Hong Kong's Labor Force Participation Rate is Rapidly Declining Due to Population Aging

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Recent discussions concerning Hong Kong's economic growth have often focused on the Northern shift in retail spending and the development of innovative sectors. However, insufficient attention to the growth implications of population aging and a recent and rapid decline in LFPR. As shown in Figure 1, Hong Kong's labor force participation rate (LFPR), defined as the percentage of the working-age population that is either employed or unemployed (actively seeking employment), which hovered between 61%-62% between 1997 and 2018, has rapidly dropped from 62% to 58% in the last four years and is projected by Government economists to fall much more in coming years (Wong and Yeung, 2019).

Population aging and a rapidly shrinking labor force will present severe headwinds for Hong Kong's economic growth and fiscal position. As the population ages, the government faces increased spending on social services, particularly for healthcare and pensions, while a smaller working-age population reduces tax revenues. The shrinking workforce limits economic output and productivity, and fewer young workers may lead to slower innovation. Moreover, businesses may cut back on investments due to concerns over labor shortages and declining productivity growth. This combination creates significant challenges for long-term economic development and fiscal stability. A greater focus on population policies is therefore necessary for the long-term economic health of this city.

In this note, we analyze trends in Hong Kong's age structure and labor force participation using microdata from the General Household Survey. We then discuss policy remedies that the Government can consider to combat the economic ills associated with population aging.

Figure 2 shows the shifting age structure of Hong Kong's population between 1985 and 2023. The proportion of older age groups has steadily increased, while the proportion of

younger age groups has decreased. This demographic shift is explained by (1) a disproportionately large post-war baby-boomer generation, which started to rapidly enter retirement age over the past five years, and (2) a disproportionately small post-1997 generation, who is now entering the labor market but is unable to replace the retiring post-war generation.

Figure 3 shows LFPR by age group. We find that among the youngest age groups, LFPR has recently fallen. The LFPR of those aged 15-19 was 10.10% and 9.50% in 2010 and 2011, but fell to 8.10% and 6.40% in 2022 and 2023. The LFPR of those aged 20-24 was 60.60% and 61.90% in 2010 and 2011, but fell to 54.90% and 54.50% in 2022 and 2023. The LFPR of those aged 25-29 was 88.80% and 88.60% in 2010 and 2011, but slightly fell to 87.60% and 87.00% in 2022 and 2023.

At the same time, LFPR has been steady among the middle age groups. The LFPR for the 30-34 age group is around 85.5%. The LFPR for the 35-39 age group fluctuates within the range of 80% to 84%. For the 40-44 and 45-49 age groups, the LFPR is approximately 81% and 80%.

However, LFPR has been increasing among the oldest age groups. The LFPR of those aged 50-54 was 73.30% and 75.10% in 2010 and 2011, but increased to 79.20% and 76.80% in 2022 and 2023. The LFPR of those aged 55-59 was 56.90% and 60.40% in 2010 and 2011, but increased to 66.80% and 69.60% in 2022 and 2023. The LFPR of those aged 60-64 was 33.60% and 37.60% in 2010 and 2011, but increased to 48.10% and 49.30% in 2022 and 2023. The LFPR of those aged above 65 was 5.40% and 6.00% in 2010 and 2011, but increased to 13.20% and 13.30% in 2022 and 2023.

Figure 4 decomposes population size by age group and activity status. We find that the population of young adults has been rapidly declining. The number of people aged 15-19 in the labor force was 41,891 and 38,894 in 2010 and 2011, but declined to 23,816 and 19,055 in 2022 and 2023. Similarly, the number of people aged 20-24 in the labor force was 258,821 and 265,435 in 2010 and 2011, but decreased to 164,374 and 150,847 in 2022 and 2023. For those aged 25-29, the number of individuals in the labor force was 396,369 and 423,776 in 2010 and 2011, but dropped to 351,679 and 346,267 in 2022 and 2023. Moreover, the fall in LFPR in the youngest age groups is explained by the combination of a falling population and a large share of the population remaining in school.

At the same time, the population of older adults has been rapidly increasing. The population of people aged 55-59 in the labor force was 292,237 and 311,004 in 2010 and 2011, but increased to 402,289 and 396,076 in 2022 and 2023. Similarly, the population aged 60-64 in the labor force was 117,302 and 158,852 in 2010 and 2011, but increased to 295,171 and 310,375 in 2022 and 2023. For those aged above 65, the number of individuals in the labor force was

52,937 and 56,875 in 2010 and 2011, but increased to 184,612 and 218,723 in 2022 and 2023. This reflects a trend of extended working years, where more people in these age groups are either delaying retirement or seeking employment after retirement.

Table 1 decomposes the changes in LFPR into two components: (1) the component explained by changes in age structure, holding LFPR within age groups constant; (2) and the proportion explained by changes in LFPR, holding age structure constant.

$$\overline{\text{LFP}}_\tau - \overline{\text{LFP}}_t = \sum_i (\omega_{i\tau} - \omega_{it}) \cdot \overline{\text{LFP}}_{i\tau} + \sum_i \omega_{it} \cdot (\overline{\text{LFP}}_{i\tau} - \overline{\text{LFP}}_{it})$$

where $\overline{\text{LFP}}_t$ denotes LFP in year t, ω_i denotes the share of population in age group i, and t and τ refer to different years. We find that 86% of the rapid decline in LFPR from 2018 to 2023 is explained by changes in population age structure.

It is very unlikely that policies aimed at increasing fertility will have any meaningful impact on Hong Kong's population structure. Around the world, even the most aggressive fertility policies have generally failed to meaningfully increase birth rate (Zhou, Pang and Engle, 2024).

The trend of population aging and declining labor force participation must instead be redressed through migration. Hong Kong's Government should aim to work not only on attracting global talent, but also on retaining local youth and talent. The Government should also support non-working populations who are willing to migrate elsewhere in the Greater Bay Area.

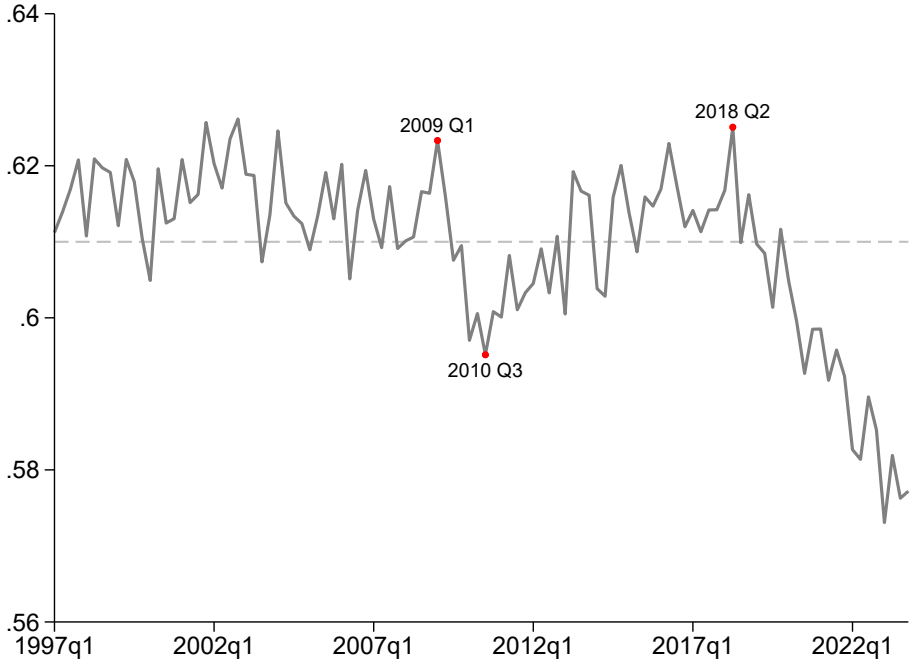
Proper population policy planning will require Hong Kong's Government to work across several Bureaus. It will touch on many different policy areas, including immigration, tax, labor, welfare, housing, development, and youth. As such, centralized policy coordination is needed, and top-level decision-makers must get involved to guide this work.

References

Wong, Kelvin and Matthew Yeung. 2019. "Population Ageing Trend of Hong Kong." *Office of the Government Economist, The Government of the Hong Kong Special Administrative Region* .

Zhou, Anson, Chong Pang and Samuel Engle. 2024. "Asymmetric Fertility Elasticities." *HKU Jockey Club Enterprise Sustainability Global Research Institute - Archive* . Available at SSRN: https://ssrn.com/abstract=4912608 or http://dx.doi.org/10.2139/ssrn.4912608.

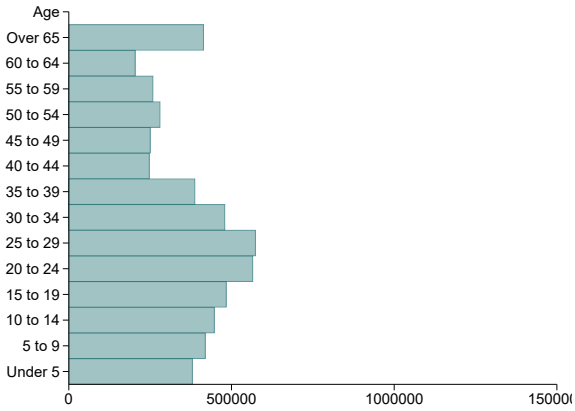
Figure 1: Labor Force Participation Rate Trend in 1997-2023



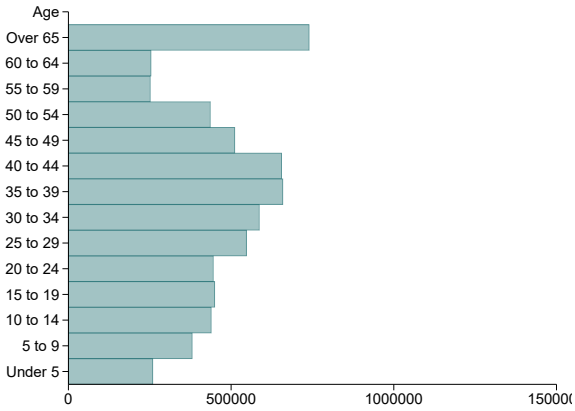
Notes: Figure shows the trend of labor force participation rate from 1997 to 2023, with data presented on a quarterly frequency. Source: Census and Statistics Department, Hong Kong.

Figure 2: Change in Age Structure of Hong Kong (1985-2023)

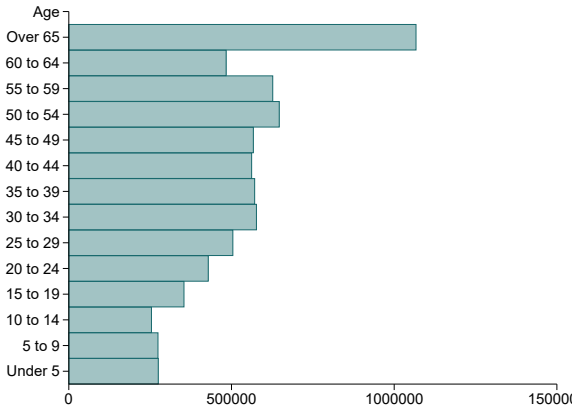
(a) Age Distribution in 1985



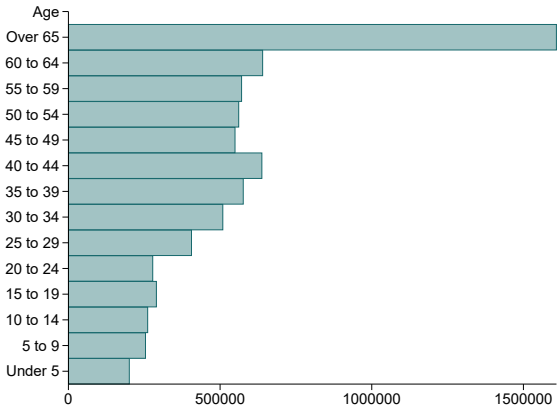
(b) Age Distribution in 2000



(c) Age Distribution in 2015

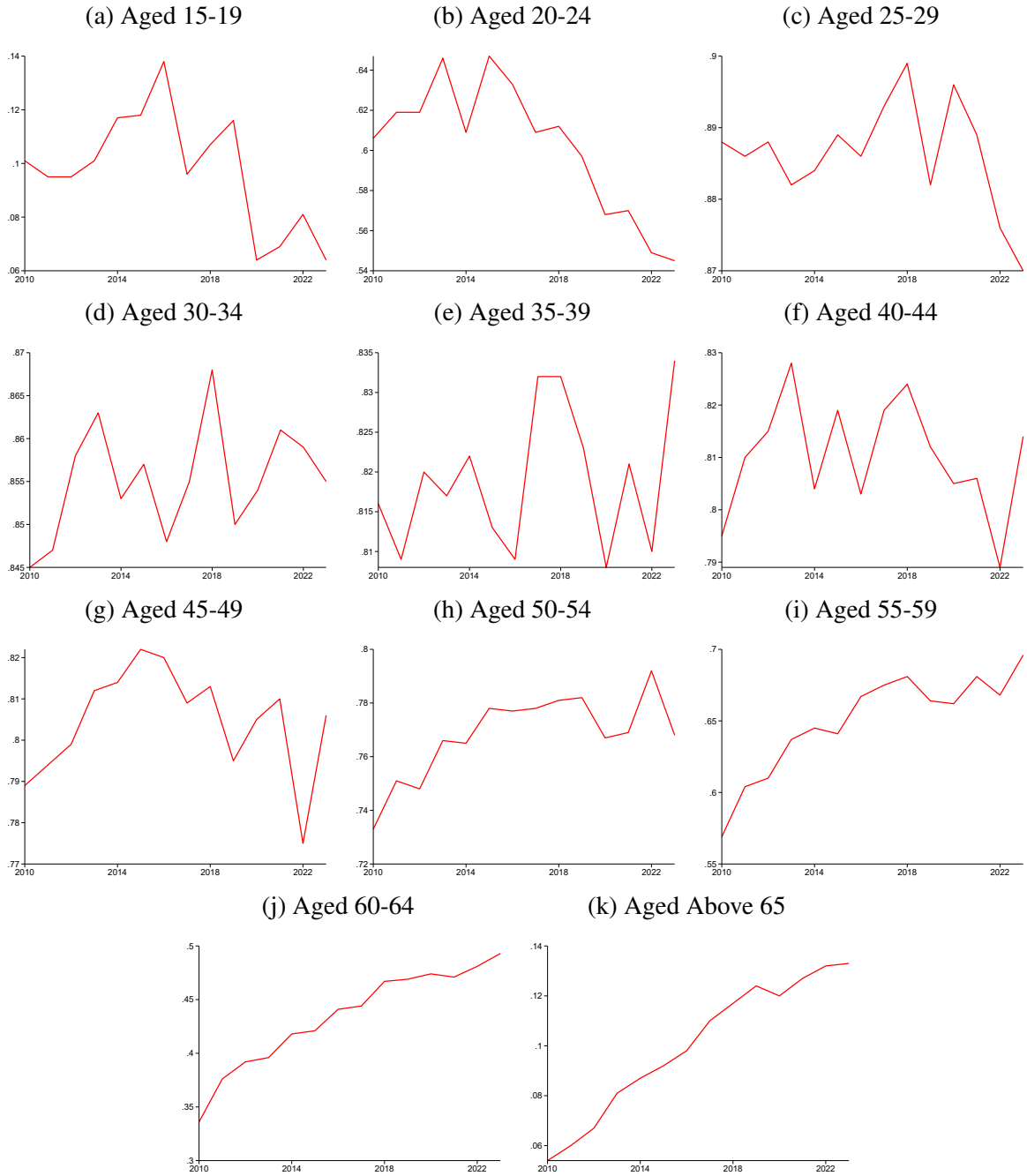


(d) Age Distribution in 2023



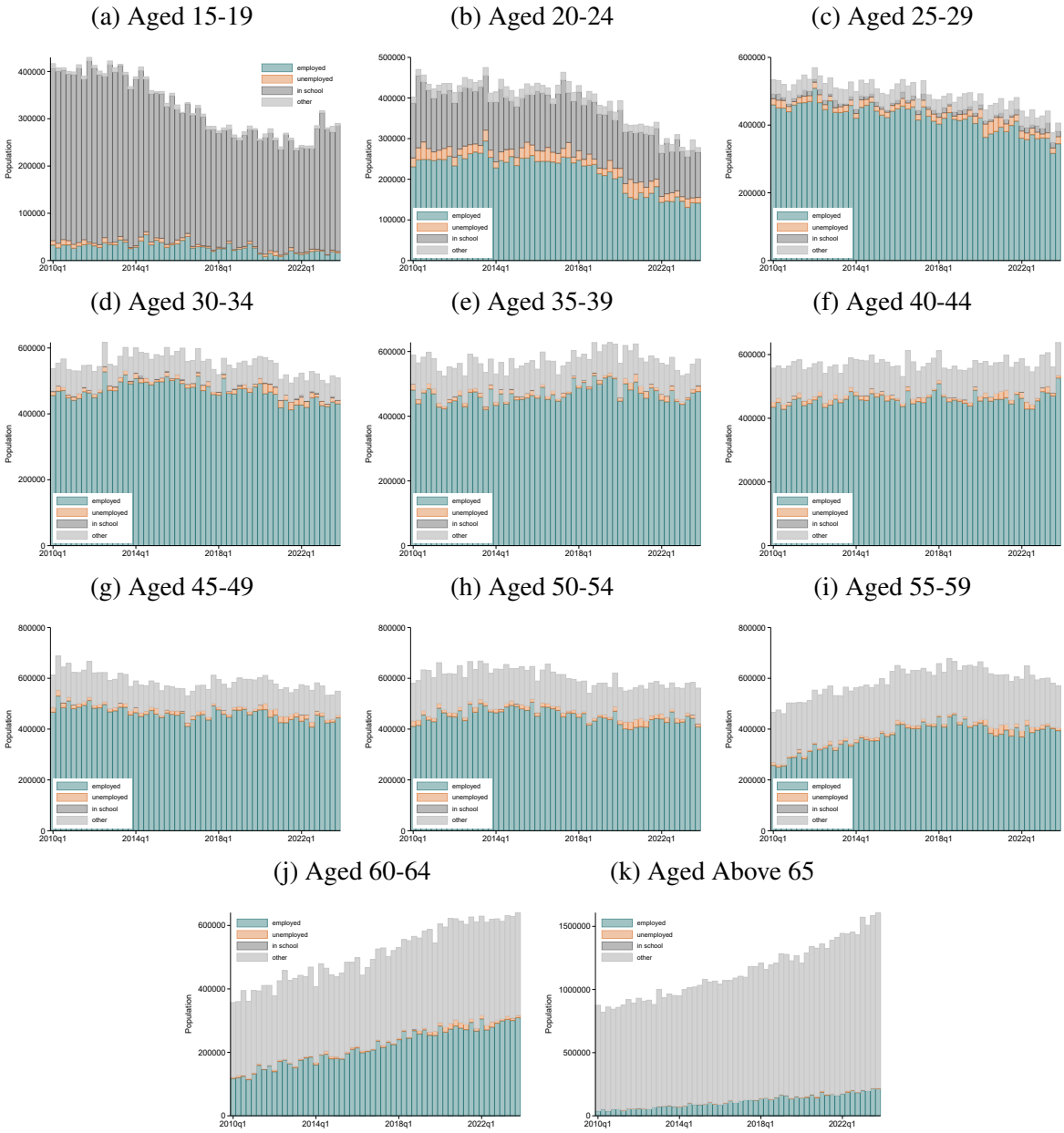
Notes: Each figure shows the age distribution in Hong Kong. The figures reveal a clear trend of population aging, with an increasing proportion of older age groups and a decline in young age. Source: Census and Statistics Department, Hong Kong.

Figure 3: Labor Force Participation by Age Group



Notes: Figures show the trend of labor force participation rate decomposed by age groups from 2010 to 2023, with data presented on an annual basis. Source: Census and Statistics Department, Hong Kong.

Figure 4: Population by age groups decomposed by activity status



Notes: Figures show the population size decomposed by age group and activity status. Green and orange bars represent the employed and unemployed populations, respectively. The sum of these two categories represents the total number of individuals participating in the labor force. The student category in dark gray is separated from the economically inactive group, with the remaining categories classified as others in light gray. Source: Census and Statistics Department, Hong Kong.

Table 1: Decomposed Changed in LFP

	(1) LFP Change	(2) Age Composition Effect (Fixed LFP)	(3) Within-Group Effect (Fixed Shares)
2008 - 2013	-0.96%	-2.13%	1.17%
2013 - 2018	1.63%	-0.92%	2.54%
2018 - 2023	-4.37%	-3.78%	-0.59%
2008 - 2023	-3.70%	-6.08%	2.38%

Notes: Table decomposes the changes in LFPR into two components: (1) the component explained by changes in age structure, holding LFPR within age groups constant; and the proportion explained by changes in LFPR, holding age structure constant.