

**NATIONAL WAGES COUNCIL
SINGAPORE**

**NATIONAL WAGES COUNCIL WAGE GUIDELINES
FOR JUL 2005 TO JUN 2006**

The National Wages Council (NWC) has completed its deliberations on wage and wage-related guidelines for 2005/2006. Its considerations and recommendations are as follows:

Economic Performance in 2004

2 The Singapore economy grew strongly by 8.4% in 2004, after a weak 1.4% gain in 2003. Compared to 2003, all major sectors registered an improvement in performance.

Labour Market

3 Bolstered by the strong economic performance in 2004, the labour market rebounded strongly, especially in the final quarter of the year. Total employment grew by 71,400, more than recovering the job losses of 35,900 over the preceding 3 years. 2004 ended with a seasonally adjusted overall unemployment rate of 3.7% in December 2004, significantly lower than 4.6% a year before. The corresponding resident unemployment rates were 4.0% at end of 2004 and 5.0% for 2003.

Wages, Productivity Gain and Inflation

4 Overall labour productivity grew at a robust 6.7% in 2004, up from 2.6% in 2003. The wholesale & retail trade, transport & communications and manufacturing sectors were the main productivity drivers. The consumer price index rose 1.7% in 2004, up from 0.5% in 2003.

5 In line with the NWC 2004 recommendations to reward employees with moderate wage increases if companies are profitable and recovering, total wages (basic wages plus bonuses) of private sector employees rose by 3.6% on the back of strong economic performance in 2004. This was due to a basic wage gain of 2.7% and an increase in bonus payout to 1.87 months in 2004 from 1.76 months in 2003. After adjusting for the increase in consumer price index, real total wages rose by 1.9% and real basic wages by 1.0% in 2004. This was the third consecutive year that growth in real wages had lagged productivity growth. However, the cumulative real wage gains since 1989 still outstripped productivity due to strong economic growth and a tight labour market in the early years prior to the Asian financial crisis.

Cost Competitiveness

6 Singapore's relative competitiveness has improved for the third consecutive year in 2004, largely as a result of the decline in the Unit Labour Cost (ULC). Measured against our key competitors in the manufacturing sector, Singapore's Relative Unit Labour Cost (RULC) for the manufacturing sector fell by an estimated 6.8% in 2004 which brings our RULC to its lowest level since 1988.

Outlook for 2005

7 The global economic outlook remains positive, albeit with a decline in growth momentum from the strong pace recorded in 2004. While persistently high oil prices continue to be a concern, the upside possibilities include a near-term recovery of global electronics demand.

8 The Singapore economy grew by a modest 2.5% in the first quarter of 2005, with moderate growth in all industries, except for construction where a contraction was registered. At this juncture, the Ministry of Trade and Industry projects that this year's economic growth will fall between 2.5% and 4.5%.

9 Based on preliminary estimates, employment growth in the first quarter of 2005 was 11,600, lower than the 13,700 in the same quarter last year. Seasonally adjusted overall unemployment rate was slightly higher at 3.9% in March 2005, compared to 3.7% in December 2004. The Ministry of Manpower expects to see continued employment growth in 2005. However, with lower expected levels of GDP growth, employment growth is expected to be slower than in 2004.

10 The National Wages Council (NWC) notes that the economy, employment and productivity have improved significantly in 2004 compared to 2003. Business expectations are positive, but less optimistic as compared to 2004. Economic uncertainties remain and there is a continued need for Singapore to sustain its cost competitiveness, especially over the longer term and in the face of intense global competition. We must also be mindful of the downward pressures on wages as a result of the emergence of low cost countries such as China and India, as well as the ease of both labour mobility and business relocation. If we are not careful, we could price ourselves out of the global market with relatively high wage levels especially for senior management personnel and mid-level executives. To remain globally cost competitive so that jobs can be preserved and new jobs created, built-in wage increases should continue to lag behind productivity growth over the long term.

NWC Wage Guidelines For 2005/2006

A) Make Greater Use of Bonuses for a More Responsive and Flexible Wage System

11 Given the uncertain economic outlook and to ensure that our long-term competitiveness is not eroded, **the NWC recommends that companies grant built-in wage increases if such an increase is sustainable. Companies should, however, make greater use of the variable bonus payment to reward workers for their contributions. The granting of bonus payments should be closely linked to the company's and employees' performance, based on objective and fair criteria, in line with the principles of the flexible wage system. Companies which do not have a performance management system linked to employee rewards are urged to quickly put this in place.**

12 **Where a built-in wage increase is granted to workers, NWC strongly urges companies and unions to use the increase to build up the Monthly Variable Component (MVC) where the target has not been reached.** The MVC should be built up expeditiously so that companies can use this component to adjust wage costs when they encounter severe business downturns. Building up this flexibility is important as there is little room to use the CPF in future economic downturns to help companies reduce wage cost. Cutting CPF contributions will also adversely affect workers' savings for their retirement, healthcare and housing needs.

Low Wage Workers

13 The NWC would like to highlight its concerns for low wage workers who have been subjected to downward pressures on their wages due to globalization. While the wages of most workers have grown over the years, wage increases for low-skilled and low-educated workers have lagged behind. **NWC therefore urges companies that are granting wage increases, to give higher increases for low wage workers.** This could be done by specifying a higher percentage increase and/or by including a dollar quantum in addition to the percentage increase in wages. **NWC takes note of the efforts by the tripartite partners under the Job Re-Creation Programme, and urges more employers to actively re-design jobs and upgrade workers so that job worth can be enhanced and low wage workers can earn more.**

B) Continue with Wage Restructuring Efforts and Strengthen HR Practices

14 The NWC notes the good progress made in the implementation of a flexible and performance-based wage system, particularly among the unionized and larger companies. While large companies continue to be more progressive in implementing the flexible and performance-based wage system, SMEs have also made significant improvements. As at end 2004, 89% of the workforce in large companies (employing 200 or more employees) and 72% in SMEs (employing 25-199 employees) were under some form of flexible wages, with at least one key wage recommendation of the Tripartite Taskforce on Wage Restructuring. Overall, some 81% of the workforce in the private sector had at least one key recommendation implemented into their wage structure.

15 While most companies have implemented at least 1 key recommendation, there are much fewer companies who have implemented two or all three key recommendations¹. The proportions of the workforce having two or all three key recommendations incorporated into their wage structure were 29% and 15% respectively as at end 2004. **The NWC strongly urges companies to continue with efforts in wage restructuring and recommends that companies implement all three of the key recommendations for a more robust performance-based and flexible wage system. For this purpose, the NWC also recommends that the tripartite partners, led by the Ministry of Manpower (MOM), continue to drive the implementation of wage restructuring across all sectors and companies.**

16 The successful implementation of a flexible and responsive wage system hinges on companies having a fair and objective performance management and reward system. In this regard, **NWC urges companies to link employee rewards closely with corporate and individual performance based on key performance indicators (KPIs). These indicators should be formulated by management in consultation with unions/workers. The NWC also urges companies to strengthen their HR practices and regularly share with unions/workers information on corporate performance.**

¹ The three key recommendations are (i) introduce the Monthly Variable Component (MVC) in the wage structure and work towards a wage structure of 70% basic wage, 10% MVC and 20% Annual Variable Component (AVC); (ii) narrow the maximum-minimum salary ratio for employees to an average of 1.5 or less; and (iii) implement variable bonus linked to Key Performance Indicators (KPIs).

C) Moderate Non-Wage Costs

17 To contain the cost of doing business and cost of living in Singapore, the NWC urges the Government and service providers to moderate non-wage costs such as rentals, telecommunication and utility charges, transport costs and government fees.

D) Facilitate Portable Medical Benefits Scheme (PMBS)

18 The NWC notes the impending changes to the Medishield scheme which will impact the implementation of the Portable Medical Benefits Scheme (PMBS). **To ensure that PMBS can complement the revamped Medishield scheme, the NWC recommends that the tripartite partners, led by the Singapore National Employers Federation (SNEF)/Singapore Business Federation (SBF), study and make the necessary adjustments to the scheme to facilitate its implementation.**

E) Maintain Competitiveness of Our Workforce

Step Up Skills Training and Upgrading

19 In an increasingly competitive and rapidly changing business environment driven by technological and market changes, our workers need to continuously upgrade and acquire new skills to meet the needs of industry. This will help them remain employable and benefit from opportunities provided as our industries move up the value chain. **The NWC reiterates the importance of skills training and upgrading of our workers and urges companies to work closely with unions, workers and the Government to enhance the capability of the workforce.** In this regard, companies should take advantage of the programmes and incentives provided by the Singapore Workforce Development Agency (WDA) and step up their training efforts.

Enhance Employability of Older Workers

20 With increasing life expectancies, workers will need to work longer and save more for retirement. However, older workers face greater difficulties with re-employment. We will need to enhance the employment rates of older workers. **The NWC notes that the tripartite partners are currently working together under the Tripartite Committee on Employability of Older Workers to look into measures to enhance their employability and competitiveness.**

Application of NWC's Recommendations

21 The NWC recommendations cover the period from 1 July 2005 to 30 June 2006.

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

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

Conclusion

24 Singapore's strong economic recovery in 2004 following recent years of downturn would not have been possible without the strong support and co-operation among the tripartite partners. While economic and employment growth are expected to slow down in 2005, the NWC is confident that the proposed wage guidelines will help strengthen Singapore's international competitiveness, sustain business growth and reward workers fairly for their contributions for the benefit of all.

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