, 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 Statutory Minimum Wage (SMW) rate. Apart from making reference to and analysing relevant statistical data and information, MWC also conducted extensive and in-depth consultation with the community (including organisations representing employers and employees respectively) on the review of the SMW rate, and considered other factors that were pertinent to the review of the SMW rate but could not be fully quantified. The four main areas analysed and considered by MWC when reviewing the SMW rate included: (i) Array of Indicators (AoIs); (ii) views of members of the public and stakeholders; (iii) other relevant considerations; and (iv) impact assessment. Details of the above considerations are elaborated in the ensuing sections.

4.1 Array of Indicators

4.1.1 The Array of Indicators considered by the Minimum Wage Commission

4.2 MWC considered it appropriate to continue to adopt AoIs, to which MWC made reference to in the past reviews of the SMW rate, to monitor the socio-economic and employment conditions after the implementation and rate adjustments of SMW, and to assess the impact brought about by SMW. AoIs covered the essential considerations that MWC must take into account in discharging its function as stipulated in MWO. Specifically, AoIs covered the following four areas: (a) general economic conditions; (b) labour market conditions; (c) competitiveness; and (d) social inclusion. Details of the four areas under the AoIs are elaborated in the following paragraphs. Figure 2.2 in Chapter 2 summarises the AoIs and **Appendix I** sets out the relevant indicators and their data sources.

(a) General economic conditions

4.3 As Hong Kong is a small and highly externally-oriented economy, SMW can bring about very different impact when facing different external economic and political factors, or

when the domestic economy is in different economic cycles or growth paths. Hence, macroeconomic environment (including the prevailing conditions, and those expected at the time when the recommended SMW rate is implemented) is extremely important among the AoIs when examining the impact of SMW and reviewing the SMW rate.

4.4 The indicators referenced by MWC under this aspect covered the latest local economic performance (the growth rates of real Gross Domestic Product (GDP) and its major expenditure components) and the Consumer Price Indices (CPIs). MWC also made reference to forecasts of GDP and prices as well as indicators reflecting the views of enterprises on the short-term outlook for business performance and number of persons engaged, etc., in order to better understand the changes in short-term economic conditions.

(b) Labour market conditions

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

4.6 Indicators reflecting labour market conditions covered labour demand and supply (including figures on employment and vacancies, labour force, labour force participation rate, unemployment and underemployment, etc.), level and distribution of employees' wages analysed by sector and by socio-economic characteristics, wage differentials among employees, employment characteristics (e.g. being employed as an employee or self-employed; being employed full-time or part-time; whether being entitled to paid meal break(s) and/or paid rest day(s), etc.) and working hours.

(c) Competitiveness

4.7 The implementation and upratings of SMW directly increase the wage bills of enterprises

across different sectors (in particular, enterprises in the low-paying sectors (LPS) and small and medium enterprises (SMEs)). The extent of the impact hinges on the proportion of employees' wage bills to the total operating costs as well as the proportion of low-paid employees in individual sectors. Moreover, the overall competition environment and profitability of individual sectors are important indicators for assessing whether the sectors concerned are able to cope with the pressure arising from cost increase. Hence, one of the major areas covered by the indicators monitored by MWC was the operating characteristics of enterprises, including statistical figures on profit ratios, shares of staff costs in total operating expenses, etc. MWC also made reference to statistical data which were released more frequently and more up-to-date, such as business receipts and sales values in certain sectors, as well as rental indices of non-residential properties, in order to understand the business environment faced by the enterprises.

4.8 On the other hand, the implementation and rate adjustments of SMW might affect Hong Kong's competitiveness in the long run. In order to understand the prevailing business sentiment and business environment after the implementation and rate adjustments of SMW, MWC monitored indicators related to entrepreneurship, business sentiment and solvency (such as the numbers of new and cancelled business registrations, bankruptcy and compulsory winding-up petitions presented, and the numbers of establishments) MWC also paid regular attention to changes in Hong Kong's rankings in indices of economic freedom and competitiveness, labour productivity and labour costs, so as to understand the actual and perceived competitiveness of Hong Kong at the macro level.

(d) Social inclusion

4.9 There were also considerable views in the community suggesting that apart from comparing and analysing the changes in employment earnings of employees and consumer prices to gauge the overall living standard and purchasing power of grassroots workers, social inclusion should also be taken into account in monitoring the impact of SMW. For instance, by forestalling excessively low wages, SMW enhances the incentive to work and encourages more people to enter or re-enter the labour market, thereby facilitating grassroots workers to integrate into the society and to expand their social circles; and labour relations might be affected as it takes time for employers and employees to adapt to the implementation and rate adjustments of SMW, etc.

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

- (i) *Standard of living*: These included changes in the nominal and real employment earnings and wage indices of employees, which could facilitate the monitoring of the changes in the earnings of grassroots workers and their performance as compared with price trend after the implementation and rate adjustments of SMW.
- (ii) *Enhancing work incentive*: These included labour force participation rate, number of long-term unemployed persons (i.e. those unemployed for six months or longer) and unemployment cases of Comprehensive Social Security Assistance.
- (iii) *Labour relations*: Some members of the public and stakeholders expressed that the implementation and rate adjustments of SMW might have impact on labour relations. As such, MWC also made reference to the data on labour disputes and claim cases since the implementation of SMW.

4.I.2 Economic and labour market outlook

4.11 The impact of the implementation and upratings of SMW on Hong Kong hinges, to a large extent, on the prevailing macroeconomic environment. Favourable macroeconomic conditions would help cushion the pressure brought about by the implementation and upratings of SMW on the economy, labour market and enterprises, etc. On the contrary, if the economy deteriorates abruptly such that corporate profits are under significant pressure, an uprating of SMW would further jeopardise the business environment and employment situation. In view of the time gap between the review of the SMW rate and the implementation of the recommended rate, MWC regarded it necessary to fully consider the economic and labour market outlook when reviewing the SMW rate.

4.12 When MWC was reviewing the SMW rate and deliberating the recommendation in the current round of review, the macroeconomy and labour market in Hong Kong both deteriorated abruptly. In the second half of 2019, as the local social incidents dealt a heavy blow to economic sentiment and consumption- and tourism-related activities, the Hong Kong economy worsened sharply and fell into recession. The economy posted the first annual contraction since 2009 in 2019. The pressure on the labour market also

increased visibly in the second half of 2019. Upon entering 2020, the COVID-19 epidemic (the epidemic) seriously disrupted a wide range of economic activities and the recession deepened. The Hong Kong economy contracted sharply by 9.0% year-on-year in the first half of 2020, the largest half-yearly decline on record. The labour market also deteriorated abruptly. The seasonally adjusted unemployment rate rose to 6.2% in the second quarter, the highest in over 15 years. In June to August 2020, the seasonally adjusted unemployment rate remained elevated at 6.1%. There was a severe job loss. Total employment decreased by around 220 000 as compared to that before the recession (i.e. the second quarter of 2019). The extent of decline in employment was more drastic than those in the several episodes of economic contraction in the past two decades or so. More than 80% of the employment loss was in lower-skilled jobs. Inflation continued to ease. For the first eight months of 2020 combined, the underlying Composite CPI inflation was 1.8%, lower than that of 3.0% for 2019 as a whole. In particular, the underlying Composite CPI inflation in July and August 2020 combined was 0.1%, as the prices of meals bought away from home turned to a decline and the price pressures on many other major CPI components receded further.

- 4.13 While the worst seems to be over in many major economies, and central banks and governments around the world have implemented massive support measures, the recovery of the global economy will likely be uneven and bumpy. The threat of the epidemic will continue to cloud the global economic outlook until effective vaccines are widely available. Coupled with the tense China-US relations and heightened geopolitical tensions, the external environment is expected to remain difficult for a period of time. Locally, as the epidemic was largely under control between May and early July 2020, businesses of some sectors showed some relative improvement at one time and the labour market also once saw signs of stabilisation. Nevertheless, the third wave of epidemic started in July and seriously disrupted local consumption-related economic activities again. It would be difficult for inbound tourism, which has been at a standstill since early 2020, to recover visibly in a short period of time, as the epidemic is still evolving and widespread travel restrictions are expected to remain in place. In sum, Hong Kong's short-term economic outlook is faced with an unusually high degree of uncertainty. Hard hit by the epidemic, the business environment of many sectors, including tourism, food and beverage services, retail, accommodation services, etc., will remain very challenging in the short term. Employers' hiring sentiment is expected to remain cautious in the near term, thereby

continuing to put pressure on the labour market. As such, the unemployment rate will conceivably stay at relatively high levels for some time. As for inflation, price pressures on both external and domestic fronts should remain tame in the near term in view of the subdued global and local economic conditions, and the possibility of deflation cannot be ruled out.

- 4.14 To sum up, the short-term outlook of the Hong Kong economy and employment situation is faced with an unprecedented degree of uncertainty. In view of this, MWC has fully considered the potential impact of adjusting the SMW rate on the economy, labour market and enterprises under different economic scenarios in reviewing the SMW rate. Section 4.IV below outlines the scope and framework of the impact assessment.

4.II Views from Members of the Public and Stakeholders

- 4.15 As mentioned in Section 2.II.3 of Chapter 2, MWC conducted extensive and in-depth consultation, including focused consultation meetings with stakeholders of LPS (including trade unions, trade associations/professional institutes and employers) to gain a deeper understanding of the impact of the implementation and the past upratings of SMW on LPS; and public consultation to collect the views of members of the public and stakeholders on the review of the SMW rate as well as the impact brought about by SMW. These views facilitated MWC to gain a more comprehensive understanding of the impact of SMW on the Hong Kong economy, society, employment conditions, various sectors (in particular LPS) and SMEs; and provided MWC with important references for formulating the impact assessment framework for the review of the SMW rate. The gist of these views is listed in **Appendix III**.

4.III Other Relevant Considerations

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

- (i) **Enhancing employees' quality of life** – Benefiting from the implementation and

upratings of SMW in the past, and the relatively tight labour market back then, employees enjoyed pay rises which in turn increased their consumption power and improved their quality of life. SMW could also serve to forestall excessively low wages in times of economic downturn;

- (ii) **Enhancing work incentive** – The implementation and upratings of SMW helped forestall excessively low wages, thereby attracting more people to enter or re-enter the labour market and providing a conducive environment that encouraged people who used to live on social welfare supplements to re-enter the market and become self-reliant;
- (iii) **Impact on workers with relatively lower bargaining power and less working experience** – Benefiting from the implementation of SMW, the wages of vulnerable groups (such as older people, people with disabilities, less-educated and lower-skilled workers) were protected. However, in the face of increasing labour costs, employers might tend to hire employees with higher capabilities or more working experience, which might in turn undermine the employment opportunities of the vulnerable groups. Besides, some employers might reduce employment of young people with less working experience and offer them fewer training and internship opportunities, making it difficult for young people to accumulate working experience and climb up the social ladder;
- (iv) **Impact on wage differentials across sectors or positions** – With a uniform SMW rate, grassroots workers could choose to work in different sectors, occupations, districts and/or enterprises while still earning a comparable income. This would however aggravate staff turnover in certain sectors. To some extent, the enterprises concerned needed to offer higher wage rates to retain their existing employees or attract new recruits, thereby further pushing up labour costs;
- (v) **Preserving the market’s capacity to adjust** – While imposing a wage floor, SMW also limited the flexibility of wage adjustment. If the rate was raised to an excessively high level, SMW would undermine the flexibility of different sectors and enterprises in responding to changes in their business environment. Preserving some room for the market’s wage adjustment would be conducive to the sustainable development of all sectors;

- (vi) **Impact on social harmony** – The implementation and upratings of SMW enabled low-income employees to share the fruits of economic development and thus helped promote social harmony. Nevertheless, as grassroots workers, enterprises and other people (including those not directly benefiting from SMW) held different views on the SMW rate, it would take time to narrow this divergence;
- (vii) **Additional costs induced by wage increase** – The implementation and upratings of SMW entailed additional cost implications for enterprises in terms of premium for employees' compensation insurance and contributions to the Mandatory Provident Fund, etc.;
- (viii) **Impact on quality of products and services** – Employees enjoyed wage protection after the implementation and upratings of SMW. Nevertheless, this might reduce the incentive of some employees to improve their performance or take up extra work, thereby affecting service quality. Moreover, enterprises that failed to pass on the SMW-induced additional labour costs to customers or consumers might choose to reduce the quality of their products or services, especially when the overall economic environment was weak; and
- (ix) **Other impact of SMW yet to fully emerge** – The long-term impact of SMW, to various extent, might not have fully emerged. These include, for instance, the impact on profitability and long-term operating strategies of enterprises, Hong Kong's competitiveness in the long run, labour productivity and the attractiveness to foreign investment, etc.

4.IV Framework and Scope of Impact Assessment

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

- 4.18 MWC had no pre-conceived stance on the adjustment direction of the SMW rate. After considering the views of members of the public and stakeholders, examining the macroeconomic performance, labour market conditions, price changes and business operation conditions since the revised SMW rate came into effect, as well as the short-term economic outlook, and undertaking thorough discussion, MWC was of the view that, as the economic outlook of Hong Kong was fraught with uncertainties, test levels below the current SMW rate (\$37.5) should also be considered, among others, in this round of review of the SMW rate for the sake of prudence.
- 4.19 Based on the above considerations and drawing reference from the past experiences of MWC in conducting impact assessment, MWC decided to set the test levels from an hourly wage of \$36.5 to \$44.0 at \$0.5 per interval (16 test levels in total) when conducting the impact assessment. Setting different test levels to conduct impact assessment was to facilitate MWC in making objective and prudent judgment while striking a balance among various objectives and needs. It in no way suggested that MWC had any pre-conceived stance on whether to maintain or adjust the SMW rate, and where applicable, the direction and magnitude of the adjustment.
- 4.20 MWC also noted that, if the SMW rate was to be adjusted upwards, 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 as specified in the employment contracts or agreements) might also rise. Some enterprises might also need to offer pay rises to some employees already earning hourly wages above the SMW rate because of the knock-on effect in order to prevent them from switching to other sectors offering higher wages, more comfortable work environment or more stable working hours. As observed from the experience since the implementation of SMW, MWC deduced that the greater the magnitude of SMW uprating, the greater the knock-on effect that might be induced. In light of the above, with reference to the views of members of the public and stakeholders collected during consultation, MWC considered it necessary to fully consider the additional wage bills arising from the knock-on effect for test levels above the prevailing SMW rate in the impact assessment of the current round of review.
- 4.21 In view of the time gap between the review of the SMW rate and the implementation of the recommended rate, when conducting the impact assessment, MWC made assumptions on the different economic scenarios in the first half of 2021, with reference to the most

updated data and economic situation at the time and also the experience of previous rounds of SMW rate reviews, so as to make forward-looking estimations as far as possible. After iterative discussions, MWC considered it 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 2021, under different economic environments. Given an unprecedented degree of uncertainty faced by the economic outlook, MWC agreed that the assumptions of the four economic scenarios should cover a wider range of possible situations. Table 4.1 sets out these four economic scenario assumptions. MWC also noted that although some economic scenarios assumed some more visible year-on-year rebounds in the Hong Kong economy in the first half of 2021, these assumptions mainly reflected the low-base effect after the economy contracted sharply by 9.0% year-on-year in the first half of 2020. Even under the most optimistic scenario (i.e. Scenario 1), the assumed overall economic activity level in the first half of 2021 would still be lower than that before the recession (i.e. the first half of 2019) (Table 4.2 and Figure 4.1).

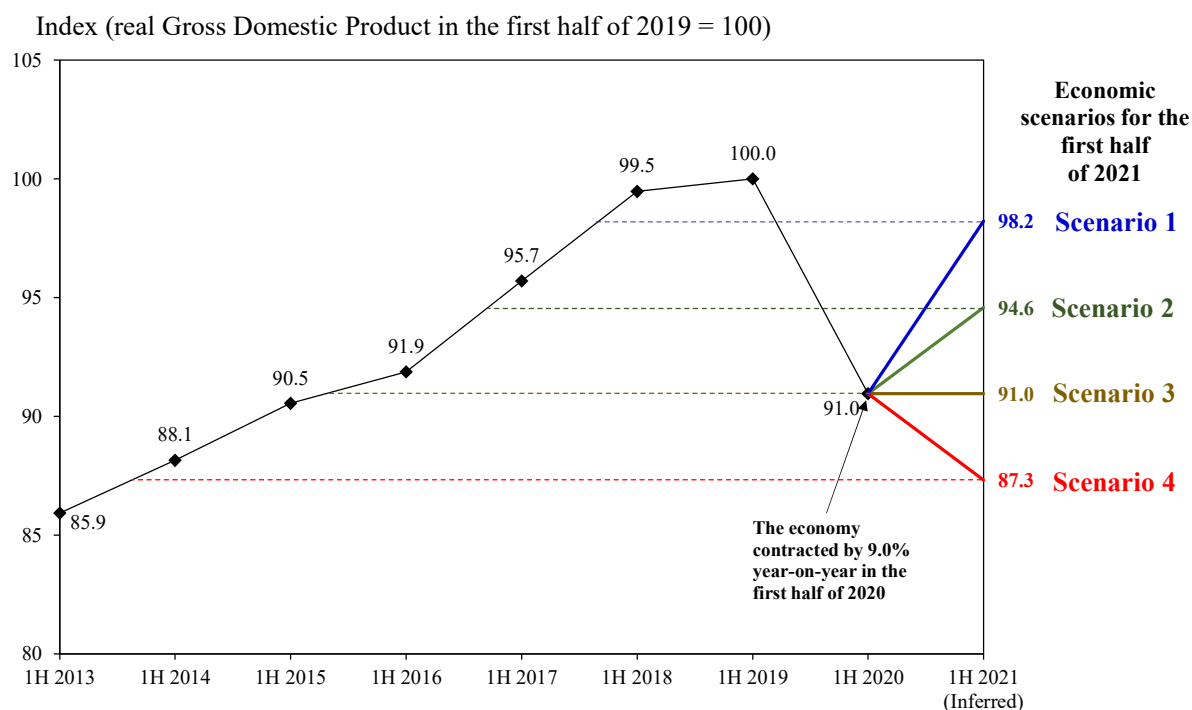
Table 4.1: Assumptions made by the Minimum Wage Commission on the four economic scenarios

Economic Scenario	Assumption on year-on-year economic growth for the first half of 2021
Scenario 1	+8%
Scenario 2	+4%
Scenario 3	0%
Scenario 4	-4%

Table 4.2: Inferred real Gross Domestic Product level in the first half of 2021 under different economic scenario assumptions

Index of real Gross Domestic Product (First half of 2019 = 100)			
First half of 2019	First half of 2020	Index in the first half of 2021, calculated according to different economic scenario assumptions	
100	91.0 (the economy contracted by 9.0% year-on-year)	Scenario 1	98.2
		Scenario 2	94.6
		Scenario 3	91.0
		Scenario 4	87.3

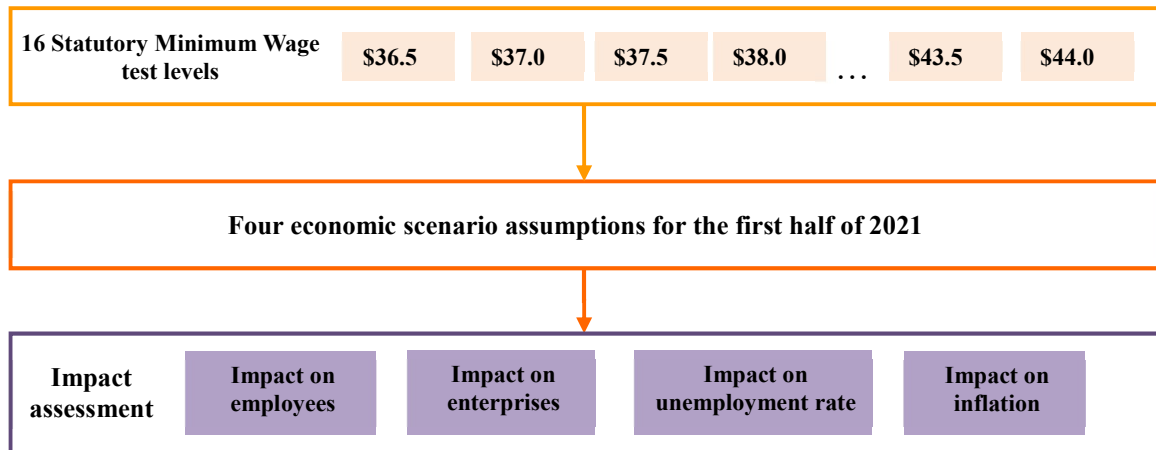
Figure 4.1: Even under the most optimistic economic scenario assumption, the assumed overall economic activity level in the first half of 2021 would still be lower than that in the first half of 2019



4.22 MWC must stress that, in setting the different economic scenarios, it already took into account the unusually high degree of uncertainty faced by Hong Kong's economic outlook during this round of review, which hinged on factors such as the developments of the local and global epidemic, the progress of the recovery of the global economy, and the China-US relations. MWC must also stress that such assumptions were not economic forecasts. They merely aimed to facilitate understanding of the vastly different impact brought about by different test levels under different economic conditions.

4.23 In sum, the framework of impact assessment included 16 different test levels and four economic scenarios, so as to facilitate a comprehensive assessment of the impact of SMW rate adjustment on employees, enterprises, unemployment rate and inflation. Figure 4.2 summarises the framework of impact assessment.

Figure 4.2: Framework of impact assessment



4.24 The methodology and major assumptions of impact assessment are detailed in **Appendix IV**. The impact assessment results of different test levels are analysed in detail in Chapter 5.

5 Impact Assessment Results

- 5.1 As mentioned in Chapter 3, the impact of the adjustment of the Statutory Minimum Wage (SMW) rate on Hong Kong's socio-economic conditions hinges, to a large extent, on the macroeconomic environment at the time when the rate is implemented. As the local social incidents dealt a heavy blow to economic sentiment and consumption- and tourism-related activities, the Hong Kong economy deteriorated abruptly and fell into recession in the second half of 2019. Upon entering 2020, the COVID-19 epidemic (the epidemic) seriously disrupted a wide range of economic activities and the economic recession deepened. The Hong Kong economy contracted sharply by 9.0% year-on-year in the first half of 2020, the largest half-yearly decline on record. The labour market also worsened abruptly. The seasonally adjusted unemployment rate soared from a low level of 2.8% in the first half of 2019 to 6.2% in the second quarter of 2020, the highest in over 15 years. More recent statistics showed that the labour market remained austere. The seasonally adjusted unemployment rate remained elevated at 6.1% in June to August 2020. There was a severe loss of jobs. While the labour market in June to August 2020 already reflected the support from the Employment Support Scheme, employment still decreased by around 220 000 as compared to the second quarter of 2019. The extent of employment loss was even more drastic than those in the several episodes of economic contraction in the past two decades or so. More than 80% of the job losses were in lower-skilled jobs.
- 5.2 The evolving epidemic situation, coupled with the tense China-US relations and heightened geopolitical tensions, add tremendous uncertainties to Hong Kong's short-term economic outlook. Hard hit by the epidemic, the business environment of many sectors, including tourism, food and beverage services, retail, and accommodation services, etc., will remain very challenging in the short term. Employers' hiring sentiment is expected to remain cautious in the near term, thereby continuing to put pressure on the labour market. Hence, the unemployment rate will conceivably stay at relatively high levels for some time. As for inflation, price pressures on both external and domestic fronts should remain tame in the near term in view of the subdued global and local economic conditions, and the possibility of deflation cannot be ruled out. (see Section 4.I.2 of Chapter 4)

5.3 The complicated and difficult economic conditions made this round of review on the SMW rate more challenging than those of the past. In discharging its statutory function of reporting its recommendation about the SMW rate to the Chief Executive in Council, the Minimum Wage Commission (MWC) strived to maintain an appropriate balance between forestalling excessively low wages and minimising the loss of low-paid jobs, and had regard to the need to sustain Hong Kong's economic growth and competitiveness. In order to review the SMW rate in an objective and balanced manner, MWC adopted an evidence-based approach and conducted comprehensive analyses of relevant data and information of various aspects. MWC monitored regularly the data of the Array of Indicators (including statistics which covered the latest conditions of local economic performance, labour market and prices, etc.) (see Chapter 3); conducted extensive and in-depth consultation to gauge from various sectors of the community their views on the review of the SMW rate (see **Appendix III**); and considered other factors that were pertinent to the review of the SMW rate but could not be fully quantified (see Chapter 4). At the same time, MWC made reference to the impact assessment results of various SMW test levels (test levels) under different economic scenario assumptions (see Sections 5.I to 5.V below). The recommendation of MWC, made after in-depth, rational and objective as well as iterative discussions, is set out in Chapter 6.

5.I Impact Assessment Framework

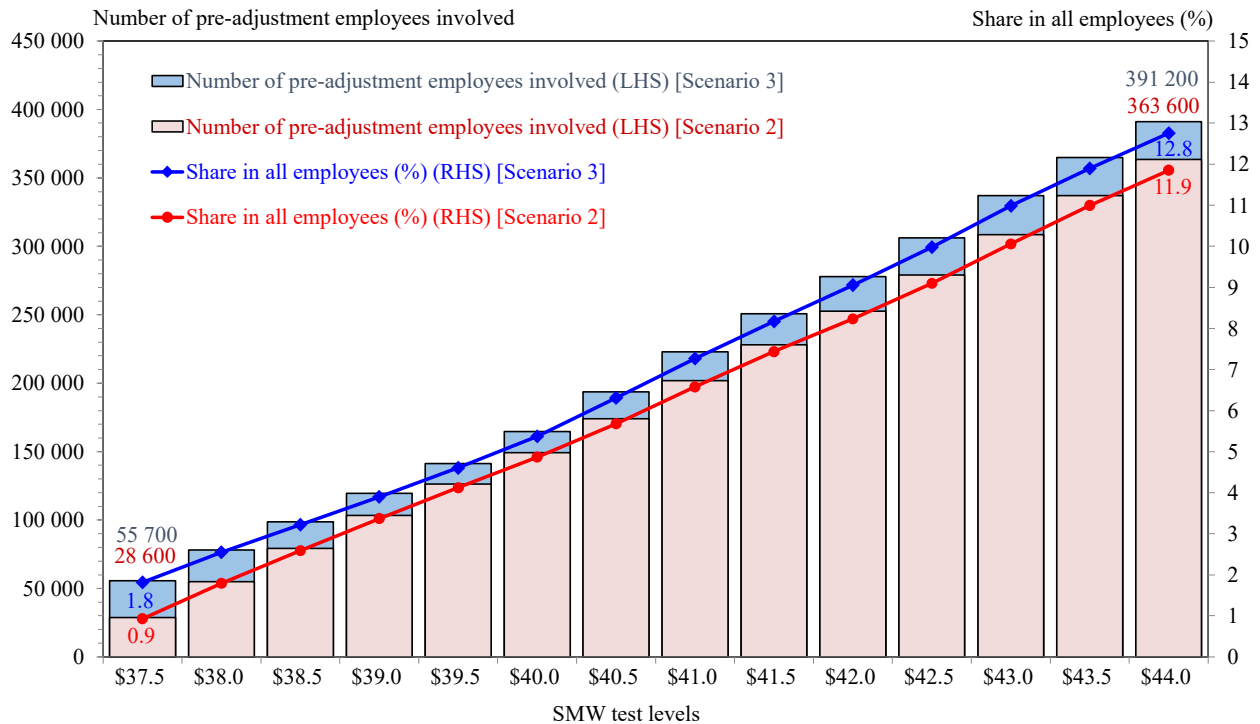
5.4 The results of the impact assessment were one of the many factors that MWC considered in reviewing the SMW rate. In conducting the impact assessment, MWC estimated the possible impacts of various test levels (including 16 test levels from an hourly wage of \$36.5 to \$44.0 at \$0.5 per interval) on employees, enterprises, unemployment rate and inflation (see Section 4.IV of Chapter 4). In view of the time gap between the review of the SMW rate and the implementation of the recommended rate, MWC made four economic scenario assumptions on the economic conditions in the first half of 2021 when conducting the impact assessment, and made forward-looking estimations as far as possible. Details of the impact assessment results are set out in the ensuing sections.

5.II Impact on Employees

5.5 The assessment of the impact on employees constituted primarily the estimations of the number and proportion of pre-adjustment employees involved (i.e. employees earning hourly wages less than the test level before the SMW rate adjustment in the first half of 2021) at various test levels under different economic scenarios. Based on the data on wage distribution from the 2019 Annual Earnings and Hours Survey (AEHS) conducted by the Census and Statistics Department (C&SD) and with reference to other more recent wage data from C&SD and the latest economic conditions, MWC made crude estimations for various test levels under different economic scenarios. Specifically, for the test levels ranging from \$37.5 to \$44.0, the estimated number of pre-adjustment employees involved under Economic Scenario 2 (i.e. assuming a year-on-year economic growth of 4% in the first half of 2021) would be around 28 600 to 363 600, representing 0.9% to 11.9% of all employees in Hong Kong; whereas under Economic Scenario 3 (i.e. assuming a year-on-year economic growth of 0% in the first half of 2021), the estimated number of pre-adjustment employees involved would be around 55 700 to 391 200, representing 1.8% to 12.8% of all employees in Hong Kong (Figure 5.1). It is worth noting that, under a less favourable economic scenario, the labour market would be under greater pressure and employees would generally have slower wage growth or even face pay freeze or pay reduction. Hence, the estimated number of pre-adjustment employees involved at a particular test level under a less favourable economic scenario would be relatively larger than that under a more favourable one⁽¹⁾.

(1) While the impact assessment results under Economic Scenarios 2 and 3 are used in this chapter as examples to illustrate the possible impacts at various SMW test levels, in reviewing the SMW rate, MWC already considered the impact assessment results at various test levels under all the four economic scenarios. MWC's detailed estimation of pre-adjustment employees involved and additional wage bills under the four economic scenarios are in **Part B in Appendix V**.

Figure 5.1: Estimated number and proportion of pre-adjustment employees involved^(^) at different Statutory Minimum Wage (SMW) test levels (test levels) under Economic Scenarios 2 and 3



Notes: (^) For the test level of \$37.5, the pre-adjustment employees involved only include those earning hourly wages of \$37.5. As for other test levels above \$37.5, the pre-adjustment employees involved refer to those earning hourly wages below the respective test level.

Since there will be no employees earning hourly wages below the Statutory Minimum Wage (SMW) rate of \$37.5 before the SMW adjustment in 2021 under the Minimum Wage Ordinance (MWO) (except for employees with disabilities who have completed productivity assessment in accordance with the MWO), the estimation of pre-adjustment employees involved in the above figure is not applicable to test levels below \$37.5.

The assumptions on the economic growth in the first half of 2021 under different scenarios are set out in Table 4.1.

For detailed data, please refer to [Table B.1 in Appendix V](#).

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

5.6 Drawing on the experiences since the implementation of SMW, it must be noted that as employers may need to maintain the wage differentials among employees of different ranks, if the SMW rate is adjusted upwards, some pre-adjustment employees involved may get pay rises to levels above the SMW rate, and some employees originally earning hourly wages above the SMW rate may also get pay rises. Due to this knock-on effect on pay hierarchies (knock-on effect), if the SMW rate is adjusted upwards, the **pre**-adjustment employees involved as crudely estimated above will be different from the number of employees earning the new SMW rate **after** the uprating and also different from the number of employees benefiting from pay rises owing to the uprating.

5.7 On the other hand, if the SMW rate is adjusted downwards, the employees who will face a pay cut due to this downward adjustment will not be limited to those earning the prevailing SMW rate. Specifically, if the SMW rate is adjusted downwards to the test level of either \$36.5 or \$37.0, compared with the pre-adjustment wage distribution of employees (which already took into account pre-adjustment wage changes owing to market adjustment), about 6% to 7% of all employees would face pay cuts due to the downward adjustment of the SMW rate under Economic Scenarios 2 and 3 according to crude estimations. However, it must be noted that as the SMW rate was never adjusted downwards before, there was no experience to draw on when conducting the relevant estimation, and more assumptions had to be made. Hence, caution must be exercised when interpreting the estimations.

5.III Impact on Enterprises

5.8 When making its recommendation on the SMW rate, MWC strived to maintain an appropriate balance between forestalling excessively low wages and minimising the loss of low-paid jobs. MWC also took into consideration the affordability of enterprises in order to sustain Hong Kong's economic growth and competitiveness. An uprating of SMW would push up labour costs for enterprises, and to a certain extent limit the flexibility of enterprises to adjust wages. This might lead to lay-offs or even closures of some enterprises, thereby increasing the risks of unemployment of the employees concerned. As the prevailing economic environment in Hong Kong was particularly austere, the risks from this aspect became rather visible. In assessing the impact on enterprises at different test levels, MWC already set different economic scenarios and conducted detailed analyses with regard to the conditions of different sectors.

5.III.1 Additional wage bills

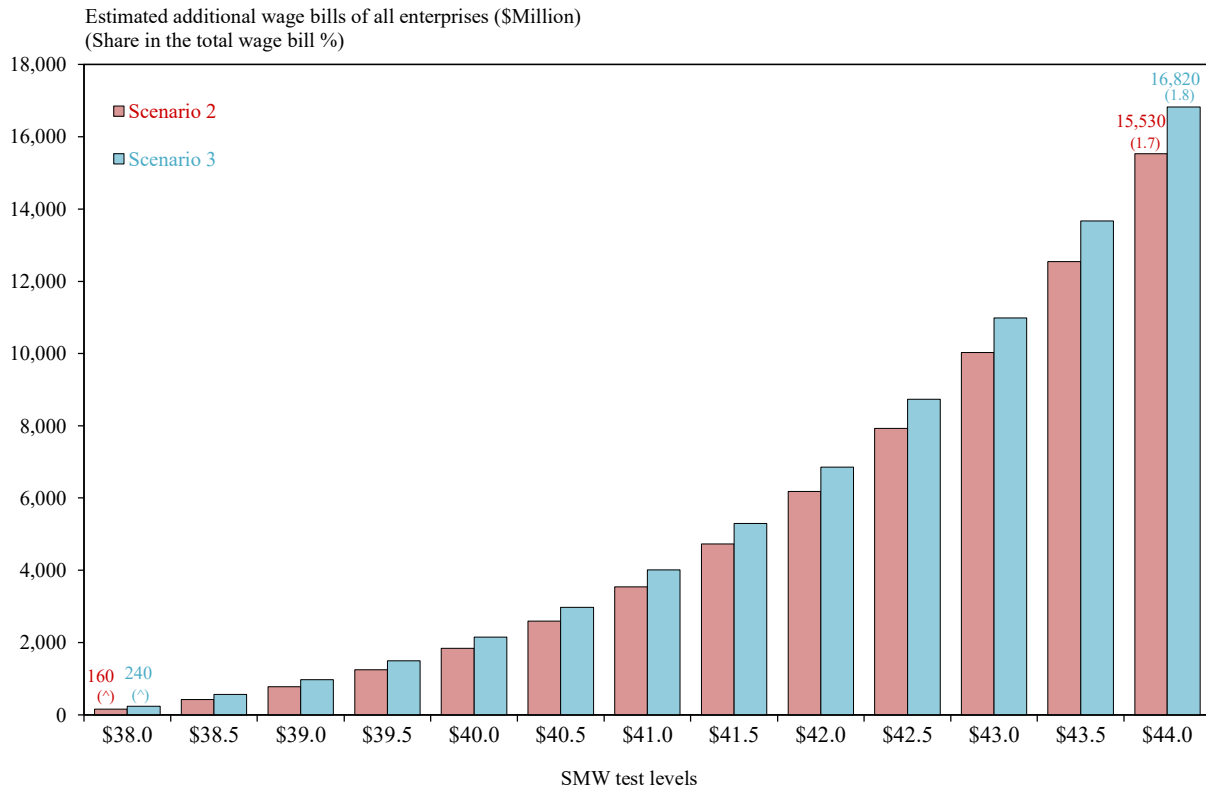
5.9 The most direct impact of SMW uprating on enterprises would be an increase in wage bills. The additional wage bills of enterprises at different test levels as estimated by MWC included the following three components: (i) the additional wage bills incurred for raising the hourly wages of all pre-adjustment employees involved to the test levels to comply with the requirement under MWO; (ii) the additional wage bills relating to rest day pay and meal break pay of the pre-adjustment employees involved (if granted in accordance with their employment contracts or agreements); and (iii) the additional wage

bills induced by the knock-on effect⁽²⁾.

5.10 According to estimations by MWC, if the SMW rate is adjusted upwards to the test levels ranging from \$38.0 to \$44.0, the additional wage bills under Economic Scenario 2 would range from about \$160 million to \$15.53 billion, representing less than 0.05% to 1.7% of the total wage bill; the corresponding additional wage bills under Economic Scenario 3 would range from about \$240 million to \$16.82 billion, representing less than 0.05% to 1.8% of the total wage bill (Figure 5.2). It is worth noting that under a less favourable economic scenario, the estimated number of pre-adjustment employees involved at the same test level would be higher than that under a more favourable economic scenario (suggesting that more employees would earn lower wages), and the corresponding estimated amount of additional wage bills would also be larger. Due to data limitations, the estimated amounts of additional wage bills did not include all the other additional labour costs (such as premium for employees' compensation insurance) arising from uprating of SMW.

(2) It is noteworthy that the magnitude of the knock-on effect on different sectors would vary with, among others, the operating characteristics, rank and remuneration structure of individual sectors. The knock-on effect would be greater on those sectors with multi-layered grade structures, narrower pay differentials between adjacent ranks and more low-paid employees. MWC fully considered the knock-on effect when estimating the changes in wage bills of each sector. See **Appendix IV** for details.

Figure 5.2: Estimated increase in wage bills under Economic Scenarios 2 and 3, if the Statutory Minimum Wage rate is adjusted upwards



Notes: (^) Between 0% and 0.05%.

The above estimations have taken into account rest day pay and meal break pay (if granted to employees in accordance with their employment contracts or agreements) and the knock-on effect on pay hierarchies, in addition to the amount payable by enterprises to comply with the statutory requirement.

The assumptions on the economic growth in the first half of 2021 under different scenarios are set out in Table 4.1.

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

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

5.11 As mentioned in Chapter 3, given the different modes of operation and cost structures across different sectors, the impacts of SMW uprating on various sectors also vary with their business cycle situations and manpower supply and demand conditions. As most low-paying sectors (LPS) are labour-intensive, the impact on them would be more pronounced. The estimated amounts of additional wage bills of LPS under different economic scenarios are set out in **Tables B.3 in Appendix V**.

5.12 On the other hand, if the SMW rate is adjusted downwards to the test level of either \$36.5 or \$37.0, according to crude estimations, the decrease in wage bills arising from the downward adjustment of the SMW rate under Economic Scenarios 2 and 3 would be less than 0.05% as compared with the case in which the SMW rate remains unchanged in the first half of 2021.

5.III.2 Increase in potential financial liability of long service payment

5.13 If the SMW rate is adjusted upwards, some labour costs associated with employees' statutory entitlements (such as liability of long service payment) might also increase accordingly. According to the data from AEHS, around 35% of employees with relatively lower hourly wages had been working in the same organisation for five years or above in May to June 2019. Taking into account rest day pay and meal break pay (if granted to employees in accordance with their employment contracts or agreements) and the knock-on effect in addition to the amount payable by enterprises to comply with the statutory requirement, according to estimations by MWC, if the SMW rate is adjusted upwards to the test levels ranging from \$38.0 to \$44.0, the employers' potential financial liability of long service payment⁽³⁾ under Economic Scenarios 2 and 3 would increase by about \$30 million to \$3.62 billion, accounting for less than 0.05% to 0.4% of the total wage bill for all employees. As an employee is entitled to long service payment only if he/she has been continuously employed by the same employer for not less than five years⁽⁴⁾, the impact might be smaller for those sectors hiring more short-term staff.

5.III.3 Limitations of impact assessment

5.14 When reviewing the SMW rate in the previous rounds, MWC estimated the impact of SMW uprating on the overall profitability of enterprises and the number of enterprises that might turn from profits to losses due to uprating. However, the Hong Kong economy fell into recession in the second half of 2019. Upon entering 2020, the economic recession was deepened by the epidemic to an unprecedented extent, being even more serious than those seen in the 1997-98 Asian Financial Crisis and the 2008-09 Global Financial Crisis. The overall operating conditions of enterprises conceivably went

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

(4) The criteria for entitlement to long service payment are in footnote (1) of [Appendix IV](#).

through rather significant changes, rendering the profit data of enterprises in the past few years⁽⁵⁾ not suitable for estimating the impact of various test levels on profits of enterprises. In view of the above, MWC did not conduct assessment on the impact on profitability of enterprises in this round of review. Nevertheless, MWC could still gauge the impact of different test levels on enterprises by drawing reference from impact assessment results on the two items of enterprises as mentioned above (i.e. additional wage bills and the increase in potential financial liability of long service payment). MWC also constantly monitored other statistical data which were released more frequently and were more up-to-date, so as to understand the latest situation of various sectors.

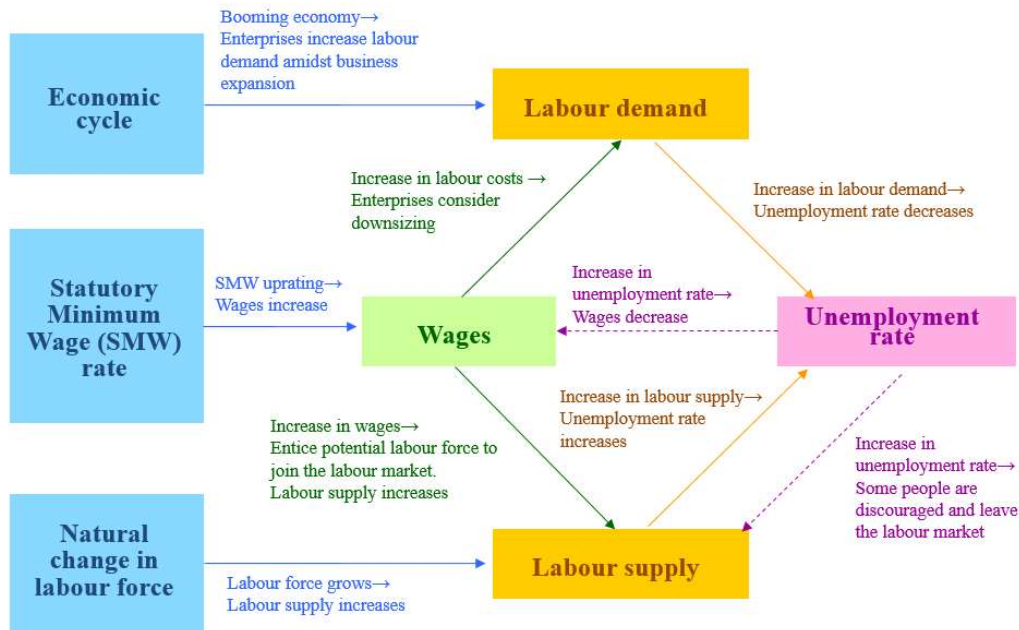
5.IV Impact on Overall Unemployment Rate and Inflation

5.IV.1 Impact on overall unemployment rate

- 5.15 The adjustment of the SMW rate would inevitably affect the labour supply and demand, which in turn would affect the unemployment rate. SMW uprating would push up wage bills of enterprises. When enterprises face an increase in labour costs, their hiring sentiment would be somewhat hampered, resulting in lower labour demand. On the other hand, a pay rise would entice more potential workforce to enter or re-enter the labour market, thereby boosting labour supply. Both cases would lead to a rise in unemployment rate.
- 5.16 Labour supply and demand are also simultaneously affected by various factors including macroeconomic environment and population growth. If the macroeconomic environment is favourable, enterprises would create sufficient new jobs to absorb labour supply, the upward pressure arising from SMW uprating on the unemployment rate would thus be alleviated. On the contrary, if the economy slackens, enterprises would slow down their pace of business expansion, cut down on recruitment, lay off their staff, or even close their businesses, etc. The labour market would then be unable to fully absorb the growth of the labour force and the unemployment rate would likely be subject to greater upward pressure (Figure 5.3).

(5) The profit data of enterprises were obtained from the Annual Survey on Economic Activities conducted by C&SD, with figures in 2018 being the latest data available.

Figure 5.3: Interactions between different factors and labour supply and demand under the impact assessment framework



5.17 When assessing the impact of different test levels on unemployment rate, MWC took into account the above interactions between economic cycles, wages, and labour supply and demand. MWC constructed an econometric model based on economic data (including the statistics released by C&SD on economic growth rate, inflation rate, consumption expenditure in the domestic market and wage, etc.) of the past 20 years or so to conduct a comprehensive and objective assessment of the possible impact of different test levels on the number of unemployed grassroots⁽⁶⁾ workers and the overall unemployment rate. According to estimations by MWC, if the SMW rate is revised upwards to the test levels ranging from \$38.0 to \$44.0, the number of unemployed grassroots workers under Economic Scenarios 2 and 3 would increase by 500 to 54 200, and the overall unemployment rate would go up by less than 0.1 percentage point to 1.4 percentage points, as compared with the case in which the SMW rate remains unchanged (Table 5.1).

(6) Grassroots occupations include occupations of elementary workers as well as service and sales workers. In May – June 2019, the proportion of these occupations was about 70% of all low-paid employees (i.e. employees with hourly wages below the 10th percentile of the overall distribution). The analysis of the number of unemployed grassroots workers helped MWC focus on the impact of SMW on low-paid employees.

Table 5.1: Estimated impact on the number of unemployed grassroots workers and the overall unemployment rate under Economic Scenarios 2 and 3, if the Statutory Minimum Wage rate is adjusted upwards to the test levels ranging from \$38.0 to \$44.0

Economic Scenario	Increase in number of unemployed grassroots workers	Increase in overall unemployment rate (percentage point)
2	500 to 48 400	Less than 0.1 to 1.2
3	800 to 54 200	Less than 0.1 to 1.4

Notes: The above estimations took into account rest day pay and meal break pay (if granted to employees in accordance with their employment contracts or agreements) and the knock-on effect on pay hierarchies, in addition to the amount payable by enterprises to comply with the statutory requirement.

The assumptions on the economic growth in the first half of 2021 under different scenarios are set out in Table 4.1.

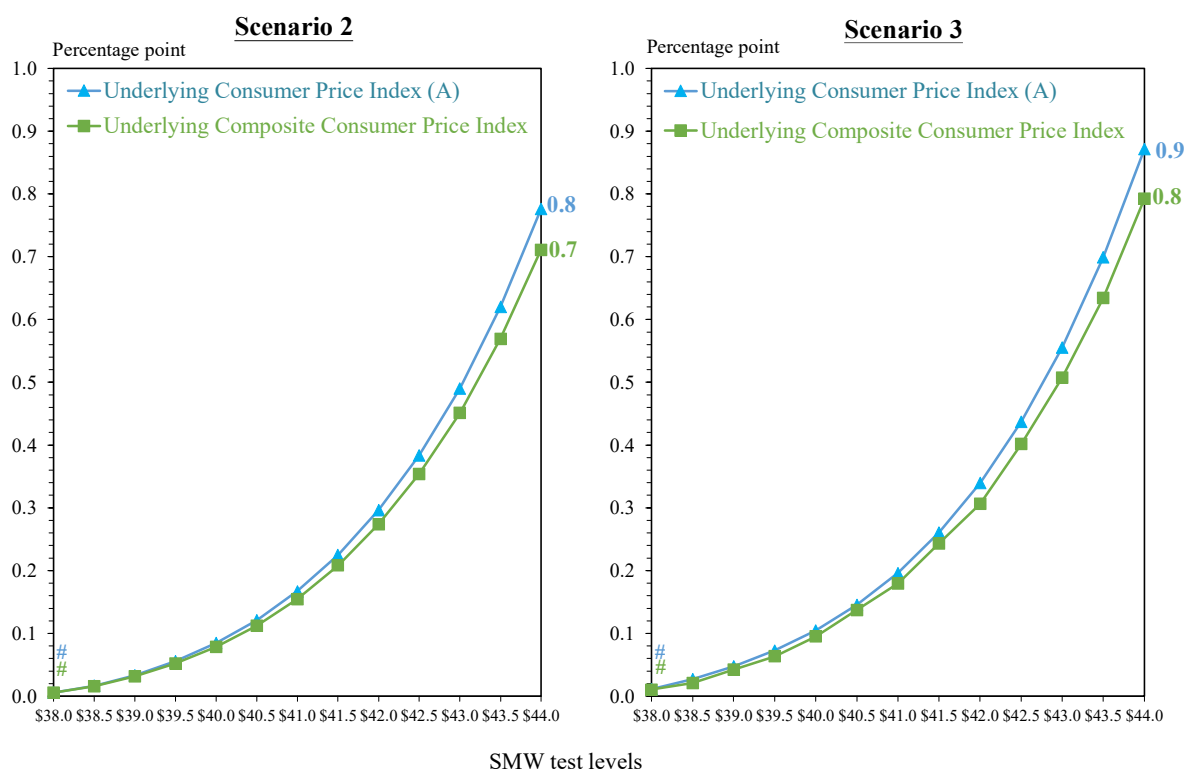
Source: Estimated by the Minimum Wage Commission Secretariat. See [Appendix IV](#) for details.

5.IV.2 Impact on inflation

5.18 When facing an increase in wage bills, enterprises might raise prices of products or services to alleviate cost pressure, which in turn would push up consumer price inflation. In order to gauge the maximum potential impact on inflation due to adjusting the SMW rate upwards to various test levels, MWC assumed a full pass-on of additional wage bills to prices of products and services and took into account the first round of wage-price spiral effect (i.e. prices of other items which were directly or indirectly linked to wages and inflation would also go up).

5.19 According to estimations by MWC, if the SMW rate is adjusted upwards to the test levels ranging from \$38.0 to \$44.0, the Composite Consumer Price Index (CPI) inflation under Economic Scenarios 2 and 3 would be pushed up by around less than 0.05 percentage point to around 0.8 percentage point, and the corresponding impact on CPI(A) inflation would be around less than 0.05 percentage point to around 0.9 percentage point (Figure 5.4). Since estate management, security and cleaning services face greater pressure arising from the additional wage bills and have stronger pricing power in general, the price increases in the services provided by enterprises in these sectors might be more apparent. Nevertheless, generally speaking, as the overall economic activity level in the first half of 2021 would still be lower than that before the recession (i.e. first half of 2019) under the different economic scenarios, enterprises' pricing power should be limited and it would be unlikely for them to be able to fully pass on the additional wage bills to consumers. Therefore, if the SMW rate is adjusted upwards, the actual impact on inflation should be smaller than the estimations above.

Figure 5.4: Estimated impact on inflation under Economic Scenarios 2 and 3, if the Statutory Minimum Wage (SMW) rate is adjusted upwards



Notes: (#) Between 0 and 0.05 percentage point.

The above estimations took into account rest day pay and meal break pay (if granted to employees in accordance with their employment contracts or agreements) and the knock-on effect, in addition to the amount payable by enterprises to comply with the statutory requirement.

The assumptions on the economic growth in the first half of 2021 under different scenarios are set out in Table 4.1.

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

5.V Observations

5.20 The impact of the SMW rate adjustment on Hong Kong's socio-economic conditions hinges, to a large extent, on the macroeconomic environment at the time when the rate is implemented. The prevailing overall economic condition of Hong Kong was austere. In the first half of 2020, the Hong Kong economy saw the largest year-on-year contraction on record. The labour market also deteriorated abruptly, with the unemployment rate surging to the highest in more than 15 years, and a severe loss of grassroots jobs. Inflation continued to ease and the inflation pressure is expected to remain tame in the near future, and the possibility of deflation cannot be ruled out. Affected by headwinds such as the epidemic, tense China-US relations and heightened geopolitical tensions, Hong Kong's short-term economic outlook is faced with an unusually high degree of uncertainty. Against this background, particular attention should be paid to the impact of the SMW rate adjustment on employees and enterprises. When making its recommendation about the SMW rate, MWC already took into account the various aspects

of factors mentioned above. The recommendation of MWC, made after in-depth, rational and objective as well as iterative discussions, and the underlying justifications are set out in Chapter 6.

5.21 When performing the impact assessment, MWC strived to conduct a forward-looking estimation as far as possible and made four economic scenario assumptions to try to cover the possible situations, in the belief that the impact assessment results set out in this chapter would be of certain reference value. However, given the complex interactions between the economic environment and the labour market as well as their rapid changes, the ongoing adjustments by different sectors and the unusually high degree of uncertainty in Hong Kong's short-term economic outlook, there would still likely be differences between the actual outturn in the first half of 2021 and the assumptions. Moreover, since the implementation of SMW in 2011, the Hong Kong economy only experienced the first recession in the second half of 2019, hence there were no experiences and data about SMW adjustment during economic downturn for MWC to draw on. The relevant estimations inevitably involved even more assumptions. As such, the impact assessment results were only meant to assist MWC to examine the impact of various test levels under the different economic scenarios, and **should not** be taken as a precise forecast of the actualities.

5.22 The main objective of the impact assessment set out in this chapter was to conduct stress tests on the possible situations brought about by adjusting the SMW rate to various test levels, in order to assess the potential impact of different test levels at the macro level. At the micro level, given the uniqueness and diversity of enterprises in terms of operating mode, type of goods/services supplied, labour supply and demand conditions as well as profitability, it would be difficult for the above impact assessment estimates to cover the outcomes faced by individual enterprises after adjusting the SMW rate to the test levels.

6 Recommendation

- 6.1 According to the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong), the main function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to report its recommendation about the Statutory Minimum Wage (SMW) rate to the 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.
- 6.2 SMW impacts on various aspects in Hong Kong, including the society, the economy, the labour market and inflation. The community also has diverse views and concerns about the review of the SMW rate. Adopting an evidence-based approach, MWC reviewed the SMW rate in a comprehensive, objective and balanced manner, with a view to recommending a rate that would be conducive to the overall interest and development of Hong Kong. MWC monitored regularly the Array of Indicators (which covered the latest conditions of local economic performance, labour market, prices and social inclusion, etc.); conducted extensive and in-depth consultation to gauge from various sectors of the community their views on the review of the SMW rate; and considered other factors that were pertinent to the review of the SMW rate but could not be fully quantified. At the same time, MWC made reference to the impact assessment results of various SMW test levels under different economic scenario assumptions.
- 6.3 Chapter 3, Chapter 4 and Chapter 5 of this report set out the data, views and factors fully considered by MWC in this round of review. MWC noticed that wages of grassroots employees improved notably during the period between the implementation of SMW (i.e. May 2011) and its fourth uprating (i.e. May 2019), with the cumulative increase exceeding the inflation over the same period. Benefiting from the implementation and upratings of SMW in the past and the relatively tight labour market back then, low-paid employees enjoyed pay rises which in turn improved their quality of life. Specifically:
- (i) between May 2011 and May 2019, the SMW rate rose cumulatively by 33.9% from \$28 per hour to \$37.5 per hour, exceeding the inflation over the same period (Table 6.1);

Table 6.1: Comparison between the increases in the Statutory Minimum Wage (SMW) rate over its past upratings and inflation over the corresponding periods

	Increase from May 2011 to May 2019 (%)	Increase from May 2017 to May 2019 (%)
The SMW rate	33.9 (the SMW rate was adjusted upwards from \$28.0 to \$37.5 cumulatively)	8.7 (the SMW rate was adjusted upwards from \$34.5 to \$37.5)
Headline Composite Consumer Price Index (CPI)	26.9	4.9
Underlying ^(^) Composite CPI	26.7	5.2

Note: (^) After netting out the effects of the Government's one-off relief measures.

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

- (ii) according to the findings of the Annual Earnings and Hours Survey, the 10th percentile hourly wage of all employees rose by a cumulative 50.2% in May to June 2019 over May to June 2011, visibly higher than the 39.3% increase in the corresponding median hourly wage over the same period and the rate of increase in the SMW rate from \$28 per hour to \$37.5 per hour. The above rates of wage growth were also all higher than the inflation over the same period, signifying a real improvement in the wages of low-paid employees; and
- (iii) on a year-on-year comparison, the 10th percentile hourly wage of all employees recorded an increase of 4.8% in May to June 2019, also higher than the 3.0% increase in the underlying Composite Consumer Price Index (CPI) over the same period.

6.4 Meanwhile, MWC recognised that SMW mainly aimed to forestall excessively low wages by setting a wage floor. Therefore, SMW should not be perceived as the only way of resolving the problems of low-income persons/families or working poverty. In fact, MWC noted that the Government strived hard to improve the subsidies for grassroots families and low-paid employees and/or the incomes of them through various measures. MWC was of the view that the Government should continue to implement the relevant targeted measures. In this regard, the targeted measures put forward by the Government in recent years included:

- (i) implementation of various targeted measures by the Government since April 2019 to enhance the protection of non-skilled employees engaged by government service contractors (GSCs). These measures included increasing the technical weighting

and the weighting of wage level in the technical assessment in tender evaluation and requiring GSCs to provide contractual gratuity in the new tenders for government service contracts that rely heavily on the deployment of non-skilled employees. According to the figures as at 31 May 2020, the committed wages in these government service contracts increased by over 24%;

- (ii) a series of improvement measures on the Low-income Working Family Allowance Scheme implemented by the Government in April 2018, including relaxing the eligibility requirements of the Scheme and increasing all the rates of allowance. The Scheme was also renamed as the Working Family Allowance Scheme (WFAS). Moreover, the Government further raised the payment rates of WFAS in July 2020. Taking a four-person household with two children as an example, its maximum allowance receivable was increased by more than 30% from \$3,200 to \$4,200 per month; and
- (iii) provision of subsidies and other assistance under the Community Care Fund to people or families facing financial difficulties, in particular those who fell outside the safety net or those within the safety net but still had special circumstances that were not covered.

6.5 During the current round of review of the SMW rate, MWC noted that, affected by the global economic slowdown and China-US trade tensions, Hong Kong's economic growth began to moderate visibly in the later part of 2018. As the local social incidents dealt a heavy blow to economic sentiment and consumption- and tourism-related activities, the economy deteriorated abruptly and fell into recession in the second half of 2019. The overall economy posted the first annual contraction since 2009 in 2019. Upon entering 2020, the COVID-19 epidemic (the epidemic) seriously disrupted a wide range of economic activities and the recession deepened. The Hong Kong economy contracted sharply by 9.0% year-on-year in the first half of 2020, the largest half-yearly decline on record. The extent of recession was more serious than those seen in the 1997-98 Asian Financial Crisis and the 2008-09 Global Financial Crisis. The local epidemic situation was also rather volatile, disrupting the local consumption-related economic activities seriously.

- 6.6 Hard hit by the local social incidents and the epidemic, the market conditions in Hong Kong faced a blow of unprecedented scale. MWC noted that various sectors were struggling to operate, with the business environment of the tourism sector and such low-paying sectors as food and beverage services and retail being particularly austere. According to the Quarterly Survey of Employment and Vacancies, the number of establishments fell sizably by 2.5% year-on-year in June 2020, showing that some enterprises might have reduced the number of branches or ceased operations due to the economic recession. Among the different sectors, the business environment of the retail, and food and beverage services sectors were particularly austere, with their number of establishments plummeting by 4.2% and 8.6% respectively.
- 6.7 The local labour market remained largely stable since the implementation of SMW and up to the second quarter of 2019, with the unemployment rate staying at low levels; yet, as the Hong Kong economy fell into recession in the second half of 2019, the pressure on the labour market increased notably. Upon entering 2020, the labour market deteriorated abruptly as a result of the epidemic. The seasonally adjusted unemployment rate soared by 3.4 percentage points from 2.8% in the second quarter of 2019 to 6.2% in the second quarter of 2020, the highest in over 15 years. Meanwhile, some enterprises, in the face of a challenging business environment, requested their staff to take no-pay leave. The underemployment rate rose to 3.7% in the second quarter of 2020, the highest in nearly 17 years. As labour demand fell sharply, employment saw a sharp year-on-year decline of 6.2% in the second quarter of 2020. As the local epidemic was largely under control between May and early July and the implementation of the Employment Support Scheme provided support, the labour market saw signs of stabilisation at the end of the second quarter and the beginning of the third quarter. However, the third wave of local epidemic started in July, putting the labour market under pressure again. More recent statistics showed that, in June to August 2020, the seasonally adjusted unemployment rate remained elevated at 6.1% and the underemployment rate rose to 3.8%, the highest since the Severe Acute Respiratory Syndrome (SARS) epidemic. The unemployment rate of the consumption- and tourism-related sectors (viz. retail, accommodation and food and beverage services) combined was elevated at 10.9% in June to August 2020, the highest since the onslaught of SARS. The underemployment rate of these sectors combined surged again to 5.9%. Among these sectors, the unemployment rate and the underemployment rate of the food and beverage services sector were elevated at 14.4%

and 8.3% respectively. Total employment decreased by 5.7% or around 220 000 as compared to that before the recession (i.e. the second quarter of 2019). The decline in employment was more drastic than those in the past episodes of economic contraction. More than 80% of the sharp decline in employment was in lower-skilled jobs.

- 6.8 The threat of the epidemic will continue to cloud the global economic outlook until effective vaccines are widely available. Coupled with the tense China-US relations and heightened geopolitical tensions, the external environment is expected to remain difficult for a period of time. It would be difficult for inbound tourism, which has been at a standstill since early 2020, to recover quickly in a short period of time, as the epidemic is still evolving and widespread travel restrictions are expected to remain in place. In sum, Hong Kong's short-term economic outlook is faced with an unusually high degree of uncertainty. Hard hit by the epidemic, the business environment of many sectors, including tourism, food and beverage services, retail and accommodation services, will remain very challenging in the short term. Employers' hiring incentive is expected to remain cautious in this period of time, thereby continuing to put pressure on the labour market. As such, the unemployment rate will conceivably stay at relatively high levels for some time.
- 6.9 Meanwhile, MWC noted that employment earnings of some employees, especially those in sectors hard hit by the epidemic, decreased due to factors such as underemployment and being asked to take no-pay leave. Some enterprises implemented or indicated plans to implement pay freeze/reduction. In fact, amidst the gloomy economic conditions, the Government already announced a pay freeze for civil servants and the Minimum Allowable Wage and food allowance for foreign domestic helpers also remained unchanged.
- 6.10 As for consumer prices, inflation continued to ease in 2020. The underlying Composite CPI inflation was 1.8% for the first eight months of 2020 combined, lower than the average of 3.0% in 2019. The underlying Composite CPI inflation was only 0.1% for July and August 2020 combined, as prices of meals bought away from home turned to a decline and the price pressures on many other major CPI components receded further. The underlying CPI(A), which is more relevant to the livelihood of the grassroots, showed a similar trend. Price pressures on both external and domestic fronts should remain tame

in the near term in view of the subdued global and local economic conditions, and the possibility of deflation cannot be ruled out.

- 6.11 The data reviewed by MWC in detail reflected that the Hong Kong economy deteriorated abruptly since the second half of 2019, and the economic outlook was highly uncertain. MWC understood that the complicated and difficult economic conditions made this round of review more challenging than those conducted in the past. In discharging its functions, MWC must uphold the evidence-based approach, and strive to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, as well as having regard to the need to sustain Hong Kong's economic growth and competitiveness.
- 6.12 There were views from the community that the SMW rate should be adjusted downwards if the evidence-based approach is to be strictly adhered to, considering the blow of unprecedented scale to the Hong Kong economy, the extremely difficult business environment faced by the enterprises, and the highly uncertain economic outlook.
- 6.13 On the other hand, proposals for adjusting the SMW rate upwards would, to a certain extent, lead to increases in wage bills, as enterprises need to comply with the requirements of MWO. Other labour costs (such as rest day pay and meal break pay as specified in the employment contracts or agreements) might also rise. Some enterprises might also need to offer pay rises to some employees earning hourly wages above the SMW rate because of the knock-on effect on pay hierarchies. Upon an increase in labour costs, some enterprises might further reduce recruitment, or even lay off employees or cease operations, thereby increasing the risks of unemployment of the employees concerned (especially low-paid employees). As the prevailing economic environment in Hong Kong was particularly austere, the risks from this aspect became rather visible.
- 6.14 MWC noted that the Government had already launched a series of relief measures targeted at different sectors (including specific sectors which were hard hit by the economic downturn) to help enterprises requiring financial assistance, so as to prevent lay-offs. These relief measures included the support measures under the three rounds of Anti-epidemic Fund, in particular the Employment Support Scheme. However, these special measures could not resolve the cash flow problem of businesses and it is also hard to predict their effectiveness and whether they will last. Many enterprises are still facing a

difficult business environment. Adjusting the SMW rate upwards would push up the labour costs of enterprises, thereby inducing more enterprises to implement pay cuts, lay off their staff or cease operations. Earnings and employment opportunities of grassroots employees would therefore be reduced. Even if the economy might rebound next year from the trough, the recovery is expected to be rather slow, and it would be difficult for the economic activity level to return to that before the recession in a short period of time.

- 6.15 On the other hand, MWC had a serious discussion that those first hit by the double blows of the weak economic conditions and the raging of epidemic were mostly grassroots employees, such as employees in the retail and restaurants sectors. Facing difficulties such as underemployment, reduction in working hours, no-pay leave, pay reduction, furlough or unemployment, their livelihood was severely affected. Moreover, adding further to their burden, their expenditures on household cleaning and personal hygiene increased due to the need to purchase anti-epidemic supplies. MWC also noted the views that the purchasing power of low-paid employees, in particular grassroots employees earning hourly wages at exactly the SMW rate, should be maintained since the main objectives of SMW included forestalling excessively low wages; and that SMW should protect low-paid employees who had no bargaining power and that the prevailing SMW rate was on the low side, being insufficient for low-paid employees to meet their basic living expenses. In addition, earnings of many low-paid employees were reduced during the epidemic due to no-pay leave and/or wage reduction, and that the business environment faced by enterprises should improve post-epidemic, these views considered that the SMW rate should be adjusted upwards by an extent no less than the inflation, so that the basic living expenses of low-paid employees could be met and the purchasing power of their wages would not be eroded by inflation.
- 6.16 In view of the above, MWC balanced the various factors and considered the latest economic and employment data which reflected that the Hong Kong economy was in a deep recession with elevated unemployment rate, and that consumer prices might adjust downwards owing to the weak economic conditions, and the possibility of deflation could not be ruled out. As Hong Kong's economic outlook is faced with an extremely high degree of uncertainty, even if economy recovers, it would still be difficult to return to the economic activity level before the recession in a short period of time. In fact, the epidemic dealt a blow of unprecedented scale to both the global and local economy. Facing the weak economic environment, adjusting the SMW rate upwards might result in

further loss of low-paid jobs, in turn affecting the employment opportunities of the vulnerable groups. Based on an evidence-based approach, MWC noticed that the prevailing data and the unusually high degree of uncertainty of the economy in the short term did not support an upward adjustment of the SMW rate.

- 6.17 Besides, MWC noted that some suggested adopting an appropriate suitable pre-determined formula (such as making reference to the inflation rate or the ratio to median wage) as the objective basis for reviewing of the SMW rate in future. Nonetheless, the main function of MWC is to report its recommendation about the SMW rate to CE in Council in accordance with MWO. Also, considering that SMW might bring about impacts on various aspects including the society, the economy, the labour market, inflation, productivity and competitiveness, and these factors, bearing their own weight, would interact with each other and adjust under different socio-economic environments, simply employing an indexation of the SMW rate to any pre-determined formulas or specific consumer price indicators might not be able to fully and appropriately take into account various relevant factors and their interactions. In fact, according to the past reviews, the increases in SMW rates as recommended by MWC generally exceeded the corresponding inflation rates since the inception of MWC.
- 6.18 As for providing assistance to grassroots employees earning hourly wages at exactly the SMW rate, MWC suggested the Government to consider continuing to implement targeted relief measures, so as to prevent the loss of low-paid jobs on one hand, and provide timely and targeted assistance for grassroots employees on the other.
- 6.19 In the past, MWC conducted reviews of the SMW rate with the overall interest of the community as the major premise so that a unanimous consensus could be reached through rational and objective discussions. Upholding the same objective, the current term of MWC agreed not to adopt any proposals for adjusting the SMW rate downwards after careful consideration of the relevant data and factors, so as to avoid further impacting on earnings of low-paid employees. Nevertheless, taking into account the blow of unprecedented scale faced by the Hong Kong economy and the highly uncertain economic outlook, the majority of the members came up with the consensus that an upward adjustment of the SMW rate was not supported. The recommendation of MWC in this review was to maintain the SMW rate at \$37.5 per hour.

Appendix I

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

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)
	Real GDP by main expenditure components	National Income Statistics, C&SD
	Composite Consumer Price Index and Consumer Price Index (A)	Monthly Retail Price Survey, C&SD
	Prominent establishments' views on expected changes in short-term business situation and number of persons engaged	Quarterly Business Tendency Survey, C&SD
	GDP and price forecasts	Office of the Government Economist, Financial Secretary's Office
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 (only including enterprises with employees)	Annual Survey of Economic Activities, C&SD
	Rental indices of non-residential properties	Rating and Valuation Department
	Total retail sales	Monthly Survey of Retail Sales, C&SD
	Total restaurant receipts	Quarterly Survey of Restaurant Receipts and Purchases, C&SD
	Business receipts indices	Quarterly Survey of Service Industries, C&SD
2. Entrepreneurship, business sentiment and solvency	Number of establishments	SEV, C&SD
	Labour demand	SEV, C&SD
	Number of new business registration	Inland Revenue Department
	Number of cancellation 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 with their parent companies located outside Hong Kong	Annual Survey of Companies in Hong Kong with Parent Companies Located outside Hong Kong, C&SD
	Inward direct investment	Survey of External Claims, Liabilities and Income, C&SD

Summary of Indicators	Statistical Indicators	Data Sources
4. Productivity growth	Labour productivity growth in Hong Kong and other places	Hong Kong: National Income Statistics and Composite Employment Estimates, C&SD Other places: National statistics authorities, CEIC and Datastream databases
5. Labour costs	Changes in unit labour cost in Hong Kong and other places	Hong Kong: National Income Statistics, GHS and Labour Earnings Survey (LES), 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	LES, C&SD
	Employment earnings of full-time employees analysed by decile group	GHS, C&SD
	Average monthly employment earnings	GHS, C&SD
2. Enhancing work incentive	Labour force participation rate	GHS, C&SD
	Number of long-term unemployed (unemployed for 6 months or above) persons	GHS, C&SD
	Unemployment cases of Comprehensive Social Security Assistance	Social Welfare Department
3. Labour relations	Number of disputes and claim cases	Labour Department

Appendix II

List of Stakeholders of Low-paying Sectors that Attended Focused Consultation Meetings

(Date: 16 September 2019)

Name of Organisation	
1.	Association of Health Service Workers 健康服務從業員協會
2.	Association of Professional Personnel (Hotels, Food & Beverage) 酒店及飲食專業人員協會
3.	Association of Restaurant Managers 現代管理（飲食）專業協會
4.	Association of Sales and Promotion Employees 銷售及推廣職工協會
5.	Bakery, Confectionery and Cake Trade Workers Union 麵包糖果餅業食品職工會
6.	Beer, Aerated Water and Beverage Industries Employees Union 啤酒汽水飲品業職工會
7.	Bite Limited (No Chinese name)
8.	Building Supervisors and Caretakers Union 大廈管理員職工會
9.	Catering and Hotels Industries Employees General Union 飲食及酒店業職工總會
10.	Catering Trade Chiuchow and Cantonese Workers Union 飲食業潮粵籍職工會
11.	Centuryan Environmental Services Group Limited 新紀元環保服務集團有限公司
12.	Certis Centurion Facility Company Limited 世紀服務有限公司
13.	Chamber of Security Industry 保安業商會
14.	Chinese and Western Food Workers Union 中西飲食業職工會
15.	Choi Fung Hong Company Limited 彩豐行有限公司
16.	CIAO International Limited 彩鷗國際有限公司
17.	City Cleaning Limited 城市清潔有限公司
18.	Cleaning Service Industry Workers Union 清潔服務業職工會
19.	Cleaning Workers Union 清潔工人職工會
20.	Coffee Concepts (HK) Limited (No Chinese name)
21.	Colour Brown Coffee 咖啡事多
22.	Commercial Organization and Domicile Services Employees Association 商業機構及家居服務從業員協會
23.	Community Care and Nursing Home Workers General Union 社區及院舍照顧員總工會
24.	Convenience Retail Asia Limited 利亞零售有限公司
25.	E Lighting Group Holdings Limited 壹照明集團控股有限公司
26.	East Ocean Gourmet Group 東海飲食集團

Name of Organisation	
27.	Eating Establishment Employees General Union 飲食業職工總會
28.	Eco Industry Labour Union 環保業職工會
29.	Environmental Contractors Management Association 環保工程商會
30.	Environmental Services Contractors Alliance (Hong Kong) 香港環境衛生業界大聯盟
31.	Eu Yan Sang (Hong Kong) Limited 余仁生(香港)有限公司
32.	Federation of Beauty Industry (H.K.) 香港美容業總會
33.	Fok Hing (Hong Kong) Trading Limited 復興(香港)貿易有限公司
34.	Food and Beverage Industry Employees General Union 食品及飲品業僱員總會
35.	General Security (HK) Limited 大眾安全警衛(香港)有限公司
36.	Golden Age Home for Senior Citizens 知年護養院
37.	Good Excel Property Consultants Limited 卓安物業顧問有限公司
38.	Grace Nursing Home 頌恩護理院
39.	Guardian Property Management Limited 佳定物業管理有限公司
40.	Hair and Make-up Stylish Image Designers General Union 髮型化妝整體形象設計師總會
41.	Happiness Cuisine 囍慶酒家
42.	Hoi Tin Tong Company Limited 海天堂有限公司
43.	Hong Kong and Kowloon Electrical Appliances Merchants Association Limited 港九電器商聯會有限公司
44.	Hong Kong Air Freight Transport and Express Transport Employees Union 香港航空貨運及速遞業工會
45.	Hong Kong Beauty and Fitness Professionals General Union 香港美容健體專業人員總會
46.	Hong Kong Buildings Management and Security Workers General Union 香港物業管理及保安職工總會
47.	Hong Kong Catering Industry Association 香港飲食業聯合總會
48.	Hong Kong Department Stores and Commercial Staff General Union 香港百貨、商業僱員總會
49.	Hong Kong Environmental Services Employees Union 香港環境服務職工會
50.	Hong Kong Environmental Services, Logistics and Cleaning Employees Association 香港環保、物流及清潔從業員協會
51.	Hong Kong Federation of Restaurants and Related Trades Limited 香港餐飲聯業協會有限公司
52.	Hong Kong Housing Management Employees Union 香港樓宇管理僱員工會
53.	Hong Kong Private Nursing Home Owners Association 全港私營安老院同業會

Name of Organisation	
54.	Hong Kong Retail Management Association 香港零售管理協會
55.	Hong Kong Services Industry Employees Association 香港服務業僱員協會
56.	Hong Kong Waste Disposal Industry Association 香港廢物處理業協會
57.	Imperial Bird's Nest International Company Limited 官燕棧國際有限公司
58.	Institution of Dining Art 稻苗學會
59.	International Housewares Retail Company Limited 國際家居零售有限公司
60.	Kam Kee Café 金記冰室
61.	Kuokon Security Limited 港安警衛有限公司
62.	Kwan Sang Catering Professional Employees Association 群生飲食技術人員協會
63.	Lemon King Company Limited 檸檬王有限公司
64.	Lion Security Limited 雄獅警衛有限公司
65.	Man Fook Jewellery Holdings Limited 萬福珠寶集團有限公司
66.	Maxim's Caterers Limited 美心食品有限公司
67.	Mekim Limited 美儉有限公司
68.	Million Rank (HK) Limited 百階（香港）有限公司
69.	Morning Express and Logistics Limited 早晨快信有限公司
70.	Nice Property Management Limited 嘉怡物業管理有限公司
71.	Pacific Coffee Company Limited 太平洋咖啡有限公司
72.	Parkland Property Management Limited 柏齡物業管理有限公司
73.	Personal and Community Services Workers General Union 個人及社區服務行業職工總會
74.	Pine Care Group 松齡護老集團
75.	Promoters and Casual Workers Union 推廣員及零散工工會
76.	Property Management Administrative and Clerical Staff Association 物業管理行政及文職人員協會
77.	Prosperity Land Cleaning Service Limited 豐寧清潔服務有限公司
78.	Protech Property Management Limited 保得物業管理有限公司
79.	QB House (Hong Kong) Limited (No Chinese name)
80.	Retail, Commerce and Clothing Industries General Union 零售、商業及成衣業總工會
81.	Savills Property Management Limited 第一太平戴維斯物業管理有限公司
82.	Seafood Delight Restaurant 昇悅集團
83.	Service Industry General Union 服務業總工會
84.	Shanghai Lane 上海弄堂菜肉餛飩
85.	Shui On Nursing Home Holdings Limited 瑞安護老院集團有限公司
86.	SME Global Alliance Elderly and Special Needs Services Association Limited 中小企國際聯盟安老及殘疾服務聯會有限公司

Name of Organisation	
87.	Sun Lok Restaurant 新樂茶餐廳
88.	Sunshine Telecom Limited 新輝電訊有限公司
89.	Supermarkets and Chain Stores Employees General Union 超市及連鎖店僱員總會
90.	Swan Hygiene Services Limited 時運服務有限公司
91.	Swire Resources Limited 太古資源有限公司
92.	Tao Heung Group 稻香集團
93.	The Association for Hong Kong Catering Services Management Limited 香港餐務管理協會
94.	The Federation of Hong Kong Property Management Industry Limited 香港物業管理聯會有限公司
95.	The Hong Kong General Union of Security and Property Management Industry Employees 香港護衛及物業管理從業員總會
96.	The Hong Kong Institute of Housing 香港房屋經理學會
97.	The Hong Kong Security Association 香港保安業協會
98.	The Wing On Department Stores (HK) Limited 永安百貨有限公司
99.	Ting On Home for The Aged Limited 定安護老院有限公司
100.	Union of Hong Kong Beauty and Health Care Employees 香港美容保健業僱員總會
101.	Urban Property Management Limited 富城物業管理有限公司
102.	Vogue Laundry Service Limited 雅潔洗衣有限公司
103.	Wai Tat Cleaning Service Company Limited 威達清潔服務有限公司
104.	Wai Yuen Tong Medicine Company Limited 位元堂藥廠有限公司
105.	Waihong Environmental Services Limited 惠康環境服務有限公司
106.	Well Born Real Estate Management Limited 偉邦物業管理有限公司
107.	Yat Ting Ho Dry Cleaning Company Limited 一定好乾洗有限公司
108.	Yick Tat Property Management Company Limited 億達行物業管理有限公司
109.	Yip's Cleaning Service Company Limited 葉氏清潔服務有限公司
110.	Yoshiya Property Management Limited 慶屋物業管理有限公司

Appendix III

Gist of Views from Members of the Public and Stakeholders

III.1 Introduction

III.1.1 The Minimum Wage Commission (MWC) conducted extensive and intensive consultation, including focused consultation meetings with stakeholders of low-paying sectors (LPS) (including trade unions, trade associations/professional institutes and employers) and public consultation on the review of the Statutory Minimum Wage (SMW) rate. The following provides a gist of the views collected during these consultation activities.

III.2 Views of Members of the Public and Organisations of Different Sectors

A. General economic conditions

III.2.1 Some employers' associations indicated that the China-US trade tensions had brought continuous economic instability to Hong Kong amidst global economic slowdown in recent years. Meanwhile, affected by local social incidents and the global economy which was on the brink of recession brought by the COVID-19 epidemic (the epidemic), the Hong Kong economy deteriorated drastically. The Gross Domestic Product (GDP) recorded the largest decline. The impacts of the epidemic were more severe than those of the Severe Acute Respiratory Syndrome (SARS) epidemic and Global Financial Crisis, with widespread effects on various sectors. Consumption- and tourism-related sectors were the hardest hit. The unemployment rate increased sharply. The overall economic and business environment were facing unprecedented challenges. Amidst the uncertain economic outlook, many enterprises, especially those in LPS and small and medium enterprises (SMEs), were facing austere operating pressure. They were forced to downsize or even cease business. Many employees were forced to reduce working hours, take no-pay leave, be on furlough or even out of employment. To provide financial assistance or relief to enterprises and members of the public, the Government established the Anti-epidemic Fund in early 2020 and launched the Employment Support Scheme. However, these measures were unable to ease the cash flow problem in the sectors, and their effectiveness and sustainability were difficult to be assessed.

- III.2.2 Some employers' associations from the retail sector/food and beverage services sector and employer representatives expressed that affected by local social incidents and the epidemic, inbound tourism had come to a halt. With local consumption sentiment further dented by the increasing unemployment rate, the business of restaurants was affected seriously. In general, overall business turnover declined drastically in these sectors and a large number of enterprises suffered serious losses. The business outlook was very grim.
- III.2.3 Some trade unions, a labour policy concern group and some members of the public indicated that the business of passenger services, freight services and other sectors (including tourism, retail and hotel sectors) declined while the unemployment rate rose to a post-SARS high. Employees were underemployed, their working hours were reduced due to the shrinking business, and unreasonable dismissals and pay cuts occurred from time to time. The livelihood of grassroots workers was affected severely.
- III.2.4 A think tank/policy research institute, however, was of the view that although the short-term outlook for Hong Kong's economic activities was not optimistic, it was believed that the overall market would rebound strongly in early 2021 following the gradual easing of the global epidemic, and the labour market would stabilise accordingly. Some trade unions and labour policy concern groups pointed out that inflation had been eroding the purchasing power of grassroots workers. In spite of the current economic downturn, the cost of living, viz. clothing, food, housing and transportation, continued to rise. Because of the epidemic, not only did prices rise as a result of the interrupted transportation of some daily necessities, members of the public needed to purchase necessary anti-epidemic supplies, thereby increasing the total expenditure on household cleaning and personal hygiene as well.

B. Impact of Statutory Minimum Wage

(i) Labour market conditions

(a) Labour demand and supply

- III.2.5 Some employers' associations, an SME association, an employer representative, a political party and a member of the public expressed that the labour market stayed tight

from the implementation of SMW in 2011 to the first half of 2019, and the unemployment rate remained low.

- III.2.6 An employer association and some trade unions reflected that SMW upratings had exacerbated the problem of labour shortage. With an across-the-board SMW rate, grassroots employees chose to work in sectors with a relatively more comfortable working environment, leading to labour shortage in some sectors. Employers were unable to attract and retain talents even if they were willing to pay wages higher than the SMW rate and their business environment became more difficult. Most vacancies in the market were unable to be filled with suitable manpower at the SMW rate. However, some trade unions pointed out that the problems of labour shortage and recruitment difficulties were affected by a host of factors (such as work locations, supporting measures provided by employers, working hours, wages and promotion opportunities) and should not be attributed to the implementation and upratings of SMW.
- III.2.7 An employers' association indicated that economic recession changed the allocation of human resources by enterprises, worsening the labour market abruptly. Some trade unions, a labour policy concern group and some members of the public pointed out that working hours of employees were also reduced due to the shrinking business, and unreasonable dismissals and pay cuts occurred from time to time. Economic recession was expected to continue to exacerbate while the labour market would worsen sharply, unemployment and underemployment rates would rise notably and deteriorate further, seriously affecting the livelihood of grassroots employees.
- III.2.8 Some employers' associations and a member of the public expressed that the demand in the labour market was changing gradually. In the face of the impact of the epidemic together with the uncertain business outlook, many enterprises gradually explored new business models and began to add technological elements to the products and services provided and use e-commerce and delivery platforms, etc. in order to reduce headcount. These innovative operation modes would become the new normal, completely changing the labour demand in service and consumption sectors in the long run.
- III.2.9 Some trade unions indicated that the implementation of SMW had not reduced the demand for labour and the number of vacancies in the labour market. On the contrary, it reallocated social resources, benefitting grassroots workers working in lower-skilled

positions. The employment earnings of grassroots employees had improved solidly, which helped improve their livelihood.

(b) Wage level and distribution

III.2.10 Some employers' associations and a political party were of the view that there had been continuous improvements in wages and remuneration packages of employees in Hong Kong since the implementation of SMW in 2011. The increase in the median hourly wage of low-income employees was higher than that of overall employees and the number of employees earning the SMW rate also decreased significantly. However, some trade unions expressed that the past four upratings of SMW had only brought an increase of about \$10 in total. The adjustment levels were over-conservative. The SMW rate, which fell behind the labour market trend, was also too low and could not recognise the dignity and value of workers.

(c) Wage differentials

III.2.11 Some employers' associations, an employer representative and some members of the public indicated that after the implementation of SMW, employees from various sectors must be paid wages not less than the across-the-board SMW rate, narrowing the wage differentials among employees taking up different types of jobs. Employees thus tended to choose jobs with lighter duties, increasing the recruitment difficulties for jobs with more strenuous duties.

(d) Employment characteristics

III.2.12 Some trade unions reflected that to reduce labour cost and so on, some employers cut headcount and recruited temporary or part-time workers at very low wages. Some trade unions from the food and beverage services sector and a member of the public indicated that jobs in the food and beverage services sector were of obnoxious nature. Since the implementation of SMW, long working hours and relatively low wages had led to "same remuneration substitution effect" in the sector. When the economy was thriving and the labour market stayed tight, a large number of personnel in the food and beverage services sector switched to other sectors of non-obnoxious nature and with comparable wages, some chose to take up temporary or part-time jobs with shorter working hours in order to take care of their families, or even switched to other sectors in order to earn higher wages

and enjoy more autonomy at work. Thus, the sector was facing long-term labour shortage and employers had to hire part-time workers with high mobility in order to maintain business operations.

III.2.13 An employers' association from elderly homes expressed that SMW uprating increased the earnings of grassroots employees. To avoid their earnings exceeding the income limits for applying for public housing, some employees tended to take up part-time/temporary jobs. Some would even request employers to pay wages in cash to evade the means test.

III.2.14 An owners' corporation indicated that the wages of full-time security guards employed through property management companies were paid well above the SMW rate. To cope with the difficulties in hiring full-time security guards in recent years, they had to constantly hire relief guards. However, as the wages of relief guards were higher than those of full-time employees, qualified security guards were mostly unwilling to work full-time but instead chose to work as relief guards. This in effect encouraged a security guard to work for multiple companies and/or housing estates.

(ii) Competitiveness

(a) Impact on different sectors

III.2.15 Some trade unions were of the view that even though the Hong Kong economy was under great challenges, the major factors affecting the economic development and competitiveness of Hong Kong were not the SMW upratings but other external factors, such as public safety, the epidemic situation and legal system.

III.2.16 Some employers' associations, an SME association, a political party, some employer representatives and members of the public indicated that the cumulative increase in the SMW rate had deeply affected various sectors, in particular the labour-intensive LPS and SMEs with generally lower profit margins. In recent years, the proportion of employees' wage bills to the total operating expenses of SMEs in LPS was relatively high, weakening the profitability for most of them. With relatively lower bargaining power, SMEs were unlikely to pass on additional costs to consumers and clients, or might not be able to cut costs through economies of scale like large-scale enterprises. Therefore, they did not have much profit margin to offset the costs induced by SMW upratings.

- III.2.17 An employers' association from the retail sector and some employer representatives expressed that the epidemic brought tourism to a standstill and local consumption- and tourism-related sectors were hard hit. Bearing the brunt of the impact, enterprises in the retail sector adopted various cost-saving measures like reducing the number of branches and headcount and requiring employees to take no-pay leave. Constrained by SMW, enterprises lacked room for negotiation with employees on reduction of wage costs, thus undermining their operational flexibility. A trade union from the retail sector and some employer representatives reflected that many personnel in the sector were only earning the SMW rate with no commission, which was insufficient to support their housing rentals and basic living costs.
- III.2.18 Some employers' associations from the food and beverage services sector and a professional institute indicated that there was generally a notable increase in wage levels over the past few years due to the robust economy. To retain talents, employers in the sector could only increase wages and benefits, triggering a knock-on effect on pay hierarchies. The rate of increase in the median hourly wage of employees in the food and beverage services sector exceeded that of restaurant receipts, imposing an additional burden on the operations of enterprises. As the food and beverage services sector had been hard hit by the epidemic, employers could only cut cost by further reduction of headcount. The new wave of epidemic in March as well as the "prohibition on group gathering" put in place to tighten restriction on group gatherings had further disrupted their business environment, and the unemployment rate in the sector was expected to continue to rise. Besides, the uprating of SMW exacerbated labour shortage in the sector which, coupled with rising rentals, stifled the survival of the sector. The operating costs of traditional restaurants (including Chinese restaurants and Hong Kong style tea cafes) serving a wide variety of foods in different styles were on the high side; with a continuous increase in wages and labour shortage, they might eventually be replaced by restaurants serving monotonous menus.
- III.2.19 An employers' association from the property management sector pointed out that the implementation of SMW and its adjustments had led to a continuous increase in property management fees. It was difficult to acquire adequate manpower even when they offered wages of \$40 or more per hour, which was higher than the SMW rate. Some residents' organisations reflected that as the estate management fees were borne by flat owners, some of them preferred to streamline manpower to alleviate the impact of SMW on property

management fees and to cope with labour shortage. However, this not only affected the quality of estate security services but also increased the number of unemployed, which was a deviation from the objectives of implementing SMW.

III.2.20 Some trade unions indicated that SMW redistributed social resources, benefitting grassroots workers in lower-skilled positions such as security guards of single block buildings and government outsourced cleaning workers. However, some trade unions from the property management sector were of the view that wage levels in the sector were varied with relatively great wage differentials. Some workers just earning the SMW rate had to rely on the SMW upratings for a chance of pay rise. However, SMW upratings lagged behind inflation and could hardly meet the basic living expenses of grassroots employees who were still struggling to make a living. Furthermore, a trade union expressed that SMW did not bring actual pay rise or improvements of livelihood to clerical and administrative employees in the property management sector. Their monthly disposable income decreased rather than increased after accounting for basic household expenses.

III.2.21 A trade union from the cleaning services sector expressed that as a sector of obnoxious nature, most of the cleaning workers were less-educated, lower-skilled, of an old age or even from vulnerable groups. Their income was generally on the low side or just close to the SMW level. Faced with long working hours, heavy workloads, deteriorating working environments and a continuous rise in inflation, workers in the sector were earning less than the amount of the Comprehensive Social Security Assistance (CSSA) payment, which made it hard for them to sustain their living. However, SMW upratings were not in tandem with the rise in inflation and were unable to encourage employment, defeating the original policy intent of implementing SMW.

III.2.22 Some employers' associations from elderly homes expressed that after the implementation of SMW, employees tended to choose jobs with lighter duties and more comfortable working environments, making it difficult for sectors of obnoxious nature like the elderly care and disabled service sectors to recruit and retain talents. Moreover, the significant increase in wages of employees in non-profit making elderly homes led to massive loss of manpower in private elderly homes which offered lower wages, resulting in declining service quality. Faced with rising labour costs, rentals and inflation, elderly homes could not pass on these costs to their residents, making their operations increasingly difficult.

A trade union from elderly homes also indicated that the hourly wage levels of grassroots employees in some private and non-profit making elderly homes were \$39 and \$40 respectively, reflecting that adjustments of the SMW rate had been lagging behind the market since its implementation.

III.2.23 A trade union from the hairdressing and other personal services sector expressed that employees in the hairdressing sector were employed mainly on basic salary plus service fees sharing. Some newly joined apprentices, shampoo assistants and practitioners in small salons in housing estates were earning basic salaries just slightly higher than the SMW rate (around \$38 to \$38.5 per hour) and their earnings would depend greatly on the number of customers. Since the adjustments of the SMW rate could not catch up with the increase in prices, some employees in the sector earning slightly more than the SMW rate requested their employers to allow them to live in their workplaces as they could not afford the high rentals.

III.2.24 A trade union from the air freight and courier services sector considered that the prevailing SMW rate did not provide adequate protection for low-paid employees in Hong Kong. Facing the soaring commodity prices, their salaries were inadequate to meet basic living expenses, making it hard for them to support their families.

III.2.25 Some trade unions from the insurance, construction and transportation sectors reflected that most of the employees in these sectors were not in low-paid positions. Their wages were generally higher than the prevailing SMW rate. A trade union from the transportation sector indicated that the prevailing SMW rate of \$37.5 per hour was far below the hourly wage of \$79.6 in the land transport sector.

(b) Quality of products and services

III.2.26 An owners' corporation indicated that the average hourly wage of full-time security guards employed through a property management company was well above the prevailing SMW rate. However, it had been very difficult to hire full-time security guards in recent years, and thus they had to constantly hire relief guards. These relief guards often worked for multiple companies and housing estates, offering poor service quality and lacking a sense of responsibility.

III.2.27 An employers' association from the food and beverage services sector indicated that the upratings of SMW exacerbated labour shortage in the sector. However, if employers engaged too many temporary/part-time employees, it would affect the qualities of their food products and services, adding burdens to their business operations.

(iii) Social Inclusion

(a) Standard of living

III.2.28 Some employers' associations, a professional institute and a think tank/policy research institute indicated that the past upratings of SMW exceeded inflation in general. The average income of employees in LPS continued to increase, showing that the implementation of SMW provided a certain extent of protection for the livelihood of people at the grassroots level and alleviated problems like income disparity between the rich and the poor as well as working poverty.

III.2.29 Some trade unions held the view that SMW established a "safety line of wages" in that it provided wage protection for grassroots employees with lower bargaining power and maintained their basic living, relieving their hardship. However, some trade unions, a political party and some members of the public opined that the prevailing SMW rate was on the low side and that its increase could not catch up with inflation or was just barely able to do so. The purchasing power and living standard of the grassroots had not yet improved. Their labour values could not be reflected and they could not share the fruits of economic prosperity.

III.2.30 Some trade unions and a labour policy concern group considered that the wages of employees earning the SMW rate barely met their basic living expenses. They could not afford emergency expenses such as extra expenses on anti-epidemic supplies sold at higher prices under the epidemic.

III.2.31 Moreover, some trade unions expressed that the past adjustments of the SMW rate were over-conservative. The data to which MWC had made reference were seriously lagging behind. The rate of adjustments fell behind the growth rate of labour productivity. The SMW coverage decreased persistently. The increase in wages delinked from that of the labour market. As a result, grassroots workers were unable to meet their basic living needs.

(b) Work incentive

III.2.32 Some trade unions considered that the implementation of SMW had not led to a decrease in demand for job openings in the labour market. Instead, it attracted more women and mature persons to re-enter the labour market, thereby alleviating the problem of labour shortage and enabling women to help their families make ends meet.

(c) Impact on vulnerable groups

III.2.33 An employers' association and some trade unions expressed that the implementation of SMW increased the bargaining power of grassroots employees as well as provided wage protection for low-income workers to meet their basic living expenses. Some trade unions and an owners' corporation reflected that SMW improved the well-being of low-paid workers and resumed the balance between employers and employees. It also increased the income and purchasing power of grassroots families, hence benefitting the economy.

III.2.34 Some trade unions and an employers' association indicated that the increase in salaries had a great impact on the livelihood of employees, especially those grassroots employees earning the SMW rate who benefitted the most from SMW upratings. However, they were also most prone to layoffs and displacements as enterprises accelerated the adoption of automation and high-tech applications under the epidemic.

III.2.35 Some concern groups for persons with disabilities expressed that wages of workers had increased after the implementation of SMW and their livelihood had improved. However, for employees with disabilities, working was not just for earnings but also for dignity. Under the Minimum Wage Ordinance (MWO), employees with disabilities had the right to invoke productivity assessment and accordingly receive wages lower than the SMW rate, which in turn increase their chance of being employed with wage reductions, resulting in insufficient income for meeting their living and medical expenses.

C. Review of the Statutory Minimum Wage rate

(i) Economic forecast

III.2.36 Some employers' associations, a professional/employers' association and a political party held the view that in conducting the review of the SMW rate, consideration should be

given to the macro environment (including the overall situation of the society, economic trend, labour market condition and price changes in Hong Kong), cost structure and profitability of enterprises, in particular the affordability of SMEs and low-profit sectors. Affected by the global epidemic, the Hong Kong economy was facing an unprecedented blow and tremendous challenges. It was not advisable to adjust the SMW rate upwards. The SMW rate should be frozen and reviewed when the epidemic was over and upon economic recovery. A labour policy concern group and a think tank/policy research institute supported maintaining the SMW rate at its current level not only to maintain staff morale but also to freeze the labour cost of enterprises.

III.2.37 Some employers' associations in different sectors, employer representatives and a member of the public expressed that under the operating pressure arising from the epidemic on businesses across sectors, a SMW uprating might result in employees being laid-off, making it more difficult for low-income persons to find jobs. As safeguarding jobs was the top priority at present, they suggested freezing the SMW rate so as to relieve employers' pressure from laying off staff and closure of businesses, and facilitate the economic recovery once the epidemic was under control. Increasing the SMW rate would further push up the unemployment rate.

III.2.38 Nevertheless, some trade unions, a labour policy concern group and a think tank/policy research institute held the view that under the current uncertain economic outlook, the wage level, however, obviously fell behind alongside sustained increase in the cost of living. Yet, workers' workload had increased. Hence, it was necessary to have the SMW uprated to safeguard the livelihood of workers. They objected to the freezing of the SMW rate and suggested increasing it with a view to alleviating grassroots employees' pressure brought by inflation and maintaining their basic purchasing power to enable them to live with dignity. Some members of the public considered that SMW uprating could increase employment earnings and provide incentives for an increase in labour force participation, tackling the problem of insufficient labour force and so on in the long run.

(ii) Wage floor

III.2.39 Some trade unions indicated that SMW, as the "safety line of wages", provided wage protection for grassroots workers with lower bargaining power and maintained their basic living, and in turn relieved their hardship. However, some employers' associations and

a political party were of the view that SMW should not be perceived as a living wage or a welfare policy. Since the implementation of SMW in 2011, the earnings of low-income employees had improved and the pressure of rising prices had also been alleviated.

(iii) Business environment

III.2.40 Some employers' associations and a member of the public indicated that besides various medium to long-term uncertainties in the business environment, businesses also had to face the possible impacts brought by other government policies implemented or about to be implemented. The cumulative effects of these policies would significantly increase enterprises' operating costs, in particular for SMEs of a relatively small operating scale and with relatively tight resources. The pressure on them was more apparent. A further SMW uprating would definitely push up the operating costs again. Some trade unions considered that in times of economic uncertainty and under the situation where the wage level obviously lagged behind and the universal retirement protection scheme was not yet in place, the wage growth had already delinked from the market. The Government and employers should not use these as excuses for not adjusting the SMW rate upwards. On the contrary, SMW uprating could increase the earnings of employees at the grassroots level as well as their purchasing power and in turn enhance economic growth.

III.2.41 Some employers' associations, an SME association, a political party, some employer representatives and members of the public indicated that the past upratings of SMW had impacted various sectors, in particular the labour-intensive LPS and SMEs with generally lower profit margins. In recent years, the proportion of employees' wage bills to the total operating expenses of SMEs in LPS was relatively high, weakening the profitability for most of them. If the SMW rate increased further, SMEs would only opt to raise prices, further widening the competition gap with large enterprises as well as weakening Hong Kong's current competitiveness and weighing on economic recovery.

III.2.42 Some employers' associations and employer representatives indicated that constrained by SMW, enterprises lacked room for negotiation with employees on reduction of wage costs, thus undermining their operational flexibility. If the SMW rate increased again, the ripple effect induced would render enterprises, especially LPS less flexible in manpower deployment and result in business closures and layoffs. They hence suggested freezing the SMW rate.

III.2.43 An employers' association, an SME association and an employer representative indicated that if the economic outlook continued to deteriorate, the uprating of SMW would result in the ratchet effect, which would limit the adjustment ability of the wage market, making the unemployment situation more severe. Besides, the ripple effect would increase the salaries or other non-salary fringe benefits of higher-paid employees. Hence, in setting the next SMW rate, reference should be made to the actual data instead of estimated figures for calculating the ripple effect. Under the current political and economic situation, employers and employees should tide over the difficult times together. It was suggested that the SMW rate be maintained at the current level or adjusted downwards.

(iv) Standard of living

III.2.44 A labour policy concern group indicated that as working hours of employees reduced due to the shrinking labour market, it was inappropriate to adjust the SMW rate downwards because their income would be affected. A member of the public indicated that in many countries, the minimum wage was linked to the maximum working hours. In some sectors such as transport and security services, employers recruited staff just at the SMW rate, and their working hours became extremely long as a result of the epidemic. Therefore, it was necessary to increase the SMW rate to improve the remuneration of grassroots employees. Besides, a trade union from food and beverage services sector indicated that some food delivery workers, employees in fast food restaurants and cleaning workers in the sector were still earning wages at the SMW rate, and that SMW uprating would help improve their livelihood. Moreover, if increase in wages continued to fall behind, employees' livelihood could not be improved and would aggravate the problem of working poverty. They hence objected to a downward adjustment or the freezing of the SMW rate.

(v) Impact assessment and review of the Statutory Minimum Wage rate

III.2.45 An SME association, a political party and an owners' corporation were of the view that in reviewing the SMW rate, consideration should be given to the flexibility of free economy as well as the automatic adjustment mechanism of the supply and demand of the labour market, and wage level of employees should be determined by the market. On the other hand, an employers' association and an employer representative held the view that the review of the SMW rate should be based on factors that could not be quantified such as

economic forecast and the market's affordability, rather than on free adjustment or a formula-based approach.

- III.2.46 Some labour policy concern groups held the view that the Government and employers should take up social responsibility and offer a living wage to employees. Some trade unions, a labour policy concern group, a political party and some members of the public suggested that the SMW rate be set at a level that could maintain the basic living of employees. Some trade unions and labour policy concern groups considered that living wage should be a significant indicator for SMW. They suggested that basic living expenses of families be the prime consideration for adjustment of the SMW rate. Considerations should also be given to the prevailing average household size, average labour force per household, labour productivity and price changes. While ensuring that the SMW rate could support employees to meet the basic living needs of at least one non-working family member, the adjustment level should not be lower than the prevailing inflation rate.
- III.2.47 Some trade unions and members of the public held the view that in considering the actual impact of overall economic conditions on the living of workers, apart from conducting more in-depth and multi-faceted studies on statistical data, reference should be made to international standards by comparing the minimum wage rates with those of other regions which were comparable to Hong Kong in terms of economic standards and GDP per capita. Reference should also be drawn from relevant International Labour Conventions.
- III.2.48 Some trade unions, labour policy concern groups, employer representatives, a political party and some members of the public considered that the existing arrangement in reviewing of the SMW rate once every two years had resulted in the serious lagging behind of review data. They suggested shortening the review cycle to "once every year" so as to reduce disputes between employers and employees over the extent of adjustment of the SMW rate, and enable wages to catch up with inflation and allow grassroots employees to meet their living expenses. It also helped attract women to enter or re-enter the labour market.
- III.2.49 Some employers' associations and an employer representative objected to the annual review of the SMW rate and considered the mechanism of the biennial review should be upheld so as to maintain a stable business environment. They also suggested that the

review cycle should align with other government policies, such as the tendering system for government service contracts.

(vi) The Recommended Statutory Minimum Wage rate

- III.2.50 Some trade unions, labour policy concern groups, think tanks/policy research institutes, residents' organisations, employer representatives, a political party and some members of the public held the view that the SMW rate should be adjusted upwards to catch up with inflation and price increases, or be linked to inflation or a level higher than inflation, so that grassroots employees could cope with basic living expenses, improve their livelihood and share the fruits of economic prosperity. They suggested that the SMW rate be raised to the range of \$39 to \$55 per hour, while individual members of the public suggested that it be raised to \$100 per hour. Some members of the public expressed that in setting the SMW rate, reference should be made to the rentals of residential flats or the price of a meal.
- III.2.51 Some trade unions suggested putting in place reference benchmarks that were scientific, fair, easy to calculate and highly operational as the basis for setting the SMW rate, including drawing reference to the median hourly wage of employees in Hong Kong or the ratio of the SMW rate to median wage, Consumer Price Indices, pay increase of civil servants, indicators related to labour productivity, or adopting a SMW rate covering no less than 15% of the labour force as the reference basis of adjustment. They suggested that the SMW rate be raised to the range of \$40.5 to \$47 per hour.
- III.2.52 Some trade unions and a labour policy concern group held the view that the amount of earnings at the prevailing SMW rate was lower than the CSSA payment. They considered that there should be a reasonable difference between the two and suggested that the SMW rate be raised to not less than \$41.4 to \$45 per hour so as to maintain the work incentives of grassroots employees, allowing them to cope with inflation and daily living expenses, and also narrowing the income disparity between the rich and the poor.
- III.2.53 Some employers' associations, think tanks/policy research institutes, residents' organisations, a professional institute, an SME association, a professional/employers' association, a labour policy concern group and some members of the public suggested that the SMW rate be maintained at its current level of \$37.5 per hour. However, some held the view that the rate should be lowered to the range of \$20 to \$35.5 per hour or below.

On the other hand, some members of the public were of the view that SMW uprating would push up inflation, leading to a vicious cycle of wage-price spiral.

(vii) Other views of individual members of the public and organisations

- III.2.54 A labour policy concern group requested the Government to abolish the productivity assessment for employees with disabilities under MWO and offer subsidies to employees with disabilities earning less than the SMW rate. They also suggested revamping the CSSA system with a view to encouraging persons with disabilities to secure employment. Besides, an employers' association held the view that exemption under MWO should continue to apply to specified student employees to encourage employers to provide young people with learning and development opportunities.
- III.2.55 A trade union, a labour policy concern group and a political party suggested that the Government should include meal breaks and rest days of employees in the coverage of MWO with a view to ensuring that the wage levels and provisions of MWO could meet the social and financial needs.
- III.2.56 An employers' association, some trade unions and a member of the public suggested introducing sector-based SMW rates, i.e. different SMW rates to match with the actual circumstances of different sectors. They further suggested reviewing and balancing the policy on importation of labour so as to tie in with the SMW regime.
- III.2.57 A trade union held the view that property management, security and cleaning services were sectors with the lowest pay and suggested that in reviewing the SMW rate, consideration should be given to the wage growth in these lowest pay sectors to forestall excessively low wages. A trade union suggested applying the International Labour Convention No. 26 (Minimum Wage-Fixing Machinery Convention, 1928) to Hong Kong, sharing with the world Hong Kong's experience in implementing SMW.
- III.2.58 An employers' association and a trade union were of the view that a reasonable balance must be struck between employees' rights and benefits and employers' affordability in labour policies. They considered that through education and on-the-job training, the skills level and productivity of employees could be enhanced gradually for meeting the changes in the labour market, thereby further improving the local business environment

and overall competitiveness. They hoped that the Government would provide skills support to workers so as to protect their livelihood.

III.2.59 Some trade unions indicated that government service contractors paid their workers at the SMW rate or a slightly higher rate. Some of these non-skilled employees had to take up more than one job to maintain their living. To protect grassroots employees against exploitation, the Government should improve its outsourcing system. An employers' association suggested the Government to consider including an estimated SMW uprating as one of the evaluation criteria for outsourcing contracts with a contract period of three years or above so as to increase the wages for non-skilled employees.

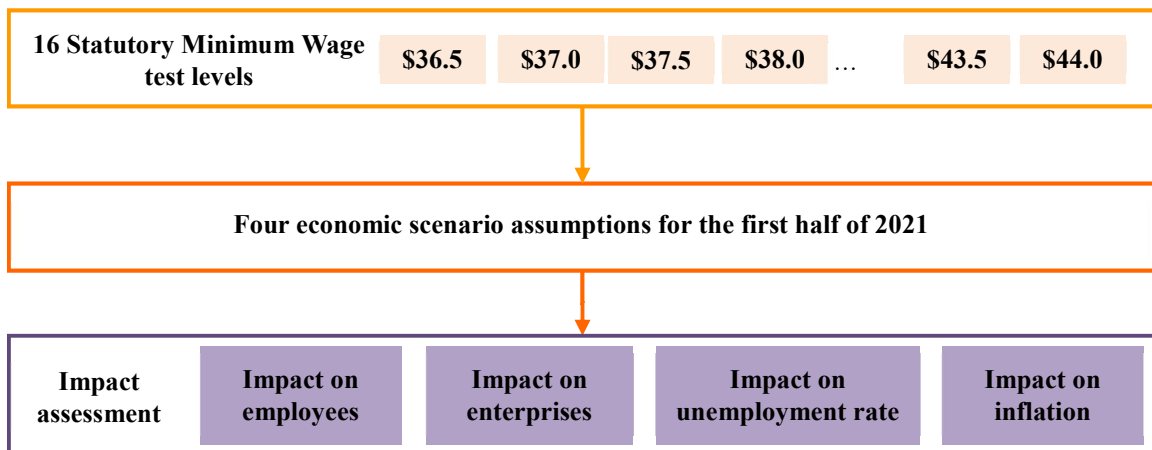
Appendix IV

Methodology of Impact Assessment

IV.1 Introduction

IV.1.1 Section 4.IV of Chapter 4 provides an overview of the factors considered by the Minimum Wage Commission (MWC) in formulating the framework of impact assessment. This Appendix sets out in detail the methodology and major assumptions adopted by MWC in assessing the possible impacts of various Statutory Minimum Wage (SMW) test levels (including the 16 test levels from an hourly wage of \$36.5 to \$44.0 at \$0.5 per interval, referred as “test levels” hereafter) on employees, enterprises, unemployment rate and inflation under the four economic scenario assumptions. The framework is summarised in Figure IV.1.

Figure IV.1 : Framework of impact assessment



IV.2 Impact Assessment on Employees

IV.2.1 The assessment of the impact of the SMW rate adjustment on employees constituted primarily the crude estimations of the number and proportion of pre-adjustment employees involved (i.e. employees earning hourly wages less than the test level before the SMW rate adjustment in the first half of 2021) at various test levels under different economic scenarios. These estimations provided the basis for assessing the possible impact of the SMW rate adjustment on other macro aspects.

- IV.2.2 In view of the time gap between the review of the SMW rate and the implementation of the recommended rate (i.e. the first half of 2021), MWC strived to conduct a forward-looking estimation as far as possible. MWC recognised that the wage distribution of employees in the first half of 2021 would be different from that in 2019. As such, when estimating the number of pre-adjustment employees involved, MWC not only adopted the data on wage distribution from the 2019 Annual Earnings and Hours Survey (AEHS) conducted by the Census and Statistics Department (C&SD) as a base, but also made reference to the more recent wage data from the General Household Survey and the Labour Earnings Survey of C&SD. MWC also considered the economic and labour market conditions up to mid-2020 and made scenario assumptions on the economic conditions in the first half of 2021.
- IV.2.3 Since there will be no employees earning hourly wages below the SMW rate of \$37.5 before the SMW adjustment in 2021 under the Minimum Wage Ordinance (MWO) (except for employees with disabilities who have completed productivity assessment in accordance with the MWO), the estimation of the pre-adjustment employees involved as described in paragraph IV.2.1 is not applicable to the test levels below \$37.5. Regarding the impact on employees at the two test levels of \$36.5 and \$37.0, MWC's assessment included crude estimations of the proportion of employees who would face pay cuts due to the downward adjustment of the SMW rate in the first half of 2021 (including not only those earning the prevailing SMW rate) among all employees under different economic scenario assumptions, as compared to the pre-adjustment wage distribution of employees (which already took into account pre-adjustment wage changes owing to market adjustment). However, it must be noted that as the SMW rate was never adjusted downwards before, there was no experiences to draw on when conducting the relevant estimation, and more assumptions had to be made. Hence, caution must be exercised when interpreting the estimations.

IV.3 Impact Assessment on Enterprises

(a) Additional wage bills

- IV.3.1 Adjusting the SMW rate upwards would increase the wage bills of enterprises. The estimated additional wage bills of enterprises under different test levels included the

following three components: (i) the additional wage bills incurred for raising the hourly wages of all pre-adjustment employees involved to the test levels to comply with the requirement under MWO (i.e. “the additional wage bills required to comply with the statutory requirement”); (ii) the additional wage bills relating to rest day pay and meal break pay of the pre-adjustment employees involved (if granted to them in accordance with their employment contracts or agreements); and (iii) the additional wage bills induced by the knock-on effect on pay hierarchies (knock-on effect). The estimated additional wage bills of enterprises served as the basis for estimating the impacts of various test levels on unemployment rate and inflation.

- IV.3.2 The estimated “additional wage bills required to comply with the statutory requirement” were based on the numbers of pre-adjustment employees involved, which in turn were estimated under different economic scenario assumptions as discussed in Section IV.2. When estimating the consequential increases in additional rest day pay and meal break pay, MWC assumed that the pre-adjustment employees involved originally entitled to rest day pay and/or meal break pay would continue to enjoy these benefits, and their rest day pay and/or meal break pay increased correspondingly with the rises in their hourly wages.
- IV.3.3 The magnitude of the impact of knock-on effect would vary with the operating characteristics, rank and remuneration structure, etc. of different sectors. The impact of knock-on effect would be more significant in those sectors with multi-layered grade structures, narrower pay differentials between adjacent ranks and more lower-paid employees. Based on the actual wage distribution in different sectors from AEHS and by making reference to the direct and indirect impacts (the latter being the impact of knock-on effect) of the past upratings of SMW on labour costs, MWC estimated the possible knock-on effects induced by various test levels.
- IV.3.4 It is worthwhile to note that the actual magnitude of the impact of knock-on effect hinges very much on the magnitude of SMW uprating. A relatively modest uprating of SMW will result in a milder impact of knock-on effect, whereas a relatively sizeable uprating of SMW will induce a relatively larger increase in additional wage bills, hence a more noticeable impact of knock-on effect.
- IV.3.5 Separately, as for the two test levels below the prevailing SMW rate (i.e. \$36.5 and \$37.0), enterprises would not incur additional wage bills due to the downward adjustment of the

SMW rate, the estimation as described in paragraph IV.3.1 was not applicable. MWC estimated the decrease in wage bills arising from the downward adjustment of the SMW rate (assuming the rest day pay and meal break pay would also be adjusted downwards accordingly) based on the estimated proportion of employees facing pay cuts due to the downward adjustment of the SMW rate in the first half of 2021 among all employees under different economic scenario assumptions, as described in paragraph IV.2.3.

(b) Increase in potential financial liability of long service payment

IV.3.6 The increase in potential financial liability of long service payment was estimated based on the proportion of employees who had worked in the same organisation for five years or above⁽¹⁾ from AEHS, followed by the estimation of the increases in their monthly wages (with a cap of \$22,500 for monthly wages) after increasing the SMW rate to various test levels. Such increases were then multiplied by two-thirds and their years of service (with a cap of \$390,000 for any individual employee's entitlement of long service payment) to arrive at an estimate of the increase in potential financial liability of long service payment faced by enterprises⁽²⁾.

(c) Limitations of impact assessment

IV.3.7 When reviewing the SMW rate in the previous rounds, MWC estimated the impact of SMW uprating on the overall profitability of enterprises and the number of enterprises that might turn from profits to losses due to uprating. However, the Hong Kong economy fell into recession in the second half of 2019. Upon entering 2020, the economic recession was deepened by the epidemic to an unprecedented extent. The overall operating conditions of enterprises conceivably went through rather significant changes, rendering the profit data of enterprises in the past few years⁽³⁾ not suitable for estimating

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- (1) According to the Employment Ordinance, an employee who has been employed under a continuous contract for not less than five years, and satisfies one of the following criteria will be entitled to long service payment. The criteria include: the employee is dismissed, but is not summarily dismissed due to serious misconduct or is not dismissed by reason of redundancy; or the employee's employment contract of a fixed term expires without being renewed; or the employee dies during employment; or the employee resigns on grounds of ill health; or the employee, aged 65 or above, resigns on grounds of old age. Owing to data limitations, the assessment did not take into account employees who were not entitled to long service payment for reason of not satisfying the above criteria.
- (2) The estimation was based on the assumption that long service payment would not be offset by the accrued benefits from employers' contributions made to Mandatory Provident Fund when the enterprises dismissed their employees.
- (3) The profit data of enterprises were obtained from the Annual Survey on Economic Activities conducted by C&SD, with figures in 2018 being the latest data available.

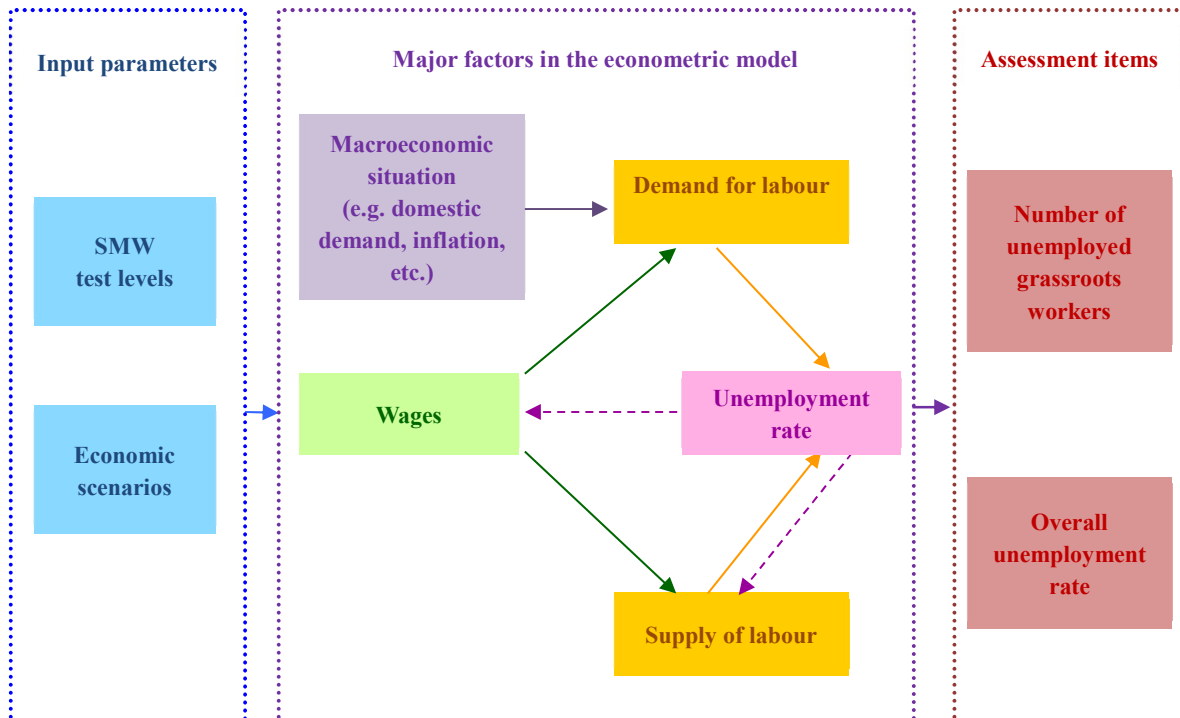
the impact of various test levels on profits of enterprises. In view of the above, MWC did not conduct assessment on the impact on profitability of enterprises in this round of review. Nevertheless, MWC could still gauge the impact of different test levels on enterprises by drawing reference from impact assessment results on the two items of enterprises as mentioned above (i.e. additional wage bills and the increase in potential financial liability of long service payment). MWC also constantly monitored other statistical data which were released more frequently and were more up-to-date, so as to understand the latest situation of various sectors.

IV.4 Impact Assessment on Unemployment Rate

IV.4.1 To estimate the possible impact of different test levels on the number of unemployed grassroots⁽⁴⁾ workers and the overall unemployment rate under different economic scenarios, MWC analysed the economic data (including the statistics released by C&SD on economic growth rate, inflation rate, consumption expenditure in the domestic market and wage, etc.) of the past 20 years or so and constructed an econometric model based on these data. Figure IV.2 summarises the framework of the econometric model and the interaction among the major factors in the model, as well as the two input parameters involved.

(4) Grassroots occupations include occupations of elementary workers as well as service and sales workers. In May to June 2019, the share of these occupations was about 70% of all low-paid employees (i.e. employees with hourly wages below the 10th percentile of the overall distribution). Analysing the number of unemployed grassroots workers helped MWC focus on the impact of SMW on low-paid employees.

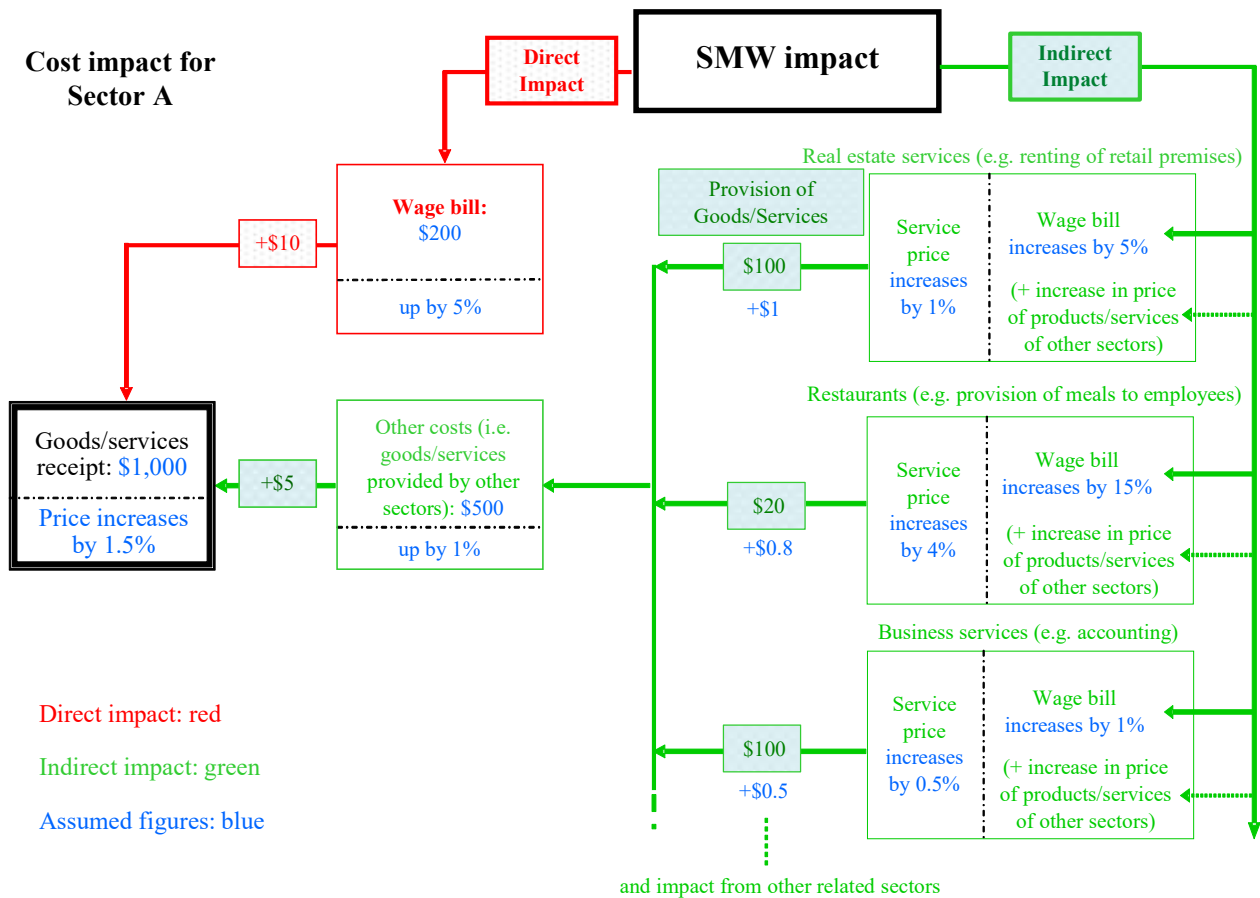
Figure IV.2: Methodology for assessing the impact of Statutory Minimum Wage (SMW) test levels on the unemployment rate



IV.5 Impact Assessment on Inflation

IV.5.1 When assessing the impact of different test levels on inflation, a full pass-on of the increase in direct and indirect costs to the prices of products and services was assumed. For the business sector, increase in direct costs referred to the additional wage bills of enterprises directly attributable to the increase in wages of their employees induced by SMW uprating. Meanwhile, the indirect costs of enterprises would also go up due to a rise in other operating expenses (such as rent, transport and courier service) as SMW uprating would cause other enterprises to raise the prices of their products or services. Using a hypothetical case as example, Figure IV.3 illustrates the impact of increase in direct costs and indirect costs on prices of products or services.

Figure IV.3: Illustration of the relationship between additional wage bills arising from Statutory Minimum Wage (SMW) and direct costs and indirect costs of enterprises



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

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C. Coverage of Sectors

Table C Coverage of sectors

A. Low-paid Employees and Low-paying Sectors

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

Sector (Note 2)	Employees with hourly wage rates below the 10 th percentile of the overall hourly wage distribution					
	May to June 2017 (i.e. employees with hourly wage less than \$40.0)		10 th percentile hourly wage in respective sector (\$)	May to June 2019 (i.e. employees with hourly wage less than \$43.9)		10 th percentile hourly wage in respective sector (\$)
	No. of persons ('000)	Proportion among all employees in respective sector (%)		No. of persons ('000)	Proportion among all employees in respective sector (%)	
(A) Low-paying sectors (Note 3)	188.6	22.4	36.9	191.4	22.4	40.5
1. Retail	45.7	16.4	38.0	44.6	16.3	41.8
1.1 Supermarkets and convenience stores	12.1	27.6	36.3	12.6	28.8	40.0
1.2 Other retail stores	33.7	14.3	38.5	32.0	13.9	42.4
2. Food and beverage services (Note 3)	25.9	11.7	39.1	28.9	12.3	43.0
2.1 Chinese restaurants	8.2	11.1	39.6	8.2	11.2	43.3
2.2 Non-Chinese restaurants	6.0	8.4	40.0	5.6	7.9	44.8
2.3 Fast food cafes	10.3	18.9	38.2	11.2	20.1	42.1
2.4 Hong Kong style tea cafes	1.5	6.6	40.7	1.9	8.5	44.6
2.5 Other food and beverage services		n.a.		2.0	16.9	41.4
3. Estate management, security and cleaning services	98.0	40.4	35.7	95.5	38.8	38.8
3.1 Real estate maintenance management	45.4	40.4	36.3	43.0	38.2	40.4
3.2 Security services	18.1	41.2	35.9	18.8	42.0	40.0
3.3 Cleaning services	30.6	43.6	34.5	30.3	41.6	38.6
3.4 Membership organisations	3.9	24.6	35.4	3.3	20.9	40.0
4. Other low-paying sectors	18.9	19.5	37.0	22.4	22.3	40.3
4.1 Elderly homes	6.0	28.4	37.0	8.0	34.7	40.2
4.2 Laundry and dry cleaning services	1.4	26.0	36.9	1.4	25.6	40.5
4.3 Hairdressing and other personal services	5.7	13.4	37.0	6.3	14.6	41.2
4.4 Local courier services	0.8	16.0	38.3	1.0	17.9	40.9
4.5 Food processing and production	5.0	21.9	36.7	5.8	24.7	40.1
(B) Other sectors (Note 3)	102.0	4.6	45.0	111.0	5.0	48.4
5. Manufacturing	4.3	5.4	43.3	4.0	5.4	48.5
6. Construction	§	§	55.6	§	§	61.3
7. Import/export trade and wholesale	20.9	4.5	44.4	24.7	5.6	47.4
8. Accommodation services		n.a.		4.9	11.5	42.9
9. Transportation, storage, courier services, information and communications	22.0	6.1	43.2	21.9	6.1	46.6
10. Financing, insurance, real estate, professional and business services	16.6	3.6	47.8	18.2	3.8	52.6
11. Education, medical and other social and personal services	27.9	6.1	43.0	33.0	6.8	46.6
12. Others	§	§	55.7	§	§	57.9
(C) All sectors	290.6	9.5	40.0	302.4	9.9	43.9

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

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

(3) The Annual Earnings and Hours Survey statistics for 2019 were compiled based on the classification of low-paying sectors (LPS) and other sectors as identified by the current term of Minimum Wage Commission. Due to data limitations, the corresponding statistics for 2017 were compiled based on the classification of LPS and other sectors as previously identified. The impact of this change on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2019 can still be broadly compared with the corresponding figures of 2017.

n.a. Not applicable.

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

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

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

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

Table A.2 Composition of total expenses ^(Note 1) analysed by sector

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	
	2016	2018	2016	2018	2016	2018	2016	2018
(A) Low-paying sectors ^(Note 4)	53.7	54.2	12.7	12.6	19.1	19.1	14.4	14.1
1. Retail	65.1	65.7	14.0	13.4	10.5	10.3	10.4	10.5
1.1 Supermarkets and convenience stores	72.0	72.0	10.3	10.4	8.7	8.9	9.0	8.7
1.2 Other retail stores	64.3	65.1	14.4	13.7	10.7	10.5	10.6	10.7
2. Food and beverage services ^(Note 4)	33.2	33.1	15.6	15.9	32.2	33.0	18.9	18.0
2.1 Chinese restaurants	32.3	33.0	14.2	14.5	34.0	35.6	19.5	16.9
2.2 Non-Chinese restaurants	33.8	32.4	18.4	17.7	31.2	33.8	16.6	16.1
2.3 Fast food cafes	31.5	31.6	14.9	14.9	28.1	27.7	25.5	25.8
2.4 Hong Kong style tea cafes	37.0	36.5	14.2	14.2	35.3	35.4	13.4	13.9
2.5 Other food and beverage services	n.a.	33.2	n.a.	19.5	n.a.	28.8	n.a.	18.5
3. Estate management, security and cleaning services	0.5	0.7	1.2	1.4	59.7	60.7	38.6	37.1
3.1 Real estate maintenance management	0.8	1.3	1.2	1.1	44.3	44.5	53.7	53.1
3.2 Security services	0.2	0.3	2.0	2.9	80.2	80.0	17.6	16.8
3.3 Cleaning services	0.2	0.1	0.8	0.9	78.3	75.6	20.7	23.5
4. Other low-paying sectors	51.7	49.5	6.9	7.4	26.4	27.7	15.0	15.4
4.1 Elderly homes	9.8	8.3	17.2	18.6	55.2	58.0	17.9	15.2
4.2 Laundry and dry cleaning services	8.8	4.5	15.8	12.6	36.2	39.7	39.2	43.2
4.3 Hairdressing services	7.7	7.2	26.8	26.7	43.2	44.9	22.3	21.1
4.4 Local courier services	#	#	5.3	5.0	45.9	49.6	48.8	45.4
4.5 Food processing and production	67.6	65.4	2.8	3.3	18.1	18.8	11.5	12.5
(B) Other sectors ^(Note 4)	61.2	61.2	2.0	2.0	14.1	13.9	22.6	22.9
5. Manufacturing	84.9	84.6	1.5	1.4	8.8	8.4	4.8	5.6
6. Construction	20.5	18.3	0.8	1.0	27.6	26.9	51.0	53.7
7. Import/export trade and wholesale	87.2	87.8	0.8	0.8	4.7	4.5	7.2	6.9
8. Accommodation services	n.a.	11.5	n.a.	7.3	n.a.	39.6	n.a.	41.6
9. Transportation, storage, courier services, information and communications	3.0	3.1	3.4	3.6	18.9	18.5	74.6	74.8
10. Financing, insurance, real estate, professional and business services	0.3	0.3	5.6	5.7	44.5	44.0	49.6	50.1
11. Social and personal services	α							
12. Others	56.1	58.8	3.1	2.9	12.9	12.3	27.9	26.0
(C) All sectors	60.4	60.5	3.2	3.2	14.6	14.4	21.8	21.9

- Notes: (1) Only include enterprises with employees.
(2) Please refer to Table C for coverage of individual sectors.
(3) Compensation of employees includes wages and salaries, payments in kind and employer's social security expenditure.
(4) The Annual Survey of Economic Activities statistics for 2018 were compiled based on the classification of low-paying sectors (LPS) and other sectors as identified by the current term of Minimum Wage Commission. Due to data limitations, the corresponding statistics for 2016 were compiled based on the classification of LPS and other sectors as previously identified. The impact of this change on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2018 can still be broadly compared with the corresponding figures of 2016.
- n.a. Not applicable.
(#) Between 0% and 0.05%.
(α) Data are not released.
- Owing to rounding, individual percentages may not add up to 100%.
- Source: Annual Survey of Economic Activities, Census and Statistics Department.

Table A.3 Composition of total operating expenses^(Note 1) (excluding cost of goods sold) analysed by sector

Sector ^(Note 2)	Proportion of total operating expenses (excluding cost of goods sold) in respective sector (%)					
	Rent, rates and government rent		Compensation of employees ^(Note 3)		Other operating expenses	
	2016	2018	2016	2018	2016	2018
(A) Low-paying sectors^(Note 4)	27.5	27.5	41.4	41.8	31.1	30.7
1. Retail	40.0	39.1	30.1	30.1	29.9	30.8
1.1 Supermarkets and convenience stores	36.9	37.1	31.1	31.8	32.0	31.0
1.2 Other retail stores	40.3	39.3	30.0	29.9	29.7	30.8
2. Food and beverage services ^(Note 4)	23.4	23.8	48.2	49.4	28.4	26.9
2.1 Chinese restaurants	21.0	21.6	50.2	53.2	28.8	25.2
2.2 Non-Chinese restaurants	27.9	26.2	47.1	50.0	25.0	23.8
2.3 Fast food cafes	21.8	21.8	41.1	40.5	37.2	37.7
2.4 Hong Kong style tea cafes	22.6	22.3	56.1	55.8	21.3	21.9
2.5 Other food and beverage services	n.a.	29.2	n.a.	43.1	n.a.	27.7
3. Estate management, security and cleaning services	1.3	1.5	60.0	61.2	38.8	37.3
3.1 Real estate maintenance management	1.2	1.1	44.7	45.1	54.1	53.8
3.2 Security services	2.0	2.9	80.3	80.2	17.7	16.8
3.3 Cleaning services	0.8	0.9	78.4	75.6	20.8	23.5
4. Other low-paying sectors	14.4	14.7	54.6	54.9	31.0	30.4
4.1 Elderly homes	19.0	20.3	61.2	63.2	19.8	16.5
4.2 Laundry and dry cleaning services	17.3	13.2	39.7	41.6	43.0	45.3
4.3 Hairdressing services	29.0	28.8	46.8	48.4	24.2	22.8
4.4 Local courier services	5.3	5.0	45.9	49.6	48.8	45.4
4.5 Food processing and production	8.7	9.4	55.7	54.3	35.6	36.3
(B) Other sectors^(Note 4)	5.3	5.2	36.3	35.8	58.4	59.0
5. Manufacturing	9.9	9.0	58.1	54.4	31.9	36.6
6. Construction	1.1	1.2	34.7	33.0	64.2	65.8
7. Import/export trade and wholesale	6.5	6.5	37.1	36.9	56.5	56.6
8. Accommodation services	n.a.	8.3	n.a.	44.8	n.a.	47.0
9. Transportation, storage, courier services, information and communications	3.5	3.7	19.5	19.1	76.9	77.2
10. Financing, insurance, real estate, professional and business services	5.6	5.7	44.6	44.1	49.8	50.2
11. Social and personal services	α					
12. Others	6.9	7.1	29.4	29.7	63.6	63.1
(C) All sectors	8.0	8.1	36.9	36.5	55.0	55.4

- Notes: (1) Only include enterprises with employees.
(2) Please refer to Table C for coverage of individual sectors.
(3) Compensation of employees includes wages and salaries, payments in kind and employer's social security expenditure.
(4) The Annual Survey of Economic Activities statistics for 2018 were compiled based on the classification of low-paying sectors (LPS) and other sectors as identified by the current term of Minimum Wage Commission. Due to data limitations, the corresponding statistics for 2016 were compiled based on the classification of LPS and other sectors as previously identified. The impact of this change on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2018 can still be broadly compared with the corresponding figures of 2016.
- n.a. Not applicable.
(α) Data are not released.
Owing to rounding, individual percentages may not add up to 100%.
- Source: Annual Survey of Economic Activities, Census and Statistics Department.

Table A.4 Distribution ^(Note 1) of profit ratio ^(Note 2) of all enterprises ^(Note 3) analysed by sector

Sector ^(Note 4)	2016					2018				
	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 ^(Note 5)	35 200	6.2	-1.7	3.9	11.0	40 740	5.7	-3.3	3.3	11.4
1. Retail	19 110	5.9	-3.6	3.1	8.9	20 150	5.5	-7.0	2.3	10.5
1.1 Supermarkets and convenience stores	50	2.0	-6.3	3.3	4.9	70	2.8	-4.1	3.3	6.0
1.2 Other retail stores	19 060	6.3	-3.6	3.1	8.9	20 080	5.8	-7.0	2.3	10.5
2. Food and beverage services ^(Note 5)	9 800	5.1	-1.1	4.2	9.7	13 990	4.8	-1.2	2.6	9.3
2.1 Chinese restaurants	2 060	3.4	-1.8	1.4	5.7	2 420	3.1	-3.8	0.4	5.6
2.2 Non-Chinese restaurants	4 310	5.5	-1.7	4.9	10.0	5 060	4.7	-0.9	4.4	9.4
2.3 Fast food cafes	900	8.9	#	2.8	13.7	940	9.0	#	8.8	15.1
2.4 Hong Kong style tea cafes	2 530	2.8	-1.1	5.4	10.2	2 710	2.8	-0.4	2.4	9.2
2.5 Other food and beverage services		n.a.				2 870	5.1	-1.0	2.9	10.9
3. Estate management, security and cleaning services	2 290	7.0	1.5	9.0	27.3	2 330	6.8	0.3	6.3	15.5
3.1 Real estate maintenance management	740	6.2	0.3	4.2	27.0	700	6.8	-18.1	2.2	9.1
3.2 Security services	380	7.7	#	7.4	15.1	380	6.7	1.9	8.9	18.7
3.3 Cleaning services	1 170	8.4	3.7	12.5	28.8	1 260	7.0	2.3	6.7	15.8
4. Other low-paying sectors	4 000	9.7	0.6	9.0	20.2	4 260	8.6	0.5	9.8	21.7
4.1 Elderly homes ^(Note 6)	770	8.6	1.6	7.2	15.0	670	5.7	1.3	8.1	15.3
4.2 Laundry and dry cleaning services	690	7.2	1.5	10.4	24.0	690	5.6	3.3	20.7	27.3
4.3 Hairdressing services	1 490	10.5	3.0	14.6	24.8	1 700	7.9	0.6	13.8	30.6
4.4 Local courier services	170	5.2	-1.7	6.4	13.7	180	4.8	-1.7	8.4	15.6
4.5 Food processing and production	890	10.2	-3.1	2.5	10.6	1 020	9.5	-2.3	2.3	11.2
(B) Other sectors ^(Note 5)	181 500	20.3	-6.8	2.9	17.4	181 660	20.5	-4.5	5.1	19.4
5. Manufacturing	5 350	4.2	-7.1	7.4	20.9	4 740	3.7	-1.2	9.1	21.6
6. Construction	15 100	8.9	-3.5	4.7	13.7	16 640	8.1	0.9	8.3	24.5
7. Import/export trade and wholesale	78 400	7.1	-6.6	1.6	9.2	71 350	7.2	-3.8	2.9	12.7
8. Accommodation services		n.a.				980	28.5	1.0	11.7	19.7
9. Transportation, storage, courier services, information and communications	16 950	9.9	-9.6	1.7	16.0	19 570	9.6	-16.4	1.5	14.7
10. Financing, insurance, real estate, professional and business services	38 860	58.2	-10.0	7.9	36.2	42 840	57.6	-7.8	8.8	26.2
11. Social and personal services		α								
12. Others	α	30.2	-9.9	#	3.5	α	28.8	0.3	4.2	13.9
(C) All sectors	216 700	19.0	-5.4	3.2	15.4	222 400	19.1	-4.4	4.6	17.9

- Notes: (1) Not including those enterprises without business receipts and local representative offices of overseas companies.
(2) Earnings before tax ratio (abbreviated as profit ratio) refers to ratio of profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, provisions; etc. to business receipts.
(3) Only include enterprises with employees.
(4) Please refer to Table C for coverage of individual sectors.
(5) The Annual Survey of Economic Activities statistics for 2018 were compiled based on the classification of low-paying sectors (LPS) and other sectors as identified by the current term of Minimum Wage Commission. Due to data limitations, the corresponding statistics for 2016 were compiled based on the classification of LPS and other sectors as previously identified. The impact of this change on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2018 can still be broadly compared with the corresponding figures of 2016.
(6) In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.
(#) Between -0.05% and 0.05%.
n.a. Not applicable.
(α) Data are not released.
Number of enterprises is rounded to the nearest ten.
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

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

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

Sector (Note 5)	2016					2018				
	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 (Note 6)	33 200	3.6	-1.9	3.9	11.2	38 750	3.4	-3.7	3.3	11.5
1. Retail	18 510	3.2	-3.6	3.1	9.3	19 580	3.1	-7.0	2.4	10.5
1.1 Supermarkets and convenience stores	40	0.6	-4.1	3.3	4.9	60	1.9	-5.6	3.3	6.0
1.2 Other retail stores	18 460	3.2	-3.6	3.1	9.3	19 520	3.1	-7.0	2.4	10.5
2. Food and beverage services (Note 6)	9 160	2.9	-1.3	4.2	9.7	13 300	2.9	-1.2	2.6	9.6
2.1 Chinese restaurants	1 570	0.8	-1.8	0.5	5.1	1 890	1.1	-3.8	0.3	3.0
2.2 Non-Chinese restaurants	4 230	4.0	-1.7	4.9	10.0	4 980	3.2	-0.9	4.4	9.4
2.3 Fast food cafes	870	7.5	#	2.8	13.7	910	8.7	#	8.8	15.1
2.4 Hong Kong style tea cafes	2 500	2.5	-1.1	5.4	10.2	2 680	2.7	-0.4	2.4	9.2
2.5 Other food and beverage services			n.a.			2 840	3.2	-1.0	2.9	10.9
3. Estate management, security and cleaning services	1 840	8.2	1.7	12.5	28.8	1 890	5.5	-1.1	7.0	15.8
3.1 Real estate maintenance management	580	6.3	0.3	7.1	35.4	550	2.0	-32.6	2.2	10.1
3.2 Security services	260	10.6	#	8.7	17.1	250	9.1	4.4	10.8	21.3
3.3 Cleaning services	1 000	10.8	6.0	12.5	28.8	1 090	9.7	2.3	12.2	17.7
4. Other low-paying sectors	3 700	7.2	0.6	9.8	20.7	3 970	6.7	0.6	11.2	22.2
4.1 Elderly homes (Note 7)	630	12.0	2.4	7.3	16.6	530	11.4	4.2	9.1	16.4
4.2 Laundry and dry cleaning services	670	9.9	1.5	10.4	24.4	670	16.2	3.3	20.7	27.3
4.3 Hairdressing services	1 480	11.0	3.0	15.1	24.8	1 690	9.1	0.6	13.8	30.6
4.4 Local courier services	150	2.0	-1.7	6.5	13.9	160	10.8	-1.7	8.4	15.6
4.5 Food processing and production	770	3.8	-3.1	2.5	10.6	920	2.9	-6.3	2.3	12.8
(B) Other sectors (Note 6)	177 540	12.7	-7.1	2.8	17.4	177 610	12.7	-4.6	5.0	19.4
5. Manufacturing	5 200	7.3	-7.1	7.4	20.9	4 590	7.0	-1.2	9.1	21.6
6. Construction	14 560	9.9	-3.5	4.5	13.2	16 270	9.4	0.9	8.3	24.5
7. Import/export trade and wholesale	77 670	4.8	-7.7	1.6	9.0	70 530	5.3	-3.9	2.8	12.7
8. Accommodation services			n.a.			840	18.5	1.0	11.7	12.0
9. Transportation, storage, courier services, information and communications	16 240	2.9	-9.8	1.7	16.0	18 830	6.7	-16.4	1.5	14.7
10. Financing, insurance, real estate, professional and business services	37 910	60.2	-10.4	7.7	36.2	41 680	55.9	-7.8	8.7	26.0
11. Social and personal services							α			
12. Others	α	5.1	-9.9	#	1.2	α	-0.4	0.3	2.4	13.9
(C) All sectors	210 740	12.3	-5.6	3.1	15.5	216 360	12.2	-4.4	4.6	18.0

- Notes: (1) Not including those enterprises without business receipts and local representative offices of overseas companies.
(2) Earnings before tax ratio (abbreviated as profit ratio) refers to ratio of profit before deducting tax; gain/loss on disposal of property, machinery and equipment; bad debts/write-off, provisions; etc. to business receipts.
(3) Small and medium enterprises refer to those enterprises with fewer than 50 persons engaged.
(4) Only include enterprises with employees.
(5) Please refer to Table C for coverage of individual sectors.
(6) The Annual Survey of Economic Activities statistics for 2018 were compiled based on the classification of low-paying sectors (LPS) and other sectors as identified by the current term of Minimum Wage Commission. Due to data limitations, the corresponding statistics for 2016 were compiled based on the classification of LPS and other sectors as previously identified. The impact of this change on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2018 can still be broadly compared with the corresponding figures of 2016.
(7) In calculating figures for business receipts and profit, subsidies from government and other organisations were also included.
(#) Between -0.05% and 0.05%.
n.a. Not applicable.
(α) Data are not released.
Number of enterprises is rounded to the nearest ten.
Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

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

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

Socio-economic characteristic / sector	10 th percentile monthly wage in May to June 2019			Median monthly wage in May to June 2019		
	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	11,000	5.9	81.4	14,400	2.9	67.1
Aged 25 to 34	12,500	4.2	56.9	19,800	6.1	55.8
Aged 35 to 44	12,000	8.1	61.3	22,000	3.9	51.9
Aged 45 to 54	10,900	2.4	76.2	19,500	3.9	58.5
Aged 55 and above	10,300	3.0	77.6	16,100	3.9	65.0
Educational attainment						
Primary and below	9,500	5.6	75.9	13,800	10.3	74.7
Secondary 1 to 3	10,500	5.0	75.0	15,200	7.0	63.4
Secondary 4 to 7	11,300	2.7	60.4	17,500	2.8	51.8
Tertiary education	14,500	3.6	43.3	28,700	1.4	40.9
Occupational group						
Elementary workers	9,500	3.7	75.9	13,300	4.4	80.3
Service and sales workers	11,000	6.7	83.3	15,000	4.0	66.7
Craft workers and machine operators	13,000	3.3	82.3	22,200	5.7	77.6
Clerical support workers	11,000	2.8	54.1	15,000	1.4	47.1
Managers, administrators, professionals and associate professionals	15,000	0.7	36.4	28,700	0.8	40.9
Sector ^(Note 3)						
Low-paying sectors	9,900	4.2	78.3 [^]	14,000	3.7	66.6 [^]
<i>Retail</i>	10,000	0.1	67.5	14,500	3.3	52.2
<i>Food and beverage services</i>	11,000	5.2	83.3 [^]	14,900	6.1	71.5 [^]
<i>Estate management, security and cleaning services</i>	9,300	3.3	74.3	13,400	6.3	86.1
<i>Other low-paying sectors</i>	9,900	4.2	80.0	14,000	7.7	76.8
Other sectors	12,500	4.2	59.2 [^]	21,800	4.0	54.0 [^]

- Notes: (1) Monthly wage is rounded to the nearest hundred. Percentage change is derived from unrounded figures.
(2) Employees do not include those not covered by Statutory Minimum Wage (i.e. government employees, live-in domestic workers, student interns and work experience students as defined in the Minimum Wage Ordinance). For the definition of full-time employees in the Annual Earnings and Hours Survey, please refer to **Glossary**.
(3) Please refer to Table C for coverage of individual sectors.
(^) The Annual Earnings and Hours Survey statistics for 2019 were compiled based on the classification of low-paying sectors (LPS) and other sectors as identified by the current term of Minimum Wage Commission. Due to data limitations, the corresponding statistics for 2010 were compiled based on the classification of LPS and other sectors as previously identified. The impact of this change on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2019 can still be broadly compared with the corresponding figures of 2010.
- Source: Annual Earnings and Hours Survey, Census and Statistics Department.

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

Sector (Note 2)	May to June 2017					May to June 2019				
	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 (Note 3)	740.0	26.2	47.1	52.2	60.0	749.5	26.3	45.7	51.0	57.0
1. Retail	244.9	8.7	44.3	50.0	56.6	237.7	8.3	43.8	48.2	54.0
1.1 Supermarkets and convenience stores	35.4	1.3	48.0	54.0	58.6	34.4	1.2	48.2	52.3	55.3
1.2 Other retail stores	209.4	7.4	44.3	49.2	56.0	203.4	7.1	42.5	48.0	54.0
2. Food and beverage services (Note 3)	184.2	6.5	49.0	54.0	60.0	194.9	6.8	48.2	54.0	60.0
2.1 Chinese restaurants	69.1	2.4	51.9	57.0	60.0	69.6	2.4	54.0	57.7	60.0
2.2 Non-Chinese restaurants	61.8	2.2	48.3	54.0	60.0	62.7	2.2	48.0	54.0	58.8
2.3 Fast food cafes	32.7	1.2	46.6	54.0	59.4	32.9	1.2	47.9	53.7	59.2
2.4 Hong Kong style tea cafes	20.7	0.7	49.9	57.6	60.0	20.8	0.7	48.9	55.9	60.0
2.5 Other food and beverage services	n.a.					8.8	0.3	48.0	51.0	54.2
3. Estate management, security and cleaning services	222.2	7.9	48.0	51.0	66.0	225.2	7.9	48.0	50.2	66.0
3.1 Real estate maintenance management	110.6	3.9	48.0	55.1	70.2	110.8	3.9	48.0	54.0	66.0
3.2 Security services	41.9	1.5	48.0	60.0	72.0	42.4	1.5	48.0	60.0	71.8
3.3 Cleaning services	56.1	2.0	48.0	48.0	54.0	58.3	2.0	48.0	48.0	54.0
3.4 Membership organisations	13.6	0.5	41.4	48.0	54.0	13.8	0.5	40.8	46.2	52.6
4. Other low-paying sectors	88.7	3.1	45.0	48.0	56.1	91.6	3.2	45.0	48.0	54.0
4.1 Elderly homes	20.7	0.7	45.0	54.0	66.0	22.5	0.8	45.0	54.0	66.0
4.2 Laundry and dry cleaning services	4.3	0.2	42.7	51.0	57.8	4.6	0.2	44.3	48.7	54.0
4.3 Hairdressing and other personal services	38.9	1.4	45.5	48.0	54.0	39.1	1.4	44.8	48.0	54.0
4.4 Local courier services	4.4	0.2	44.3	45.7	50.3	4.5	0.2	40.6	44.3	48.0
4.5 Food processing and production	20.4	0.7	45.9	48.0	54.5	20.9	0.7	48.0	48.1	54.0
(B) Other sectors (Note 3)	2 087.1	73.8	40.6	43.8	48.0	2 101.0	73.7	40.6	42.5	48.0
5. Manufacturing	77.8	2.8	42.5	47.5	50.0	71.5	2.5	42.9	46.2	49.3
6. Construction	295.9	10.5	44.3	48.0	54.0	291.3	10.2	44.3	48.0	53.8
7. Import/export trade and wholesale	449.6	15.9	40.6	40.6	44.3	424.0	14.9	40.6	40.6	44.3
8. Accommodation services	n.a.					42.2	1.5	45.1	48.0	52.5
9. Transportation, storage, courier services, information and communications	346.4	12.3	40.6	45.7	54.0	348.9	12.2	40.6	44.3	49.6
10. Financing, insurance, real estate, professional and business services	446.5	15.8	39.3	40.6	44.3	472.1	16.6	39.7	40.6	43.6
11. Education, medical and other social and personal services	406.4	14.4	40.6	44.3	48.0	433.1	15.2	40.6	43.5	48.0
12. Others	15.9	0.6	38.1	42.0	48.0	18.0	0.6	39.8	40.6	48.0
(C) All sectors	2 827.1	100.0	40.6	45.0	51.5	2 850.5	100.0	40.6	44.3	50.4

- 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 for coverage of individual sectors.
- (3) The Annual Earnings and Hours Survey statistics for 2019 were compiled based on the classification of low-paying sectors (LPS) and other sectors as identified by the current term of Minimum Wage Commission. Due to data limitations, the corresponding statistics for 2017 were compiled based on the classification of LPS and other sectors as previously identified. The impact of this change on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2019 can still be broadly compared with the corresponding figures of 2017.
- n.a. Not applicable.
- Number of employees is rounded to the nearest hundred. Percentage is derived from unrounded figures.
- Number of weekly working hours is rounded to one decimal place.
- Owing to rounding, there may be a slight discrepancy between the sum of individual items and the total as shown in the table.

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

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

Sector (Note 2)	May to June 2017					May to June 2019				
	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 (Note 3)	636.9	38.6	48.0	54.0	60.0	643.6	39.5	47.1	51.9	58.4
1. Retail	201.7	12.2	44.7	50.1	56.6	193.6	11.9	44.3	49.0	54.0
1.1 Supermarkets and convenience stores	29.1	1.8	45.0	54.0	57.9	28.7	1.8	48.2	53.5	55.7
1.2 Other retail stores	172.6	10.5	44.3	49.7	56.6	164.9	10.1	43.7	48.1	54.0
2. Food and beverage services (Note 3)	167.8	10.2	48.6	54.0	60.0	176.3	10.8	48.2	54.0	60.0
2.1 Chinese restaurants	62.6	3.8	52.0	57.0	60.0	62.8	3.9	54.0	57.7	60.0
2.2 Non-Chinese restaurants	56.3	3.4	48.1	54.0	60.0	57.4	3.5	48.0	54.0	58.2
2.3 Fast food cafes	28.9	1.8	46.2	54.0	57.9	29.3	1.8	47.4	52.5	58.7
2.4 Hong Kong style tea cafes	20.0	1.2	49.9	57.0	60.0	19.8	1.2	48.5	54.8	60.0
2.5 Other food and beverage services			n.a.			7.0	0.4	48.0	51.0	54.0
3. Estate management, security and cleaning services	189.4	11.5	48.0	54.0	67.4	193.1	11.9	48.0	51.7	66.0
3.1 Real estate maintenance management	86.2	5.2	48.0	64.3	72.0	88.5	5.4	48.0	59.5	66.0
3.2 Security services	39.4	2.4	48.0	60.9	72.0	39.2	2.4	48.0	63.0	72.0
3.3 Cleaning services	55.0	3.3	48.0	48.0	54.0	56.6	3.5	48.0	48.0	54.0
3.4 Membership organisations	8.7	0.5	42.0	48.0	61.2	8.8	0.5	44.3	48.0	54.0
4. Other low-paying sectors	78.1	4.7	45.4	48.3	56.1	80.6	5.0	45.0	48.0	54.0
4.1 Elderly homes	17.2	1.0	45.2	54.0	66.0	18.8	1.2	45.0	54.0	66.0
4.2 Laundry and dry cleaning services	3.3	0.2	42.0	49.5	54.0	3.6	0.2	44.3	51.7	55.2
4.3 Hairdressing and other personal services	37.4	2.3	45.4	48.0	54.0	37.6	2.3	44.8	48.0	54.0
4.4 Local courier services	4.0	0.2	44.3	45.7	50.9	3.8	0.2	40.6	44.3	47.1
4.5 Food processing and production	16.1	1.0	47.8	48.6	54.9	16.8	1.0	48.0	48.0	54.0
(B) Other sectors (Note 3)	1 014.2	61.4	40.8	45.7	51.0	985.0	60.5	40.6	44.8	49.6
5. Manufacturing	42.0	2.5	44.3	48.0	53.3	38.3	2.4	44.3	48.0	51.3
6. Construction	220.3	13.3	44.3	48.0	54.0	203.8	12.5	44.3	48.0	54.0
7. Import/export trade and wholesale	204.7	12.4	40.6	42.2	44.3	183.7	11.3	40.6	40.6	44.3
8. Accommodation services			n.a.			31.1	1.9	45.7	48.8	54.0
9. Transportation, storage, courier services, information and communications	214.0	13.0	43.2	48.2	61.0	206.1	12.7	40.6	48.0	54.0
10. Financing, insurance, real estate, professional and business services	125.1	7.6	39.6	40.6	45.7	125.3	7.7	40.1	40.6	44.3
11. Education, medical and other social and personal services	163.4	9.9	42.0	45.2	49.0	188.7	11.6	40.6	45.0	48.5
12. Others	8.0	0.5	39.2	43.2	54.0	7.9	0.5	39.8	40.6	51.9
(C) All sectors	1 651.1	100.0	42.4	48.0	54.2	1 628.6	100.0	41.9	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 for coverage of individual sectors.

(3) The Annual Earnings and Hours Survey statistics for 2019 were compiled based on the classification of low-paying sectors (LPS) and other sectors as identified by the current term of Minimum Wage Commission. Due to data limitations, the corresponding statistics for 2017 were compiled based on the classification of LPS and other sectors as previously identified. The impact of this change on the overall statistical figures of LPS and other sectors is not significant. The statistical figures of 2019 can still be broadly compared with the corresponding figures of 2017.

n.a. Not applicable.

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

Number of weekly working hours is rounded to one decimal place.

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

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

B. Impact Assessment

Table B.1 Estimated number and proportion of pre-adjustment employees involved at various Statutory Minimum Wage (SMW) test levels (test levels) under different economic scenarios ^(Notes)

SMW test level	Economic Scenario 1		Economic Scenario 2		Economic Scenario 3		Economic Scenario 4	
	Number of pre-adjustment employees involved ('000)	Proportion among all employees (%)	Number of pre-adjustment employees involved ('000)	Proportion among all employees (%)	Number of pre-adjustment employees involved ('000)	Proportion among all employees (%)	Number of pre-adjustment employees involved ('000)	Proportion among all employees (%)
\$37.5	22.8	0.7	28.6	0.9	55.7	1.8	98.2	3.2
Below \$38.0	39.2	1.3	55.0	1.8	78.2	2.6	114.9	3.7
Below \$38.5	60.3	2.0	79.4	2.6	98.7	3.2	136.5	4.5
Below \$39.0	81.6	2.7	103.4	3.4	119.6	3.9	159.5	5.2
Below \$39.5	104.0	3.4	126.4	4.1	141.3	4.6	184.0	6.0
Below \$40.0	127.8	4.2	149.3	4.9	164.8	5.4	210.6	6.9
Below \$40.5	151.5	4.9	174.1	5.7	193.6	6.3	241.1	7.9
Below \$41.0	178.5	5.8	201.8	6.6	223.0	7.3	271.5	8.9
Below \$41.5	205.9	6.7	228.0	7.4	250.7	8.2	299.4	9.8
Below \$42.0	229.8	7.5	252.6	8.2	277.8	9.1	328.2	10.7
Below \$42.5	253.6	8.3	279.1	9.1	306.1	10.0	358.2	11.7
Below \$43.0	280.4	9.1	308.5	10.1	337.0	11.0	386.9	12.6
Below \$43.5	308.3	10.1	337.2	11.0	365.0	11.9	414.0	13.5
Below \$44.0	335.3	10.9	363.6	11.9	391.2	12.8	440.0	14.3

Notes: Since there will be no employees with hourly wages below the SMW rate of \$37.5 before the SMW adjustment in 2021 under the Minimum Wage Ordinance (MWO) (except for employees with disabilities who have completed productivity assessment in accordance with the MWO), the estimation of pre-adjustment employees involved in the above table is not applicable to test levels below \$37.5.

For the test level of \$37.5, the pre-adjustment employees involved only include those earning hourly wages of \$37.5. As for other test levels above \$37.5, the pre-adjustment employees involved refer to those earning hourly wages below the respective test level.

Source: The assumptions on the economic growth in the first half of 2021 under different scenarios are set out in Table 4.1. Estimated with reference to the Annual Earnings and Hours Survey results and different wage data.

Table B.2 Estimated additional wage bills under different economic scenarios if the Statutory Minimum Wage (SMW) rate is adjusted upwards to various test levels ^(Notes): All sectors

SMW test level	Estimated additional wage bills							
	Economic Scenario 1		Economic Scenario 2		Economic Scenario 3		Economic Scenario 4	
	(\$ Mn)	(%)	(\$ Mn)	(%)	(\$ Mn)	(%)	(\$ Mn)	(%)
\$38.0	120	#	160	#	240	#	370	#
\$38.5	320	#	420	#	560	0.1	810	0.1
\$39.0	610	0.1	780	0.1	980	0.1	1,360	0.1
\$39.5	1,000	0.1	1,250	0.1	1,500	0.2	2,040	0.2
\$40.0	1,510	0.2	1,840	0.2	2,150	0.2	2,860	0.3
\$40.5	2,180	0.2	2,590	0.3	2,970	0.3	3,890	0.4
\$41.0	3,030	0.3	3,550	0.4	4,010	0.4	5,140	0.6
\$41.5	4,120	0.4	4,740	0.5	5,300	0.6	6,670	0.7
\$42.0	5,460	0.6	6,180	0.7	6,860	0.7	8,490	0.9
\$42.5	7,080	0.8	7,930	0.9	8,730	0.9	10,670	1.2
\$43.0	9,030	1.0	10,020	1.1	10,980	1.2	13,240	1.4
\$43.5	11,390	1.2	12,540	1.4	13,660	1.5	16,260	1.8
\$44.0	14,200	1.5	15,530	1.7	16,820	1.8	19,790	2.2

Notes:

Only test levels above \$37.5 are included.

The above estimations have taken into account rest day pay and meal break pay (granted to employees in accordance with their employment contracts or agreements if so entitled) and the knock-on effect on pay hierarchies, in addition to the amount payable by enterprises to comply with the statutory requirement.

The assumptions on the economic growth in the first half of 2021 under different scenarios are set out in Table 4.1.

(#) Between 0% and 0.05%.

Source:

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

Table B.3 Estimated additional wage bills under different economic scenarios if the Statutory Minimum Wage (SMW) rate is adjusted upwards to various test levels^(Notes): Low-paying sectors

SMW test level	Estimated additional wage bills							
	Economic Scenario 1		Economic Scenario 2		Economic Scenario 3		Economic Scenario 4	
	(\$ Mn)	(%)	(\$ Mn)	(%)	(\$ Mn)	(%)	(\$ Mn)	(%)
\$38.0	70	#	90	0.1	150	0.1	250	0.2
\$38.5	190	0.1	250	0.2	370	0.2	550	0.4
\$39.0	370	0.2	480	0.3	630	0.4	910	0.6
\$39.5	610	0.4	780	0.5	970	0.6	1,360	0.9
\$40.0	940	0.6	1,170	0.8	1,380	0.9	1,900	1.3
\$40.5	1,370	0.9	1,660	1.1	1,910	1.3	2,560	1.7
\$41.0	1,920	1.3	2,280	1.5	2,590	1.7	3,380	2.2
\$41.5	2,620	1.7	3,050	2.0	3,420	2.3	4,360	2.9
\$42.0	3,490	2.3	3,990	2.6	4,430	2.9	5,540	3.7
\$42.5	4,530	3.0	5,110	3.4	5,650	3.7	6,970	4.6
\$43.0	5,780	3.8	6,470	4.3	7,120	4.7	8,670	5.7
\$43.5	7,280	4.8	8,100	5.3	8,890	5.9	10,700	7.1
\$44.0	9,060	6.0	10,040	6.6	11,000	7.3	13,100	8.7

Notes:

Only test levels above \$37.5 are included.

The above estimations have taken into account rest day pay and meal break pay (granted to employees in accordance with their employment contracts or agreements if so entitled) and the knock-on effect on pay hierarchies, in addition to the amount payable by enterprises to comply with the statutory requirement.

The assumptions on the economic growth in the first half of 2021 under different scenarios are set out in Table 4.1.

(#)

Between 0% and 0.05%.

Source:

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

C. Coverage of Sectors

Table C 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 (Note 2)				
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. Food and beverage services	56	56	56	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, 562
2.4 Hong Kong style tea cafes	561101	561101	561 excluding 561101, 561109-11, 561103-8, 5612	561101
2.5 Other food and beverage services	562-563	562-563, 561901, 561903	562-563	563
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 3)				
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 services	I55	I55	I55	I55
9. Transportation, storage, courier services, information and communications	H, J excluding 5322	H, J excluding 5322	H, J excluding 5321-2	H, J excluding 53
10. Financing, insurance, real estate, professional and business services	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81	K-N excluding 6822, 80-81
11. Education, medical and other social and personal services	O-S excluding 873, 949, 9601, 960201, 9603-9	P-S excluding 873, 9601, 960201 and part of 851, 852, 853 and 86	P-S excluding 873, 949, 9601-2	O-S excluding 87, 94, 96-99
12. Others	D-E	B, D-E	B, D-E	A-B, D-E

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

Abbreviations

AEHS	Annual Earnings and Hours Survey
AoIs	Array of Indicators
ASEA	Annual Survey of Economic Activities
C&SD	Census and Statistics Department
CE	Chief Executive
CPI	Consumer Price Index
CSSA	Comprehensive Social Security Assistance
GDP	Gross Domestic Product
GHS	General Household Survey
GSCs	Government Service Contractors
HSIC V2.0	Hong Kong Standard Industrial Classification Version 2.0
Knock-on effect	Knock-on effect on pay hierarchies
LPS	Low-paying sectors
MWC	Minimum Wage Commission
MWO	Minimum Wage Ordinance
Pre-adjustment employees involved	Employees earning hourly wages less than the various Statutory Minimum Wage test levels before the Statutory Minimum Wage rate adjustment
SARS	Severe Acute Respiratory Syndrome
SEV	Quarterly Survey of Employment and Vacancies
SME	Small and medium enterprise
SMW	Statutory Minimum Wage
Test levels	Statutory Minimum Wage test levels
The additional wage bills required to comply with the statutory requirement	The additional wage bills incurred for raising the hourly wages of all pre-adjustment employees involved to the Statutory Minimum Wage test levels to comply with the requirement under the Minimum Wage Ordinance
The epidemic	The COVID-19 epidemic
WFAS	Working Family Allowance Scheme

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>
Business receipts	<p>Business receipts include service receipts, receipts from sales of goods, commissions, rental, interest and other income, but do not include gain on disposal of financial asset, property, machinery and equipment.</p>
Compensation of employees	<p>In ASEA, compensation of employees refers to income from work including basic wages, over-time payments, commissions, bonuses, allowances, share-based payments granted to employees, employers' contributions to the Mandatory Provident Fund Scheme, cost of benefits in kind (such as meals), etc.</p>
Composite Consumer Price Index (Composite CPI)	<p>Different series of Consumer Price Indices (CPIs) are compiled by the Census and Statistics Department to reflect the impact of consumer price changes on households in different expenditure ranges. CPI(A), CPI(B) and CPI(C) are compiled based on the expenditure patterns of households in the relatively low, medium and relatively high expenditure ranges respectively. Composite CPI is compiled based on the overall expenditure pattern of all the above households taken together to reflect the impact of consumer price changes on the household sector as a whole.</p> <p>CPI measures the changes over time in the price level of consumer goods and services generally purchased by households and does not net out the effects of all Government's one-off relief measures (such as the waiver/Government's payment of public housing rentals, the rates concession, electricity charge subsidy, etc.).</p>
Consumer Price Index (A) (CPI(A))	<p>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).</p>
Craft workers and machine operators	<p>Craft workers and machine operators refer to craft and related workers, plant and machine operators and assemblers.</p>

Glossary	Definition
Depreciation	<p>Depreciation refers to the amount by which the value of fixed assets has declined during the reference period owing to utilisation and obsolescence.</p> <p>ASEA has started to collect statistics on depreciation from sectors since 2010.</p>
Earnings	<p>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.</p>
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"> <li data-bbox="596 936 1388 1234">(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; <li data-bbox="596 1249 1388 1469">(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.

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. In this report, unless otherwise specified, employees exclude government employees and live-in domestic workers.</p>
Employment Support Scheme	<p>In 2020, the Government launched the “Employment Support Scheme” under the second round of the “Anti-epidemic Fund” to provide time-limited financial support to employers to retain employees who may otherwise be made redundant. Under the Employment Support Scheme, the wage subsidies provided by the Government to eligible employers were disbursed in two tranches: the first tranche of subsidies were used for paying wages of employees from June to August 2020; and the second tranche for paying wages of employees from September to November 2020.</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>

Glossary	Definition
Establishment	An establishment refers to an economic unit which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location, such as an individual factory, a workshop, a retail shop or an office.
First round of wage-price spiral effect	The first round of wage-price spiral effect refers to the increase in prices of other items which are directly or indirectly linked to wages and inflation, beyond the direct and indirect impact of Statutory Minimum Wage (SMW) on prices.
Full-time employees	<p>In AEHS, full-time employees refer to employees who cannot be classified as part-time employees following the definition as adopted in the survey.</p> <p>In GHS, full-time employees refer to employees who worked 35 hours or more during 7 days before enumeration or worked less than 35 hours due to vacation during the 7-day period.</p> <p>Please refer to “Part-time employees” for its definition.</p>
Higher-skilled employees/occupational groups	Higher-skilled employees/occupational groups include managers and administrators, professionals and associate professionals.
Hourly wage	<p>Starting from 2011, the method for deriving hourly wage in AEHS has taken into account the definitions of hours worked and wages payable under MWO. Hourly wage is derived by dividing the amount of wages paid to an employee in the wage period, with deduction of the payments related to rest days and meal breaks which are not regarded as working hours, by the number of working hours in the same wage period.</p> <p>Please refer to “Wages” for its definition.</p> <p>Please refer to “Working hours” for its definition.</p>
Labour force	<p>Labour force refers to the land-based non-institutional population aged 15 and over who satisfy the criteria for inclusion in the employed population or the unemployed population.</p> <p>Please refer to “Employed persons/persons engaged” for the definition of employed population.</p> <p>Please refer to “unemployment rate” for the definition of unemployed population.</p>
Labour force participation rate	Labour force participation rate refers to the proportion of labour force in the total land-based non-institutional population aged 15 and over.

Glossary	Definition
Large enterprises	In this report, 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 wage rates below the 10 th percentile of the overall hourly wage distribution.
Low-paying sectors (LPS)	<p>MWC defined LPS as sectors employing a relatively large number of low-paid employees (i.e. employees with hourly wage rates below the 10th percentile of the overall distribution) or sectors with a relatively large proportion of low-paid employees among all employees within the sectors.</p> <p>The LPS identified by the current term of MWC include: (i) retail trade (including supermarkets and convenience stores and other retail stores); (ii) food and beverage services (including Chinese restaurants, non-Chinese restaurants, fast food cafes, Hong Kong style tea cafes, and other food and beverage services); (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).</p>
Market share of small and medium enterprises (SMEs)	<p>Market share of SMEs refers to the proportion of business receipts of SMEs among the total 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 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	In GHS, monthly employment earnings refer to earnings (before deduction of Mandatory Provident Fund contributions) from all jobs during the month before enumeration, including wage and salary, bonus, commission, tips, housing allowance, overtime allowance, attendance allowance and other cash allowances but excluding back pays.
Other sectors	Unless otherwise specified, other sectors refer to non-LPS. Other sectors identified by the current term of MWC include: (i) manufacturing; (ii) construction; (iii) import/export trade and wholesale; (iv) accommodation services; (v) transportation, storage, courier services, information and communications; (vi) financing, insurance, real estate, professional and business services; (vii) education, medical and other social and personal services; and (viii) other non-LPS.
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 respectively.</p>

Glossary	Definition
Pre-adjustment employees involved	Unless otherwise specified, pre-adjustment employees involved refer to employees earning an hourly wage less than the various SMW test levels before the adjustment of the SMW rate.
Seasonally adjusted unemployment rate	Seasonally adjusted unemployment rate is compiled by the X- 12 ARIMA method. Please refer to “Unemployment rate” for its 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.
Self-employed ratio	Self-employed ratio refers to the proportion of self-employed persons among all employed persons (excluding government employees and live-in domestic workers) in the sector. Please refer to “Self-employed persons” for its definition. Please refer to “Employed persons/persons engaged” for its definition.
Service and sales workers	Service and sales workers refer to persons engaged in the following occupational groups: (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; (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.
Small and medium enterprises (SMEs)	In this report, SMEs refer to those enterprises with fewer than 50 persons engaged.
Total expenses	Total expenses include total operating expenses and cost of goods sold. Please refer to “Total operating expenses” for its definition.

Glossary	Definition
Total operating expenses	<p>For 2010 and before, total operating expenses include compensation of employees; rent; rates; interest expenses; electricity; water; fuel; repair and maintenance; insurance costs; depreciation charges, etc., but do not include cost of goods sold; tax; gain/loss on disposal of financial asset, property, machinery and equipment; bad debts/write-off; amortisation; and provisions. Starting from 2011, amortisation is included in total operating expenses.</p> <p>Please refer to “Depreciation” and “Amortisation” for their respective definitions.</p>
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.

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 needed).
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. Vacancies at construction sites include only those vacancies of manual workers.</p>

Glossary	Definition
Wages	<p>The definition of wages in AEHS follows the definition of wages as adopted in the Employment Ordinance. In brief, wages cover the following components:</p> <ul style="list-style-type: none"> (i) basic wage; (ii) commission and tips not of gratuitous nature; (iii) guaranteed bonuses and allowances other than guaranteed end of year payment (such as shift allowance, cost-of-living allowance, meal allowance, good attendance bonus not of gratuitous nature); and (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 refers to the sum of the following:</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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