

**NATIONAL WAGES COUNCIL
SINGAPORE**

CHAIRMAN: Prof Lim Pin

NWC Secretariat
Ministry of Manpower
18 Havelock Road
Singapore 059764

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Mr Lee Hsien Loong
Prime Minister
Singapore

Dear Prime Minister

NATIONAL WAGES COUNCIL GUIDELINES 2009/2010

1. The National Wages Council (NWC) has completed its deliberations on wage and wage-related guidelines for 2009/2010.

2008 Economic, Labour Market, Productivity, Wages and Inflation Trends

2. Singapore's economic growth slowed to 1.1% in 2008, significantly lower than the 7.8% growth in 2007. In particular, the fourth quarter of 2008 contracted by 4.2% on a year-on-year basis.

3. Total employment growth of 221,600 in 2008 was also lower than the growth of 234,900 in 2007. With the economy weakening towards the end of the year, the seasonally adjusted unemployment rate rose to 2.5% (overall) and 3.6% (resident) in Dec 2008, up from 2.3% and 3.4% respectively in Sep 2008. Redundancies also hit a high of 9,410 workers in the fourth quarter of 2008, making up more than half of the 16,880 redundancies in the whole of 2008.

4. Meanwhile, overall labour productivity declined sharply from -0.8% in 2007 to -7.8% in 2008 due to slower GDP growth and strong employment gains in the first half of 2008. This is the second year that labour productivity has contracted.

5. The consumer price index (CPI) rose by 6.5% in 2008, compared to 2.1% in the previous year. This was mainly due to higher growth of global oil and food prices in the first half of the year, but these began to moderate in the second half of the year.

6. With the economic downturn and increased business costs, wage increases granted were more restrained last year. Nominal total wages rose by 4.2% in 2008, lower than 5.9% in 2007. This was the result of a basic wage gain of 4.4% (compared to 4.3% in 2007) and a 2.1% decline in bonus payout of 2.31 months in 2008 (compared to 2.36 months in 2007). After adjusting for the high inflation in 2008, real total and basic wage in 2008 contracted by 2.3% and 2.1% respectively (see [Annex](#)).

7. In 2008, productivity fell sharper than the fall in real basic wages (see [Chart 1 at Annex](#)). To be sustainable and to maintain cost competitiveness, wage increases, especially built-in wage increases, should lag productivity growth. For the first time since 2002, cumulative gains in real basic wages have outstripped cumulative productivity gains (see [Chart 2 at Annex](#)). Nonetheless, taken over a longer period, the growth in productivity still slightly exceeded real total and basic wages (see annualised data at [Table 2 in Annex](#)).

8. Overall Unit Labour Cost (ULC) increased for the fourth straight year, by 9.6% in 2008, higher than the 5.2% increase in 2007, reflecting largely the contraction in productivity in 2008.

Outlook for 2009

9. The GDP in the first quarter of 2009 has contracted by 10.1% on a year-on-year basis, deeper than the 4.2% contraction in the fourth quarter of 2008. Given the sharp deterioration of the economic performance in the first quarter of 2009, and the weak global outlook for the rest of the year, MTI revised downwards in April 2009 its forecast for 2009 GDP growth to -9.0% to -6.0%, which is lower than the -5.0% to -2.0% forecast in January 2009. Notwithstanding recent optimism expressed by some analysts, the economic outlook remains uncertain.

10. Reflecting the sharp deterioration in economic conditions, preliminary estimates show that redundancies rose to 12,600 in the first quarter of 2009, higher than the 9,410 in the fourth quarter of 2008. The seasonally adjusted unemployment rate rose to 3.2% (overall) and 4.8% (resident) in March 2009.

With the economy expected to remain weak for the rest of 2009, MOM expects the labour market to soften further, with retrenchments and unemployment to be significantly higher than in 2008.

11. However, CPI inflation has started to moderate. In the first quarter of 2009, CPI went up by 2.1% on a year-on-year basis, lower than the 6.6% in the same period a year ago and the high of 7.5% in the second quarter of 2008. CPI is forecast to be between -1% to 0% in 2009.

NWC Guidelines for 2009/2010

12. Given the deep global recession, the uncertainty in the economic outlook coupled with the impact of a possible Influenza A (H1N1-2009) pandemic, we need to be prepared for the eventuality of a prolonged downturn. **The NWC therefore recommends in the 2009/2010 wage guidelines that employers, unions and the government press on with concerted actions recommended in NWC's January 2009 guidelines to cut costs, save jobs and enhance competitiveness.** This could be done through management leading by example in the following areas:

- Wage freeze or cut;
- Implementation of other cost cutting measures and initiatives to cope with the downturn;
- Enhancement of wage flexibility; and
- Improvement in productivity

Persist with "Cut Costs to Save Jobs"

13. **The NWC strongly recommends that for companies whose business, profitability and/or prospects are affected by the economic downturn, they could, in consultation with their unions/workers, implement a wage freeze or wage cut in line with their performance and prospects, in order to help companies stay competitive and save jobs.**

14. **Companies which perform well should reward their workers with moderate wage increases, preferably in the form of variable payment, so that their long-term cost competitiveness would not be affected.**

Implement other Cost Cutting Measures

15. The NWC notes that the Tripartite Guidelines on Managing Excess Manpower (MEM Guidelines) have recently been updated to ensure they stay relevant to help companies and workers manage any prolonged downturn. **The**

Council endorses the updated Tripartite Guidelines and strongly urges companies with excess manpower to implement the various recommended measures such as shorter work week, temporary layoffs, no pay leave, and other work arrangements as alternatives to retrenchments. Workers should work together with employers to implement these measures so as to cut costs and save jobs.

16. In implementing such measures including wage freeze or cut, **management is to lead by example.**

Press on with Downturn Initiatives to Enhance Resilience

17. Since the last NWC guidelines were released in January 2009, the government has announced a \$20.5 billion Resilience Package to help reduce costs and save jobs. The package includes the Jobs Credit Scheme, Workfare Income Supplement (WIS) Special Payment to help low wage workers, and various tax concessions. The MEM Guidelines have been updated, and the Skills Programme for Upgrading and Resilience (SPUR) has also been enhanced to help more professionals, managers, executives and technicians (PMETs).

18. **The Council notes that these measures have been well received by employers and unions/workers, and are making a positive impact in helping companies and workers cope with the downturn, manage costs and minimise job losses.** Based on feedback from companies collected by the tripartite partners at end March 2009, some 66% of the 1,900 companies that responded indicated that they had no plans to carry out any retrenchment exercise. Of the remaining 34% which had planned to carry out retrenchments, 4 out of 5 indicated that they had postponed their retrenchment decisions or reduced the number of workers affected as a result of the above measures, with only 1 out of 5 companies reporting that they had proceeded or would be proceeding with their retrenchment plans notwithstanding the downturn measures. **The NWC urges employers and unions/workers to continue to tap on the various tripartite measures and initiatives available to manage the impact of the downturn, reduce costs and minimise job losses.**

19. The NWC notes that there are still jobs available in some sectors which are doing well, growing or remain resilient to the current downturn. Hence, while unemployment has risen, the economy is also undergoing significant restructuring with new jobs created. In this regard, **the NWC recommends that the government continue to expand the Continuing Education & Training (CET) infrastructure. Workers are encouraged to be flexible and be prepared to upgrade current skills and learn new skills. Employers are encouraged to tap on the CET system and the various assistance measures such as SPUR to upskill their manpower and build new capabilities.**

20. **Those who are seeking employment are advised to adjust their expectations and make career switches, if necessary, to take up available jobs. Employers too, should be open to taking in workers with little or no relevant experience, and set appropriate employment terms reflecting the market realities of their sectors.** This would ensure that the growth sectors could recruit the necessary manpower, while enabling job seekers to take up meaningful employment in these sectors. There are many schemes under SPUR to help employers recruit and train new workers, such as SPUR-JOBS and Professional Skills Programme (PSP)-Traineeship. Employers should leverage fully on such schemes.

21. Besides implementing the above measures, **the NWC also urges the government and companies to continue to look at ways to reduce non-wage costs so as to lower the overall business costs and enhance Singapore's competitiveness.**

Enhance Wage Flexibility

22. **Companies are encouraged to make use of components of the flexible wage system, including the Monthly Variable Component (MVC), to manage total wage cost.** MOM's 2008 Survey on Annual Wage Changes indicates that companies with MVC in their wage structure are better able to gain employees' acceptance of a wage cut if it has to be implemented, compared to companies without MVC. To encourage more companies to implement MVC, **the NWC endorses the recommendation in the MEM guidelines that companies could implement a cut in basic wages by introducing it as a reduction in MVC.** This would enable these companies to take the opportunity to introduce MVC and make their wages more flexible. Companies doing so should work with the unions/workers to set guidelines on restoring the MVC from future wage increases or adjustments when businesses recover.

Improve Productivity

23. The NWC notes with concern that labour productivity growth has shown a downward trend over the last four years, and labour productivity has in fact contracted in the last two years. This could affect longer term competitiveness. There is a pressing need to address this issue so that future wage increases can be supported by productivity gains, and be sustainable and competitive over the longer term. In this regard, **the Council strongly urges companies to ride on this downturn to enhance their productivity,** through innovation, best sourcing, service excellence and developing the workforce to be highly skilled, productive and flexible. Companies can improve the skills of their workforce by tapping on SPUR.

Continue with Longer Term Initiatives

24. Notwithstanding the downturn, the NWC recommends that the tripartite partners continue to push ahead with initiatives such as enhancing the employability and employment of older workers, bringing more women back to the workforce, and enhancing efforts to help low wage, contract and informal workers. We should not lose sight of these important longer term initiatives that would help to maximise the potential of our workforce, as well as improve employability and income of workers.

Prepare for Upturn

25. The Council urges companies to maximize the use of the current slack manpower conditions to improve the skills of their workforce. This is critical to raising their competitiveness when the global economy recovers. Companies and workers must not delay in participating in SPUR to upgrade skills and capabilities so that they would be in a stronger position for the recovery.

Application of NWC's Recommendations

26. The NWC recommendations cover the period from 1 July 2009 to 30 June 2010.

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

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

Conclusion – Strong Tripartism To Overcome Adversity

29. Singapore's pragmatic and pro-active response to the recession, supported by our strong tripartite spirit, has brought about significant and positive impact on companies and workers. The various tripartite initiatives implemented over the past few months have resulted in many companies implementing alternative measures to retrenchment, therefore minimising job losses to workers.

30. The outlook remains uncertain. However, the NWC is confident that the solidarity shown by the tripartite partners in working together to address the downturn will continue to prevail and enable the smooth implementation of the NWC guidelines. This high level of co-operation, trust and understanding among the government, employers and unions will give confidence to businesses and investors, and better differentiate Singapore from other economies. More importantly, it will enable Singapore to emerge stronger, more robust and more resilient while helping to minimise job losses, and strengthen our competitiveness and capability for a better future for all.

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

ANNEX

Table 1: Wage Changes in 2007 and 2008

	2007	2008
Total Wage Change		
- Nominal	5.9%	4.2%
- Real	3.8%	-2.3%
Basic Wage Change		
- Nominal	4.3%	4.4%
- Real	2.2%	-2.1%
Variable Component Payment (Bonus)	2.36 months (+8.3%)	2.31 months (-2.1%)

Source: MOM Survey on Annual Wage Changes, 2008

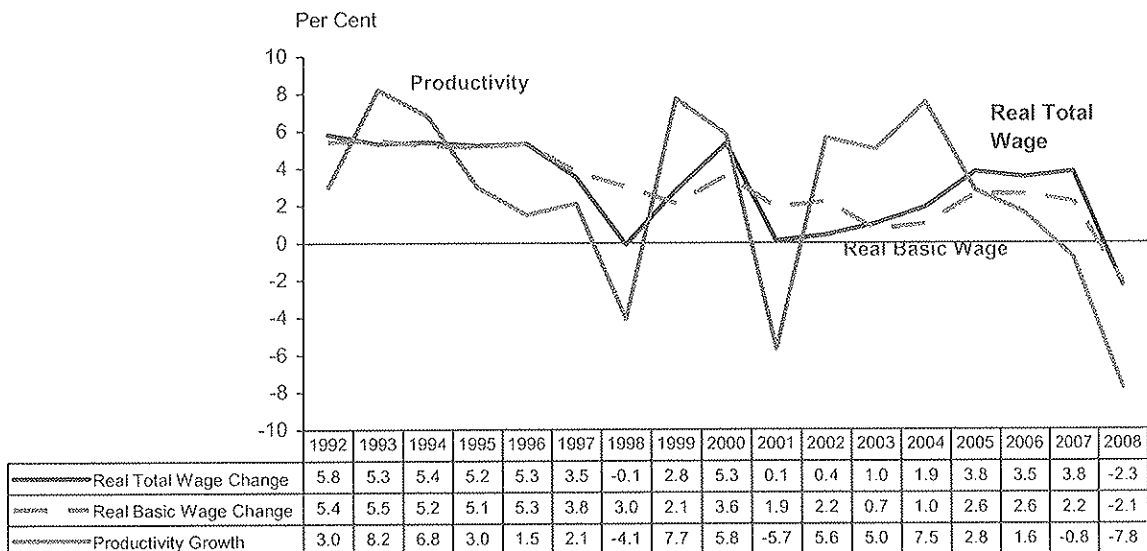
Note: Real wage changes adjusted by CPI: 2.1% (2007), 6.5% (2008).

Table 2: Annualised Growth of Labour Productivity and Real Wages (2001-2008)

	Annualised Change (%)		
	2001-2008 (7 years)	2003-2008 (5 years)	2005-2008 (3 years)
Labour Productivity Growth	1.9%	0.5%	-2.4%
Real Total Wage Growth (outpace/lag productivity growth)	1.7% (lag)	2.1% (outpace)	1.6% (outpace)
Real Basic Wage Growth (outpaced/lag productivity growth)	1.3% (lag)	1.2% (outpace)	0.9% (outpace)

Source: MOM Survey on Annual Wage Changes, 2008 (wage data), DOS (labour productivity)

Chart 1: Annual Changes In Productivity And Real Wage, 1992-2008

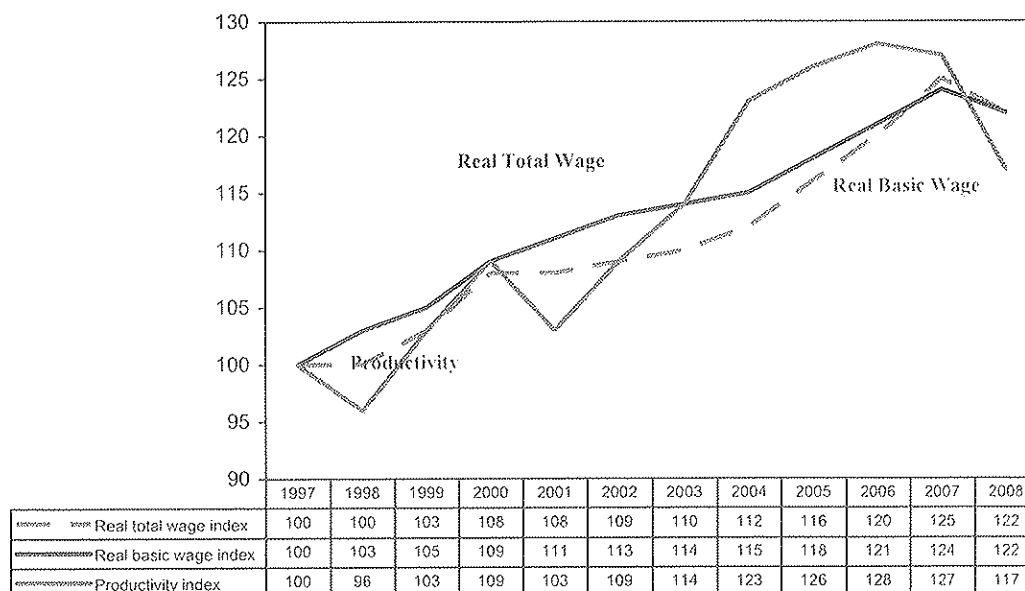


Source : Department of Statistics, MTI (For Productivity Data)

Note : 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.

Chart 2: Productivity And Real Wage Indices (1997 =100)

After Asian Crisis 1997-2008



Notes :

1) The chart shows the cumulative impact of the annual changes in productivity and wages since 1997.

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.