

**LEGISLATIVE COUNCIL BRIEF**

Minimum Wage Ordinance  
(Chapter 608)

Employment Ordinance  
(Chapter 57)

**MINIMUM WAGE ORDINANCE  
(AMENDMENT OF SCHEDULE 3) NOTICE 2023**

**EMPLOYMENT ORDINANCE  
(AMENDMENT OF NINTH SCHEDULE) NOTICE 2023**

**INTRODUCTION**

At the meeting of the Executive Council on 10 January 2023, the Council ADVISED and the Chief Executive (CE) ORDERED that –

- (a) the recommendation of the Minimum Wage Commission (MWC) on the revised Statutory Minimum Wage (SMW) rate of \$40.0 per hour should be accepted and the effective date should be set at 1 May 2023; and
- (b) the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2023 (MWO(A) Notice) at Annex A should be made under section 16(1) of the Minimum Wage Ordinance (MWO) to implement the decisions at (a) above.

A

2. Consequential to the implementation of the revised SMW rate, the Commissioner for Labour has made the Employment Ordinance (Amendment of Ninth Schedule) Notice 2023 (EO(A) Notice) at Annex B in accordance with section 49A(6) of the Employment Ordinance (EO).

B

**JUSTIFICATIONS**

**(A) MWO(A) Notice**

3. SMW provides a wage floor to protect grassroots employees against

excessively low wages and to minimise the loss of low-paid jobs, without unduly jeopardising our labour market flexibility, economic growth and competitiveness. Under section 16(1) of MWO, CE in Council may, by notice published in the Gazette, amend Schedule 3 to specify the SMW rate with its effective date. The statutory MWC is chaired by a non-official, comprising three members each from the labour sector, the business sector, the academia and the Government. According to section 14(1) of MWO, CE must require that a report by MWC of its recommendation on the SMW rate be made to CE in Council at least once in every two years. The current SMW rate at \$37.5 per hour as specified in Schedule 3 to MWO has been in effect since 1 May 2019.

C 4. On 31 October 2022, the Chairperson of MWC submitted the MWC report to CE in Council upon completing a comprehensive review of the SMW rate. The report is at Annex C. Members of MWC unanimously recommended that the current SMW rate of \$37.5 per hour be adjusted to \$40.0 per hour, i.e. an increase of \$2.5 or 6.7%.

5. MWC recognised SMW's profound and far-reaching impacts on employees, enterprises, labour market and the economy as a whole. Upholding the evidence-based approach, MWC deliberated on the SMW rate in an objective and balanced manner. MWC conducted analyses of relevant data and information of various sources, including the data collected from the Annual Earnings and Hours Survey and the Annual Survey of Economic Activities by the Census and Statistics Department as well as other relevant data covered by the Array of Indicators<sup>1</sup>, to monitor Hong Kong's socio-economic and employment conditions. MWC took full account of the views of various sectors (in particular the low-paying sectors (LPS)<sup>2</sup>) and small and medium enterprises on the review of the SMW rate. MWC also considered relevant factors (e.g. enhancement of employees' quality of life, impact on social harmony, etc.) which could not be fully quantified, and conducted impact assessment of various SMW test levels under different economic scenario assumptions.

6. During the current review, MWC noted that Hong Kong's economic

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

<sup>2</sup> 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. Adopting the above definition, LPS as identified by the current term of MWC included: (i) retail trade; (ii) food and beverage services; (iii) estate management, security and cleaning services; 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).

conditions experienced huge fluctuations. Specifically, the Hong Kong economy, having recovered visibly in 2021 from the earlier deep recession, saw a marked deterioration in the first quarter of 2022 due to the slower global demand growth and the fifth wave of the local COVID-19 epidemic (the epidemic). The economy then improved in the second quarter, but the extent of improvement was weaker than expected, still declining by 1.3% on a year-on-year comparison<sup>3</sup>. The labour market improved continuously through 2021 from the austere situation in the beginning months of the year, but came under pressure again in early 2022. The labour market then improved subsequently along with the revival of domestic economic activities, with the seasonally adjusted unemployment rate falling to 4.1% in June to August of 2022<sup>4</sup>. As for consumer prices, inflation was on a general uptrend from its low level in early 2021, but remained moderate in overall terms. Both the underlying Composite Consumer Price Index (CPI) inflation and the underlying CPI(A) inflation were at 1.7% for the first eight months of 2022 combined<sup>5</sup>.

7. With the markedly deteriorating global economic outlook, tightened financial conditions, evolving pandemic situation and geopolitical risks, MWC reckoned that the Hong Kong economy would face significant challenges in the short to medium term. Meanwhile, Hong Kong's overall inflation should remain moderate in the short term.

8. In conducting this review, MWC extensively gauged the community's views on the SMW rate through public consultation and consultation meetings. In summary, the business sector generally considered that, amid the uncertain economic outlook of Hong Kong, an SMW uprating would push up the operating costs and trigger a knock-on effect on pay hierarchies, which might cause enterprises to lay off employees or even cease business. Most employers suggested maintaining the current SMW rate, whereas some considered a slight increase acceptable. On the other hand, the labour sector generally considered that grassroots employees were faced with increasing cost of living, and the SMW rate should be adjusted upwards at least to catch up with inflation. Some also suggested that the wage level of grassroots employees should increase in tandem with the overall salary of employees.

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<sup>3</sup> The latest statistics showed that the Hong Kong economy contracted by 4.5% year-on-year or 2.6% on a seasonally adjusted quarter-to-quarter comparison in the third quarter of 2022.

<sup>4</sup> The latest statistics showed that the seasonally adjusted unemployment rate fell further to 3.7% in September to November 2022.

<sup>5</sup> The latest statistics showed that the underlying Composite CPI inflation and the underlying CPI(A) inflation stayed moderate at 1.7% and 1.8% respectively in November 2022. Both the underlying Composite CPI inflation and the underlying CPI(A) inflation were 1.7% for the first eleven months of 2022 combined.

9. MWC considered that one of the major objectives of SMW was to forestall excessively low wages, and therefore the purchasing power of low-paid employees (especially those grassroots employees earning just the SMW rate) should be maintained as far as possible. Although the level of economic activities was yet to recover to the pre-recession level, it should revive further as long as the epidemic situation was under control.

10. According to the crude estimation results from the impact assessment conducted by MWC, the recommended uprating of SMW to \$40.0 per hour would benefit some low-paid employees, while its impacts on the costs of enterprises, unemployment and inflation would be relatively contained on the whole. For details, please refer to the economic implications in Annex D.

D

11. The Government has carefully considered the report of MWC and is of the view that MWC has ably discharged its statutory function of reviewing the SMW rate after thorough and balanced deliberation. The recommended SMW rate of \$40.0 per hour forestalls excessively low wages. The relatively contained impacts on enterprises and unemployment as assessed by MWC also meet the objectives of minimising the loss of low-paid jobs and sustaining Hong Kong's economic growth and competitiveness. The analyses of MWC show that the recommended SMW rate strikes an appropriate balance between the interests of employees and the affordability of employers. CE in Council has accepted and adopted MWC's recommended rate of \$40.0 per hour as the revised SMW rate.

12. The Government proposes that the revised SMW rate should take effect on 1 May 2023, with reference to past review exercises. Counting from the gazettal of the new rate on 13 January 2023 (see paragraph 17 below), this will allow sufficient time for completing the legislative process (which may take up to around 49 days) and for employers and various sectors of the community to prepare for the SMW uprating. Prior to implementation, the Labour Department (LD) will launch territory-wide promotional activities to enhance public awareness of the new SMW rate.

13. MWO(A) Notice amends Schedule 3 to MWO to increase the SMW rate from \$37.5 per hour to \$40.0 per hour with effect from 1 May 2023.

#### **(B) EO(A) Notice**

14. Under EO, an employer is obliged to record the total number of hours worked by an employee in a wage period if that employee is an employee within the meaning of MWO. The employer is exempted from this requirement if the wages payable to the employee in a wage period are not less than the monthly

monetary cap as set out in the Ninth Schedule to EO (the monthly monetary cap), or a proportionate amount when the wage period is not a month. This serves the dual purposes of enforcing MWO on the one hand and minimising the administrative burden of employers on the other.

15. The present monthly monetary cap is set at \$15,300, based on the current SMW rate of \$37.5 per hour. In accordance with the established practice, when the revised SMW rate of \$40.0 per hour is implemented on 1 May 2023, the monthly monetary cap will be increased to \$16,300 after rounding, in proportion to the percentage increase (i.e. 6.7%) of the SMW rate adjustment. To synchronise with the commencement of the revised SMW rate, the revised monthly monetary cap will come into force on the same day, i.e. 1 May 2023.

16. To bring about the above effect, EO(A) Notice amends the Ninth Schedule to EO to revise the monthly monetary cap on recording hours worked to \$16,300, and will come into force on the same day on which the new SMW rate comes into effect, i.e. 1 May 2023.

**LEGISLATIVE TIMETABLE**

17. The legislative timetable is as follows–

Publication in the Gazette	13 January 2023
Tabling at the Legislative Council	18 January 2023

**IMPLICATIONS OF THE PROPOSALS**

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

D

**PUBLIC CONSULTATION**

19. MWC, in accordance with its statutory function, conducted extensive and in-depth consultation to gauge the community’s views on the review of the SMW rate, including convening consultation meetings with stakeholders and launching a six-week public consultation. MWC met with 213 stakeholders in the consultation meetings and received 407 written submissions through the public consultation. As regards the consequential amendment on the monthly monetary cap, as it is based on the same proportion of adjustment as the revised SMW rate of \$40.0 per hour, no separate public consultation is required.

## **PUBLICITY**

C 20. The report of MWC (at Annex C) is going to be uploaded to the website of MWC and a press release is going to be issued on 10 January 2023.

## **ENQUIRIES**

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

Labour and Welfare Bureau  
Labour Department  
January 2023

**Minimum Wage Ordinance (Amendment of Schedule 3)  
Notice 2023**

(Made by the Chief Executive in Council under section 16(1) of the  
Minimum Wage Ordinance (Cap. 608))

**1. Commencement**

This Notice comes into operation on 1 May 2023.

**2. Minimum Wage Ordinance amended**

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

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

At the end of Schedule 3—

**Add**

“\$40                    1 May 2023”.

Clerk to the Executive Council

COUNCIL CHAMBER

2023

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**Explanatory Note**

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

2. This Notice amends the Schedule to increase the minimum hourly  
wage rate from \$37.5 to \$40, with effect from 1 May 2023.

**Employment Ordinance (Amendment of Ninth  
Schedule) Notice 2023**

(Made by the Commissioner for Labour under section 49A(6) of the  
Employment Ordinance (Cap. 57))

**1. Commencement**

This Notice comes into operation on the day on which the Minimum  
Wage Ordinance (Amendment of Schedule 3) Notice 2023 comes  
into operation.

**2. Employment Ordinance amended**

The Employment Ordinance (Cap. 57) is amended as set out in  
section 3.

**3. Ninth Schedule amended (monetary cap on keeping records of  
hours worked)**

Ninth Schedule—

**Repeal**

“\$15,300”

**Substitute**

“\$16,300”.

Commissioner for Labour

2023

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### Explanatory Note

Section 49A of the Employment Ordinance (Cap. 57) (*Employment Ordinance*) requires an employer to record the total number of hours worked by an employee in a wage period if—

- (a) the employee is an employee within the meaning of the Minimum Wage Ordinance (Cap. 608); and
- (b) the wages payable to the employee for the wage period are less than the monetary cap specified in the Ninth Schedule to the Employment Ordinance (or a proportionate amount if the wage period is not a month).

2. As the Minimum Wage Ordinance (Amendment of Schedule 3) Notice 2023 increases the minimum hourly wage rate from \$37.5 to \$40, this Notice amends the Ninth Schedule to the Employment Ordinance to increase the monetary cap from \$15,300 per month to \$16,300 per month.

# **2022 Report of the Minimum Wage Commission**



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## **Chairperson's Foreword**

- 1 Implemented since 1 May 2011, the Statutory Minimum Wage (SMW) aims to provide statutory wage protection for grassroots employees. Since the last review of the SMW rate in October 2020, it has been far from plain sailing for the Hong Kong economy. Having visibly recovered in 2021, the Hong Kong economy saw a marked deterioration in the first quarter of 2022 due to slower global demand growth and the fifth wave of the local COVID-19 epidemic. While the economy improved somewhat in the second quarter, the extent of improvement was weaker than expected. At the time of preparing this Report, real Gross Domestic Product had yet to recover to its pre-recession level, and the seasonally adjusted unemployment rate was still higher than its pre-recession low.
- 2 In the short term, the Hong Kong economy faces significant challenges from the markedly deteriorating global economic outlook, tightened financial conditions, evolving pandemic situation and geopolitical risks. Meanwhile, overall inflation is expected to remain moderate in the short term. Against this extraordinary backdrop, this round of the biennial review of the SMW rate is uniquely challenging.
- 3 The Minimum Wage Commission (MWC) fully appreciates its important mission of making recommendation to the Chief Executive (CE) in Council on the SMW rate in accordance with the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong). In undertaking its statutory function, the MWC consistently upholds the evidence-based approach and has examined a wide scope of data and information to keep abreast of Hong Kong's latest economic and labour market situations. It has also taken into account other considerations that could not be fully quantified, as well as impact assessment results.
- 4 Furthermore, the MWC again attached great importance to the views of the community on the review of the SMW rate. The MWC launched a six-week public consultation and convened consultation meetings to listen to the views of the public and stakeholders, especially those of low-paying sectors. On behalf of the MWC, I would like to express my heartfelt gratitude to the public and all stakeholders for their active participation in the consultation activities and valuable views.



- 5 My sincere gratitude must go to all Members with whom I have been working closely - for their professionalism, devotion as well as valuable contributions and untiring support to the MWC. Throughout the process of deliberating on the SMW rate, all MWC Members, regardless of whether they are from the labour sector, business sector, academia or Government, shared a strong consensus that the overall interest of the Hong Kong society must be put at the forefront. Their rational and objective discussions were the foundation for achieving the recommended SMW rate.
- 6 This is the third recommendation report on the review of the SMW rate under my Chairmanship of the MWC. The SMW rate recommended in this Report is the consensus of the MWC. The MWC considers that the recommended SMW rate can maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to sustaining Hong Kong's economic growth and competitiveness. I am pleased to submit to the CE in Council this *2022 Report of the Minimum Wage Commission*.



Priscilla WONG Pui-sze

October 2022

## **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 to, when required by the Chief Executive (CE) to do so, make recommendation on the Statutory Minimum Wage (SMW) rate to CE in Council. In performing the function, MWC needs to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and give due regard to sustaining Hong Kong's economic growth and competitiveness.

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

- II To discharge the statutory function, MWC adopted an evidence-based approach in reviewing the SMW rate. MWC regularly monitored the Array of Indicators (AoIs), listened to the community's views on the review of the SMW rate, and considered other factors which were pertinent to the review of the SMW rate but could not be fully quantified. In addition, MWC made reference to the impact assessment results of various SMW test levels (test levels) under different economic scenario assumptions.
- III Drawing on the experience of the past five 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. To ensure objective and impartial discussions among MWC members without external influence, members unanimously agreed to keep the deliberations and discussions confidential. Nonetheless, MWC disseminated the latest news and information on the MWC webpage from time to time and met with the media to report its work progress to the public. When conducting the public consultation, MWC also uploaded the relevant reference data and information onto its webpage for reference of the public and stakeholders to facilitate the community to provide MWC with their views on the review of the SMW rate.

### **Chapter 3: The Socio-economic Conditions in Recent Years**

- IV Hong Kong's socio-economic conditions experienced huge fluctuations in recent years. After recovered visibly in 2021 from the earlier deep recession, the Hong Kong economy saw a marked deterioration in the first quarter of 2022 due to slower global demand growth and the fifth wave of the local COVID-19 epidemic. The economy then improved in the second quarter, but the extent of improvement was weaker than expected. The labour market improved continuously through 2021 from the austere situation in the early part of the year, but it was under severe pressure again in early 2022, and subsequently improved along with the revival of domestic economic activities. As for consumer prices, inflation was on a general uptrend from its low level since early 2021, but remained moderate in overall terms.
- V The impacts of SMW on Hong Kong's socio-economic conditions hinge, to a large extent, on the prevailing macroeconomic environment. In the short term, the Hong Kong economy faces significant challenges from the markedly deteriorating global economic outlook, tightened financial conditions, evolving pandemic situation and geopolitical risks. Against this background, the impacts of the SMW rate adjustment on employees and enterprises warrant particular attention.

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

- VI MWC, adopting an evidence-based approach in reviewing the SMW rate, mainly analysed and considered four areas including AoIs, views from members of the public and stakeholders, other relevant considerations, and impact assessment. AoIs covered four areas including general economic conditions, labour market conditions, competitiveness, and social inclusion. These data facilitated MWC to monitor the socio-economic and employment conditions of Hong Kong.
- VII MWC conducted extensive and in-depth consultation to listen to the community's views on the review of the SMW rate, including convening focused consultation meetings with stakeholders of the low-paying sectors (LPS) to gain a deeper understanding of the impact of the implementation of SMW on LPS; and launching public consultation as well as conducting consultation with stakeholders via videoconference to gauge the views of the public. These views facilitated MWC to understand the impacts of SMW on the Hong

Kong economy, society, employment conditions, various sectors (in particular LPS) and small and medium enterprises in a more comprehensive manner. These provided MWC with important references for formulating the impact assessment framework for the review of the SMW rate.

- VIII MWC also took into account other relevant considerations that could not be fully quantified, including the enhancement of employees' quality of life, enhancement of work incentive, impact on workers with relatively lower bargaining power and less work experience, impact on wage differentials across sectors or positions, preservation of the market's capacity to adjust, impact on social harmony, additional costs induced by wage increase, impact on quality of products and services, and long-term impacts in various aspects.
- IX MWC recognised that SMW has profound and far-reaching impacts on employees, enterprises, labour market and the economy as a whole. To conduct the impact assessment, MWC set the test levels from an hourly wage of \$36.5 to \$44.0 at \$0.5 per interval, i.e. 16 simulated situations in total, to estimate the possible impacts on employees, enterprises, unemployment rate and inflation.
- X When reviewing the SMW rate, MWC must take into account various factors as mentioned above so as to arrive at the recommended SMW rate.

## **Chapter 5: Impact Assessment Results**

- XI When conducting the impact assessment, MWC estimated the possible impacts on employees, enterprises, unemployment rate and inflation under the 16 test levels. Considering the time gap between the review of the SMW rate and the implementation of the recommended rate, when conducting the impact assessment, MWC made four different economic scenario assumptions for the first half of 2023, so as to make forward-looking estimations of the economic situation at that time as far as possible. The impact assessment results were meant to assist MWC in understanding the impact of adjusting the SMW rate to various test levels under different economic scenarios.

## **Chapter 6: Recommendation**

- XII Based on the evidence-based analyses and assessment, MWC gave thorough consideration to the possible impacts of the recommended rate on various aspects and the community's

views on the review of the SMW rate so as to take into account and balance different factors of consideration. Upon iterative deliberations together with in-depth and rational discussions, MWC recommended raising the SMW rate to \$40.0 per hour, i.e. an increase by \$2.5 or 6.7%.

- XIII MWC considered that raising the SMW rate to \$40.0 per hour could maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and give due regard to sustaining Hong Kong's economic growth and competitiveness. The recommended SMW rate, being the consensus of MWC, was considered to be conducive to the overall interest and development of Hong Kong.

## **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, make recommendation on the SMW rate to CE in Council. MWO stipulates that in performing its function, MWC must have regard to:

- (i) maintaining an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs; and
- (ii) sustaining Hong Kong's economic growth and competitiveness.

1.3 The past five terms (i.e. 2011-13, 2013-15, 2015-17, 2017-19 and 2019-21) of MWC adopted an evidence-based approach in reviewing the SMW rate. After conducting extensive consultation and considering the community's views, as well as performing prudent and objective analyses and undergoing iterative discussions, MWC submitted to CE in Council in October 2012, October 2014, October 2016, October 2018 and October 2020 respectively its recommendations on the SMW rate which were subsequently endorsed by CE in Council. After the relevant subsidiary legislation was passed by the Legislative Council, the hourly SMW rate was updated 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. The prevailing SMW rate is \$37.5 per hour.

### **1.II Composition and Membership List**

1.4 Established pursuant to Part 3 of MWO, MWC, comprising three members each from the labour sector, business sector, academia and Government, is tasked to make recommendation on the SMW rate. The Chairperson and the nine non-official members are appointed by CE on an ad personam basis. The two-year tenure of the current term (2021-23) of MWC started from 1 March 2021. The Labour Department and the Office

of the Government Economist of the Financial Secretary's Office provide secretariat support for MWC.

1.5 The membership of the current term of MWC is as follows:



<b>Chairperson</b>	Ms Priscilla WONG Pui-sze, S.B.S., J.P. (front row: middle)
<b>Non-official Members<sup>(*)</sup></b>	Mr CHAN Wing-on, J.P. (back row: 3 <sup>rd</sup> from left)
	Mr LAU Chin-shek, J.P. (front row: 2 <sup>nd</sup> from right)
	Ms Juan LEUNG Chung-yan, M.H. (back row: 4 <sup>th</sup> from left)
	Professor Joyce MA Lai-chong, J.P. (back row: 2 <sup>nd</sup> from left)
	Dr Billy MAK Sui-choi (back row: 3 <sup>rd</sup> from right)
	Ms NG Wai-yee, M.H., J.P. (back row: 1 <sup>st</sup> from right)
	Ms Malina NGAI Man-lin, J.P. (back row: middle)

	Mrs Katherine NGAN NG Yu-ying, M.H., J.P. (front row: 2 <sup>nd</sup> from left)
	Professor TANG Hei-wai (back row: 4 <sup>th</sup> from right)
<b>Official Members</b>	Permanent Secretary for Labour and Welfare Ms CHANG King-yiu, J.P. <i>(up to 25 July 2021)</i> Ms Alice LAU Yim, J.P. (front row: 1 <sup>st</sup> from right) <i>(from 26 July 2021)</i>
	Permanent Secretary for Commerce and Economic Development Ms Eliza LEE Man-ching, J.P. (front row: 1 <sup>st</sup> from left)
	Government Economist Mr Andrew AU Sik-hung, J.P. <i>(up to 18 April 2022)</i> Mr Adolph LEUNG Wing-sing, J.P. (back row: 2 <sup>nd</sup> from right) <i>(from 19 April 2022)</i>
<b>Secretary</b>	Chief Labour Officer (Statutory Minimum Wage) Ms Betty NG Shuk-fong (back row: 1 <sup>st</sup> from left)

(\*) 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 Pursuant 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 make recommendation on the amount of the prescribed minimum hourly wage rate (the Statutory Minimum Wage (SMW) rate) to CE in Council. In accordance with MWO, CE has required MWC to submit the recommendation report on the SMW rate on or before 31 October 2022.

2.2 MWO stipulates that in performing its function, MWC needs to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and give due regard to sustaining Hong Kong's economic growth and competitiveness. To discharge the statutory function, when reviewing the SMW rate, MWC not only made reference to the data and information of various aspects, but also listened to the community's views on the review of the SMW rate 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, economy, labour market and inflation, etc., while the community also has various views and concerns about the SMW rate. MWC deliberated on the SMW rate in an objective and balanced manner, and adopted an evidence-based approach and analysed various data and information related to Hong Kong's socio-economic and employment conditions, including the data collected from the Annual Earnings and Hours Survey (AEHS) and the Annual Survey of Economic Activities (ASEA) by the Census and Statistics Department (C&SD), and a large amount of other relevant data covered by the Array of Indicators (AoIs) which were released more frequently and were more up-to-date (see paragraphs 2.9 to 2.12). In addition, MWC examined the data, views and information provided by the public and stakeholders. After making reference to the aforementioned data and information, MWC conducted impact assessment for various SMW test levels (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 the public and stakeholders abreast of its work. The latest news and information, including press releases, were disseminated on the MWC webpage ([www.mwc.org.hk](http://www.mwc.org.hk)) from time to time. MWC also met with the media to report its work progress to the public. When conducting the public consultation, MWC uploaded the relevant reference data and information onto its webpage for reference of the public and stakeholders to facilitate the community 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 members. This could also avoid misunderstanding by the public and stakeholders about the work of MWC arising from incomplete information.

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

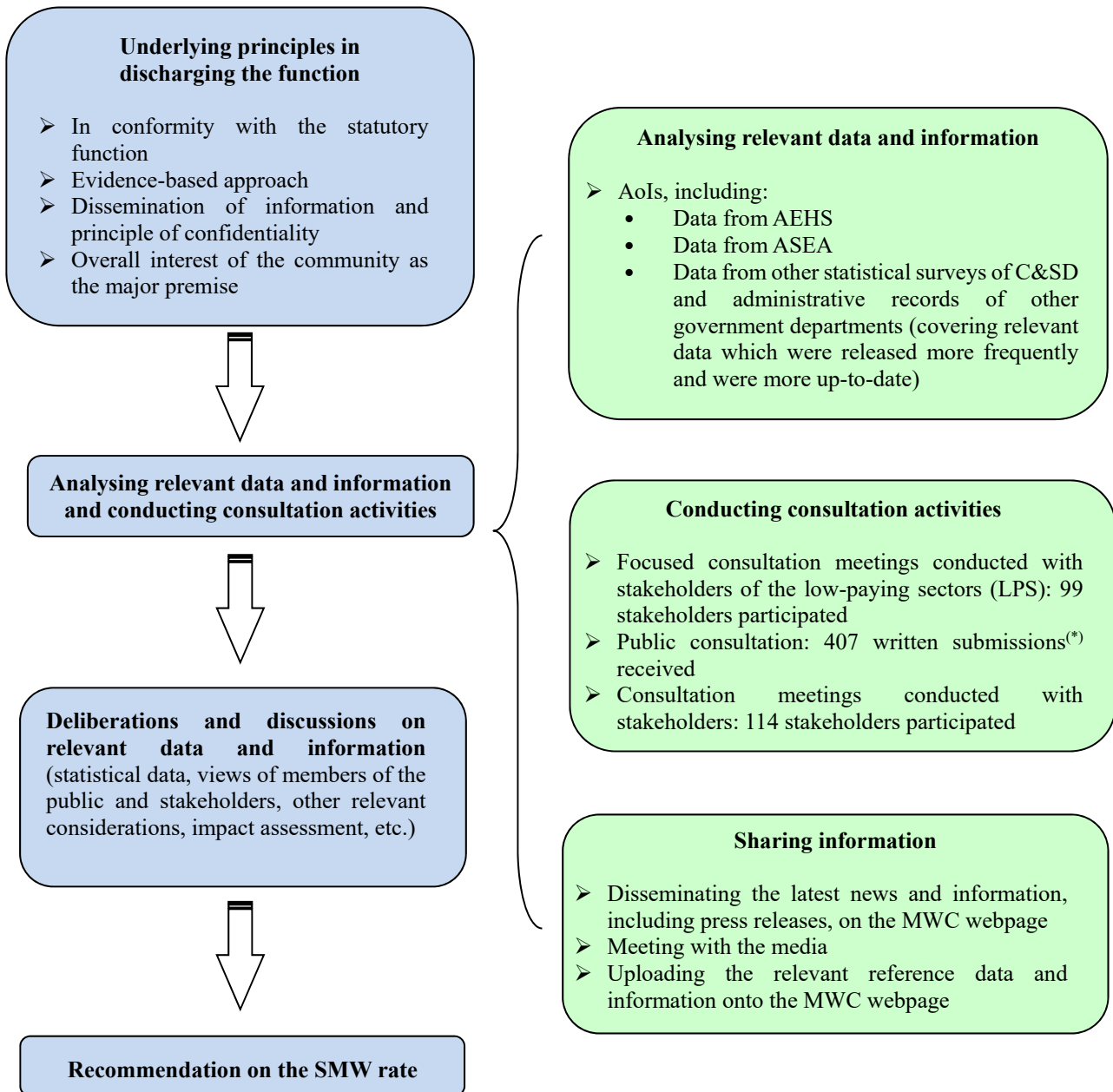
2.6 Drawing on the experience of the past five terms of MWC in reviewing the SMW rate, MWC agreed to recommend an appropriate SMW rate by taking the overall interest of the community as the major premise and through rational and objective discussions.

## 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 MWC in reviewing the SMW rate**



Note: (\*) One of the submissions attached 919 signed letters with identical content.

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

**Table 2.1: Major activities and work of MWC**

Date	Events	Details
<b>Year 2021</b>		
30 March	MWC meeting	<ul style="list-style-type: none"> <li>Convened the first meeting of MWC (2021-23).</li> <li>Received the major results of the 2020 AEHS and the 2019 ASEA, and agreed on the housekeeping arrangements of MWC.</li> </ul>
15 June	MWC meeting	<ul style="list-style-type: none"> <li>Convened the second meeting.</li> <li>Discussed MWC's work plan for 2021, and reviewed AoIs to be considered in monitoring Hong Kong's socio-economic and employment conditions, and examined the latest conditions of the various indicators.</li> </ul>
27 and 29 September	Consultation activities	<ul style="list-style-type: none"> <li>Conducted focused consultation meetings with stakeholders of LPS (see paragraph 2.15).</li> </ul>
5 October	Dissemination of information	<ul style="list-style-type: none"> <li>Uploaded onto the MWC webpage the list of stakeholders that attended the focused consultation meetings with LPS held in September 2021.</li> </ul>
2 December	Dissemination of information	<ul style="list-style-type: none"> <li>Met and shared with the media the work of MWC.</li> </ul>
	MWC meeting	<ul style="list-style-type: none"> <li>Convened the third meeting.</li> <li>Examined Hong Kong's latest socio-economic and employment conditions, and discussed the impact assessment framework to be adopted when reviewing the SMW rate as well as the views collected at the focused consultation meetings with stakeholders of LPS held in September 2021.</li> </ul>
<b>Year 2022</b>		
21 March	MWC meeting	<ul style="list-style-type: none"> <li>Convened the fourth meeting.</li> <li>Received the major results of the 2021 AEHS and the 2020 ASEA, examined Hong Kong's latest socio-economic and employment conditions, discussed the major assumptions to be adopted for the impact assessment, and agreed on MWC's work plan for 2022 and the consultation arrangements for the review of the SMW rate.</li> </ul>
13 April	Dissemination of information	<ul style="list-style-type: none"> <li>Issued a press release to announce that CE had, in accordance with MWO, required MWC to submit the recommendation report on the SMW rate to CE in Council on or before 31 October 2022.</li> </ul>
20 April	Dissemination of information	<ul style="list-style-type: none"> <li>Uploaded onto the MWC webpage the relevant reference data and information.</li> <li>Issued a press release to announce that MWC launched a six-week public consultation from 20 April 2022 and invited views from the community on the review of the SMW rate.</li> </ul>
20 April to 31 May	Consultation activities	<ul style="list-style-type: none"> <li>Conducted public consultation on the review of the SMW rate (see paragraphs 2.16 to 2.19).</li> </ul>
18 May	Dissemination of information	<ul style="list-style-type: none"> <li>Issued 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.</li> </ul>
1 June	Dissemination of information	<ul style="list-style-type: none"> <li>Reported on the public consultation work undertaken by MWC in conducting the review of the SMW rate.</li> </ul>
13, 15, 22 and 23 June	Consultation activities and MWC discussions	<ul style="list-style-type: none"> <li>Conducted consultation meetings with stakeholders via videoconference (see paragraphs 2.20 to 2.22), examined Hong Kong's latest socio-economic and employment conditions, and discussed the major considerations in the review of the SMW rate and major assumptions for adoption in the impact assessment.</li> </ul>

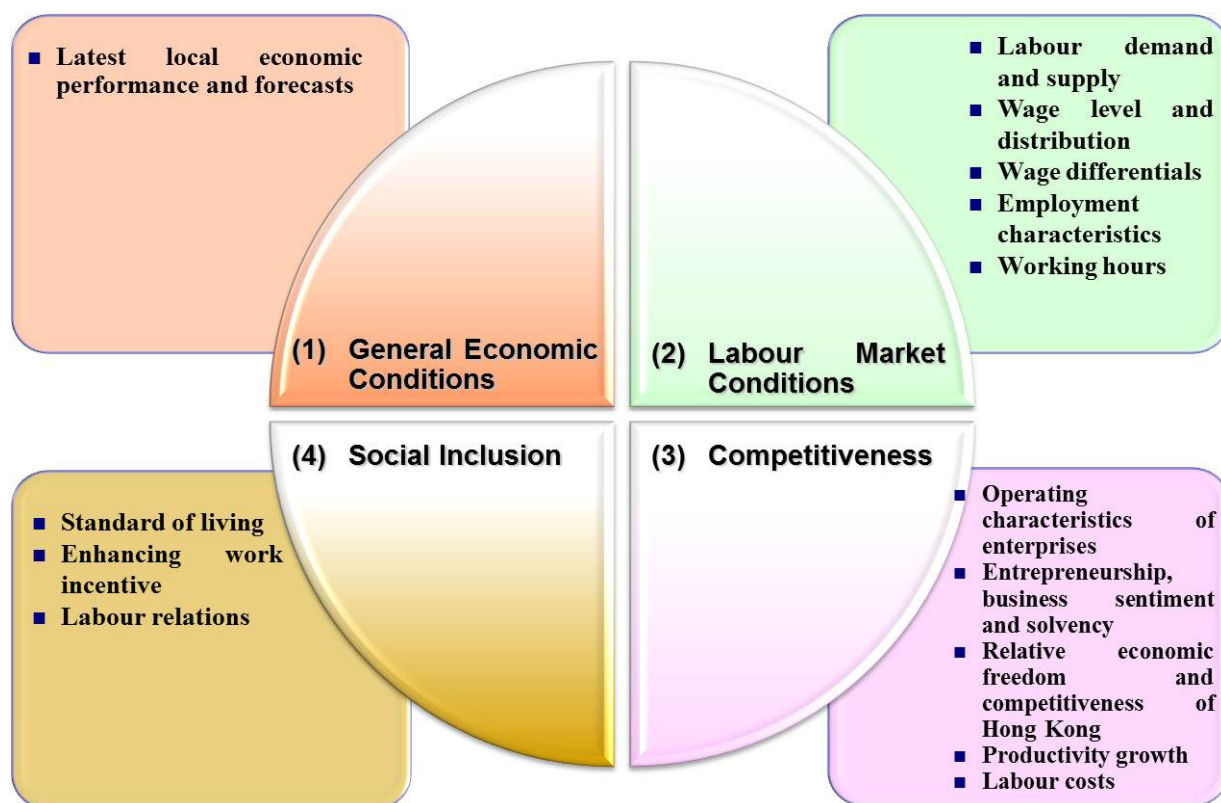
Date	Events	Details
30 June	Dissemination of information	<ul style="list-style-type: none"> <li>Uploaded onto the MWC webpage the list of stakeholders that attended the consultation meetings via videoconference held in June 2022.</li> </ul>
25 August	MWC meeting	<ul style="list-style-type: none"> <li>Convened the fifth meeting.</li> <li>Examined Hong Kong's latest socio-economic and employment conditions, discussed the views collected during the public consultation and the consultation meetings with stakeholders via videoconference, as well as the impact assessment results.</li> </ul>
31 August	MWC meeting	<ul style="list-style-type: none"> <li>Convened the sixth meeting.</li> <li>Deliberated on the SMW rate for making recommendation to CE in Council.</li> </ul>
7 September	MWC meeting	<ul style="list-style-type: none"> <li>Convened the seventh meeting.</li> <li>Deliberated on the SMW rate for making recommendation to CE in Council.</li> </ul>
5 October	MWC meeting	<ul style="list-style-type: none"> <li>Convened the eighth meeting.</li> <li>Reviewed the draft recommendation report for submission to CE in Council.</li> </ul>

## 2.II.2 Relevant data and information

2.9 Drawing reference from the experience of the past five 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 if it was feasible and appropriate to add more indicators. Upon review, MWC considered that it should continue to adopt AoIs in Figure 2.2, which covered the data on general economic conditions, labour market conditions, competitiveness and social inclusion. The relevant indicators covered the essential considerations that MWC must take into account in discharging the statutory function, thereby providing important information for MWC's work on the review. AoIs and their data sources are listed in **Appendix I**.

Figure 2.2: Summary of AoIs considered by MWC



2.11 AoIs included the 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 detailed 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 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 the operating conditions of different sectors.

2.12 To closely monitor the latest development of the socio-economic and employment conditions, MWC made reference to a large amount of other relevant data which were released more frequently and were more up-to-date, in addition to the annual data collected from AEHS and ASEA. These data mainly came from other statistical surveys of 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 the Quarterly Survey of Employment and Vacancies which were released quarterly) and administrative records of other government departments (such as the Inland Revenue Department and the

Official Receiver's Office).

- 2.13 MWC 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 provide their views on the review of the SMW rate.

### **2.II.3 Consultation activities**

- 2.14 Apart from making reference to statistical data and other relevant information, MWC also listened to the community's views on the review of the SMW rate. To solicit views, MWC conducted focused consultation meetings with stakeholders of LPS<sup>(1)</sup> in September 2021, as well as public consultation from April to May 2022 and consultation meetings with stakeholders via videoconference in June 2022 (see Section 4.II of Chapter 4).

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

- 2.15 MWC conducted four sessions of focused consultation meetings with stakeholders of LPS including labour organisations, employers' associations/professional institutes and employers on 27 and 29 September 2021 to get an in-depth understanding on the impact of the implementation of SMW on LPS. Among the 447 stakeholders invited (including the stakeholders of LPS which had been invited by MWC to attend previous consultation meetings, those which had expressed views on the SMW rate and related issues, or those which had requested meetings with MWC, and other stakeholders), 99<sup>(2)</sup> of them participated in the meetings. The list is in **Appendix II**.

#### **(b) Public consultation**

- 2.16 MWC launched a six-week public consultation from 20 April to 31 May 2022 to invite the public and stakeholders to provide their views on the review of the SMW rate to MWC.

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(1) MWC defined LPS as sectors employing a relatively large number of low-paid employees (i.e. employees with hourly wage rates below the 10<sup>th</sup> percentile of the overall distribution) or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. LPS as identified by the current term of MWC included: (i) retail trade; (ii) food and beverage services; (iii) estate management, security and cleaning services; 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).

(2) Including 40 stakeholders of estate management, security and cleaning services, 21 stakeholders of food and beverage services, 21 stakeholders of other LPS, and 17 stakeholders of retail trade.

- 2.17 To facilitate the public consultation, the relevant reference data and information were uploaded onto the MWC webpage, including the latest data on AoIs, other relevant considerations relating to the review of the SMW rate, an outline of the impact assessment, and supplementary statistical data<sup>(3)</sup>.
- 2.18 Besides, MWC solicited submissions from members of the public and stakeholders through various media and channels, including providing an electronic form on the MWC webpage to facilitate members of the public and stakeholders to give their views; disseminating messages and providing hyperlinks to the MWC webpage on government webpages (such as GovHK, Labour Department (LD) webpage and Interactive Employment Service webpage), E-newsletter of the Support and Consultation Centre for Small and Medium Enterprises, as well as the mobile applications of newspapers, media and public transport; issuing press releases; broadcasting radio announcements; posting newspaper advertisements; disseminating messages on 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; putting up promotional posters at the Job Centres and the Industry-based Recruitment Centres of LD; and sending appeal letters to about 13 000 incorporated owners, mutual aid committees, owners' committees and other stakeholders.
- 2.19 Through the public consultation, MWC received a total of 407 written submissions<sup>(4)</sup> from the public and organisations from different sectors including labour organisations, employers' associations, small and medium enterprise (SME) associations, associations of LPS, organisations from other sectors, labour policy concern groups, other professional/employers' associations, think tanks/policy research institutes, political parties and residents' organisations.

**(c) Consultation meetings with stakeholders**

- 2.20 MWC on 13, 15, 22 and 23 June 2022 conducted consultation meetings via videoconference with stakeholders including major labour organisations, major employers' associations, SME associations, stakeholders of LPS (including labour organisations, employers' associations/professional institutes and employers), organisations from other

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(3) Supplementary statistical data provided were based on the results of the 2021 AEHS.

(4) One of the submissions attached 919 signed letters with identical content.



sectors, labour policy concern groups, other professional/employers' associations, and think tanks/policy research institutes. MWC conducted a total of 14 sessions of consultation meetings. Among the 515 stakeholders invited (including the stakeholders which had been invited by MWC to attend previous consultation meetings, those which had expressed views on the SMW rate and related issues, or those which had requested meetings with MWC, and other stakeholders), 114<sup>(5)</sup> participated in the meetings. The list is in **Appendix II**.

- 2.21 During the consultation meetings, stakeholders provided valuable views on the impacts of SMW on the society, economy, labour market, SMEs and the concerned sectors, and the factors that MWC should take into account when reviewing the SMW rate.
- 2.22 The consultation activities mentioned above facilitated MWC to understand the impacts of SMW on the Hong Kong economy, society, employment conditions, various sectors (in particular LPS) and SMEs in a more comprehensive manner, and collected the views from the public and stakeholders on the review of the SMW rate. These provided MWC with important references for discharging its function.

#### **2.II.4 Other relevant considerations**

- 2.23 While AoIs identified by MWC covered the data in the four areas of general economic conditions, labour market conditions, competitiveness and social inclusion, not all impacts of SMW could be quantified. 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**

- 2.24 MWC recognised that SMW has profound and far-reaching impacts on employees, enterprises, labour market and the economy as a whole. Drawing reference from the impact assessment framework adopted by the previous terms of MWC, and considering the past experience of SMW rate reviews, conditions of relevant socio-economic indicators, and the views of the public and stakeholders, MWC set various test levels and

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(5) Including two major labour organisations, six major employers' associations, five SME associations, 34 stakeholders from estate management, security and cleaning services sector, 18 stakeholders from retail sector, 17 stakeholders from food and beverage services sector, eight stakeholders from other LPS, 15 organisations from other sectors, five labour policy concern groups, three other professional/employers' associations and one think tank/policy research institute.

different economic scenario assumptions to analyse the possible impacts on employees, enterprises, unemployment rate and inflation for each test level under different economic environments (see Section 4.IV of Chapter 4 and Chapter 5).

### **3 The Socio-economic Conditions in Recent Years**

- 3.1 The Minimum Wage Commission (MWC) is tasked to make recommendation on the Statutory Minimum Wage (SMW) rate to the Chief Executive in Council. Adopting an evidence-based approach, MWC conducted analyses of data and information of various aspects to monitor the socio-economic and employment conditions in Hong Kong after the implementation of SMW. 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 government departments (see Chapter 2).
- 3.2 Through analyses of relevant data, this chapter summarises MWC's observations on Hong Kong's socio-economic conditions in recent years, including the macroeconomic conditions, operating conditions of enterprises, as well as employment, income and other related conditions of employees.

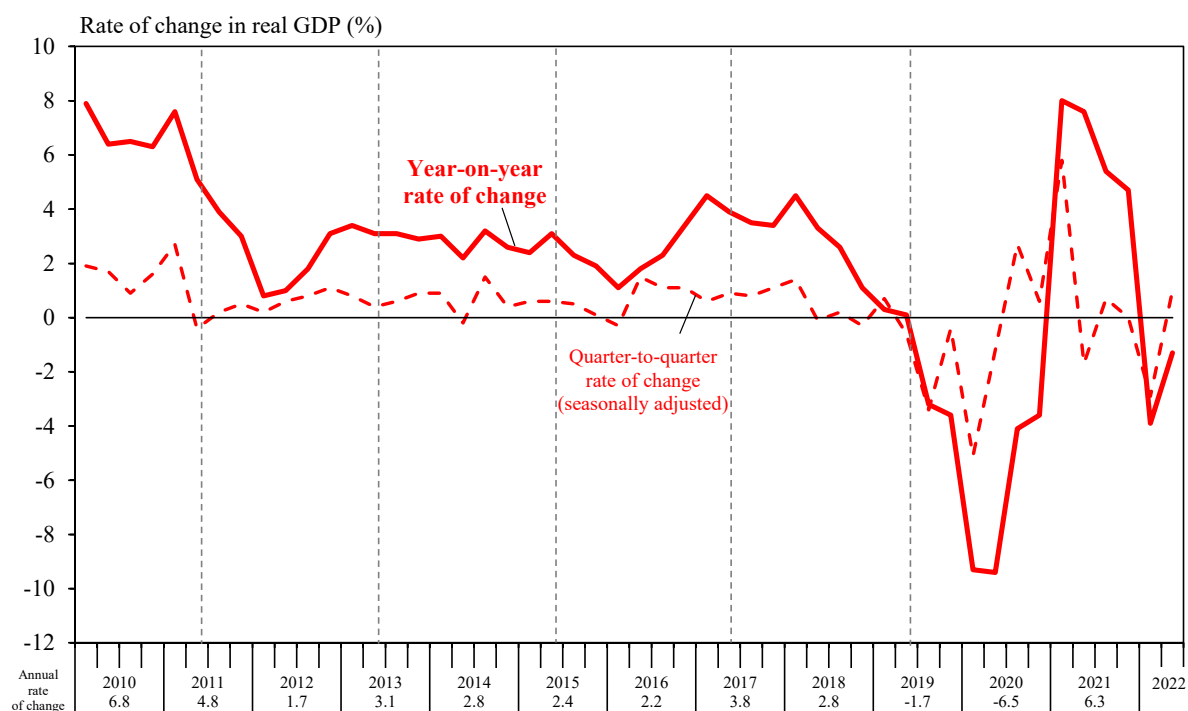
#### **3.1 Macroeconomic Conditions**

- 3.3 MWC recognises that the impacts of SMW on Hong Kong's socio-economic conditions hinge, to a large extent, on the prevailing macroeconomic environment. Favourable macroeconomic environment would help cushion the pressure on corporate profits and employment conditions brought about by the uprating of SMW. On the other hand, if the economy is trending down or even facing a huge shock such that corporate profits are under significant pressure, an uprating of SMW may further jeopardise the operating environment of enterprises and the employment conditions.

**3.I.1 The Hong Kong economy staged a visible recovery in 2021, but saw a marked deterioration in the first quarter of 2022 due to the fifth wave of the local COVID-19 epidemic. It then improved in the second quarter, but the extent of improvement was weaker than expected**

3.4 In 2021, the Hong Kong economy recovered visibly from the earlier deep recession amid a sharp rebound of global demand and receding local COVID-19 epidemic (the epidemic). After contracting by 1.7% and 6.5% in 2019 and 2020 respectively, real Gross Domestic Product (GDP) grew by 6.3% in 2021 (Figure 3.1). In the first quarter of 2022, the Hong Kong economy saw a marked deterioration due to slower global demand growth and the outbreak of the fifth wave of the local epidemic, with real GDP contracting by 3.9% year-on-year. The economy then improved in the second quarter, but the extent of improvement was weaker than expected. Domestic economic activities saw some revival but the momentum softened in the latter part of the quarter. Externally, weakened global demand and continued disruptions to cross-boundary transportation weighed heavily on export performance. Real GDP decreased at a moderated pace of 1.3% from a year earlier in the second quarter, and reverted to an increase of 1.0% on a seasonally adjusted quarter-to-quarter basis. Entering the third quarter, retail sales value resumed year-on-year growth in July, but the value of merchandise exports continued to decline. Hong Kong's short-term economic outlook is subject to a host of factors. Domestically, as long as the epidemic situation is under control, economic activities should revive further. Yet, the tightened financial conditions may pose some constraints on consumption demand, and rising borrowing costs may also make businesses more cautious in undertaking fixed asset investment. On the external sector, the markedly deteriorating external environment will weigh heavily on Hong Kong's export performance. Elevated inflation in advanced economies and the aggressive monetary policy tightening by many major central banks in response will further weaken the global growth momentum. Risk factors including the evolving pandemic and heightened geopolitical tensions also warrant close attention. Nonetheless, the adjustments to the quarantine and testing arrangements for inbound visitors in recent months should help exports of services.

**Figure 3.1: The Hong Kong economy staged a visible recovery in 2021, but saw a marked deterioration in the first quarter of 2022 due to the fifth wave of the local epidemic; it then improved in the second quarter, but the extent of improvement was weaker than expected**



Notes: Figures are subject to revision by C&SD when more data become available.  
The grey vertical dotted lines denote the months when SMW was implemented/ revised.

Source: National Income Statistics, C&SD.

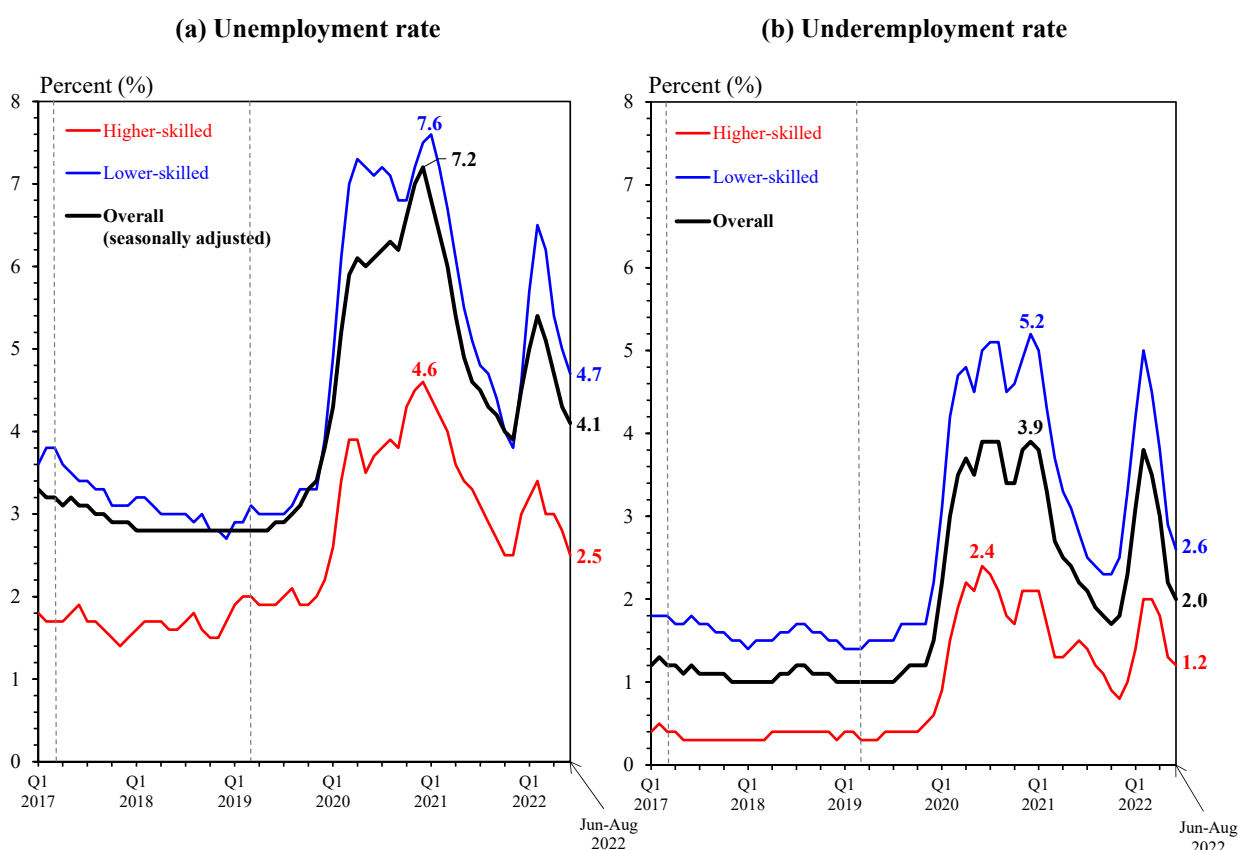
### 3.I.2 The labour market improved continuously through 2021. Despite coming under pressure again in early 2022, it improved subsequently along with the revival of domestic economic activities

3.5 The labour market situation was austere in early 2021<sup>(1)</sup>. The seasonally adjusted unemployment rate rose to 7.2% in December 2020 to February 2021, the highest in 17 years, and the underemployment rate also rose to a high of 3.9% in the same period (Figure 3.2). Nonetheless, the labour market then improved continuously through 2021 along with the visible economic recovery and stabilised local epidemic situation. In the fourth quarter of 2021, the seasonally adjusted unemployment rate fell to 4.0% and the underemployment rate to 1.7%, but both were still higher than the low levels (at 2.8% and 1.0% respectively) in the second quarter of 2019.

(1) This section discusses the overall labour market situation in recent years. As for the labour market situation of the low-paying sectors in recent years, please refer to Section 3.IV.1.

3.6 Entering 2022, the labour market was under pressure again as the fifth wave of the epidemic severely disrupted economic activities. The seasonally adjusted unemployment rate rose visibly to 5.4% in February to April 2022, and the underemployment rate also rose to 3.8%. The labour market then improved along with the revival of domestic economic activities. The unemployment rate (seasonally adjusted) and the underemployment rate fell to 4.7% and 3.0% respectively in the second quarter of 2022, and further to 4.1% and 2.0% respectively in June to August. According to the General Household Survey (GHS), total employment rebounded by 1.6% from the low level in March to May to 3.61 million in June to August 2022, although it was still 2.2% lower than the level a year ago.

**Figure 3.2: The labour market improved continuously through 2021; despite coming under pressure again in early 2022, it improved subsequently along with the revival of domestic economic activities**

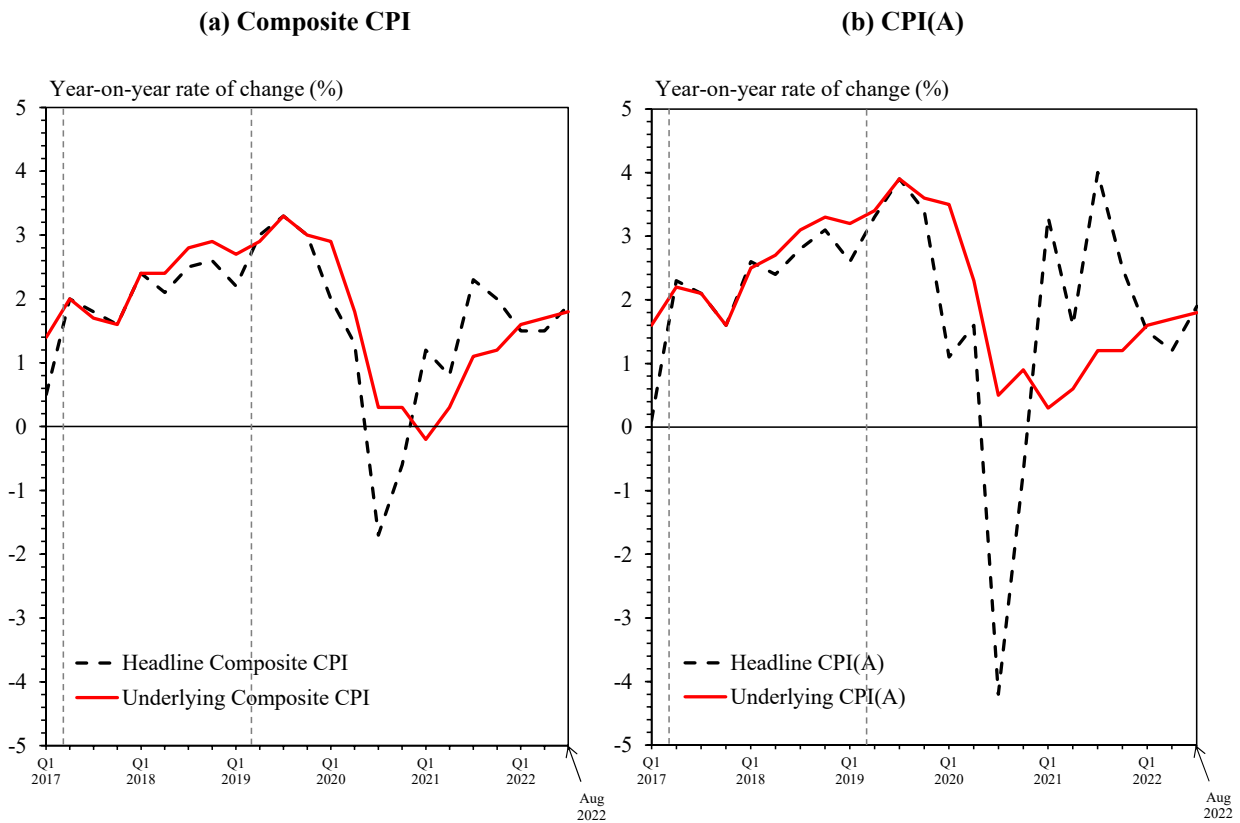


Note: The grey vertical dotted lines denote the months when SMW was revised.  
Source: GHS, C&SD.

### **3.I.3 Inflation was on a general uptrend since early 2021, but remained moderate in overall terms**

3.7 The underlying Composite Consumer Price Index (CPI) inflation went up modestly through 2021 from its low level in the early part of the year alongside the economic recovery and higher import prices, and the uptrend continued after entering 2022 (Figure 3.3). The year-on-year increase in the prices of basic food accelerated visibly in early 2022 due to the epidemic-induced temporary supply disruptions, and remained notable later on despite some deceleration (Figure 3.4). Prices of meals out and takeaway food showed a faster increase in the second quarter amid the revival of business of restaurants, and the increase was broadly steady in July to August. Prices of energy-related items went up sharply in January to August over a year earlier, and those of clothing and footwear also registered notable year-on-year increases. Yet, private housing rentals continued to fall on a year-on-year basis, though the decline gradually narrowed. The increases in the prices of other major components were moderate. In overall terms, the underlying Composite CPI inflation still stayed moderate at 1.7% for the first eight months of 2022 combined; the underlying CPI(A) inflation, which was more relevant to the livelihood of the grassroots, was also at 1.7%. External price pressures are expected to remain notable amid high inflation in some major import sources. Yet, as domestic cost pressures are still mild, overall inflation should remain moderate in the near term.

**Figure 3.3: Inflation was on a general uptrend since early 2021, but remained moderate in overall terms**



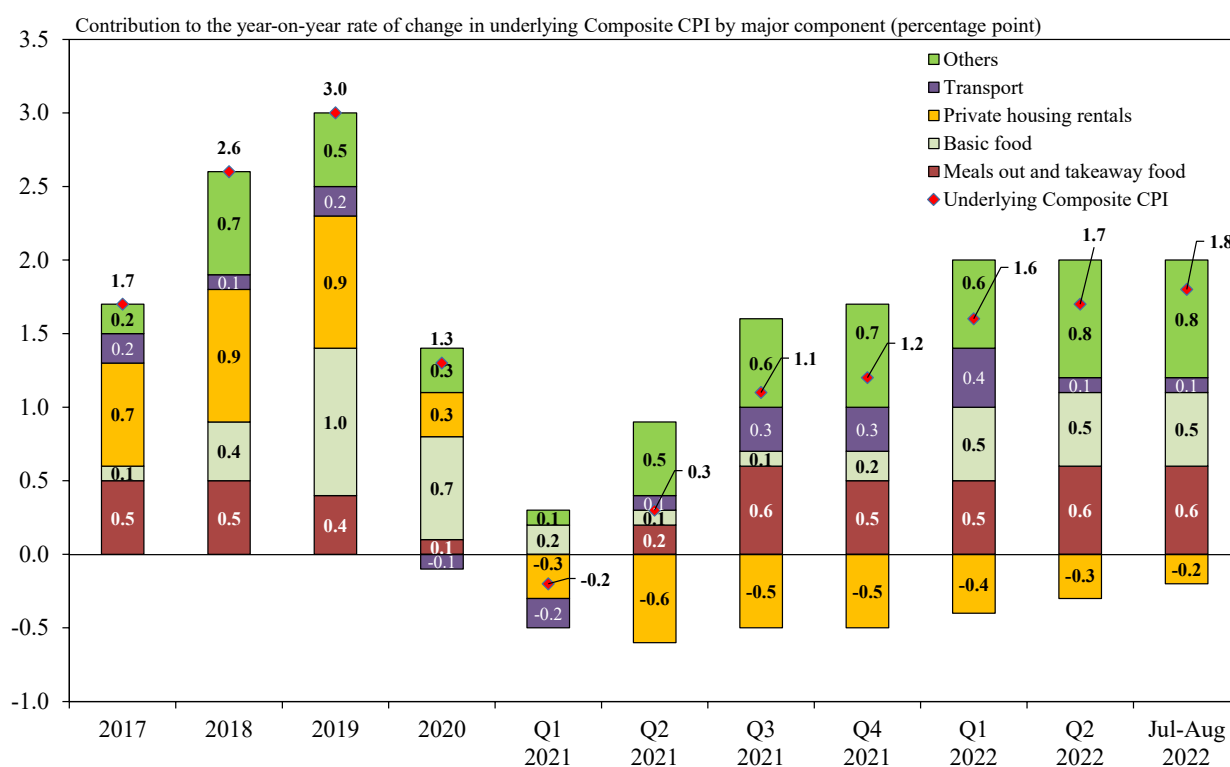
Notes: The headline Composite CPI and headline CPI(A) were more volatile, mainly because the Government introduced different one-off relief measures in different years, which resulted in a relatively high/low base of comparison in certain months.

The grey vertical dotted lines denote the months when SMW was revised.

Source: Monthly Retail Price Survey, C&SD.



**Figure 3.4: Prices of basic food registered a notable year-on-year increase upon entering 2022; yet private housing rentals continued to fall on a year-on-year basis, though the decline gradually narrowed**

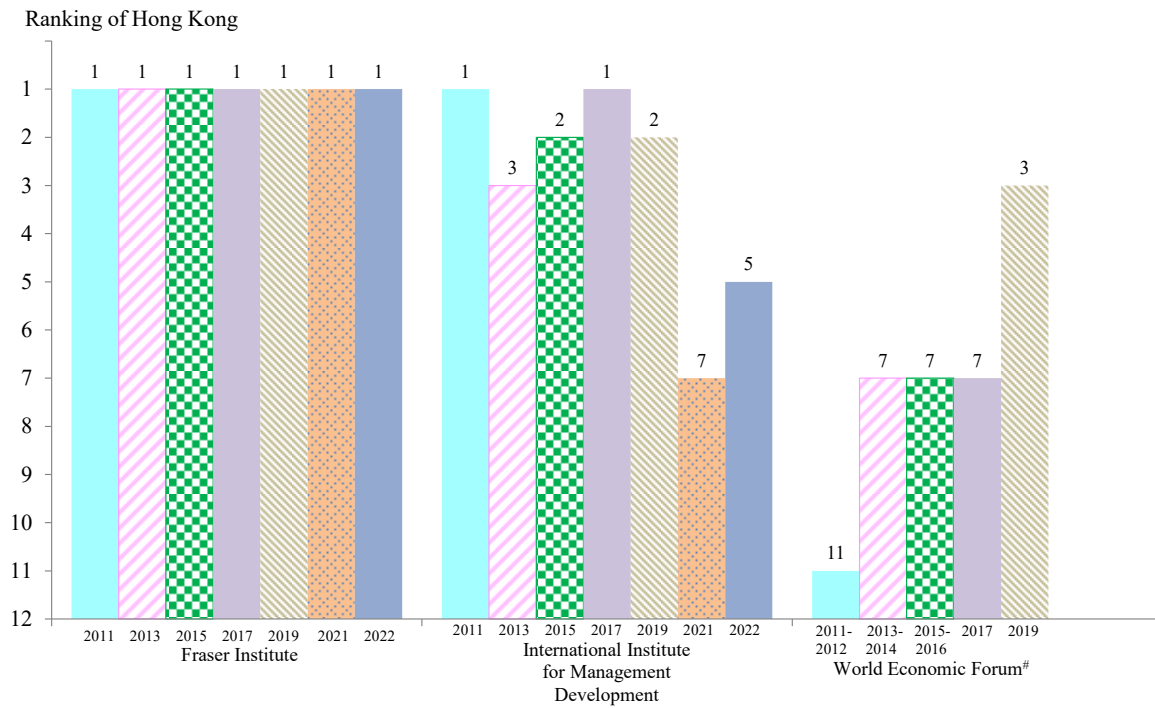


Source: Monthly Retail Price Survey, C&SD.

### 3.1.4 Overall competitiveness

3.8 According to the rankings compiled by various international organisations, Hong Kong's rankings in overall competitiveness remained high in recent years. Hong Kong continued to rank 1<sup>st</sup> in economic freedom by the Fraser Institute in 2022. It also ranked 3<sup>rd</sup> in the *Global Competitiveness Report* published by the World Economic Forum in 2019, and 5<sup>th</sup> in the *World Competitiveness Yearbook* published by the Lausanne, Switzerland-based International Institute for Management Development in 2022 (Figure 3.5). According to the *World Investment Report 2022* of the United Nations Conference on Trade and Development, Hong Kong's foreign direct investment inflows totalled US\$140.7 billion in 2021, ranking 3<sup>rd</sup> in the world.

**Figure 3.5: Hong Kong continued to rank high in various global rankings in overall competitiveness<sup>(^)</sup>**



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

(#) The latest ranking and the 2011-2012 ranking in the report 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

3.9 According to the findings of the Annual Earnings and Hours Survey (AEHS), 14 300 employees were earning the SMW rate in the survey reference period of May to June 2021 (the then-applicable rate was \$37.5 per hour), representing 0.5% of all employees<sup>(2)</sup>. These figures were lower than their respective levels of 21 200 and 0.7% two years ago (i.e. May to June 2019; the then-applicable SMW rate was also \$37.5 per hour) (Table 3.1).

**Table 3.1: Number and share of employees earning the SMW rate**

	May to June 2011	May to June 2013	May to June 2015	May to June 2017	May to June 2018	May to June 2019	May to June 2020	May to June 2021
The SMW rate (hourly wage)	\$28.0	\$30.0	\$32.5	\$34.5	\$34.5	\$37.5	\$37.5	\$37.5
Number of employees earning the SMW rate (as a share among all employees)	180 600 (6.4%)	98 100 (3.4%)	41 900 (1.4%)	26 700 (0.9%)	17 300 (0.6%)	21 200 (0.7%)	16 500 (0.6%)	14 300 (0.5%)

Note: Number of employees is rounded to the nearest hundred. Percentage is derived from unrounded figures.  
Source: AEHS, C&SD.

3.10 Analysed by socio-economic characteristic, employees earning the SMW rate in May to June 2021 were mainly older employees (aged 45 and above) (79.3%), those with lower educational attainments (secondary 3 and below) (74.3%), and elementary workers and service and sales workers (93.6%). Analysed by sector, a majority of the employees earning the SMW rate were engaged in the low-paying sectors (LPS)<sup>(3)</sup> (82.9%). The situations were largely similar to those two years ago (Table 3.2).

- (2) In AEHS, employees exclude government employees; student interns, work experience students and live-in domestic workers as exempted by the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong); as well as employees with zero working hours in the survey reference period.
- (3) MWC defined LPS as sectors employing a relatively large number of low-paid employees (i.e. employees with hourly wage rates below the 10<sup>th</sup> percentile of the overall distribution) or sectors with a relatively large proportion of low-paid employees among all employees within the sectors. LPS as identified by the current term of MWC included: (i) retail trade; (ii) food and beverage services; (iii) estate management, security and cleaning services; 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 2021 AEHS, the 10<sup>th</sup> percentile of hourly wage of LPS in May to June 2021 was \$40.4, lower than that of all sectors (\$44.7). Moreover, the proportion of low-paid employees among all employees in LPS was 25.3%, larger than that of 10.0% for all sectors. For detailed statistical data, please refer to **Table A.1 in Appendix V**.

Table 3.2: Socio-economic characteristics and sectoral distribution of employees earning the SMW rate

Socio-economic characteristics/sector	May to June 2019			May to June 2021		
	Employees earning the SMW rate (i.e. \$37.5 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 (%)
<b>Total number of employees</b>	<b>21.2</b>	<b>100.0</b>	<b>0.7</b>	<b>14.3</b>	<b>100.0</b>	<b>0.5</b>
<b>I. Gender</b>						
Male	9.7	45.7	0.6	8.3	57.8	0.6
Female	11.5	54.3	0.8	6.1	42.2	0.4
<b>II. Age group</b>						
Aged 15 to 24	0.5	2.4	0.2	1.3	8.8	0.8
Aged 25 to 34	1.7	8.1	0.2	0.6	3.9	0.1
Aged 35 to 44	3.2	15.1	0.4	1.1	8.0	0.2
Aged 45 to 54	3.6	16.9	0.5	3.4	23.5	0.5
Aged 55 and above	12.2	57.5	2.4	8.0	55.8	1.6
<b>III. Educational attainment</b>						
Primary and below	12.3	58.0	3.5	7.2	50.1	2.4
Secondary 1 to 3	5.2	24.4	1.2	3.5	24.1	0.9
Secondary 4 to 7	§	§	§	§	§	§
Tertiary education	§	§	§	§	§	§
<b>IV. Occupational group</b>						
Elementary workers	16.5	77.9	3.4	11.1	77.6	2.5
Service and sales workers	2.6	12.5	0.5	2.3	16.1	0.5
Craft workers and machine operators	§	§	§	§	§	§
Clerical support workers	1.0	4.6	0.2	§	§	§
Managers, administrators, professionals and associate professionals	§	§	§	0.7	4.6	0.1
<b>V. Sector</b>						
<b>(i) LPS</b>	<b>15.9</b>	<b>74.9</b>	<b>1.9</b>	<b>11.9</b>	<b>82.9</b>	<b>1.6</b>
1. <i>Retail</i>	<i>0.9</i>	<i>4.2</i>	<i>0.3</i>	<i>1.5</i>	<i>10.4</i>	<i>0.7</i>
Supermarkets and convenience stores	§	§	§	§	§	§
Other retail stores	§	§	§	§	§	§
2. <i>Food and beverage services</i>	<i>1.5</i>	<i>7.1</i>	<i>0.6</i>	<i>0.9</i>	<i>5.9</i>	<i>0.4</i>
Chinese restaurants	§	§	§	§	§	§
Non-Chinese restaurants	§	§	§	§	§	§
Fast food cafes	1.1	5.4	2.1	0.5	3.8	1.2
Hong Kong style tea cafes	§	§	§	§	§	§
Other food and beverage services	§	§	§	§	§	§
3. <i>Estate management, security and cleaning services</i>	<i>11.4</i>	<i>53.9</i>	<i>4.6</i>	<i>8.5</i>	<i>59.6</i>	<i>3.5</i>
Real estate maintenance management	4.8	22.5	4.2	3.4	23.4	3.0
Security services	2.0	9.7	4.6	2.0	14.3	4.6
Cleaning services	3.9	18.2	5.3	2.4	16.9	3.3
Membership organisations	0.8	3.5	4.7	0.7	5.0	5.0
4. <i>Other LPS</i>	<i>2.1</i>	<i>9.8</i>	<i>2.1</i>	<i>1.0</i>	<i>6.9</i>	<i>1.1</i>
Elderly homes	§	§	§	§	§	§
Laundry and dry cleaning services	§	§	§	§	§	§
Hairdressing and other personal services	0.6	2.9	1.4	§	§	§
Local courier services	§	§	§	§	§	§
Food processing and production	0.8	3.9	3.5	§	§	§
<b>(ii) Other sectors</b>	<b>5.3</b>	<b>25.1</b>	<b>0.2</b>	<b>2.5</b>	<b>17.1</b>	<b>0.1</b>

Notes: (§) 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, the sum of individual items may not be equal to the total.

Source: AEHS, C&SD.

### 3.III Operating Conditions of Enterprises

3.11 This section mainly elaborates on the operating conditions of enterprises in recent years<sup>(4)</sup>, including business receipts, costs and profitability. The data from the Annual Survey of Economic Activities (ASEA) showed that the operating conditions of enterprises deteriorated in 2020. Yet, the latest data from ASEA were available up to 2020 only and had yet to reflect the impact of changes in the external environment and local economic situation on the operating conditions of enterprises since 2021. MWC constantly monitored other statistical surveys which were more frequent and provided more up-to-date statistics, so as to understand the latest situation of various sectors. More recent statistics showed that the operating conditions of the retail sector and restaurants had already improved visibly by mid-2022 as compared with the most austere period in 2020. Yet, with inbound tourism still far from recovery, the values of retail sales and restaurant receipts were yet to return to the levels in the second quarter of 2019 (see Section 3.III.5).

#### 3.III.1 Business receipts of enterprises

- 3.12 Due to the economic downturn, business receipts of all sectors combined decreased further by 3.5% in 2020, following a decline of 6.3% in 2019 (Figure 3.6). The narrowed decline in business receipts in 2020 owed partly to the subsidies/assistance provided to enterprises by the Government in response to the epidemic (such as the Employment Support Scheme and various industry-specific support schemes under the Anti-epidemic Fund) in the same year. Netting out “income from other sources” (which includes these government subsidies/assistance as well as other receipts not directly derived from business operation<sup>(5)</sup>), business receipts of all sectors combined decreased by 5.0% in 2020.
- 3.13 Business receipts of LPS as a whole also registered an enlarged decline of 16.2% in 2020 after a fall of 11.7% in 2019. Within LPS, business receipts of the retail sector and the food and beverage services sector were hard hit by the epidemic, plummeting by 19.2% and 18.9% respectively in 2020. Business receipts of all sub-sectors within the food and

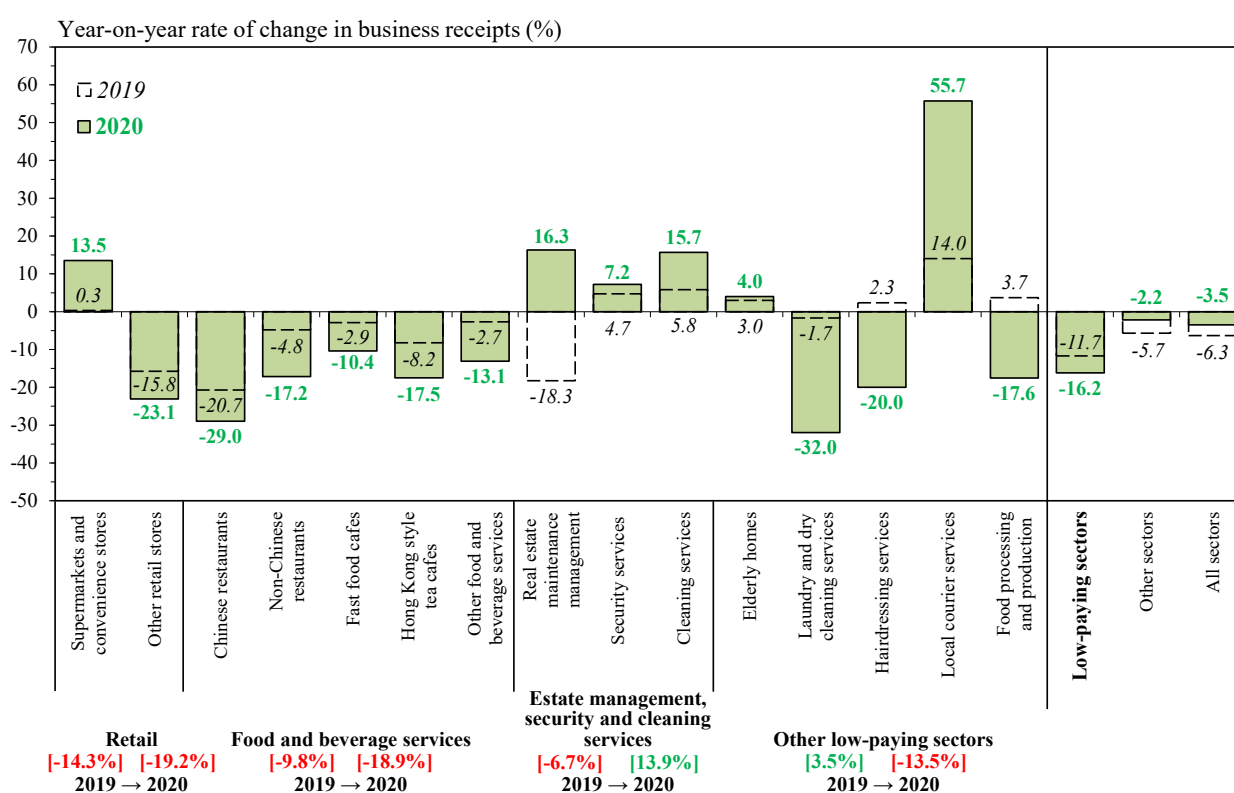
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(4) The analysis is based on the findings of Annual Survey of Economic Activities (ASEA) conducted by C&SD. In this report, statistics from ASEA only pertain to those enterprises with employees and the data of certain sectors (such as membership organisations and education) are not available.

(5) These government subsidies/assistance, together with other receipts not directly derived from business operation (such as rental income from letting overseas land and buildings), are included as “income from other sources” in business receipts in ASEA.

beverage services sector declined noticeably, of which the situation of Chinese restaurants was particularly severe, with business receipts plunging by nearly 30%. Business receipts of other LPS also turned to a decrease of 13.5%, mainly driven by the notable decline in business receipts of food processing and production (which accounted for about 70% of the business receipts of other LPS) amid the epidemic. On the other hand, business receipts of estate management, security and cleaning services turned to an increase of 13.9% in 2020. Netting out “income from other sources”, business receipts of LPS as a whole registered an enlarged decline of 19.9% in 2020<sup>(6)</sup>.

**Figure 3.6: Business receipts of LPS as a whole declined visibly further in 2020**



Note: Figures in square brackets denote year-on-year rate of change in business receipts of the respective sector in 2019 or 2020.

Source: ASEA, C&SD.

### 3.III.2 Costs of enterprises

3.14 Total expenses (including total operating expenses and cost of goods sold) of all sectors combined also decreased correspondingly, by 6.9% and 4.5% in 2019 and 2020

(6) Netting out “income from other sources”, business receipts of the retail sector, the food and beverage services sector and other LPS registered enlarged declines of 21.3%, 27.9% and 16.3% respectively in 2020, while business receipts of the estate management, security and cleaning services sector showed a narrowed increase of 9.6%.

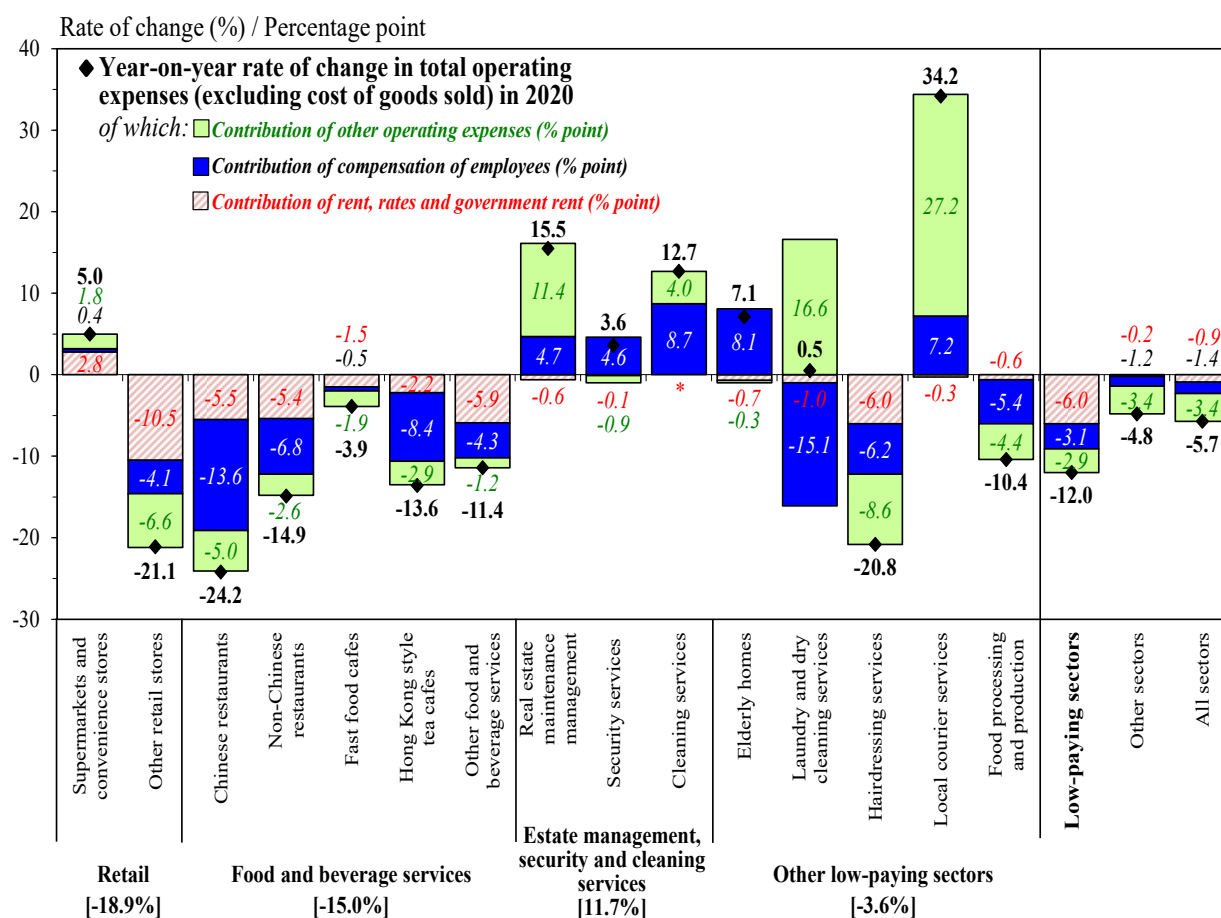
respectively as business contracted. In 2020, for all sectors combined, the rate of decline in total expenses was larger than that of overall business receipts (3.5%), but smaller than that of business receipts excluding “income from other sources” (5.0%). This reflected that excluding the support measures of the Government, the average cost per unit of business receipts of enterprises actually increased in 2020.

- 3.15 For LPS as a whole, total expenses decreased by 11.0% and 15.4% in 2019 and 2020 respectively. In particular, total operating expenses fell further by 12.0% in 2020 following a decline of 7.2% in 2019. All major components of operating expenses dipped in 2020, with compensation of employees declining by 7.1%, rent, rates and government rent and other operating expenses by 22.1% and 9.9% respectively. Most sub-sectors within LPS saw declines in compensation of employees, while increases were recorded in sub-sectors with growth in business receipts (such as estate management, security and cleaning services, and local courier services) (Figure 3.7). The rate of decline in total expenses of LPS as a whole in 2020 (15.4%) was smaller than that of business receipts in the same year (16.2%), reflecting that their cost pressure increased despite the relief from the Government’s support measures<sup>(7)</sup>.

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(7) Netting out “income from other sources”, business receipts of LPS as a whole saw an enlarged decline of 19.9% in 2020. Please refer to paragraph 3.13.

**Figure 3.7: Most sectors within LPS saw declines in compensation of employees in 2020 amid business contraction, while increases were recorded in sectors with growth in business receipts**



Notes: Figures in square brackets denote year-on-year rate of change in total operating expenses (excluding cost of goods sold) of the respective sector in 2020.

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

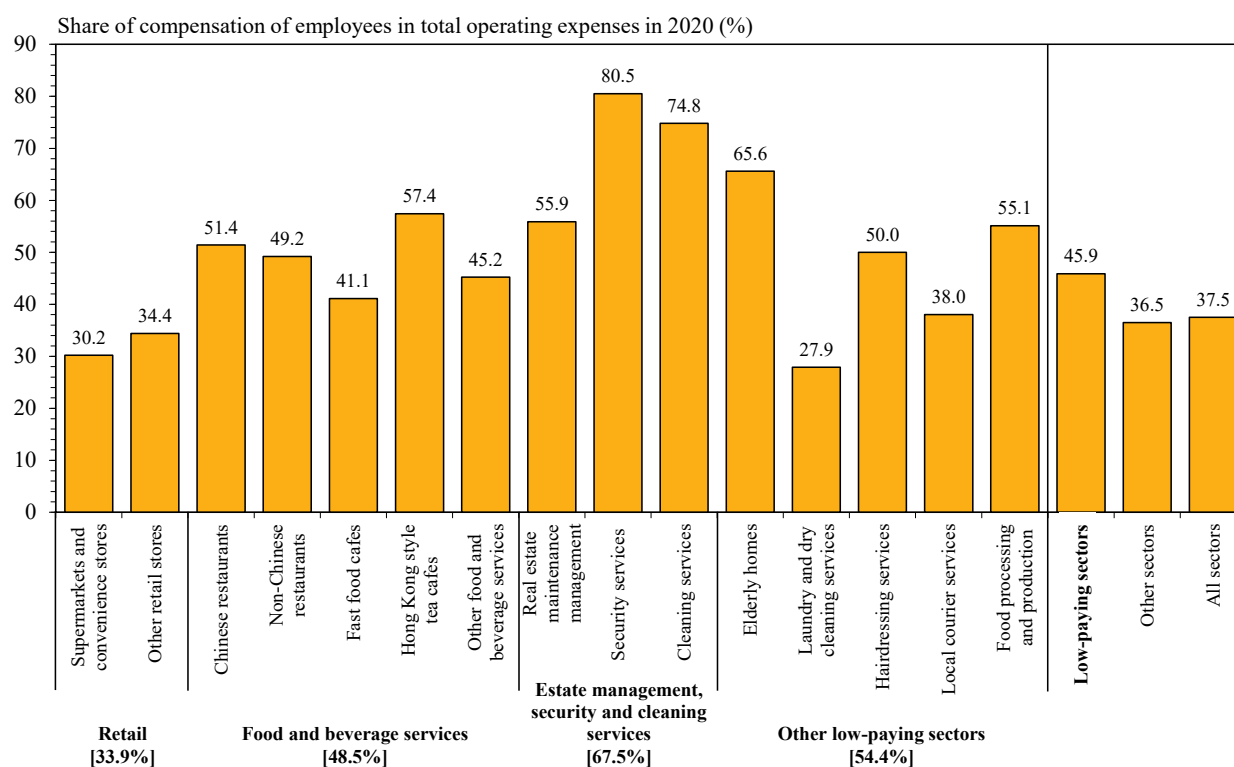
Owing to rounding, individual contributions may not add up to the overall rate of change.

Source: ASEA, C&SD.



3.16 The majority of LPS were labour-intensive<sup>(8)</sup>, with a rather large proportion of their total operating expenses being labour costs<sup>(9)</sup>. Specifically, compensation of employees accounted for 45.9% of the total operating expenses for LPS as a whole in 2020, notably higher than that of 36.5% for non-LPS<sup>(10)</sup>. Within LPS, compensation of employees accounted for half or more of the total operating expenses in security services (80.5%), cleaning services (74.8%), elderly homes (65.6%), Hong Kong style tea cafes (57.4%), real estate maintenance management (55.9%), food processing and production (55.1%), Chinese restaurants (51.4%) and hairdressing services (50.0%) (Figure 3.8). Changes in labour costs would have a more notable impact on the total operating expenses of these LPS.

**Figure 3.8: Labour costs accounted for a rather large proportion of total operating expenses in most LPS**



Note: Figures in square brackets denote the share of compensation of employees in total operating expenses of the respective sector in 2020.

Source: ASEA, C&SD.

- (8) Please refer to **Table A.2 of Appendix V** for the composition of total expenses analysed by sector.
- (9) Please refer to **Table A.3 of Appendix V** for the composition of total operating expenses (excluding cost of goods sold) analysed by sector.
- (10) Changes in labour costs would have a more notable impact on the total operating expenses of LPS as compared with non-LPS, and as such LPS would be more affected by the adjustment in the SMW rate.

### 3.III.3 Corporate profitability

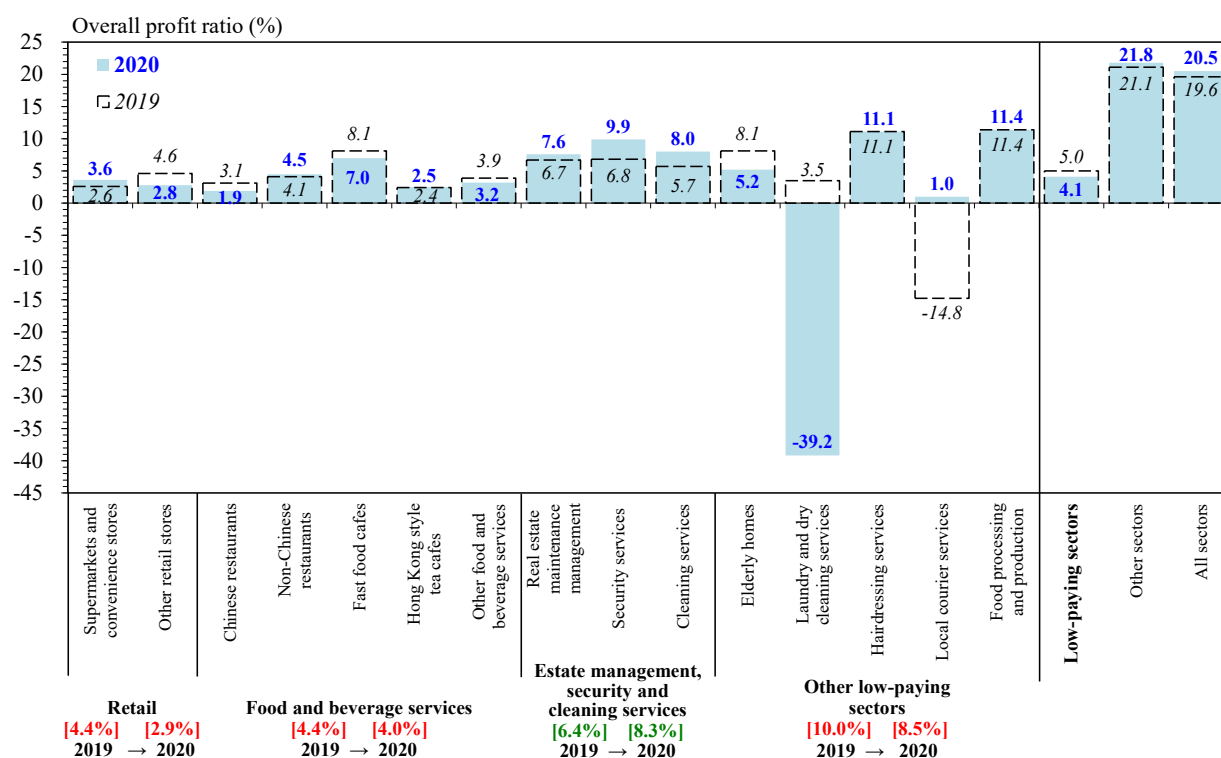
- 3.17 The overall profit ratio (i.e. ratio of profit<sup>(11)</sup> to business receipts) of all sectors combined increased slightly from 19.6% in 2019 to 20.5% in 2020 (Figure 3.9). Yet, the figure included the subsidies/assistance provided to enterprises by the Government in 2020 in response to the epidemic. Netting out “income from other sources” (which includes these government subsidies/assistance and other receipts not directly derived from business operation), the profit ratio of all sectors combined was only 18.3% in 2020. The overall profit ratio of LPS combined fell from 5.0% in 2019 to 4.1% in 2020, which was substantially lower than that of 21.8% for non-LPS. Netting out “income from other sources”, LPS as a whole even turned from profit to loss in 2020, with a loss ratio of 1.0%.
- 3.18 Among LPS, the overall profit ratio of the retail sector fell from 4.4% in 2019 to 2.9% in 2020, and the profit ratio after netting out “income from other sources” in 2020 was only 0.1%. The food and beverage services sector saw its overall profit ratio going down from 4.4% in 2019 to 4.0% in 2020, and even recorded a loss ratio of 8.6% in 2020 after netting out “income from other sources”. As for the estate management, security and cleaning services sector, while its overall profit ratio increased from 6.4% in 2019 to 8.3% in 2020, the profit ratio after netting out “income from other sources” in 2020 was only 3.6%. Other LPS saw a fall in overall profit ratio from 10.0% in 2019 to 8.5% in 2020, and the profit ratio after netting out “income from other sources” in 2020 was only 0.1%<sup>(12)</sup>.

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(11) In ASEA, earnings before tax (profit) refer to profit before deducting tax; gain/loss on disposal of financial asset, property, machinery and equipment; bad debts/write-off and provisions, etc.

(12) Please refer to **Table A.4 in Appendix V** for the distribution of profit ratio of all enterprises analysed by sector.

Figure 3.9: The overall profit ratio of LPS as a whole fell further in 2020 from 2019



Note: Figures in square brackets denote the overall profit ratio of the respective sector in 2019 or 2020.  
 Source: ASEA, C&SD.

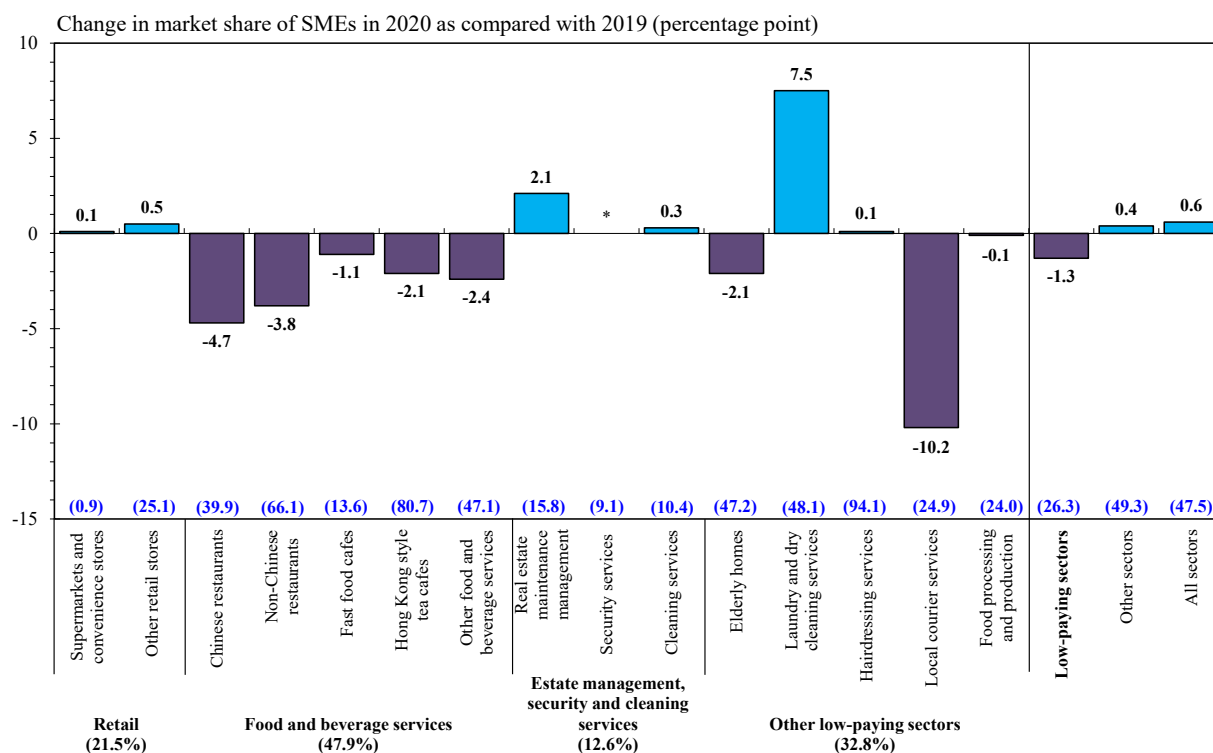
### 3.III.4 The situation of small and medium enterprises

3.19 Compared with large enterprises, small and medium enterprises (SMEs) are constrained by resources and might not be able to benefit from economies of scale and more effective management. They are also generally less capable of coping with and passing on operating costs, and have less flexibility in allocating their resources. The profitability of SMEs would thus generally be worse than the overall situation. Specifically, the overall profit ratio of SMEs in all sectors was 11.9% in 2020<sup>(13)</sup> and that of SMEs in LPS was 2.7%, both fared worse than the corresponding figures of 20.5% and 4.1% for all enterprises. Within LPS, the overall profit ratios of SMEs in the retail sector and the food and beverage services sector were 1.2% and 2.5% respectively, both fared worse than the profit ratios of 2.9% and 4.0% for all enterprises in the respective sectors.

(13) Please refer to **Table A.5 in Appendix V** for the distribution of profit ratio of SMEs analysed by sector.

3.20 The market share of SMEs (i.e. the proportion of business receipts of SMEs among the total in the sector) in LPS fell by 1.3 percentage points from 2019 to 26.3% in 2020 (Figure 3.10). The declines in the market share of SMEs in some sectors were rather noticeable, probably reflecting the survival of the fittest in these sectors during the economic downturn.

**Figure 3.10: The market share<sup>(^)</sup> of SMEs in some LPS declined noticeably in 2020 from 2019**



Notes: (^) The market share refers to the proportion of business receipts of SMEs among the total in the sector. Figures in brackets denote the market share of SMEs in the respective sector in 2020.

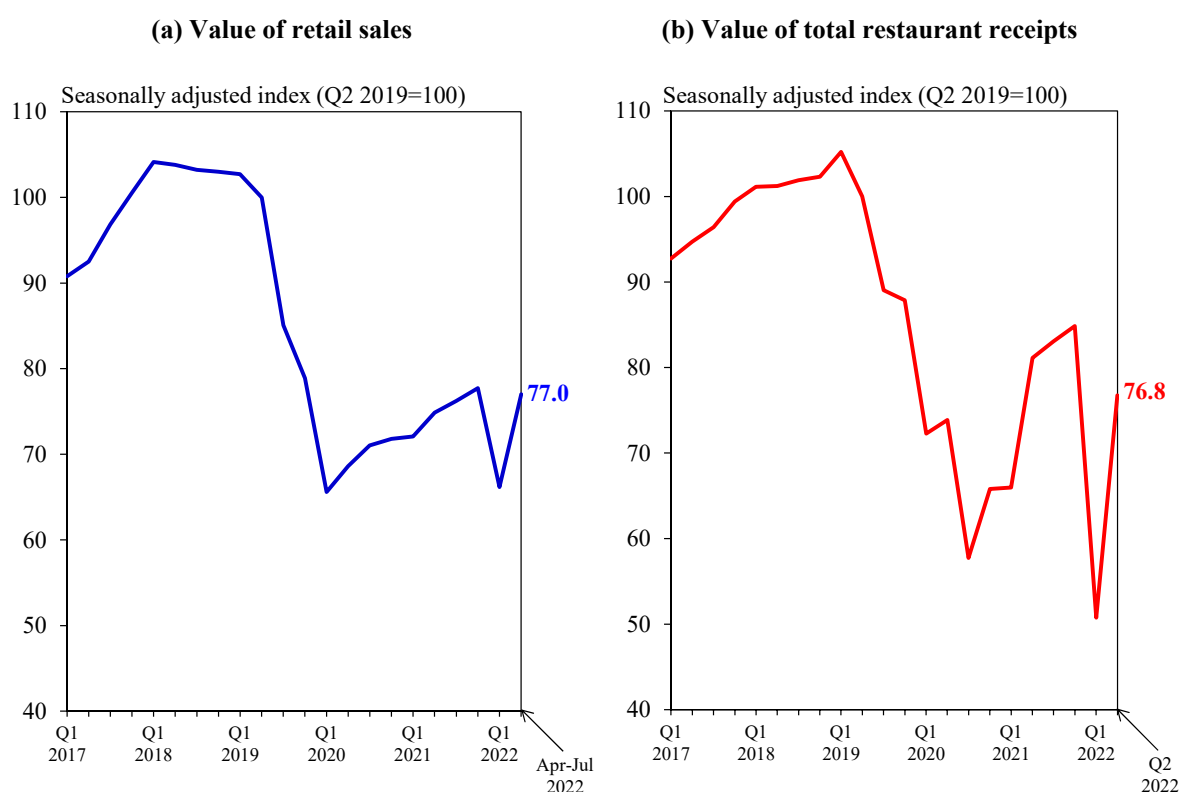
(\*) Between -0.05 percentage point and 0.05 percentage point.

Source: ASEA, C&SD.

### **3.III.5 More recent business performance of certain low-paying sectors**

3.21 Given that the latest data of ASEA were available up to 2020 only, MWC constantly monitored other statistical surveys which were more frequent and provided more up-to-date statistics, so as to understand the latest situation of various sectors. In particular, the data from the Monthly Survey of Retail Sales and Quarterly Survey of Restaurant Receipts and Purchases provided reference on the more recent operating conditions of the retail sector and the food and beverage services sector within LPS, though such data could not be directly compared with those from ASEA. After suffering heavy blows in 2019 and 2020, the business of the retail sector and restaurants improved for most of the time in 2021 along with the stabilised epidemic situation and revival of local economic activities. Yet, affected by the fifth wave of the epidemic and the resultant tightening of social distancing measures, the business of the retail sector and restaurants deteriorated sharply again in the first quarter of 2022. Nonetheless, the business of the retail sector and restaurants subsequently improved, thanks to the gradual relaxation of social distancing measures along with the generally moderated local epidemic situation, as well as the support rendered by the new round of Consumption Voucher Scheme and other measures rolled out by the Government. The monthly average of the seasonally adjusted value of total retail sales rose by 16.3% in April to July 2022 over that of the first quarter of 2022, and the seasonally adjusted value of total restaurant receipts also increased markedly by 51.2% in the second quarter of 2022 over the preceding quarter, both showing visible improvements as compared with the period in 2020 when the operating conditions were the most austere. However, with inbound tourism still far from recovery, the latest figures were still 23.1% and 23.2% lower than those in the second quarter of 2019 (Figure 3.11).

**Figure 3.11: Business of the retail sector and restaurants improved in recent months, but they were still weaker than the levels in the second quarter of 2019**



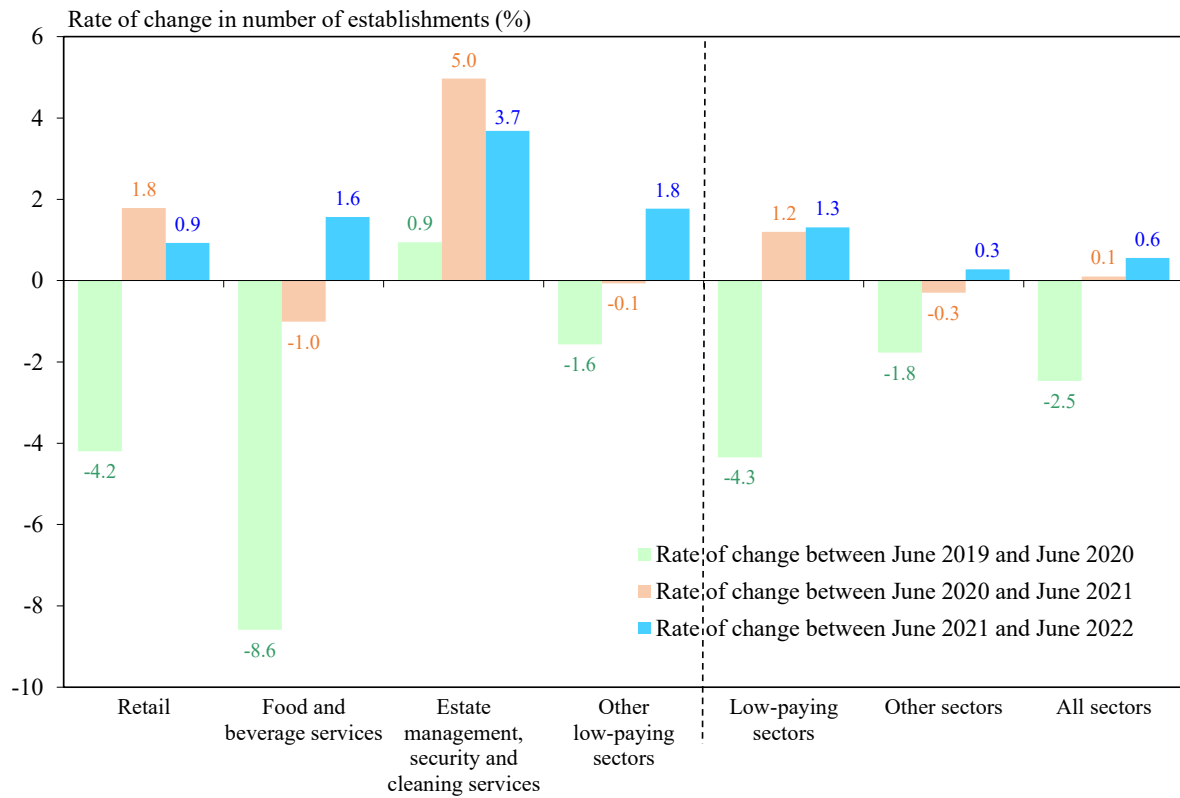
Note: The value of retail sales refers to the monthly average.

Sources: Monthly Survey of Retail Sales and Quarterly Survey of Restaurant Receipts and Purchases, C&SD.

### 3.III.6 Business sentiment

3.22 According to the Quarterly Survey of Employment and Vacancies (SEV), the number of establishments in all sectors combined recorded a year-on-year decrease of 2.5% in June 2020, then rose back by 0.1% in June 2021 and increased further by 0.6% in June 2022 (Figure 3.12), though it was still 1.8% lower than three years ago. The situation for LPS as a whole was similar, with the number of establishments declining noticeably by 4.3% year-on-year in June 2020, followed by a rebound of 1.2% in June 2021 and a further increase of 1.3% in June 2022, though it was still 1.9% lower than three years ago. Within LPS, the numbers of establishments in the retail sector and the food and beverage services sector decreased by 1.6% and 8.1% respectively in June 2022 as compared with three years ago. Yet, the number of establishments in the estate management, security and cleaning services sector increased by 9.9% in June 2022 over three years ago, and that of other LPS also edged up by 0.1%.

**Figure 3.12: The number of establishments in LPS as a whole in June 2022 was still lower than the level three years ago**



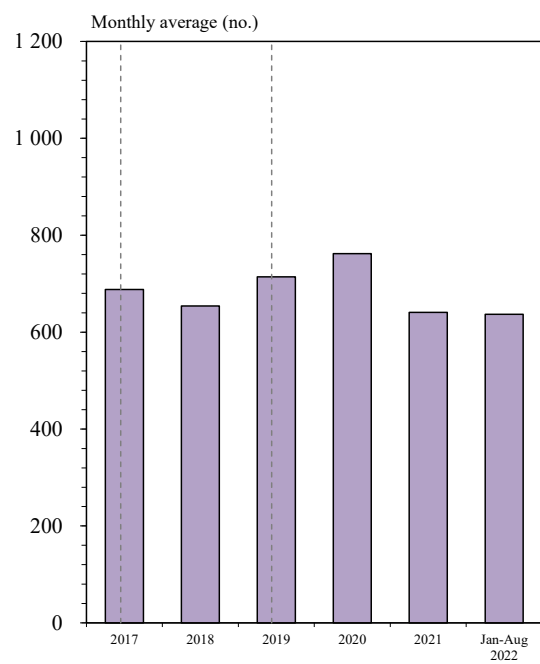
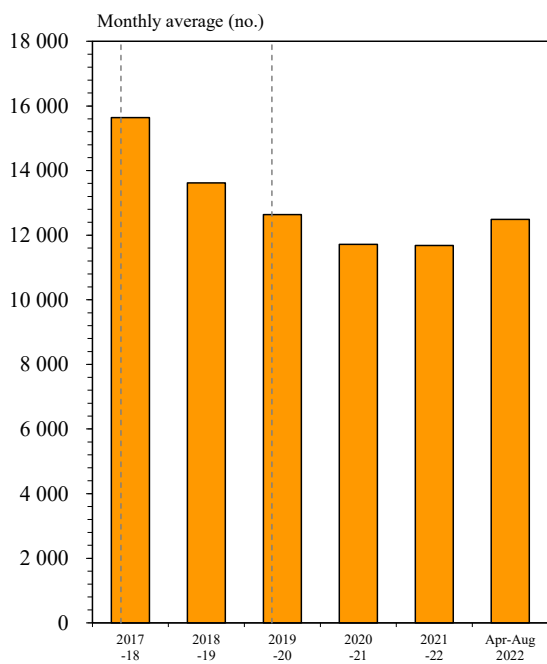
Source: SEV, C&SD.

3.23 The monthly average of new business registrations in the fiscal year of 2021-22 was similar to that in the previous year, both at relatively low levels in recent years. However, the number turned to increase somewhat in April to August 2022. The monthly average of bankruptcy and compulsory winding-up petitions presented in 2021 and the first eight months of 2022 both remained at relatively low levels in recent years (Figure 3.13).

**Figure 3.13: Number of new business registrations and bankruptcy and compulsory winding-up petitions presented**

**(a) Number of new business registrations**

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



Note: The grey vertical dotted lines denote the months when SMW was revised.  
 Sources: Inland Revenue Department and Official Receiver’s Office.



### **3.IV Employment, Income and Other Related Conditions of Employees<sup>(14)</sup>**

#### **3.IV.1 Employment conditions in the low-paying sectors**

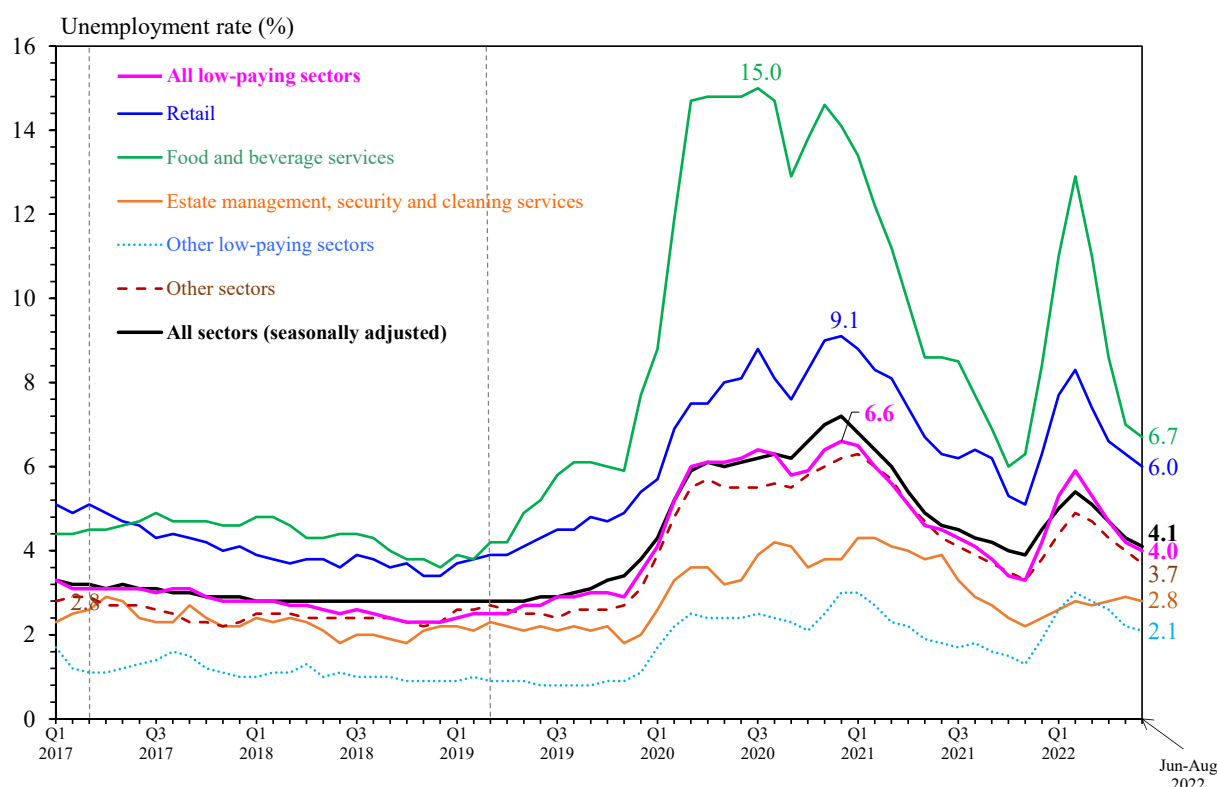
3.24 Same as the situation in the overall labour market, the employment conditions in LPS were austere in early 2021, but improved notably through the year alongside the economic recovery. The unemployment rate of LPS as a whole fell from the high level of 6.6% in December 2020 to February 2021 to 3.4% in the fourth quarter of 2021. The employment conditions in LPS deteriorated again in early 2022 as domestic economic activities were severely disrupted by the fifth wave of the epidemic, but later improved along with the revival of domestic economic activities. After rising to a high level of 5.9% in February to April 2022, the unemployment rate of LPS as a whole fell back to 4.0% in June to August 2022, but it was still noticeably higher than that of 2.5% in the second quarter of 2019 (Figure 3.14).

3.25 Within LPS, the unemployment rates of the food and beverage services sector and the retail sector fell notably through 2021, from the high levels in early 2021 (at 14.1% and 9.1% respectively in December 2020 to February 2021) to 6.0% and 5.3% respectively in the fourth quarter of 2021. However, due to the fifth wave of the epidemic, the unemployment rates of the food and beverage services sector and the retail sector rose to the high levels of 12.9% and 8.3% respectively in February to April 2022. After that, with the generally moderated epidemic situation and the gradual relaxation of social distancing measures, as well as the support from the new round of Consumption Voucher Scheme, the unemployment rates of the food and beverage services sector and the retail sector fell back visibly, to 6.7% and 6.0% respectively in June to August 2022, though they were still notably higher than the levels in the second quarter of 2019 (at 4.2% and 3.9% respectively). As for the other two sub-sectors of LPS, i.e. the estate management, security and cleaning services sector and other LPS, their unemployment rates also saw some ups and downs in recent years, albeit with smaller fluctuations. In June to August 2022, the unemployment rates of these two sub-sectors were 2.8% and 2.1% respectively, continuing to be lower than the overall unemployment rate in the same period (4.1%).

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

**Figure 3.14: The unemployment rate of LPS as a whole fell back visibly in June to August 2022 from the high level during the fifth wave of the epidemic, but was still higher than the level in the second quarter of 2019**

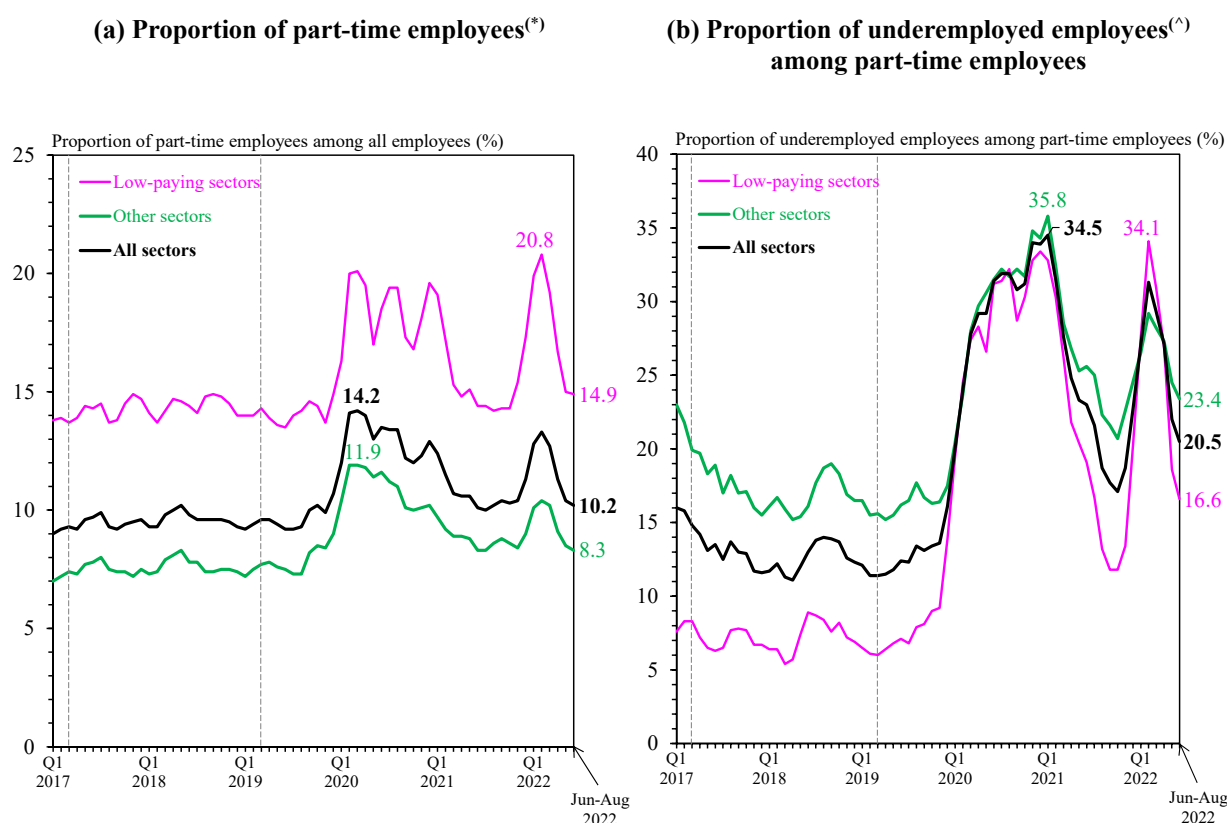


Note: The grey vertical dotted lines denote the months when SMW was revised.  
Source: GHS, C&SD.

3.26 On the mode of employment, the findings of GHS showed that for LPS as a whole, the proportion of part-time employees among all employees (proportion of part-time employees) and the proportion of underemployed employees (i.e. employees available for additional work but could only take up part-time positions) among part-time employees eased back in 2021, but both increased visibly in early 2022 due to the fifth wave of the epidemic, reaching the high levels of 20.8% and 34.1% respectively in February to April 2022 (Figure 3.15). As the labour market improved, the two ratios fell back to 14.9% and 16.6% respectively in June to August, but they were still higher than the levels in the second quarter of 2019 (at 13.9% and 6.4% respectively). On the other hand, the self-employed ratio (i.e. the proportion of self-employed persons among employed persons<sup>(15)</sup> in the sectors) in the lower-skilled segment of LPS as a whole was little changed in recent years. The ratio was at 6.3% in June to August 2022, only slightly higher than the 6.2% in the second quarter of 2019.

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

**Figure 3.15: The proportion of part-time employees and the proportion of underemployed employees among part-time employees increased visibly in early 2022 due to the fifth wave of the epidemic, then fell back alongside the improvement in labour market**



Notes: The grey vertical dotted lines denote the months when SMW was revised.

(\*) Refers to the proportion of part-time employees among all employees.

(^) Underemployed employees are employees who involuntarily worked less than 35 hours during the 7 days before enumeration; and (a) have sought additional work during the 30 days before enumeration; or (b) have been available for additional work during the 7 days before enumeration. 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: GHS, C&SD.

3.27 Regarding working hours, according to the data from AEHS<sup>(16)</sup>, the median weekly working hours of lower-skilled employees in LPS as a whole fell from 49.0 hours per week in May to June 2019 to 48.0 hours per week in May to June 2020. In particular, the corresponding figures for the retail sector and the food and beverage services sector declined visibly (Table 3.3), reflecting that some enterprises in these sectors adjusted the employees' working hours or switched some employees to part-time employment during the epidemic in 2020. As economic conditions improved, the corresponding figure for LPS as a whole rose back slightly to 48.2 hours per week in May to June 2021, though it was still lower than the level in the same period in 2019.

(16) For detailed data on the distribution of weekly working hours of all employees and lower-skilled employees analysed by sector, please refer to **Table A.7 and Table A.8 in Appendix V** respectively.

3.28 Although not directly comparable with the data from AEHS, more recent data from GHS showed that the average weekly working hours of lower-skilled employees in LPS as a whole rose back gradually from the low level of 41.5 hours in February to April 2020 to 45.3 hours in the fourth quarter of 2021. However, the figure plummeted again when economic activities were hard hit by the fifth wave of the local epidemic, falling to a low level of 39.9 hours per week in February to April 2022. With the revival of domestic economic activities, the figure rebounded to 44.9 hours per week in June to August, but it was still lower than the level in the second quarter of 2019 (at 45.4 hours per week).

Table 3.3: Median weekly working hours: lower-skilled employees

Sector	May to June 2019	May to June 2020		May to June 2021	
	Median weekly working hours (Hours)	Median weekly working hours (Hours)	Year-on-year change (Hours)	Median weekly working hours (Hours)	Year-on-year change (Hours)
<b>(A) LPS</b>	<b>49.0</b>	<b>48.0</b>	<b>-1.0</b>	<b>48.2</b>	<b>0.2</b>
1. Retail	48.0	47.1	-0.9	47.1	--
1.1 Supermarkets and convenience stores	51.0	48.0	-3.0	48.0	--
1.2 Other retail stores	48.0	46.2	-1.8	46.2	--
2. Food and beverage services	54.0	51.9	-2.1	51.9	--
2.1 Chinese restaurants	57.0	54.0	-3.0	54.0	--
2.2 Non-Chinese restaurants	54.0	50.8	-3.2	51.0	0.2
2.3 Fast food cafes	41.5	38.1	-3.5	38.8	0.7
2.4 Hong Kong style tea cafes	54.0	54.0	--	54.0	--
2.5 Other food and beverage services	48.0	47.1	-0.9	47.1	--
3. Estate management, security and cleaning services	50.1	49.5	-0.6	49.9	0.3
3.1 Real estate maintenance management	58.2	54.0	-4.2	54.0	--
3.2 Security services	59.1	58.2	-0.9	55.9	-2.3
3.3 Cleaning services	48.0	48.0	--	48.0	--
3.4 Membership organisations	46.2	48.0	1.8	44.3	-3.7
4. Other LPS	48.0	48.0	--	48.0	--
4.1 Elderly homes	54.0	54.0	--	54.0	--
4.2 Laundry and dry cleaning services	48.0	§	§	§	§
4.3 Hairdressing and other personal services	46.2	48.0	1.8	48.0	--
4.4 Local courier services	44.3	§	§	§	§
4.5 Food processing and production	48.0	48.0	--	48.0	--
<b>(B) Other sectors</b>	<b>44.3</b>	<b>44.3</b>	<b>--</b>	<b>44.3</b>	<b>--</b>
<b>(C) All sectors</b>	<b>47.1</b>	<b>45.7</b>	<b>-1.4</b>	<b>46.2</b>	<b>0.5</b>

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

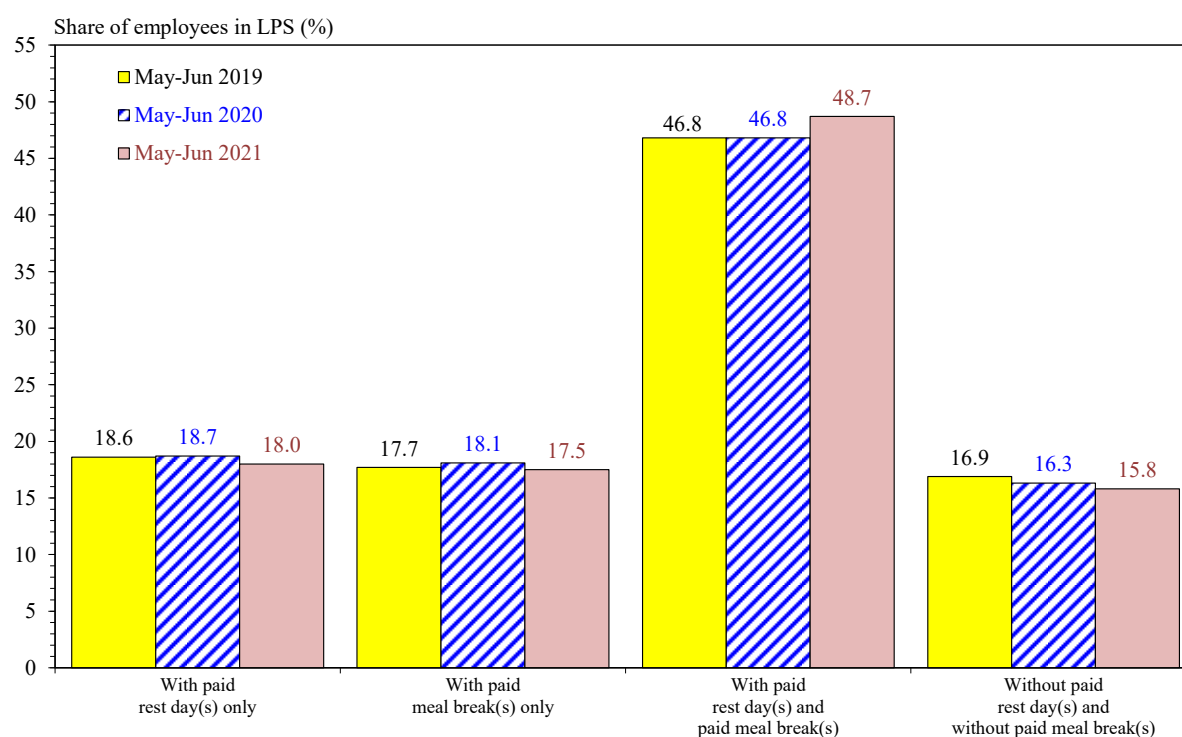
(§) Estimates are not released due to relatively large sampling error.

Number of weekly working hours is rounded to one decimal place. Year-on-year change is calculated based on unrounded figures.

Source: AEHS, C&SD.

3.29 As for the remuneration structure, according to the results of AEHS, the proportion of full-time employees<sup>(17)</sup> entitled to both paid rest days and paid meal breaks in LPS as a whole was 48.7% in May to June 2021, somewhat higher than the 46.8% a year and two years ago; the proportion of those entitled to neither was 15.8%, somewhat lower than the 16.3% a year ago and 16.9% two years ago (Figure 3.16). As for other fringe benefits, the proportion of full-time employees in LPS entitled to year-end payment/bonus was 12.8% in May to June 2021, somewhat lower than the 13.8% a year ago and 14.7% two years ago.

**Figure 3.16: Remuneration structure and fringe benefits of full-time employees in LPS were little changed in recent years**



Source: AEHS, C&SD.

### 3.IV.2 Earnings situation of low-paid employees

3.30 Not only employees earning the SMW rate benefit directly from SMW, employers may also raise the wages of employees who have already been earning at a rate higher the SMW rate, so as to maintain the pay differentials among ranks (i.e. the knock-on effect on pay hierarchies). Hence, MWC constantly monitored the earnings situation of low-paid

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

employees (i.e. employees with hourly wage rates below the 10<sup>th</sup> percentile of the overall distribution) in addition to that of SMW-earners.

3.31 The results of AEHS showed that the 10<sup>th</sup> percentile hourly wage of all employees rose visibly by 52.6% in May to June 2021 over May to June 2011 (i.e. when SMW was first implemented), higher than the 44.4% increase in the median hourly wage of all employees (Table 3.4) and the 33.9% increase in the SMW rate (from \$28 per hour in May 2011 when SMW was first implemented to \$37.5 per hour applicable in May 2021) over the same period. The increase was also higher than the inflation over the same period (the cumulative increases in the underlying Composite CPI and the underlying CPI(A) between May to June 2011 and May to June 2021 were 30.3% and 35.1% respectively<sup>(18)</sup>), suggesting an improvement in the wages of low-paid employees in real terms. As for the situation in recent years, the 10<sup>th</sup> percentile hourly wage of all employees increased by 1.5% in May to June 2021 over a year earlier, and it was 1.6% above the level two years ago (i.e. May to June 2019), suggesting that the hourly wage of low-paid employees continued to see nominal growth in recent years, though the growth rate was slightly slower than that of the median hourly wage of all employees over the same period. It is noteworthy that the above wage data only reflected the situation up to May to June 2021, and had yet to reflect the impact of changes in labour market in the past year or so on the earnings of low-paid employees.

**Table 3.4 : Hourly wage distribution**

Percentile	May to June 2011	May to June 2019	May to June 2021			
	Hourly wage (\$)	Hourly wage (\$)	Hourly wage (\$)	Year-on-year rate of change <sup>(*)</sup> (%)	Cumulative change since May to June 2019 <sup>(*)</sup> (%)	Cumulative change since May to June 2011 <sup>(*)</sup> (%)
10 <sup>th</sup>	29.3	43.9	44.7	1.5	1.6	52.6
25 <sup>th</sup>	36.0	52.2	53.5	1.3	2.6	48.6
Median	52.4	73.0	75.7	1.8	3.7	44.4
75 <sup>th</sup>	82.5	114.9	120.3	2.3	4.7	45.8
90 <sup>th</sup>	143.9	186.2	195.0	2.2	4.7	35.5

Note: (\*) Rate of change/cumulative increase is calculated based on unrounded figures.

Source: AEHS, C&SD.

(18) The increases in headline Composite CPI and headline CPI(A) over the same period were 29.7% and 34.2% respectively.

- 3.32 Regarding monthly wages, the 10<sup>th</sup> percentile monthly wage of full-time employees rose visibly by 50.9% in May to June 2021 over May to June 2011, higher than the increase in the median monthly wage of full-time employees (48.0%) and the inflation rate over the same period (see paragraph 3.31). As for the situation in recent years, the 10<sup>th</sup> percentile monthly wage of full-time employees increased by 1.7% year-on-year in May to June 2021, and it was 3.8% higher than two years earlier (i.e. May to June 2019)<sup>(19)</sup>. The latter was also larger than the increase in median monthly wage of full-time employees over the same period (2.9%).
- 3.33 Although not directly comparable with the data from AEHS, the data from GHS showed that the average monthly employment earnings of full-time employees<sup>(20)</sup> in the lowest decile group rose noticeably by 75.9% in May to July 2022 over February to April 2011 (i.e. before the implementation of SMW). This was higher than the increase in the average monthly employment earnings of overall full-time employees (49.7%) and the inflation rate over the same period (the underlying Composite CPI and the underlying CPI(A) went up by 34.4% and 39.1% respectively over the same period), reflecting that the employment earnings of full-time grassroots employees improved in real terms during that period (Figure 3.17). As for the situation in recent years, the average monthly employment earnings of full-time employees in the lowest decile group went up slightly by 0.6% in May to July 2022 over a year earlier, and it was 9.5% higher than three years earlier (i.e. May to July 2019). The latter was also larger than the increase in the average monthly employment earnings of overall full-time employees over the same period (7.2%).

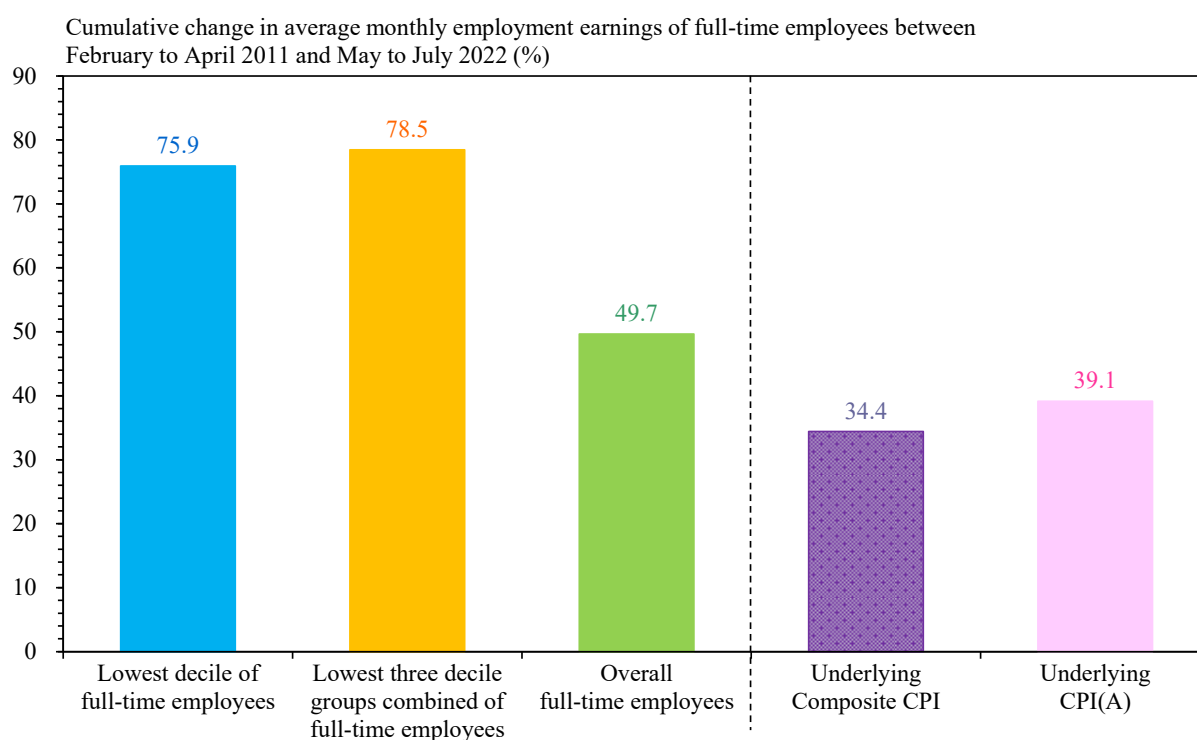
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(19) For detailed data on the 10<sup>th</sup> percentile and median monthly wage of full-time employees analysed by socio-economic characteristic and sector, please refer to **Table A.6 in Appendix V**.

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



**Figure 3.17: Compared with February to April 2011 (i.e. before the implementation of SMW), the average monthly employment earnings of lower-paid full-time employees increased visibly in May to July 2022**



Sources: GHS and Monthly Retail Price Survey, C&SD.

### 3.IV.3 Changes in the labour force participation rate

3.34 Affected by the long-term trend of population ageing, the overall labour force participation rate (LFPR) was generally on a decline in recent years. Separately, the economic cycle also affected the short-term changes in LFPR. In the second half of 2019 and the first half of 2020 when the economy was in a recession, many people chose to leave the labour market temporarily after losing their jobs, exacerbating the fall in the overall LFPR. With the subsequent economic recovery, LFPR of most age groups rebounded in the fourth quarter of 2021 from their low levels earlier (Table 3.5).

3.35 Entering 2022, as the labour market was under severe pressure due to the fifth wave of the epidemic, some people chose to leave the labour market temporarily after losing their jobs. LFPR of many age groups turned to decreases, thereby aggravating again the fall in the overall LFPR. Although LFPR of many age groups later resumed increases alongside the improvement in labour market conditions, the overall LFPR remained at a low level of 58.6% in June to August amid the persistent drag of population ageing, though rising back somewhat from the record low of 58.1% in March to May.

Table 3.5 : LFPR<sup>(\*)</sup> analysed by age group

	LFPR <sup>(*)</sup> (%)				
	Q2 2019	Q2 2020	Q4 2021	Mar to May 2022	Jun to Aug 2022
<b>Age groups</b>					
Aged 15 to 24	38.6	33.6	34.7	30.9	35.2
Aged 25 to 29	88.5	88.3	89.7	87.5	87.6
Aged 30 to 39	86.2	85.5	85.6	85.0	85.8
Aged 40 to 49	82.2	81.9	82.6	82.0	81.2
Aged 50 to 59	73.0	72.4	73.5	73.7	73.9
Aged 60 and above	23.9	23.6	22.8	23.3	24.0
<b>Overall</b>	<b>60.8</b>	<b>59.6</b>	<b>58.9</b>	<b>58.1</b>	<b>58.6</b>

Note: (\*) Figures include foreign domestic helpers.

Source: GHS, C&SD.

### 3.IV.4 The situation of unemployment cases of Comprehensive Social Security Assistance

3.36 Between April 2011 and June 2019, the labour market was relatively tight and the number of unemployment cases of Comprehensive Social Security Assistance declined continuously. However, the number of such cases increased markedly by nearly 70% (or 8 100 cases) from 11 700 in June 2019 to 19 800 in March 2021, reflecting the deterioration of the labour market. The number of such cases then declined to 18 600 in August 2022 in tandem with the improvement in the labour market conditions, but the number was still higher than the pre-recession level in June 2019.

### 3.IV.5 Labour relations

3.37 Labour relations held largely stable since the implementation of SMW. The Labour Department (LD) did not receive any SMW-related labour disputes between July 2011 and August 2022. The numbers of SMW-related claim cases handled by LD also stayed low in recent years. In 2021 and during January to August 2022, the numbers of such claim cases were 17 and one respectively, corresponding to about 0.2% and 0.02% of all claim cases handled by LD during the respective periods.

### 3.V Observations

- 3.38 Based on the observations from the various aspects above, Hong Kong's socio-economic conditions experienced huge fluctuations in recent years. The Hong Kong economy recovered visibly in 2021 from the earlier deep recession amid a sharp rebound of global demand and the receding local epidemic. However, the economy saw a marked deterioration in the first quarter of 2022 due to slower global demand growth and the fifth wave of the local epidemic. The economy then improved in the second quarter, but the extent of improvement was weaker than expected. Domestic economic activities saw some revival, but the momentum softened in the latter part of the quarter. Externally, weakened global demand and continued disruptions to cross-boundary transportation weighed heavily on export performance. Entering the third quarter, retail sales value resumed year-on-year growth in July, but the value of merchandise exports continued to decline. The labour market improved continuously through 2021 from the austere situation in the early part of the year, but it was under severe pressure again in early 2022 due to the fifth wave of the epidemic. In particular, the retail sector and the food and beverage services sector within LPS were hard hit, and the increases in the unemployment rates of these two sectors were particularly notable. After that, the labour market improved along with the revival of domestic economic activities, and the unemployment rates of the retail sector and the food and beverage services sector also fell back visibly, but they were still higher than the pre-recession levels. Inflation was on a general uptrend since early 2021, but remained moderate in overall terms.
- 3.39 The latest findings of AEHS showed that the nominal wages of low-paid employees grew in May to June 2021 as compared with two years ago, and there was also no incidence of many enterprises cutting costs by adjusting employees' remuneration structure or fringe benefits during the period. Although not directly comparable with the data from AEHS, more recent data from GHS showed that the nominal employment earnings of full-time grassroots employees increased slightly in May to July 2022 over a year earlier.

- 3.40 Hong Kong's short-term economic outlook is subject to a host of factors. Domestically, as long as the epidemic situation is under control, economic activities should revive further. Yet, the tightened financial conditions may pose some constraints on consumption demand, and rising borrowing costs may also make businesses more cautious in undertaking fixed asset investment. On the external sector, the markedly deteriorating external environment will weigh heavily on Hong Kong's export performance. Elevated inflation in advanced economies and the aggressive tightening of monetary policy by many major central banks in response will further weaken the global growth momentum. Risk factors including the evolving pandemic and heightened geopolitical tensions also warrant close attention. Nonetheless, the adjustments to the quarantine and testing arrangements for inbound visitors in recent months should help exports of services.
- 3.41 In sum, an SMW rate set at an appropriate level can help encourage more people to enter or re-enter the labour market, thereby unleashing more manpower to cope with labour demand, but an appropriate balance between forestalling excessively low wages and minimising the loss of low-paid jobs should be maintained and due regard should be given to sustaining Hong Kong's economic growth and competitiveness. The impacts of SMW on Hong Kong's socio-economic conditions hinge, to a large extent, on the macroeconomic environment at that time. As Hong Kong's short-term economic outlook is faced with many challenges, the impacts of the SMW rate adjustment on employees and enterprises warrant particular attention. When reviewing the SMW rate, MWC must take into account various factors in order to arrive at the recommended SMW rate.

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

4.1 Pursuant to the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong), the Minimum Wage Commission (MWC), in performing its functions, needs to maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and give due regard to sustaining 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 statistical data and information, MWC also conducted extensive and in-depth consultation with the community (including organisations representing employers and employees) 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 from members of the public and stakeholders; (iii) other relevant considerations; and (iv) impact assessment. Details of these considerations are elaborated in the ensuing sections.

### 4.1 Array of Indicators

4.2 MWC, upon deliberation, considered it appropriate to continue to adopt AoIs, to which MWC made reference in the past reviews of the SMW rate, to monitor the socio-economic and employment conditions of Hong Kong after the implementation of SMW. AoIs covered the essential considerations that MWC must take into account in discharging its functions 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 AoIs are elaborated in the following paragraphs. Figure 2.2 in Chapter 2 summarises AoIs and **Appendix I** sets out the relevant indicators and their data sources.

#### (a) General economic conditions

4.3 The impact of SMW depends to a large extent on Hong Kong's overall economic conditions. Hence, macroeconomic environment (including the prevailing economic conditions and short-term economic outlook) is of utmost importance among AoIs when

reviewing the SMW rate.

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

**(b) Labour market conditions**

- 4.5 The labour market is the first segment affected by SMW. Upgrading of SMW directly increases the wage bills of enterprises, and they may adopt measures in response, such as reducing headcounts to cut costs, resulting in the loss of some grassroots jobs. Besides, SMW to a certain extent limits the flexibility of a downward adjustment in wages and affects the capacity for the labour market to adjust when the economic environment deteriorates. On the other hand, upgrading of SMW helps raise wages of grassroots employees, thereby attracting more people to join or re-enter the labour market which boosts the labour supply. MWC has all along been closely monitoring the various changes in the labour market.

- 4.6 The indicators referenced by MWC under this aspect covered labour demand and supply (including figures on employment, labour force, labour force participation rate (LFPR), unemployment, underemployment, etc.), level and distribution of employees' wages, wage differentials, employment characteristics (such as being employed full-time or part-time, being entitled to paid meal breaks and paid rest days or not, etc.) and working hours.

**(c) Competitiveness**

- 4.7 Adjusting the SMW rate directly affects 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 share of compensation of employees in total operating expenses for individual sectors and the proportion of low-paid employees hired. The extent of the impact for individual sectors also depends on their operating environment and business performance. Hence, one of the major areas

of the indicators monitored by MWC was the operating characteristics of enterprises, including the statistics on business receipts, profit ratios, shares of compensation of employees in total operating expenses, etc., from the Annual Survey of Economic Activities of the Census and Statistics Department. Considering the time lag of the aforementioned statistics, MWC also made reference to statistical surveys which are more frequent and provide more up-to-date statistics, such as the business receipts of restaurants, retail sales and rental indices of non-residential properties, in order to further understand the more recent operating conditions of enterprises.

4.8 Adjusting the SMW rate may also affect Hong Kong's overall business environment and competitiveness. 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 number of establishments) to understand the prevailing business environment. MWC also paid regular attention to indicators like Hong Kong's position in a number of global rankings relating to overall competitiveness, so as to understand the competitiveness of Hong Kong at the macro level and the external perception on this.

**(d) Social inclusion**

4.9 There are considerable views in the community suggesting that social inclusion should be taken into account in monitoring the impact of SMW. Yet, there is no objective standard for measuring social inclusion and it is difficult to quantify such concept by data. As such, MWC made reference to the three aspects of indicators below to indirectly examine the situation of social inclusion in a broad sense:

- (i) **Standard of living** – These indicators included changes in the nominal and real employment earnings of employees and wage indices, which helped monitor the changes in the earnings of grassroots employees and their performances as compared with the movements in prices, thereby understanding the changes in the overall living standard of grassroots employees;
- (ii) **Work incentive** – By forestalling excessively low wages, SMW enhances the incentive to work and encourages more people to join or re-enter the labour market. Indicators in this aspect included LFPR, the number of long-term unemployed persons (i.e. those unemployed for six months or longer), and the number of

unemployment cases of Comprehensive Social Security Assistance; and

- (iii) **Labour relations** – These indicators included the data on labour disputes and claim cases since the implementation of SMW.

## 4.II Views from Members of the Public and Stakeholders

4.10 As mentioned in Section 2.II.3 of Chapter 2, MWC conducted extensive and in-depth consultation to listen to the community's views on the review of the SMW rate, including convening focused consultation meetings with stakeholders of LPS (including labour organisations, employers' associations/professional institutes and employers) to gain a deeper understanding of the impact of the implementation of SMW on LPS; and launching public consultation as well as conducting consultation with stakeholders via videoconference to gauge the views of the public. These views facilitated MWC to understand the impacts of SMW on the Hong Kong economy, society, employment conditions, various sectors (in particular LPS) and SMEs in a more comprehensive manner. These 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**<sup>(1)</sup>.

## 4.III Other Relevant Considerations

4.11 While AoIs adopted by MWC already covered the data in the four areas of general economic conditions, labour market conditions, competitiveness and social inclusion, not all impacts of SMW could be quantified. Hence, in the course of reviewing the SMW rate, MWC also took into account other relevant considerations that could not be fully quantified:

- (i) **Enhancing employees' quality of life** – Partly thanks to the implementation and upratings of SMW in the past, grassroots employees enjoyed pay rises and saw increases in their consumption power which improved their quality of life. SMW could also serve to forestall excessively low wages in times of economic downturn;

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(1) MWC attached great importance to the views from the public and stakeholders provided during the consultation and regarded them as important references for the review of the SMW rate. Therefore, MWC analysed these views with prudence as far as accuracy and reliability were concerned. In making recommendation on the SMW rate, MWC had disregarded individual pieces of information which were found unauthentic upon verification.



- (ii) **Enhancing work incentive** – SMW helps forestall excessively low wages, thereby attracting more people to join or re-enter the labour market and providing a conducive environment that encourages people who used to live on social welfare payments to take up employment and become self-reliant;
- (iii) **Impact on workers with relatively lower bargaining power and less work experience** – Benefiting from SMW, wages of vulnerable groups (such as older persons, persons with disabilities, less-educated and lower-skilled persons) are protected. However, in the face of increasing labour costs, employers may tend to hire employees with higher capabilities or more work experience, which may undermine the employment opportunities of the vulnerable groups. Besides, some employers may hire fewer young people who have less work experience and offer them fewer training and internship opportunities, making it more difficult for young people to accumulate work experience and climb up the social ladder;
- (iv) **Impact on wage differentials across sectors or positions** – With an across-the-board SMW rate, grassroots employees can choose to work in different sectors, occupations, districts and/or enterprises while earning a comparable income. However, this would aggravate staff turnover in certain sectors, and to a certain extent those enterprises concerned would need to offer higher wage rates to retain their existing employees or attract new recruits, thereby pushing up labour costs;
- (v) **Preserving the market’s capacity to adjust** – SMW sets a wage floor thus limits the flexibility of wage adjustment to a certain extent. If the SMW rate is raised too high, the flexibility of various sectors and enterprises in responding to changes in operating environment would be undermined. Preserving some room for wage adjustments in the market would be conducive to the sustainable development of all sectors;
- (vi) **Impact on social harmony** – SMW allows low-income employees to share the fruits of economic development and helps promote social harmony. Nevertheless, grassroots employees, enterprises and other people (including those not directly benefited from SMW) may hold divergent views on the SMW rate;
- (vii) **Additional costs induced by wage increase** – SMW brings additional costs to enterprises in terms of the premium for employees’ compensation insurance and

contributions to the Mandatory Provident Fund, etc.;

- (viii) **Impact on quality of products and services** – SMW enables a wage protection for employees, but this may also reduce the incentive of some employees to improve their work performance or take up extra work, thereby affecting service quality. Moreover, some enterprises that fail to pass on the SMW-induced additional labour costs to customers or consumers may choose to lower the quality of their products or services, especially when the overall economic environment is weak; and
- (ix) **Long-term impacts in various aspects** – For instance, the impacts 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 Impact Assessment

- 4.12 MWC recognised that SMW has profound and far-reaching impacts on employees, enterprises, labour market and the economy as a whole. After considering the past experience of SMW rate reviews, the conditions of relevant socio-economic indicators and the views from the public and stakeholders, and drawing reference from the impact assessment framework adopted by MWC in the past, MWC set a number of SMW test levels (test levels) and different economic scenario assumptions to analyse the possible impacts on employees, enterprises, unemployment rate and inflation under each test level.
- 4.13 After considering the views from the public and stakeholders, examining the socio-economic conditions in recent years and short-term economic outlook, as well as making reference to MWC’s past experience in conducting impact assessments, MWC, upon thorough discussions, decided to set the test levels from an hourly wage of \$36.5 to \$44.0 at \$0.5 per interval (i.e. 16 test levels in total) when conducting the impact assessment. Setting different test levels to conduct impact assessment facilitated MWC in making objective and prudent judgment when striking a balance among various objectives and needs, yet it in no way suggested that MWC had any pre-conceived stance on whether to adjust the SMW rate, the direction and magnitude of the adjustment.
- 4.14 MWC also noted that, if the SMW rate was 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 contract or

agreement) might also go up in tandem. Some enterprises may need to offer pay rises to some employees (including those already earning at a rate above the uprated SMW rate) due to the knock-on effect on pay hierarchies (knock-on effect), so as to maintain the wage differentials among employees of different ranks in order to avoid losing their staff. Based on the experience since the implementation of SMW, MWC deduced that the greater the magnitude of an SMW uprating, the greater the knock-on effect that might be induced. In light of this, for impact assessment at test levels above the prevailing SMW rate, MWC fully considered the additional wage bills arising from the aforementioned factors.

4.15 MWC recognised that the impact of adjusting the SMW rate hinged, to a large extent, on the economic situation at the time of implementation. Considering the time gap between the review of the SMW rate and the implementation of the recommended rate, when conducting the impact assessment, by drawing reference from the latest economic and labour market data back then and also the past experience of SMW rate reviews, MWC assumed different economic scenarios in the first half of 2023 so as to make forward-looking estimations of the situation at that time as far as possible. After thorough discussions, MWC considered it appropriate to conduct tests under four economic scenarios to assess the potential impact of adjusting the SMW rate to each of the test levels under different economic environments, should the adjustment be implemented in the first half of 2023. Table 4.1 sets out these four economic scenario assumptions. Although some economic scenarios assumed that the Hong Kong economy would attain a year-on-year rebound in the first half of 2023, this only reflected some catch-up growth of the economy after the marked contraction in recent years.

**Table 4.1: Assumptions made by MWC on the four economic scenarios**

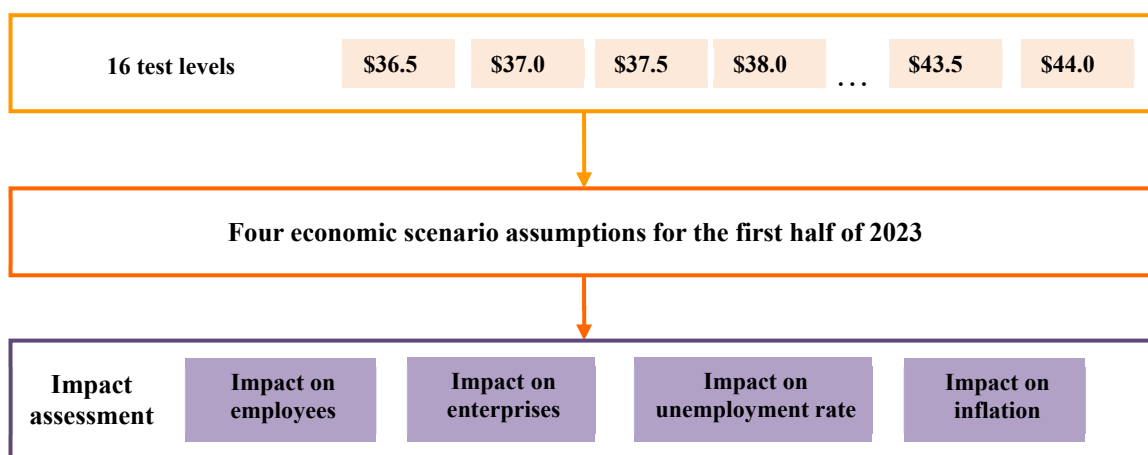
<b>Economic Scenario</b>	<b>Assumption on year-on-year economic growth in the first half of 2023</b>
Scenario 1	+4%
Scenario 2	+1.5%
Scenario 3	-1%
Scenario 4	-3.5%

4.16 In setting the assumptions on different economic scenarios, MWC already took into account that Hong Kong's short-term economic outlook would depend on a host of factors and face considerable uncertainties. The above economic scenario assumptions aimed

at facilitating the understanding of the different impacts brought about by each test level under different economic conditions, and they **should not** be read as precise forecasts of the actual economic conditions.

4.17 In sum, the framework of impact assessment, which included 16 test levels with four economic scenario assumptions, provided a comprehensive assessment of the impacts of the SMW rate adjustment on employees, enterprises, unemployment rate and inflation. Figure 4.1 summarises the framework of impact assessment.

Figure 4.1: Framework of impact assessment



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

## 5 Impact Assessment Results

5.1 As stated in Chapter 4, the four areas analysed and considered by the Minimum Wage Commission (MWC) when reviewing the Statutory Minimum Wage (SMW) rate included (i) Array of Indicators; (ii) views from members of the public and stakeholders; (iii) other relevant considerations; and (iv) impact assessment. MWC set various SMW test levels (test levels) and made different economic scenario assumptions to assess the possible impacts on employees, enterprises, unemployment rate and inflation. Details of the impact assessment results are set out in this chapter<sup>(1)</sup>.

### 5.I Impact Assessment Framework

5.2 To conduct the impact assessment, MWC set the test levels from an hourly wage of \$36.5 to \$44.0 at \$0.5 per interval (i.e. 16 simulated situations in total) and estimated the possible impacts on employees, enterprises, unemployment rate and inflation. MWC was of the view that the impact of the SMW rate adjustment would hinge, to a large extent, on the economic situation at the time of implementation. Considering the time gap between the review of the SMW rate and the implementation of the recommended rate, when conducting the impact assessment, MWC made four different economic scenario assumptions for the first half of 2023, so as to make forward-looking estimations of the economic situation at that time as far as possible (the impact assessment framework is set out in Section 4.IV of Chapter 4).

### 5.II Impact on Employees

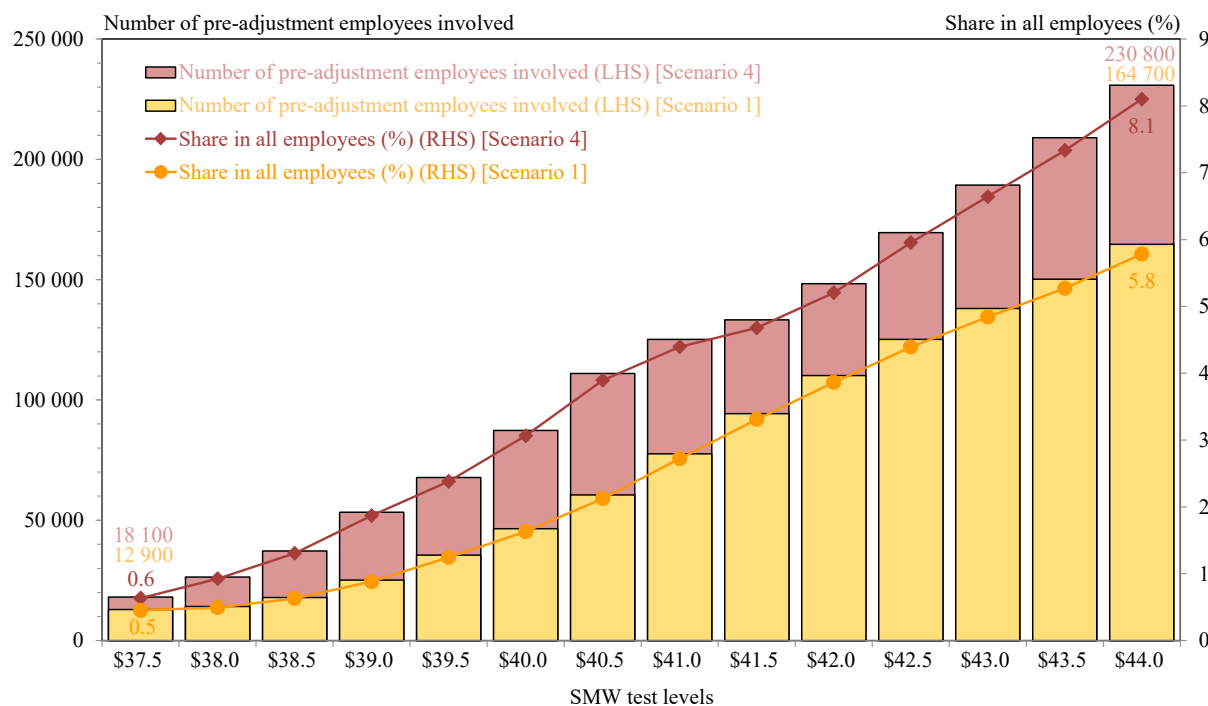
5.3 The impact assessment on employees composed primarily the estimations of the number and proportion of pre-adjustment employees involved at each test level (i.e. employees earning hourly wages below the respective test levels before the SMW rate adjustment in the first half of 2023) among all employees under different economic scenarios. Based on the data on wage distribution from the 2021 Annual Earnings and Hours Survey (AEHS) compiled by the Census and Statistics Department and with reference to the latest economic and labour market conditions and other wage data, MWC made forward-looking estimations of the situation under the four different economic scenario assumptions for

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(1) Please refer to [Appendix IV](#) for a detailed explanation on the methodology of the impact assessment.

the first half of 2023 as far as possible. Specifically, at the test levels ranging from \$37.5 to \$44.0, the corresponding estimated number of pre-adjustment employees involved under Economic Scenario 1 (i.e. assuming a year-on-year economic growth of 4% in the first half of 2023) would be around 12 900 to 164 700 (representing 0.5% to 5.8% of all employees in Hong Kong); whereas under Economic Scenario 4 (i.e. assuming a year-on-year economic growth of -3.5% in the first half of 2023), the corresponding estimated number of pre-adjustment employees involved would be around 18 100 to 230 800 (representing 0.6% to 8.1% of all employees in Hong Kong) (Figure 5.1). At the test level of \$40.0, the corresponding estimated numbers of pre-adjustment employees involved under Economic Scenarios 1 and 4 would be around 46 500 and 87 300 respectively (representing 1.6% and 3.1% of all employees in Hong Kong respectively). Under a more favourable economic scenario, the labour market situation would be better and employees would generally enjoy larger wage increases. Hence, the estimated number of pre-adjustment employees involved at the same test level under a more favourable economic scenario would be relatively smaller than that under a less favourable one.

**Figure 5.1: Estimated number and proportion of pre-adjustment employees involved<sup>(^)</sup> at different test levels under Economic Scenarios 1 and 4**



Notes: (^) At the test level of \$37.5, the pre-adjustment employees involved only include those earning an hourly wage 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 levels.

According to the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong), there will be no employees earning hourly wages below the SMW rate of \$37.5 before the SMW adjustment in 2023 (except for employees with disabilities who have completed productivity assessment in accordance with MWO), hence the estimation of pre-adjustment employees involved is not applicable to test levels below \$37.5.

The assumptions on the economic growth in the first half of 2023 under different scenarios are set out in Table 4.1.

For detailed data, please refer to **Table B.1 in Appendix V**.

LHS stands for the left hand side while RHS stands for the right hand side.

Sources: Estimated with reference to AEHS results and different wage data.

5.4 Drawing on the experience since the implementation of SMW, as employers may need to maintain the wage differentials among different ranks, if the SMW rate is adjusted upwards, some pre-adjustment employees involved may have their pay increased to levels above the SMW rate, and some who are already earning hourly wages above the SMW rate may also get a pay rise. Due to this knock-on effect on pay hierarchies (knock-on effect), if the SMW rate is adjusted upwards, the number of employees benefiting from pay rises would exceed the number of **pre**-adjustment employees involved as estimated above, while the latter would exceed the number of employees earning the new SMW rate **after** the uprating.

5.5 On the other hand, if the SMW rate is adjusted downwards, the employees facing a pay cut as a result should not be limited to those earning the prevailing SMW rate. Specifically, if the SMW rate is adjusted downwards to the test level of \$36.5 or \$37.0,

compared with the pre-adjustment wage distribution of employees (which already took into account wage changes owing to market adjustment), about 1.5% and 4.5% of all employees would face pay cuts due to the downward adjustment of the SMW rate under Economic Scenarios 1 and 4 respectively according to crude estimation. However, it should be noted that as the SMW rate in Hong Kong has never been adjusted downwards, more assumptions were involved in the relevant estimations. Hence, caution must be exercised when interpreting the relevant estimated figures.

### **5.III Impact on Enterprises**

5.6 An SMW uprating would push up labour costs for enterprises. In this connection, MWC assessed the impacts of raising the SMW rate to various test levels on enterprises under different economic scenarios in two aspects, namely (i) the additional wage bills and (ii) the increase in potential financial liability of long service payment (LSP).

#### **5.III.1 Additional wage bills**

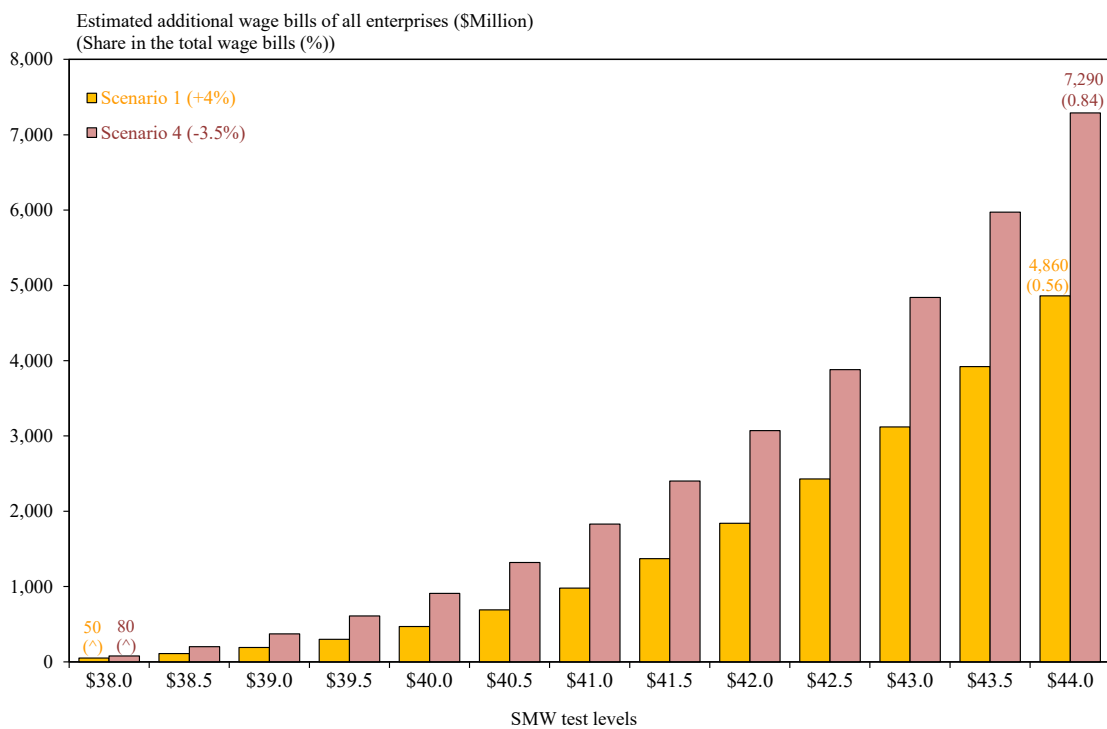
5.7 The most direct impact of an SMW uprating on enterprises would be an increase in wage bills. The additional wage bills of enterprises at various test levels under different economic scenarios as estimated by MWC included: (i) the additional wage bills incurred for raising the hourly wages of all pre-adjustment employees involved to the respective test levels, to comply with the requirements under MWO; (ii) the additional wage bills relating to rest day pay and meal break pay of the pre-adjustment employees involved (if rest day pay and meal break pay were granted to employees in accordance with their employment contracts or agreements); and (iii) the additional wage bills resulting from the knock-on effect.

5.8 MWC estimated that if the SMW rate is adjusted upwards to the test levels ranging from \$38.0 to \$44.0, the additional wage bills for all sectors combined under Economic Scenario 1 would range from about \$50 million to \$4.86 billion, representing less than 0.05% to 0.56% of the total wage bills; the corresponding additional wage bills under Economic Scenario 4 would range from about \$80 million to \$7.29 billion, representing less than 0.05% to 0.84% of the total wage bills (Figure 5.2). At the test level of \$40.0, the additional wage bills under Economic Scenarios 1 and 4 would be about \$470 million and \$910 million respectively, representing 0.05% and 0.11% of the total wage bills respectively.



5.9 It is worth noting that under a more favourable economic scenario, the estimated number of pre-adjustment employees involved at the same test level would be smaller than that under a less favourable one (i.e. fewer employees would earn wages of relatively low levels), and the corresponding estimated amount of additional wage bills would be smaller as well. Owing to data limitations, the estimated amount of additional wage bills did not cover all the other additional labour costs (such as the premium for employees' compensation insurance) arising from an SMW uprating.

**Figure 5.2: Estimated increase in wage bills under Economic Scenarios 1 and 4, if the SMW rate is adjusted upwards**



Notes: (^) Between 0% and 0.05%.  
 The above estimations had taken into account rest day pay and meal break pay (if rest day pay and meal break pay were 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 requirements.  
 The assumptions on the economic growth in the first half of 2023 under different scenarios are set out in Table 4.1.  
 For detailed data on additional wage bills, please refer to **Table B.2 in Appendix V**.  
 Sources: Estimated with reference to AEHS results and different wage data.

- 5.10 As stated in Chapter 3, the majority of low-paying sectors (LPS) were labour-intensive and the proportion of labour costs in their total operating expenses was higher than other sectors. Therefore, if SMW is uprated, the impact on LPS would be more pronounced. The respective estimated amounts of additional wage bills of LPS under different economic scenarios are set out in **Table B.3 in Appendix V**. At the test level of \$40.0, the additional wage bills of LPS under Economic Scenarios 1 and 4 would be about \$280 million and \$550 million respectively, representing 0.21% and 0.42% of the total wage bills of LPS respectively.
- 5.11 On the other hand, if the SMW rate is adjusted downwards to the test level of \$36.5 or \$37.0, compared with the case in which the SMW rate remains unchanged in the first half of 2023, the decrease in total wage bills of all sectors combined under Economic Scenarios 1 and 4 would both be less than 0.05% according to crude estimation.

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

- 5.12 If the SMW rate is adjusted upwards, some labour costs associated with employees' statutory entitlements, such as LSP payable to employees who have been continuously employed by the same employers for five years or more<sup>(2)</sup>, may also increase. According to the data from AEHS, in May to June 2021, close to 40% of employees earning hourly wages below \$44.0 (i.e. the upper bound of test levels) had been working in the same organisations for five years or more. MWC estimated that if the SMW rate is adjusted upwards to the test levels ranging from \$38.0 to \$44.0, employers' potential financial liability of LSP<sup>(3)</sup> under Economic Scenario 1 would increase by about \$10 million to \$1.25 billion, representing less than 0.05% to 0.14% of the total wage bills; whereas under Economic Scenario 4, the potential financial liability of LSP would increase correspondingly by about \$20 million to \$1.77 billion, representing less than 0.05% to 0.20% of the total wage bills. At the test level of \$40.0, the potential financial liability of LSP under Economic Scenarios 1 and 4 would increase by about \$120 million and \$240 million respectively, both representing less than 0.05% of the total wage bills.

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(2) The criteria for employees to be entitled to LSP are set out in footnote (1) of **Appendix IV**.

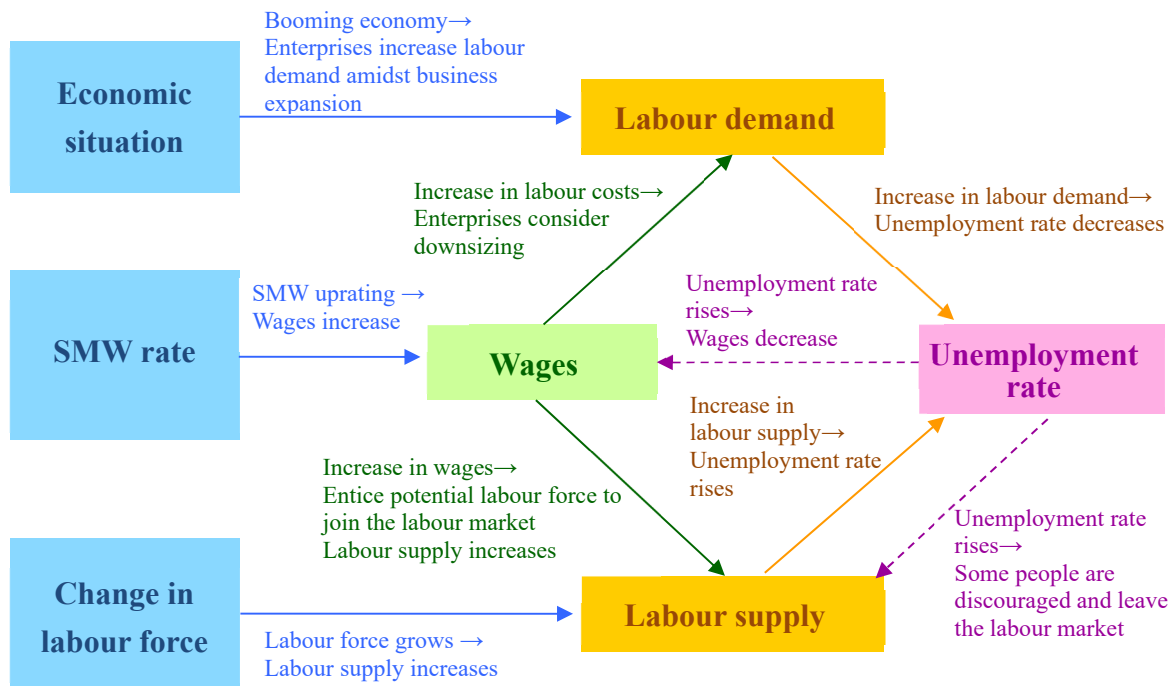
(3) The estimation was based on the assumption that LSP would not be offset by the accrued benefits from employers' contributions made to the Mandatory Provident Fund when the enterprises dismissed their employees. Separately, owing to data limitations, the estimation did not take into account cases in which employees had been continuously employed by the same employers for five years or more but were not entitled to LSP for failing to satisfy other criteria.

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

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

- 5.13 The adjustment of the SMW rate would affect labour supply and demand, which in turn would affect the unemployment rate. An SMW uprating would push up wage bills of enterprises. When enterprises face an increase in labour costs, their hiring sentiment would be dampened by varying degrees, resulting in lower labour demand. On the other hand, a pay rise may entice more people to join or re-enter the labour market, thereby boosting labour supply. Both cases would lead to a rise in the unemployment rate.
- 5.14 Labour supply and demand are also affected by other factors (such as the macroeconomic environment and population change). If the macroeconomic environment is favourable, enterprises would create sufficient new jobs to absorb labour supply, which would help alleviate the upward pressure on the unemployment rate arising from an SMW uprating. On the contrary, if the economy slackens, enterprises would slow down business expansion, cut back on recruitment, lay off their staff, or even close their businesses. The labour market would then be unable to fully absorb the labour force growth, and the unemployment rate would be subject to greater upward pressure (Figure 5.3).

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



5.15 When assessing the potential impact on the unemployment rate under various test levels, MWC already took into account the interactions between economic conditions, wage levels as well as labour supply and demand. MWC constructed an econometric model based on the quarterly economic data of the past 20 years or so to conduct an objective assessment of the possible impacts on the number of unemployed grassroots<sup>(4)</sup> workers and the overall unemployment rate under various test levels. According to MWC's estimation, if the SMW rate is adjusted upwards to the test levels ranging from \$38.0 to \$44.0, as compared with the case in which the SMW rate remains unchanged, the number of unemployed grassroots workers under Economic Scenario 1 would increase by about 100 to 13 800, and the overall unemployment rate would go up by less than 0.05 percentage point to 0.37 percentage point; whereas the number of unemployed grassroots workers under Economic Scenario 4 would increase by about 200 to 19 800, and the overall unemployment rate would go up by less than 0.05 percentage point to 0.54 percentage point (Table 5.1). At the test level of \$40.0, the number of unemployed grassroots workers under Economic Scenario 1 would increase by about 1 300, and the

(4) Grassroots occupations include occupations of elementary workers as well as service and sales workers. In May to June 2021, these two groups of workers accounted for about 75% of all low-paid employees (i.e. employees with hourly wage rates below the 10<sup>th</sup> 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.

overall unemployment rate would go up by less than 0.05 percentage point; whereas the number of unemployed grassroots workers under Economic Scenario 4 would increase by about 2 500, and the overall unemployment rate would go up by 0.07 percentage point.

**Table 5.1: Estimated impact on the number of unemployed grassroots workers and the overall unemployment rate under Economic Scenarios 1 and 4, if the SMW rate is adjusted upwards to the test levels ranging from \$38.0 to \$44.0**

<b>Economic Scenario</b>	<b>Increase in number of unemployed grassroots workers (number)</b>	<b>Rise in the overall unemployment rate (percentage point)</b>
1	100 to 13 800	Less than 0.05 to 0.37
4	200 to 19 800	Less than 0.05 to 0.54

Notes: The above estimations had taken into account rest day pay and meal break pay (if rest day pay and meal break pay were 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 requirements.

The assumptions on the economic growth in the first half of 2023 under different scenarios are set out in Table 4.1.

Source: Estimations by MWC Secretariat.

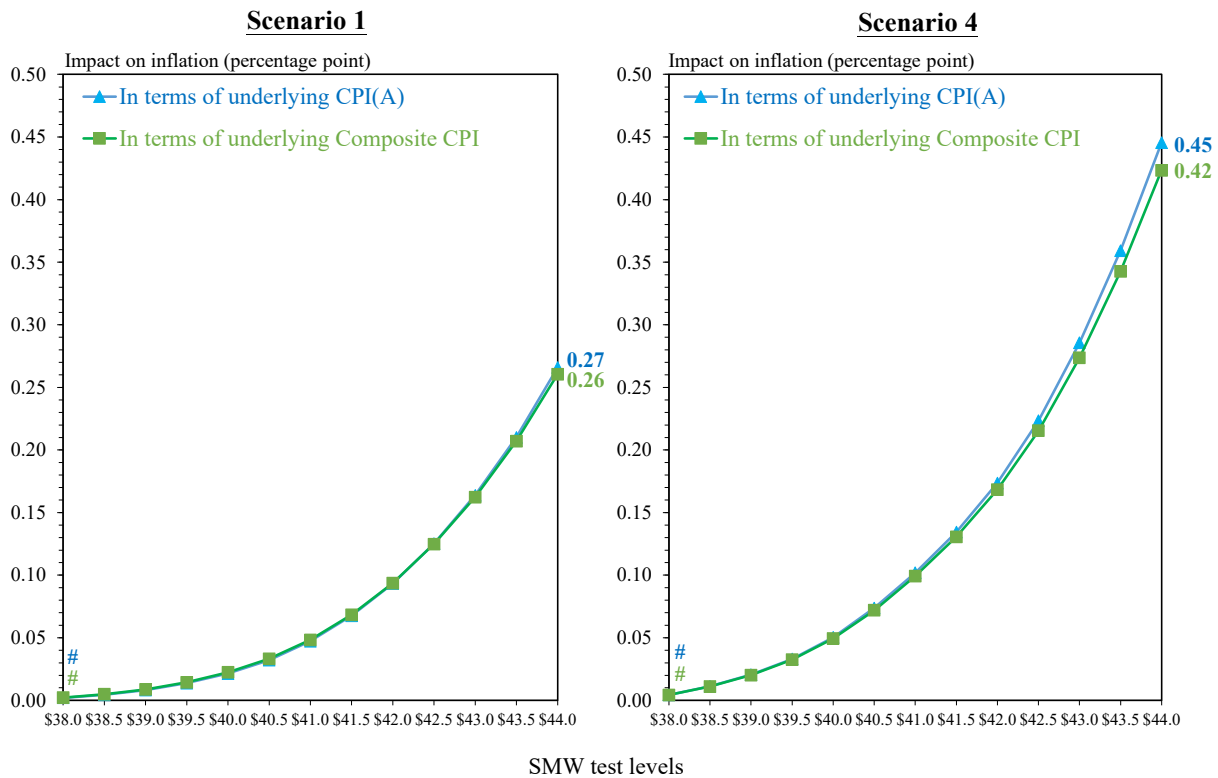
## 5.IV.2 Impact on inflation

5.16 Facing an increase in wage bills, enterprises may raise the prices of products or services to cope with the rising cost, which in turn would push up consumer price inflation. In order to gauge the maximum potential inflation impact of uprating SMW to various test levels, MWC assumed that the additional wage bills would be fully passed on to the prices of products and services, and took into account subsequent price increases of some items which were directly or indirectly linked to changes in overall prices, so as to assess the impact on inflation.

5.17 According to MWC's estimation, under Economic Scenario 1, if the SMW rate is adjusted upwards to the test levels ranging from \$38.0 to \$44.0, the underlying Composite Consumer Price Index (CPI) inflation would go up by less than 0.05 percentage point to 0.26 percentage point, and the underlying CPI(A) inflation would increase by less than 0.05 percentage point to 0.27 percentage point; whereas under Economic Scenario 4, the underlying Composite CPI inflation would go up by less than 0.05 percentage point to 0.42 percentage point, while the underlying CPI(A) inflation would increase by less than 0.05 percentage point to 0.45 percentage point (Figure 5.4). At the test level of \$40.0, the impacts on both the underlying Composite CPI inflation and the underlying CPI(A) inflation under Economic Scenario 1 would be less than 0.05 percentage point; whereas the impacts on both the underlying Composite CPI inflation and the underlying CPI(A)

inflation under Economic Scenario 4 would be around 0.05 percentage point. As it would be unlikely for enterprises to fully pass on the additional wage bills to consumers, the actual impact of an SMW uprating on inflation should be smaller than the above estimates.

**Figure 5.4: Estimated impact on inflation under Economic Scenarios 1 and 4, if the SMW rate is adjusted upwards**



Notes: (#) Between 0 and 0.05 percentage point.  
 The above estimations had taken into account rest day pay and meal break pay (if rest day pay and meal break pay were 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 requirements.  
 The assumptions on the economic growth in the first half of 2023 under different scenarios are set out in Table 4.1.

Source: Estimations by MWC Secretariat.

## 5.V Observations

- 5.18 The impact of the SMW rate adjustment hinges, to a large extent, on the economic situation at the time of implementation. Considering the significant challenges currently facing the Hong Kong economy in the short term, MWC already strived to make forward-looking estimations as far as possible when conducting the impact assessment, and put forward four economic scenario assumptions in an attempt to cover different possible situations. Hence, 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 the continuous adjustments by different sectors, it would be difficult for the assumptions adopted in the impact assessment to fully reflect the actual circumstances. Hence, the impact assessment results were meant to assist MWC in understanding the impact of adjusting the SMW rate to various test levels under different economic scenarios, and **should not** be taken as a precise forecast of the actualities of relevant situations.
- 5.19 The impact assessment set out in this chapter was to conduct tests on the possible situations arising from adjusting SMW to various test levels, and only the potential impact at the macro level was assessed. At the micro level, individual enterprises are unique and diversified in terms of operating modes, types of goods/services, labour supply and demand conditions, profitability situation, as well as strategies in response to an SMW uprating. Owing to data limitations, the impact assessment set out in this chapter did not include analysis of the conditions of individual enterprises.

## **6 Recommendation**

- 6.1 Pursuant to the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong), the main function of the Minimum Wage Commission (MWC) is, when required by the Chief Executive (CE) to do so, to make recommendation on the Statutory Minimum Wage (SMW) rate to CE in Council. In performing the function, MWC must maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and give due regard to sustaining Hong Kong's economic growth and competitiveness. (See paragraph 1.2 of Chapter 1)
- 6.2 SMW impacts on various aspects in Hong Kong, including the society, economy, labour market and inflation, etc., while the community also has different views and concerns about the review of the SMW rate. Adopting an evidence-based approach, MWC conducted the review in a comprehensive, objective and balanced manner. Apart from monitoring regularly the Array of Indicators, MWC also listened to the community's views on the review of the SMW rate, considered other factors that were pertinent to the review of the SMW rate but could not be fully quantified, and made reference to the impact assessment results of various SMW test levels under different economic scenario assumptions. (See paragraph 2.3 of Chapter 2)
- 6.3 During the current review, MWC noted that Hong Kong's economic conditions experienced huge fluctuations. Specifically, the Hong Kong economy, having recovered visibly in 2021 from the earlier deep recession, saw a marked deterioration in the first quarter of 2022 due to the slower global demand growth and the fifth wave of the local COVID-19 epidemic (the epidemic). The economy then improved in the second quarter, but the extent of improvement was weaker than expected, still declining by 1.3% on a year-on-year comparison. The labour market improved continuously through 2021 from the austere situation in the early part of the year, but it was under severe pressure again in early 2022 and subsequently improved along with the revival of domestic economic activities. The seasonally adjusted unemployment rate fell to 4.1% in June to August. As for consumer prices, inflation was on a general uptrend from its low level in early 2021, but remained moderate in overall terms. Both the underlying Composite Consumer Price Index (CPI) inflation and the underlying CPI(A) inflation were at 1.7% for the first eight months of 2022 combined. (See paragraphs 3.4 to 3.7 of Chapter 3)



- 6.4 With the markedly deteriorating global economic outlook, tightened financial conditions, evolving pandemic situation and geopolitical risks, MWC considered that the Hong Kong economy would face significant challenges in the short to medium term. Some members were also worried that the cost pressure faced by enterprises would increase sizably amid the elevated global inflation and the decrease in local labour force.
- 6.5 In conducting this review, MWC listened to the community's views on the review of the SMW rate in an extensive and in-depth manner through public consultation and consultation meetings. In summary, the business sector generally considered that, amid the uncertain economic outlook of Hong Kong, an SMW uprating would push up the operating costs and trigger a knock-on effect on pay hierarchies, which might cause enterprises to lay off employees or even cease business. Therefore, the business sector suggested maintaining the prevailing SMW rate. The labour sector, however, considered that grassroots employees were faced with the increasing cost of living, and the SMW rate should be adjusted upwards to catch up with inflation. Furthermore, quite a number of views considered that the wage level of grassroots employees should increase in tandem with the overall salary of employees. (See [Appendix III](#)) These views facilitated MWC to understand the impacts of SMW on the Hong Kong economy, society, employment conditions, various sectors (in particular the low-paying sectors (LPS)) and small and medium enterprises in a more comprehensive manner; and provided MWC with important references for formulating the impact assessment framework for the review of the SMW rate. (See Section 4.IV of Chapter 4)
- 6.6 MWC also considered that one of the major objectives of SMW was to forestall excessively low wages and therefore the purchasing power of low-paid employees (especially those grassroots employees earning just the SMW rate) should be maintained as far as possible. Although the level of economic activities had yet to recover to the pre-recession level, economic activities should revive further as long as the local epidemic situation is under control.
- 6.7 Upholding the evidence-based approach, MWC conducted detailed analysis and in-depth evaluation, in addition to thorough consideration of relevant factors and the community's views on the review of the SMW rate. Upon iterative deliberations, MWC unanimously reached a consensus on the recommendation of adjusting the SMW rate upwards to \$40.0 per hour, i.e. an increase by \$2.5 or 6.7%.

- 6.8 Based on the results of the impact assessment<sup>(1)</sup>, at the recommended rate of \$40.0 per hour, the estimated number of pre-adjustment employees involved under Economic Scenarios 1 and 4 (i.e. assuming a year-on-year economic growth of 4% and -3.5% respectively in the first half of 2023) would be around 46 500 and 87 300 respectively (representing 1.6% and 3.1% of all employees in Hong Kong respectively). As for the impact on enterprises, the estimated additional wage bills for all sectors combined under Economic Scenarios 1 and 4 would be about \$470 million and \$910 million respectively, representing 0.05% and 0.11% of the total wage bills respectively. In particular, the estimated additional wage bills of LPS, with the majority of them being labour-intensive, would be about \$280 million and \$550 million respectively, representing 0.21% and 0.42% of the total wage bills of LPS respectively. In addition, the potential financial liability of long service payment of all employers combined under Economic Scenarios 1 and 4 would increase by about \$120 million and \$240 million respectively, both representing less than 0.05% of the total wage bills. (See paragraphs 5.3, 5.8, 5.10 and 5.12 of Chapter 5)
- 6.9 As for the unemployment rate, based on the impact assessment, raising SMW to the recommended rate under Economic Scenario 1 would increase the number of unemployed grassroots<sup>(2)</sup> workers by about 1 300 and the overall unemployment rate would go up by less than 0.05 percentage point. Under Economic Scenario 4, the number of unemployed grassroots workers would increase by about 2 500 and the overall unemployment rate would go up by 0.07 percentage point. On inflation front, assuming that enterprises would fully pass on the additional wage bills to prices of products and services, the impacts of raising SMW to the recommended rate on both the underlying Composite CPI inflation and the underlying CPI(A) inflation under Economic Scenario 1 would be less than 0.05 percentage point; whereas the impacts on both the underlying Composite CPI inflation and the underlying CPI(A) inflation under Economic Scenario 4 would be around 0.05 percentage point. Considering that it would be unlikely for enterprises to fully pass on the additional wage bills to consumers, if the SMW rate is adjusted upwards to the recommended rate, the actual impact on inflation should be smaller than the above estimates. (See paragraphs 5.15 to 5.17 of Chapter 5)

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(1) The detailed results and explanation of the methodology of the impact assessment are presented in Chapter 5 and **Appendix IV** respectively.

(2) Grassroots occupations include occupations of elementary workers as well as service and sales workers.

- 6.10 Upon iterative deliberations together with in-depth and rational discussions, MWC considered that raising the SMW rate to \$40.0 per hour could maintain an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, and give due regard to sustaining Hong Kong's economic growth and competitiveness.
- 6.11 The recommended SMW rate was reached with the consensus of MWC based on the evidence-based approach and through rational discussions. It was considered that the recommended rate would be conducive to the overall interest and development of Hong Kong.

## Appendix I

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

Summary of Indicators	Statistical Indicators	Data Sources
<b>Area Considered (1): General Economic Conditions</b>		
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
<b>Area Considered (2): Labour Market Conditions</b>		
1. Labour demand and supply – employment, unemployment, underemployment, labour force and vacancies	Labour statistics	General Household Survey (GHS), C&SD
	Vacancies	Quarterly Survey of Employment and Vacancies (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
<b>Area Considered (3): Competitiveness</b>		
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 registrations	Inland Revenue Department
	Number of cancellation of business registrations	Inland Revenue Department
	Number of bankruptcy and compulsory winding-up petitions presented	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
	Number of 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 situation	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
<b>Area Considered (4): Social Inclusion</b>		
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 that Attended Consultation Meetings Conducted by the Minimum Wage Commission (listed in alphabetical order)

#### II.1 Focused Consultation Meetings with Low-paying Sectors in September 2021

<b>Name of Organisation</b>	
1.	Academy Facilities Management and Maintenance Practitioners Association 院校設施管理及維修從業員協會
2.	Association of Escort Service Staffs 陪護服務從業員協會
3.	Association of Health Service Workers 健康服務從業員協會
4.	Association of Professional Pest Control Practitioner 專業滅蟲人員工會
5.	Association of Sales and Promotion Employees 銷售及推廣職工協會
6.	Baguio Cleaning Services Company Limited 碧瑤清潔服務有限公司
7.	Bakery, Confectionery and Cake Trade Workers Union 麵包糖果餅業食品職工會
8.	Building Supervisors and Caretakers Union 大廈管理員職工會
9.	Catering Trade Chiuchow and Cantonese Workers Union 飲食業潮粵籍職工會
10.	Certis Centurion Facility Company Limited 世紀服務有限公司
11.	Chan Kee Foods Limited 陳記食品有限公司
12.	Chinese & Western Food Workers Union 中西飲食業職工會
13.	Chiu Chow Overseas Food Trade Merchants Association Limited 潮僑食品業商會
14.	Chow Tai Fook Jewellery Group Limited 周大福珠寶集團有限公司
15.	City Cut Hair & Beauty Salon 匠髮廊
16.	City Professional Management Limited 城市專業管理有限公司
17.	City Security Company Limited 城市護衛有限公司
18.	Cleaning Workers Union 清潔工人職工會
19.	Commercial Organization and Domicile Services Employees Association 商業機構及家居服務從業員協會
20.	Commodities Promotion and Retailing Employees General Union 商品推廣及零售業僱員總會
21.	Creative Property Services Consultants Limited 創毅物業服務顧問有限公司
22.	D & G Development Limited 瑞華行發展有限公司
23.	Dining Workshop (Hong Kong) Limited 飲食工房（香港）有限公司
24.	Dr. Kong Footcare Limited Dr. Kong 健康鞋專門店
25.	Eating Establishment Employees General Union 飲食業職工總會
26.	Environmental Contractors Management Association 環保工程商會

<b>Name of Organisation</b>	
27.	Environmental Services Contractors Alliance (Hong Kong) 香港環境衛生業界大聯盟
28.	Environmental Services Operatives Union 環境服務從業員工會
29.	Fastfood and Catering Staff General Union 快餐及食店員工總會
30.	Federation of Beauty Industry (H.K.) 香港美容業總會
31.	Food and Beverage Industry Employees General Union 食品及飲品業僱員總會
32.	Food and Beverage Management and Professional Staff Association 飲食業管理專業人員協會
33.	Good Excel Property Consultants Limited 卓安物業顧問有限公司
34.	Guardforce Limited 衛安有限公司
35.	Hair and Make-up Stylish Image Designers General Union 髮型化妝整體形象設計師總會
36.	Hang Yick Properties Management Limited 恒益物業管理有限公司
37.	Happiness Cuisine 囍慶酒家
38.	Hiu Kwong Nursing Service Limited 曉光護老服務有限公司
39.	Hong Kong & Kowloon Electrical Appliances Merchants Association Limited 港九電器商聯會有限公司
40.	Hong Kong & Kowloon Vermicelli and Noodle Manufacturing Industry Merchants General Association 港九粉麵製造業總商會
41.	Hong Kong Air Freight Transport and Express Transport Employees Union 香港航空貨運及速遞業工會
42.	Hong Kong Beauty and Fitness Professionals General Union 香港美容健體專業人員總會
43.	Hong Kong Buildings Management and Security Workers General Union 香港物業管理及保安職工總會
44.	Hong Kong Cleaning Association Limited 香港清潔商會有限公司
45.	Hong Kong Commercial Cleaning Services Limited 香港工商清潔服務有限公司
46.	Hong Kong Department Stores & Commercial Staff General Union 香港百貨、商業僱員總會
47.	Hong Kong Environmental Services Employees Union 香港環境服務職工會
48.	Hong Kong Environmental Services, Logistics and Cleaning Employees Association 香港環保、物流及清潔從業員協會
49.	Hong Kong Federation of Restaurants & Related Trades Limited 香港餐飲聯業協會有限公司
50.	Hong Kong Food Council Limited 香港食品委員會有限公司
51.	Hong Kong Health Workers Association 香港保健員協會
52.	Hong Kong Housing Management Employees Union 香港樓宇管理僱員工會



<b>Name of Organisation</b>	
53.	Hong Kong Private Nursing Home Owners Association 全港私營安老院同業會
54.	Hong Kong Retail Management Association 香港零售管理協會
55.	Hong Kong Security Industry Staff Association 香港保安業人員協會
56.	Hong Kong Union of Chinese Workers in Western Style Employment 香港洋務工會
57.	Institution of Dining Art 稻苗學會
58.	International Housewares Retail Company Limited 國際家居零售有限公司
59.	ISS EastPoint Property Management Limited 置邦物業服務有限公司
60.	Johnson Cleaning Services Company Limited 莊臣有限公司
61.	Kai Shing Management Services Limited 啟勝管理服務有限公司
62.	Kam Hing Food Factory Limited 錦興粉麵食品集團
63.	Kam Kee Café 金記冰室
64.	Kato (Hong Kong) Holdings Limited 嘉濤（香港）控股有限公司
65.	Kung Wo Tong 恭和堂
66.	Kuokon Security Limited 港安警衛有限公司
67.	Kwan Sang Catering Professional Employees Association 群生飲食技術人員協會
68.	Law's Cleaning Services Limited 羅氏清潔服務有限公司
69.	Li Hing Environmental Services Company Limited 利興環境服務有限公司
70.	Lo's Cleaning Services Limited 勞氏清潔服務有限公司
71.	McDonald's Hong Kong 香港麥當勞
72.	Megastrength Security Services Company Limited 宏力保安服務有限公司
73.	Million Rank (Hong Kong) Limited 百階（香港）有限公司
74.	New China Laundry Limited 新中國洗衣有限公司
75.	Nice Property Management Limited 嘉怡物業管理有限公司
76.	Nin Jiom Medicine Manufactory (Hong Kong) Limited 京都念慈菴總廠有限公司
77.	Professional Security Services Limited 專業護衛有限公司
78.	Promoters and Casual Workers Union 推廣員及零散工工會
79.	Property Management Employees Solidarity Union 物業管理僱員團結工會
80.	Retail & Wholesale Trades Employees Association 零售及批發從業員協會
81.	Retail, Commerce and Clothing Industries General Union 零售、商業及成衣業總工會
82.	Service Industry General Union 服務業總工會
83.	Shanghai Lane 上海弄堂菜肉餛飩
84.	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
85.	Sun Lok Restaurant 新樂茶餐廳
86.	Supermarkets & Chain Stores Employees General Union 超市及連鎖店僱員總會

<b>Name of Organisation</b>	
87.	Swire Resources Limited 太古資源有限公司
88.	The Association for Hong Kong Catering Services Management Limited 香港餐務管理協會
89.	The Elderly Services Association of Hong Kong 香港安老服務協會
90.	The Federation of Environmental and Hygiene Services 中港澳環衛總商會
91.	The Federation of Hong Kong Food & Beverage Industries Trade Unions 香港飲食業職工會聯合會
92.	The Hong Kong Association of Property Management Companies Limited 香港物業管理公司協會
93.	The Hong Kong General Union of Security & Property Management Industry Employees 香港護衛及物業管理從業員總會
94.	The Hong Kong Institute of Housing 香港房屋經理學會
95.	The Wing On Department Stores (Hong Kong) Limited 永安百貨有限公司
96.	Union of Hong Kong Beauty and Health Care Employees 香港美容保健業僱員總會
97.	Well Born Real Estate Management Limited 偉邦物業管理有限公司
98.	Yee Hop Cleaning Company 義合清潔公司
99.	Zung Fu Company Limited 仁孚行有限公司

## II.2 Consultation Meetings in June 2022 (conducted via videoconference)

<b>Name of Organisation</b>	
1.	AEON Stores (Hong Kong) Co. Limited 永旺（香港）百貨有限公司
2.	Association of Professional Pest Control Practitioner 專業滅蟲人員工會
3.	Association of Sales and Promotion Employees 銷售及推廣職工協會
4.	Bakery, Confectionery and Cake Trade Workers Union 麵包糖果餅業食品職工會
5.	Beer, Aerated Water and Beverage Industries Employees Union 啤酒汽水飲品業職工會
6.	Best Result Environmental Services Limited 恒毅環衛服務有限公司
7.	Catering Trade Chiuchow and Cantonese Workers Union 飲食業潮粵籍職工會
8.	Chamber of Security Industry 保安業商會
9.	China Overseas Property Services Limited 中國海外物業服務有限公司
10.	China-Hong Kong Passenger Transportation Workers Union 中港客運從業員工會
11.	Chinese & Western Food Workers Union 中西飲食業職工會
12.	Chow Sang Sang Holdings International Limited 周生生集團國際有限公司
13.	Cleaning Workers Union 清潔工人職工會
14.	Commercial Organization and Domicile Services Employees Association 商業機構及家居服務從業員協會
15.	Dr. Kong Footcare Limited Dr. Kong 健康鞋專門店
16.	Dragon Guard Security Limited 龍衛保安有限公司
17.	Eating Establishment Employees General Union 飲食業職工總會
18.	Employers' Federation of Hong Kong 香港僱主聯合會
19.	Environmental Contractors Management Association 環保工程商會
20.	Environmental Services Contractors Alliance (Hong Kong) 香港環境衛生業界大聯盟
21.	Fastfood and Catering Staff General Union 快餐及食店員工總會
22.	Federation of Hong Kong Industries 香港工業總會
23.	Federation of International SME Limited 國際中小企聯合商會
24.	Food and Beverage Management and Professional Staff Association 飲食業管理專業人員協會
25.	Fuk Yuen Group 福苑集團
26.	General Security (HK) Limited 大眾安全警衛（香港）有限公司
27.	General Union of Hong Kong Tourism Services Industry Employees 香港旅遊服務業員工總會
28.	Hair and Make-up Stylish Image Designers General Union 髮型化妝整體形象設計師總會
29.	Hang Yick Properties Management Limited 恒益物業管理有限公司

<b>Name of Organisation</b>	
30.	Happiness Cuisine 囍慶酒樓
31.	Hong Kong & Kowloon Electrical Appliances Merchants Association Limited 港九電器商聯會有限公司
32.	Hong Kong (SME) Economic and Trade Promotional Association 香港中小企經貿促進會
33.	Hong Kong Aero Engine Services Limited Staff Association 香港航空發動機維修服務員工協會
34.	Hong Kong Apparel Society Limited 香港製衣同業協進會有限公司
35.	Hong Kong Beauty and Fitness Professionals General Union 香港美容健體專業人員總會
36.	Hong Kong Catholic Commission for Labour Affairs 香港天主教勞工事務委員會
37.	Hong Kong Chamber of Professional Property Consultants Limited 香港專業地產顧問商會有限公司
38.	Hong Kong Chilled Meat & Poultry Association 香港冰鮮禽畜業商會
39.	Hong Kong Clerical Employees General Union 香港文職人員總會
40.	Hong Kong Commercial Cleaning Services Limited 香港工商清潔服務有限公司
41.	Hong Kong Department Stores & Commercial Staff General Union 香港百貨、商業僱員總會
42.	Hong Kong Environmental Services Employees Union 香港環境服務職工會
43.	Hong Kong Environmental Services, Logistics and Cleaning Employees Association 香港環保、物流及清潔從業員協會
44.	Hong Kong Federation of Restaurants & Related Trades Limited 香港餐飲聯業協會有限公司
45.	Hong Kong Federation of Women 香港各界婦女聯合協進會
46.	Hong Kong Fork-lift Trucks Professionals Association 香港叉式剷車專業人員協會
47.	Hong Kong General Chamber of Commerce 香港總商會
48.	Hong Kong General Chamber of Social Enterprises Limited 香港社會企業總會有限公司
49.	Hong Kong Gourmet Limited 香港美食有限公司
50.	Hong Kong Health Workers Association 香港保健員協會
51.	Hong Kong Housing Management Employees Union 香港樓宇管理僱員工會
52.	Hong Kong Institute of Human Resource Management 香港人力資源管理學會
53.	Hong Kong People Management Association 香港人才管理協會
54.	Hong Kong Professionals and Senior Executives Association 香港專業及資深行政人員協會

<b>Name of Organisation</b>	
55.	Hong Kong Restaurant & Eating House Merchants General Association 香港飲食業總商會
56.	Hong Kong Retail Management Association 香港零售管理協會
57.	Hong Kong Services Industry Employees Association 香港服務業僱員協會
58.	Hong Kong Shippers' Council 香港付貨人委員會
59.	Hong Kong Small and Medium Enterprises Association 香港中小型企業聯合會
60.	Hong Kong SME Development Federation Limited 香港中小企促進聯會
61.	Hong Kong Storehouses, Transportation & Logistics Staff Association 香港倉庫運輸物流員工協會
62.	Hong Kong Waste Disposal Industry Association 香港廢物處理業協會
63.	Hong Kong Women Workers' Association 香港婦女勞工協會
64.	Hotels, Food & Beverage Employees Association 酒店及餐飲從業員協會
65.	Institution of Dining Professionals 稻苗飲食專業學會
66.	International Housewares Retail Company Limited 國際家居零售有限公司
67.	Joint Council of Estate Agents Associations 地產代理業界聯席會議
68.	Kam Kee Café 金記冰室
69.	Li Hing Environmental Services Company Limited 利興環境服務有限公司
70.	Lo's Cleaning Services Limited 勞氏清潔服務有限公司
71.	McDonald's Hong Kong 香港麥當勞
72.	Megastrength Security Services Company Limited 宏力保安服務有限公司
73.	Nice Property Management Limited 嘉怡物業管理有限公司
74.	Nin Jiom Medicine Manufactory (Hong Kong) Limited 京都念慈菴總廠有限公司
75.	Oxfam Hong Kong 樂施會
76.	Parkland Property Management Limited 柏齡物業管理有限公司
77.	Professional Security Services Limited 專業護衛有限公司
78.	Promoters and Casual Workers Union 推廣員及零散工工會
79.	Property Management Administrative and Clerical Staff Association 物業管理行政及文職人員協會
80.	Retail & Wholesale Trades Employees Association 零售及批發從業員協會
81.	Savills Property Management Limited 第一太平戴維斯物業管理有限公司
82.	Service Industry General Union 服務業總工會
83.	Shiu Hang Cleaning Services Co. Limited 兆恆清潔服務有限公司
84.	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
85.	Supermarkets & Chain Stores Employees General Union 超市及連鎖店僱員總會
86.	Swan Hygiene Services Limited 時運服務有限公司

<b>Name of Organisation</b>	
87.	Swire Resources Limited 太古資源有限公司
88.	Synergis Management Services Limited 昇捷管理服務有限公司
89.	The Association for Hong Kong Catering Services Management Limited 香港餐務管理協會
90.	The Association of Hong Kong Auxiliary Medical Service Members 香港醫療輔助隊隊員協會
91.	The Chamber of Hong Kong Logistics Industry 香港物流商會
92.	The Chinese General Chamber of Commerce 香港中華總商會
93.	The Chinese Manufacturers' Association of Hong Kong 香港中華廠商聯合會
94.	The Federation of Hong Kong & Kowloon Labour Unions 港九勞工社團聯合會
95.	The Federation of Hong Kong Food & Beverage Industries Trade Unions 香港飲食業職工會聯合會
96.	The Hong Kong Chinese Importers' & Exporters' Association 香港中華出入口商會
97.	The Hong Kong Construction Association Limited 香港建造商會有限公司
98.	The Hong Kong Council of Social Service 香港社會服務聯會
99.	The Hong Kong Federation of Trade Unions 香港工會聯合會
100.	The Hong Kong General Chamber of Small and Medium Business 香港中小型企業總商會
101.	The Hong Kong General Union of Security & Property Management Industry Employees 香港護衛及物業管理從業員總會
102.	The Hong Kong Institute of Housing 香港房屋經理學會
103.	The Hong Kong Security Association 香港保安業協會
104.	The N.T. North District Manufacturers Association of Hong Kong Limited 香港新界北區廠商會有限公司
105.	The Roast and Dried Meat and Catering Professionals Association 烤臘及飲食專業人員協會
106.	The Wing On Department Stores (Hong Kong) Limited 永安百貨有限公司
107.	Theatres and Amusement Parks Workers Union 戲院遊樂場職工會
108.	Ting On Home For The Aged Limited 定安護老院有限公司
109.	Tom Lee Music 通利琴行
110.	Urban Property Management Limited 富城物業管理有限公司
111.	Waihong Environmental Services Limited 惠康環境服務有限公司
112.	YATA Limited 一田有限公司
113.	Yick Tat Property Management Co. Limited 億達行物業管理有限公司
114.	Yip's Cleaning Service Company Limited 葉氏清潔服務有限公司

## 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 in-depth consultation, including convening focused consultation meetings with stakeholders of low-paying sectors (LPS) (including labour organisations, employers' associations/professional institutes and employers); and launching public consultation as well as conducting consultation with stakeholders via videoconference on the review of the Statutory Minimum Wage (SMW) rate. The following is a gist of the views collected during these consultation activities.

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

##### A. General economic conditions

III.2.1 Some employers' associations and a small and medium enterprise (SME) association expressed that the global economy was experiencing a downturn with an uncertain economic outlook amid the COVID-19 epidemic (the epidemic) and geopolitical tensions such as the Russia-Ukraine conflict. The Hong Kong economy continued to weaken under the impact of external factors, and deteriorated in the light of the epidemic and "border closure" with widespread effects on various sectors. Among the hardest hit were the retail, food and beverage services and tourism-related sectors. The overall economic and business environment was facing unprecedented challenges. Amid the uncertain economic outlook, many enterprises, especially those in LPS and SMEs, were forced to downsize or even cease business under the pressure brought by the difficult business environment and rising operating costs, resulting in a high unemployment rate.

III.2.2 Some employers' associations from the retail, food and beverage services and logistics sectors as well as employer representatives expressed that the epidemic had caused operating difficulties to various sectors. Retail sales were far below the pre-epidemic level. The business of restaurants was dealt a heavy blow by various anti-epidemic and social distancing measures. The freight logistics sector, in particular cross-border

transportation, was also hard hit by the epidemic. The business outlook for these sectors was very grim.

III.2.3 A labour organisation, a labour policy concern group and some members of the public expressed that the Gross Domestic Product (GDP) and other economic indicators declined amid the local economic downturn with an elevated unemployment rate. Meanwhile, the livelihood of grassroots employees was severely affected by the epidemic, with employees from different sectors facing situations such as underemployment, reduced working hours, pay cuts or even dismissals.

III.2.4 Some labour organisations and a think tank/policy research institute expressed that the purchasing power of grassroots employees' wages had been declining as domestic prices were on the rise despite the current economic recession. A labour policy concern group expressed that grassroots employees in frontline positions (such as security guards) needed to purchase additional anti-epidemic supplies during the epidemic, thus increasing their overall living expenses.

## **B. Impact of Statutory Minimum Wage**

### **(i) Labour market conditions**

#### **(a) Labour demand and supply**

III.2.5 Some employers' associations, a professional institute, some SME associations and an employer representative expressed that the implementation of SMW had exacerbated the problem of labour shortage in certain sectors. With an across-the-board SMW rate, grassroots employees chose to work in sectors with a relatively comfortable working environment, leading to severe loss of employees and labour shortage in some LPS. Employers were unable to attract and retain talents even if they were willing to pay a salary higher than the SMW rate, making business operations more difficult. Some labour organisations, on the contrary, pointed out that labour shortage and recruitment difficulties were affected by a host of factors (such as the characteristics of individual sectors and the epidemic) and should not be attributed to the implementation of SMW.

III.2.6 Some employers' associations expressed that an uprating of SMW would weaken the hiring sentiment of enterprises and affect the labour market amid the economic recession in Hong Kong. A labour organisation, a labour policy concern group and some members



of the public pointed out that as Hong Kong was hard hit by the epidemic, the labour market was seriously affected with reduced working hours, pay cuts or dismissals occurring from time to time. A political party, on the contrary, considered that there might not be any correlation between the implementation of SMW and changes in the unemployment rate.

III.2.7 A think tank/policy research institute, a political party and a member of the public expressed that the implementation of SMW gradually changed the demand in the labour market. Following the upratings of SMW, enterprises accelerated the adoption of technology and automation systems to replace physical and labour-intensive work in order to reduce headcount. If labour shortage persisted in the labour market and labour costs increased, enterprises would more actively develop technology and automation systems. The demand for labour would fall in the long run.

**(b) Wage level and distribution**

III.2.8 Some employers' associations and a professional institute considered that the implementation of SMW had protected the income of employees in LPS, raised the overall wage level in the society and benefited grassroots employees.

III.2.9 An employers' association, a professional institute, a think tank/policy research institute and a political party expressed that since the implementation of SMW, its upratings had exceeded inflation over the corresponding periods. The prevailing SMW rate was already adequate to protect the income of employees in LPS. While the overall salaries of employees in Hong Kong showed a steady increase, the number of employees earning the SMW rate fell significantly.

III.2.10 Some labour organisations expressed that as the SMW rate was frozen in the last review, grassroots employees earning the SMW rate did not get any pay rise. Currently, there were not many employees earning the SMW rate. It showed that SMW was no longer effective in protecting low-paid employees, nor could it meet the policy objective of forestalling excessively low wages.

**(c) Wage differentials**

III.2.11 A professional institute, an SME association, a think tank/policy research institute and a member of the public considered that with the implementation of SMW, employees

engaged in different sectors/types of jobs must be paid wages not lower than the across-the-board SMW rate. Given the narrowed wage differentials among various sectors/types of jobs, employees preferred to take up relatively comfortable jobs, resulting in labour shortage in jobs with more strenuous duties.

**(d) Employment characteristics**

III.2.12 An employers' association and some employer representatives expressed that these days employees tended to opt for jobs with greater flexibility when seeking jobs, such as temporary or part-time jobs with shorter working hours and greater autonomy, or jobs closer to their places of residence. As a result, there was chronic labour shortage in certain sectors such as food and beverage services and retail. Some employers had reluctantly resorted to hiring temporary or part-time workers with higher mobility, leading to succession gaps and structural shocks in these sectors. Some labour organisations, on the contrary, reflected that since the implementation of SMW, it had become more common for employers to switch permanent employees to casual workers in order to save on employees' benefits for hiring permanent employees. Besides, some employers had cut headcount to reduce labour costs, thereby greatly increasing the workload of serving employees.

III.2.13 Some employers' associations and a professional institute expressed that some employees chose to work fewer hours or take up lower-paid jobs in order to keep their income within the public rental housing (PRH) income limits and to avoid taxation. Besides, a labour organisation pointed out that as the prevailing SMW rate was excessively low, some grassroots employees had chosen to leave the labour market for the time being and lived on the Comprehensive Social Security Assistance (CSSA), resulting in labour shortage in the labour market.

**(ii) Competitiveness**

**(a) Impact on different sectors**

III.2.14 Some labour organisations considered that even though the Hong Kong economy was facing great challenges, the major factors affecting Hong Kong's economic development and competitiveness were public safety, the legal system, the business environment, etc., rather than SMW upratings.

- III.2.15 Some employers' associations, SME associations and a political party expressed that the implementation of SMW, coupled with labour shortage in the labour market, had led to a continuous rise in labour costs for local enterprises. The high operating costs caused a drop in the competitiveness of various sectors, the effect of which was particularly significant on the labour-intensive LPS as well as SMEs with generally lower profit margins. With a relatively high proportion of wage bills to the total operating expenses, SMEs in LPS usually had lower bargaining power. Not only was it unlikely for them to pass on additional costs to consumers or clients, it was also not possible for them to cut costs through economies of scale like large-scale enterprises. Therefore, they did not have much profit margin to offset the additional labour costs induced by SMW upratings.
- III.2.16 Some employers' associations and an employer representative from the retail sector as well as a member of the public expressed that the retail sector suffered an unprecedented heavy blow as the Hong Kong economy was affected by the social incidents and the epidemic in recent years. Even though the sector had benefited from the Consumption Voucher Scheme and rental concessions offered by individual landlords, these short-term measures and assistance were not adequate to tide them over the difficult times. As the epidemic gradually stabilised, some landlords intended to raise rental after the resumption of quarantine-free travel. As such, the retail sector would still face immense pressure from rental expenses. SMW narrowed the room for negotiation between enterprises and employees on wage levels, thereby weakening the operational flexibility of enterprises. Some labour organisations from the retail sector, on the contrary, pointed out that consumption sentiment rose markedly after the launch of Consumption Voucher Scheme, leading to an increase in the income of retailers, but the purchasing power of the wages of employees in the sector decreased owing to the frozen SMW rate. Besides, the epidemic led to "border closure" and affected the number of visits under the Individual Visit Scheme, resulting in a significant drop in the number of inbound travellers and in turn the commission earnings of employees in the retail sector. Some of the employees could only earn a basic salary at more or less the SMW rate. Furthermore, since no new blood was willing to join the retail sector which was characterised by long working hours, labour shortage was exacerbated and the sector's development was hampered.
- III.2.17 Some employers' associations and a professional institute from the food and beverage services sector expressed that SMW had induced a ripple effect of rising wage levels of employees in the sector and heavy labour costs to employers. Hard hit by the social

incidents and the epidemic, the food and beverage services sector bore the brunt of the impacts and its business environment was further disrupted by various anti-epidemic and social distancing measures. As many operators in the sector closed down their businesses, employees lost their jobs or had to switch to other sectors. The unemployment situation in the food and beverage services sector was expected to persist. Besides, the upratings of SMW exacerbated the problem of labour shortage in the sector, which in turn throttled its room for survival. Some labour organisations from the food and beverage services sector reflected while employees in the sector used to earn a salary higher than the SMW rate, they had no choice but to accept taking no-pay leave or receiving only 80% of their salaries leading to a significant reduction in income as the sector was in a slump amid the epidemic. However, they could not apply for CSSA or other relief fund as they were still in employment, which made life even harder for them. The SMW regime could not provide protection for employees in the sector.

III.2.18 Some labour organisations from the estate management sector expressed that wage levels varied with relatively great wage differentials in the security services sector. Although the wage level of most security guards was already higher than the SMW rate, some of those working in single block residential buildings earned just the SMW rate and the exploitative practice of multi-layer subcontracting still existed in the sector. Security guards had been under much greater pressure from work since the social incidents and the epidemic. Some of them had to work as many as 12 hours a day and even overtime. As a result, the sector suffered a severe loss of manpower. Furthermore, SMW did not bring actual pay rise to clerical staff in the estate management sector, whose nature of work was different from that of security guards and cleaning workers. They had a wider scope of duties, more inter-related tasks and greater responsibilities. However, the owners' corporations did not raise their salaries at the same rate as the increase in the SMW rate whenever the latter was adjusted upwards. This resulted in a high turnover rate of clerical staff in the sector.

III.2.19 Some employers' associations from the cleaning services sector expressed that only a small number of employees in the sector earned the SMW rate, and the hourly wage of government outsourced cleaning workers even reached \$59 to \$60 which reflected a significant increase in wage level of cleaning workers. Some labour organisations 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 older age or even from

vulnerable groups. Despite a general pay rise for government outsourced cleaning workers in recent years, many cleaning workers on private service contracts were still earning a salary at the SMW rate. Moreover, as multi-layer subcontracting was very common in the sector, some non-government outsourced workers were earning a salary at just the SMW rate. Furthermore, despite the long working hours and heavy workload, some cleaning workers were earning less than the amount of CSSA payment. This not only failed to encourage employment, but also defeated the original policy objectives of implementing SMW. Besides, a labour policy concern group reflected that cleaning workers had to purchase anti-epidemic supplies for work purpose even though there was no adjustment of wage level during the epidemic, thereby further increasing their living expenses. If they were confirmed to be infected with the disease and had to be absent from work to fulfil the anti-epidemic requirements, their income would drop drastically resulting in additional financial pressure.

III.2.20 Some employers' associations from the elderly care sector expressed that before the implementation of SMW, the sector could still recruit staff by offering a higher salary despite its obnoxious nature and long working hours. However, since the implementation of SMW, employees in the sector had been switching to other sectors offering a relatively comfortable working environment. A large number of the staff of elderly homes or their family members were infected as a result of the fifth wave of the epidemic and had to be quarantined or isolated, thus exacerbating the acute labour shortage in elderly homes. During the epidemic, the loss of manpower in the elderly care sector was further aggravated since care workers in the sector faced a higher risk of infection. Furthermore, youngsters seldom considered choosing elderly care jobs. Without new entrants, the long-standing problem of labour shortage could not be alleviated even if employers in the sector were willing to raise staff salaries. Although faced with problems such as rising labour costs and rental, the sector could not pass on these costs to the residents of elderly homes and therefore found it hard to bear the additional costs induced by SMW upratings. Some labour organisations from the elderly care sector pointed out that the objective of SMW was to provide wage protection for low-paid persons (such as new entrants without experience and skills) and to ensure that they would not be subjected to exploitation. However, in general, applicants for positions in the sector (such as health workers) would only be hired if they had relevant licences and experience. It was therefore impossible for employers to recruit suitable

and sufficient manpower if they offered a salary at just the SMW rate.

- III.2.21 A labour organisation from the beauty sector reflected that the salaries of employees in the sector used to be higher than the SMW rate. However, under the impact of the epidemic, the sector was faced with suspension of operation and a decline in patronage. As a result, many employees were only earning the SMW rate, or even had to take no-pay leave. Newly-joined beauticians generally earned only a salary at the SMW rate which could hardly meet their living expenses. An employers' association from the beauty sector also expressed that the sector generally employed beauticians on a basic salary set at the SMW rate plus commission, and that customer tipping had become rare in the sector.
- III.2.22 A labour organisation from the hairdressing sector expressed that employees in the sector were generally employed on a basic salary plus service fees sharing, and employees or apprentices without relevant experience might only earn the SMW rate. Business turnover in the sector plummeted under the impact of the epidemic. In the face of rising inflation and high housing expenses, employees in the sector could hardly make ends meet and many had to dip into their savings as their salaries could not cover personal and household expenses. Besides, as the SMW rate had not been adjusted upwards for years, the wage level in the sector became unattractive and new entrants were uncommon. In addition, some hairdressers chose to switch to other sectors as the hairdressing sector was faced with, among others, suspension of operation due to the epidemic. An employer representative from the hairdressing sector reflected that the apprenticeship system in some sectors had disappeared since the implementation of SMW. Even with trainees from the Vocational Training Council and so on entering the labour market, the number still fell short of market needs, making it difficult for these sectors to develop sustainably.
- III.2.23 Some employers' associations from the transportation and logistics sector expressed that the sector had seen continuous loss of employees since the implementation of SMW. During the epidemic, the problem of supply chain bottlenecks was particularly acute in the case of air and container shipments. The operations of many transportation and logistics enterprises were brought to a near standstill, hitting in particular cross-border transportation businesses and putting the sector under immense strain. On the other hand, a labour organisation from the air freight and courier services sector pointed out that the sector had thrived during the epidemic. Currently, employees in the courier services sector could earn an hourly wage up to \$65. However, given the strenuous work, they

might instead prefer jobs with lower pay but closer to their places of residence, thereby aggravating labour shortage in the sector.

III.2.24 An employers' association from the insurance sector expressed that most of the employees in the sector were not in low-paid positions, and that their wages were generally higher than the prevailing SMW rate. Some labour organisations from other LPS reflected that SMW did not have any stimulus effect as far as employees in such sectors as health services and bakery, pastry and confectionery were concerned.

**(b) Quality of products and services**

III.2.25 An employers' association, a professional institute and an employer representative from the food and beverage services sector expressed that the implementation of SMW had upset the balance among various sectors and types of jobs, leading to a serious loss of manpower in the sector. Labour shortage, coupled with succession gaps in grassroots jobs had, to a certain extent, affected the quality of food products and services.

III.2.26 A labour policy concern group and a residents' organisation expressed that the implementation of SMW had led to a year-on-year increase in expenses on security services of housing estates and a continuous increase in estate management fees. Although the SMW rate was frozen in the last review, the salaries for security guards working in certain housing estates still registered a year-on-year increase. The estate management fees were borne by unit owners, some of whom sought to contain the increase in management fees arising from SMW by streamlining manpower or replacing manpower with digital security systems. This, however, not only affected the quality of estate security services, but also increased the number of security guards being laid off, which deviated from the objectives of implementing SMW.

**(iii) Social Inclusion**

**(a) Standard of living**

III.2.27 Some employers' associations, a professional institute and a professional/employers' association expressed that since the implementation of SMW, its upratings had exceeded inflation over the corresponding periods. After a number of upratings, the income of grassroots employees had improved significantly, which helped alleviate problems like the disparity between the rich and the poor as well as working poverty.

III.2.28 Some labour organisations, a labour policy concern group and a think tank/policy research institute considered that the continuous increase in Hong Kong's poor population reflected ineffective wealth distribution of the labour market. The working class could not meet basic living expenses by their income from work. The income of employees currently earning the SMW rate was insufficient to meet their basic living expenses. Facing the pressure of rising living expenses, some employees in LPS (such as cleaning workers) had to sacrifice family and resting time for engaging in part-time jobs or working extra hours so as to meet their basic living expenses. Their livelihood was difficult.

III.2.29 Moreover, some labour organisations and a labour policy concern group expressed that the increase in the SMW rate since its implementation had been lagging behind the increase in per capita GDP. The data to which MWC made reference lagged behind seriously. The coverage of SMW also decreased continuously and the increase in wages was delinked from that of the labour market. As a result, grassroots employees could hardly meet their basic living needs, reflecting that the SMW regime could not effectively protect low-paid employees.

**(b) Work incentive**

III.2.30 Some labour organisations considered that the implementation of SMW had helped attract more women (such as homemakers and part-time female workers) to re-enter the labour market, thereby alleviating the problem of labour shortage and enabling women to make income to help their families make ends meet.

**(c) Impact on vulnerable groups**

III.2.31 Some labour organisations expressed that grassroots employees had lower bargaining power. SMW provided a wage floor to ensure that grassroots employees could secure income protection, which was of great significance to livelihood improvement. Despite that the effectiveness of SMW in increasing the income of grassroots employees was diminishing as compared to that in the past, it still provided protection for a small group of employees. An employers' association and an SME association expressed that SMW was able to provide protection for grassroots employees.

III.2.32 An SME association, a think tank/policy research institute and a member of the public reflected that the implementation of SMW led to increase in wage level, resulting in loss



of lower-skilled jobs which used to mainly employ older persons and vulnerable groups and in turn reduced their employment opportunities. Moreover, following enterprises' accelerated development of technology and automation systems, grassroots employees earning the SMW rate were most prone to layoffs and displacements.

## **C. Review of the Statutory Minimum Wage rate**

### **(i) Economic forecast**

- III.2.33 Some employers' associations, an SME association, a think tank/policy research institute and some political parties considered that in reviewing the SMW rate, consideration should be given to the macro environment (including Hong Kong's overall socio-economic conditions, labour market situations and price changes) and the affordability of SMEs and LPS. The global economy was currently going through post-epidemic restoration. Enterprises in Hong Kong, in particular SMEs, were facing immense pressure. To avoid pushing up the operating costs of enterprises and weakening Hong Kong's competitiveness, the SMW rate should be frozen and only to be reviewed upon economic recovery and the passing of the epidemic.
- III.2.34 Some employers' associations and employer representatives from different sectors as well as members of the public expressed that Hong Kong's overall economic environment had yet to recover from the epidemic and various sectors were facing operating pressure. An SMW uprating might cause enterprises to lay off employees or even cease business, which would affect the employment of workers. Hence, the top priority at present was to maintain business operations so as to facilitate economic recovery thereby safeguarding jobs.
- III.2.35 Some labour organisations, a labour policy concern group and a member of the public considered that the implementation of SMW, apart from improving the living standard of grassroots employees and increasing employees' motivation at work, could also stimulate local consumption sentiment. An SMW uprating could increase the income of grassroots employees as well as their purchasing power and in turn enhance economic growth, thereby facilitating the sustainable development of various sectors and creating a mutually beneficial situation.

**(ii) Wage floor**

III.2.36 Some labour organisations and a professional/employers' association expressed that SMW, as a "safety net", should ensure that grassroots employees with lower bargaining power could afford their basic living. An SMW uprating would help grassroots employees secure protection of the "safety net". However, some employers' associations considered that the objective of SMW was to provide a wage floor but not a living wage. SMW had a number of upratings since its implementation and the percentage of increase already exceeded that of inflation, hence the prevailing SMW rate was already adequate to protect the income of employees in LPS.

**(iii) Business environment**

III.2.37 Some employers' associations, SME associations and an employer representative considered that the recent introduction of a number of labour rights related policies (such as the increase in number of statutory holidays and abolition of the Mandatory Provident Fund "offsetting" arrangement) imposed additional operating pressure on enterprises, in addition to the impact on business amid the uncertain economic and epidemic factors. The cumulative effect of these policies would significantly increase the operating costs of enterprises. The pressure faced by SMEs with relatively tight resources would be even more noticeable. An SMW uprating would definitely push up the operating costs further. Some employers' associations, a professional institute, some SME associations, a think tank/policy research institute, a political party, some employer representatives and a member of the public expressed that an SMW uprating would induce the ripple effect, causing significant increase in labour costs of enterprises, in particular SMEs. Apart from raising employees' salary expectation hence exacerbating recruitment difficulties, it might even result in layoffs and business closures. Furthermore, the profit margin of LPS was relatively low among various sectors, in particular the proportion of wage bills to the total operating expenses of SMEs in LPS was relatively high. Under the economic downturn, the profitability of enterprises had generally weakened and many SMEs even operated at a loss. An SMW uprating would further widen the competition gap between SMEs and large enterprises, thereby weakening Hong Kong's current competitiveness and weighing on economic recovery.

III.2.38 Some labour organisations considered that not many employees were currently earning the SMW rate, hence an SMW uprating would not have much impact or pose too much burden on most enterprises. The ripple effect was just a myth. On the contrary, drawing reference from a research in Taiwan, increase in prices was the cause of increase in wages. They did not agree with the business sector putting forward the ripple effect as a reason against an SMW uprating.

**(iv) Standard of living**

III.2.39 Some labour organisations, labour policy concern groups, a think tank/policy research institute, a political party and some members of the public expressed that the SMW regime should provide protection for grassroots employees and ensure that reasonable wages would be payable for their strenuous efforts. However, the SMW rate was too low when it was first implemented and the extent of adjustments in the past was over-conservative. Apparently, the prevailing SMW rate was lagging behind. It could not catch up with the overall increase in wages of the labour market as well as inflation. The purchasing power of wages of grassroots employees and their living standard were not improved. The SMW rate should be adjusted upwards so as to hedge against inflation that imposed pressure on the livelihood of grassroots employees and maintain their purchasing power, thereby enabling grassroots employees to live with dignity, share the fruits of economic prosperity and be recognised of the value of their work.

III.2.40 Some labour policy concern groups expressed that Hong Kong's prices were rising continuously yet the SMW rate was frozen in the last review hence wages of employees in LPS were not increased. Despite the livelihood relief measures introduced by the Government, for example the Consumption Voucher Scheme had prompted the business sector to raise prices, instead of improving the livelihood of employees in LPS. Therefore, the SMW rate should be adjusted upwards so that their income could meet household and personal living needs.

III.2.41 A labour organisation, some labour policy concern groups and a professional/employers' association expressed that the continuous increase in Hong Kong's poor population reflected ineffective wealth distribution of the labour market. Grassroots employees could not meet basic living expenses by their income from work. The SMW rate should serve the purpose of a "poverty prevention line" to reduce the cases of working poverty.

An SMW uprating could alleviate the poverty problem and narrow the disparity between the rich and the poor. It was the fundamental solution for working poverty. If the SMW rate was not adjusted upwards, some of the grassroots employees would fall under the working poor population.

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

III.2.42 Some employers' associations, SME associations, a political party and a residents' organisation expressed that in reviewing the SMW rate, consideration should be given to the flexibility of the free economy as well as the demand-supply automatic adjustment mechanism of the market, so as to allow more room for negotiation between employees and employers and determination of wage level of employees in accordance with market conditions.

III.2.43 A labour organisation considered that an objective benchmark for "how to forestall excessively low wages" should be established. A labour policy concern group also suggested establishing objective and scientific formulas to adjust the SMW rate. The group also suggested introducing a poverty impact assessment mechanism to review the effect on reducing the poor population at different wage levels from the angle of poverty alleviation, and incorporating "poverty situation" in the Array of Indicators in reviewing the SMW rate.

III.2.44 Some labour organisations, labour policy concern groups and members of the public considered that in reviewing the SMW rate, consideration should be given to the basic livelihood of employees and their households as well as the need for "emergency reserve fund", the hourly wage rate of the market and outsourced non-skilled workers of the Government, inflation, relevant benchmarks of the Working Family Allowance, etc. The SMW rate should be adjusted upwards to the living wage level and should not be lower than the inflation rate and CSSA level, so as to safeguard the living standard of grassroots employees. At the same time, it should be ensured that the SMW rate could allow employees to shoulder the basic living needs of at least one non-working family member. SMW should showcase the society's recognition of the labour dignity of employees and social justice. Some employers' associations, on the contrary, expressed that the objective of SMW was to set a wage floor but not a living wage. Furthermore, SMW should not be inflation-oriented because the two would propel each other which would

only result in a vicious cycle. An employers' association further pointed out that it was inappropriate to employ formulas in deriving the amount of SMW.

III.2.45 Some labour organisations, labour policy concern groups, a think tank/policy research institute and a member of the public considered that the existing arrangement of reviewing the SMW rate once every two years had resulted in the serious lagging behind of the data for review. They suggested shortening the review cycle to "once every year" so that the SMW rate could tie in with the socio-economic conditions, and tackle the problem of the lagged-behind wage level.

III.2.46 Some employers' associations and an employer representative objected to annual review of the SMW rate. They considered that the biennial review mechanism should be retained to maintain a stable business environment. A political party, however, considered that taking account of grassroots employees' quality of living and post-epidemic economic conditions, if the current round of review of the SMW rate could result in a relatively substantial upward adjustment that was enough to compensate for the impact of the frozen wage level in the past four years, it was not opportune to revise the review cycle of the SMW rate.

**(vi) The recommended Statutory Minimum Wage rate**

III.2.47 Some labour organisations, labour policy concern groups, think tanks/policy research institutes, a political party, some employer representatives and members of the public considered that the SMW rate should be adjusted upwards and should tie in with inflation, so as to catch up with the increase in prices and allow grassroots employees to meet basic living expenses, improve their livelihood, and share reasonably the fruits of economic prosperity. The organisations concerned suggested that the SMW rate be raised to the range of \$39.9 to \$58.5 per hour, while individual members of the public suggested that the SMW rate be raised to the range of \$40 to \$74.5 per hour.

III.2.48 Some labour organisations suggested putting in place reference benchmarks that were scientific, fair, easy to calculate and highly operational as the basis for setting the SMW rate. These included 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, wage increase of the market such as pay increase of civil servants, or adopting an SMW rate covering not less than 15% of the labour force as the reference basis of adjustment. They

suggested that the SMW rate be raised to not less than \$45 to \$55 per hour.

III.2.49 Some labour organisations, a labour policy concern group and a political party considered that the prevailing SMW rate fell behind the CSSA amount, hence was unable to safeguard the livelihood of grassroots employees and encourage employment. They suggested that the SMW rate should not be lower than the CSSA amount, or should even have a reasonable difference between the two so as to maintain work incentives and the dignity of grassroots employees and allow them to cope with inflation and daily living expenses. They suggested that the SMW rate be raised to \$43 to \$50 per hour.

III.2.50 Some employers' associations and an SME association considered that the SMW rate was frozen in the last review yet inflation continued to rise. After balancing the impact of adjusting the SMW rate on both employees and employers, they suggested that the SMW rate be raised by 5% (i.e. about \$39 per hour) to not more than 10% (i.e. about \$41 per hour). Moreover, some employers' associations expressed that in reviewing the SMW rate, it was advisable to be steady-going, grasp a moderate magnitude, examine the impact of adjusting the SMW rate on the economy, adopt an evidence-based approach and balance the pressure faced by the enterprises and employees respectively. If the SMW rate had to be adjusted, a mild extent should be adopted to avoid causing too much shock to the current lacklustre economy.

III.2.51 Some employers' associations, a professional institute, some SME associations, a think tank/policy research institute, some political parties, residents' organisations, employer representatives and members of the public, on the contrary, suggested maintaining the SMW rate at its current level of \$37.5 per hour, so as to alleviate the impact of the epidemic on the economy, maintain the employment opportunities of grassroots employees and avoid pushing up inflation, which would result in a vicious cycle of wage-price spiral. Individual members of the public suggested a downward adjustment of the SMW rate.

#### **D. Other views**

III.2.52 A labour organisation considered that in reviewing the SMW rate, a "guarantee mechanism" should be established. When MWC could not reach consensus on the SMW rate in the review, the adjustment of the SMW rate should be no less than that of the Consumer Price Index (A).

- III.2.53 An employers' association considered that exemption under the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong) should continue to apply to specified student employees so as to encourage employers to provide young people with learning and development opportunities.
- III.2.54 A labour organisation, an employers' association and some members of the public called on the Government to incorporate meal breaks and rest days of employees into the regime of MWO. The labour organisation explained that meal breaks and rest days could be regarded as the time for grassroots employees to restore their productivity.
- III.2.55 A labour organisation, some employers' associations, an employer representative and a member of the public considered that the nature of work of different sectors/types of jobs varied. The current across-the-board SMW rate caused labour shortage in some of the jobs with more strenuous duties. They suggested that different SMW rates should be set according to the actual situation of different sectors/types of jobs, so that labour resources could be allocated properly. A residents' organisation expressed that the small number of units in some single block buildings resulted in immense difficulties for unit owners to afford the wage bills of security guards. The organisation suggested that the SMW rate could be derived or adjusted according to the number of units in the building.
- III.2.56 Some employers' associations and a political party suggested the Government to consider putting in place other social welfare or poverty alleviation policies such as providing targeted subsidies to employees earning the SMW rate or the working poor, so as to alleviate people's livelihood difficulties and tackle the working poverty problem. Moreover, a think tank/policy research institute considered that the Government should improve the business environment so that enterprises could have room to improve the remuneration of employees, thereby sharing the fruits of economic prosperity.
- III.2.57 An employers' association expressed that the Government introduced a number of measures in recent years to improve the remuneration and labour rights of outsourced workers, resulting in a significant wage increase for outsourced cleaning workers. The association suggested that the Government should draw reference to the enhancement measures of government outsourced service contracts for refining the tendering system of private service contracts, thereby helping the vulnerable groups.

III.2.58 A political party considered that the Government should encourage tertiary institutions to conduct studies on SMW for Hong Kong to understand the impact of adjusting the SMW rate on employment and the economy; and should also introduce a new Consumer Price Index for the grassroots with increased weightings in respect of expenses on food, housing and utility bills so as to reflect livelihood difficulties of the grassroots.

III.2.59 A think tank/policy research institute considered that the policy on importation of labour should be enhanced taking account of the SMW regime so as to avoid the long-standing problem of labour shortage in certain sectors. Moreover, an employers' association and a professional institute pointed out that some employees reduced their working hours or opted for jobs with a lower pay to avoid their income exceeding PRH's income limit. The SMW regime should tie in with the housing policy in Hong Kong.



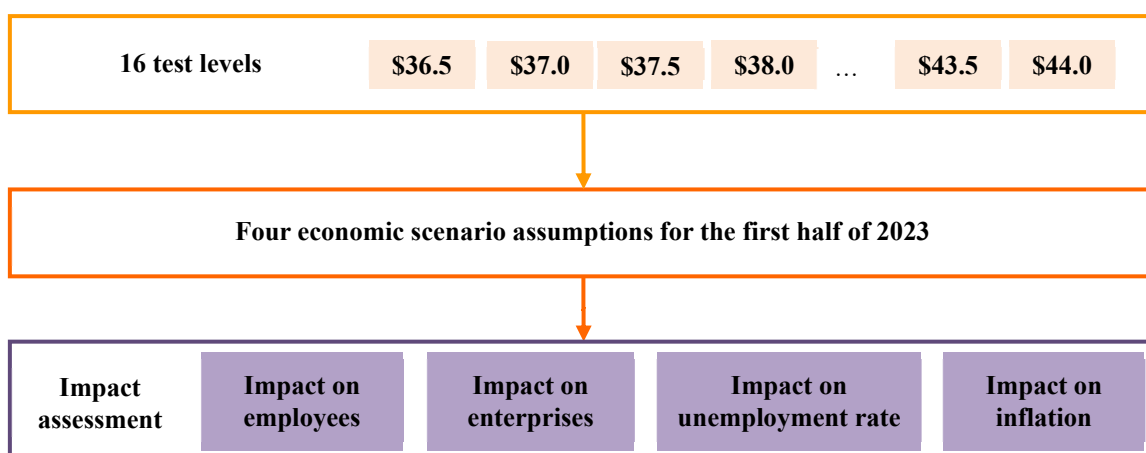
## Appendix IV

### 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 impact assessment framework. This appendix sets out in detail the methodology and major assumptions adopted by MWC in conducting the impact assessment. MWC set four economic scenario assumptions and Statutory Minimum Wage (SMW) test levels (test levels) from an hourly wage of \$36.5 to \$44.0 at \$0.5 per interval (i.e. 16 simulated situations under each assumed economic scenario), in order to estimate the possible impacts on employees, enterprises, unemployment rate and inflation. The framework is summarised in Figure IV.1.

**Figure IV.1 : Impact assessment framework**



#### IV.2 Impact Assessment on Employees

IV.2.1 The impact assessment of the SMW rate adjustment on employees consisted primarily of the estimations of the number and proportion of pre-adjustment employees involved at each test level (i.e. employees earning hourly wages below the respective test levels before the SMW rate adjustment in the first half of 2023) among all employees under different economic scenarios. These estimations provided the basis for assessing the possible impacts of the SMW rate adjustment on other macro aspects.

IV.2.2 Considering the time gap between the review of the SMW rate and the implementation of the recommended rate, when estimating the pre-adjustment employees involved, MWC not only adopted the data on wage distribution from the 2021 Annual Earnings and Hours Survey (AEHS) compiled by the Census and Statistics Department (C&SD) as the basis, but also made reference to the more recent wage data from the General Household Survey and Labour Earnings Survey of C&SD. MWC also took into account the latest economic and labour market conditions as well as the four economic scenario assumptions for the first half of 2023, so as to make forward-looking estimations of the situation at that time as far as possible.

IV.2.3 Since there will be no employees earning hourly wages below the SMW rate of \$37.5 before its adjustment in 2023 (except for employees with disabilities who have completed productivity assessment in accordance with the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong)), the estimation of the pre-adjustment employees involved as described in paragraph IV.2.1 is not applicable to test levels below \$37.5. In order to assess the impact on employees under the two test levels of \$36.5 and \$37.0, MWC made a crude estimation of the proportion of employees who would face a pay cut due to the downward adjustment of the SMW rate in the first half of 2023 (including but not limited to those earning an hourly wage at the prevailing SMW rate of \$37.5) among all employees under different economic scenario assumptions, as compared with the wage distribution of employees before the SMW rate adjustment (which already took into account wage changes owing to market adjustment). However, it should be noted that as the SMW rate in Hong Kong has never been adjusted downwards, more assumptions were involved in the relevant estimations. Hence, caution must be exercised when interpreting the relevant estimated figures.

### **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 at various test levels under different economic scenarios included the following three components: (i) the additional wage bills incurred for raising the hourly wages of all pre-adjustment employees involved to the respective test levels to comply with the requirements under MWO (“additional wage bills in compliance with the statutory requirements”); (ii) the additional wage bills relating to

rest day pay and meal break pay of the pre-adjustment employees involved (if rest day pay and meal break pay were granted to employees in accordance with their employment contracts or agreements); and (iii) the additional wage bills resulting from the knock-on effect on pay hierarchies (knock-on effect). The estimated additional wage bills of enterprises served as the basis for estimating the possible impacts on unemployment rate and inflation under various test levels.

- IV.3.2 The “additional wage bills in compliance with the statutory requirements” were estimated based on the estimated number of pre-adjustment employees involved under different economic scenario assumptions as mentioned in Section IV.2. When estimating the additional wage bills relating to rest day pay and meal break pay, MWC assumed that those pre-adjustment employees who were already entitled to rest day pay and/or meal break pay would continue to enjoy such benefits, and the amount of which would also increase correspondingly with the rises in their hourly wages.
- IV.3.3 If the SMW rate is adjusted upwards, some enterprises may raise the wages of some employees (including those already earning at a rate above the SMW rate after upward adjustment) due to the knock-on effect, so as to maintain the wage differentials among different ranks in order to avoid staff turnover. Drawing on past experience, the magnitude of the knock-on effect is related to the magnitude of an SMW uprating. If the magnitude of an SMW uprating is relatively modest, the corresponding knock-on effect would be milder, whereas a relatively sizeable SMW uprating would induce a larger increase in additional wage bills and a more noticeable knock-on effect. MWC estimated the knock-on effect at various test levels based on the actual wage distribution from AEHS, and also by making reference to the experience of previous rounds of SMW uprating.
- IV.3.4 Separately, for the two test levels below the prevailing SMW rate (i.e. \$36.5 and \$37.0), as employers would not incur additional wage bills due to the downward adjustment of SMW, the estimation as described in paragraph IV.3.1 was not applicable. MWC estimated employers’ decrease in wage bills as a result of the downward adjustment of the SMW rate (assuming that rest day pay and meal break pay would also be reduced 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 2023 among all employees under different economic scenario assumptions, as described in paragraph IV.2.3.

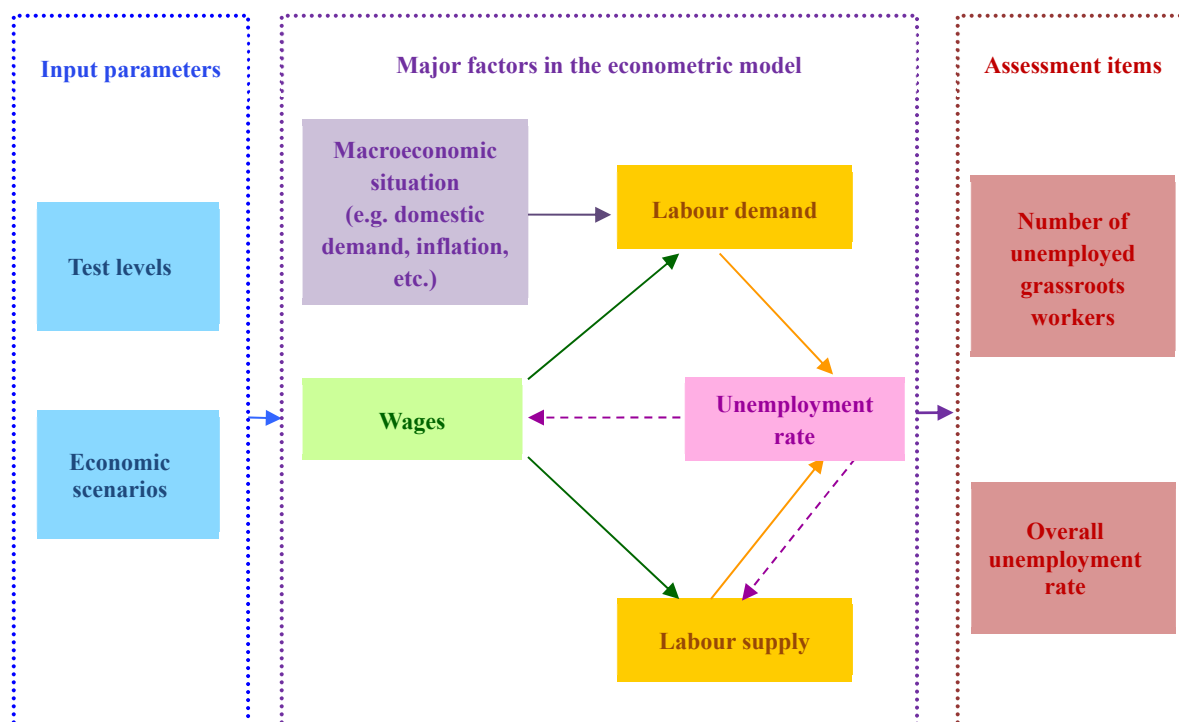
**(b) Increase in potential financial liability of long service payment**

IV.3.5 The increase in potential financial liability of long service payment (LSP) was estimated based on the proportion of employees who had been working in the same organisation for five years or more<sup>(1)</sup> 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 LSP) to arrive at the estimated increase in potential financial liability of LSP faced by enterprises<sup>(2)</sup>.

**IV.4 Impact Assessment on Unemployment Rate**

IV.4.1 Through analysis of the economic data (including those on economic growth rate, inflation rate, consumption expenditure in the domestic market and wages as released by C&SD) of the past 20 years or so, MWC estimated the possible impacts on the number of unemployed grassroots<sup>(3)</sup> workers and the overall unemployment rate under various test levels and different economic scenario assumptions by means of an econometric model. Figure IV.2 summarises the framework of the econometric model, the interactions between major factors in the model and the two input parameters involved.

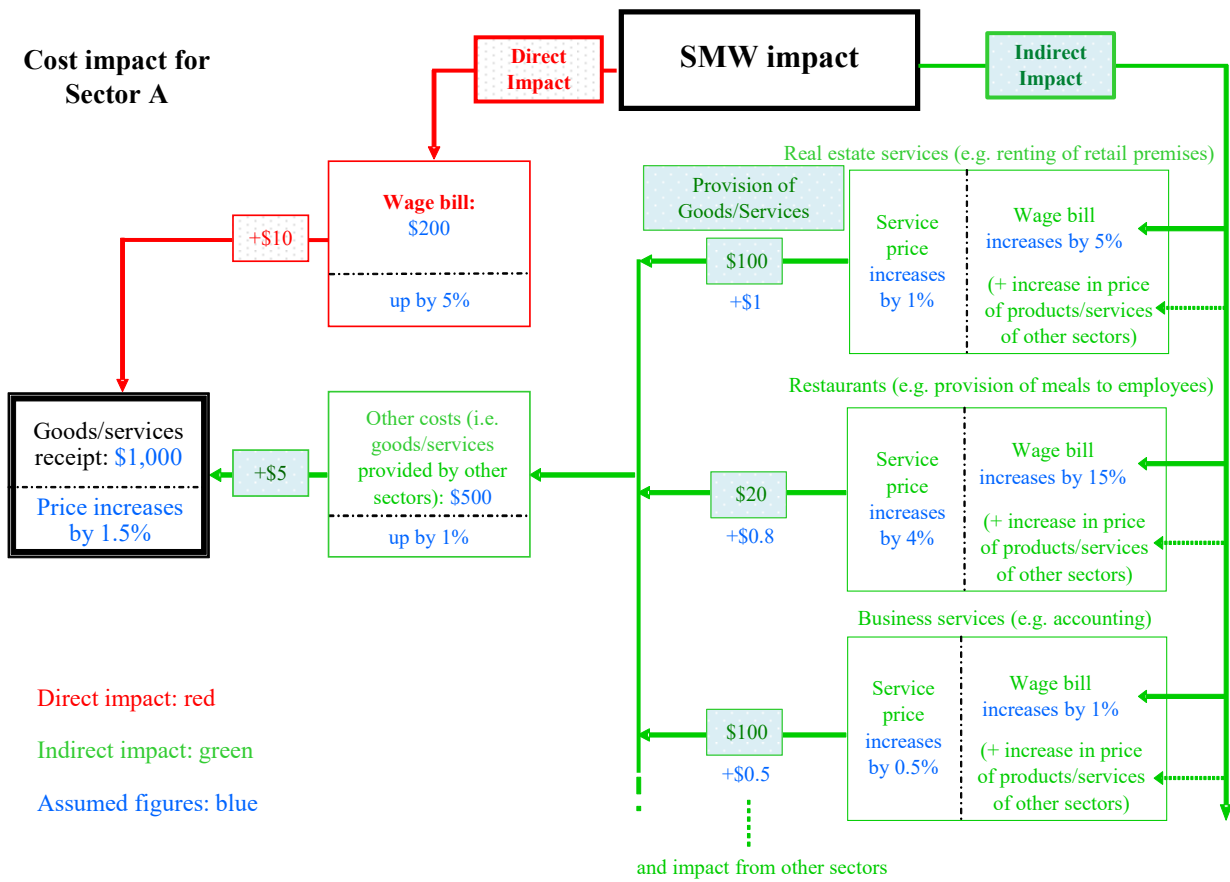
- 
- (1) According to the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), an employee who has been employed under a continuous contract for not less than five years is eligible for LSP if he/she satisfies one of the following criteria: he/she is dismissed except by reason of summary dismissal due to serious misconduct or by reason of redundancy; or his/her fixed-term employment contract expires without being renewed; or he/she dies during employment; or he/she resigns on the ground of ill health; or he/she is aged 65 or above and resigns on the ground of old age. Owing to data limitations, the assessment did not consider the number of employees who were not entitled to LSP for failing to satisfy the above criteria.
- (2) The estimation was based on the assumption that LSP would not be offset by the accrued benefits from employers' contributions made to the Mandatory Provident Fund when the enterprises dismissed their employees. Separately, owing to data limitations, the estimation did not take into account cases in which employees had been continuously employed by the same employers for five years or more but were not entitled to LSP for failing to satisfy other criteria.
- (3) Grassroots occupations include occupations of elementary workers as well as service and sales workers. In May to June 2021, these two groups of workers accounted for about 75% of all low-paid employees (i.e. employees with hourly wage rates below the 10<sup>th</sup> 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.

**Figure IV.2: Methodology for assessing the impact of test levels on the unemployment rate**

## IV.5 Impact Assessment on Inflation

IV.5.1 When assessing the possible impact on inflation under various test levels, MWC assumed the additional direct and indirect costs incurred by enterprises would be fully passed on to the prices of products and services. For enterprises, an increase in direct costs refers to the additional wage bills directly attributable to the increase in wages of their employees due to the SMW uprating. Meanwhile, as an SMW uprating would cause other enterprises to raise the prices of their products or services, the indirect costs of enterprises would also go up due to a rise in other operating expenses (such as rent, transport and courier services, etc.). Figure IV.3 below illustrates the impact of an increase in direct and indirect costs on the prices of products or services with a hypothetical example.

**Figure IV.3: Illustration of the relationship between additional wage bills arising from SMW and direct and indirect costs of enterprises**



Note: Hypothetical figures are used in the above example only for illustration purpose. They are not the actual results of the impact assessment.

IV.5.2 Specifically, MWC first estimated the price increases of products or services in the relevant sectors based on detailed statistical data and cost structures of 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. MWC’s estimation also took into account the subsequent price increases of some items (such as public transportation, etc.) which were directly or indirectly linked to changes in the overall prices, and hence the impact on inflation.

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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 10<sup>th</sup> percentile of the overall hourly wage distribution (Note 1) analysed by sector**

Sector (Note 2)	Employees with hourly wage rates below the 10 <sup>th</sup> percentile of the overall hourly wage distribution					
	May to June 2019 (i.e. employees with hourly wage less than \$43.9)		10 <sup>th</sup> percentile hourly wage in respective sector (\$)	May to June 2021 (i.e. employees with hourly wage less than \$44.7)		10 <sup>th</sup> 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 (%)	
<b>(A) Low-paying sectors (LPS) (Note 3)</b>	<b>191.4</b>	<b>22.4</b>	<b>40.5</b>	<b>188.4</b>	<b>25.3</b>	<b>40.4</b>
1. Retail	44.6	16.3	41.8	41.7	19.0	42.3
1.1 Supermarkets and convenience stores	12.6	28.8	40.0	12.9	31.7	41.8
1.2 Other retail stores	32.0	13.9	42.4	28.7	16.1	43.0
2. Food and beverage services	28.9	12.3	43.0	30.9	16.1	43.0
2.1 Chinese restaurants	8.2	11.2	43.3	9.6	15.9	42.7
2.2 Non-Chinese restaurants	5.6	7.9	44.8	4.3	7.2	45.8
2.3 Fast food cafes	11.2	20.1	42.1	13.9	31.2	40.3
2.4 Hong Kong style tea cafes	1.9	8.5	44.6	1.8	9.9	44.9
2.5 Other food and beverage services	2.0	16.9	41.4	1.3	15.0	42.1
3. Estate management, security and cleaning services	95.5	38.8	38.8	93.0	38.2	39.4
3.1 Real estate maintenance management	43.0	38.2	40.4	36.8	33.0	39.7
3.2 Security services	18.8	42.0	40.0	18.2	40.5	40.0
3.3 Cleaning services	30.3	41.6	38.6	34.5	47.3	39.0
3.4 Membership organisations	3.3	20.9	40.0	3.5	24.4	40.3
4. Other LPS	22.4	22.3	40.3	22.8	24.9	40.6
4.1 Elderly homes	8.0	34.7	40.2	6.9	33.4	40.0
4.2 Laundry and dry cleaning services	1.4	25.6	40.5	1.1	24.1	42.0
4.3 Hairdressing and other personal services	6.3	14.6	41.2	8.9	22.2	40.6
4.4 Local courier services	1.0	17.9	40.9	1.2	22.2	41.0
4.5 Food processing and production	5.8	24.7	40.1	4.8	22.6	41.8
<b>(B) Other sectors (Note 3)</b>	<b>111.0</b>	<b>5.0</b>	<b>48.4</b>	<b>96.6</b>	<b>4.6</b>	<b>50.0</b>
5. Manufacturing	4.0	5.4	48.5	5.1	7.8	47.6
6. Construction	§	§	61.3	5.1	1.8	64.2
7. Import/export trade and wholesale	24.7	5.6	47.4	15.2	4.4	48.4
8. Accommodation services	4.9	11.5	42.9	4.8	12.3	44.4
9. Transportation, storage, courier services, information and communications	21.9	6.1	46.6	20.4	5.9	47.0
10. Financing, insurance, real estate, professional and business services	18.2	3.8	52.6	16.4	3.1	55.3
11. Education, medical and other social and personal services	33.0	6.8	46.6	29.0	6.0	49.1
12. Others	§	§	57.9	0.6	3.7	57.1
<b>(C) All sectors</b>	<b>302.4</b>	<b>9.9</b>	<b>43.9</b>	<b>284.9</b>	<b>10.0</b>	<b>44.7</b>

Notes: (1) Also referred as low-paid employees. Employees exclude government employees; student interns, work experience students and live-in domestic workers as exempted by the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong); as well as employees with zero working hours in the survey reference period.

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

(3) Compiled based on the classification of LPS and other sectors as identified by the Minimum Wage Commission (MWC).

(§) 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 (AEHS), Census and Statistics Department (C&SD).



Table A.2 Composition of total expenses <sup>(Note 1)</sup> analysed by sector

Sector <sup>(Note 2)</sup>	Proportion of total expenses in respective sector (%)							
	Cost of goods sold		Rent, rates and government rent		Compensation of employees <sup>(Note 3)</sup>		Other operating expenses	
	2019	2020	2019	2020	2019	2020	2019	2020
<b>(A) LPS <sup>(Note 4)</sup></b>	<b>52.2</b>	<b>50.2</b>	<b>13.0</b>	<b>12.0</b>	<b>20.8</b>	<b>22.8</b>	<b>14.0</b>	<b>14.9</b>
1. Retail	63.6	64.0	14.1	13.0	11.4	12.2	11.0	10.7
1.1 Supermarkets and convenience stores	71.6	73.5	10.3	9.9	8.9	8.0	9.2	8.6
1.2 Other retail stores	62.6	62.4	14.5	13.6	11.7	12.9	11.2	11.1
2. Food and beverage services	33.1	30.2	16.0	16.0	32.6	33.8	18.3	19.9
2.1 Chinese restaurants	32.7	29.1	14.2	14.5	35.4	36.4	17.8	20.0
2.2 Non-Chinese restaurants	33.1	31.0	18.0	17.4	32.6	34.0	16.3	17.6
2.3 Fast food cafes	31.1	27.0	15.1	15.5	27.5	30.0	26.2	27.5
2.4 Hong Kong style tea cafes	36.8	33.7	13.9	15.2	36.7	38.0	12.6	13.1
2.5 Other food and beverage services	33.8	33.0	19.3	17.5	29.4	30.3	17.6	19.2
3. Estate management, security and cleaning services	0.6	0.5	1.7	1.3	69.0	67.1	28.7	31.1
3.1 Real estate maintenance management	1.0	0.7	1.8	1.0	59.3	55.6	37.9	42.8
3.2 Security services	0.5	0.5	2.7	2.5	78.4	80.0	18.5	17.0
3.3 Cleaning services	0.1	0.2	0.9	0.8	75.5	74.6	23.5	24.4
4. Other LPS	49.1	44.2	7.2	7.5	27.6	30.3	16.1	18.0
4.1 Elderly homes	7.8	7.9	18.9	17.1	57.4	60.4	15.9	14.6
4.2 Laundry and dry cleaning services	4.6	2.2	11.3	10.6	41.2	27.3	42.9	59.9
4.3 Hairdressing services	7.6	8.5	27.3	27.1	42.3	45.8	22.9	18.6
4.4 Local courier services	#	#	4.3	3.0	43.8	38.0	51.9	59.0
4.5 Food processing and production	65.3	62.3	3.0	3.4	19.0	20.8	12.7	13.5
<b>(B) Other sectors <sup>(Note 4)</sup></b>	<b>59.3</b>	<b>60.0</b>	<b>2.2</b>	<b>2.2</b>	<b>14.6</b>	<b>14.6</b>	<b>23.9</b>	<b>23.3</b>
5. Manufacturing	83.7	87.1	1.4	1.2	8.6	7.3	6.3	4.4
6. Construction	19.0	18.7	0.9	0.9	29.1	27.9	50.9	52.5
7. Import/export trade and wholesale	87.5	88.1	0.9	0.8	4.7	4.6	6.9	6.5
8. Accommodation services	10.6	8.0	8.2	9.1	41.3	43.1	39.9	39.8
9. Transportation, storage, courier services, information and communications	2.8	1.8	3.3	3.6	18.4	19.0	75.5	75.6
10. Financing, insurance, real estate, professional and business services	0.3	0.2	6.0	6.2	44.3	45.0	49.4	48.6
11. Social and personal services	α							
12. Others	58.9	58.1	2.7	2.8	12.5	12.7	25.9	26.4
<b>(C) All sectors</b>	<b>58.5</b>	<b>59.0</b>	<b>3.3</b>	<b>3.1</b>	<b>15.3</b>	<b>15.4</b>	<b>22.9</b>	<b>22.5</b>

- 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 employers' social security expenditure.  
(4) Compiled based on the classification of LPS and other sectors as identified by MWC.  
(#) 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 (ASEA), C&SD.

**Table A.3 Composition of total operating expenses <sup>(Note 1)</sup> (excluding cost of goods sold) analysed by sector**

Sector <sup>(Note 2)</sup>	Proportion of total operating expenses (excluding cost of goods sold) in respective sector (%)					
	Rent, rates and government rent		Compensation of employees <sup>(Note 3)</sup>		Other operating expenses	
	2019	2020	2019	2020	2019	2020
<b>(A) LPS <sup>(Note 4)</sup></b>	<b>27.2</b>	<b>24.1</b>	<b>43.5</b>	<b>45.9</b>	<b>29.3</b>	<b>30.0</b>
1. Retail	38.7	36.2	31.2	33.9	30.1	29.8
1.1 Supermarkets and convenience stores	36.4	37.4	31.3	30.2	32.2	32.4
1.2 Other retail stores	38.9	36.1	31.2	34.4	29.9	29.5
2. Food and beverage services	23.9	23.0	48.8	48.5	27.3	28.5
2.1 Chinese restaurants	21.0	20.4	52.5	51.4	26.4	28.2
2.2 Non-Chinese restaurants	26.9	25.2	48.7	49.2	24.4	25.5
2.3 Fast food cafes	22.0	21.2	39.9	41.1	38.1	37.7
2.4 Hong Kong style tea cafes	22.0	22.9	58.0	57.4	20.0	19.7
2.5 Other food and beverage services	29.1	26.2	44.4	45.2	26.5	28.6
3. Estate management, security and cleaning services	1.7	1.3	69.4	67.5	28.8	31.3
3.1 Real estate maintenance management	1.8	1.0	59.9	55.9	38.3	43.1
3.2 Security services	2.7	2.5	78.7	80.5	18.6	17.1
3.3 Cleaning services	0.9	0.8	75.5	74.8	23.5	24.4
4. Other LPS	14.2	13.4	54.3	54.4	31.6	32.2
4.1 Elderly homes	20.5	18.5	62.2	65.6	17.3	15.9
4.2 Laundry and dry cleaning services	11.9	10.8	43.2	27.9	44.9	61.3
4.3 Hairdressing services	29.5	29.6	45.8	50.0	24.7	20.4
4.4 Local courier services	4.3	3.0	43.8	38.0	51.9	59.0
4.5 Food processing and production	8.7	9.0	54.7	55.1	36.5	35.9
<b>(B) Other sectors <sup>(Note 4)</sup></b>	<b>5.3</b>	<b>5.4</b>	<b>35.9</b>	<b>36.5</b>	<b>58.8</b>	<b>58.1</b>
5. Manufacturing	8.7	9.7	52.7	56.4	38.6	33.9
6. Construction	1.2	1.2	35.9	34.3	62.9	64.6
7. Import/export trade and wholesale	6.9	6.8	37.9	38.5	55.2	54.7
8. Accommodation services	9.1	9.9	46.2	46.9	44.6	43.3
9. Transportation, storage, courier services, information and communications	3.4	3.7	19.0	19.4	77.7	76.9
10. Financing, insurance, real estate, professional and business services	6.0	6.2	44.4	45.1	49.6	48.7
11. Social and personal services	α					
12. Others	6.6	6.6	30.4	30.3	63.0	63.1
<b>(C) All sectors</b>	<b>8.0</b>	<b>7.5</b>	<b>36.8</b>	<b>37.5</b>	<b>55.2</b>	<b>54.9</b>

- 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 employers' social security expenditure.  
(4) Compiled based on the classification of LPS and other sectors as identified by MWC.  
(α) Data are not released.  
Owing to rounding, individual percentages may not add up to 100%.

Source: ASEA, C&SD.

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

Sector (Note 4)	2019					2020 (Note 5)				
	Number of enterprises	Profit ratio (%)				Number of enterprises	Profit ratio (%)			
		Overall	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile		Overall	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) LPS (Note 6)</b>	<b>39 170</b>	<b>5.0</b>	<b>-10.3</b>	<b>2.9</b>	<b>13.0</b>	<b>37 450</b>	<b>4.1</b>	<b>-10.7</b>	<b>2.5</b>	<b>15.3</b>
1. Retail	19 290	4.4	-18.8	2.5	12.1	18 330	2.9	-19.4	1.1	13.7
1.1 Supermarkets and convenience stores	60	2.6	-1.5	2.5	7.0	70	3.6	-1.4	4.0	12.1
1.2 Other retail stores	19 230	4.6	-18.8	2.6	12.1	18 250	2.8	-19.4	0.9	13.7
2. Food and beverage services	13 550	4.4	-9.4	1.6	10.1	12 890	4.0	-7.7	1.5	10.3
2.1 Chinese restaurants	2 210	3.1	-11.8	0.1	5.3	2 030	1.9	-11.9	-1.4	5.1
2.2 Non-Chinese restaurants	5 200	4.1	-10.3	2.0	10.1	4 980	4.5	-8.3	1.5	8.5
2.3 Fast food cafes	890	8.1	-3.8	7.8	16.9	840	7.0	-4.9	3.7	14.8
2.4 Hong Kong style tea cafes	2 560	2.4	-5.6	2.4	6.7	2 400	2.5	-5.5	2.5	10.3
2.5 Other food and beverage services	2 680	3.9	-17.9	1.6	17.3	2 640	3.2	-14.0	1.2	16.3
3. Estate management, security and cleaning services	2 210	6.4	-2.4	3.5	12.1	2 340	8.3	0.1	9.2	22.3
3.1 Real estate maintenance management	590	6.7	-24.7	3.9	10.5	730	7.6	-7.3	0.1	11.3
3.2 Security services	430	6.8	3.4	9.7	16.8	440	9.9	2.0	9.8	29.4
3.3 Cleaning services	1 190	5.7	-6.4	2.7	11.4	1 170	8.0	3.1	15.1	24.9
4. Other LPS	4 120	10.0	0.6	11.9	22.2	3 890	8.5	-5.6	11.2	28.5
4.1 Elderly homes (Note 7)	660	8.1	1.2	8.5	16.4	680	5.2	1.8	11.0	21.0
4.2 Laundry and dry cleaning services	630	3.5	6.8	19.8	38.2	600	-39.2	12.0	23.1	30.7
4.3 Hairdressing services	1 600	11.1	1.1	13.1	22.4	1 470	11.1	-12.6	11.2	33.1
4.4 Local courier services	210	-14.8	-4.9	7.2	23.3	180	1.0	4.3	13.3	34.5
4.5 Food processing and production	1 020	11.4	-1.6	5.8	20.3	970	11.4	-41.2	-0.1	14.5
<b>(B) Other sectors (Note 6)</b>	<b>175 750</b>	<b>21.1</b>	<b>-7.9</b>	<b>4.1</b>	<b>19.7</b>	<b>177 760</b>	<b>21.8</b>	<b>-11.8</b>	<b>3.6</b>	<b>18.5</b>
5. Manufacturing	4 840	3.4	-6.2	5.3	22.1	5 340	3.0	-3.0	6.0	20.1
6. Construction	14 390	7.5	0.1	7.1	17.8	16 460	9.3	-7.7	2.1	16.1
7. Import/export trade and wholesale	69 500	7.5	-6.2	2.6	11.2	69 070	7.3	-14.4	1.0	12.1
8. Accommodation services	880	17.4	-20.6	3.4	15.1	840	-18.1	-38.8	0.2	14.7
9. Transportation, storage, courier services, information and communications	20 070	8.3	-16.9	0.7	13.8	21 700	7.0	-15.4	4.0	22.5
10. Financing, insurance, real estate, professional and business services	42 240	56.8	-10.9	8.7	34.8	41 950	58.9	-6.4	7.8	30.8
11. Social and personal services	$\alpha$									
12. Others	$\alpha$	25.2	-3.6	5.5	31.5	$\alpha$	27.0	-19.7	4.3	13.6
<b>(C) All sectors</b>	<b>214 920</b>	<b>19.6</b>	<b>-8.5</b>	<b>3.9</b>	<b>17.7</b>	<b>215 200</b>	<b>20.5</b>	<b>-11.4</b>	<b>3.4</b>	<b>18.0</b>

- Notes:
- (1) Not including those enterprises without business receipts and local representative offices of overseas companies.
  - (2) Earnings before tax ratio (profit ratio) refers to ratio of profit before deducting tax; gain/loss on disposal of financial asset, 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) In response to the heavy blow to the economy dealt by the COVID-19 epidemic (the epidemic), the Government provided subsidies/assistance to enterprises via various channels in 2020 (e.g. the Employment Support Scheme and various industry-specific support schemes under the Anti-epidemic Fund). These government subsidies/assistance were included as part of "business receipts" in the 2020 ASEA. Hence, the profit ratio figures for 2020 should be interpreted with caution.
  - (6) Compiled based on the classification of LPS and other sectors as identified by MWC.
  - (7) In calculating figures for business receipts and profit, subsidies from the Government and other organisations were also included.
  - ( $\alpha$ ) 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: ASEA, C&SD.

**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)	2019					2020 (Note 6)				
	Number of enterprises	Profit ratio (%)				Number of enterprises	Profit ratio (%)			
		Overall	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile		Overall	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) LPS (Note 7)</b>	<b>37 330</b>	<b>3.7</b>	<b>-10.6</b>	<b>3.1</b>	<b>13.5</b>	<b>35 680</b>	<b>2.7</b>	<b>-11.0</b>	<b>2.5</b>	<b>15.3</b>
1. Retail	18 760	3.5	-18.8	3.1	12.1	17 840	1.2	-19.4	0.9	13.7
1.1 Supermarkets and convenience stores	60	1.2	-2.6	2.2	7.0	70	2.8	-1.4	4.5	12.1
1.2 Other retail stores	18 700	3.5	-18.8	3.1	12.2	17 770	1.2	-19.4	0.9	13.7
2. Food and beverage services	12 900	2.6	-10.3	2.0	10.1	12 370	2.5	-7.7	1.5	9.9
2.1 Chinese restaurants	1 710	1.0	-13.9	-1.1	7.5	1 650	0.9	-13.9	-1.4	4.9
2.2 Non-Chinese restaurants	5 130	3.0	-10.3	2.0	10.1	4 910	3.1	-8.3	1.5	8.5
2.3 Fast food cafes	870	5.1	-3.8	7.8	16.9	820	3.7	-4.9	3.7	14.8
2.4 Hong Kong style tea cafes	2 550	2.8	-5.6	2.7	6.7	2 380	2.8	-5.5	2.5	10.3
2.5 Other food and beverage services	2 640	2.9	-17.9	1.6	17.3	2 610	2.2	-14.0	1.2	16.3
3. Estate management, security and cleaning services	1 800	6.8	-2.2	3.5	12.8	1 840	7.4	0.1	13.0	27.2
3.1 Real estate maintenance management	480	4.6	-24.7	3.9	10.5	530	4.0	-7.3	0.1	3.4
3.2 Security services	290	9.2	5.9	11.6	17.0	310	10.2	2.3	10.1	30.6
3.3 Cleaning services	1 020	9.3	-3.1	2.7	12.8	1 000	13.2	9.2	17.3	27.2
4. Other LPS	3 860	7.8	1.1	13.1	22.4	3 630	8.0	-5.6	12.0	30.0
4.1 Elderly homes (Note 8)	530	13.3	3.4	11.0	19.9	540	8.0	2.9	14.6	24.3
4.2 Laundry and dry cleaning services	620	14.6	6.8	19.8	38.2	580	24.2	12.0	23.1	30.7
4.3 Hairdressing services	1 600	12.2	1.1	13.1	22.4	1 460	11.2	-12.6	11.2	33.1
4.4 Local courier services	190	4.7	-4.9	7.2	27.5	150	22.3	4.3	13.5	34.5
4.5 Food processing and production	930	3.7	-1.6	8.6	20.4	890	4.8	-41.9	-0.1	14.5
<b>(B) Other sectors (Note 7)</b>	<b>171 950</b>	<b>12.2</b>	<b>-8.3</b>	<b>4.1</b>	<b>19.7</b>	<b>174 060</b>	<b>12.3</b>	<b>-12.2</b>	<b>3.5</b>	<b>18.4</b>
5. Manufacturing	4 700	5.9	-6.2	5.3	22.1	5 210	7.2	-3.4	6.0	20.1
6. Construction	13 910	7.0	0.7	7.1	18.0	16 030	11.4	-7.7	2.1	16.1
7. Import/export trade and wholesale	68 760	5.4	-6.3	2.5	11.2	68 340	5.2	-14.8	1.0	11.8
8. Accommodation services	740	6.5	-20.6	3.4	15.1	710	-14.3	-33.3	0.4	14.7
9. Transportation, storage, courier services, information and communications	19 350	4.3	-17.3	0.7	13.8	20 990	4.7	-15.8	3.9	22.5
10. Financing, insurance, real estate, professional and business services	41 060	53.7	-11.5	8.7	34.8	40 900	54.9	-7.5	7.8	30.6
11. Social and personal services	$\alpha$									
12. Others	$\alpha$	0.3	-10.1	5.5	32.8	$\alpha$	0.7	-30.4	4.3	13.6
<b>(C) All sectors</b>	<b>209 280</b>	<b>11.7</b>	<b>-8.8</b>	<b>3.9</b>	<b>17.8</b>	<b>209 740</b>	<b>11.9</b>	<b>-11.9</b>	<b>3.4</b>	<b>18.0</b>

- Notes:
- (1) Not including those enterprises without business receipts and local representative offices of overseas companies.
  - (2) Profit ratio refers to ratio of profit before deducting tax; gain/loss on disposal of financial asset, 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) In response to the heavy blow to the economy dealt by the epidemic, the Government provided subsidies/assistance to enterprises via various channels in 2020 (e.g. the Employment Support Scheme and various industry-specific support schemes under the Anti-epidemic Fund). These government subsidies/assistance were included as part of "business receipts" in the 2020 ASEA. Hence, the profit ratio figures for 2020 should be interpreted with caution.
  - (7) Compiled based on the classification of LPS and other sectors as identified by MWC.
  - (8) In calculating figures for business receipts and profit, subsidies from the Government and other organisations were also included.
  - ( $\alpha$ ) 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: ASEA, C&SD.

**Table A.6 The 10<sup>th</sup> percentile and median monthly wage (Note 1) of full-time employees (Note 2) analysed by socio-economic characteristic and sector**

Socio-economic characteristic/sector	10 <sup>th</sup> percentile monthly wage in May to June 2021			Median monthly wage in May to June 2021		
	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 (%)
<b>Age group</b>						
Aged 15 to 24	10,900	-5.2	79.8	15,000	2.0	74.1
Aged 25 to 34	12,900	-0.8	61.9	20,100	0.6	58.1
Aged 35 to 44	12,700	0.7	70.1	22,600	0.9	55.9
Aged 45 to 54	11,000	2.1	79.0	20,000	#	63.0
Aged 55 and above	10,600	1.0	82.8	16,600	-0.6	69.9
<b>Educational attainment</b>						
Primary and below	9,700	3.2	79.6	13,700	0.1	73.8
Secondary 1 to 3	10,800	-1.7	80.3	15,000	#	61.3
Secondary 4 to 7	11,800	0.9	67.5	17,900	0.2	55.7
Tertiary education	15,000	#	48.2	29,900	2.6	46.7
<b>Occupational group</b>						
Elementary workers	9,700	2.2	79.2	13,900	2.0	88.4
Service and sales workers	10,400	-3.7	73.3	14,800	0.6	64.5
Craft workers and machine operators	13,600	0.5	91.1	22,000	#	76.0
Clerical support workers	11,500	3.6	61.1	15,800	-0.7	54.9
Managers, administrators, professionals and associate professionals	16,000	6.7	45.5	30,000	4.5	47.2
<b>Sector (Note 3)</b>						
LPS	10,000	-0.1	79.4 <sup>^</sup>	14,200	1.2	68.9 <sup>^</sup>
<i>Retail</i>	10,000	-0.3	67.5	14,500	#	52.6
<i>Food and beverage services</i>	11,100	0.5	84.2 <sup>^</sup>	15,000	#	73.3 <sup>^</sup>
<i>Estate management, security and cleaning services</i>	9,600	2.4	80.4	13,700	1.6	90.3
<i>Other LPS</i>	10,000	-0.6	81.8	13,700	0.7	73.6
Other sectors	13,000	#	65.6 <sup>^</sup>	22,500	2.1	58.4 <sup>^</sup>

Notes: (1) Monthly wage is rounded to the nearest hundred Hong Kong dollars. Percentage change is derived from unrounded figures.

(2) Employees exclude government employees; student interns, work experience students and live-in domestic workers as exempted by MWO; as well as employees with zero working hours in the survey reference period. For the definition of full-time employees in AEHS, please refer to **Glossary**.

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

(<sup>^</sup>) The AEHS statistics for 2021 were compiled based on the classification of LPS and other sectors as identified by the fifth term (2019-21) and adopted by the sixth term (2021-23) of MWC. 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 2021 can still be broadly compared with the corresponding figures of 2010.

(#) Between -0.05% and 0.05%.

Source: AEHS, C&SD.

**Table A.7 Distribution of weekly working hours of all employees <sup>(Note 1)</sup> analysed by sector**

Sector <sup>(Note 2)</sup>	May to June 2019					May to June 2021				
	All employees		Weekly working hours (hours)			All employees		Weekly working hours (hours)		
	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) LPS <sup>(Note 3)</sup></b>	<b>854.8</b>	<b>27.9</b>	<b>42.0</b>	<b>48.2</b>	<b>55.5</b>	<b>746.0</b>	<b>26.2</b>	<b>42.0</b>	<b>48.0</b>	<b>54.0</b>
1. Retail	273.7	8.9	40.6	48.0	54.0	219.0	7.7	40.6	46.2	52.4
1.1 Supermarkets and convenience stores	43.8	1.4	35.5	51.0	54.0	40.8	1.4	43.8	50.8	53.9
1.2 Other retail stores	229.9	7.5	40.6	48.0	54.0	178.2	6.3	40.6	46.2	51.9
2. Food and beverage services	234.6	7.6	42.0	54.0	60.0	191.7	6.7	42.0	52.2	57.6
2.1 Chinese restaurants	73.7	2.4	54.0	57.0	60.0	60.7	2.1	51.0	54.0	60.0
2.2 Non-Chinese restaurants	71.3	2.3	45.2	54.0	57.0	59.5	2.1	42.5	51.0	54.0
2.3 Fast food cafes	55.5	1.8	24.0	42.0	54.0	44.5	1.6	23.3	41.8	54.0
2.4 Hong Kong style tea cafes	22.4	0.7	48.0	54.0	60.0	18.2	0.6	46.3	54.0	60.0
2.5 Other food and beverage services	11.6	0.4	36.0	48.0	54.0	8.6	0.3	35.5	47.1	54.0
3. Estate management, security and cleaning services	246.2	8.0	44.4	48.0	66.0	243.7	8.6	44.3	48.2	66.0
3.1 Real estate maintenance management	112.8	3.7	46.5	51.0	66.0	111.3	3.9	45.7	54.0	66.0
3.2 Security services	44.8	1.5	48.0	55.9	68.5	45.0	1.6	48.0	54.0	69.0
3.3 Cleaning services	72.7	2.4	38.3	48.0	51.0	73.0	2.6	36.0	48.0	50.8
3.4 Membership organisations	16.0	0.5	39.6	45.7	50.0	14.4	0.5	39.6	42.0	48.0
4. Other LPS	100.4	3.3	44.3	48.0	54.0	91.7	3.2	42.0	48.0	54.0
4.1 Elderly homes	23.0	0.7	45.0	54.0	63.5	20.5	0.7	45.0	54.0	66.0
4.2 Laundry and dry cleaning services	5.5	0.2	40.6	48.0	54.0	4.4	0.2	30.0	48.0	54.0
4.3 Hairdressing and other personal services	43.0	1.4	43.2	46.3	51.9	40.3	1.4	42.0	48.0	54.0
4.4 Local courier services	5.4	0.2	38.8	44.3	48.0	5.3	0.2	40.6	43.8	46.8
4.5 Food processing and production	23.4	0.8	43.8	48.0	54.0	21.1	0.7	44.3	48.0	53.1
<b>(B) Other sectors <sup>(Note 3)</sup></b>	<b>2 212.7</b>	<b>72.1</b>	<b>40.6</b>	<b>41.8</b>	<b>48.0</b>	<b>2 103.5</b>	<b>73.8</b>	<b>39.6</b>	<b>41.2</b>	<b>47.1</b>
5. Manufacturing	73.4	2.4	42.0	45.7	48.7	65.0	2.3	41.5	44.3	48.5
6. Construction	304.6	9.9	42.2	48.0	52.6	284.6	10.0	42.0	48.0	52.9
7. Import/export trade and wholesale	441.1	14.4	39.7	40.6	44.3	346.7	12.2	39.0	40.6	44.3
8. Accommodation services	42.7	1.4	44.7	48.0	52.2	39.2	1.4	43.2	46.2	49.5
9. Transportation, storage, courier services, information and communications	362.0	11.8	40.6	43.2	49.4	347.8	12.2	40.6	42.0	48.0
10. Financing, insurance, real estate, professional and business services	485.5	15.8	39.3	40.6	43.2	522.7	18.3	39.3	40.6	43.1
11. Education, medical and other social and personal services	484.7	15.8	39.2	42.0	47.0	480.5	16.9	39.6	42.5	46.2
12. Others	18.6	0.6	38.1	40.6	48.0	16.9	0.6	38.1	40.6	48.0
<b>(C) All sectors</b>	<b>3 067.5</b>	<b>100.0</b>	<b>40.6</b>	<b>44.3</b>	<b>49.4</b>	<b>2 849.4</b>	<b>100.0</b>	<b>40.4</b>	<b>43.2</b>	<b>48.0</b>

- Notes: (1) Employees exclude government employees; student interns, work experience students and live-in domestic workers as exempted by MWO; as well as employees with zero working hours in the survey reference period.  
(2) Please refer to Table C for coverage of individual sectors.  
(3) Compiled based on the classification of LPS and other sectors as identified by MWC.  
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: AEHS, C&SD.

**Table A.8 Distribution of weekly working hours of lower-skilled employees <sup>(Note 1)</sup> analysed by sector**

Sector <sup>(Note 2)</sup>	May to June 2019					May to June 2021				
	Lower-skilled employees		Weekly working hours (hours)			Lower-skilled employees		Weekly working hours (hours)		
	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile	Number ('000)	Percent (%)	25 <sup>th</sup> percentile	Median	75 <sup>th</sup> percentile
<b>(A) LPS <sup>(Note 3)</sup></b>	<b>745.5</b>	<b>41.6</b>	<b>42.0</b>	<b>49.0</b>	<b>56.1</b>	<b>650.3</b>	<b>39.5</b>	<b>42.0</b>	<b>48.2</b>	<b>54.0</b>
1. Retail	228.1	12.7	40.6	48.0	54.0	183.1	11.1	40.6	47.1	53.1
1.1 Supermarkets and convenience stores	38.1	2.1	31.5	51.0	54.0	35.1	2.1	42.2	48.0	54.0
1.2 Other retail stores	190.0	10.6	40.6	48.0	54.0	148.0	9.0	40.6	46.2	52.3
2. Food and beverage services	215.6	12.0	42.0	54.0	60.0	178.6	10.8	41.5	51.9	57.0
2.1 Chinese restaurants	66.8	3.7	54.0	57.0	60.0	55.8	3.4	51.0	54.0	60.0
2.2 Non-Chinese restaurants	65.9	3.7	44.3	54.0	57.0	55.6	3.4	42.2	51.0	54.0
2.3 Fast food cafes	51.7	2.9	23.3	41.5	54.0	42.0	2.5	22.3	38.8	54.0
2.4 Hong Kong style tea cafes	21.5	1.2	48.0	54.0	60.0	17.7	1.1	46.2	54.0	60.0
2.5 Other food and beverage services	9.8	0.5	30.0	48.0	54.0	7.6	0.5	25.4	47.1	54.0
3. Estate management, security and cleaning services	212.7	11.9	46.5	50.1	66.0	208.4	12.7	46.7	49.9	66.0
3.1 Real estate maintenance management	89.3	5.0	48.0	58.2	66.0	85.5	5.2	48.0	54.0	66.0
3.2 Security services	41.6	2.3	48.0	59.1	71.8	42.1	2.6	48.0	55.9	69.2
3.3 Cleaning services	71.0	4.0	38.3	48.0	51.0	71.1	4.3	36.0	48.0	50.8
3.4 Membership organisations	10.8	0.6	37.6	46.2	53.5	9.7	0.6	40.6	44.3	51.0
4. Other LPS	89.1	5.0	44.3	48.0	54.0	80.2	4.9	42.0	48.0	54.0
4.1 Elderly homes	19.1	1.1	45.0	54.0	66.0	17.7	1.1	45.0	54.0	66.0
4.2 Laundry and dry cleaning services	4.6	0.3	37.5	48.0	54.0	§	§	§	§	§
4.3 Hairdressing and other personal services	41.3	2.3	43.2	46.2	51.9	38.7	2.3	42.0	48.0	54.0
4.4 Local courier services	4.7	0.3	38.1	44.3	45.7	§	§	§	§	§
4.5 Food processing and production	19.4	1.1	43.2	48.0	54.0	15.1	0.9	44.8	48.0	53.0
<b>(B) Other sectors <sup>(Note 3)</sup></b>	<b>1 047.6</b>	<b>58.4</b>	<b>40.6</b>	<b>44.3</b>	<b>49.2</b>	<b>996.1</b>	<b>60.5</b>	<b>40.6</b>	<b>44.3</b>	<b>48.0</b>
5. Manufacturing	39.3	2.2	43.6	48.0	51.0	34.9	2.1	41.8	46.2	49.9
6. Construction	216.5	12.1	44.3	48.0	54.0	218.3	13.3	41.5	48.0	53.3
7. Import/export trade and wholesale	198.5	11.1	39.3	40.6	44.3	159.6	9.7	38.1	40.6	44.3
8. Accommodation services	31.6	1.8	45.7	48.8	54.0	27.0	1.6	44.3	47.5	50.6
9. Transportation, storage, courier services, information and communications	216.6	12.1	40.6	48.0	54.0	209.6	12.7	40.6	47.2	54.0
10. Financing, insurance, real estate, professional and business services	132.9	7.4	39.3	40.6	44.3	137.5	8.4	38.1	40.6	44.3
11. Education, medical and other social and personal services	204.0	11.4	40.6	44.3	48.0	199.9	12.1	40.6	44.3	48.0
12. Others	8.3	0.5	39.8	40.6	49.9	9.3	0.6	40.6	45.0	54.2
<b>(C) All sectors</b>	<b>1 793.1</b>	<b>100.0</b>	<b>40.6</b>	<b>47.1</b>	<b>54.0</b>	<b>1 646.4</b>	<b>100.0</b>	<b>40.6</b>	<b>46.2</b>	<b>53.3</b>

- Notes: (1) Employees exclude government employees; student interns, work experience students and live-in domestic workers as exempted by MWO; as well as employees with zero working hours in the survey reference period. For the definition of lower-skilled employees in AEHS, please refer to **Glossary**.
- (2) Please refer to Table C for coverage of individual sectors.
- (3) Compiled based on the classification of LPS and other sectors as identified by MWC.
- (§) 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.
- 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:

AEHS, C&SD.



## B. Impact Assessment

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

Statutory Minimum Wage (SMW) test level	Economic Scenario 1		Economic Scenario 2		Economic Scenario 3		Economic Scenario 4	
	Number of pre-adjustment employees involved ('000)	Proportion among overall employees (%)	Number of pre-adjustment employees involved ('000)	Proportion among overall employees (%)	Number of pre-adjustment employees involved ('000)	Proportion among overall employees (%)	Number of pre-adjustment employees involved ('000)	Proportion among overall employees (%)
\$37.5	12.9	0.5	13.6	0.5	14.4	0.5	18.1	0.6
Below \$38.0	14.1	0.5	15.7	0.6	18.7	0.7	26.4	0.9
Below \$38.5	17.9	0.6	22.9	0.8	29.5	1.0	37.2	1.3
Below \$39.0	25.1	0.9	34.3	1.2	42.6	1.5	53.3	1.9
Below \$39.5	35.5	1.2	47.7	1.7	57.4	2.0	67.8	2.4
Below \$40.0	46.5	1.6	60.0	2.1	70.7	2.5	87.3	3.1
Below \$40.5	60.5	2.1	76.9	2.7	94.7	3.3	111.0	3.9
Below \$41.0	77.6	2.7	98.0	3.4	118.0	4.1	125.2	4.4
Below \$41.5	94.3	3.3	116.8	4.1	127.1	4.5	133.3	4.7
Below \$42.0	110.1	3.9	126.8	4.5	136.4	4.8	148.3	5.2
Below \$42.5	125.2	4.4	136.6	4.8	151.7	5.3	169.6	6.0
Below \$43.0	138.0	4.8	150.4	5.3	170.2	6.0	189.3	6.6
Below \$43.5	150.2	5.3	167.3	5.9	190.5	6.7	209.0	7.3
Below \$44.0	164.7	5.8	186.1	6.5	211.1	7.4	230.8	8.1

Notes: Since there will be no employees with hourly wages below the SMW rate of \$37.5 before the SMW adjustment in 2023 under MWO (except for employees with disabilities who have completed productivity assessment in accordance with MWO), the estimation of pre-adjustment employees involved in the above table is not applicable to SMW test levels (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.

The assumptions on the economic growth in the first half of 2023 under different scenarios are set out in Table 4.1.

Sources: Estimated with reference to AEHS results and different wage data.



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

SMW test level	Estimated additional wage bills							
	Economic Scenario 1		Economic Scenario 2		Economic Scenario 3		Economic Scenario 4	
	(\$ Million)	(%)	(\$ Million)	(%)	(\$ Million)	(%)	(\$ Million)	(%)
\$38.0	50	#	50	#	60	#	80	#
\$38.5	110	#	120	#	150	#	200	#
\$39.0	190	#	230	#	290	#	370	#
\$39.5	300	#	390	#	480	0.06	610	0.07
\$40.0	470	0.05	610	0.07	740	0.09	910	0.11
\$40.5	690	0.08	890	0.10	1,080	0.12	1,320	0.15
\$41.0	980	0.11	1,270	0.15	1,530	0.18	1,830	0.21
\$41.5	1,370	0.16	1,740	0.20	2,070	0.24	2,400	0.28
\$42.0	1,840	0.21	2,310	0.27	2,690	0.31	3,070	0.35
\$42.5	2,430	0.28	2,970	0.34	3,410	0.39	3,880	0.45
\$43.0	3,120	0.36	3,730	0.43	4,280	0.49	4,840	0.56
\$43.5	3,920	0.45	4,630	0.53	5,300	0.61	5,970	0.69
\$44.0	4,860	0.56	5,700	0.66	6,500	0.75	7,290	0.84

Notes: Only test levels above \$37.5 are included.

The above estimations have taken into account rest day pay and meal break pay (if rest day pay and meal break pay were granted to employees in accordance with their employment contracts or agreements) and the knock-on effect on pay hierarchies (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 2023 under different scenarios are set out in Table 4.1.

(#) Between 0% and 0.05%.

Sources: Estimated with reference to AEHS results and different wage data.

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

SMW test level	Estimated additional wage bills							
	Economic Scenario 1		Economic Scenario 2		Economic Scenario 3		Economic Scenario 4	
	(\$ Million)	(%)	(\$ Million)	(%)	(\$ Million)	(%)	(\$ Million)	(%)
\$38.0	30	#	30	#	40	#	50	#
\$38.5	70	0.05	80	0.06	90	0.07	130	0.10
\$39.0	120	0.09	140	0.10	170	0.13	230	0.17
\$39.5	190	0.14	220	0.17	280	0.21	370	0.28
\$40.0	280	0.21	340	0.26	430	0.32	550	0.42
\$40.5	400	0.30	500	0.37	630	0.47	810	0.61
\$41.0	560	0.42	710	0.53	900	0.68	1,120	0.84
\$41.5	780	0.59	990	0.74	1,240	0.93	1,480	1.11
\$42.0	1,060	0.80	1,320	1.00	1,620	1.22	1,900	1.43
\$42.5	1,400	1.05	1,710	1.29	2,070	1.56	2,420	1.82
\$43.0	1,800	1.36	2,170	1.64	2,610	1.97	3,050	2.30
\$43.5	2,280	1.72	2,720	2.05	3,260	2.46	3,780	2.85
\$44.0	2,850	2.15	3,370	2.54	4,030	3.04	4,640	3.50

Notes: Only test levels above \$37.5 are included.

The above estimations have taken into account rest day pay and meal break pay (if rest day pay and meal break pay were 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 2023 under different scenarios are set out in Table 4.1.

(#) Between 0% and 0.05%.

Sources: Estimated with reference to AEHS results and different wage data.

## C. Coverage of Sectors

**Table C Coverage of sectors**

Sector	AEHS	ASEA	Quarterly Survey of Employment and Vacancies	General Household Survey
	Hong Kong Standard Industrial Classification Version 2.0 <sup>(Note 1)</sup>			
<b>(A) LPS</b> <sup>(Note 2)</sup>				
1. Retail	47	47	47	47
1.1 Supermarkets and convenience stores	471101, 471102	471101, 471102	471101-2	471101, 471102
1.2 Other retail stores	47 excluding 471101, 471102	47 excluding 471101, 471102	47 excluding 471101-2	47 excluding 471101, 471102
2. 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 LPS				
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>(B) Other sectors</b> <sup>(Note 3)</sup>				
5. Manufacturing	B-C excluding 10-12	C excluding 10-12	C excluding 10-11	C excluding 10-12
6. Construction	F	F	F	F
7. Import/export trade and wholesale	G45-46	G45-46	G45-46	G45-46
8. Accommodation 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 851, 852, 873, 9601, 960201 and part of 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 C&SD since 2009 as a standard framework for classifying business establishments into industry classes as well as for compilation, analysis and dissemination of statistics by industry. A full index of HSIC V2.0 industry codes and titles is available from the publication entitled *Hong Kong Standard Industrial Classification (HSIC) Version 2.0*, which can be downloaded free of charge from the website of C&SD ([www.censtatd.gov.hk](http://www.censtatd.gov.hk)).
- (2) Compiled based on the classification of LPS as identified by 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
HSIC V2.0	Hong Kong Standard Industrial Classification Version 2.0
Knock-on effect	Knock-on effect on pay hierarchies
LD	Labour Department
LES	Labour Earnings Survey
LFPR	Labour force participation rate
LPS	Low-paying sectors
LSP	Long service payment
MWC	Minimum Wage Commission
MWO	Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)
PRH	Public rental housing
Proportion of part-time employees	The proportion of part-time employees among all employees
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 in compliance with the statutory requirement	The additional wage bills incurred for raising the hourly wages of all pre-adjustment employees involved to the respective Statutory Minimum Wage test levels to comply with the requirement under the Minimum Wage Ordinance
The epidemic	The COVID-19 epidemic

## 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	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.
Compensation of employees	In ASEA, compensation of employees refers to all the 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.
Composite Consumer Price Index (Composite CPI)	Consumer Price Index (CPI) measures the changes over time in the price level of consumer goods and services generally purchased by households. CPI(A), CPI(B) and CPI(C) are compiled by the Census and Statistics Department based on the expenditure patterns of households in the relatively low, medium and relatively high expenditure ranges respectively, so as to reflect the impact of consumer price changes on households in different expenditure ranges. 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.
Consumer Price Index (A) (CPI(A))	CPI(A) is compiled based on the expenditure patterns of households in the relatively low expenditure range (i.e. households with average monthly household expenditure within the range of \$6,500 to \$27,999 during the period of October 2019 to September 2020, relating to some 50% of all households in Hong Kong).
Craft workers and machine operators	Craft workers and machine operators refer to craft and related workers, plant and machine operators and assemblers.
Depreciation	<p>Depreciation refers to the amount by which the value of fixed assets has declined during the reference period owing to utilisation and obsolescence.</p> <p>ASEA has started to collect statistics on depreciation from sectors since 2010.</p>

<b>Glossary</b>	<b>Definition</b>
Earnings	In ASEA, earnings for 2010 and before refer to earnings before tax; gain/loss on disposal of financial asset, property, machinery and equipment; bad debts/write-off; amortisation; and provisions. Starting from 2011, amortisation is deducted from earnings.
Earnings before tax ratio (abbreviated as profit ratio)	Profit ratio refers to the ratio of earnings to business receipts. Please refer to “Earnings” for its definition.
Elementary workers	Elementary workers refer to persons engaged in the following occupational groups:  (i) In the Annual Earnings and Hours Survey (AEHS), elementary occupations refer to persons who mainly use hand-held tools and often some physical effort to carry out simple and routine tasks. Examples include cleaners, security guards, building caretakers, messengers, delivery workers, couriers, dishwashers, freight handlers, lift operators, labourers/general workers, hand packers, and card/pamphlet distributors;  (ii) In the General Household Survey (GHS), elementary occupations include domestic helpers; cleaners and labourers; food preparation assistants; messengers and deliverers; etc.
Employed persons	In GHS, employed persons include persons aged 15 and over who satisfy the following situation:  (i) should have been engaged in performing work for pay or profit during the 7 days before enumeration; or  (ii) should have had 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).

<b>Glossary</b>	<b>Definition</b>
Employees	<p>In AEHS, employees include all employees under the coverage of the Minimum Wage Ordinance (MWO) (Chapter 608 of the Laws of Hong Kong). Specifically, MWO applies to all employees with the following exceptions:</p> <ul style="list-style-type: none"> <li>(i) family members who live in the same dwelling as the employer;</li> <li>(ii) employees as defined in the Contracts for Employment Outside Hong Kong Ordinance (Chapter 78 of the Laws of Hong Kong);</li> <li>(iii) persons serving under crew agreements under the Merchant Shipping (Seafarers) Ordinance (Chapter 478 of the Laws of Hong Kong), or on board a ship which is not registered in Hong Kong;</li> <li>(iv) apprentices who have been registered under the Apprenticeship Ordinance (Chapter 47 of the Laws of Hong Kong);</li> <li>(v) student interns or work experience students as exempted by MWO;</li> <li>(vi) live-in domestic workers; and</li> <li>(vii) government employees.</li> </ul> <p>As it is necessary to derive the hourly wage of employees from their monthly wages and hours of work, those employees with zero working hours in the survey reference period are also excluded.</p> <p>In GHS, employees refer to persons who work for employers (private companies or government) for wage, salary, commission, tips, or payment in kind. These also include outworkers, domestic helpers and paid family workers. In this report, unless otherwise specified, employees exclude government employees and live-in domestic workers.</p>
Enterprise	<p>An enterprise consists of one or more establishments which engage, under a single ownership or control, in one or predominantly one kind of economic activity at one or more locations.</p>
Establishment	<p>An establishment refers to an economic unit which engages, under a single ownership or control, in one or predominantly one kind of economic activity at a single physical location, such as an individual factory, a workshop, a retail shop or an office.</p>

<b>Glossary</b>	<b>Definition</b>
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	<p>In AEHS, higher-skilled employees/occupational groups include managers and administrators, professionals and associate professionals.</p> <p>In GHS, higher-skilled employees/occupational groups include managers, professionals and associate professionals.</p>
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” for the definition of employed population.</p> <p>Please refer to “Unemployment rate” for the definition of unemployed population.</p>
Labour force participation rate	<p>Labour force participation rate refers to the proportion of labour force in the total land-based non-institutional population aged 15 and over.</p>
Large enterprises	<p>In this report, large enterprises refer to those enterprises with 50 or more persons engaged.</p>



<b>Glossary</b>	<b>Definition</b>
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 <sup>th</sup> percentile of the overall distribution.
Low-paying sectors (LPS)	<p>The Minimum Wage Commission (MWC) defines 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 (Market share of 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.

<b>Glossary</b>	<b>Definition</b>
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 including: (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"> <li>(i) the number of usual days of work per week is less than 5 (for a person with a fixed number of working days per week); or</li> <li>(ii) the number of usual hours of work per working day is less than 6 (for a person with a fixed number of working days per week); or</li> <li>(iii) the number of usual hours of work per week is less than 30 (for a person without a fixed number of working days per week).</li> </ul> <p>However, persons who usually work 24 hours per shift are excluded, regardless of the number of usual days of work per week.</p> <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 <math>p^{\text{th}}</math> percentile is the value which delineates the lowest <math>p\%</math> of observations of an ordered data set, where <math>p</math> can be any integer value from 1 to 99. The 25<sup>th</sup> percentile, 50<sup>th</sup> percentile and 75<sup>th</sup> percentile are equal to the first (lower) quartile, median and third (upper) quartile respectively.</p>

<b>Glossary</b>	<b>Definition</b>
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	<p>Seasonally adjusted unemployment rate refers to the unemployment rate which has been adjusted for seasonal variations using the X-12 ARIMA method.</p> <p>Please refer to “Unemployment rate” for its definition.</p>
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	<p>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.</p> <p>Please refer to “Self-employed persons” for its definition.</p> <p>Please refer to “Employed persons” for its definition.</p>
Service and sales workers	<p>Service and sales workers refer to persons engaged in the following occupational groups:</p> <p>(i) In AEHS, service and sales workers refer to persons providing personal services related to travel, catering, personal care; or demonstrating and selling goods in wholesale or retail shops and similar establishments, as well as at stalls and on markets. Examples include flight attendants and travel guides, cooks and waiters, care workers, hairdressers and beauticians, personal services workers, wholesale and retail sales persons in shops, and shop assistants;</p> <p>(ii) In GHS, service and sales workers include salespersons; travel attendants and guides; cooks; waiters; barbers; beauticians; personal care workers; rank and file staff in disciplined services; child care workers and teachers’ aides; building security guards; transport workers; etc.</p>
Small and medium enterprises (SMEs)	In this report, SMEs refer to those enterprises with fewer than 50 persons engaged.
Total expenses	<p>Total expenses include total operating expenses and cost of goods sold.</p> <p>Please refer to “Total operating expenses” for its definition.</p>

<b>Glossary</b>	<b>Definition</b>
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"> <li>(i) has been available for additional work during the 7 days before enumeration; or</li> <li>(ii) has sought additional work during the 30 days before enumeration.</li> </ul> <p>Working short hours is considered involuntary if it is due to slack work, material shortage, mechanical breakdown or inability to find a full-time job. Following this definition, employed persons taking no-pay leave due to slack work during the 7 days before enumeration are also classified as underemployed if they work less than 35 hours or are on leave even for the whole period during the 7-day period.</p>
Underlying Consumer Price Index (Underlying CPI)	<p>Underlying CPI denotes CPI compiled after netting out the effects of all Government’s one-off relief measures (such as public housing rental waiver, rates concession, electricity charges allowance, etc.).</p>

<b>Glossary</b>	<b>Definition</b>
Unemployment rate	<p>Unemployment rate refers to the proportion of unemployed persons in the labour force.</p> <p>For a person aged 15 and over to be classified as unemployed, that person should:</p> <ul style="list-style-type: none"> <li>(i) have not had a job and have not performed any work for pay or profit during the 7 days before enumeration; and</li> <li>(ii) have been available for work during the 7 days before enumeration; and</li> <li>(iii) have sought work during the 30 days before enumeration.</li> </ul> <p>However, if a person aged 15 and 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"> <li>(i) persons without a job, have sought work but have not been available for work because of temporary sickness; and</li> <li>(ii) persons without a job, have been available for work but have not sought work because they: <ul style="list-style-type: none"> <li>✧ have made arrangements to take up a new job or to start business on a subsequent date; or</li> <li>✧ are expecting to return to their original jobs (e.g. casual workers are usually called back to work when service is needed).</li> </ul> </li> </ul>

<b>Glossary</b>	<b>Definition</b>
Wages	<p>The definition of wages in AEHS follows the definition of wages as adopted in the Employment Ordinance (Chapter 57 of the Laws of Hong Kong). In brief, wages cover the following components:</p> <ul style="list-style-type: none"> <li>(i) basic wage;</li> <li>(ii) commission and tips not of gratuitous nature;</li> <li>(iii) guaranteed bonuses and allowances other than guaranteed end of year payment (such as shift allowance, cost-of-living allowance, meal allowance, good attendance bonus not of gratuitous nature); and</li> <li>(iv) overtime allowance;</li> </ul> <p>but do not include:</p> <ul style="list-style-type: none"> <li>(i) the value of any accommodation, education, food, fuel, water, light or medical care provided by the employer;</li> <li>(ii) employer's contribution to any retirement scheme;</li> <li>(iii) commission, attendance allowance or attendance bonus which is of a gratuitous nature or is payable only at the discretion of the employer;</li> <li>(iv) non-recurrent travelling allowance or the value of any travelling concession or travelling allowance for actual expenses incurred by the employment;</li> <li>(v) any sum payable to the employee to defray special expenses incurred by him/her by the nature of his/her employment;</li> <li>(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</li> <li>(vii) gratuity payable on completion or termination of a contract of employment.</li> </ul>

<b>Glossary</b>	<b>Definition</b>
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"> <li>(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</li> <li>(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).</li> </ul> <p>Besides, hours of work in GHS refer to the number of hours which an employed person actually worked in all employment during the 7 days before enumeration. All paid and unpaid hours worked at the place of work are included, but meal breaks are excluded.</p>

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## **Economic, Sustainability, Family, Gender and Financial Implications of the Proposal**

### **Economic implications**

The recommended Statutory Minimum Wage (SMW) rate of \$40.0 per hour represents an increase of \$2.5 or 6.7% over the prevailing SMW rate of \$37.5. According to the crude estimations by the Minimum Wage Commission (MWC), the recommended uprating of the SMW would benefit some low-paid employees, while its impacts on the costs of enterprises, unemployment and inflation would be relatively contained on the whole.

2. MWC estimated that, under the four assumed economic scenarios<sup>1</sup>, the number of employees earning hourly wages below \$40.0 in the first half of 2023 before the implementation of the recommended SMW rate would be around 46 500 to 87 300, representing 1.6% to 3.1% of all employees in Hong Kong. Some of those earning hourly wages of \$40.0 or above before the implementation of the recommended SMW rate would also see a pay rise (the knock-on effect), as enterprises strive to maintain the wage differentials among employees of different ranks. As for the impact on enterprises, the additional wage bills due to the recommended SMW uprating (including the knock-on effect on employees already earning more than the minimum wage) would be about \$470 million to \$910 million for all sectors combined, representing about 0.05% to 0.11% of the total wage bills<sup>2</sup>. The impact on those sectors with a higher share of labour costs in total operating expenses would be relatively more apparent. In particular, the additional wage bills for low-paying sectors<sup>3</sup> (LPS) as a whole would be about \$280 million to \$550 million, representing about 0.21% to 0.42% of the total wage bills of LPS.

3. As for the impact on unemployment, MWC estimated that due to the recommended SMW uprating, the number of unemployed grassroots workers would increase by about 1 300 to 2 500, and the overall unemployment rate would rise by less than 0.05 percentage point to 0.07 percentage point. On inflation, assuming a full pass-on of additional wage bills to prices of products

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<sup>1</sup> Considering that the impact of SMW rate adjustment would depend on the economic situation at the time of implementation, when conducting the impact assessment, MWC assumed four economic scenarios for the first half of 2023, assuming that the year-on-year economic growth at that time would be 4%, 1.5%, -1% and -3.5% respectively. For a given SMW uprating, the impact will be smaller when the economic situation is more favourable.

<sup>2</sup> Moreover, MWC estimated that the recommended uprating of SMW would increase the potential financial liability of long service payment of employers by about \$120 million to \$240 million, representing less than 0.05% of the total wage bills.

<sup>3</sup> LPS as identified by MWC included: (i) retail trade; (ii) food and beverage services; (iii) estate management, security and cleaning services; 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).

and services, both the Composite Consumer Price Index (CPI) inflation and the CPI(A) inflation would go up by less than 0.05 percentage point to around 0.05 percentage point<sup>4</sup>.

4. Considering that overall inflation has remained moderate so far and should remain so in the near term, the recommended 6.7% increase in the SMW rate at the time of implementation in May 2023 should entail an increase in purchasing power over two years ago.

5. In sum, the recommended SMW rate of \$40.0 per hour should be able to strike an appropriate balance between the objectives of forestalling excessively low wages and minimising the loss of low-paid jobs, while giving due regard to the need to sustain Hong Kong’s economic growth and competitiveness.

**Sustainability implications**

6. The increased SMW rate would have positive impact on income distribution and on improving self-reliance, family solidarity and social cohesion. By enhancing the protection of vulnerable workers, it would also be conducive to social sustainability as it helps foster a harmonious society as well as social equality and justice.

**Family implications**

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

**Gender implications**

8. The same SMW rate and monetary cap on recording hours worked apply to male and female employees alike. The implementation of SMW has encouraged more people, especially women, to enter or re-enter the labour market.

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<sup>4</sup> MWC opined that as it would be unlikely for enterprises to fully pass on the additional wage bills to consumers, the actual impact of SMW uprating on inflation should be smaller than the above estimates.

## **Financial implications**

9. The Government's policy to pay its employees, both civil servants and non-civil servants, no less favourably than the prevailing SMW rate should have minimal financial implications for the Government as an employer. This is because the pay for government employees should generally be above the SMW rate to be determined from time to time. Employees working for contractors of bureaux and departments will be entitled to no less than the revised SMW rate in accordance with the Minimum Wage Ordinance when the revised rate takes effect. Examples include workers of government service contractors and agency workers supplied by employment agencies in the provision of government services. Tenderers for government contracts may reflect the impact of SMW on wage costs, if any, in the tender price.

10. It is difficult to estimate the precise net effect of the recommended SMW rate on the Comprehensive Social Security Assistance (CSSA) expenditure, which would depend on the economic and labour market situation as well as how the recommended SMW rate impacts on employment and the profile of those affected<sup>5</sup>. Nevertheless, making reference to the change in CSSA caseloads after the implementation of SMW<sup>6</sup>, and assuming that the economic and labour market situation will remain largely stable, we estimate that the recommended SMW rate will not have any effect on increasing the CSSA expenditure.

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<sup>5</sup> The current labour market situation is largely stable and it is anticipated that the impact of the recommended SMW rate is unlikely to lead to a marked deterioration in the labour market. Nonetheless, the employment situation will hinge on the overall economic performance of Hong Kong. In case of economic downturn, older workers and young people with less experience as well as workers with lower educational attainment and lower skills are more vulnerable to employment displacement. Some of these displaced workers may fall into our social security net for financial assistance, thereby increasing government expenditure on CSSA Scheme. On the other hand, some low-income workers originally receiving CSSA under the low earnings category may leave the welfare net after their wages have been raised to a higher level following the adjustment of the SMW rate. CSSA expenditure on this front may be reduced as a result.

<sup>6</sup> As of November 2022, there were 18 175 unemployment cases and 1 873 low earnings cases out of a total of 207 589 CSSA cases, which represented respective decreases of 38% and 87% over 29 206 unemployment cases and 13 992 low earnings cases out of a total of 282 351 CSSA cases in April 2011 before the initial SMW rate took effect.