NATIONAL WAGES COUNCIL (NWC) GUIDELINES 2010/2011

Strong Tripartism Has Helped Singapore Overcome Downturn

1. During the recent economic downturn, the NWC recommended that employers, unions and the government work together to cut costs and save jobs. We leveraged on our strong tripartite partnership and implemented initiatives such as the Jobs Credit Scheme, Skills Programme for Upgrading and Resilience (SPUR) and measures to manage excess manpower. As a result, Singapore was able to manage the impact of the downturn, minimize job losses, and emerge strongly from the downturn.

2. Our recovery is now strong and broad-based. Employees can look forward to wage increases and bonuses. At the same time, employers, unions and the government must continue to work closely to raise productivity so that wage increases will be sustainable and Singapore businesses remain cost competitive.

2009 Economic and Labour Market Performance

Economy

3. Due to the downturn in the first half of 2009, the Singapore economy contracted by 1.3% in 2009, down from the 1.8% growth in 2008. The contraction was broad-based affecting most segments of the economy. However, the economy started to recover in the second half of 2009, with GDP expanding by 1.8% and 3.8% year-on-year in the third and fourth quarters respectively.

Labour Market

4. In line with the slow down, redundancies hit 23,430 workers in 2009, higher than the 16,880 in 2008, but lower than the 27,570 redundancies in the last downturn in 2001. Overall, total employment grew by 37,600 in 2009, due to gains in the second half. This was significantly lower than the increase of 221,600 in 2008. The seasonally adjusted overall and resident unemployment rate stood at 2.3% and 3.3% respectively in December 2009.

Inflation

5. The consumer price index (CPI) rose by 0.6% in 2009, much lower than the 6.6% in 2008.

Productivity

6. With employment growing amid GDP contraction, labour productivity declined by 3.9% in 2009, compared to the decline of 7.2% in 2008. After 7 consecutive quarters of productivity decline, the third and fourth quarter of 2009 saw productivity gains of 0.6% and 2.7% respectively, resulting from the economic recovery.

Wages

7. Reflecting wage restraint and downturn measures adopted by companies, nominal basic wages rose by 1.3% in 2009, significantly lower than the 4.4% increase in 2008. Nominal total wages declined by 0.4% in 2009, after increasing by 4.2% in 2008. The difference in basic and total wage movements was due to a 14% drop in variable bonus payout from 2.31 months in 2008 to 1.99 months in 2009. Nominal total wages also declined in 1998 during the Asian financial crisis.

8. After adjusting for inflation, real total wages declined by 1.0% while real basic wages rose by 0.7% in 2009. Real total and basic wages have outpaced productivity in the last three years, although over the longer term since the last recession in 2001, real total and basic wages still lagged productivity growth (see Annex).

Cost Competitiveness

9. Despite falling output, the downturn measures helped mitigate business and labour costs, hence reducing overall unit labour cost (ULC) by 0.7% in 2009, after rising for the previous four years.

Outlook for 2010

10. Singapore's GDP expanded strongly by 15.5% in 1Q2010 on a year-on-year basis. The growth was broad-based. Given this, and the overall improved outlook for external economies for the rest of 2010, the Ministry of Trade & Industry (MTI) expects 7.0% to 9.0% GDP growth in 2010.

11. Continuing the momentum from the last quarter of 2009, total employment in the first quarter of 2010 is estimated to have grown by 34,000[P]. The seasonally adjusted unemployment rates fell further from December 2009 to 2.2%[P] (overall) and 3.2%[P] (resident) in March 2010. With the strong economic recovery, the Ministry of Manpower (MOM) expects a tightening labour market.

12. Overall inflation is forecast to be 2.5% to 3.5% in 2010, higher than the 0.6% in 2009.

[P] Preliminary

NWC Guidelines for 2010/2011

Sustainable Wage Increases, Continuous Productivity Improvements

13. The NWC notes that the recovery of the Singapore economy has been strong and broad-based. The tightening labour market will place upward pressure on wages. This is especially so given many employees accepted wage freeze and cuts as well as other cost cutting measures during the downturn to help companies reduce costs and save jobs.

14. The Council also notes that the global economic recovery has become firmer and more broad-based, supported by the improved outlook in the US and continued strength in China. However, there also remain some downside risks in the global economy, owing to the sovereign debt crisis in Europe, and concerns over excessive asset price inflation in emerging Asia. Domestically, companies are also in different stages of recovery, with some still affected by the downturn. Labour productivity has contracted in the last three years, which resulted in wages outpacing productivity growth. There is therefore a pressing need to raise productivity to ensure that wage gains are sustainable. In this respect, wage increases should lag productivity gains in the long term.

15. **The NWC therefore recommends that companies should grant sustainable wage increases to employees, taking into account company performance and prospects.** The NWC also notes that companies have rolled back their wage restraint measures to varying degrees. For companies that have not done so, they should take this into account when deciding on wage increases. In situations where companies still face cost pressures, have yet to fully recover from the downturn, and where built-in wage increase may not be sustainable, they could instead grant employees variable payments.

16. The NWC notes that the employers' CPF contribution rate will be raised by 1 percentage point in two steps: the first 0.5 percentage point increase on 1 September 2010 and the remaining 0.5 percentage point increase on 1 March 2011. **In their wage negotiations, companies and unions should take into account the increase in employers' CPF contribution rate as such contributions are part of the overall wage package**.

17. Our flexible wage system has enabled us to better respond to changes in the economic landscape, weather downturns and save jobs, as well as reward and motivate employees in upturns. **The NWC recommends that companies should continue to maintain and where possible, enhance flexibility in their wage structures, by building up the monthly variable component (MVC) from wage increases, and rewarding employees for their contributions through variable payments linked to performance and productivity**.

18. The NWC notes that the high inflation in 2008 and the downturn in 2009 have especially affected low wage workers. **The NWC recommends that in granting wage increases, companies pay greater attention to low wage workers. For example, companies could include a dollar quantum for built-in wage increases and/or variable payments**.

19. Productivity growth is the basis for sustainable wage growth. **The NWC strongly urges the tripartite partners to work closely together to raise productivity.** The Council notes that the Economic Strategies Committee (ESC) had recommended a target of raising productivity by 2% to 3% per year over the next 10 years. Higher productivity would enhance our competitiveness and translate into sustainable increases in wage levels in the long run.

20. In this respect, the NWC welcomes the Government's initiative to set up the National Productivity and Continuing Education Council to oversee the nation's productivity efforts. **Management must drive productivity measures and proactively look into enhancing productivity in their companies**. **Companies should reduce their reliance on low-skilled foreign manpower and take advantage of the various government initiatives,** such as the Productivity and Innovation Credit and the National Productivity Fund, to raise productivity.

21. **Companies should also engage unions/employees in the process to seek their support in implementing productivity measures. Companies should share productivity gains with employees which could be in the form of productivity incentives or bonuses**, so that they have a stake in the productivity improvement process. **Companies are also encouraged to formulate appropriate, consistent and transparent Key Performance Indicators (KPIs), in consultation with unions/employees**, **that take into consideration employees' contributions to productivity gains and to reward employees accordingly**.

Help Vulnerable Segments of the Workforce

22. We should **continue to push ahead with initiatives to enhance the employability and incomes of vulnerable groups, including low wage, contract and casual workers, older workers and, women wanting to join or return to the workforce**. With the economy expected to grow strongly, demand for workers will increase. The **NWC urges companies in need of workers to look at employing and retaining older workers and encouraging more women to join the workforce**.

23. The NWC endorses the Tripartite Guidelines on Re-employment of Older Employees. **The Council strongly urges companies to work with unions/employees to implement re-employment policies and systems as soon as possible by adopting the Guidelines**, so as to be prepared for the implementation of the re-employment legislation in 2012.

24. The NWC urges **the tripartite partners to step up efforts to help low wage workers, including contract and casual workers, so that they can benefit from the enhanced Workfare Income Supplement (WIS) scheme and the Workfare Training Support (WTS) scheme which will be introduced from 1 July 2010**. **Employers and workers are also urged to tap on these schemes**.

Application of NWC's Recommendations

25. The NWC recommendations cover the period from 1 July 2010 to 30 June 2011. They are applicable to all employees – management, executives and rank-and-file employees, unionized and non-unionised companies in both public and private sectors.

26. To facilitate wage negotiation, companies should share relevant information on company performance and business prospect with employees and their representatives.

Conclusion

27. The high level of trust, co-operation and solidarity among the tripartite partners was a core competitive strength that helped Singapore weather the downturn. Through training, the workforce has also upgraded skillsets in preparation for the recovery. Companies should now ride the upturn to achieve strong performance, higher productivity and enhanced competitiveness.

28. Our strong tripartite partnership has enabled Singapore to respond effectively to the downturn and emerge stronger. The NWC is confident that our tripartite partnership will continue to strengthen and play a critical role in the upturn and in Singapore's transformation into a productivity-driven economy, thereby creating inclusive growth to the benefit of the economy, businesses, employees and all Singaporeans.

29. The NWC looks forward to the Government's acceptance of its recommendations.

NATIONAL WAGES COUNCIL
25 MAY 2010

ANNEX

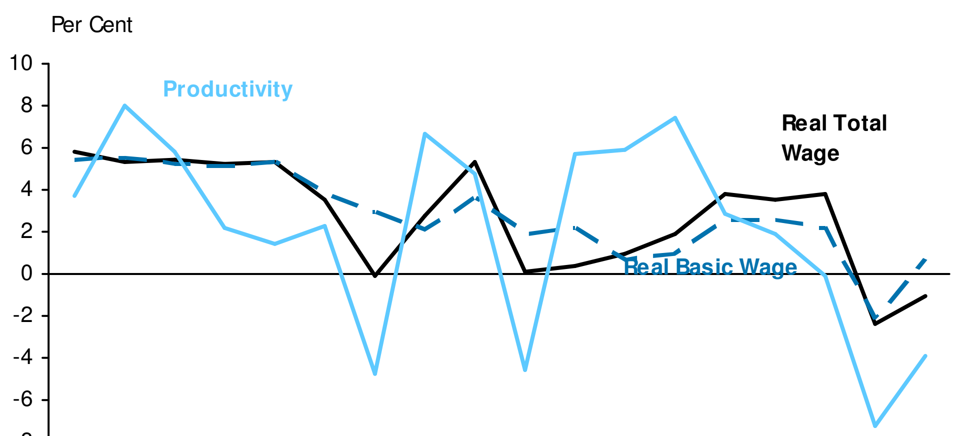
Table 1: Wage Changes in 2008 and 2009

	2008	**2009**
Total Wage Change		
- Nominal	4.2%	-0.4%
- Real	-2.4%	-1.0%
Basic Wage Change		
- Nominal	4.4%	1.3%
- Real	-2.2%	0.7%
Variable Component Payment (Bonus)	2.31 months	1.99 months

Source: MOM Survey on Annual Wage Changes, 2009

Note: Real wage changes adjusted by CPI: 6.6% (2008) and 0.6% (2009)

Figure 1: Annual Change in Productivity and Real Wages, 1992-2009



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Real Total Wage Change	5.8	5.3	5.4	5.2	5.3	3.5	-0.1	2.8	5.3	0.1	0.4	1.0	1.9	3.8	3.5	3.8	-2.4	-1.0
Real Basic Wage Change	5.4	5.5	5.2	5.1	5.3	3.8	3.0	2.1	3.6	1.9	2.2	0.7	1.0	2.6	2.6	2.2	-2.2	0.7
Productivity Growth	3.7	8.0	5.8	2.2	1.4	2.3	-4.8	6.7	4.8	-4.6	5.7	5.9	7.4	2.9	1.9	-0.1	-7.2	-3.9

Source : Department of Statistics, MTI (For Productivity Data)

Note : Total and basic wage change data pertain to all employees from 1998 onwards. Before 1998, data pertain to bargainable employees who were also mainly the rank-and-file.

Table 2: Annualised Growth of Labour Productivity and Real Wages (2001-2009)

	Annualised Change (% p.a.)	
	2001-2009 (8 years)	**2006-2009 (3 years)**
Labour Productivity Growth	1.5%	-3.8%
Real Total Wage Growth (compared to productivity growth)	1.4% (lagged)	0.1% (outpaced)
Real Basic Wage Growth (compared to productivity growth)	1.2% (lagged)	0.2% (outpaced)

Source: MOM Survey on Annual Wage Changes, 2009 (wage), Department of Statistics, MTI (labour productivity)