



香港僱主聯合會  
**Employers'  
Federation  
of Hong Kong**

*Press Release*

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**To: News Editor**

## **Federation concern over rising pay expectations**

In its first bulletin to members for 2006, the Employers' Federation of Hong Kong advised that, while companies should continue to reward performance and productivity increases, there is no justification for any general pay increase across the board.

### **Economic growth on track**

The Federation recognises that Hong Kong is enjoying a resurgence of growth. 2005 was one of the best in recent years and 2006 looks to be equally promising with 4-5% GDP growth generally forecast. The labour market is expanding and unemployment has fallen to what could be its lowest level in our changed economy. Although rising rents and other costs are putting pressure on margins in the retail sector, the public is optimistic.

On the other hand, the Federation warns that economists remain pessimistic about the prospects for 2007 with similar pressures on growth (currency risk, oil prices, global instability through unexpected disasters – natural or man-made). Unlike some other periods of growth, the strength and durability of the current expansion in global trade is uncertain.

### **Hong Kong is vulnerable once more to cost inflation**

“Hong Kong is widely regarded as the world’s most open economy: work that we do and services that we provide can very easily and quickly be outsourced to other places that may do it just as well but far more cheaply,” cautions Federation Chairman Victor Apps. “The Employers’ Federation therefore is disturbed by some worrying signs that unjustified pay inflation may again be creeping into the labour market.”

“We are finding that general pay increases are once again becoming more common. We strongly believe that this trend – if it continues – is both dangerous and unnecessary. Hong Kong must avoid at all costs returning to the days of wild pay inflation based around the false premise that growth can be continuous,” Mr Apps continues. “Indeed it was this drastic loss of competitiveness that led directly to the pain of the last five years of almost continuous deflation, loss of jobs and salary reductions.”

### **Bonuses better than pay rises for most**

The Federation believes that many of the pressures on companies to increase salaries are based on false expectations. Mr Apps counsels: “We believe that there are better solutions to these pressures than raising pay across the board. We are extremely concerned that rapid pay inflation could yet again inhibit Hong Kong’s businesses and, if unchecked, precipitate yet another economic downturn.”

“Of course employees must enjoy the fruits of their company’s success and their own good performance.” Mr Apps is emphatic on this point. “Good bonuses are often more valuable to employees than fixed salary increases in any case.”

### **Federation recommends taking a broad view on pay**

Once again the Federation repeats:

- ***There is no justification for any general pay increase.*** Inflation is low; labour turnover is stable in most industries; economic uncertainties mean it would be dangerous and unsustainable to add to fixed costs;
- ***Companies should continue to reward performance and productivity increases.*** Sometimes this may mean increasing pay. Better, however, would be to make one-off payments to employees that will be well-appreciated and will not add permanently to fixed costs;
- ***Companies must consider the whole employment experience.*** Study after study has shown that pay ranks far down the list of factors that employees consider will motivate or retain them. Workload (smarter not harder), supervision, career development and working conditions are all more important to employees than pay;
- ***Companies, as always, will need to consider pay anomalies and market rates for their industry and make the necessary adjustments to correct them.*** However, this is a pay LEVEL, not a pay TREND, issue and across the board increases exacerbate the problem rather than solve it.

“We are watching the situation closely,” Mr Apps concludes, “and we will issue further bulletins to our members in the coming months. In the meantime successful Hong Kong companies should take the opportunity to reward their high performers as generously as prudent practice allows. But they must avoid adding to long-term costs by making general pay increases.”

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