

**NATIONAL WAGES COUNCIL
SINGAPORE**

NATIONAL WAGES COUNCIL (NWC) GUIDELINES 2011/2012

Economic and Labour Market Situation

2010 Performance

1. The Singapore economy rebounded strongly to grow by 14.5% in 2010, compared to a contraction of 0.8% in 2009. Total employment increased by 115,900 in 2010, significantly higher than the gains of 37,600 in 2009. Redundancies decreased substantially from 23,430 in 2009 to 9,800 in 2010. With the strong economic recovery, the unemployment rate averaged 2.2% (overall) and 3.1% (resident) in 2010, down significantly from 3.0% (overall) and 4.3% (resident) in 2009.
2. Consumer Price Index (CPI) rose by 2.8% in 2010, higher than 0.6% in 2009. In particular, CPI started rising in the second half of 2010, ending with a 4.0% increase in the fourth quarter of 2010 due to higher costs of private road transport and accommodation. Excluding these two factors, however, the Monetary Authority of Singapore (MAS) Core Inflation measure was at 2.1% in the fourth quarter of 2010, and averaged 1.5% in 2010.
3. Labour productivity improved significantly by 11% in 2010, reversing the decline of 3.4% in 2009 and 7.5% in 2008. This was mainly due to the strong Gross Domestic Product (GDP) growth in the first half of 2010, coming off a low base in 2009.
4. Reflecting the strong economy and tightening labour market, nominal total wages grew by 5.5% in 2010, after contracting by 0.4% in 2009. This was the result of a basic wage gain of 3.9% (compared to 1.3% in 2009) and an increase of 9.0% in bonus payout to 2.17 months in 2010 (compared to 1.99 months in 2009). After adjusting for inflation, real total and basic wages grew by 2.7% and 1.1% respectively.
5. Supported by strong productivity gains in 2010, productivity grew by 2.1% p.a. over the longer period of the last eight years (2002-2010)¹, and has outpaced the growth in real total and basic wages of 1.6% p.a. and 1.1% p.a. respectively over the same period (see Annex).

¹ To minimise cyclical effects, productivity trends are typically analyzed over a longer period, preferably over the course of a business cycle. The period of 2002-2010 reflects a business cycle since the recovery from the previous 2001 downturn.

Outlook for 2011

6. The Singapore economy continued to grow at a healthy pace in 1Q2011. Based on advance estimates, the economy expanded by 8.5% in 1Q2011 on a year-on-year basis. With signs that the pace of global (especially in the United States) recovery is on a firmer footing, the economic outlook for the rest of the year remains positive. However, there are some downside risks to growth. These include sovereign debt concerns in the European Union, the evolving Japan nuclear situation, as well as a further spike in oil prices arising from political unrests in the Middle East and North African region. Barring a sharp deterioration in any of these situations, the Ministry of Trade and Industry (MTI) expects GDP growth for 2011 as a whole to be healthy, at between 4% and 6%. As this is above the economy's medium-term growth potential of 3% to 5%, the labour market is expected to remain tight and would put upward pressure on wages.

7. Consumer prices rose by 5.2% in 1Q2011, mainly due to higher costs of private road transport and accommodation. Global oil and food prices have also increased and are likely to remain high in the near term. Cost of services would also increase and have an impact on CPI inflation. MAS has forecast that CPI inflation in 2011 could come in at the upper half of the 3% to 4% forecast range.² CPI inflation is expected to stay elevated and will moderate only gradually to around 3% by 4Q2011.³

² MAS Core Inflation measure, which excludes costs of accommodation and private road transport, is projected to be lower, at 2% to 3% for 2011 as a whole.

³ MAS Monetary Policy Statement issued on 14 April 2011.

2011/2012 Wage Guidelines

Higher Total Wage Increases in line with Strong Recovery Raise Productivity for Sustainable Wage Growth

8. The NWC notes the Economic Strategies Committee's (ESC) target of improving productivity by 2% to 3% per year on average, which will enable incomes to grow by 30% in real terms over the coming decade.

9. **Bearing in mind that built-in wage increases should lag productivity growth to be sustainable, we must therefore strive for continuous productivity improvements.** This will ensure that workers can enjoy good wage increases in the long run and be motivated to give their best in their work. In addition, variable bonus payments should reflect the company and individual performances.

Wage Increase Recommendation

10. Given the strong economic performance in 2010 and growth outlook of between 4% to 6% in 2011, **NWC recommends that:**

- **Companies should grant higher total wage increases (built-in and variable payments) that reflect the strength of the economy and the performance and prospects of the company.**
- **Depending on the company situation and taking into account cost competitiveness, companies can make greater use of variable payments to reward workers for their contributions, instead of granting higher built-in wage increases.**
- **In their wage negotiations, companies and unions should take into account the increase in employers' CPF contribution rate and CPF salary ceiling in September 2011.⁴**

⁴ From 1 September 2011, employers' CPF contribution rate will increase by 0.5%-points. The CPF salary ceiling will also be raised from \$4,500 to \$5,000 per month.

Measures to Help Low Wage Workers

11. To help low wage workers, **the NWC recommends that in granting wage increases, companies pay greater attention to this group of workers.** For example, companies could include a dollar quantum for built-in wage increases and/or variable payments, so as to better benefit low wage workers.

12. **The Council also encourages the tripartite partners to reach out to more low wage workers, including contract and casual workers,** to help them contribute to their CPF and be eligible for the Workfare Income Supplement (WIS). Companies and workers are also encouraged to tap on the Workfare Training Support (WTS) scheme to help the workers upgrade their skills, so that they can move up into better jobs with higher pay and better career prospects.

Coping with Inflationary Impact

13. The NWC notes workers' concerns over the impact of a higher inflation rate in 2011, especially for low wage workers. In this regard, the Council also notes that the Government has put in place a \$3.2 billion 'Grow & Share' Package in Budget 2011 to help workers and households weather the inflationary impact, with the lower- and middle-incomes benefiting more. The package includes a one-off Workfare Special Bonus (WSB) for Workfare Income Supplement (WIS) recipients, Growth Dividends, Personal Income Tax Rebate, Child Development Credit, additional Utilities-Save (U-Save) and Service and Conservancy Charges (S&CC) rebates.

14. The NWC notes that measures by the Government will significantly help workers, especially low wage workers, offset the rise in inflation in 2011. While inflation is not expected to be as high as in 2008, some companies may wish to further help their workers to better cope with the higher cost of living. In this regard, **and by mutual agreement between management and the union, companies could consider giving a one-off special lump sum payment.**

Raising Productivity

15. **To meet the medium-term productivity and GDP growth targets, the NWC strongly urges companies to put greater and sharper focus on raising productivity.** This will help to enhance business competitiveness and reduce reliance on low-skilled foreign workers. It would also foster inclusive growth and ensure good and sustainable wage increases for workers.

16. The **NWC strongly urges CEOs and their management teams to lead the drive for productivity. Companies should position productivity improvements as one of their top agenda items and develop appropriate strategies and measures,** such as:

- Set up productivity committees or workgroups to look at productivity improvements, and training managers on productivity management and measurements.
- Actively engage unions/workers in the productivity improvement process so as to gain their support.
- Equip workers with new and better skills to raise their proficiency and efficiency.
- Develop clear linkages between productivity gains and remunerations/rewards so that workers would see the benefit of their participation and be motivated to be productive and innovative.
- Tap on the Singapore National Employers Federation (SNEF) CEO productivity leadership, management and measurement programme.
- Tap on the various assistance measures put in place by the Government, such as the enhanced Productivity and Innovation Credit (PIC) and National Productivity Fund, as well as the Inclusive Growth Programme (IGP) administered by the National Trades Union Congress' (NTUC) Employment and Employability Institute (e2i), to enhance operations and to send workers for training and skills upgrading.

17. **The NWC also urges the tripartite partners to make concerted efforts to engage companies and unions/workers to promote innovation and enhance productivity.**

18. As productivity gains are made and skills improve over time, wages of workers should correspondingly increase to reflect the higher value of the jobs and their contributions. **Companies should take the opportunity to make adjustments to the wage structure to better reflect the job value.**

19. In this regard, most companies have moved to a flexible and performance-based wage system. However, our wage system still has some seniority-based elements. As at December 2010, some 64% of the workforce had narrowed/were narrowing the wage ratio for the same job to 1.5 or less, up from 59% in 2009. On average, the maximum-minimum salary ratio for rank-and-file employees stands at 1.52, while that for executives and junior managers is higher at 1.62.

20. To further move towards a flexible wage system that is based on the value of the job and contributions of the employee, **the NWC recommends companies to continue to work towards further reducing the maximum-minimum salary ratio to below 1.5.** This is especially when the job value has been enhanced through productivity and skills improvements. This can be done through adjusting the salary scale in tandem with the higher value of the job, especially the minimum salary of the scale. This move would also minimise the need for wage adjustments for older employees who are re-employed.

Enhancing Employability and Employment Rate of Workers

21. **The NWC encourages the tripartite partners to work with companies and unions on initiatives to help workers to be gainfully employed.** With a growing economy and demand for workers, companies in need of workers should look at employing and re-employing older workers as well as attracting more women to join the workforce. They can leverage on the various government assistance and schemes, including the ADVANTAGE! scheme, the Special Employment Credit (SEC) for hiring and retaining older low-wage Singaporean workers, and the Flexi-Works! scheme for implementing flexible and part-time work. Companies are also encouraged to tap on the Skills Training for Excellence Programme (STEP) by the Singapore Workforce Development Agency (WDA) to help PMETs be future-ready through developing broader and deeper skill sets.

Re-employment Readiness

22. In particular, the NWC notes that from 1 January 2012, employers will be required to re-employ workers beyond the minimum retirement age of 62. **The NWC endorses the Tripartite Guidelines on the Re-employment of Older Employees, issued by the tripartite partners in January 2011.**⁵ The Council notes from the Tripartite Guidelines that where appropriate, companies may make reasonable adjustments to the employment terms of re-employed employees, including wages and benefits.

23. **The NWC strongly urges employers and unions/workers to be ready for re-employment before the law takes effect from 1 January 2012, by adopting the Tripartite Guidelines and putting in place re-employment policies and systems.** Companies should be ready to engage their employees on re-employment arrangements. The Tripartite Guidelines recommend that employee engagement be carried out not less than 6 months prior to re-employment, which means that it should start from July 2011 for those with employees reaching age 62 from 1 January 2012. Companies with a significant number of older employees and which will be immediately affected by the re-employment legislation can seek assistance by tapping on the ACCELErating

⁵ The Tripartite Guidelines on the Re-employment of Older Employees are available at <http://www.re-employment.sg>

RE-employment through Tripartite Effort (ACCELERETE)⁶ initiative by the tripartite partners.

24. Companies are also encouraged to put in place proper performance appraisal systems. Employees should be flexible in working out re-employment arrangements with their employers, be open to training and skills upgrading, and be prepared to make adjustments to their wages and benefits if necessary.

Application of NWC's Recommendations

25. The NWC recommendations cover the period from 1 July 2011 to 30 June 2012.

26. These recommendations are applicable to all employees – management, executives and rank-and-file employees, unionised and non-unionised companies in both public and private sectors.

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

Conclusion

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

⁶ The ACCELERETE programme aims to help employers align their HR policies and re-employment practices to the Tripartite Guidelines on the Re-employment of Older Employees.

Annex

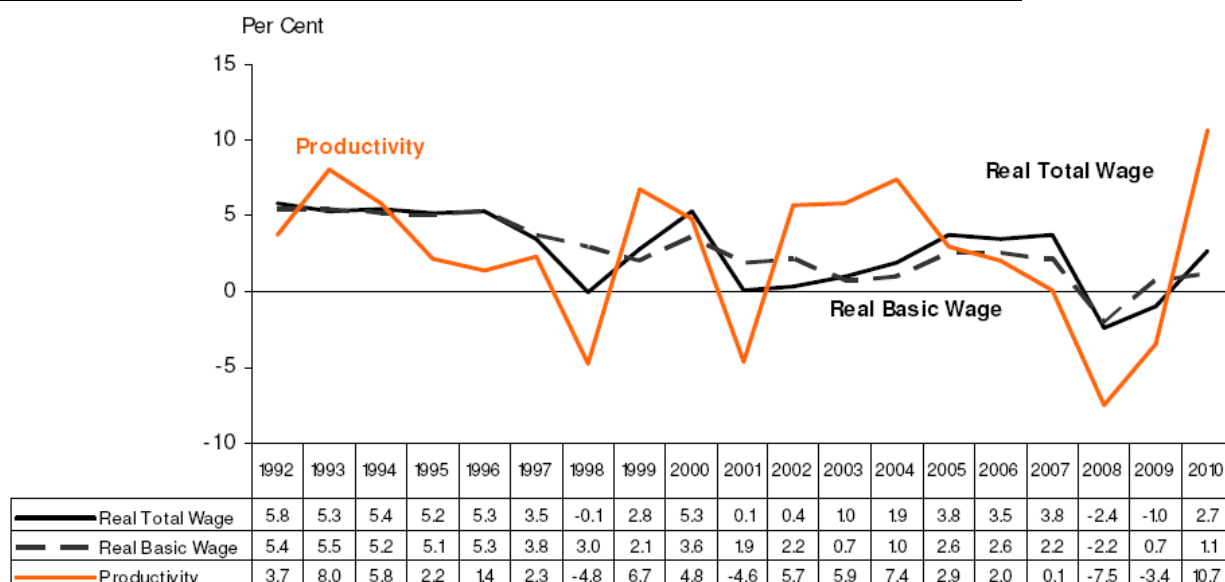
Table 1: Wage Changes in 2009 and 2010

	2009	2010
Total Wage Change		
- Nominal	-0.4%	5.5%
- Real	-1.0%	2.7%
Basic Wage Change		
- Nominal	1.3%	3.9%
- Real	0.7%	1.1%
Variable Component Payment (Bonus)	1.99 months	2.17 months

Source: MOM Survey on Annual Wage Changes, 2010

Note: Real wage changes were adjusted by CPI: 0.6% (2009) and 2.8% (2010)

Figure 1: Annual Change in Productivity and Real Wages, 1992-2010



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
(2002-2010)**

	Annualised Change (% p.a.)	
	2002-2010 (8 years)	2007-2010 (3 years)
Labour Productivity Growth	2.1	-0.4
Real Total Wage Growth (compared to productivity growth)	1.6 (lagged)	-0.3 (outpaced)
Real Basic Wage Growth (compared to productivity growth)	1.1 (lagged)	-0.1 (outpaced)

Source: MOM Survey on Annual Wage Changes, 2010 (wage), Department of Statistics, MTI (labour productivity)