

**Subcommittee on Minimum Wage Ordinance
(Amendment of Schedule 3) Notice 2015
and Employment Ordinance
(Amendment of Ninth Schedule) Notice 2015**

**Information provided by the Government on issues raised in
Hon TANG Ka-piu's letter to the Subcommittee on 4 February 2015**

Introduction

This paper provides the information sought in the letter of Hon TANG Ka-piu made to the Subcommittee on 4 February 2015 (LC Paper No. CB(2) 801/14-15(02)). The details are set out in the order of the items listed in the letter.

Item 1.

(1) Comprehensive Social Security Assistance Cases

2. During the period from 1 May 2011 to 31 December 2014, there were 115 387 closed cases under the Comprehensive Social Security Assistance (CSSA) Scheme. As the amount of CSSA payment that could have been made to ex-CSSA recipients is not known, the total amount of public expenditure involved consequently cannot be provided. The Social Welfare Department does not keep statistics on the total number of CSSA recipients involved in the closed cases and on those leaving the CSSA net owing to employment secured. The relationship between the reasons for cases closing and employment cannot be evaluated.

(2) Working poverty

3. The Statutory Minimum Wage (SMW) is a wage floor to forestall excessively low wages for grassroots employees as individuals, while the poverty line is an indicator of relative poverty based on household income. The number of working poor households (after the recurrent cash policy intervention) in 2013 was 154 700, broadly on par with that before the implementation of SMW which stood at 154 600 in 2010. The corresponding poor population and the poverty rate (at 517 100 persons and 8.7%) in 2013 were both slightly lower than the

figures in 2010 (527 500 and 9.1%).

(3) Wage differentials

4. The SMW brought about more visible positive effect on the income of lower-paid employees and narrowed their wage differentials with employees of higher ranks. Based on the Annual Earnings and Hours Survey (AEHS), by examining the monthly wage distribution of all employees and its cumulative changes in May to June 2013 over April to June 2010¹ (before the implementation of SMW), the impact of the SMW on wage differentials can be assessed. As shown in the table below, the 5th and 10th percentiles of monthly wages in the distribution of monthly wage of all employees increased cumulatively by 31.2% and 30.3% respectively over the above period, much higher than the corresponding increase of 19.1% for the median monthly wages. This indicated that SMW had helped increase the wages of lower-paid employees and narrow wage differentials.

All employees' monthly wage distribution in April to June 2010 and May to June 2013 and cumulative changes

Percentile	Monthly wage		
	May to June 2013 (\$)	April to June 2010 (before SMW implementation) (\$)	Rate of change of May to June 2013 over April to June 2010 ^(*) (%)
5 th	5,300	4,000	+31.2
10 th	7,700	5,900	+30.3
25 th	10,000	8,000	+25.0
Median	14,100	11,800	+19.1
75 th	22,000	18,000	+22.5
90 th	36,200	30,000	+20.7

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

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

5. Moreover, according to the Labour Earnings Survey, comparing September 2014 (the latest figures) over March 2011 (before SMW

¹ The second quarter was adopted as the survey reference period for the 2009 and 2010 rounds of AEHS. Subsequently, in consideration of the implementation of the SMW on 1 May 2011, the survey reference period was changed to May to June as from the 2011 round such that the survey results can be directly used for analyses related to the SMW.

implementation), the nominal wage index of the lower-paid elementary workers and service workers rose cumulatively by 30.0% and 28.1% respectively, faster than the rise of 21.2% in the overall wage index over the same period, indicating narrower wage differentials.

(4) and (5) Unemployment rate, underemployment rate, employment figures and number of establishments and persons engaged in the low paying sectors

6. The generally favourable domestic economic environment in Hong Kong in the past few years cushioned to a significant extent the potential impacts of the SMW on the labour market. The changes in the latest unemployment rate, underemployment rate and employment figures as well as the number of establishments and persons engaged in the low paying sectors as compared with the period before the SMW implementation were as follows:

Overall unemployment rate, underemployment rate and employment

	October to December 2014 (latest)	February to April 2011 (before SMW implementation)	Cumulative change of October to December 2014 over February to April 2011
Seasonally adjusted unemployment rate	3.3%	3.6%	-0.3 percentage point
Underemployment rate	1.6%	1.9%	-0.3 percentage point
Total employment	3 797 200	3 542 300	+254 900

Number of establishments in the low paying sectors

	September 2014 (latest)	Change of September 2014 over March 2011 (before SMW implementation)	Rate of change of September 2014 over March 2011 (%)
Retail	65 790	+2 640	+4.2
Restaurants	14 770	+830	+5.9
Estate management, security and cleaning services	4 650	+430	+10.3
Other low paying sectors	13 740	+700	+5.4
Low paying sectors (overall)	98 950	+4 600	+4.9

Number of persons engaged in the low paying sectors

	September 2014 (latest)	Change of September 2014 over March 2011 (before SMW implementation)	Rate of change of September 2014 over March 2011 (%)
Retail	269 800	+18 500	+7.3
Restaurants	232 400	+12 500	+5.7
Estate management, security and cleaning services	208 600	+17 200	+9.0
Other low paying sectors	106 000	+4 300	+4.2
Low paying sectors (overall)	816 800	+52 500	+6.9

(6) Inflation

7. Inflation is driven by a host of factors, with labour cost being only one of them. Since the operating conditions and pricing power vary across sectors, the extent to which firms can pass on the additional wage bill to the prices of products or services (which is thereby reflected on the consumer price level) differs. The consumer price indices can only reflect the inflation situation faced by consumers, and the related statistical survey results cannot form the sole basis to delineate and measure to what degree firms passed on their labour cost to the consumers in coping with the implementation of the SMW. Indeed, inflation was mainly driven by food prices and private housing rentals in Hong Kong in the past few years. That said, after the implementation of the SMW in May 2011, the prices of some consumption items that were more affected by wage costs (such as hairdressing as well as management fees and other housing expenses) saw visibly faster rises, which might have to some extent added fuel to the inflation hike in 2011. These consumption items likewise saw somewhat faster price rises after the upward adjustment in the SMW rate in May 2013, but did not bring about significant pressure on the overall inflation.

(7) Changes in wages and corporate profitability

8. Results of AEHS reveal that comparing May to June 2013 with April to June 2010 (before the SMW implementation), the median monthly wages for all employees rose by a cumulative 19.1%. After discounting inflation, there was a real increase of 4.4%. As for the

profitability of firms, the results of the Annual Survey of Economic Activities show that for all enterprises with employees taken as a whole, the profit ratio was 16.6% in 2013 (the latest figure), with little change from the 16.1% in 2010. The profit ratio for small and medium enterprises fell from 11.6% in 2010 to 10.9% in 2013.

Item 2.

(1) and (2) 10 economies with SMW²

9. The rationale behind the setting of the SMW and the criteria for reviewing the SMW rate may differ from place to place. Each place also has its unique historical background, and the review and adjustment of minimum wage can vary. According to the information available from the Internet, among the above 10 selected places (i.e. the Mainland, Taiwan, South Korea, the United Kingdom, France, Ireland, Australia, New Zealand, the United States and Canada), some places (i.e. the United Kingdom, Ireland, the United States and Canada (such as British Columbia and Ontario)) have not specified the review frequency of the SMW rate in their respective minimum wage legislation. Other places (i.e. the Mainland, Taiwan, South Korea, France, Australia and New Zealand) have set out the frequency of review in their legislation. For instance, the SMW rate shall be reviewed at least once in every two years on the Mainland, once a year in Taiwan, South Korea, Australia and New Zealand, and at least once a year in France. In addition, the magnitude of adjustment in the minimum wage levels can be, to a certain extent, related to the level of economic development of the selected places and the prevailing economic cycle. The minimum wage levels and changes in the selected places in the past five years were as follows:

Levels* and changes in minimum wage of selected places in the past five years

Place	Currency	2010	2011	2012	2013	2014
<i>Asia</i>						
Mainland						
Beijing - Full-time work#	RMB	960	1,160	1,260	1,400	1,560
		(20.0%)	(20.8%)	(8.6%)	(11.1%)	(11.4%)

² The 10 selected places are the Mainland, Taiwan, South Korea, the United Kingdom, France, Ireland, Australia, New Zealand, the United States and Canada.

Place	Currency	2010	2011	2012	2013	2014
Shanghai - Full-time work#	RMB	1,120 (16.7%)	1,280 (14.3%)	1,450 (13.3%)	1,620 (11.7%)	1,820 (12.3%)
Guangzhou - Full-time work#	RMB	1,030 (19.8%)	1,300 (26.2%)	1,300 --	1,550 (19.2%)	1,550 --
Shenzhen - Full-time work#	RMB	1,100 (10.0%)	1,320 (20.0%)	1,500 (13.6%)	1,600 (6.7%)	1,808 (13.0%)
Taiwan	TWD	95 --	98 (3.2%)	103 (5.1%)	109 (5.8%)	115 (5.5%)
South Korea	KRW	4,110 (2.8%)	4,320 (5.1%)	4,580 (6.0%)	4,860 (6.1%)	5,210 (7.2%)
Europe						
United Kingdom	GBP	5.93 (2.2%)	6.08 (2.5%)	6.19 (1.8%)	6.31 (1.9%)	6.50 (3.0%)
France	EUR	8.86 (0.5%)	9.19 (3.7%)	9.40 (2.3%)	9.43 (0.3%)	9.53 (1.1%)
Ireland	EUR	8.65 --	8.65 --	8.65 --	8.65 --	8.65 --
Oceania						
Australia	AUD	15.00 (4.8%)	15.51 (3.4%)	15.96 (2.9%)	16.37 (2.6%)	16.87 (3.1%)
New Zealand	NZD	12.75 (2.0%)	13.00 (2.0%)	13.50 (3.8%)	13.75 (1.9%)	14.25 (3.6%)
North America						
United States	USD	7.25 --	7.25 --	7.25 --	7.25 --	7.25 --
Canada	CAD	9.35 (5.4%)	9.65 (3.2%)	9.99 (3.5%)	10.14 (1.5%)	@ @

Note: * Unless otherwise specified, wage rates are on an hourly basis.

Wage rates are on a monthly basis.

() Figures in brackets denote year-on-year rates of change.

-- No change.

@ Data is not available.

Item 3.

10. In Hong Kong, the Minimum Wage Ordinance (Cap. 608) requires that the SMW rate must be reviewed at least once in every two years. Setting a limit of not exceeding two years for the review cycle is

a pragmatic arrangement and has been the consensus when legislating on SMW. This arrangement is beneficial to both employees and employers. Firstly, it will have less impact on the mode of employment. Should annual review be implemented, there may be more frequent adjustments of the SMW rate. Consequently, some employers who wish to maintain their flexibility in controlling labour costs may tend to offer short-term employment contracts and replace their permanent staff with casual workers, leading to fragmented employment. Secondly, with an annual review of the SMW rate, employers will also find it hard to estimate their emolument costs in preparing service and business contracts, hence facing difficulties in business operation. The review of the SMW rate involves a host of complicated issues relating to employment, economic and social situations. Given that Hong Kong has limited experience in implementing SMW, the existing flexible arrangement of reviewing the SMW rate at least once in every two years should be maintained. As a matter of fact, the existing legislation allows the review of the SMW rate to be conducted within a shorter period as and when necessary.

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