

Hong Kong unemployment

William Thompson, the New York City comptroller, said this week that New York will lose 165,000 jobs over the next two years as recession bites into the US economy - and as the city's chief financial officer, no-one is better placed to know.

What is likely for New York is also likely for Hong Kong - which means our Government needs to start planning now for the painful likelihood of a sharp rise in unemployment.

The similarities between New York and Hong Kong are striking. New York has a workforce of 3.9 million, and current unemployment of 230,000 - which makes for a seasonally adjusted unemployment rate of 5.7%. Hong Kong has a workforce of 3.7 million. Unemployment stands at 129,000 - but add in underemployment and the number jumps to 198,000 - which amounts to 5.1% of our workforce. That strikes me as eerily similar.

Then look at the other similarities - highly specialized service economies with massive financial services sectors, a high concentration of headquarter services underpinning professional services like accountancy and legal services, and a substantial tourism sector - and it is clear that the recessionary chill in New York is likely to be very similar to that in Hong Kong. And we are not talking about job cuts confined to the financial services sector, even though this is clearly the first part of the economy to be hit. If anything, Hong Kong may suffer even more severely than New York, since we also boast a massive trade services and logistics economy, which will suffer deeply as global trade contracts into the recession.

Until recently, there was reasonable hope that continued strong growth on the Mainland might insulate Hong Kong from the worst of the recessionary forces. But confidence here has begun to ebb as evidence begins to emerge that China's economy is also beginning to slow quite sharply.

So if Mr Thompson is right, the likelihood is high that Hong Kong's unemployment will also rise by 160,000, give or take a few thousand. That would take unemployment to an unnerving 7.8%, and if you add in underemployment we reach an alarming 9.7% - which would take us to the peak unemployment levels of Sars in 2003, with the likelihood that jobless problems would last significantly longer if the upcoming recession is as protracted as many now predict.

With so many of the seismic forces wreaking damage across the global economy outside Hong Kong's control, it would be easy to conclude that we can do very little about the upcoming recession, nor the unemployment it will create.

In the wake of last week's Policy Address, our Chief Executive would probably say that remedies will be the responsibility of the Task Force soon to be set up. But in the meanwhile, a number of challenges are so blindingly obvious, that there is no reason why mitigating initiatives cannot be planned now - and I am not just talking about pressing ahead with big infrastructure projects:

- thousands of exporters and trading companies have lost access to the Letters of Credit that protect them if a buyer in the US or Europe reneges on a contract. There is an urgent need for the Government to step in with guarantees to protect these exporters.

- Many individuals and small businesses face tax bills in a couple of months time that are based on the buoyant earnings of 2006 and 2007 – at exactly the time revenues will be falling sharply. Bridging finance, tax relief, or tax deferment should be considered to alleviate potentially serious cash flow crises.
- Many MPF pension accounts have collapsed in value as equity markets have plunged. That may be OK if you are retiring in 10 years time, but for someone facing imminent retirement, this collapse could be catastrophic. Interim funding arrangements may be needed to help retirees avert the need to cash in their MPF at current depressed levels.
- Retraining programmes need to be developed to provide those who become unemployed with an opportunity to retrain.
- Past precedent says that unemployment will be concentrated among younger people, so particular initiatives will need to be prepared for school-leavers and university graduates.
- Initiatives need to be discussed with employers and employer organisations to encourage them to minimize lay-offs.

All of this – and more – will have to be managed at a time when plunging property sales volumes and a fall in stock market activity cut Government revenues, probably creating a significant budget deficit. This is exactly the time to consider drawing down on the very substantial surpluses that have built up over the past four buoyant years. Under normal circumstances, such initiatives might be bundled up to wait for John Tsang's next budget in March. But these are not normal circumstances, and it makes no sense to wait.

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