

NATIONAL WAGES COUNCIL (NWC) GUIDELINES 2014/2015

Economic Performance and Labour Market in 2013

1. In 2013, the Singapore economy grew by 3.9%, faster than the 2.5% growth in 2012. Total employment increased by 136,200 or 4.1%, higher than the increase of 129,100 or 4.0% in 2012. The overall unemployment rate remained low at 1.9% in 2013, a slight decrease from 2.0% in 2012; while the resident unemployment rate remained unchanged at 2.8%.
2. The Consumer Price Index (CPI) rose by 2.4% in 2013, easing from the 4.6% increase in 2012. CPI less imputed rentals on owner-occupied accommodation (OOA), which relates more directly to the actual cash spending of households, rose by 1.9% in 2013, a decrease from 3.6% in 2012.
3. Overall labour productivity grew positively by 0.8% in the second half of 2013, an improvement from the decline of 1.3% in the first half of 2013 and the decline of 1.4% in 2012¹.
4. Amid the tight labour market and improved economic conditions, total nominal wages in the private sector grew by 5.3% in 2013, including bonuses and employer Central Provident Fund (CPF) contributions. This was higher than the increase of 4.2% in 2012. The total wage increase in 2013 stemmed largely from a strong basic wage gain of 5.1% in 2013 (an increase from 4.5% in 2012), while bonuses increased slightly to 2.21 months of basic wages in 2013 from 2.19 months in 2012.
5. Accounting for CPI-All Items inflation, real basic wages increased by 2.7% in 2013, reversing the decline of 0.1% in 2012. With the higher nominal wage increase and a slower CPI increase, real total wages including employer CPF contributions rose by 2.9% in 2013, reversing the decline of 0.4% in 2012.

Outlook for 2014

6. Singapore's Gross Domestic Product (GDP) is expected to grow by 2.0% to 4.0% in 2014. Externally-oriented sectors such as manufacturing and wholesale trade are likely to continue to provide support to growth, in tandem with the recovery in global demand. However, tightness in labour conditions could weigh on growth in some labour-intensive domestically-oriented sectors.

¹ Economic Survey of Singapore, First Quarter 2014, 20 May 2014. Overall 2013 productivity growth was -0.2%, an improvement from -1.4% in 2012.

MOM expects labour demand to remain strong in 2014, barring severe unexpected shocks in the external economy.²

7 The Monetary Authority of Singapore (MAS) forecasts³ the 2014 CPI-All Items inflation to be 1.5% to 2.5%. Overall imported inflation is expected to remain generally subdued. Domestic cost pressures, particularly from a tight labour market, are likely to remain the primary source of inflation as firms could pass on the accumulated costs to consumer prices. In contrast, car prices are not expected to be a major contributor to inflation for the year, while housing costs are expected to stabilise in 2014 amid the large supply of newly-completed housing units.

NWC Wage Guidelines for 2014/2015

Focus on Productivity Growth in a Tight Labour Market

8. Overall, the labour market will remain tight in 2014, and is expected to tighten even further as previously announced foreign workforce policy measures come into effect. While some increase in redundancies is expected as part of economic restructuring, unemployment is likely to remain low. Job creation is expected to remain strong, accompanied by continued growth in local employment.

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**. There have been tentative signs of productivity growth improvement, and it is important to ensure that this is sustained.

10. The NWC encourages firms to move towards productivity-driven growth rather than employment-driven growth. This will allow for sustainable wage increases, and will help firms attract and retain workers. To improve their productivity, firms are encouraged 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

² Statement on Labour Market Developments, 14 March 2014.

³ MAS Monetary Policy Statement, 14 April 2014

Wage Credit Scheme⁴ helps employers to manage rising labour costs while enabling them to retain, train and share productivity gains with their workers.

11. Given the tight labour market, 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.

12. 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, tight labour market, economic growth forecast of 2.0% to 4.0%, and productivity, 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.**

13. As announced in Budget 2014, there will be an increase in CPF employer contribution rates to the Medisave Account (MA) for all workers. There will be further increases to older workers' CPF contribution rates, to help them build up more savings for their retirement needs. Employers should take these into account when considering the quantum of wage increases.

Wage Recommendations for Low-Wage Workers

14. 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.

⁴ The WCS is a three-year scheme where the Government co-funds the wage increases that are given to Singaporean employees from 2013 to 2015.

15. The NWC gave focus to low-wage workers with two 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.

16. The NWC notes that the two rounds of quantitative guidelines have contributed to strong 2013 real wage growth for low-wage workers⁵. As of December 2013, nearly eight in ten (77%) 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 substantial increase from the six in ten (60%) that did so in 2012. Specifically, the proportion of firms which gave increments equal to or more than the NWC's recommended built-in wage increase in the respective years increased from 28% in 2012 to 57% in 2013. The NWC urges continued efforts to improve the wage outcomes of low-wage workers.

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 recommends that employers continue to pay special attention to this group in their annual wage adjustment exercise. 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 \$1,000; 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 \$1,000.**

⁵ MOM, Survey on Annual Wage Changes, 2013.

19. The NWC notes the improved adoption of its quantitative guidelines in 2013, and strongly encourages all employers to adopt the NWC's guidelines this year.

Low-Wage Workers in Industries where Outsourcing Practices are Widespread

20. 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)

21. The NWC 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 PWM in the cleaning, security and landscaping industries, covering areas of skills, productivity, career progression and wages.

22. 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.

23. Employers in other industries should also adopt the concept of "progressive wages" and provide a clear progression path for their workers to upskill and upgrade, including through structured training. PWMs will allow firms to make better use of manpower and pay higher wages, commensurate with their workers' job scopes, responsibilities and productivity levels. The NWC recommends the establishment of tripartite committees or sectoral tripartite workgroups in other industries, to develop and implement appropriate PWMs for their firms.

Other NWC Recommendations

24. The NWC recognises the importance of maintaining Singapore's competitiveness in this period of economic restructuring. The NWC urges the Government to continue actively helping employers to raise their productivity and moderate non-wage business costs.

25. The NWC urges employers to step up efforts to train their workers so that they are equipped with the skills needed to help raise productivity. The NWC underlines the importance of firms having in place processes to systematically train their workforce. Workers too have a role to play in taking up opportunities for training and utilising their skills at the workplace.

26. The NWC notes that MediShield Life (MSHL) will be introduced in 2015 and all employees who are Singapore Citizens or Permanent Residents will benefit from the portable and lifelong medical coverage provided by MSHL. The NWC encourages employers and unions to work together and look into appropriate measures to boost employees' ability to pay for their MSHL premiums.

Application of NWC Guidelines

27. The NWC Guidelines cover the period from 1 July 2014 to 30 June 2015.

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. This includes workers who have been re-employed.

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

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

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30 May 2014

Annex: Survey on Annual Wage Changes

Table 1: Wage Changes in 2012 and 2013

	2012	2013
Total Wages (including employer CPF contributions)		
- Nominal	4.2 %	5.3 %
- Real	-0.4 % (0.5 %)	2.9 % (3.4 %)
Basic Wages		
- Nominal	4.5 %	5.1 %
- Real	-0.1 % (0.9 %)	2.7 % (3.2 %)
Annual Variable Component (i.e. bonuses)	2.19 months of basic wages	2.21 months of basic wages

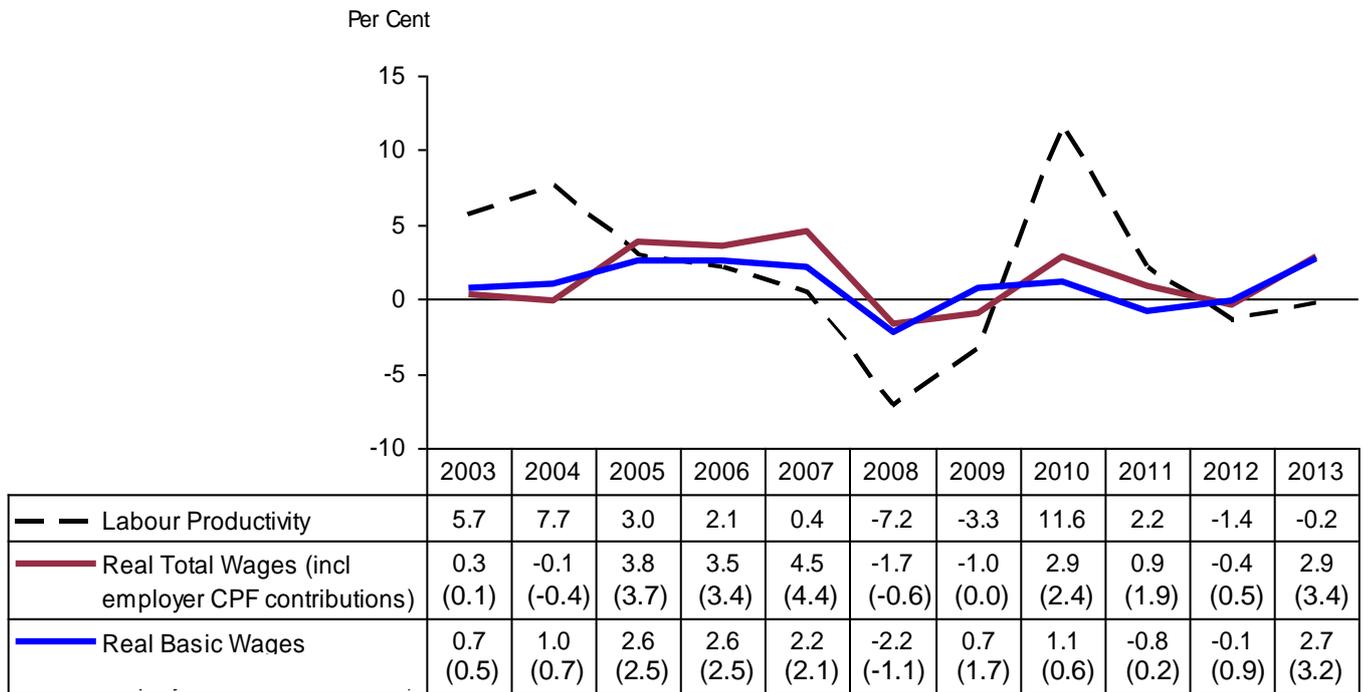
Source: Survey on Annual Wage Changes, MOM

Notes:

(1) Real wage changes are deflated by Consumer Price Index (CPI) for all items at 2009 prices (2009=100). Figures in brackets are deflated by CPI less imputed rentals on owner-occupied accommodation at 2009 prices (2009=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, 2003-2013



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 2009 prices (2009=100). Figures in brackets are deflated by CPI less imputed rentals on owner-occupied accommodation at 2009 prices (2009=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.