

The Impact of Government Relief Measures on Hong Kong's Job Market

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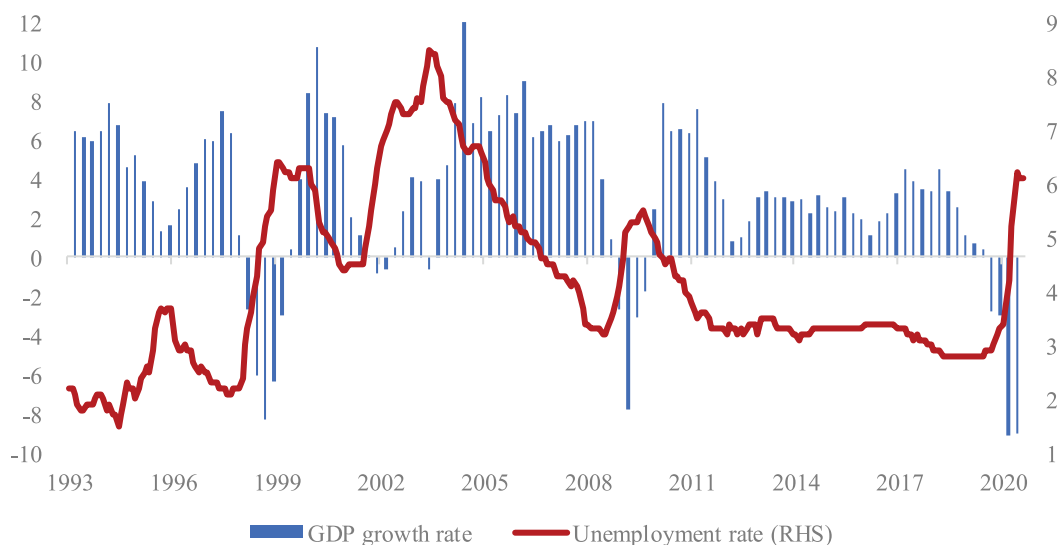
Affected by the COVID-19, the economy of Hong Kong has fallen into a deep recession, and the unemployment rate has remained above 6% for several months. In order to alleviate the impact of the epidemic, the HKSAR Government has launched economic stimulus and employment support measures totaling more than HK\$ 300 billion. Comprehensive calculation reveals those measures can reduce the unemployment rate by approximately 3.4 percentage points. Looking ahead, the Hong Kong labor market will remain lackluster in the short run. And it may take several years for the unemployment rate to return to its pre-epidemic level. In addition, to strictly contain the epidemic for minimizing its impact on the economy, the government should also prepare to invest more resources to support the economy and job market.

1. Hong Kong job market is under tremendous pressures

Under the triple negative factors of Sino-US trade frictions, global economic slowdown, and local social incidents, Hong Kong's economic growth rate turned negative since the Q3 of 2019. Going into 2020, the novel coronavirus epidemic brought further exceptional challenges. GDP growth rates in the first two quarters were -9.1% and -9% compared with a year earlier, respectively, which led the GDP to shrink about 9% in real terms in H1, marking the steepest half-year drop on record. The troubled economy has also brought tremendous pressures to the local job market with the following characteristics:

First, the job market has deteriorated rapidly. According to the data released by the government, the unemployment rate surged to 6.2% in April-June this year, marking a level of 15-year high, and continued to remain at 6.1% in May-July and June-August. Meanwhile, the underemployment rate increased to 3.8% in June-August, the highest since the onslaught of SARS in 2003. Currently, the number of unemployed persons in Hong Kong is close to 250,000, which is more than double the 124,000 at the end of last year. What's more, the unemployment rate and the number of unemployed cannot fully reveal the overall impact of the epidemic because the total labor force in Hong Kong has decreased by 53,000 in the past eight months, mainly because many laborers have withdrawn from the labor market. However, the total labor force in Hong Kong should normally increase by 13,000 in this period. Therefore, the net increase would be 66,000 positions, indicating the epidemic has still eliminated nearly 200,000 jobs although the government launched unprecedented relief measures.

Figure: Hong Kong GDP growth and unemployment rates (%)



Source: Wind, BOC Hong Kong Financial Research Institute

Second, the impact of the epidemic on the job market and residents' income presents obvious structural issues. The COVID-19 is a highly contagious disease with a long incubation period. Generally, it has a larger impact on the consumption side than the production side. According to the data by industry, the unemployment rates in retail, accommodation and food service industry and construction industry are relatively high, with 10.9% and 11.1% respectively. And the total number of unemployed in those two industries is about 100,000, accounting for 40% of the total unemployment figure. From the perspective of dynamic trends, the unemployment rates in the retail industry, accommodation service industry, and several other industries may continue to deteriorate with the continuation of the epidemic. Meanwhile, several industries are relatively less affected by the COVID-19. For instance, the unemployment rates of financing, insurance, real estate, professional and business services, and public administration, social and personal services are only 3.8% and 3.2%, remaining at low levels.

From the perspective of income levels, the unemployment rate is negatively correlated with industry median income. The unemployment rate of high-income groups is relatively low, within which, the unemployment rates of managers and administrators, and professionals are only 2.3% and 2.5%. However, the majority of low-income earners rely on "part-time jobs" and are unable to work from home. They encountered greater employment barriers and income loss risks. The data shows the unemployment rates of lower-income craft and related workers, service and sales worker are all around 10%.

Third, the residents' income drops with the increase of unemployment rate. On September 15, the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) announced the new round results of Hong Kong's employment prospects survey. In the most recent year, the proportions of respondents who were asked by their employers to take unpaid leave, extended unpaid leave, and reduce salary were 37.8%, 25.5%, and 25.0%, respectively, while the proportions of these three items were 29.9%, 21.9% and 20.6% in the first survey in June. In addition, 47.7% of the respondents believed that future income will decrease, higher than 35.4% in the previous survey. And the

unemployed had a declining confidence in finding new jobs within six months, and were pessimistic about their employment prospects.

2. The government relief measures began to take effect

In order to alleviate the impact of the epidemic on Hong Kong’s economy, and help businesses stay afloat and keep workers in employment, the HKSAR Government has taken fiscal measures, including a universal distribution of HK\$ 10,000, the implementation of the “Employment Support Scheme”, one-off assistance to specific industries, and a series steps to relieve the cash flow difficulties of enterprises and individuals, etc. The government has launched three rounds of anti-epidemic measures so far, each totaling HK\$30, 137.5, and 24 billion. The total amount is more than HK\$ 300 billion after adding the HK\$ 120 billion relief package in the 2020-21 Budget, equivalent to 10.9% of HK’s GDP in 2019.

Table: HKSAR Government relief measures

	Round 1	Round 2	Round 3	2020-21 Budget
Fund	HK\$ 30 billion	HK\$ 137.5 billion	HK\$ 24 billion	HK\$ 120 billion
Time	February 21	April 18	September 15	February 26
Main Measures	<ol style="list-style-type: none"> 1. Enhancing anti-epidemic capability 2. Providing relief to enterprises and individuals 	<ol style="list-style-type: none"> 1. Job retention, job creation, job advancement 2. Provision of one-off relief for specific sectors 3. Subsidy schemes 4. Easing the cash flow and burden of businesses and individuals 	<ol style="list-style-type: none"> 1. Purchase vaccines 2. Fund key industries 3. Rent reduction and fee exemption 4. Optimize financing guarantee plan for SMEs 	<ol style="list-style-type: none"> 1. Cash payout of HK\$ 10,000 to HK permanent resident 2. Reduce salaries tax and waive rates for properties 3. Pay one month's rent and provide an extra allowance 4. Introduce a low-interest loan

Source: HKSAR websites, BOC Hong Kong Financial Research Institute

The first two rounds of anti-epidemic funds have approved 73 projects so far, of which 16 projects have been successfully completed, and another 57 projects (including the “Employment Support Scheme”) are actively processed now. The commitment amount exceeded HK\$ 145 billion. As of the end of August, the funds had granted more than HK\$ 78 billion, benefiting around 450,000 companies with more than 4.3 million employees. Although the total amount of third round fund is only HK\$ 24 billion, which is smaller than the previous two rounds, the relief measures are more focused and target-oriented. Of the HK\$ 24 billion, HK\$ 13 billion is planned to purchase effective vaccines and to further support in the next wave of epidemic, nearly HK\$ 6 billion is planned for rent reduction and fee exemption, and another HK\$ 4.5 billion will be used to directly assist specific industries, including catering, tourism, aviation and transportation industries, etc.

These relief measures have effectively stabilized the Hong Kong economy and avoided a deeper recession. In the first half of this year, the global economic recession weakened Hong Kong’s foreign trade activities. Travel restrictions and social distancing requirements resulted in the largest drop

of private consumption expenditure on record. The overall social investment also fell sharply under the unfavorable business atmosphere. However, government consumption expenditures surged, with YoY growth rates of 8.8% and 9.8% in first two quarters respectively. In the second half of the year, the support from those relief measures to the economy will become more apparent. The government expected that those measures launched this year can provide support of more than 5% of GDP.

The unprecedented fiscal stimulus also had a positive impact on the local labor market. In particular, the effect of “Employment Support Scheme”, which is trying to keep workers in employment by subsidizing half of the employee’ salary within the time period, is remarkable. The first tranche has generally completed. A total of nearly 150,000 employers had applied, involving about 1.9 million employees that accounted for around 50% of total jobs in Hong Kong, and wage subsidies summed up to nearly HK\$ 43.9 billion. The second tranche also has officially started. In addition, the government bureaus and departments also expanded their recruitment scales. As of the end of August, preparations for approximately 23,500 positions have entered to the mature stage, including 14,600 government positions and 8,900 non-governmental ones.

The American economist Okun found that in cyclical fluctuations, there is a fairly stable relationship between unemployment and losses in a country’s production. According to the historical data of the United States, for every 1% increase in the unemployment rate, US GDP will be roughly an additional 2% lower than its potential GDP. We use this relationship to make regression analysis on Hong Kong’s unemployment rate with quarterly GDP growth rate to obtain the elasticity, and then give different weight on different relief measures. After integrating factors such as the expansion of government department recruitment, we finally obtain the quantitative impact of these measures on the job market. Our model reveals that the economic stimulus and employment support schemes can reduce Hong Kong’s unemployment rate by approximately 3.4 pp, effectively relieved the effects of large-scale layoffs. Otherwise, the current unemployment rate in Hong Kong should be around 9.5%, higher than the level during the 2003 SARS epidemic.

What is worth mentioning is that Hong Kong’s fiscal expenditure this time is still in a relatively reasonable range when compared with other areas. Because of the epidemic, various fiscal and monetary policies were used to support the economy worldwide in 2020. The United States cut the federal funds rate to 0-0.25%, and implemented a fiscal rescue plan of more than US\$ 3 trillion; the European Union continued the easing monetary policy and launched the “strongest” economic stimulus plan in history, totaling more than EUR 2 trillion; more than SGD 100 billion have been launched in Singapore’s relief programs. The anti-epidemic fiscal expenditures in these regions accounted for more than 10% of local GDP. As a comparison, the sum of three rounds relief measures plus the budgeted expenditure in Hong Kong are about 11% of its GDP, which remains at a relatively reasonable level. Because of the prudent management over the past few decades, the fiscal reserves in Hong Kong exceeded HK\$ 1.1 trillion at the end of 2019. Although the fiscal deficit is estimated to exceed 300 billion this year, the fiscal reserve remaining will still be more than HK\$ 800 billion. This is equivalent to 12 to 13 months of government expenditure, which is still very safe.

3. The prospects for job market recovery

The unemployment rate is a lagging indicator, and it may rise further in the short term. Hong Kong’s experience shows that the economy usually rebounds quickly after an economic recession, but the local job market recovery generally takes more time. With reference to the experience of

the 1997 Asian Financial Crisis and the 2008 Global Financial Crisis, the unemployment rate will generally hit the peak in about half a year after GDP growth bottoms out, and will take about 2 years to return to the pre-recession level. In Q3 of 1998, HK GDP growth rate was -8.7%, the lowest in the Asian Financial Crisis. The unemployment rate reached the highest point of 6.4% in February 1999, and declined to 4.4% at the end of 2000. The GDP growth rate of Hong Kong in 2009 Q1 was -7.8%, which was the lowest growth rate during the Global Financial Crisis. The unemployment rate reached the highest level of 5.5% in August 2009, and did not come to the balance level of 3.3% until two years later. Taking factors such as low bases into account, Hong Kong's economic growth rate may have bottomed out in H1. The negative growth rates in Q3 and Q4 will gradually narrow. However, the unemployment rate may surge further in the short term and the labor market remains austere. Moreover, it may take two years or even longer for the unemployment rate to return to the pre-epidemic level of 3%.

Currently, the third wave of the epidemic in Hong Kong has not ended and cases with unknown origins appeared from time to time. As the temperature in the northern hemisphere turns colder, many countries in Europe and North America are suffering from a new wave of epidemic, and their daily peaks exceed the previous levels. Experts predicted that Hong Kong is also likely to have a new wave of epidemic in the coming winter. Because of the highly contagious nature of COVID-19, measures such as promoting social distancing are still needed to be adopted for minimizing the impact on the economy and job market before the vaccine is widely used. Only by containing the epidemic can the economy be back on track and the job market truly recover.

This implies that Hong Kong must prepare well to invest more resources to support the economy and job market in the long term. Judging from the current progress in vaccines, there is a 95% probability that an effective vaccine against the COVID-19 can be made out by the end of this year. Among them, four vaccines in China have entered the third phase of clinical trials, and the performance of first injections for specific personnel that began on July 22 was good. However, it may still take several years for the world to completely get rid of the epidemic even if an effective vaccine is distributed at the end of this year or early next year. Therefore, the government may need to invest more resources to support the economy and job market in the medium to long term. Fortunately, the fiscal reserve in Hong Kong is relatively sufficient currently. In the future, the government needs to balance between avoiding the rapid shrink of fiscal reserve and supporting the affected industries and the public.

Finally, future employment support schemes can be tilted more towards the "new economy" to lead Hong Kong's economic transformation. This epidemic has promoted global technological innovation dramatically, and the digital economy has risen sharply. After the epidemic, the world will embrace fundamental changes for sure. We believe that the government should have a forward-looking perspective when taking fiscal measures. More resources should be allocated towards the "new economy" in order to support new industries and lead economic transformation. In particular, the recent national "14th Five-Year Plan" is going to be released. Hong Kong should seize the opportunities provided by "the Belt and Road Initiative" and the Guangdong-Hong Kong-Macao Greater Bay Area constructions, and take advantage of the opportunities provided by the "14th Five-Year Plan" to vigorously develop the new economy and to achieve a successful economic transformation.

主要經濟指標 (Key Economic Indicators)

一. 本地生產總值 GDP	2018	2019	2020/Q1	2020/Q2
總量 (億元) GDP(\$100 Million)	27,355	27,030	6,616	6,379
升幅 (%) Change(%)	2.9	-1.2	-9.1	-9.0
二. 對外貿易 External Trade			2020/8	2020/1-8
外貿總值 (億元) Total trade(\$100 Million)				
總出口 Total exports	41,581	40,961	3,445	24,348
進口 Total imports	47,214	45,714	3,591	26,546
貿易差額 Trade balance	-5,633	-4,753	-146	-2,197
年增長率 (%) YOY Growth(%)				
總出口 Total exports	7.3	-5.6	-2.3	-5.8
進口 Imports	8.4	-8.1	-5.7	-8.1
三. 消費物價 Consumer Price				
綜合消費物價升幅 (%) Change in Composite CPI(%)	2.4	2.9	-0.4	0.9
四. 樓宇買賣 Sale & Purchase of Building Units				
合約宗數 (宗) No. of agreements	79,193	74,804	5,390	45,715
年升幅 (%) Change(%)	-5.5	-5.5	4.5	-16.9
五. 勞動就業 Employment			2020/5-2020/7	2020/6-2020/8
失業人數 (萬人) Unemployed(ten thousands)	10.5	12.4	24.3	24.8
失業率 (%) Unemployment rate(%)	2.8	3.3	6.1	6.1
就業不足率 (%) Underemployment rate(%)	1.1	1.2	3.5	3.8
六. 零售市場 Retail Market			2020/8	2020/1-8
零售額升幅 (%) Change in value of total sales(%)	8.8	-11.1	-13.1	-30.2
零售量升幅 (%) Change in volume of total sales(%)	7.6	-12.3	-13.4	-31.6
七. 訪港遊客 Visitors				
總人數 (萬人次) arrivals (ten thousands)	6,515	5,590	0.4	354.1
年升幅 (%) Change(%)	11.4	-14.2	-99.9	-91.9
八. 金融市場 Financial Market			2020/7	2020/8
港幣匯價 (US\$100=HK\$)				
H.K. Dollar Exchange Rate (US\$100 = HK\$)	783.6	779.3	775.2	775.2
貨幣供應量升幅 (%) change in Money Supply(%)				
M1	-0.4	2.6	28.3	49.8
M2	4.3	2.8	6.7	9.2
M3	4.3	2.7	6.6	9.1
存款升幅 (%) Change in deposits(%)				
總存款 Total deposits	5.0	2.9	6.3	8.9
港元存款 In HK\$	3.6	2.5	5.8	12.7
外幣存款 In foreign currency	6.4	3.2	6.8	5.1
放款升幅 (%) in loans & advances(%)				
總放款 Total loans & advances	4.4	6.7	7.4	9.1
當地放款 use in HK	4.0	7.1	7.8	10.4
海外放款 use outside HK	5.3	5.8	6.4	6.1
貿易有關放款 Trade financing	-7.7	-0.7	-4.0	-5.0
最優惠貸款利率 (%) Best lending rate (%)	5.1250	5.0000	5.0000	5.0000
恆生指數 Hang Seng index	25,846	28,189	24,595	25,177