

## **NATIONAL WAGES COUNCIL WAGE GUIDELINES FOR JUL 2007 TO JUN 2008**

1. The National Wages Council (NWC) has completed its deliberations on wage and wage-related guidelines for 2007/2008. Its considerations and recommendations are as follows:

### **Economic and Labour Market Performance in 2006**

2. In 2006, the economy grew strongly by 7.9%, up from 6.6% in 2005. All major sectors registered positive growth during the year, led by manufacturing, wholesale & retail trade and financial services.

3. On the back of the strong economic growth, the labour market continued to strengthen. A record 176,000 jobs were added, surpassing 2005's gains of 113,300. All major sectors registered employment growth and the seasonally-adjusted unemployment rate remained at 2.6 per cent in December 2006.

### **Productivity, Wages and Inflation**

4. Labour productivity rose by 1.2% in 2006, down from an increase of 2.1% in 2005. The moderation was due to the stronger employment creation compared to the previous year. Wholesale & retail, manufacturing, transport & storage and financial services saw gains in productivity while the other sectors registered declines.

5. The consumer price index (CPI) rose by 1.0% in 2006, following a 0.5% gain in the previous year.

6. Total wages rose by 4.5% in 2006, slightly higher than the 4.3% in 2005. This was the result of a basic wage gain of 3.6%, as against 3.1% in 2005 and an increase in bonus payout from 2.06 months in 2005 to 2.18 months in 2006. After adjusting for the increase in CPI, real total wage rose by 3.5% in 2006, lower than 3.8% in 2005. Real basic wage rose by 2.6% in 2006, the same as in 2005<sup>1</sup>.

### **Cost Competitiveness**

7. In 2006, Singapore's unit labour cost continued to decline. The unit labour cost for the overall economy and manufacturing sector fell by 0.5% and 3.6% respectively. However, measured against Singapore's key competitors, the relative unit labour cost for the manufacturing sector increased slightly by 1.5% after four consecutive years of decline. Nevertheless it remained lower than the level in 2004.

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<sup>1</sup> 2006 Survey on Annual Wage Changes conducted by MOM.

## **Outlook for 2007**

8. According to advance GDP estimates, the Singapore economy grew by 6.0% in the first quarter of 2007. The labour market also continued to strengthen. Preliminary estimates show that employment grew strongly by 48,000 in the first quarter of 2007, higher than the gains of 45,000 in the same period a year ago. The seasonally adjusted overall unemployment rate was 2.9% in March 2007, an increase from 2.6% in December 2006. The rise in unemployment rate reflects more people entering the labour market in response to the favourable economic conditions.

9. The global economic outlook for 2007 is likely to remain healthy, but there are some downside risks. These include problems in the US housing market, weaker global semiconductor sales, vulnerability of oil prices to supply shocks, a disorderly unwinding of global unbalances, terrorism and an Avian pandemic flu. Taking these factors into consideration, the Ministry of Trade & Industry (MTI) has forecast 2007 growth to be in the range of 4.5% to 6.5%. CPI inflation is projected to come in at 0.5% to 1.5%. The Ministry of Manpower expects employment creation to continue to be robust in 2007, in tandem with healthy economic growth.

## **NWC Guidelines for 2007/2008**

### **(A) Wage increase for good performance**

10. In the light of the strong economic performance in 2006, the positive outlook for 2007 and the tightening labour market, **the NWC recommends that companies should grant wage increase to workers for their contributions to good corporate and economic performance. However, built-in wage increase should continue to be sustainable in the long run and lag behind productivity growth. Where a built-in wage increase may not be sustainable, companies could moderate the increase and grant workers higher variable bonuses. Wage increase and bonus payment should be more closely linked to company and individual performance.**

11. Companies performing exceptionally well should consider giving one-off special bonuses to workers.

12. The NWC also notes that the employers' CPF contribution rate will be raised by 1.5 percentage points<sup>2</sup> from 1 July 2007. This will enable workers to benefit from economic growth and to help them build up their CPF savings. In granting wage increases, companies should take into account the 1.5 percentage point restoration in employers' CPF contribution as well as the lower CPF contribution rates for older low wage workers as such contributions are part of the overall wage package.

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<sup>2</sup> The employer's CPF contribution increase will not apply to workers earning \$1,500 or less a month and aged above 35 years.

### Enhance productivity to sustain wages and cost competitiveness

13. Productivity improvement is key to sustainable wage increases. The NWC notes that in 2006, the growth in wages exceeded productivity gains for the second consecutive year. However, cumulatively since 1997, productivity growth still outpaced increases in real total and basic wages, though the gap has narrowed (see [Appendix](#)). **The NWC therefore urges employers and unions/workers to work together to enhance productivity and innovation**, so that we can sustain increases in output and wages whilst maintaining our cost competitiveness.

14. To improve productivity, training and skills upgrading are crucial. The NWC notes that the WDA together with NTUC have been building up the continuing education and training infrastructure for adult workers. All workers, whether they are low-skilled workers or professionals, managers, executives and technicians (PMETs), are encouraged to take advantage of this to upgrade themselves and keep pace with the changes in the economy.

**(B) Employ older workers and re-employ those above age 62**

15. The NWC strongly supports the recommendations in the final report of the Tripartite Committee on Employability of Older Workers which was released on 17 May 2007. The Council also welcomes the Government's decision to adopt the Committee's recommendation to introduce legislative changes to facilitate opportunities for older workers to work beyond age 62.

16. Over the next few years, before legislation is introduced, **the NWC urges companies and unions to work together to implement policies and programmes to recruit and retain more older workers and re-employ those workers beyond the age of 62, by adopting the Tripartite Guidelines on the Employability of Older Workers above age 62. The NWC also urges companies to move to job-based, competency-based and/or performance-based wage systems<sup>3</sup> so that workers are rewarded according to the value of the job and their contribution. Companies should also embark on job redesign to make jobs more suitable for older workers and encourage them to upgrade their skills and enhance their employability.**

**(C) Help low wage and informal workers**

17. The NWC supports the Government's efforts to help low wage workers through implementing the Workfare Income Supplement (WIS) Scheme. The WIS and CPF changes will help but cannot address all the challenges faced by low wage workers. The NWC notes that many unionized companies have implemented the Council's recommendation to grant higher wage increases to low wage workers. **To further help these workers, the Council recommends the following:**

- a. In granting wage increases, companies to give higher increases to low wage workers. This could be done by specifying a higher percentage increase and/or by including a dollar quantum for built-in wage increases. They could also apply the same principle for the payment of variable bonuses.
- b. Employers and unions work with the government in a tripartite effort to reach out to and help self-employed and low wage/informal workers understand the benefits of WIS, and help them contribute to their CPF so that they can be eligible for WIS.
- c. The tripartite partners continue to work together to help low wage/informal workers upgrade their skills and enhance their job value and job security through job re-creation. Emphasis

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<sup>3</sup> Job-based wage system focuses on responsibilities of the job while competency-based wage system focuses on the ability of the individual worker to do the job. A performance-based wage system looks at how well the worker performs on the job.

should be placed on those working in SMEs<sup>4</sup>, older workers and contract workers, so that they continue to be employable and their earning capacity can be enhanced.

- d. Companies outsourcing work to implement best sourcing based on standards and performance and not just price alone. This would achieve sustainable value for money and avoid compromising on quality and workers' wages.

#### **(D) Flexible and performance-based wage systems**

18. **The NWC also urges companies to step up implementation of flexible wage systems to ensure sustained competitiveness.**

19. The Council notes that the max-min salary ratio for rank-and-file workers has come down from more than 2.0 in the 1980s, to 1.85 in the 1990s and to the current 1.54. However, for junior management, the ratio has remained high at 1.72 in December 2006. Workers should be paid according to the value of the job and the performance of the individual and the company. **The NWC recommends that companies continue to narrow the max-min ratio to 1.5 or below.**

20. In addition, companies should leverage on the positive economic climate to introduce and build up the Monthly Variable Component (MVC) in their wage structure. The Council notes that the adoption of the MVC has only improved slightly last year. In December 2006, 37.2% of employees were in companies that implemented MVC compared to 36.0% in December 2005. These companies had set aside an average of 9.0% of monthly basic wages as MVC in 2006, up from 8.1% in 2005 and close to the 10% target. Adoption rate of MVC amongst non-unionised companies, however, continues to be low<sup>5</sup>. **The NWC therefore recommends that companies granting built-in wage increase should use the increases to build up the MVC.** Companies that have already achieved 10% MVC could consider building up the MVC further.

21. The NWC notes that progress has been made in linking rewards to company and individual performance through use of appropriate key performance indicators (KPIs). In December 2006, more than 50% of the workforce was rewarded this way.

#### **Share company information with employees**

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<sup>4</sup> MOM's 2005 survey on Employer Supported Training showed that larger establishments (96% for establishments with 250 and more employees) were more likely to provide training than those smaller (66% for establishments with 25-99 employees).

<sup>5</sup> 75.0% of employees in unionized companies were in companies that implemented MVC in Dec 2006, compared to 73.1% in Dec 2005. Meanwhile 17.4% of employees in non-unionised companies were in companies that implemented MVC in Dec 2006, compared to 17.1% in Dec 2005.

22. With the wider implementation of flexible and performance based wage systems where reward is closely linked to company's performance, the practice of information sharing with employees is even more critical. **This practice helps to strengthen trust between companies and workers, as information on corporate performance and KPIs are used to determine rewards for workers. The NWC reiterates the importance of this practice.**

### **Application of NWC's Recommendations**

23. The NWC recommendations cover the period from 1 July 2007 to 30 June 2008.

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

### **Conclusion**

25. With the good economic performance, positive economic outlook as well as the strong labour market, companies should reward workers with wage increases and bonuses. At the same time, companies and workers should enhance productivity and innovation and push ahead with wage restructuring to increase flexibility and responsiveness.

26. As the labour market tightens, companies should do more to employ and retain more older workers and encourage more women to enter the workforce. Vulnerable segments of the workforce, in particular, low wage/informal workers, should benefit from the fruits of economic prosperity. This will require concerted effort from government, unions and employers to help such workers be eligible for WIS to supplement their income and savings, but more importantly to upgrade their skills, enhance their employability and earn higher wages over time. With our strong tripartite cooperation built up over the years, the NWC is confident that this can be achieved while sustaining our economic competitiveness.

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

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Yours Sincerely,



**PROF LIM PIN**  
Chairman, National Wages Council  
(Professor of Medicine, National University of Singapore)

**MEMBERS**



**STEPHEN LEE**  
Chairman,  
Singapore Business Federation  
President,  
Singapore National Employers  
Federation



**JOHN DE FAYVA**  
President,  
National Trades Union Congress



**LIM SOO HOON**  
Permanent Secretary,  
Public Service Division



**BOB TAN**  
Vice President,  
Singapore National Employers  
Federation



**HENG CHEE HOW**  
Deputy Secretary-General,  
National Trades Union Congress



**PETER ONG**  
Permanent Secretary,  
Ministry of Trade &  
Industry



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Commerce & Industry



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Secretary for Financial Affairs,  
National Trades Union Congress  
General Secretary,  
Amalgamated Union of Public  
Employees



**LEO YIP**  
Permanent Secretary,  
Ministry of Manpower



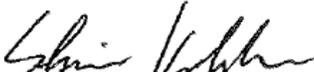
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Singaporean-German Chamber  
of Industry & Commerce



**CYRILLE TAN SOO LENG**  
General Secretary,  
United Workers of Electronic &  
Electrical Industries



**KO KHENG HWA**  
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Economic Development  
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& Industry, Singapore



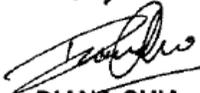
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Singapore Industrial & Services  
Employees' Union



**ONG YE KUNG**  
Chief Executive,  
Singapore Workforce  
Development Agency



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American Chamber of Commerce  
in Singapore



**DIANA CHIA**  
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Healthcare Services Employees'  
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Singapore National  
Employers Federation



**JOSEPHINE TEO**  
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Singapore Industrial & Services  
Employees' Union



**GOH SOON POH**  
Deputy Secretary (Policy),  
Public Service Division



**KOH JUAN KIAT**  
Executive Director,  
Singapore National  
Employers Federation



**CHAM HUI FONG**  
Director,  
Industrial Relations Department,  
National Trades Union Congress



**ONG YEN HER**  
Divisional Director,  
Labour Relations and  
Workplaces,  
Ministry of Manpower



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Singapore Indian Chamber of  
Commerce & Industry  
Council Member,  
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Federation



**G. MUTHUKUMARASAMY**  
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Amalgamated Union of Public  
Daily Rated Workers



**AUBECK KAM**  
Deputy Secretary,  
Ministry of Manpower



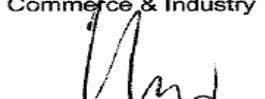
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SHAIK ABDUL RAHMAN  
MATTAR**  
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Singapore Malay Chamber of  
Commerce & Industry



**TAN HOCK SOON**  
General Secretary,  
Food, Drinks & Allied Workers  
Union



**ALVIN TAN YEW HUA**  
Director,  
Resource Development  
Division,  
Economic Development  
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**HANS-DIETER BOTT**  
Committee Member,  
Singaporean-German  
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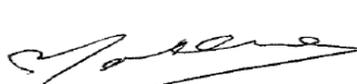
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President,  
Shipbuilding & Marine  
Engineering Employees' Union



**TANG HSIU CHIN**  
Lead Economist,  
Economics & Strategy  
Division,  
Ministry of Trade & Industry



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Governor,  
American Chamber of  
Commerce in Singapore

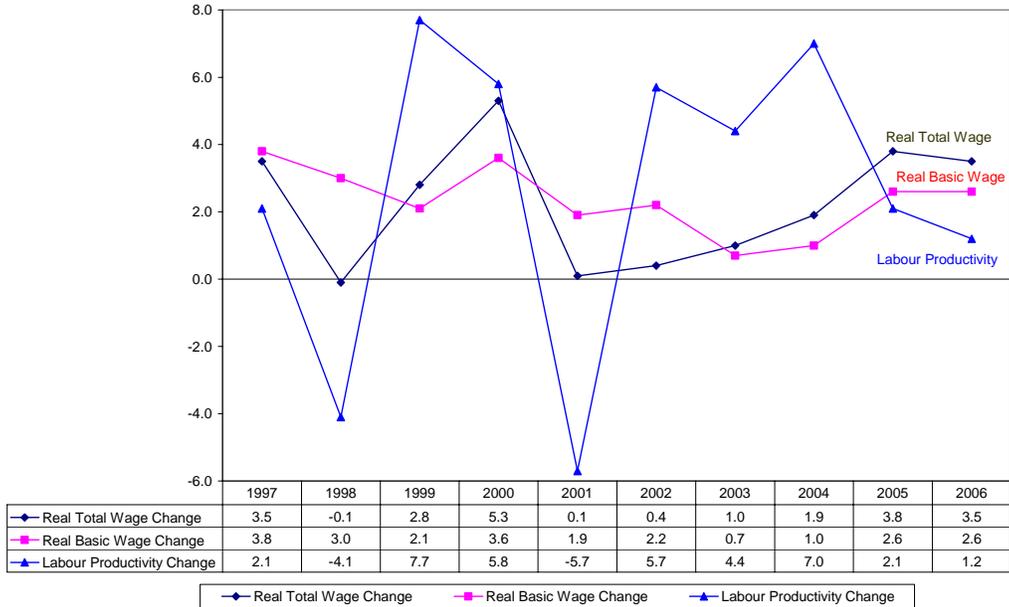


**MARTIN CHAN**  
Deputy General Secretary &  
Treasurer,  
Air Transport Executive Staff  
Union

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Mr Wong Kan Seng, Deputy Prime Minister and Minister for Home Affairs  
Mr Lim Hng Kiang, Minister for Trade & Industry  
Dr Ng Eng Hen, Minister for Manpower and Second Minister for Defence

**CHART A1: CHANGE IN LABOUR PRODUCTIVITY, REAL TOTAL WAGE CHANGE AND REAL BASIC WAGE CHANGE**

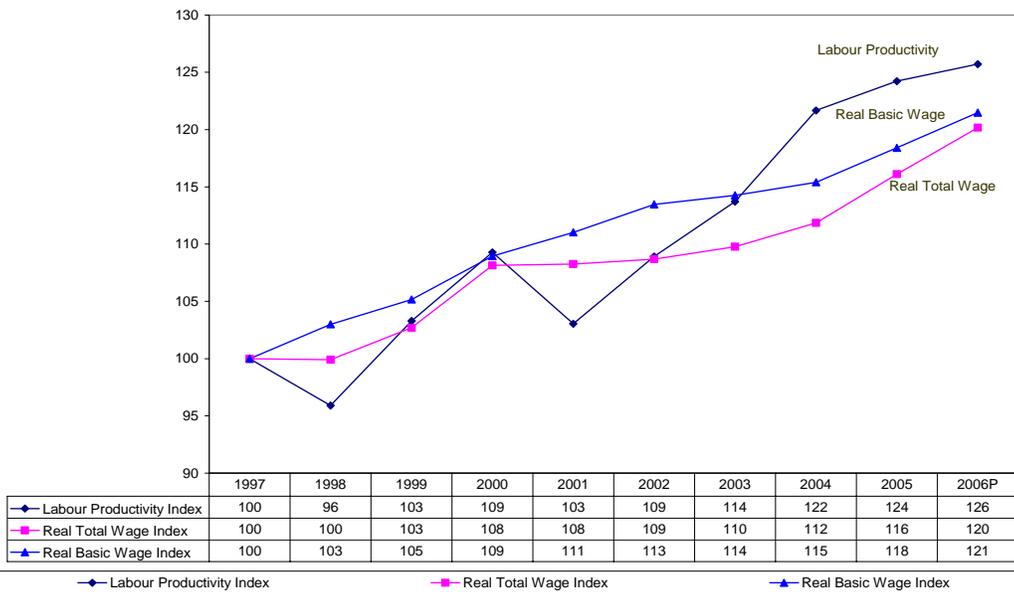
In 2006, productivity growth lags wage growths.



Source: MOM Survey on Annual Wage Changes and DOS (Productivity)

**CHART A2: LABOUR PRODUCTIVITY AND WAGE INDICES 1997-2006 (Base Year = 1997)**

Over a longer period (1997-2006), productivity change still leads wage changes



Source: MOM Survey on Annual Wage Changes and DOS (Productivity)

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**TABLE 1: ANNUALISED GROWTH OF LABOUR PRODUCTIVITY AND REAL WAGES (2001-2006)**

	Annualised Change (%)		
	2001-2006	2003-2006	2004-2006
Labour Productivity Growth	4.1%	3.4%	1.7%
Real Total Wage Growth	2.1%	3.1%	3.6%
Real Basic Wage Growth	1.8%	2.1%	2.6%

Source: MOM

**Notes:**

(1) Total and basic wage change data pertain to all employees from 1998 onwards. Prior to 1998, data pertain to bargainable employees who were also mainly the rank-and-file.

(2) Definitions:

Basic Wage refers to monthly basic pay before deducting employees' CPF contributions and personal income tax. It excludes employers' CPF contributions, bonuses, overtime payments, commissions, allowances, other monetary payments and payments-in-kind.

Total Wage refers to the sum of annual basic wage and variable components (which usually comprise the annual wage supplement and variable bonuses) but excludes employers' CPF contributions.