

Special Report



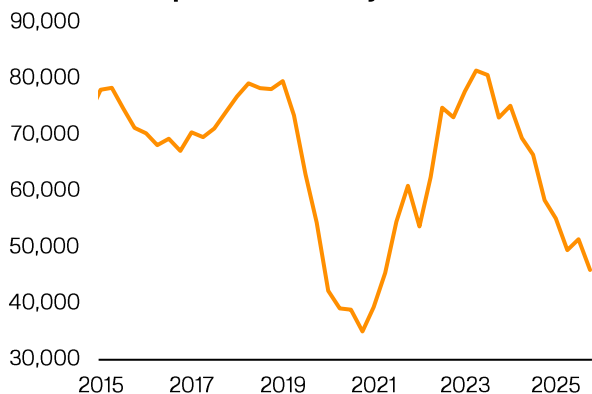
Hong Kong's Labour Market: Support from Broad-based Economic Expansion while Bracing for AI Impact

- In the past few years, Hong Kong's labour market experienced pronounced challenges driven by both cyclical and structural economic headwinds. Job vacancies in the retail and construction sectors declined noticeably while the financial industry remained resilient.
- With economic growth regaining momentum, the labour market is expected to stabilise ahead, although temporary fluctuations could continue.
- Despite the risk of growing AI adoption, which has already weighed on entry-level jobs, the broader labour market outlook remains cautiously optimistic.

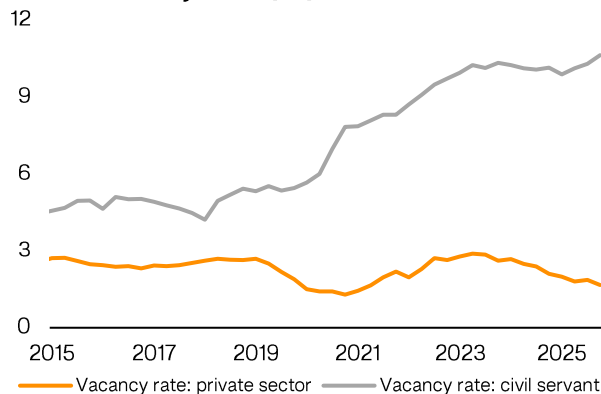
Labour market adjustments in 2025: economic headwinds, sectoral divergences and structural shifts

Following a volatile post-Covid recovery, recent data suggests that the labour market is showing signs of stabilisation. Private job vacancies once surged to a post-Covid peak of 81,464 in Q2 2023, but subsequently retreated to 46,003 in Q4 2025, marking a sharp contraction of 43.5%. This cooling was also reflected in the vacancy rate¹, which stood at 1.7% in Q4 2025, notably below the pre-Covid trend level of 2.5%. Meanwhile, the civil servant job vacancy rate remained elevated at 10.6%, a stark contrast to trends in the private market.

¹ Vacancy rate refers to the ratio of number of vacancies to number of job opportunities (persons engaged + vacancies).

Number of private sector job vacancies


Source: Census and Statistics Department

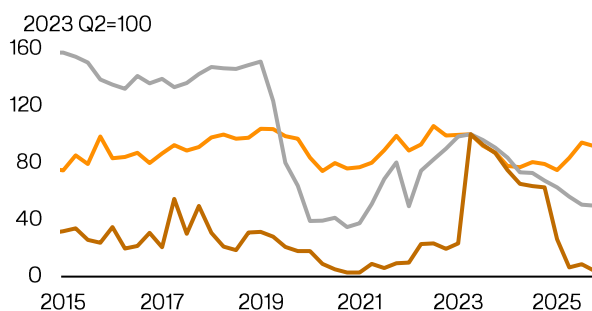
Job vacancy rate (%)


Source: Census and Statistics Department

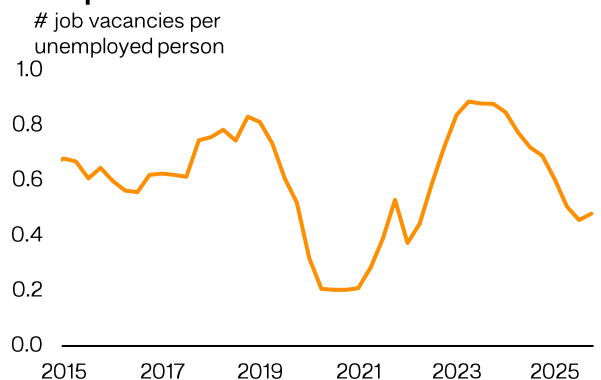
The construction and retail sectors saw a marked contraction in hiring intentions while financial job openings remained resilient. Among major sectors, the construction sector recorded a steep decline in vacancies, plunging from 2,763 in Q2 2023 to just 119 in Q4 2025. The drop was likely due to the "Government's Labour Importation Scheme" introduced in July 2023, which helped ease the sector's shortage. Meanwhile, vacancies in the retail, accommodation, and food service sectors plummeted by 50% in Q4 2025 from their previous peaks. The recovery in these sectors had been hindered by the cessation of the government's consumption vouchers, increasing outbound travel by residents, and the rapid penetration of online sales and food delivery platforms.

On the bright side, the financial and insurance sector staged a solid recovery. Job vacancies in this sector remained robust at 5,711 in Q4 2025, holding at around 91% of their peak levels. This strength is likely underpinned by the robust stock market rally and buoyant fund-raising activities, which have fuelled demand for financial services talent.

On the bright side, the financial and insurance sector staged a solid recovery. Job vacancies in this sector remained robust at 5,711 in Q4 2025, holding at around 91% of their peak levels. This strength is likely underpinned by the robust stock market rally and buoyant fund-raising activities, which have fuelled demand for financial services talent.

Job vacancies in selected industries


Source: Census and Statistics Department

Manpower balance


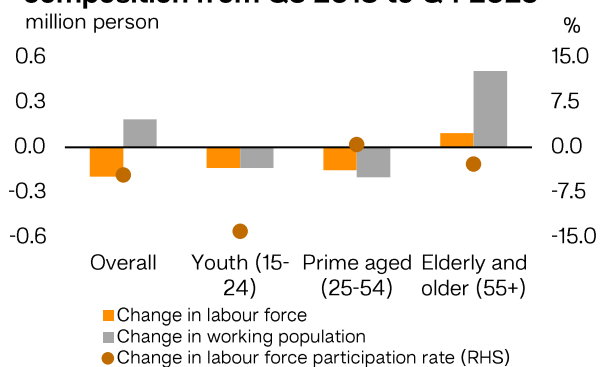
Source: Census and Statistics Department, BEA Economic Research

Cyclical economic headwinds exerted lasting influences on the labour market. The manpower balance, defined as the ratio of job openings to unemployed persons and measures labour demand relative to the pool of active job seekers, has tracked the downward trajectory of the vacancy rate, declining from 0.9 in Q2 2023 to 0.5 in Q4 2025. This decreasing ratio indicated a growing labour surplus, largely attributable to the economic headwinds Hong Kong faced throughout 2024,

including restrictive monetary policy, changes in consumption patterns and a property market consolidation. While these acute challenges have subsided since Q3 2025, their residual effects exhibited lasting influences on the labour market.

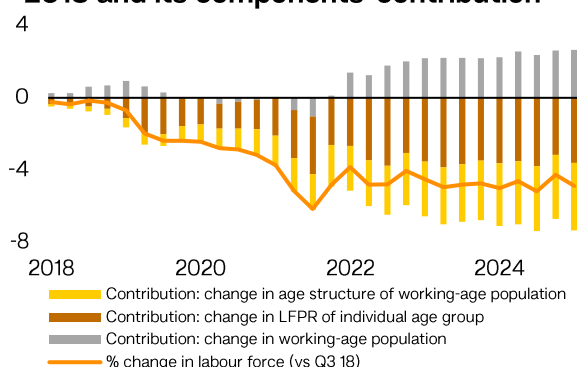
Labour supply is trending downward gradually amid an aging population and a shifting participation rate. On the supply side, the labour force had been on a prolonged downward trend well before Covid, shrinking from a peak of 4.0 million in Q3 2018 to 3.8 million in Q4 2025, as the labour force participation rate (LFPR)² has been declining. Using the decomposition framework proposed by the Office of the Government Economist³ and our own calculations, the declines in the LFPR from Q3 2018 to Q4 2025 can be attributed to two factors: changes in the age structure of the working-age population and shifts in the LFPR within individual age groups, with both factors providing roughly equal contribution. The former was driven by the secular population aging trend, while the latter was linked to lower participation rates among young people and prime-age men, probably reflecting the preference of pursuing higher education among youth and shifts in family roles.

Change in the labour force and its composition from Q3 2018 to Q4 2025



Source: Census and Statistics Department

Percentage change in labour force vs Q3 2018 and its components' contribution

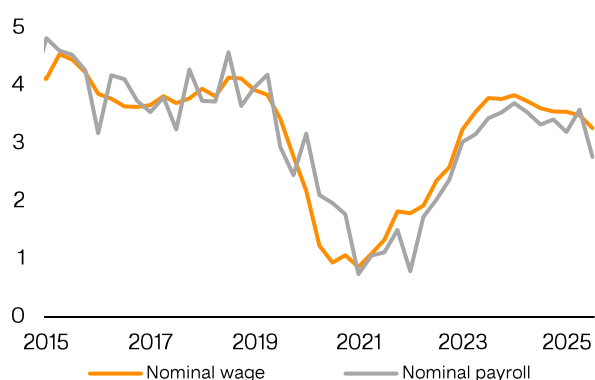


Source: Census and Statistics Department, BEA Economic Research

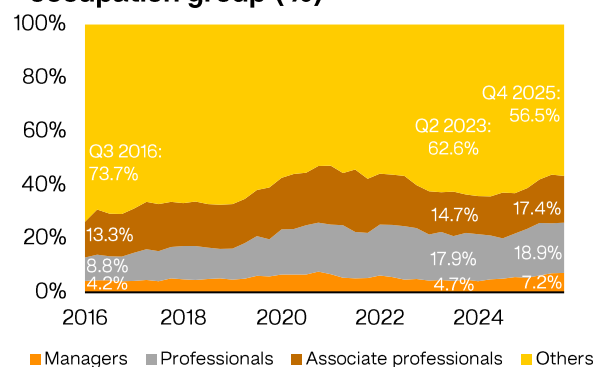
Wage growth held up steady despite the labour market consolidation. Despite the softer labour market conditions, nominal wage growth increased steadily, up by 8.3% from Q2 2023 to Q3 2025. This could be attributed to the steady economic expansion and growing skills premium in high value-added positions, which effectively transferred wage-setting power to the workforce. Notably, demand for experienced and high-skilled workers (e.g. managerial and professional roles) has continued to rise, as evidenced by their rising shares in total vacancies. This resilient wage growth thereby enabled households to retain purchasing power for consumption, even though firms remained cautious about expanding headcounts.

² Labour force participation rate refers to the ratio of labour force to total working-age population.

³ Cheung, E. (2024). "An overview of the change in Hong Kong's labour force". *Office of the Government Economist Economic Letter*. <https://www.hkeconomy.gov.hk/en/pdf/el/el-2024-01.pdf>

Nominal wage and payroll growth (%YoY)


Source: Census and Statistics Department

Share of private job vacancies by occupation group (%)


Source: Census and Statistics Department, BEA Economic Research

The Beveridge Curve offers key insights into the labour market cycle

Labour market dynamics are illustrated effectively by the Beveridge Curve. Before delving further into our analysis, it is useful to introduce the Beveridge Curve and examine its relevance within the context of Hong Kong. The Beveridge Curve, which depicts the negative relationship between the unemployment rate and the vacancy rate, provides an indication of the labour market tightness and the stage of economy in the business cycle. Theoretically, in periods of economic expansion marked by tight labour market conditions, characterized by low unemployment rates and a limited pool of job seekers, rising demand and labour shortage generally prompt employers to intensify hiring efforts.

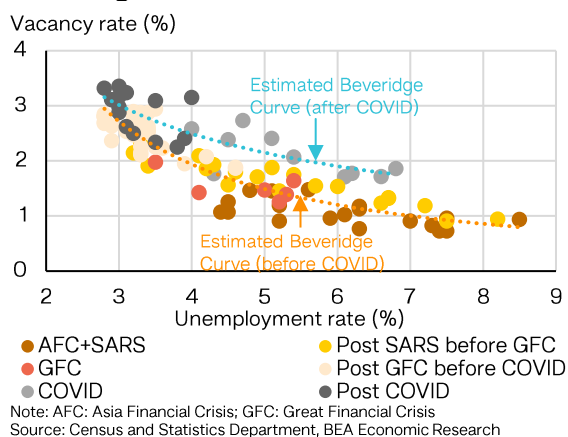
Empirical data suggests that Hong Kong closely adheres to the Beveridge curve, which exhibits a strong negative correlation between the unemployment rate and the vacancy rate. Firstly, the city's labour market demonstrates a "counterclockwise loop" along the Beveridge Curve, where job vacancies adjust more quickly than unemployment, such that the cyclical movements trace a counterclockwise path rather than a linear line. Graphically, the economy tends to stay above the Beveridge Curve during economic expansions and fall below it in downturns. This is because firms can post or withdraw job openings quickly but hiring and firing take time due to search frictions and adjustment costs. During major economic downturns like the Asian Financial Crisis and the SARS outbreak, job vacancy rates first declined sharply ahead of the surge of unemployment rates. In the subsequent recovery phases, job vacancies began to rise before unemployment eased, mapping a counterclockwise trajectory along the curve. Following the recovery from Covid, improvements were seen in vacancies and thus employment levels. However, the labour market has begun to show signs of edging above the curve again since early 2024 due to the economic headwinds highlighted above.

Secondly, the Beveridge Curve has experienced an outward shift after Covid (that is, a higher number of job vacancies given the same level of unemployment), although it is a global phenomenon generally not limited to Hong Kong alone⁴. This could be due to the inefficiencies in

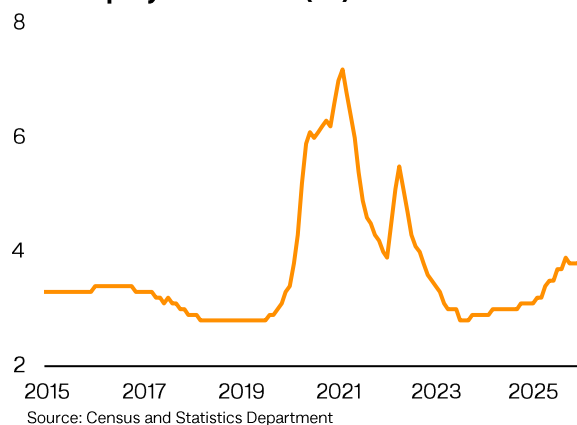
⁴ Multiple academic studies have documented this phenomenon. For example, see [Federal Reserve Bank of St. Louis](#).

job matching processes caused by supply chain disruptions and lockdown measures, which made recruitment process more challenging. Following the full economic reopening, hiring only gradually picked up, as the sudden surge in labour demand made immediate hiring more difficult. Recently, new hiring challenges have emerged, driven by rising skill requirements on AI expertise. Many companies have reported increasing difficulties in recruiting employees with AI backgrounds, as the pool of AI-specialised talents in Hong Kong remains fairly limited.

Beveridge Curve



Unemployment rate (%)



Robust economic growth would signal a labour market turnaround, although AI integration could impede recovery

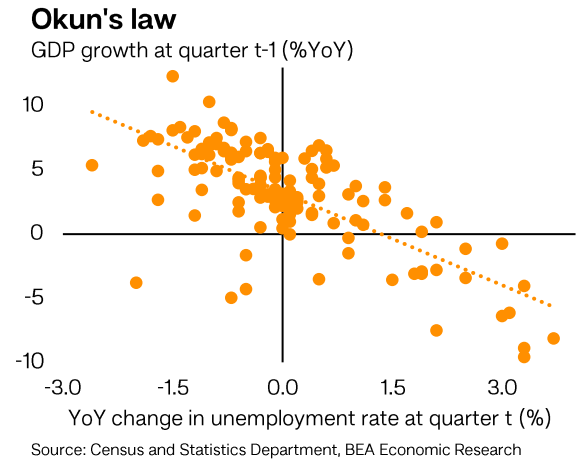
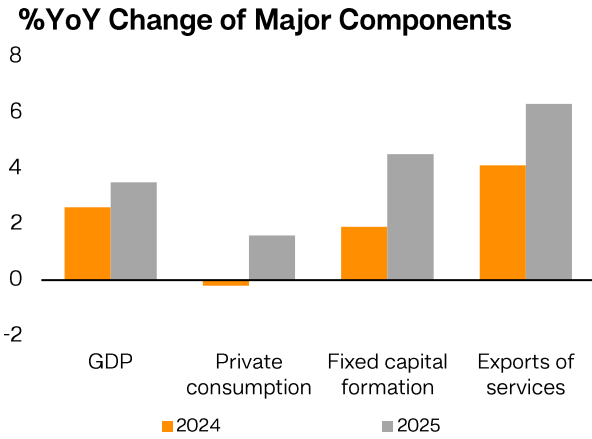
Labour market is set to benefit from a broad-based economic recovery. Labour market performance usually lags GDP growth by a few quarters⁵ due to the frictions in hiring and firing decisions. The robust economic growth in 2025 could point to a constructive outlook for the labour market. Unlike 2024, where growth was primarily driven by external trade, which tends to have limited impact on the labour market⁶, the revival of growth momentum since 2025 has been fuelled by a broad-based recovery in private consumption and investment. This could spur a renewed cycle of headcount additions as businesses look set to step up hiring and expansion plans.

The recent stabilisation in the unemployment rate would also signal a potential inflection point.

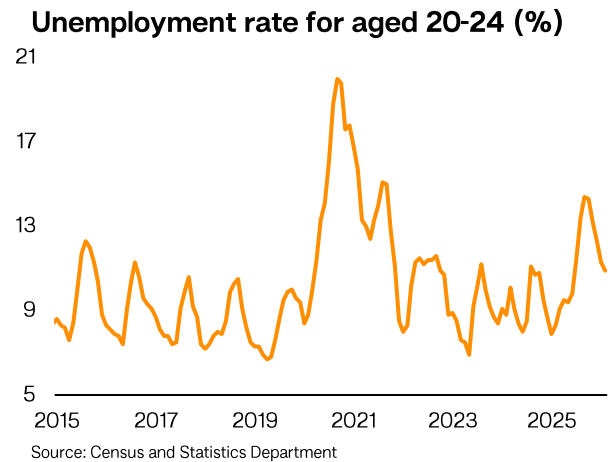
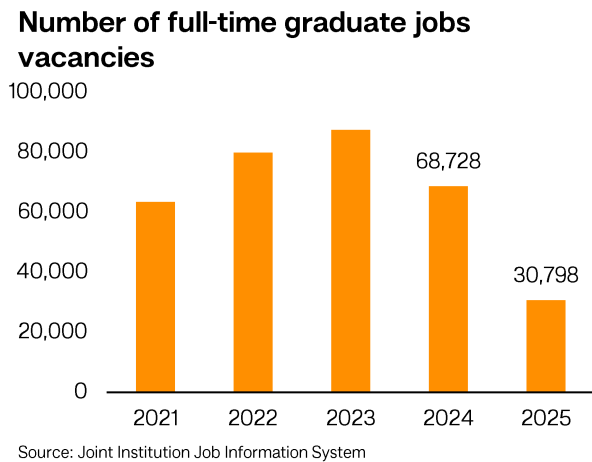
Following an upward trend from 2024 to 2025, the unemployment rate improved slightly to 3.8% in December 2025 to February 2026. While short-term fluctuations may persist, the drag from sector-specific headwinds is expected to subside. For instance, the retail sector is expected to gain further traction thanks to the ongoing recovery in consumption and inbound tourism, while the construction sector is poised to benefit from new construction initiatives under the Northern Metropolis development as well as the ongoing rebound in the housing market. As implied by the Beveridge Curve, the vacancy rate is expected to bottom out, following a moderate recovery in the unemployment rate.

⁵ For instance, the [Reserve Bank of Australia](#) estimates that labour market conditions typically lag GDP growth by 1-3 quarters.

⁶ As an illustration, the [European Central Bank](#) finds that unemployment development is particularly sensitive to movements in the consumption component of GDP, while movements in foreign trade have a much lower impact.



Rising AI adoption remains a critical risk to monitor. That said, a clear-cut recovery of the labour market is far from guaranteed, given the downside risks posed by rising AI integration in workplaces. Notably, AI adoption has already exerted pressure on routine cognitive tasks, such as document drafting, data analysis and content creation, with junior positions being the most susceptible to its effects. Data from the Joint Institutions Job Information System revealed that full-time job vacancies for fresh graduates plunged by 55% year-on-year (YoY) to 30,798 in 2025. Furthermore, youth unemployment rate (aged 20-24) remained relatively elevated at 10.9% in December 2025 to February 2026, compared to the overall unemployment rate of 3.9%. Currently, job functions most exposed to AI advancements, such as customer service, entry-level coding and content marketing, have experienced the steepest declines in labour demand, with the scope of this displacement likely to broaden moving forward. Overall, the broader labour market outlook remains cautiously optimistic, but the disruptive impacts of AI are likely to reshape industry dynamics significantly. This highlights the importance of continuous upskilling to harness the full potential of the AI era.



Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. The content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This material has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this material, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this material. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

For more information, please visit our webpage at <https://www.hkbea.com/html/en/bea-about-bea-economic-research.html>. For any enquiries, please contact the Economic Research Department of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).