

NATIONAL WAGES COUNCIL (NWC) GUIDELINES 2015/2016

Economic Performance and Labour Market in 2014

1. In 2014, the Singapore economy grew by 2.9%, slower than the 4.4% growth in 2013. Total employment increased by 130,100, lower than the increase of 136,200 in 2013. The overall unemployment rate (2.0%) and resident unemployment rate (2.7%) remained low in 2014, comparable to 2013.
2. The Consumer Price Index (CPI) rose by 1.0% in 2014, easing from the 2.4% increase in 2013. CPI less imputed rentals on owner-occupied accommodation (OOA), which relates more directly to the actual cash spending of households, rose by 1.2% in 2014, a moderation from the 1.9% increase in 2013.
3. Overall productivity growth declined by 0.8% in 2014, after rising marginally by 0.3% in 2013.¹
4. Total nominal wages in the private sector grew by 4.9% in 2014, including bonuses and employer Central Provident Fund (CPF) contributions. This was lower than the increase of 5.3% in 2013. The total wage increase in 2014 stemmed from a basic wage gain of 4.9% in 2014 (a slight decrease from 5.1% in 2013), while bonuses remained unchanged at 2.21 months of basic wages in 2014.
5. Accounting for CPI-All Items inflation, real basic wages rose at a faster pace of 3.9% in 2014, compared to 2.7% in 2013. Real total wages including employer CPF contributions rose by 3.9% in 2014, compared to 2.9% in 2013.

Outlook for 2015

6. Global economic growth is expected to improve marginally in 2015, with the advanced economies projected to see a pick-up in growth. The expected improvement in the global economy will broadly support the growth of externally-oriented sectors such as wholesale trade and finance & insurance. Nevertheless, this will be partially offset by cluster-specific factors. While domestically-oriented sectors in Singapore are likely to remain resilient, labour-intensive sectors may see their growth weighed down by labour constraints, given low unemployment and elevated vacancy rates. Several downside risks to the global economy also remain, including the threat of deflation in the

¹ Economic Survey of Singapore 2014, released on 17 February 2015.

Eurozone and the risk of a sharp correction in the Chinese economy. Against this macroeconomic backdrop, and barring the materialisation of downside risks, the Singapore economy is expected to grow by 2.0% to 4.0% in 2015.

7. In tandem with sustained economic growth, the overall labour market will remain tight in 2015, barring unexpected shocks in the external economy.² While some increase in redundancies is expected as part of economic restructuring, unemployment is likely to remain low.

8. The Monetary Authority of Singapore (MAS) forecasts³ the 2015 CPI-All Items inflation to be -0.5% to 0.5%. Overall imported inflation is expected to remain generally subdued. Domestic cost pressures, particularly from a tight labour market, are likely to remain although the pass-through to consumer prices could continue to be constrained in the near term by the moderate growth environment.

NWC Wage Guidelines for 2015/2016

Focus on Skills to Ignite Productivity Growth and Sustain Wage Increases

9. The NWC notes that the tight labour market will place upward pressure on wages. To be sustainable and not erode the competitiveness of our economy, **real wage increases should be in line with productivity growth over the long term.** Productivity growth has been weak over the past few years. The NWC agreed that it is critical for productivity growth to remain a primary focus across all sectors.

10. The NWC strongly urges firms to move towards productivity-driven growth rather than employment-driven growth. Firms will need to focus on the quality, not quantity, of the workforce as a key source of growth, productivity and competitiveness. This will allow for sustainable wage increases, and will help firms attract and retain workers.

11. The NWC welcomes the efforts by the Government to invest in the re-skilling and upgrading of the workforce through SkillsFuture. SkillsFuture is an important national effort requiring the full support of the tripartite partners. The NWC urges employers to step up efforts to train their workers with the skills needed to help raise productivity and to develop better career progression pathways that can sustain wage increases for our workers. The NWC calls on employers to put in place processes to systematically train their workforce, and

² [Statement on Labour Market Developments](#), 13 March 2015

³ [MAS Macroeconomic Review Volume XIV](#), April 2015

to recognise workers' contributions based on skills. Employers should also support individual-initiated work-skills related training. Workers too have an equally critical role to play in taking up opportunities for training and utilising their skills at the workplace. The NWC urges unions to mobilise workers to take ownership in acquiring new skills and deepening their skill sets throughout their careers. This is to facilitate the growth of a more productive and highly skilled workforce for the economy.

12. The NWC also encourages firms to implement more manpower-lean methods of driving business growth. Firms should tap on Government initiatives, including the Productivity and Innovation Credit (PIC) which has been extended until 2018, and other schemes, such as the new PIC+ targeted at Small-and-Medium Enterprises (SMEs). The NWC notes that the Government's extension of the Wage Credit Scheme⁴ to 2017 will help employers to manage rising labour costs while enabling them to retain, train and share productivity gains with their workers.

13. The NWC recommends that the Government and employers augment the labour force by encouraging the economically inactive to return to work. In particular, employers can tap on Government programmes like WorkPro to recruit and retain back-to-work women and older workers through more flexible and age-friendly workplace practices.

14. Improved productivity will benefit employers and enable our workers to enjoy real wage increases. The NWC urges employers to share productivity gains fairly with workers in a sustainable manner. Taking into account the challenging business conditions, productivity growth, tight labour market, economic growth forecast of 2.0% to 4.0%, the NWC recommends that:

- a) employers consider the prevailing economic and labour market conditions in giving wage increases;**
- b) employers give built-in wage increases to workers, taking into account the firms' business performance, prospects and sustainability; and**
- c) employers that do well should further reward employees with variable wage components where appropriate, in line with the firms' performance and workers' contributions.**

15. As announced in Budget 2015, there will be an increase in the CPF salary ceiling from \$5,000 to \$6,000 from January 2016. There will be further

⁴ The WCS is a scheme where the Government co-funds the wage increases that are given to Singaporean employees from 2013 to 2017.

increases to older workers' CPF contribution rates, to help them build up more savings for their retirement needs. To help employers adjust to the associated cost increases, there will be an enhancement and extension of the Temporary Employment Credit⁵ (TEC) and enhancements to the Special Employment Credit (SEC). Employers should take these into account when considering the quantum of wage increases.

Wage Recommendations for Low-Wage Workers

16. The NWC welcomes the continued efforts by the Government, union and employer groups to help low-wage workers raise their skills, training, employability and incomes.

17. The NWC recognises that helping low-wage workers improve their skills, employability and income requires concerted and multi-faceted intervention by the Government and key stakeholders. With the support of tripartite partners, the Government has adopted a multi-pronged approach to help low-wage workers improve their wages. This includes strong funding for skills upgrading through the Workfare Training Support (WTS) Scheme; and sharing of productivity gains through the Inclusive Growth Programme (IGP). Employers are encouraged to tap on such programmes.

18. To complement these efforts, the NWC gave focus to low-wage workers with three rounds of quantitative wage recommendations for those earning a basic monthly salary of up to \$1,000. The recommended minimum built-in wage increase was \$50 in 2012, and \$60 in 2013 and 2014.

19. The NWC notes that the three rounds of quantitative guidelines have contributed to strong wage growth for low-wage workers. Since the quantitative guidelines were introduced in 2012, the proportion of full-time employed resident employees earning a basic monthly salary of up to \$1,000 is estimated to have decreased from 9.8% in 2012 to 6.8% in 2014. As of December 2014, 31% of remaining private establishments with such workers in 2014 gave increments equal to or more than the NWC's recommended built-in wage increase, compared to 57% in 2013 and 28% in 2012.⁶

20. The NWC believes there is merit to give low-wage workers special consideration in their annual wage adjustment exercise this year, including an

⁵ TEC will be enhanced in 2015 and extended to 2017.

⁶ 59% of private establishments gave or intended to give wage increases to their employees earning a monthly basic salary of up to \$1,000. This was a decrease from the 77% that did so in 2013, but the same as the 60% that did so in 2012.

increase in the wage threshold. To help the low-wage workers, the NWC recommends that:

- a) **employers grant low-wage workers a built-in wage increase in the form of a dollar quantum and a percentage. This will give the low-wage workers in the firm a higher percentage built-in wage increase;**
- b) **employers grant a built-in wage increase of at least \$60 for low-wage workers earning a basic monthly salary of up to \$1,100; and**
- c) **employers grant an equitable and reasonable wage increase and/or one-off lump sum based on skills and productivity for low-wage workers earning above \$1,100.**

21. The NWC will review the continued need for quantitative guidelines for low-wage workers annually, taking into careful consideration factors such as Singapore's economic competitiveness, productivity performance, labour market conditions, and inflation.

Low-Wage Workers in Industries where Outsourcing Practices are Widespread

22. The NWC recognises that many low-wage workers are employed in industries where outsourcing practices are widespread. The NWC calls on employers and service buyers in these industries to make a special effort to incorporate NWC wage recommendations into outsourced service contracts. The NWC further calls on employers to share their productivity gains with these low-wage workers through a one-off variable lump sum payment. Buyers of outsourced services should also factor the annual wage adjustments for the workers into their contracts, or allow for the contract values to be adjusted accordingly.

Progressive Wage Model (PWM)

23. The NWC strongly supports the PWM and welcomes tripartite efforts in championing the PWM to improve the job prospects and income of workers. In particular, the NWC notes the efforts of the tripartite committees formed to advance the Government-enforced PWM in the cleaning, security and

landscaping industries, covering areas of skills, productivity, career progression and wages.

24. The NWC is heartened to see strong employer support for the PWM and calls on employers in these industries to implement the PWM as soon as possible.

25. The NWC further urges employers in other industries to adopt the concept of “progressive wages” and provide a clear progression path for their workers to upskill and upgrade, including through structured training and participating in SkillsFuture initiatives. PWMs, reinforced by skills upgrading and productivity improvement, will allow firms to make better use of manpower and pay higher wages, commensurate with their workers’ job scopes, responsibilities, skill sets and productivity levels. The NWC supports the establishment of tripartite committees or sectoral tripartite workgroups in other industries, to develop and implement appropriate PWMs for their firms.

Other NWC Recommendations

26. The NWC notes that MediShield Life (MSHL) will be introduced in end-2015 and all employees who are Singapore Citizens or Permanent Residents will benefit from portable and lifelong medical coverage provided by MSHL. The NWC encourages unions and employers to work towards restructuring employer medical benefits to portable medical benefits to improve the cost-effectiveness of medical expenses.

Application of NWC Guidelines

27. The NWC Guidelines cover the period from 1 July 2015 to 30 June 2016.

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

29. These recommendations also apply to workers who have been re-employed.

30. To facilitate wage negotiation, employers should share relevant information, such as company wage information, business performance and prospects, with unions.

31. The NWC encourages employers that encounter difficulties in implementing the guidelines to work with the employers' associations and unions, to address the issues.

Table 1: Wage Changes in 2013 and 2014

	2013	2014
Total Wages (including employer CPF contributions)		
- Nominal	5.3 %	4.9 %
- Real	2.9 % (3.4 %)	3.9 % (3.7 %)
Basic Wages		
- Nominal	5.1 %	4.9 %
- Real	2.7 % (3.2 %)	3.9 % (3.7 %)
Annual Variable Component (i.e. bonuses)	2.21 months of basic wages	2.21 months of basic wages

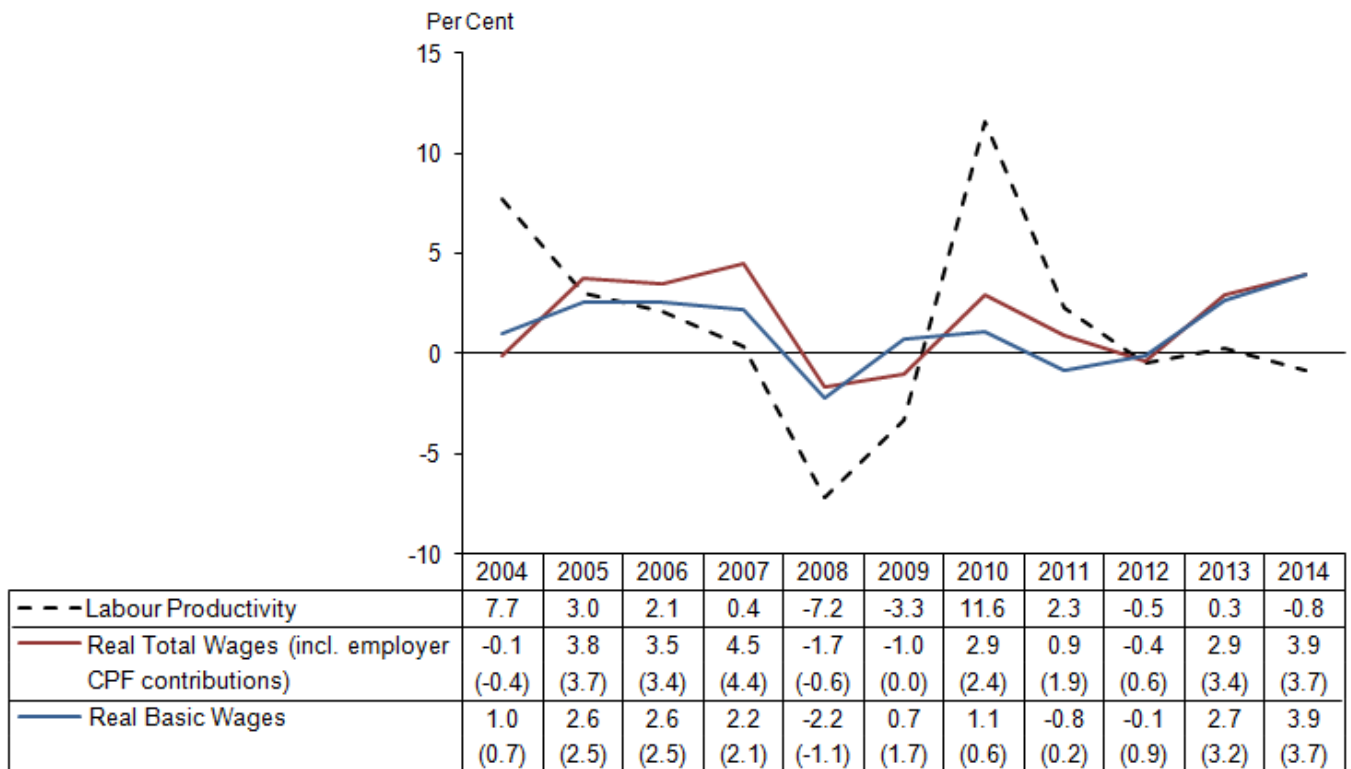
Source: Survey on Annual Wage Changes, MOM

Notes:

(1) Real wage changes are deflated by Consumer Price Index (CPI) for all items at 2014 prices (2014=100). Figures in brackets are deflated by CPI less imputed rentals on owner-occupied accommodation at 2014 prices (2014=100).

(2) Total wages (including employer CPF contributions) comprise basic wages, annual variable component (i.e. bonuses) and estimates of employer CPF contributions. Basic wages and annual variable component (i.e. bonuses) exclude employer CPF contributions.

Figure 1: Annual Change in Productivity and Real Wages, 2004-2014



Source: Survey on Annual Wage Changes, MOM; and data from Department of Statistics (DOS)

Notes:

(1) Real wage changes are deflated by Consumer Price Index (CPI) for all items at 2014 prices (2014=100). Figures in brackets are deflated by CPI less imputed rentals on owner-occupied accommodation at 2014 prices (2014=100).

(2) Total wages (including employer CPF contributions) comprise basic wages, annual variable component (i.e. bonuses) and estimates of employer CPF contributions. Basic wages exclude employer CPF contributions.