

National Wages Council's Revised Wage Guidelines For 2001 - 2002

1. In view of the deteriorating economic conditions, the National Wages Council (NWC) was reconvened to review the wage guidelines issued in May 2001.

Update on Economic Performance

2. Since the NWC last met in April-May this year, the global economic environment has deteriorated drastically, particularly following the September 11 attacks. The US economy declined by 0.4% in the third quarter, the worst performance in more than 10 years. Growth in the EU economy has slowed to a dismal 0.1% in the second quarter while the Japanese economy is expected to have entered a recession, contracting by 0.8% in the second quarter. Growth in most major economies and Asian economies are expected to drop sharply this year and remain weak in 2002.
3. The Singapore economy has entered a recession as a result of the sharp downturn in external demand. Economic growth deteriorated further in the third quarter of 2001 by 5.6% (on a year-on-year basis), down from +4.8% in the first quarter and -0.5% in the second quarter. Growth momentum (on an annualised quarter-on-quarter basis) fell by a dramatic 11.1%, following -10.2% and -9.7% in the first two quarters this year. For the whole year, the economy is expected to decline by around 3%. The outlook for 2002 remains poor. MTI's preliminary 2002 growth forecast is -2 to +2 %.

Productivity and Business Costs

4. Labour productivity declined further by 8.4% in the third quarter. For the first nine months, productivity fell by 4.8% compared with a growth of 5.6% last year. The sharp fall in productivity is mainly a reflection of a larger drop in output relative to employment.

5. The unit business cost (UBC) index for the manufacturing sector rose by 10.1% in the third quarter. For the first nine months this year, UBC increased by 9.1% compared with a decline of 1.0% in 2000. Two out of the three components of the UBC, namely unit labour cost (ULC) and services costs registered increases in the third quarter. The manufacturing ULC jumped by 27%, due largely to the 20% drop in manufacturing productivity. Services costs rose 0.4% while government rates and fees fell by 2.1%.

Update on Labour Market

6. In tandem with the contraction in economic activity, the labour market has weakened significantly. Total employment fell by 12,500 in the third quarter, and the number of job vacancies per 100 job seekers has fallen sharply to 32 in September 2001 from 61 in June. The average unemployment rate rose sharply to 3.8% in September 2001, compared to 2.6% in June. In the third quarter, 8,200 workers were retrenched, bringing the total number of retrenchments in the first nine months of this year to 17,100. Total retrenchments for the year is expected to reach 25,000.

Revised NWC Wage Guidelines: Severe Wage Restraint

7. The NWC notes that some companies have found it necessary to retrench their workers. The NWC acknowledges that retrenchments may be inevitable as companies have to respond to the sharp drop in business and do whatever is necessary to survive this downturn. However, the NWC is of the view that companies should consider **retrenchment only as a last resort**, and should instead implement other cost-cutting measures first. In particular, **the NWC strongly urges companies to tap into the many training schemes and incentives the government has put in place, to upgrade the**

capabilities and employability of their workforce and better position themselves to ride the economic recovery.

8. Given the worsening economic conditions and the increasing number of workers being retrenched, the NWC strongly urges the government, employers and trade unions to take concerted actions to save jobs. **The NWC therefore recommends that for the majority of companies whose business, profitability or prospects are adversely affected by the severe economic downturn, they may, in consultation with their unions/workers, implement a wage freeze or cut commensurate with their performance and prospects.**
9. For companies that continue to perform well, they should reward their workers with appropriate wage increases. Such wage increase should preferably be in the form of a monthly variable component or as special payments.
10. To remain viable and save jobs, the NWC notes that some companies have already implemented various cost-cutting measures. Such measures include shorter workweek, temporary lay-off, wage freeze and/or even wage cut. Where companies have to freeze or cut wages, the NWC urges the **management to lead by example in wage freeze/cuts**. In this respect, the Council noted that senior executives in some companies have taken earlier/deeper wage cuts. The government has also implemented a major cut in the monthly salaries of political/statutory/judicial appointment holders and senior civil servants whose salaries are tied to the private sector salary benchmarks. This is in addition to the significant reduction in the Annual Variable Component (AVC) for civil servants.

- 11 Effective implementation of the above severe wage restraint guidelines will save jobs and control wage costs, to help companies remain viable and the economy to cope with the recession.

CPF Contribution

- 12 The NWC notes that while a cut in CPF contribution rate cannot be ruled out, the government will consider this only if the situation demands it.

Other Costs

- 13 The NWC strongly urges the government to continue to keep other costs of doing business down, as wage costs constitute only a part of the total cost of doing business in Singapore.
- 14 At the same time the NWC strongly urges the government to continue to take measures to moderate the cost of living for workers.

Application of NWC Recommendations

- 15 The NWC recommendations are applicable to all employees (management, executives and rank-and-file employees), unionised and non-unionised companies and in both the public and private sectors.
- 16 To achieve constructive wage negotiations, companies should **share relevant information on company performance and business prospects** with employees and their representatives.
- 17 To ride the economic recession, **the severe wage restraint guidelines will apply until 31 December 2002**. The Council would next be convened after the release of the third quarter 2002 GDP growth results or earlier if necessary, to deliberate on appropriate wage guidelines for implementation.

Conclusion

- 18 The spirit of tripartism between the government, employers and unions, which is founded on the basis of trust, confidence and cooperation over the years, is a cornerstone of our social capital. This has helped us to overcome economic adversity in the past, and has enabled us to achieve strong economic growth and social progress for the benefit of workers, employers and the economy. In good years, companies have rewarded workers with substantial wage increases, higher bonuses and better company welfare. In times of adverse business conditions, workers have made sacrifices to help companies remain viable and ride out the difficulties.
- 19 Given our strong tripartite partnership, the NWC is confident that these guidelines will be implemented smoothly and effectively to help companies remain viable and hence preserve jobs. It will also help companies recover quickly from the downturn and the economy to return to the path of growth. When the economy recovers workers could then look forward to better rewards and career opportunities.