



NATIONAL WAGES COUNCIL (NWC) GUIDELINES FOR 2008/2009

1. The National Wages Council (NWC) has completed its deliberations on wage and wage-related guidelines for 2008/2009. In its deliberations, the Council took into account the following factors:

- 2007 Economic performance, labour market conditions, productivity, wages and inflation
- Singapore's cost competitiveness
- Uncertain economic outlook for 2008
- High inflation in 2008

2007 Economic Performance, Labour Market Conditions, Productivity, Wages and Inflation Trends

2. The Singapore economy grew by 7.7% in 2007, lower than the 8.2% gain in 2006. The strong economy led to a record employment growth of 234,900 in 2007, far surpassing the 176,000 in 2006, with all major sectors registering employment growth. Supported by robust job creation, the seasonally adjusted overall and resident unemployment rates declined to 1.7% and 2.4% in Dec 07, from 2.7% and 3.7% respectively a year ago.

3. Inflation has risen. The consumer price index (CPI) rose from 1.0% in 2006 to 2.1% in 2007. This was driven by higher global commodity prices, strong economic growth and one-off factors like the GST increase.

4. Meanwhile, wages grew strongly last year. Total wages (basic wages plus bonuses) of private sector employees rose by 5.9% in 2007, higher than the increase of 4.5% in 2006. This was the result of a basic wage gain of 4.3%, which was higher than the increase of 3.6% in 2006; and an 8.3% increase in average bonus payout to 2.36 months in 2007, higher than the payout of 2.18 months in 2006. Even though inflation was higher in 2007, resulting in real basic wage increase in 2007 (2.2%) being lower than that in 2006 (2.6%), real total wage increase in 2007 (3.8%) was still higher than that in 2006 (3.5%). (see Table 1 in Annex)

5. On the other hand, labour productivity growth declined from 1.5% in 2006 to -0.9% in 2007. This was partly due to the record employment gains in 2007. A key principle adopted by NWC is that the built-in wage increases should lag productivity growth over the longer term, so that the wage increases would be sustainable while maintaining cost competitiveness. **In 2007, the growth in real basic wages outpaced productivity for the second consecutive year. However, taken over a 5-year or longer period, the productivity growth still exceeded growth in real basic wages** (see Table 2 and Charts at Annex).



Cost Competitiveness

6. Overall Unit Labour Cost (ULC) rose for the third straight year in 2007, reflecting the contraction in productivity and higher wage growth amid the tight labour market. The ULC increase at 3.8% in 2007 is notably higher than the 0.5% rise in 2006. Over a longer period of 5 years, however, ULC has declined by 0.4% p.a., as productivity growth had generally kept pace with the increase in labour cost. The Relative Unit Labour Cost (RULC) in manufacturing which measures Singapore's labour cost competitiveness relative to 16 other economies rose slightly by 2.2% in 2007 due to the increase in ULC and the appreciation of the Singapore dollar.

Outlook for 2008

7. The global economic outlook for 2008 has deteriorated in recent months. The US sub-prime crisis has led to a broader liquidity crunch. Singapore's economic growth is expected to moderate to 4.0-6.0% this year. Advanced GDP estimates showed that the economy expanded by 7.2% on a year-on-year basis in the first quarter of 2008. **Going ahead, there are some downside risks to growth due to considerable uncertainty in global financial markets and the US economic slowdown.**

8. Preliminary estimates show that employment growth in the first quarter of 2008 was 68,400. Based on the GDP forecast, MOM expects continued employment growth, though it will likely be lower than the record gains in 2007. The bulk of the new jobs will be in the services sector and there will be sufficient jobs for locals, including new entrants into the labour market.

9. Higher global commodity prices have filtered into domestic prices of food and oil-related items. Although inflation is currently expected to be at the upper half of the 4.5-5.5% range in 2008, **the external factors driving inflation remain volatile and the situation has to be monitored closely.** Inflation rose sharply to 6.6% in the first quarter of 2008 compared to the same period of last year. Part of the increase was due to the revision in annual values of HDB flats, but it does not affect most Singaporeans' cost of living in cash terms as they own the flats. Inflation may moderate somewhat in the second half as the effects of one-off factors like the GST increase wear off.

NWC Wage Guidelines

Push for Productivity Improvement

10. Productivity drives sustainable wage increases. It is therefore important to ensure that wage increases lag productivity growth over the longer term. While this has been the case over the past 5 years, the gap has narrowed, partly due to the tight labour market and strong employment growth in recent years. The NWC therefore emphasises the importance of productivity improvement. In this regard, **the NWC strongly urges the government, companies and workers/unions to work together in a concerted effort**



to improve productivity through innovation, job re-design and stepping up of the training of workers through the enhanced Continuing Education and Training (CET) system. This will help workers to acquire relevant skills, upgrade their existing skills and raise their productivity, as well as enable them to take on higher value-added jobs and enhance their earning capacity.

Grant Sustainable Wage Increase Commensurate with Performance and Prospects

11. In recommending the wage guidelines this year, the NWC has taken, among other factors, two special considerations into account, namely the global economic uncertainty and the high inflation this year. The NWC notes that workers, especially the low wage workers, are concerned about the high cost of living. However, the Council is also careful that pushing up wage increases to keep pace with the high inflation rate will undermine our competitiveness and will not be sustainable over the longer run. In this regard, any wage adjustments should take into account the slew of measures amounting to over \$3 billion this year that the Government has already put in place which will help Singaporeans cope with the inflation impact. These include the GST Offset Package¹, Budget 2008's surplus sharing package² as well as the Workfare Income Supplement (WIS) scheme which helps to encourage employment of low-wage workers and boost their income and CPF savings. In addition, the Government announced at this year's Budget that it would extend its freeze on fees and charges to the end of the year. The appreciation of the Singapore dollar exchange rate has helped to dampen inflationary pressures. NTUC is also helping workers to partially defray the higher cost of living through its distribution of NTUC "U Stretch" vouchers to low wage workers.

12. Given the economic uncertainty, the NWC recommends that **companies grant built-in wage increase commensurate with the companies' performance as well as business prospects to ensure that such increases are sustainable. Companies should make greater use of variable payment to reward workers for their contribution to corporate performance, taking into consideration the total wage increase to be given. As with previous years, companies which have done exceptionally well and with continued good prospects should consider granting workers a higher variable payment.**

One-off Special Payment for Rank-and-File Workers

13. To further help workers cope with the impact of higher inflation this year, taking into account Government's assistance measures and the ability of the company to pay, **companies should consider giving a one-off special lump sum payment to rank-and-file workers, with heavier weightage for low wage workers.**

¹ Including GST Credits, Senior Citizens' Bonus, Utilities-Save, Service and Conservancy Charges and Rental Rebates, Property Tax Rebate.

² Including Growth Dividends, Personal Income Tax rebates, Medisave top-ups and top-ups to the Post Secondary Education Account



Other Wage-Related Recommendations

Enhancing Employability of Older Workers

14. The NWC welcomes the government's announcement to legislate re-employment by 2012 to enable workers to work beyond age 62. **The Council strongly urges employers to work with unions/workers to implement re-employment policies and systems as soon as possible, by adopting the Tripartite Advisory on Re-employment of Older Workers** issued by the Tripartite Implementation Workgroup (TIWG). Employees are also encouraged to work longer and prepare themselves for re-employment.

15. The Council notes that there is a large pool of people who are not working, especially women. Compared to the 74.0% resident employment rate of males aged 55 to 64, the employment rate of females in the same age group is much lower at 38.6%. The NWC urges employers who are in need of workers to look into attracting this group to join the workforce.

16. Employers can tap on the ADVANTAGE! and Flexi-Works! Schemes for financial assistance in recruiting, retaining and re-employing older workers.

Enhancing Efforts to help Low Wage, Contract and Informal Workers

17. To help low wage workers including contract and informal workers benefit from the WIS and improve retirement adequacy, **the NWC urges the tripartite partners to step up efforts to help them contribute to their CPF** so that they can be eligible for WIS and participate in CPF LIFE. Employers could also consider making top-ups to their workers' CPF accounts to enhance their retirement adequacy, and enjoy tax deduction for doing so. **As with previous years, companies that are granting wage increases could include a dollar quantum for built-in wage increases as well as variable bonus payments to benefit the low wage workers more.**

18. To help contract workers, many of whom are low wage workers, **companies outsourcing work are urged to adopt the Tripartite Advisory on Responsible Outsourcing Practices.** In doing so, they could help such workers employed by their outsourced service providers to enjoy better employment terms and conditions including CPF contributions. The Advisory also encourages companies to adopt best sourcing practices and award contracts based on performance rather than headcount. This will help prevent compromises on service quality and workers' wages.



Enhancing Wage Flexibility

19. Over the years, the tripartite partners have worked at implementing flexible and performance-based wage system. Good progress has been made, with 84% of the workforce in the private sector under some form of flexible wage system, up slightly from 83% a year ago. As a more responsive wage system will enable companies to make quick adjustments to wage cost in line with changing business conditions, the NWC would like to urge companies to step up efforts to enhance their wage flexibility. This includes the introduction and building up of the Monthly Variable Component (MVC) as well as reducing the maximum-minimum salary ratio to better reflect the value of the job.

Monitoring the Situation

20. As the outlook of the economy and inflation remains uncertain, the Council urges the government, employers and unions to monitor closely the situation and the impact on companies and workers.

Application of NWC's Recommendations

21. The NWC recommendations cover the period from 1 July 2008 to 30 June 2009.
22. 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.
23. To facilitate wage negotiation, companies should share relevant information on company performance and business prospects with employees and their representatives.
24. The NWC looks forward to the Government's acceptance of its recommendations.

National Wages Council
16 May 2008

Table 1: Wage Changes in 2006 and 2007

	2006	2007
Total Wage Change		
- Nominal	4.5%	5.9%
- Real	3.5%	3.8%
Basic Wage Change		
- Nominal	3.6%	4.3%
- Real	2.6%	2.2%
Variable Component Payment (Bonus)	2.18 months	2.36 months (+8.3%)

Source: Survey on Annual Wage Changes, 2007 (MOM Manpower Research and Statistics Department)

Note: Real wage changes have been adjusted by CPI: 1.0% (2006), 2.1% (2007).

Table 2: Annualised Growth of Labour Productivity and Real Wages (2000-2007)

	Annualised Change (%)		
	2000-2007 (7 years)	2002-2007 (5 years)	2004-2007 (3 years)
Labour Productivity Growth	2.1%	3.0%	1.1%
Real Total Wage Growth (outpace/lag productivity growth)	2.1%	2.8%	3.7%
Real Basic Wage Growth (outpaced/lag productivity growth)	1.9%	1.8%	2.5%

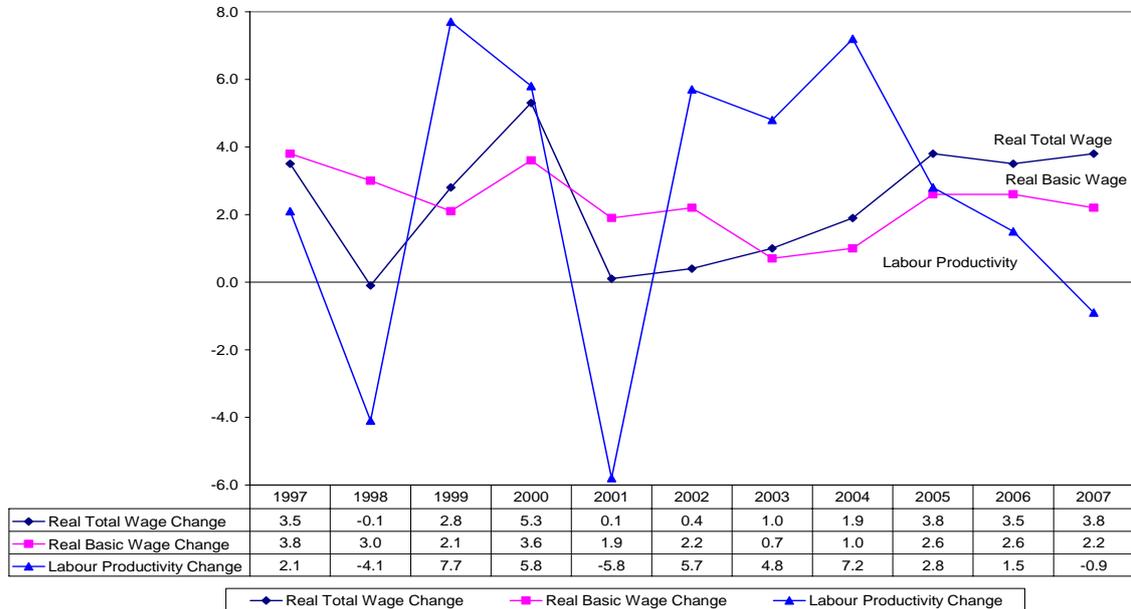
Source: Manpower Research and Statistics Department (wage data), DOS (labour productivity)

Note: Shaded cell indicates wage gains outstripping productivity growth.



CHART 1: ANNUAL CHANGE IN LABOUR PRODUCTIVITY, REAL TOTAL WAGE AND REAL BASIC WAGE

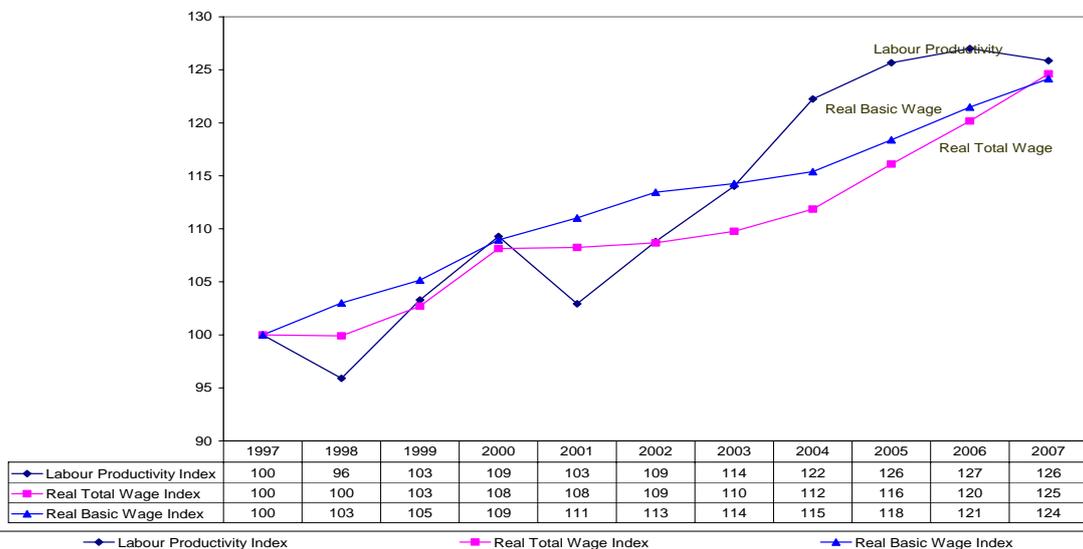
In 2007, wage increase outpaced productivity.



Note: (1) Total and basic wage change data pertain to all employees from 1998 onwards. Before 1998, data pertain to bargainable employees who were also mainly the rank-and-file.
 Source: MOM Survey on Annual Wage Changes and DOS (Productivity)

CHART 2: LABOUR PRODUCTIVITY AND WAGE INDICES 1997-2007
(Base Year = 1997)

Over a longer period (1997-2007), productivity growth still leads wage increase.



Note: (1) The chart shows the cumulative impact of the annual changes in productivity and wages over the years.
 (2) Total and basic wage change data pertain to all employees from 1998 onwards. Before 1998, data pertain to bargainable employees who were also mainly the rank-and-file.
 Source: MOM Survey on Annual Wage Changes and DOS (Productivity)