

National Wages Council Wage Guidelines For 1993 – 1994

Economic Performance in 1992

1. The Singapore economy grew by 5.8% in 1992 compared to 6.7% in 1991. This was the fourth consecutive year of slower economic growth.
2. The labour market slackened in 1992 with the June unemployment rate increasing to 2.7% compared to 1.9% in 1991. Overall, 31,300 new jobs were created as compared with 64,000 in 1991. These jobs were created mainly in the construction and service sectors. The manufacturing sector saw a net decline of 13,100 jobs.
3. The economy picked up in the second half of 1992. Growth in the fourth quarter was 7.4%. The unemployment rate in December fell to 1.96%.

Wage Settlements in 1992

4. With the slower economic growth, basic wages on an average, went up by 7.7% in 1992 compared to 8.6% in 1991, reflecting slower growth in most sectors. Total wage increase, however, remained the same at 8.1% as employers gave larger year-end bonuses. Employees on an average, received a higher variable payment of 2.17 months' of basic wage in 1992 compared to 2.15 months in 1991.

Profitability and Cost Competitiveness

5. Profitability, as measured by the profit share of GDP, fell for the fourth consecutive year in 1992, but the rate of decline was slower compared to the preceding three years. The wage share of GDP, however, continued to rise to 45.4% in 1992.
6. The gross rate of return (GRR) in the manufacturing sector fell slightly to 26.4% in 1991 (the latest figure available). Our GRR in 1991 was about 10 percentage points higher than during the 1985 recession.
7. Our Relative Unit Labour Cost (RULC) Index shows that our competitive position relative to the other Asian NIEs has declined further in 1992. The RULC index rose further by 7.5% in 1992. This deterioration was due mainly to the appreciation of the Singapore dollar against the Hong Kong dollar and the South Korean Won (on an average year-on-year basis) as well as a decline in Hong Kong's unit labour cost.

8. However, our competitiveness relative to the emerging Asian NIEs, namely, Malaysia and Thailand, improved slightly in 1992. The RULC index declined by 3% in 1992 as a result of higher wage increases in both these countries.
9. Business costs continued to increase but moderated significantly in 1992. The Unit Business Cost (UBC) Index of the manufacturing sector went up by 1.9% compared to 5.6%, 5.9% and 4.7% in 1989, 1990 and 1991 respectively.

Prospects for 1993

Global Environment

10. The world economy is expected to expand faster in 1993, led by a projected 3.0% growth in the US economy. The situation in Japan and EC is less sanguine. The Japanese economy is expected to grow by less than 3.0%, while the forecast for the EC is less than 1.0% growth in 1993. Most of the Asian economies, however, are expected to continue enjoying buoyant growth in 1993. South Korea and Taiwan are expected to grow by 5.8% and 6.6% respectively in 1993, while Hong Kong is expected to grow by 5.5%. Malaysia and Thailand are also expected to enjoy strong growth in the region of 7.5 to 8.5%.

Outlook for Singapore

11. The outlook for the Singapore economy this year is slightly better than last year's. This is provided that growth conditions in our major trading partners continue to remain favourable. In spite of a healthy rebound in the US economy during the last quarter of 1992, the pace of growth appeared to have slowed down. The first quarter growth for 1993 was 1.8% compared with 4.7% experienced in the last quarter of 1992.
12. Overall, the Singapore economy is expected to grow by between 6 and 7% in 1993. The Composite Leading Index (CLI), an indicator of economic conditions for the next three quarters ahead, improved by 3.6% in the fourth quarter. Data for the first two months of 1993 show a continued uptrend.
13. The NWC notes that Singapore is increasingly facing keener competition from other countries. China and the other Asean countries have seen a surge in foreign investment in the last few years. Singapore must continue to offer investors good value for money. Our higher costs must be justified by higher productivity and greater efficiency.

Wage Increase Guidelines for 1993

14. The NWC notes that despite slower economic growth in 1992, because of the still tight labour market, basic wage increases continued to outstrip productivity growth for the fifth consecutive year. However, the gap between wage increases

and productivity growth narrowed with stronger productivity growth in 1992. Productivity growth in 1992 was 3.1% compared with 1.5% in 1991. For wage increases to continue to be sustainable, the wage-productivity gap has to be further narrowed. This will also help to ensure that the Singapore economy remains internationally competitive.

15. On the 1993 wage guidelines, the NWC therefore recommends:

- (a) Built-in wage increase should tag behind productivity growth rates. Total wage increase can, however, reflect the expected improved economic and business performance in 1993.
- (b) Companies should therefore pay as much of the total wage increase as possible in the form of a variable payment. The variable payment should, as far as possible, reflect the performance of the company. Those companies which have done exceptionally well should consider paying special bonuses.
- (c) The 0.5% point restoration in employers' CPF contribution should be taken into account in wage negotiations as such contributions are part of wages.

16. Employers, employees and unions should bear in mind that our long term productivity growth rate is between 3 and 4%. The inflation rate for 1993 is expected to be close to the 2.3% experienced in 1992.

17. Companies which have implemented flexi-wage systems should pay according to their agreed formula. Where adjustments are necessary, they should, as far as possible, be paid in the form of a variable payment.

Using Labour More Effectively

Retirement Age

18. The NWC has persistently recommended that companies should raise the retirement age of their employees to 60 and beyond. The NWC is pleased to note that the retirement age will be raised to 60 and beyond through legislation. The NWC would like to urge workers to take advantage of the new legislation and continue to work up to 60 years and beyond. By doing so, older workers will continue to have a regular income and more CPF savings to meet their old age needs.

Part-Time Employment

19. The number of part-time workers in the economy has increased steadily from 44,800 in 1990 to 50,400 in 1992. About 32% of the companies now employ part-

time workers, compared to 24% in 1990. Part-time workers constitute about 3.1% of the workforce. This is low compared to the developed countries (17.3% in USA, 12% in Japan, 24.7% in UK, 13.6% in Germany).

20. According to the June 1992 Labour Force Survey, there are about 860,500 economically inactive persons, the majority of whom are housewives and retirees. These persons represent a potential source for part-time employment to supplement the full-time workforce. The NWC urges that tripartite efforts should continue to be made to explore innovative schemes to attract this large pool of economically inactive persons to work part-time.

Productivity Improvements

Long-Term Training Target

21. Increasingly, the competitiveness of firms and nations depends on the quality of the workforce. It has been shown that firms that give high priority to investment in human capital achieve better rates of product and service innovation. The NWC therefore recommends that employers should step up efforts to train and upgrade the skills level of their workers. In this regards, all employers, be they in the private or public sector, should aim, as a longer-term target, to set aside 4% of their payroll for training and retraining of their employees.

Training of Older Workers

22. The NWC notes that only a small percentage of training places approved by the Skills Development Fund are for older workers. These older workers are also generally lower educated and less skilled. With an increasing number of older workers working up to 60 years and beyond, employers must invest more in training and upgrading the skills of these older workers. Employers should use as much as possible the 5 percentage point reduction in employers' CPF contribution for older workers to train and retrain older workers.

Mechanisation and Automation

23. The NWC further recommends that companies should continue to raise their productivity through mechanisation, automation and computerisation. One example is the mode of payment of salary. The NWC notes that at present about 55% of companies with less than 100 workers still pay their employees by cash or cheque. The NWC urges these companies to pay salaries directly into their employees' bank accounts. This saves time and manpower.

Introduction of the Goods and Services Tax (GST)

24. The 3% GST will be implemented on the 1 April 1994. Prices should not increase by more than 3% because of the introduction of the GST. Overall, the

Government will increase reliefs and cut direct taxes by more than the amount of GST collected. The Government will also, at the same time, introduce a package of tax and other incentives to cushion the impact of the GST. Most Singaporeans will pay less taxes in total than before. Lower income households which benefit less from tax cuts will receive direct rebates to offset the GST they pay. The NWC agrees with the Government that the package of incentives and rebates should be sufficient to offset the cost increases due to the introduction of GST.

Implementation

25. These NWC recommendations will cover the period from 1st July 1993 to 30th June 1994. The recommendations of the NWC, as in past years, are national in character. They apply both to the public and private sectors and to all companies, big or small, unionized or non-unionised.
26. The NWC urges all companies to apply the NWC's guidelines equitably to all groups of staff including managerial, professional and executive staff.
27. To facilitate wage negotiations, employers should disclose information on company performance and business prospects to employees and their representatives.

Conclusion

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