

## **NATIONAL WAGES COUNCIL (NWC) GUIDELINES FOR 2006/2007**

### ***A SUSTAINABLE WAGE INCREASE FOR COMPETITIVENESS AND EMPLOYABILITY***

#### **Economic and Labour Market Performance in 2005**

1. The Singapore economy continued to grow at a healthy rate of 6.4% in 2005 after a strong 8.7% growth in 2004. All major sectors except construction registered positive growth.

2. As a result of the healthy growth, total employment grew by 113,300 in 2005, exceeding the previous year's gain of 71,400. With robust job creation, unemployment fell to its lowest level in slightly over 4 years. The seasonally adjusted overall unemployment rate dropped from 3.1% in December 2004 to 2.6% in December 2005. The corresponding resident<sup>1</sup> unemployment rates were 4.1% in December 2004 and 3.4% at the end of 2005.

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

3. Overall labour productivity rose 1.9% in 2005, down from 6.9% in 2004. The moderation in productivity growth was due to a slowdown in output growth as well as stronger employment creation in 2005 compared to 2004. The wholesale & retail trade, manufacturing, transport & communications and hotels & restaurants sectors registered positive productivity growth. The consumer price index (CPI) rose by 0.5% in 2005, down from 1.7% in 2004.

4. In 2005, NWC recommended that companies grant built-in wage increases if such increases are sustainable. Companies should, however, make greater use of variable bonus payments to reward workers for their contributions. Given the healthy economic performance and improved company profitability, the total wages (basic wages plus bonuses but excluding employers' CPF contributions) of private sector employees rose by 4.3%<sup>2</sup> in 2005, up from 3.6% in 2004. Basic wages grew by 3.1%<sup>2</sup> in 2005 compared to 2.7% in 2004, while bonus payouts increased from 1.87 months in 2004 to 2.06<sup>2</sup> months in 2005. After adjusting for the increase in CPI, real total wages rose by 3.8% and real basic wages by 2.6% in 2005.

5. Real wage increase exceeded productivity growth in 2005 after three consecutive years (2002-2004) of lagging behind productivity growth. However, cumulative real wage increases still lagged behind cumulative productivity growth since the Asian financial crisis in 1997. This was because since then our wage structures have become more flexible with emphasis on moderate built-in wage increases and greater use of variable bonuses.

6. Wage and productivity growth in 2005 varied across sectors. In the manufacturing, wholesale & retail trade and transport & communications sectors,

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<sup>1</sup> Resident refers to Singapore citizens and permanent residents.

<sup>2</sup> 2005 Survey on Annual Wage Changes conducted by MOM.

cumulative productivity gains have surpassed cumulative real wage increases since 1997, in line with the NWC's guiding principle that wage increases should lag behind productivity gains. In contrast, cumulative productivity gains have not kept up with real wage growth in the construction, hotels & restaurants, financial services and business & real estate services sectors.

### Cost Competitiveness

7. Singapore maintained its wage competitiveness in 2005. The overall unit labour cost (ULC) declined by 1.5% in 2005 compared with a 3.9% fall in 2004. Measured against our key competitors in the manufacturing sector, Singapore's relative unit labour cost (RULC) remained flat after three consecutive years of decline.

### Outlook for 2006

8. The economic outlook for 2006 remains healthy. The major developed countries and the regional economies are expected to maintain their growth momentum this year. However, there are some downside risks, such as supply disruptions in the oil industry, threats of terrorism and an outbreak of pandemic flu. Domestically, the Singapore economy grew by an estimated 9.1%<sup>3</sup> in the first quarter of 2006 compared to the same period in 2005. Taking these factors into consideration, the Ministry of Trade and Industry's economic growth forecast for 2006 is between 4% and 6%.

9. The Ministry of Manpower expects employment creation to continue to be robust. Based on preliminary estimates, employment grew by 33,400 in the first quarter of 2006, nearly double the increase of 17,800 in the same quarter last year. The seasonally adjusted overall unemployment rate was 2.6% in March 2006, unchanged from December 2005.

### NWC Wage Guidelines For 2006/2007

#### A) Ensure Wage Increases Are Sustainable

10. The National Wages Council (NWC) notes the robust economic and employment growth in 2005. Business expectations are positive. However, Singapore needs to sustain its cost competitiveness in an increasingly globalised world economy. The Council notes that cumulatively since 1997, real wage increases have lagged productivity growth due to moderate wage increases and favourable productivity performance. However, productivity growth fell sharply in 2005 while wages have risen. With the positive economic outlook and labour market, there would be upward pressure on wages. To ensure that our long-term

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<sup>3</sup> Refers to the advance GDP estimates for first quarter of 2006. The preliminary GDP estimates will be released on 17 May 2006.

competitiveness is not eroded and that more jobs can continue to be created, we need to ensure that wage increases are supported by productivity gains.

11. The NWC recommends that built-in wage increases should continue to lag behind productivity growth in order to be sustainable and to maintain our cost competitiveness. Companies should make greater use of variable bonuses to reward their workers, taking into consideration the differing wage and productivity performances across different industry sectors and companies. Companies that are performing well should grant higher variable bonuses.

### **B) Accelerate Wage Flexibility especially in building up the Monthly Variable Component (MVC)**

12. The NWC notes that many companies have heeded the call by the Tripartite Taskforce on Wage Restructuring (2004) to reform their wage systems for greater flexibility and stronger competitiveness. As at Dec 2005, 81% of the workforce in private sector was employed in companies that had implemented at least one of the three key wage recommendations<sup>4</sup> of the Taskforce.

13. However, there is scope for improvement. The proportion of the workforce that had two or all three key recommendations incorporated into their wage structure is still low, at 26% and 21% respectively. **In particular, the Council notes with concern the slow progress of the introduction of the Monthly Variable Component (MVC).** The unionized sector has done well in this area with 73% of employees in unionized companies implementing MVC. These companies had set aside an average of 8.1% of monthly basic wages as MVC, close to the 10% target. However, only 17% of employees in the non-unionised sector were in companies with MVC. **The Council would like to emphasise the importance for companies to build up the MVC**, so that they can respond quickly to changing economic conditions by adjusting wage costs. The current CPF contribution rates offer little room to cut CPF rates in future economic downturns. This makes it all the more important for companies to introduce and build up the MVC in their wage structure. It would also be easier for companies to introduce the MVC in an improving labour market, than to wait till the next downturn.

14. Specifically, the NWC recommends that:

- a. **Companies should continue to implement wage restructuring and adopt the three key recommendations**, to put in place a more flexible and performance-based wage system.

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<sup>4</sup> The Tripartite Taskforce on Wage Restructuring made three key recommendations: (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). Data on wage restructuring pertain to private sector establishments each employing at least 25 workers.

- b. **Companies which are granting built-in wage increases should use the increases to build up the MVC. Those which have yet to introduce the MVC are strongly urged to do so immediately.** To accelerate the build-up of MVC, companies could use the wage increase and/or set aside a portion of existing basic wages as the MVC. This should be done now, to take advantage of the favourable business climate and labour market.
- c. **Companies should formulate and apply appropriate Key Performance Indicators (KPIs) in consultation with unions/workers, to link variable bonus payments closely to corporate performance.** There should be regular sharing of information on corporate performance and KPIs with unions/workers. **Companies should also develop performance management systems to better assess and reward workers' individual performance.** These would motivate workers towards better performance and allow companies to fairly reward their workers for their contributions.

### **C) Enhance Employability of Older Workers**

15. The NWC strongly supports the recommendations released on 26 January 2006 by the Tripartite Committee on Employability of Older Workers to enhance older workers' employability and raise the effective retirement age. **The Council urges companies to implement these recommendations and put in place wage systems and employment arrangements that facilitate the employment of older workers and re-employment of retired workers. In particular, the NWC strongly urges companies to adopt the following measures, as recommended by the Committee:**

- a) **Accelerate wage restructuring and move away from seniority-based wages.** This is a key factor in enhancing the cost competitiveness of older workers, especially those with seniority-based wages.
- b) **Embark on job-based, competency-based and/or performance-based wage systems<sup>5</sup>,** as recommended by the Tripartite Committee. Wages would then better reflect the value of the job and the contributions of the worker to the company throughout his tenure. Doing so will enhance the cost competitiveness of older workers and improve their employability.
- c) **Hire mature and older workers and retain them beyond the retirement age of 62.** Companies are encouraged to make use of WDA's ADVANTAGE!

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<sup>5</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.

scheme<sup>6</sup> to implement workplace and wage system changes and provide more employment opportunities for older workers. The Council also endorses the Tripartite Guidelines on the Employment of Older Workers Above 62 Years Old drawn up by the Tripartite Committee. Companies and unions/workers are encouraged to refer to the guidelines in working out employment arrangements as well as in negotiating remuneration packages for re-employed workers.

In implementing the above recommendations, companies are encouraged to work with the Tripartite Action Group (TAG) led by SNEF to make concrete changes in the workplace to employ more older workers.

#### **D) Step Up Efforts To Help Low Wage Workers**

16. The NWC fully supports the recommendations released in January 2006 by the Ministerial Committee on Low Wage Workers to help low wage workers and their families. The NWC is pleased to note that NTUC and WDA had jointly re-created 7,200 jobs in 2005 for low wage workers. **It urges companies to actively work with NTUC, SNEF and WDA to achieve the target of re-creating and redesigning 10,000 jobs in 2006 to raise workers' productivity and earning capacity.**

17. Since last year, an increasing number of companies granting wage increases have heeded the NWC's call to give higher wage increases to low wage workers. This is a good start, but more needs to be done. **The 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 for built-in wage increases. They could also apply the same principle for the payment of variable bonuses.

#### **(E) Step Up Skills Training and Upgrading**

18. Skills training and upgrading are still key to helping workers raise their productivity and take on better paying jobs. **The NWC urges companies to step up their training and skills upgrading of workers, in particular older workers, low wage workers and contract workers. Companies should work closely with NTUC, SNEF and WDA to support the participation of their low wage and older workers in training programmes that will enhance their employability. In this regard, WDA would continue to support NTUC's Skills Redevelopment Programme with the Employability Skills and Workforce Skills Qualifications systems.**

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

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<sup>6</sup> The ADVANTAGE! scheme, administered by WDA, offers employers financial assistance of up to \$300,000 per company to motivate and enable employers to hire older workers and to re-employ them beyond the age of 62. It consists of a job redesign grant, training grant, placement services and retention incentive.

19. The NWC recommendations cover the period from 1 July 2006 to 30 June 2007.

20. 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.

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

### **Conclusion**

22. Our labour market and economic outlook is positive. We should take this opportunity to strengthen our economic resilience so that we can better respond to future challenges while maintaining competitiveness. **Hence, we need to push on with wage restructuring and build up a more flexible wage system that links reward more closely to performance. We also need to implement measures to enhance the employability of the vulnerable segments of the workforce – the older workers and low wage workers.** The NWC is confident that these can be achieved with the mutual trust and co-operation of the tripartite partners, leading to a more robust and competitive economy for the good of all.

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

National Wages Council  
17 May 2006