

**JOB VACANCY**

**THE ROAD TO RECOVERY:**

**HONG KONG  
YOUTH  
UNEMPLOYMENT  
FORECAST 2021-22**

# SECTION 1: INTRODUCTION

The COVID pandemic ravaged the global and local economy in 2020, creating an unemployment crisis unseen in recent history. Its effect is especially palpable in youth unemployment. MWYO published a report entitled “Youth Unemployment in Hong Kong under COVID-19” last year, where we suggested that the worst case scenario in 2020 would be a protracted U-shaped recovery coinciding with a rapid increase in youth unemployment rate. That has unfortunately been the case as the pandemic ebbed and flowed throughout the year, with social distancing restrictions still in place going into 2021. In 3Q2020, unemployment rate for those aged 20-29 reached a historic peak of 12.1%, which was even higher than it was immediately after the SARS pandemic in 3Q2003 when it reached 10.4%. A side-by-side comparison of unemployment rate for those aged 20-29 and real GDP growth rate in the two periods can be seen in the figure below.

**Figure 1: Unemployment rate for those aged 20-29 & real GDP growth rate in 1Q2018-4Q2020 and 1Q2001-4Q2003**



Note: Shaded areas indicate periods when an epidemic is occurring in Hong Kong.

This report uses regression analysis to assess the respective impact of the COVID pandemic and the resulting economic recession upon the overall unemployment rate and unemployment rate for those aged 20-29. Based on the regression models selected, we have created a short-term forecast of the youth unemployment rate and overall unemployment rate under different scenarios. These quarterly estimates for 2021 would provide the basis for relevant policy recommendations.

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## **SECTION 2: REGRESSION MODELLING**

In order to analyse the patterns of youth unemployment rate and overall unemployment rate, several multivariate regression models have been constructed. The models with the best fit have been used to forecast quarterly numbers in 2021. To maximise the explanatory and predictive power of the models, the models with the best theoretical exposition and highest adjusted-R2 value have been chosen for predictions. To minimise error, the models with the lowest root-mean-square error (RMS error) have been chosen.

All data used in these models are official data taken from the Hong Kong Government Census and Statistics Department website. The quarterly unemployment rate for those aged 20-29 (not seasonally adjusted) are used in the models, as this cohort takes up the majority of the working youth. The overall unemployment rate refers to the unemployment rate across all age groups. The overall unemployment rate data used in this exercise are seasonally adjusted. The real GDP growth rate is calculated year-on-year.

**Table 1: Regression model of unemployment rate for those aged 20-29 and overall unemployment rate**

	Model 1: Unemployment rate for those aged 20-29	Model 2: Unemployment rate for those aged 20-29	Model 3: Unemployment rate for those aged 20-29	Model 4: Overall unemployment rate
<b>(Intercept)</b>	1.03*** (0.21)	1.08*** (0.20)	-0.23 (0.17)	0.40*** (0.07)
<b>Real GDP growth rate</b>	-0.09*** (0.02)	-0.07*** (0.02)	-0.07*** (0.01)	-0.05*** (0.01)
<b>Unemployment rate for those aged 20-29 lagged one quarter</b>	0.87*** (0.04)	0.84*** (0.04)	0.90*** (0.02)	
<b>Overall unemployment rate lagged one quarter</b>				0.95*** (0.02)
<b>Epidemic effect</b>		1.17** (0.39)	0.94*** (0.25)	0.42** (0.14)
<b>Quarterly seasonal effect (compared with Q4)</b>				
<b>Q1</b>			0.85*** (0.13)	
<b>Q2</b>			1.32*** (0.13)	
<b>Q3</b>			1.77*** (0.12)	
<b>R<sup>2</sup></b>	0.83	0.84	0.94	0.97
<b>Adj. R<sup>2</sup></b>	0.83	0.84	0.93	0.96
<b>Num. obs.</b>	155	155	155	155
<b>RMS error</b>	0.87	0.85	0.54	0.32

\*\*\*p < 0.001, \*\*p < 0.01, \*p < 0.05

Note: The unemployment rate for those aged 20-29 is not seasonally adjusted, as the seasonally adjusted data were not available. The overall unemployment rate is seasonally adjusted.

Displaying the effects of various factors on the unemployment rate for those aged 20-29, three models have been constructed. Model 1 is relatively parsimonious, with two input variables: the quarterly real GDP growth rate and the unemployment rate for those aged 20-29 lagged one quarter. Model 2 includes an extra factor, the “epidemic” factor. The “epidemic” factor equals 1 when Hong Kong was experiencing a large-scale epidemic/pandemic during that quarter, i.e. 1Q-2Q2003 under the SARS epidemic and the entirety of 2020 under the COVID pandemic<sup>1</sup>. The factor is statistically significant and would have resulted in an additional increase of youth unemployment rate by 1.17 percentage points. The adjusted R<sup>2</sup> has only marginally increased, from 0.83 to 0.84 after the inclusion of the “epidemic” factor. Therefore, the overall impact of COVID on youth unemployment has been captured by the real GDP growth variable and the lagged variable under Model 1.

Youth unemployment has a strong quarterly seasonal effect, which should be considered when examining its patterns. Model 3 additionally includes three dummy variables on seasonal effects, comparing the unemployment rate for those aged 20-29 each of Q1, Q2 and Q3 against Q4. All other factors kept constant, the unemployment rate for those aged 20-29 of Q1 is 0.85 percentage points higher than that of Q4 on average; that of Q2 is 1.32 percentage points higher than that of Q4 on average; that of Q3 is 1.77 percentage points higher than that of Q4 on average. Isolating the seasonal effect, the unemployment rate for those aged 20-29 peaks at Q3 in the average year, as around this time every year, a large number of tertiary graduates leave school and enter the labour force. Since some of them may not immediately find work in Q3, the unemployment rate for those aged 20-29 shoots up. However, as the labour demand in service industries surges in Q4 when people make Christmas purchases, it absorbs a large portion of unemployed youth and the unemployment rate drops in effect. Indeed, the seasonality of youth unemployment may be due to the seasonality of quarterly real GDP, where the latter peaks at Q4 for most years on record<sup>2</sup>.

With the inclusion of the three seasonal effect dummy variables, Model 3 has a significantly improved adjusted-R<sup>2</sup> value (0.93, compared to 0.84 of Model 2). The RMS error has also decreased from 0.85 in Model 2 to 0.54 in Model 3, showing great improvement in predictive power. Therefore, Model 3 best captures the effects of various factors on the unemployment rate for those aged 20-29 and has been selected for the forecasting exercise.

<sup>1</sup> The 2009 Swine Flu epidemic has been excluded, as its spread and fatality rate were not serious, and neither the economy nor people’s daily lives were largely affected.

<sup>2</sup> Census and Statistics Department. 2021. Table 030: Gross Domestic Product (GDP), implicit price deflator of GDP and per capita GDP. [online] Available at: <<https://www.censtatd.gov.hk/hkstat/sub/sp250.jsp?tableID=030&ID=0&productType=8>> [Accessed 10 February 2021].

A similar model (Model 4) has been constructed for predicting the overall unemployment rate, with 3 input variables: real GDP growth rate, the “epidemic” factor and the overall unemployment rate lagged one quarter. As seasonally adjusted data are available, no seasonal dummy variables are necessary for the estimation of overall unemployment rate. Comparing the two models, we see that **the effect of recession is larger in magnitude for youth unemployment than for overall unemployment.**

A one percentage point drop in real GDP growth rate increases the unemployment rate for those aged 20-29 by 0.07 percentage points, while it increases the overall unemployment rate by 0.05 percentage points. Unemployment rate usually has great inertia, so that the lagged variables (“unemployment rate for those aged 20-29 lagged one quarter” and “overall unemployment rate lagged one quarter”) have statistically significant effects of the largest magnitude amongst the variables used, i.e. 0.90 percentage points for Model 3 and 0.95 percentage points for Model 4. The overall effects of an economic recession on youth unemployment and on overall unemployment have also been partly reflected by the effects of the lagged variables.

If we look at the “epidemic” factor in Model 3 and Model 4, on average, the unemployment rate for those aged 20-29 during an epidemic-struck quarter is higher than a normal quarter by 0.94 percentage points, while the overall unemployment rate during an epidemic-struck quarter is higher by 0.42 percentage points. **By magnitude, the effect of an epidemic on youth unemployment is more than twice as large as its effect on overall unemployment.** This is a worrying yet unsurprising statistic, as past events have shown us that youth unemployment is more volatile in the face of economic downturn and widespread epidemics. However, if we put the two factors side by side, we see that an epidemic has a disproportionately large effect on the youth unemployment rate compared to the overall unemployment rate. During an epidemic, young people are more likely to be laid off than their older, more experienced counterparts by a significant margin. Therefore, relief measures for the working youth while the current pandemic rages on is crucial for the financial well-being of young people.

## SECTION 3: PREDICTIONS FOR 2021-22

Model 3 and Model 4 have been adopted for the forecasting of the unemployment rate for those aged 20-29 and overall unemployment rate of 2021-22. Three scenarios have been formulated, varying in the rate of real GDP growth rate and whether or not COVID remains locally prevalent in a particular quarter. The overall results are shown in Figure 2 below<sup>3</sup>.

**Figure 2: 2021-22 forecast of unemployment rate for those aged 20-29 and overall unemployment rate**



Note: Forecast figures are indicated in different coloured lines. Unemployment rate for those aged 20-29 is not seasonally adjusted, while overall unemployment rate is seasonally adjusted.

<sup>3</sup> In the calculation of the forecast figures, the effect of an increase in emigration on the unemployment rate was not considered.

**Table 2: Best case scenario**

	Real GDP growth rate (year-on-year)	Prevalence of COVID	Unemployment rate for those aged 20-29	Overall unemployment rate
<b>3Q2020</b>	-3.5%	Yes	12.1%	6.4%
<b>4Q2020</b>	-3.0%	Yes	11.0%	6.6%
<b>1Q2021</b>	+7.0%	Yes	11.0%	6.7%
<b>2Q2021</b>	+10.0%	Yes	11.3%	6.7%
<b>3Q2021</b>	+10.0%	No	11.1%	6.2%
<b>4Q2021</b>	+8.0%	No	9.2%	5.9%
<b>1Q2022</b>	+6.0%	No	8.6%	5.7%
<b>2Q2022</b>	+4.0%	No	8.5%	5.6%

In the best-case scenario, COVID would cease to be a serious health problem by 3Q2021, with a vaccine rollout and distribution that is sooner than expected. According to the Government's estimates, the COVID vaccines purchased would arrive by late 1Q2021 and the whole vaccination programme would span at least half a year<sup>4</sup>. Therefore, if the vaccination programme is completed on schedule, COVID would be contained by 3Q2021. The economy would bounce back by a significant degree, even regaining the historic loss of GDP in 1Q-2Q2020. The unemployment rate for those aged 20-29 would level off from 4Q2020 to 3Q2021 at around 11%, before dropping by nearly 2 percentage points in 4Q2021. This large drop would have been caused by the Q4 seasonal effects and rapid economic recovery. By 2Q2022, the unemployment rate for those aged 20-29 would drop to 8.5%, returning to levels similar to early 2Q2020. On the other hand, the overall unemployment rate would reach its peak and level off in 2Q2021 at 6.7%, before decreasing gradually to 5.6% in 2Q2022.

<sup>4</sup> 鄧穎琳。2021年。〈聶德權：疫苗注射計劃須半年 邀多個醫療機〉。《香港01》。

取自 [https://www.hk01.com/%E7%A4%BE%E6%9C%83%E6%96%B0%E8%81%9E/581309/%E6%96%B0%E5%86%A0%E7%96%AB%E8%8B%97-%E8%81%B6%E5%BE%B7%E6%AC%8A-%E7%96%AB%E8%8B%97%E6%B3%A8%E5%B0%84%E8%A8%88%E5%8A%83%E9%A0%88%E5%8D%8A%E5%B9%B4-%E9%82%80%E5%A4%9A%E5%80%8B%E9%86%AB%E7%99%82%E6%A9%9F%E6%A7%8B%E5%8D%94%E5%8A%A9?utm\\_source=01appshare&utm\\_medium=referral](https://www.hk01.com/%E7%A4%BE%E6%9C%83%E6%96%B0%E8%81%9E/581309/%E6%96%B0%E5%86%A0%E7%96%AB%E8%8B%97-%E8%81%B6%E5%BE%B7%E6%AC%8A-%E7%96%AB%E8%8B%97%E6%B3%A8%E5%B0%84%E8%A8%88%E5%8A%83%E9%A0%88%E5%8D%8A%E5%B9%B4-%E9%82%80%E5%A4%9A%E5%80%8B%E9%86%AB%E7%99%82%E6%A9%9F%E6%A7%8B%E5%8D%94%E5%8A%A9?utm_source=01appshare&utm_medium=referral)

**Table 3: Base case scenario (most likely scenario)**

	Real GDP growth rate (year-on-year)	Prevalence of COVID	Unemployment rate for those aged 20-29	Overall unemployment rate
<b>3Q2020</b>	-3.5%	Yes	12.1%	6.4%
<b>4Q2020</b>	-3.0%	Yes	11.0%	6.6%
<b>1Q2021</b>	+2.0%	Yes	11.4%	7.0%
<b>2Q2021</b>	+5.0%	Yes	12.0%	7.2%
<b>3Q2021</b>	+4.0%	Yes	13.0%	7.5%
<b>4Q2021</b>	+3.0%	No	11.3%	7.4%
<b>1Q2022</b>	+5.0%	No	10.5%	7.1%
<b>2Q2022</b>	+3.0%	No	10.4%	7.0%

Our base case scenario presents the most likely youth unemployment situation. In this case, the vaccination programme would be completed mostly on schedule with only slight delays, with a vast majority of Hong Kong people having received the shot by early 4Q2021. COVID would cease to be a serious public health issue by 4Q2021. From 4Q2020 to 3Q2021, the unemployment rate for those aged 20-29 would increase at a slow pace, compared to the continuously rapid ascent in 2020. The unemployment rate for those aged 20-29 would drop significantly by nearly 2 percentage points in 4Q2021, due to multiple factors including the Q4 seasonal effect, the absence of the epidemic effect, and the sustained recovery of the economy throughout the year. The downward momentum would carry on into the first half of 2022, during which the unemployment rate for those aged 20-29 would drop about one percentage point. The overall unemployment rate would peak at 7.5% in 3Q2021, same as that in the early stage of the SARS epidemic in 1Q2003. It would gradually fall to 7.0% in 2Q2022 as moderate economic recovery continues.

**Table 4: Worst case scenario**

	Real GDP growth rate (year-on-year)	Prevalence of COVID	Unemployment rate for those aged 20-29	Overall unemployment rate
<b>3Q2020</b>	-3.5%	Yes	12.1%	6.4%
<b>4Q2020</b>	-3.0%	Yes	11.0%	6.6%
<b>1Q2021</b>	+1.0%	Yes	11.4%	7.1%
<b>2Q2021</b>	+1.0%	Yes	12.3%	7.5%
<b>3Q2021</b>	+0.0%	Yes	13.6%	8.0%
<b>4Q2021</b>	+0.0%	Yes	13.0%	8.4%
<b>1Q2022</b>	+2.0%	No	12.2%	8.3%
<b>2Q2022</b>	+2.0%	No	12.0%	8.2%

In the worst case scenario, vaccine distribution and efficacy would fall below expectations and COVID remains a serious issue throughout 2021 until 1Q2022. There would be few signs of economic recovery, though real GDP would not deteriorate further as compared with 2020. The unemployment rate for those aged 20-29 would continue to rise at a moderate pace until 3Q2021 as it peaks at 13.6%. It would reverse its direction in 4Q2021, primarily due to Q4 seasonal effects. The overall unemployment rate would peak at 8.4% in 4Q2021, which would be dangerously close to its historic peak of 8.5% in 2Q2003 during the SARS pandemic.

## SECTION 4: FACTORS AFFECTING YOUTH UNEMPLOYMENT IN 2021

### 4.1 Broader economic factors

The rate of recovery of the local job market depends on broad external factors, including the recovery of the global economy (including that of Mainland China) and local economy. Forecasters have predicted that there would be a divergence in the speed of growth for developed markets and emerging markets<sup>5</sup>. In particular, developed economies are likely to grow about 4.2% in 2021 on average, while Mainland China would lead emerging markets to grow about 8%. Thus, it is likely that the growth of Hong Kong's economy would be on par with other developed economies. Optimistically speaking, the momentum of its growth could even be greater because of its proximity and interactions with Mainland China.

<sup>5</sup> Morgan Stanley. 2020. 2021 Global Economic Outlook: The Next Phase of the V. [online] Available at: <<https://www.morganstanley.com/ideas/global-economic-outlook-2021>> [Accessed 10 February 2021].

For the local economy, private consumption is an area of output that has collapsed due to the pandemic. The retail sales index has been consistently experiencing negative growth since March 2019<sup>6</sup>. This may partly be due to the slump in tourist numbers from the social conflict that occurred in the latter half of 2019 and to a larger extent, the COVID pandemic<sup>7</sup>. Other prominent factors in the domestic market would be the fall in consumer sentiment in Hong Kong due to the economic recession in 2020, and lockdown measures that prevent citizens from going out and spending money. It may be arguable that the rise of e-commerce has enabled citizens to consume without leaving the comfort of their homes, but overall, consumer sentiment has fallen. Therefore, as soon as the COVID epidemic ceases to be a serious public health threat, the economy would gradually return to normal. Consumption in the domestic market would recover and youth unemployment would decline. However, the pace of recovery will very likely be constrained by the fall of personal and corporate income since the second half of 2019.

## 4.2 Local job market

Many employers across industries in Hong Kong remain pessimistic about business in the short run. That is especially true for service industries. Only 2% of companies in the accommodation and food services industry anticipated an improved business situation in 1Q2021 compared to the previous quarter<sup>8</sup>. Such sentiment may be due to the ongoing travel restrictions that have largely affected the tourism industry. The resumption of international travel and tourism may be slow, as the International Air Transport Association estimated in mid-2020 that the volume of air travel would only return to pre-COVID levels by 2024<sup>9</sup>. Therefore, there will not be a rapid recovery of tourist numbers from foreign countries. However, there is a silver lining. Once cross-boundary travel between Hong Kong and Mainland China resumes, the number of incoming tourists to Hong Kong may recover at a moderate pace.

In comparison, the retail industry is slightly more optimistic, with 19% companies in the industry expected business in 1Q2021 to be better than the previous quarter. Retail firms may have a smaller reliance on tourists, so that once lockdown and social distancing measures are mostly lifted, their business situation would improve greatly.

<sup>6</sup> Census and Statistics Department. 2021. Table 089 : Total Retail Sales. [online] Available at: <<https://www.censtatd.gov.hk/hkstat/sub/sp70.jsp?tableID=089&ID=0&productType=8>> [Accessed 10 February 2021].

<sup>7</sup> Census and Statistics Department. 2021. Table E551 : Visitor arrivals by country/region of residence. [online] Available at: <<https://www.censtatd.gov.hk/hkstat/sub/sp130.jsp?productCode=D5600551>> [Accessed 10 February 2021].

<sup>8</sup> Census and Statistics Department, 2021. Report on Quarterly Business Tendency Survey. Hong Kong SAR, p.8.

<sup>9</sup> IATA. 2020. Recovery Delayed as International Travel Remains Locked Down. [online] Available at: <<https://www.iata.org/en/pressroom/pr/2020-07-28-02/>> [Accessed 10 February 2021].

Nonetheless, in the short run, young people who are working in these service industries continue to be under threat of unemployment, and those who lost their jobs may continue to find it difficult to become employed. **Without the effect of the epidemic, youth unemployment would drop only by about 1.7 percentage points to 11.3% towards the end of 2021 in the base case scenario, from the peak of 13.0% estimated for 3Q2021.**

### 4.3 Employment creation by the Government

During the pandemic, the Government has been undertaking various policies in alleviating youth unemployment. The latest tranche of the Employment Support Scheme provides wage subsidies for employers from September to November 2020<sup>10</sup>. There has been no indication from the Government that it intends to offer a new phase of wage subsidies for employers in 2021, one factor being the historically large fiscal deficit brought on by relief measures in 2020<sup>11</sup>. This may put many employers and workers at risk if the effect of the COVID pandemic remains as potent as in 2020. Employers will be under more pressure to lay off workers. As evidenced in the model above, younger workers are more at risk of unemployment under an ongoing epidemic.

The Government announced its plans to create 30,000 temporary job positions in the public and private sectors in early 2020. By mid-November 2020, the Government stated that over 20,000 jobs have been created, nearly 10,000 of which are designed for young people and fresh graduates<sup>12</sup>. If the Government meets its target by creating the remaining 10,000 jobs in early 2021, then it might slightly curb the increase in youth unemployment. However, another concern is whether the pandemic will persist as the employment period of temporary positions eventually comes to an end. Securing a new job might be difficult if that is the case.

<sup>10</sup> Hong Kong SAR Government. 2020. Employment Support Scheme. [online] Available at: <<https://www.ess.gov.hk/en/>> [Accessed 10 February 2021].

<sup>11</sup> 翟睿敏。2020年。〈許正宇：再推保就業有困難 撤非住宅雙倍印花稅非為稅務考慮〉。《香港01》。

取自 <https://www.hk01.com/政情/557410/%E8%A8%B1%E6%AD%A3%E5%AE%87-%E5%86%8D%E6%8E%A8%E4%BF%9D%E5%B0%B1%E6%A5%AD%E6%9C%89%E5%9B%B0%E9%9B%A3-%E6%92%A4%E9%9D%9E%E4%BD%8F%E5%AE%8-5%E9%9B%99%E5%80%8D%E5%8D%B0%E8%8A%B1%E7%A8%85%E9%9D%9E%E7%82%BA%E7%A8%85%E5%8B%99%E8%80%83%E6%85%AE>

<sup>12</sup> Hong Kong SAR Government, 2020. Jobs for young people created. [online] Available at: <[https://www.news.gov.hk/eng/2020/11/20201118/20201118\\_152258\\_899.html](https://www.news.gov.hk/eng/2020/11/20201118/20201118_152258_899.html)> [Accessed 10 February 2021].

The Government will conduct a large-scale Population Census in mid-2021. It will employ a large number of temporary field workers, with a total of about 13,800 positions including 10,000 enumerators<sup>13</sup>. Final year students are eligible for the positions. However, the employment period will only last about three weeks from mid-July to early-August. It would not be long until these recent graduates would have to start searching for jobs again.

Another concern is whether the jobs lost during the pandemic will eventually come back. Automation, as a cost-saving solution for firms could replace some workers permanently<sup>14</sup>. E-commerce has become more popular than ever for consumers in Hong Kong and even travel agencies have turned to e-commerce as an alternative source of income<sup>15</sup>. It is then possible that vacancies for young retail workers may not recover to pre-COVID levels if the popularity of in-store direct shopping is in decline. Whether this trend is permanent and whether this will spread to other sectors remain to be seen.

<sup>13</sup> 2021 Population Census. 2021. Recruitment. [online] Available at: <<https://www.census2021.gov.hk/en/recruitment.html>> [Accessed 10 February 2021].

<sup>14</sup> Aratani, L., 2020. Robots on the rise as Americans experience record job losses amid pandemic. [online] The Guardian. Available at: <<https://www.theguardian.com/technology/2020/nov/27/robots-replacing-jobs-automation-unemployment-us>> [Accessed 10 February 2021].

<sup>15</sup> 方保僑。2020年。〈巨頭南下·疫情加乘 香港網購市場龍爭虎鬥〉。《香港經濟日報》。取自 <https://sme.hket.com/article/2820561/%E5%B7%A8%E9%A0%AD%E5%8D%97%E4%B8%8B%E3%83%BB%E7%96%AB%E6%83%85%E5%8A%A0%E4%B9%98%E3%80%80%E9%A6%99%E6%B8%AF%E7%B6%B2%E8%B3%BC%E5%B8%82%E5%A0%B4%E9%BE%8D%E7%88%AD%E8%99%8E%E9%AC%A5>

## SECTION 5:

# CONCLUSION AND POLICY RECOMMENDATIONS

Hong Kong's real GDP plunged 9% in the first half of 2020 from a year earlier as a result of the COVID pandemic, while there are signs of a slow recovery as of late 2020. However, the effects of the pandemic on the local job market may still persist in 2021. When the unemployment rate will stop its ascent and return to pre-COVID levels is still unknown and depends on various factors, including seasonal effects, when the pandemic ceases to be prevalent, and the overall economic situation.

**Table 5: Summary of the three scenarios of projected unemployment rates in 2021**

	Real GDP growth rate in 1Q2021	COVID ceases to be prevalent in...	Unemployment rate for those aged 20-29		Overall unemployment rate	
			1Q2021	4Q2021	1Q2021	4Q2021
<b>Best case</b>	7.0%	3Q2021	11.0%	9.2%	6.7%	5.9%
<b>Base case (most likely)</b>	2.0%	4Q2021	11.4%	11.3%	7.0%	7.4%
<b>Worst case</b>	1.0%	1Q2022	11.4%	13.0%	7.1%	8.4%

By constructing multivariate regression models to predict the trajectory of the unemployment rate for those aged 20-29 and the overall unemployment rate, we have made several key observations:

1. An epidemic affects youth unemployment much more than overall unemployment, i.e. more than double by magnitude. The main implication is that the Government should allocate more resources on alleviating youth unemployment during such economic downturns, as they are more vulnerable.
2. Youth unemployment in Hong Kong has a strong seasonal effect and a cyclical pattern. It usually peaks at Q3, when most graduates finish school and enter the job market. It then drops sharply in Q4 as most of them would gradually find work. The implication is that when an upward seasonal effect in Q3 is compounded by effects of an epidemic or economic recession, the increase in youth unemployment would be amplified. Rolling out relief measures at the right time would be more fruitful and necessary.
3. It is highly unlikely that youth unemployment and overall unemployment will return to pre-COVID levels within this year. In our base case scenario, even if the epidemic effect would no longer present in 4Q2021, the unemployment rate for those aged 20-29 would remain at a high level of 11.3%, even with the downward Q4 seasonal effect. For comparison, the unemployment rate for those aged 20-29 in 4Q2019 (one quarter before the pandemic struck) was 5.9% only.

Therefore, the Government should take a two-pronged approach in response to rampant youth unemployment: first, facilitate training and development to improve young people's competitiveness in the labour market; second, alleviate their financial burden to maintain their well-being. We suggest the Government take the following measures. We have advocated for some of these measures in previously published reports in early 2020, but as youth unemployment situation has only worsened since then, these measures remain crucial for the competitiveness and welfare of young people.

## **1. Providing training and development**

### **a. Raising the amount of subsidy under the Continuing Education Fund**

Since labour demand in certain sectors may not recover to pre-COVID levels within this year, young people who had worked in these sectors may face unemployment and scarce job opportunities. As such, young people may choose to take short courses to upskill and reskill. The Government should allocate more funds to help these young people train and re-train, by raising the subsidy amount under the Continuing Education Fund (CEF) from HK\$20,000 to HK\$30,000. This will allow young people to have more options in choosing courses that would suit their career and development needs, and even taking more courses for a longer period of time. Additionally, CEF should consider sponsoring online programmes as well, as many tertiary institutions have switched to online teaching in response to the pandemic.

### **b. Subsidising firms offering internship positions**

On-the-job training is also a viable option for young people facing employment difficulties. The Government should incentivise firms to organise internship positions for young talents. Amidst the ongoing recession, many small and medium-sized firms may not have sufficient resources to hire recent graduates. By hiring interns with Government subsidy, such firms can reduce human resource and training costs while still being able to employ more young people, some of whom may become valuable full-time staff when the economy eventually recovers. Young people can learn practical knowledge and accumulate relevant experience through hands-on work in the industry. They can also develop soft skills which will make them more employable in the future.

The Government could structure such a scheme based on the "Internship Programme for University Graduates", which was only implemented for one cohort in 2009. This was a one-off programme implemented by the Labour Department, providing around 4,000 internship

positions (lasting 6 to 12 months) at various firms and organisations by subsidising employers. We suggest several improvements to the Programme. In order to tackle serious youth unemployment across different education levels, the Government should not only allow degree holders to participate in the Scheme, but also sub-degree holders, diploma holders and high school graduates. Also, the Government should consider providing a larger training subsidy of HK\$5,000 per intern per month, up from HK\$2,000 in 2009. To ensure ample learning and training opportunities for interns, the Government should require each applicant firm or organisation to provide clear job descriptions and learning objectives for each internship position.

## **2. Reducing financial burden**

### **a. Reducing the loan repayment burden on tertiary graduates**

In April 2020, the Government announced a one-off interest-free deferral of student loan repayment for a period of two years. As youth unemployment situation has deteriorated since then, the Government should consider further action in reducing the loan repayment burden on tertiary graduates, in order to relieve the financial stress of young people in the early stages of their career. The following adjustments could be made: (i) the total student loan outstanding by any participant could be reduced by 15% across the board; (ii) the commencement of repayment could be extended to 36 months after graduation; and (iii) a further reduction of the interest rate charged.

### **b. Providing temporary unemployment benefits**

Since the local economy and job market is likely to remain sluggish through the year, many unemployed young people may not be able to land another job soon, leading to long-term unemployment and a worsening financial situation. The Government should formulate a temporary unemployment benefit equivalent to 50% of the unemployed individual's previous monthly income, targeting persons aged 15 to 34, with a maximum benefit of HK\$9,000 per month for up to six months. The Government should also limit eligibility to those who have been unemployed for three months or above, in order to focus on those who are approaching long-term unemployment. Towards the end of the six months, the Government should consider whether or not to extend the payment period based on the youth unemployment situation then.



## About Us



Thought Leadership on Youth Development

MWYO is an independent think tank that focuses on youth issues in Hong Kong. Our work spans across research studies and surveys, advocacy and education, and training and capacity building. We actively engage and work with everyone who has a stake in the positive outcome of young people's development: youth, parents, headmasters, teachers, social workers, employers, civil society leaders, governments, and political parties. Our mission is to be a thought leader in all aspects of youth development in Hong Kong.

### Key contributor

Mr. Justin Chan | Researcher

✉ [justin.chan@mwyo.org](mailto:justin.chan@mwyo.org)

Dr. CK Law | Special Advisor

✉ [ck.law@mwyo.org](mailto:ck.law@mwyo.org)

Contact

Mr. Alan Tse

☎ +852 2508 5177

☎ +852 9736 9067

✉ [alan.tse@mwyo.org](mailto:alan.tse@mwyo.org)

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