

Hong Kong Economic Growth, Inflation, and Wages – Theory and Outlook

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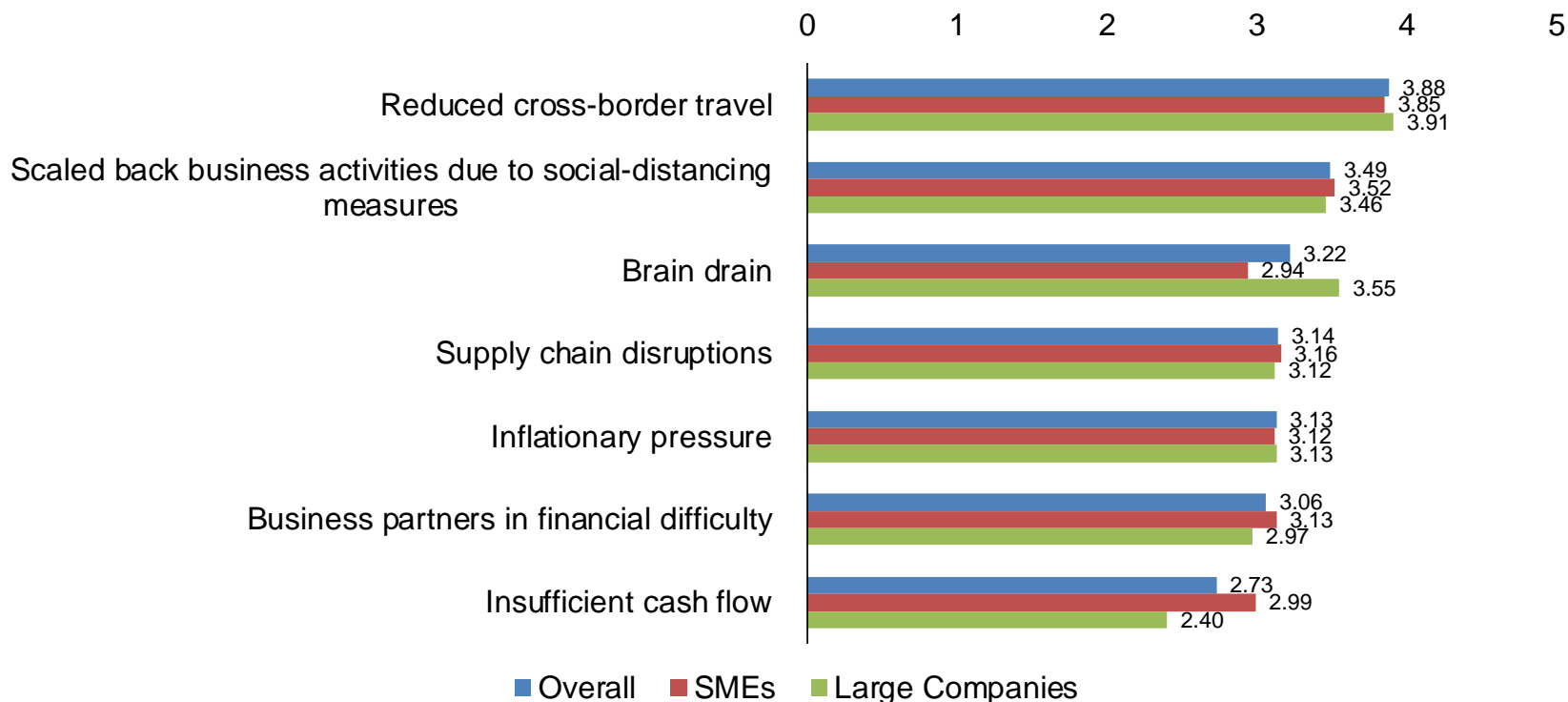
18 October 2021



Biggest Impediments Facing Businesses

Please rate the key challenges facing your business for the rest of the year on a scale of 1 to 5.

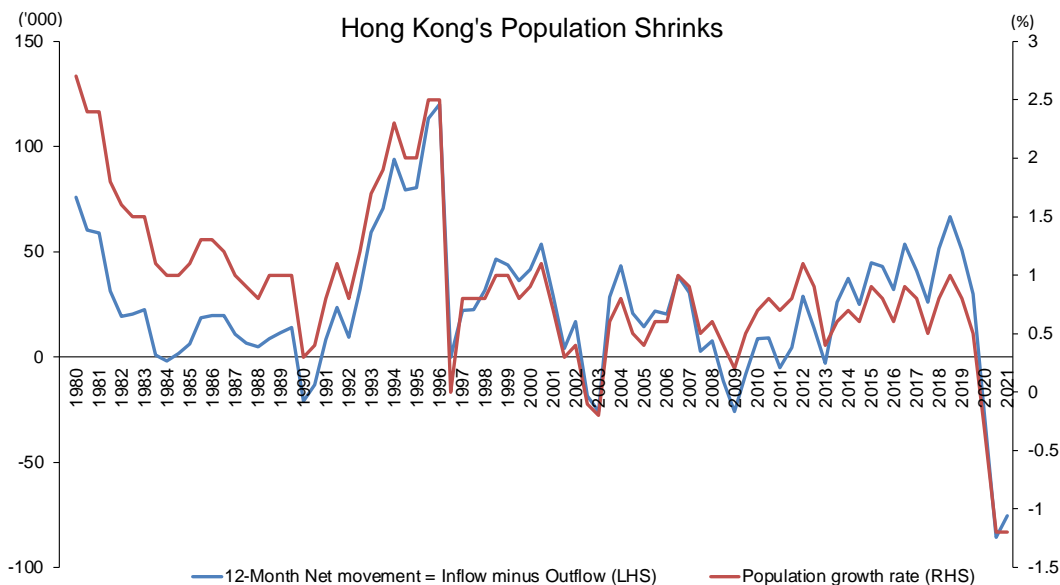
(1 = not important, 5 = very important)



Source: HKGCC Survey, July 2021

Talent Exodus: Real or Imagined?

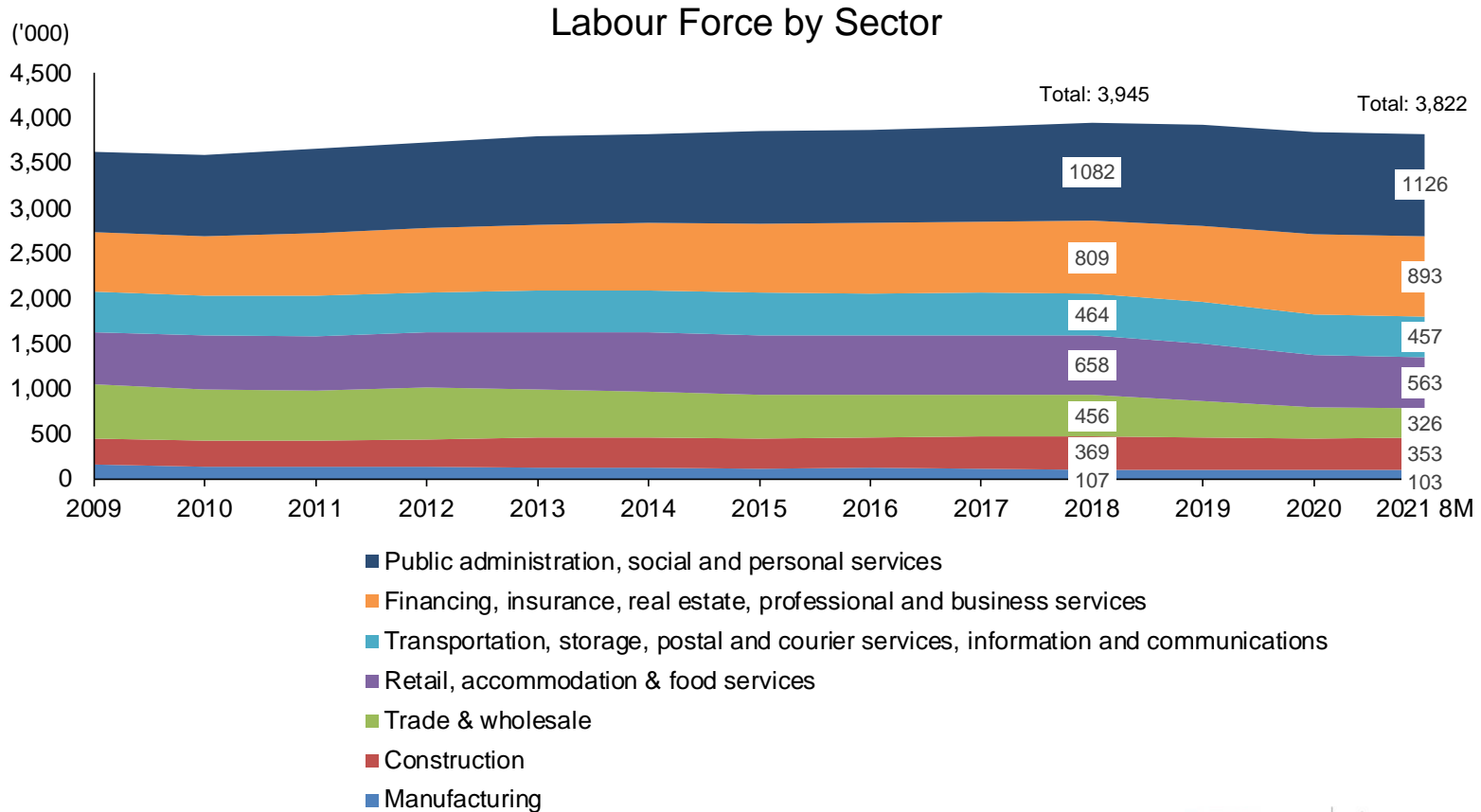
- Hong Kong residents planning to leave permanently applied to withdraw HK\$4 billion from their MPF accounts in the first half of 2021 -- a surge of 76% year-on-year.
- There was a net outflow of 75,300 persons during mid-2020 to mid-2021, contributing to a 1.2% decline in the population.



Source: CEIC



Overall Size of Workforce Peaked in 2018

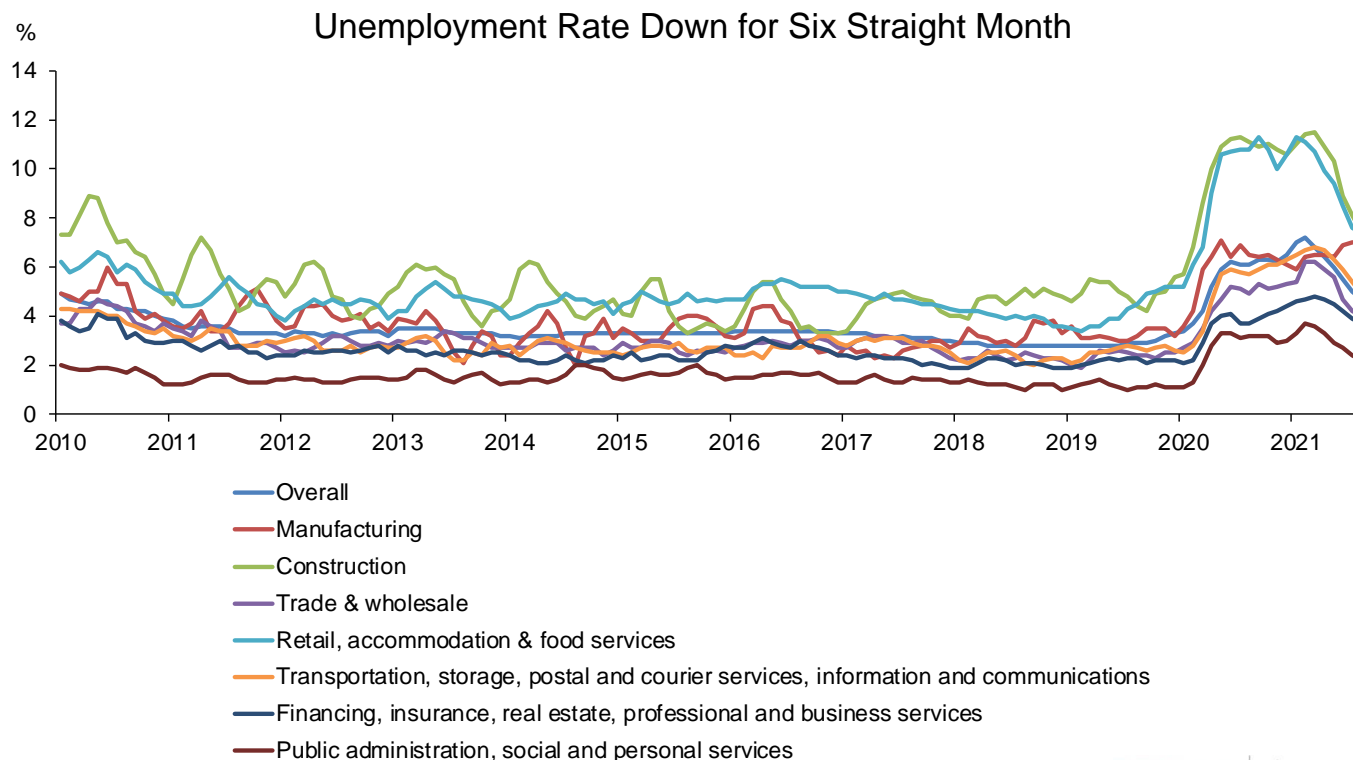


Source: CEIC



Unemployment Hits Lowest Level since the Covid-19 Pandemic

- Hong Kong's unemployment rate dropped to 4.7% between June and August, from 5% between May and July, after reaching its peak at 7.2% in early 2021.



Source: CEIC

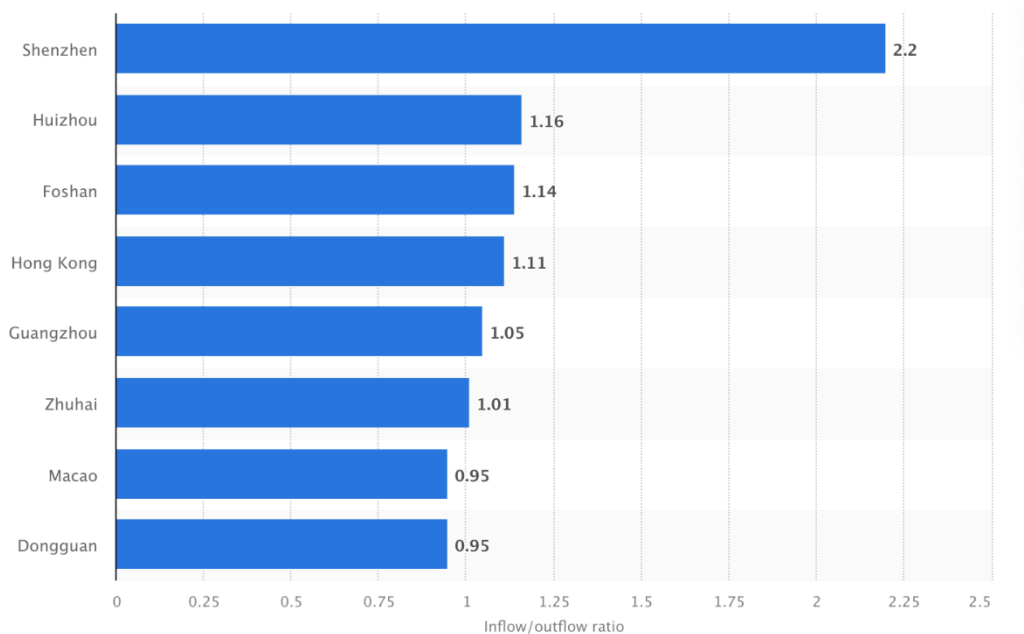
GBA and the Northern Metropolis Development

- Greater Bay Area (GBA), comprising Hong Kong, Macao and 9 Mainland cities, has a total population of over 86 million.
- In her latest Policy Address, Chief Executive Carrie Lam unveiled a plan to transform districts bordering Shenzhen into a “Northern Metropolis.”
- Both developments will likely result in the mobilization of labour towards more prosperous cities in the region such as Hong Kong, Macao and Shenzhen as workers seek out better pay and job opportunities.
- In the meantime, low-end service industries will move out of Hong Kong to other GBA cities with better comparative advantages, while Hong Kong moves up the value chain to provide high-end services, thereby creating better jobs in the city.



Hong Kong Needs to Play Catch Up in Attracting China's High-End Talents

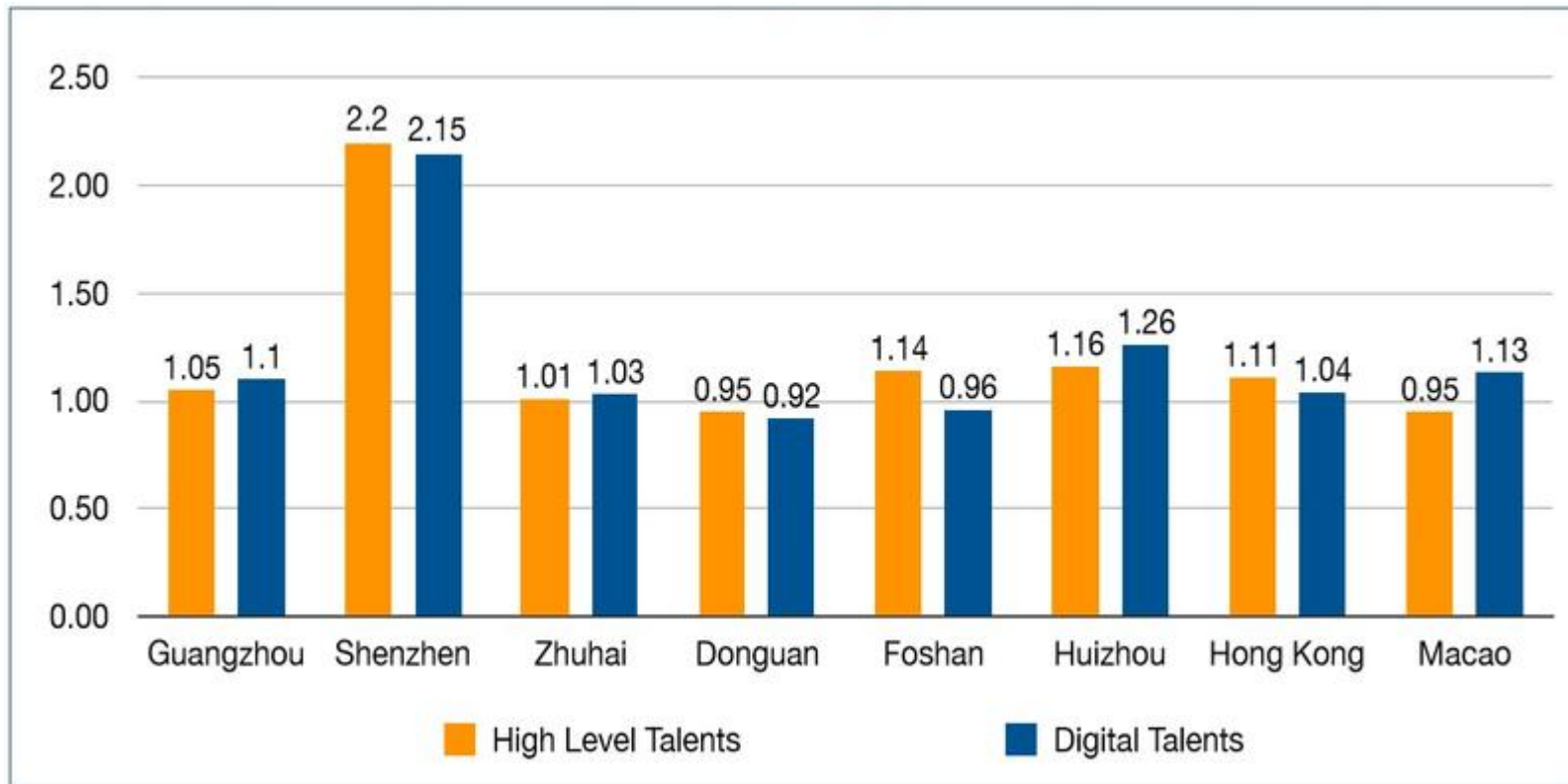
- In 2018, the inflow/outflow ratio of high-end talents in Shenzhen was 2.2, indicating that the number of high-end talents moving into the city was around twice of the number of high-end talents moving out from the city.
- This ratio was only 1.11 for Hong Kong.



Source: Statista

Digital Talents Have Become a Sought-After Commodity

- Hong Kong has been lagging behind Shenzhen, Huizhou, Macao and Guangzhou in terms of attracting digital talents.

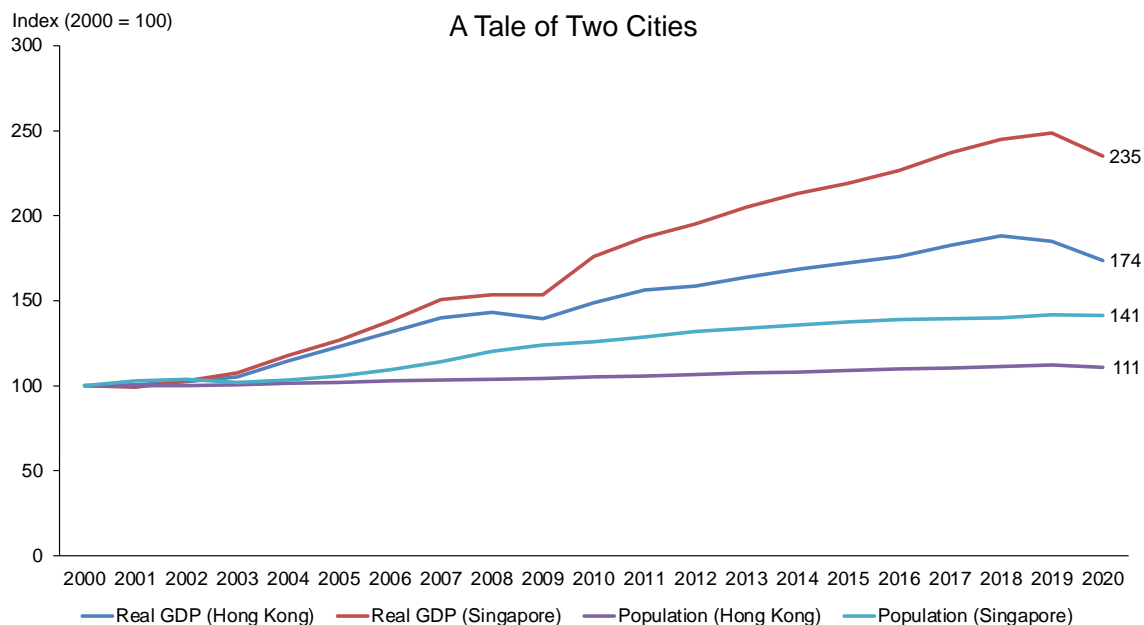


Domestic inflow/outflow ratios for high level talents and digital talents of the Greater Bay Area

Source: Tsinghua University's School of Economics and Management and LinkedIn, China Daily

Labour as a “Factor of Production”

- In 2000 and 2020, Hong Kong’s population rose 11%, compared to 41% for Singapore.
- During the same period, Hong Kong’s real GDP increased 74%, compared to 135% for Singapore.



Source: CEIC



High Income, High Living Cost

- Hong Kong was ranked **22nd** among 63 economies in terms of remuneration in services professions, and **6th** in terms of remuneration of management – *IMD World Talent Ranking 2020*
- Hong Kong was ranked **4th** in expat incomes, only after Qatar, UAE and Switzerland in 40 economies – *HSBC Expat Explorer Survey 2020*
- Hong Kong was named one of the three most expensive cities in the world, along with Zurich and Paris – *The Economist Intelligence Unit's Worldwide Cost of Living (WCOL) Index 2020*

The ten most expensive cities in the world

City	WCOL index (New York=100)	Rank	Rank movement
Zurich	103	1	4
Paris	103	1	4
Hong Kong*	103	1	0
Singapore	102	4	-3
Tel Aviv	101	5	2
Osaka	101	5	-4
Geneva	100	7	3
New York	100	7	-3
Copenhagen	96	9	2
Los Angeles	96	9	-1

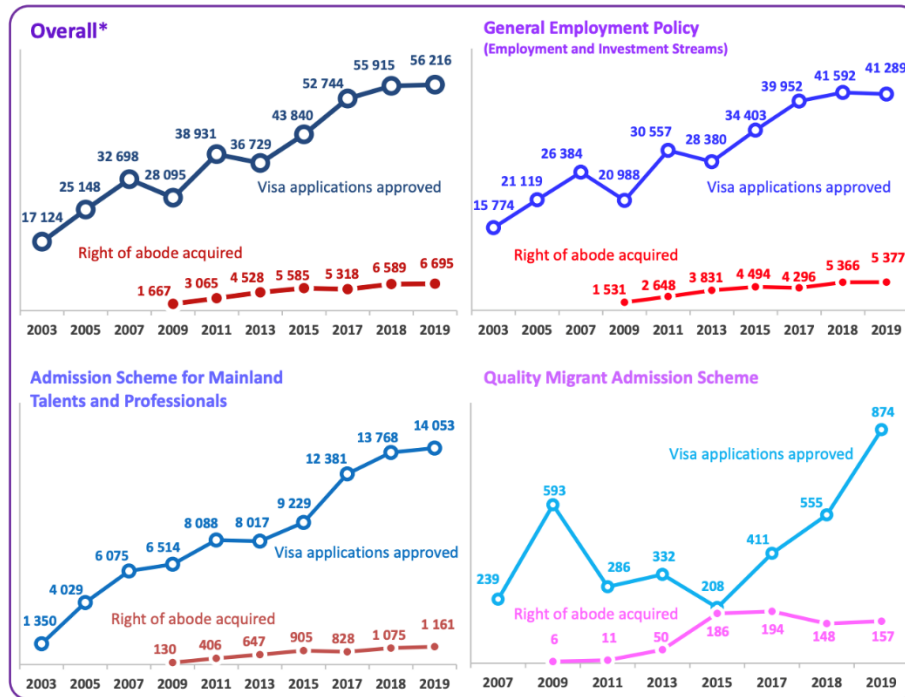
*Hong Kong Special Administrative Region (SAR) of the People's Republic of China

Source: The Economist Intelligence Unit.

Are Expatriates Willing to Stay in Hong Kong?

- It is estimated that only 12% of the Admission Scheme for Mainland Talents and Professionals ("ASMP") entrants will eventually become a permanent resident of Hong Kong.

– LegCo Secretariat, 2020



Note: (*) The total number of the three talent admission schemes.

Source: Legislative Council Secretariat



Nominal GDP and Payroll Synchronizes

- Hong Kong's Payroll Index was first published in 2004.
- Payroll includes wages as well as other irregular and non-guaranteed payments to workers such as discretionary bonuses and overtime payments.
- During 2004-2020, Hong Kong's nominal GDP and payroll have a correlation coefficient of 0.99, indicating an extremely strong linear relationship.

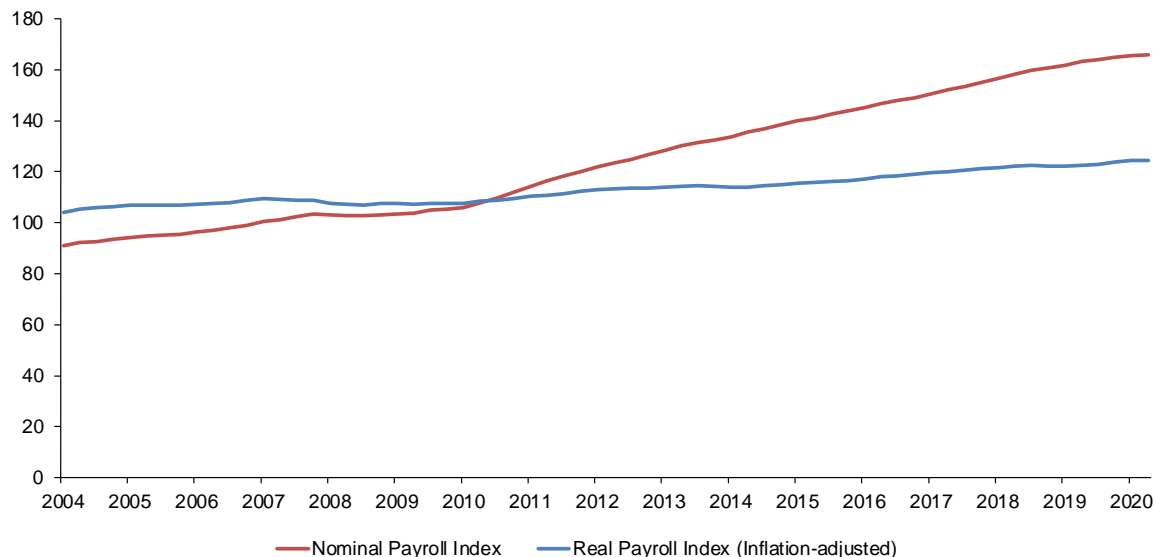


It's the Real Payroll that Really Matters

- Nominal Payroll Index (4Q moving average) rose **82%** to 166 in Q1 2021 from 91 in Q4 2004.
- However, the Real Payroll Index, which involves deflating the Nominal Payroll Index by the Consumer Price Index, increased only **19%** during the same period.

Q1 1999 = 100
 4Q Moving Average

Hong Kongers are Better Paid than 20 years ago,
 but their Purchasing Power has Held Relatively Steady



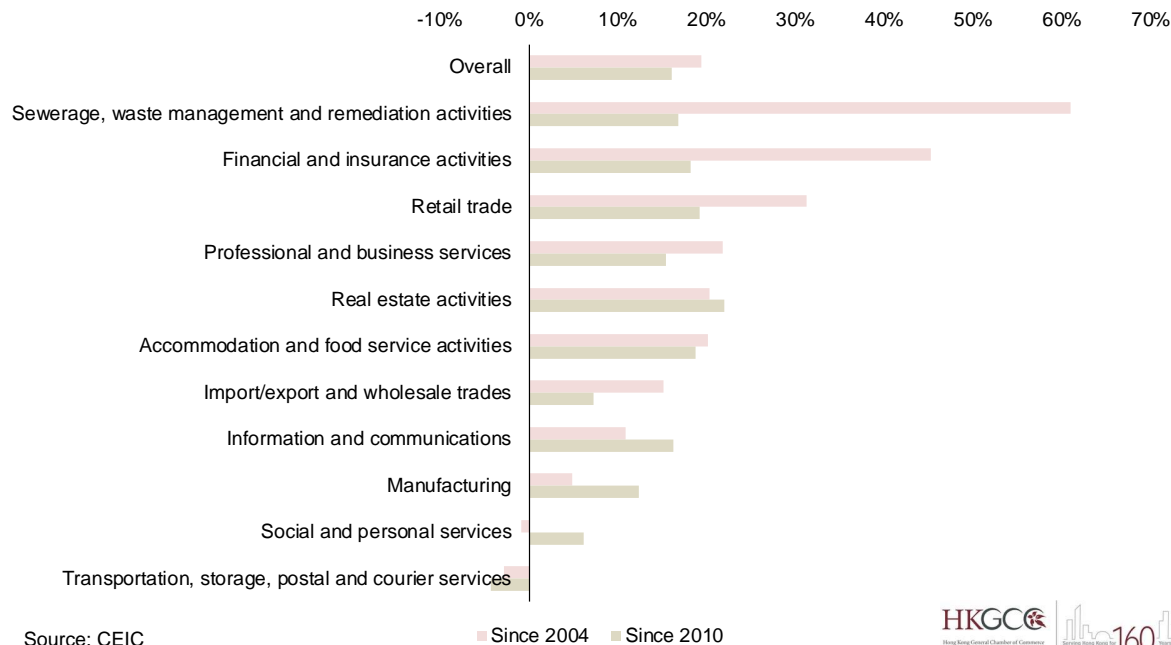
Source: CEIC



Who are the Winners and Losers?

- Workers in Sewerage, Waste Management & Remediation, Financial & Insurance Activities, and Retail are among the winners, in terms of real payroll growth.
- Those working in Manufacturing, Social and Personal Services, as well as Transportation sectors have seen their purchasing power stalled or even eroded.

Real Payroll Growth by Sector



Source: CEIC

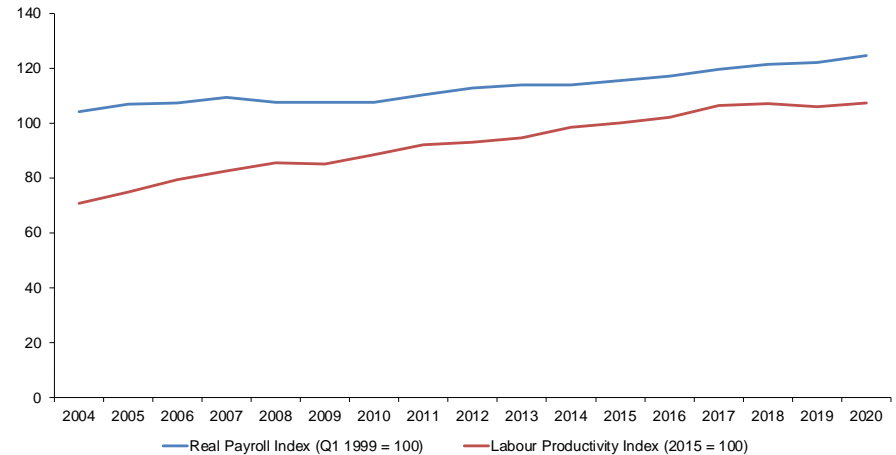
■ Since 2004 ■ Since 2010



Disconnect between Labour Productivity and Real Payroll

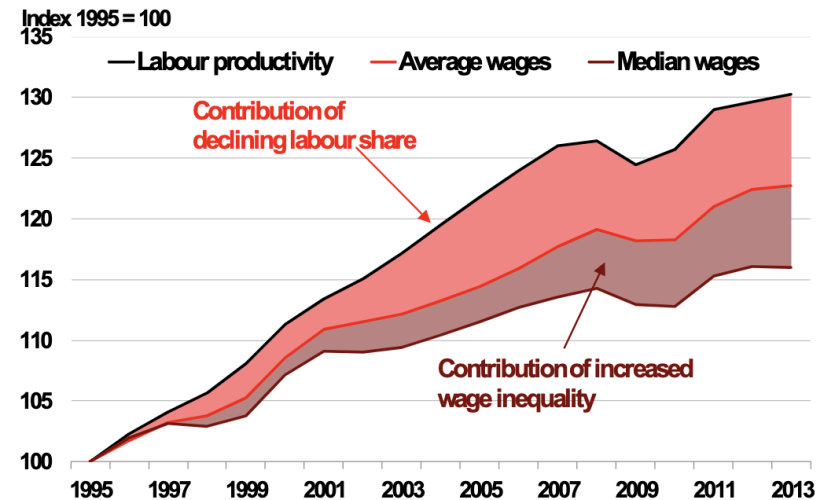
- In Hong Kong, the Labour Productivity Index rose by approximately 50% since 2004 but the Real Payroll Index only increased by 19%.
- This happened even when the labour market remained tight over the past decade until the unemployment rate climbed rapidly after the pandemic.
- Over the past two decades, there has been a decoupling between real median wage growth and productivity growth in 24 OECD countries, raising concerns that the benefits of increased productivity have not been evenly distributed to workers.

Wage Growth Puzzle in Hong Kong?



Source: CEIC

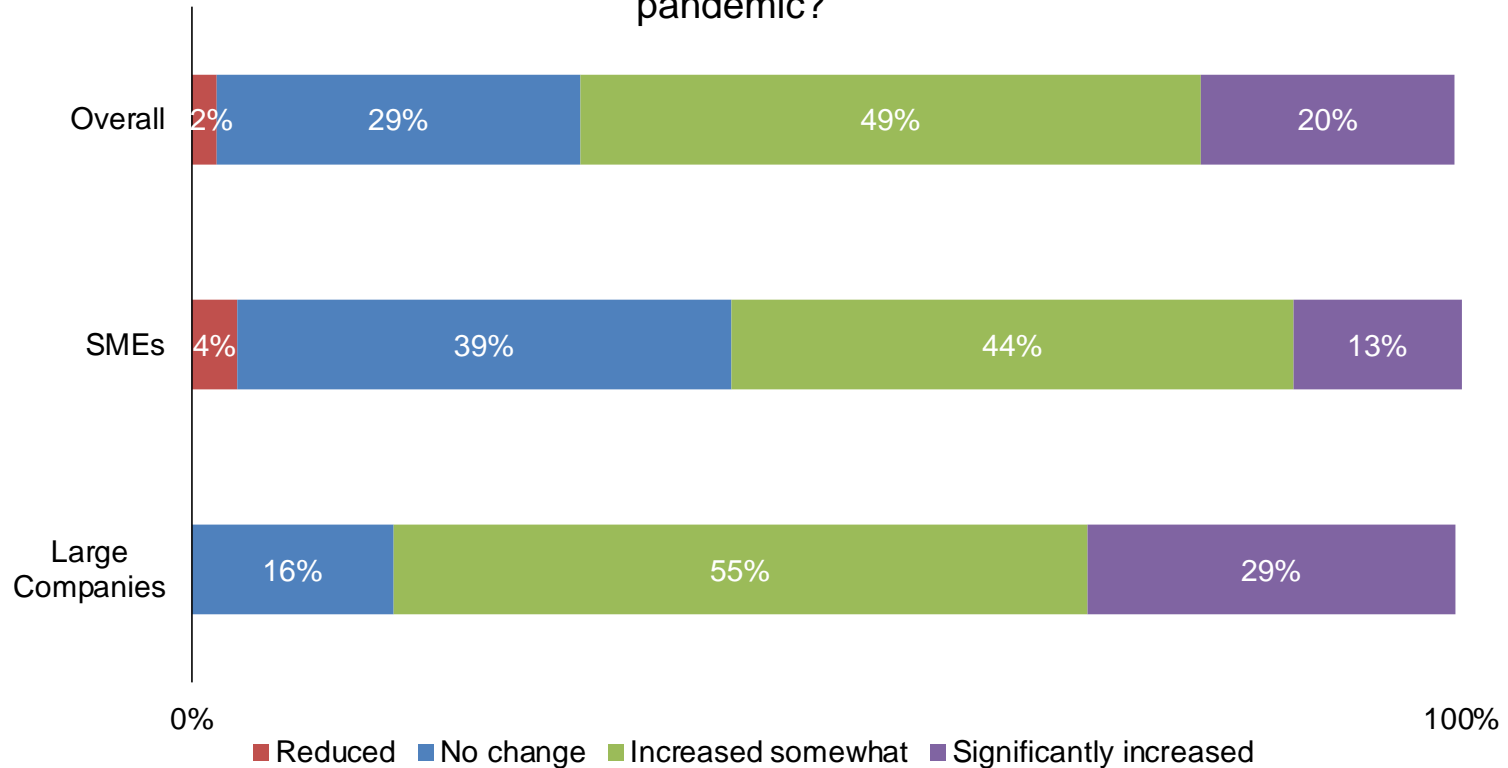
Significant decoupling in the OECD...



Source: OECD

Covid-19 Pandemic has been a Catalyst for Technological Adoption

What has been your company's investment in digitalisation since the pandemic?



Source: HKGCC Survey, July 2021



Digitalisation's Effects on Wage Growth and Inequality

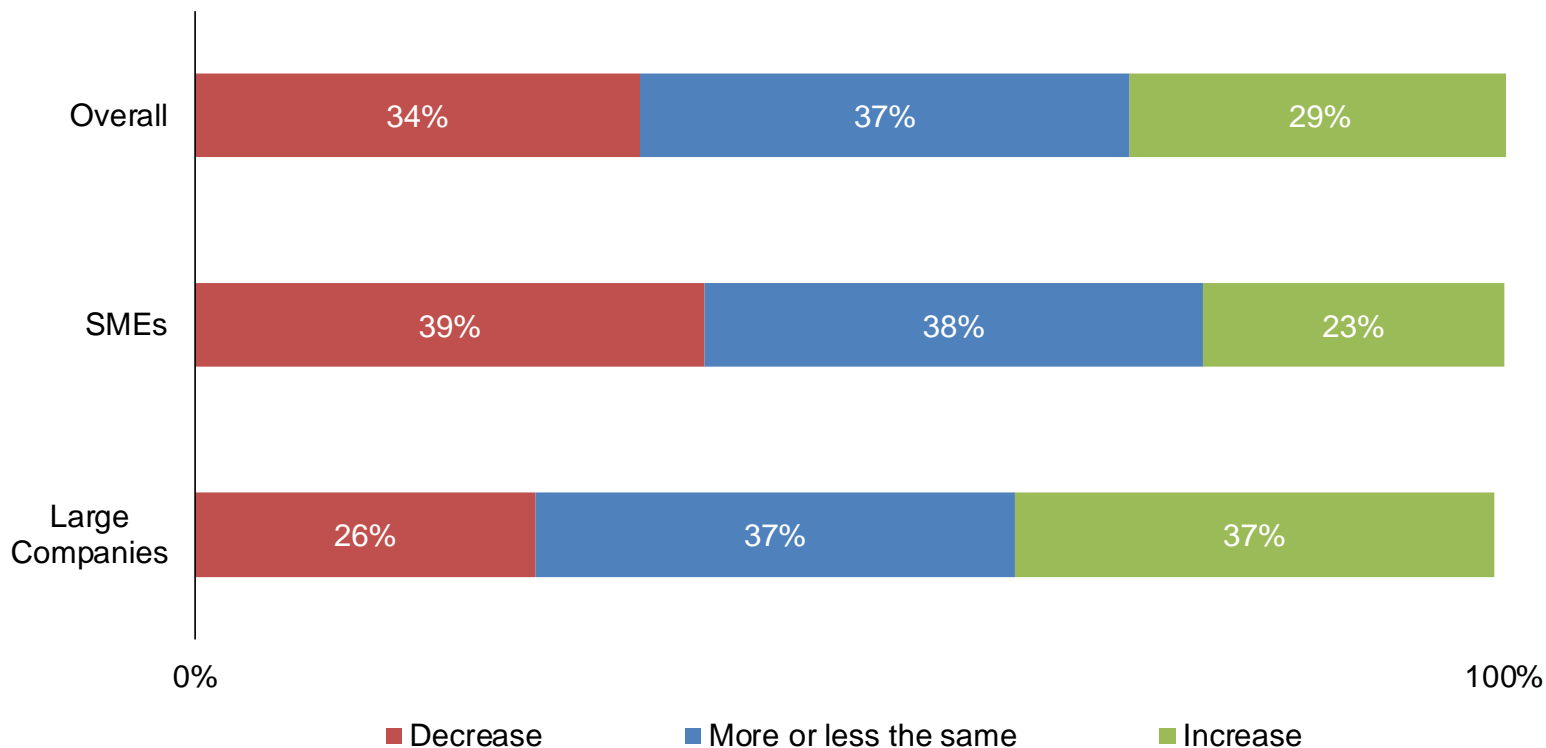
- *Labour* (workforce) and *capital* (assets used for the production of goods and services such as machinery) are two primary inputs to produce economic output.
- Technological change may impact labour's share of output: capital-labour substitution (the substitution of capital for labour) reduces the relative demand for low-skilled workers while simultaneously pushing up wage inequality.
- Investment in worker skills can ensure that gains from technological progress are broadly shared with workers because capital is less easily substitutable for high-skilled labour as and when prices for new technologies fall.
- An increase in the minimum wage likely reduces wage inequality by raising wages at the lower end of the wage distribution, but it may also induce capital-labour substitution, thereby reducing the share of labour.

– OECD, 2018



Far from Returning to Pre-Pandemic Levels

What is the outlook for your company's business turnover for the full year in 2021 compared to pre-pandemic levels?



Source: HKGCC Survey, July 2021

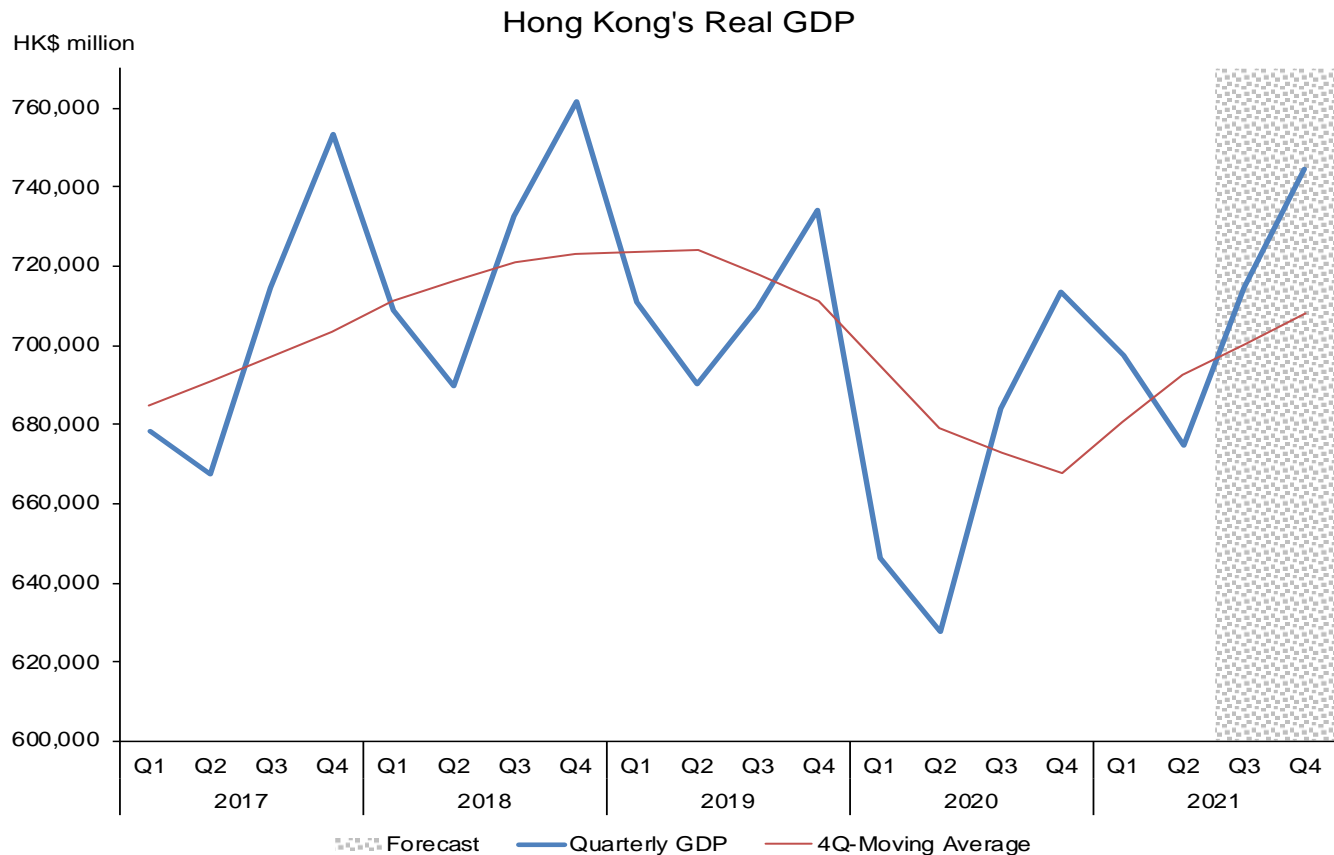


Percentage Distribution of Business Turnover's Expected Change for the Full Year of 2021 Compared to Pre-Pandemic Levels

By how much?	Decrease	More or less the same	Increase
<10%	0%	37%	4%
10-19%	5%		12%
20-29%	8%		6%
30-39%	8%		3%
40-49%	3%		2%
50-59%	3%		1%
60-69%	2%		0%
70-79%	2%		0%
80-89%	1%		0%
>= 90%	2%		2%
Total	34%	37%	29%

HKGCC GDP Forecast for 2021

	Updated Forecast	December Forecast	Difference
Real GDP Growth	6.3%	3.5%	+2.8%





Hong Kong General Chamber of Commerce
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