

Standard Working Hours Committee

**Preliminary results of assessing the impacts of
different scenarios for the “small frame” study**

(30 September 2015)

Basic Principles of Exploring Working Hours Policy Directions

- **A legislative approach to implement a policy to regulate working hours of employees**
- **To provide the necessary flexibility, an ‘across-the-board’ legislative approach would be inappropriate**
- **Agreed in principle to explore a legislative approach to mandate written employment contracts specifying working hours arrangements of employees in general (the ‘big frame’)**
- **And to explore, on the premise of the “big frame”, whether there is a need for other suitable measures to protect grassroots employees with less bargaining power (the ‘small frame’)**

Parameters solely for exploring and studying the “small frame”

(1) Coverage:

Employees (excluding government employees and live-in domestic workers) with wages not exceeding the relevant levels

Parameters : $\leq \$10,000$;
 $\leq \$12,000$; $\leq \$15,000$



Conduct data analysis and impact assessment

- Employees
- Enterprises
- Overall Economy

(2) Regime design:
Weekly working hours threshold —

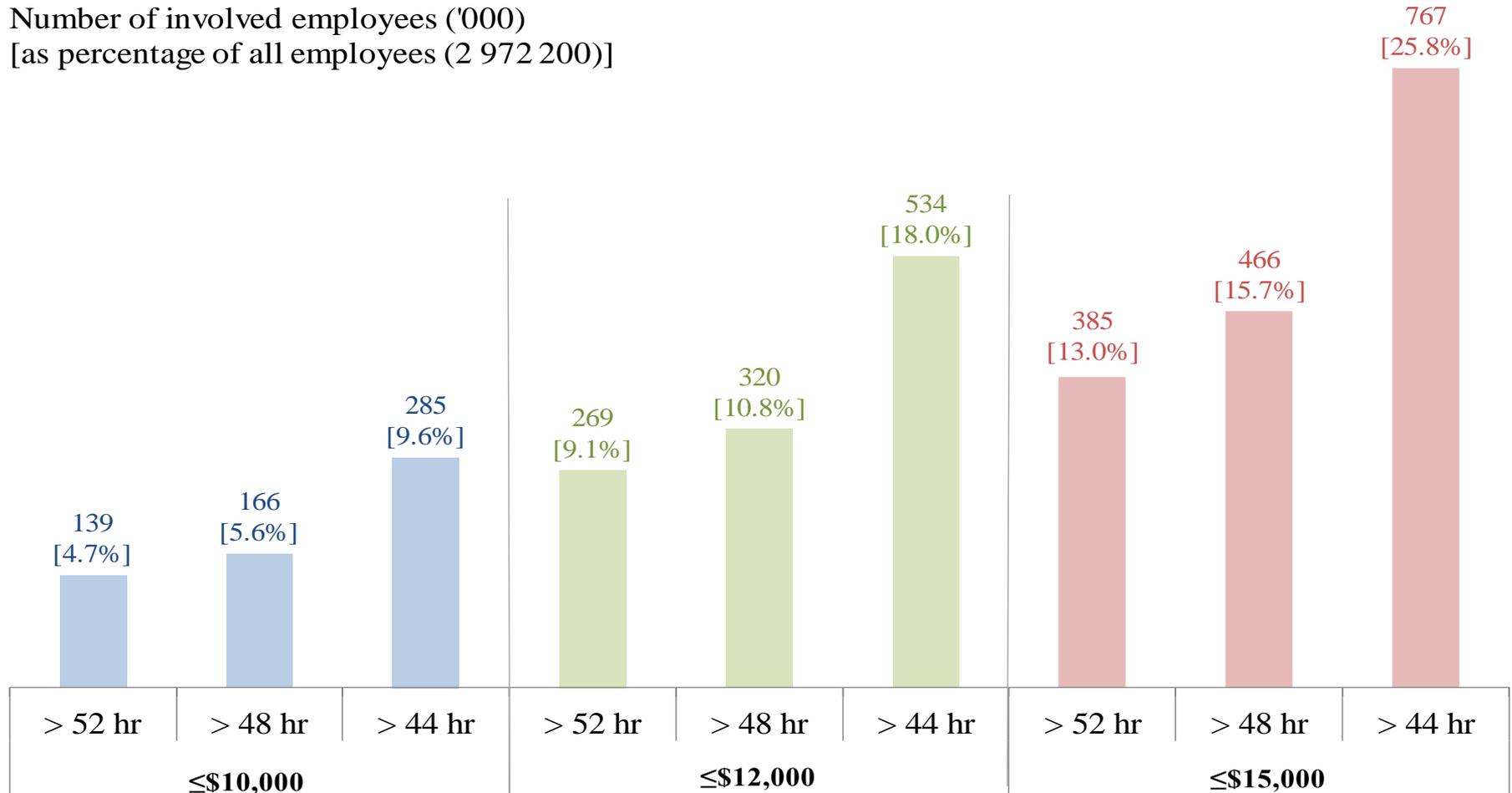
Parameters: 44 hours (hr);
48 hr; 52 hr per week

Overtime (OT) pay rate —

Parameters: 1:1.0; 1:1.3; 1:1.5

**Under different combinations of “small frame” parameters:
The number of involved employees would lie between some 140 000 to 770 000,
equivalent to around 4.7% to 25.8% of all employees in Hong Kong**

Number of involved employees ('000)
[as percentage of all employees (2 972 200)]



Potential impact on involved employees

◆ **If total hours of work were to remain unchanged:**

- OT pay rate 1:1 : potential average increases in wages of involved employees would range from 0.7% to 1.2%;
- OT pay rate 1:1.3 : potential average increases in wages of involved employees would range from 4.0% to 6.2%;
- OT pay rate 1:1.5 : potential average increases in wages of involved employees would range from 6.2% to 9.5%

◆ **However, if the hours of work of involved employees were to be cut down to the working hours thresholds:**

- potential average decreases in wages of involved employees would range from 10.2% to 15.8%

Potential impact on enterprises

- ◆ **If total hours of work of involved employees remain unchanged, immediate cost increase faced by enterprises:**
 - Increase in annual wage bill entailed would vary from \$103 million to \$10.38 billion, equivalent to around 0.02% to 1.84% of the total annual wage bill
- ◆ **Assuming the hours of work of involved employees remain unchanged, if enterprises were to fully offset the increases in payroll expenses by profit reduction**
 - Around 2 200 to 7 000 enterprises would turn from profits to losses, in which around 14 000 to 187 000 employees were engaged
- ◆ **If enterprises were to cut the hours of work of involved employees to the working hours thresholds, and hence would require additional hands:**
 - The number of full-time equivalent jobs so entailed would be around 17 100 to 194 500

Enterprises strive to make profit. In face of increasing cost pressures, they would adopt different mitigation measures. But as different industries/enterprises have different operating characteristics, the actual mitigation measures so adopted would also be vastly different, depending on the macroeconomic environment.

- **Raise price:** The ability to raise price depends to some extent on the macroeconomic environment. If the economic situation is favourable, enterprises would be more capable to raise price, though it would lead to higher inflation. Should the economy dip into recession, enterprises would find it more difficult to raise price. In turn, employees may face higher risks of working hours cut or even being laid off.
- **Reduce profit :** As for those enterprises that cannot fully pass through their costs by raising price, additional cost pressure would squeeze their profit margins, thereby affecting industries' capability in sustainable operations, to the extent of undermining the diversification of Hong Kong's industry structure and economic vitality.
- **Reorganisation of manpower :** Enterprises may enhance operational efficiency and reduce wage bill of employees through adjusting their mode of operations (e.g. reduce operation hours or employees' working hours), but this may, in so doing, affect the income and employment prospects of employees. Besides, Hong Kong will face the challenge arising from a shrinking labor force in the medium- to long-term, which may further intensify the wage-cost spiral.

Potential impact on the overall economy

- ◆ **Should enterprises raise price to mitigate the cost pressures, it would push up inflation, thereby hampering the competitiveness of Hong Kong. In the scenario that the economic situation turns sour, the income and employment prospects of employees would be more affected.**
 - E.g. Under the combination of parameters with wage level: $\leq \$15,000$; working hours threshold: 44 hr; OT pay rate 1:1.5, the impact of increase in labor cost so entailed on inflation as well as labor supply and demand would be:
 - **Under the “mild economic growth” scenario (assuming real economic growth at 2%): The increase in wage bill for grassroots employees would push up the price level by about 2 percentage points; potential job losses at grassroots level would be around 11 600 (equivalent to around 1.5% of the 770 000 involved employees under this combination of parameters)**
 - **Under the “economic downturn” scenario (assuming real economic growth slows to 0%): Enterprises would be less capable to raise price. The impact of cost increase on inflation would be smaller. The potential risks of job loss would however increase. Under this scenario, it is estimated that the potential job losses at grassroots level would increase to around 34 400 (equivalent to around 4.5% of the 770 000 involved employees)**
- ◆ **The above crude estimates have **not** yet taken into account the **knock-on impact** arising from the increase in wage bill. Also, the assessment could not quantify the impact on some employees’ **pay due to possible reduction of working hours.****

Potential impact on the overall economy (Con't)

- ◆ **In the medium- and long-term, the labor force is projected to peak in 2018. This alone would pose significant issues to Hong Kong in terms of labor shortage, manpower resources imbalance and longer term competitiveness. If manpower shortage turns even more acute, Hong Kong's longer term economic development would be inadvertently affected.**
 - For illustration, under the combination of parameters with wage level: $\leq \$15,000$; working hours threshold: 44 hr
 - Should the hours of work of involved employees be reduced to the working hours threshold, even if only 20% of full-time equivalent jobs so entailed would need to be filled (i.e. around 30 000), overall manpower resources would already be in severe shortage

Overall observations on the preliminary results of impact assessment

- **Need to strike an appropriate balance between employees' and employers' interests, with careful consideration to the potential pros and cons under different scenarios**
- **Thoroughly examine the impacts on employees, employers, as well as on the overall economy and labor market**
 - Some employees may benefit from pay rise and improved living standard
 - Some employees may work less hours which would help them achieve better work-life balance
 - Some employees would face the risk of working hours cut or even being laid off
 - Some enterprises would pass through their costs to consumers, leading to higher inflation
 - Maintain labor market flexibility for responding to external shocks is of utmost importance to Hong Kong's competitiveness and sustainable economic development
- **Build community consensus and formulate appropriate and feasible working hours policy options**