

NATIONAL WAGES COUNCIL'S REVISED GUIDELINES FROM 16 JANUARY 2009 TO 30 JUNE 2009

Economic and Labour Market Situation

1. The NWC Guidelines for July 2008 to June 2009 were issued in May 2008 against a backdrop of global economic uncertainty and high inflation and with the Ministry of Trade & Industry (MTI) forecasting GDP growth of 4.0% to 6.0% for 2008. Among others, the Council recommended that companies grant built-in wage increase commensurate with the companies' performance as well as business prospects to ensure that such increases would be sustainable. It also asked companies to consider giving a one-off special lump sum payment to rank-and-file workers to help cope with the high inflation.

2. Since then, the global economic environment has deteriorated, and Singapore has gone through negative quarter-on-quarter growth for three consecutive quarters, starting from the second quarter of 2008. For the full year of 2008, Singapore's economic growth is estimated to have grown by 1.5%¹, down from 7.7% in 2007. Given the weakening 2009 outlook of the G3 (United States, Europe and Japan) and regional economies, MTI has revised, on 2 January 2009, the GDP growth forecast to be between -2.0% and 1.0% in 2009, lower than the -1.0% to 2.0% it had forecasted in November 2008.

3. The resident unemployment rate rose to a seasonally adjusted 3.3% in September 2008 from 3.1% in June 2008 and 2.4% a year ago. 2,346 workers were retrenched in the third quarter of 2008, up from 1,798 in the second quarter of 2008 and 1,827 in the third quarter of 2007.² Retrenchments in the fourth quarter reported to MOM and NTUC had risen significantly. Unemployment and retrenchment in 2009 are expected to be substantially higher than in 2008.

¹ Based on advance estimates released by MTI on 2 January 2009.

² Data pertain to private sector establishments (each with at least 25 employees) and the public sector.

4. The Consumer Price Index (CPI) inflation came down from 7.5% in the second quarter to 6.6% in the third quarter in 2008. The Monetary Authority of Singapore (MAS) has forecasted CPI inflation to come in significantly lower in 2009 at between 1.0% and 2.0% in view of the sharp fall in global commodity prices in the past few months and the freezing of HDB property annual values.

5. Labour productivity declined by 9.6% in the third quarter of 2008 as employment increased while output slowed. This is the fourth consecutive quarter of productivity decline. Meanwhile, nominal earnings³ grew by 5.5% year-on-year in the third quarter of 2008, but after adjusting for inflation, real earnings contracted by 0.9%, compared with a contraction of 4.0% in the second quarter of 2008. Overall unit labour cost (ULC) rose by 13% in the third quarter of 2008. This is the tenth consecutive quarter of increase. In manufacturing, the ULC grew by 23% which contributed to a 12% rise in unit business cost (UBC) in the third quarter.

Cut Costs to Save Jobs

6. In the light of the deteriorating economic situation and poorer business prospects for 2009, the NWC has reviewed the guidelines issued in May 2008. The NWC notes that an increasing number of companies are facing issues of low demand and overcapacity.

7. The NWC strongly recommends that companies adversely affected by the economic downturn, work with the unions and workers to reduce and manage total costs. They may, in consultation with their unions/workers, implement a wage freeze or wage cut commensurate with their performance and prospects, in order to help companies stay competitive and save jobs.

³ Nominal earnings refer to all remuneration received before deduction of the employee's CPF contributions and personal income tax. They include basic wage, overtime payments, commissions, allowances and other monetary payments, annual wage supplement and variable bonuses but exclude employer's CPF contributions. The 2008 wage data from the Survey on Annual Wage Changes, which NWC typically refers to in its Guidelines, is currently not available.

8. In this regard, the NWC notes that most companies have over the years adopted flexible wage systems, which will allow them to make quick adjustments to their wage cost in response to changing business conditions. They should make use of the variable components in the wage structure, such as the annual variable component (AVC) and monthly variable component (MVC), to reduce their wage costs.

9. For companies which are less affected by the downturn or continue to perform well, they should reward their workers with moderate wage increase. In view of the uncertain outlook in the short term, such increases should largely be in the form of variable payment, so that their long-term cost competitiveness would not be affected.

10. In undertaking measures to reduce costs, the principle and spirit of leadership by example, close consultation and transparency ought to be applied.

11. As wage costs constitute only a part of the total cost of doing business in Singapore, the NWC urges that companies take measures to reduce non-wage costs. The NWC also urges the government to reduce business costs.

12. The NWC notes that the tripartite partners, MOM, SNEF and NTUC, have recently formulated and issued a set of Tripartite Guidelines to help companies manage excess manpower through various cost cutting measures and to consider retrenchment only as a last resort. Feedback from companies and unions has been positive. They found the Tripartite Guidelines to be timely and useful, and many companies, with the support of their unions and workers, have implemented or are considering implementing the various recommended measures. These include workers consuming their annual leave, implementing shorter work week and temporary layoff and/or using the flexible wage system to reduce cost.

13. To help companies defray the cost of retaining their workers and at the same time upgrade their capabilities and employability, the government has announced the \$600 million Skills Programme for Upgrading and Resilience (SPUR). Companies' response to SPUR has been encouraging. The government has also recently announced a significant expansion of SPUR training courses to enable more companies and workers to benefit from the programme.

14. The NWC strongly endorses both the Tripartite Guidelines on Managing Excess Manpower and SPUR as concrete and practical measures to help companies and workers. The NWC urges companies to adopt the Tripartite Guidelines on Managing Excess Manpower and tap on SPUR so that they could better cope with the downturn and position themselves to ride the economic recovery. The NWC encourages workers to also take advantage of SPUR to upgrade their skills and enhance their employability. Workers should also be willing to accept measures to manage excess manpower in order to help companies save jobs. Unemployed workers should also take advantage of SPUR to upgrade themselves and be flexible in accepting new job opportunities.

Pressing Ahead with Long Term Initiatives

15. Even as companies and workers focus their efforts on managing the challenges arising from the downturn, they should continue to press on with other key initiatives covered in the NWC guidelines issued in May 2008. These include enhancing the employability of older workers and women wanting to join or return to the workforce, enhancing efforts to help low wage, contract and informal workers as well as raising productivity.

16. Companies should not lose sight of the longer term objective of enhancing the employability and employment of older workers. Under short term business and cost pressures, some companies might ease up on efforts to re-employ older workers. The NWC emphasizes the importance of continued attention by companies on re-employing

older workers, albeit on shorter work week and work hours in this downturn. This will help companies to be better prepared to tap on this important pool of manpower when the economy recovers. In the same way older workers must continue to make the effort to improve their employability through training and skills upgrading.

Application of NWC Recommendations

17. **The NWC revised guidelines will apply with immediate effect until 30 June 2009.** The Council would convene in the next few months to deliberate on the 2009/2010 guidelines, which will take effect from 1 July 2009.

18. The NWC 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.

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

Conclusion: Strengthening Tripartism in Adversity

20. The strong spirit of tripartism among the government, employers and unions which is founded on trust, confidence and close cooperation over the years, is a cornerstone of our social and economic progress. This has helped us to overcome adversity, achieve strong economic growth and enhance workers' well-being. This downturn provides another opportunity for us to grow this trust and collaboration that has been the hallmark of our model of tripartism. The NWC therefore reiterates the importance of the government, employers and unions to work even more closely together to help companies and workers navigate through this difficult economic situation, so that the tripartite trust and cooperation can be further strengthened.

21. With our strong tripartite partnership, the NWC is confident that these guidelines will be implemented smoothly and effectively. It will help companies manage the impact of the downturn, and position themselves for the recovery. Management and unions/workers will emerge more united, with a stronger bond founded on trust and mutual benefit. The workforce and economy should also come out stronger and be more competitive.

NATIONAL WAGES COUNCIL

16 JANUARY 2009