



Chapter 3

EMPLOYMENT, WAGES AND PRODUCTIVITY

OVERVIEW

The strong economy led to another record-breaking year of employment creation in 2007. Total employment creation in the whole of 2007 hit a record high of 236,600, surpassing the previous record of 176,000 in 2006. Full year overall unemployment rate dropped to a decade low of 2.1 per cent, down from 2.7 per cent in 2006. Retrenchment was at its lowest in 14 years. For the whole of 2007, 7,200 workers were retrenched, lower than the 12,600 in 2006.

EMPLOYMENT

[Tables A2.1–A2.6 and Charts 3.1–3.2]

Employment creation hit another record high...

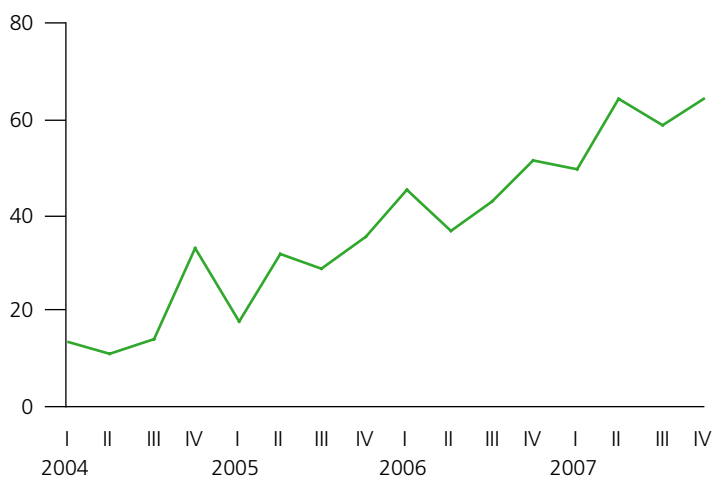
The strong economy generated record employment gains of 236,600 in 2007, surpassing the 176,000 in 2006 and the 113,300 in 2005. This brought the total number of employed to 2,732,500, as at December 2007.

Preliminary estimates showed that employment grew by 64,200 in the fourth quarter of 2007, higher than the gains of 51,500 in the same period a year ago and 58,600 in the third quarter of 2007.

CHANGES IN TOTAL EMPLOYMENT (AT END OF PERIOD)

[Chart 3.1]

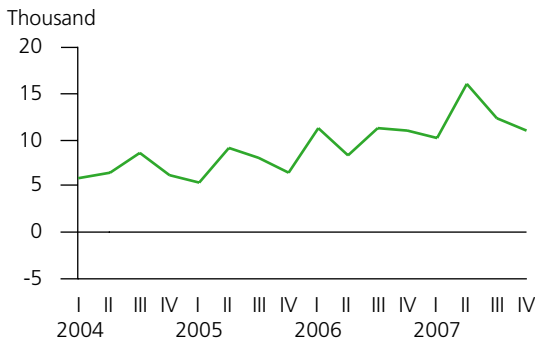
Thousand



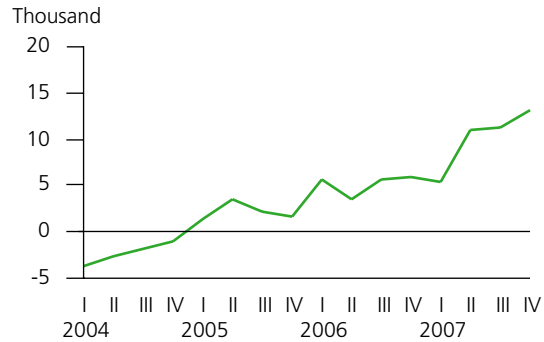
CHANGES IN EMPLOYMENT BY INDUSTRY (AT END OF PERIOD)

[Chart 3.2]

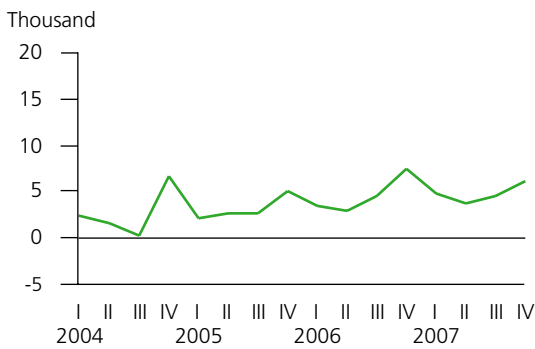
MANUFACTURING



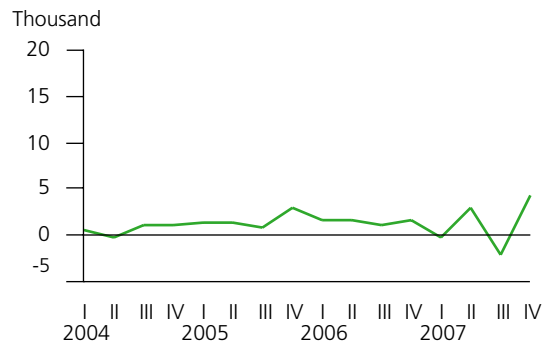
CONSTRUCTION



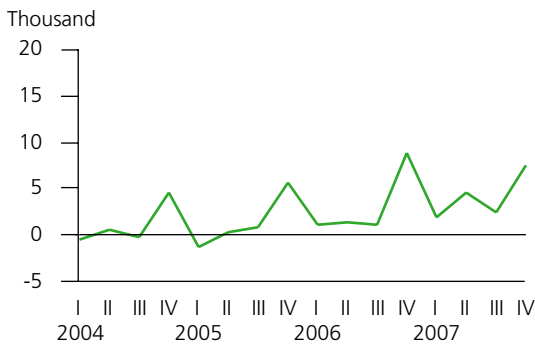
WHOLESALE & RETAIL TRADE



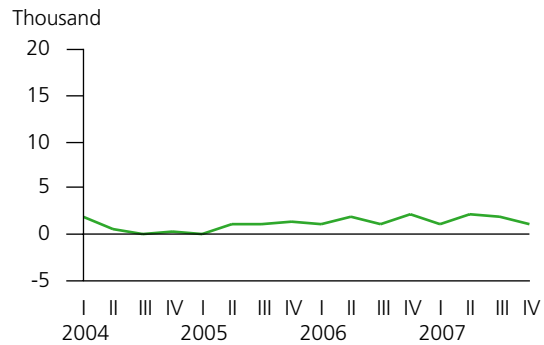
TRANSPORT & STORAGE



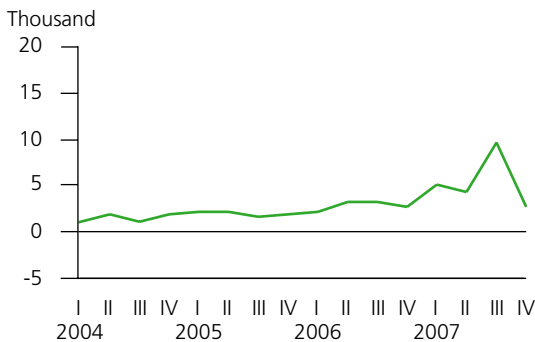
HOTELS & RESTAURANTS



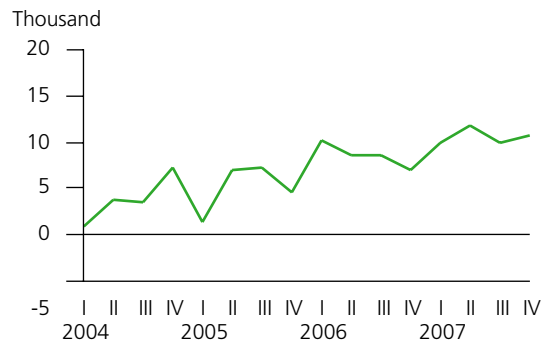
INFORMATION & COMMUNICATIONS



FINANCIAL SERVICES



BUSINESS SERVICES



All major sectors saw employment growth in the quarter. The bulk of the gains continued to come from services (39,500). Within services, the employment gains came from business services (10,700), hotels & restaurants (7,600), wholesale and retail trade (6,100), transport and storage (4,200), financial services (2,800) and information & communications (1,000). The other services industries comprising health, education and personal services employed 7,100 more workers. Manufacturing and construction also continued to post increases in employment of 11,000 and 13,200 respectively.

UNEMPLOYMENT

[Chart 3.3]

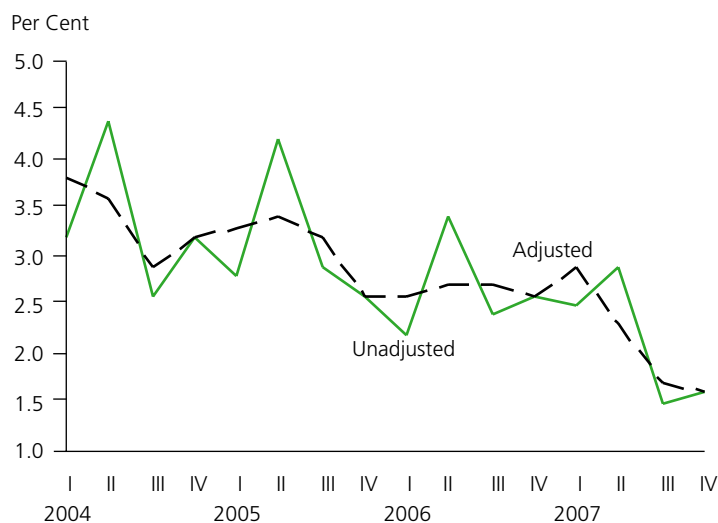
Unemployment rate down to its lowest in a decade...

Supported by robust job creation, the quarterly unemployment rate dropped to a decade low, comparable to pre-Asian crisis levels. The seasonally adjusted overall unemployment rate dipped further to 1.6 per cent in December 2007 from 1.7 per cent in September 2007. The resident unemployment rate remained at a low of 2.3 per cent, unchanged from a quarter ago. An estimated 45,200 residents were unemployed in December 2007. The seasonally adjusted figure was 45,600.

For the whole of 2007, overall unemployment rate averaged 2.1 per cent, down significantly from 2.7 per cent in 2006 and 3.1 per cent in 2005. Similarly, the resident unemployment rate fell to 3.0 per cent in 2007 from 3.6 per cent in 2006 and 4.1 per cent in 2005. Both the overall and resident unemployment rates in 2007 were at their lowest in a decade. On average, 56,900 residents were unemployed in 2007, down from 67,600 in 2006 and the high of 91,200 in 2003.

UNEMPLOYMENT RATE

[Chart 3.3]



RETRENCHMENT

[Chart 3.4]

Retrenchment at its lowest in 14 years...

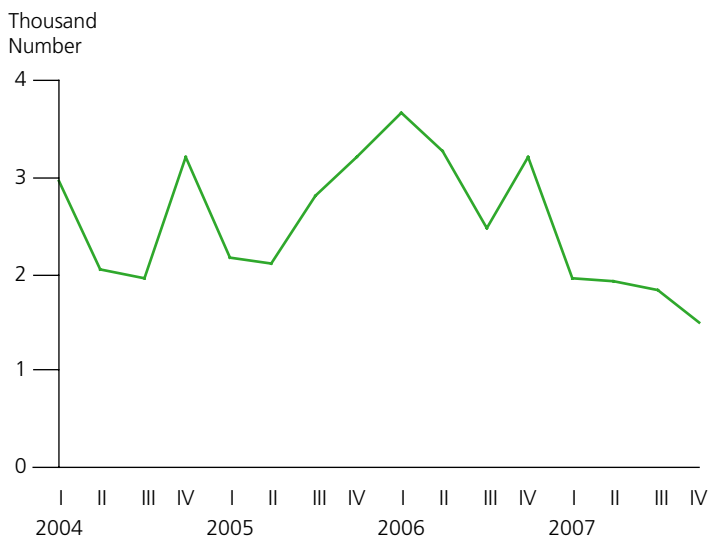
Preliminary findings showed that 1,500 workers were retrenched in the fourth quarter of 2007, lower than the 1,800 retrenched in the previous quarter and only around half the 3,200 retrenched in the same quarter of the previous year. Of every ten workers retrenched in the quarter, six were from the manufacturing sector (900), reflecting the on-going restructuring in the electronics industry. The remaining four were laid off from the services sector (600).

Retrenchment was at its lowest in 14 years. For the whole of 2007, 7,200 workers were retrenched, substantially lower than 12,600 in 2006. Manufacturing formed the bulk of retrenchments (4,900) mainly in electronics (2,200), fabricated metal products (500) and machinery & equipment (400). Services sector retrenched 2,300 workers mainly in wholesale & retail trade (800), hotels & restaurants (300), professional services (300) and community & personal services (300).

Retrenchment was at its lowest in 14 years...

RETRENCHMENT

[Chart 3.4]



PRODUCTIVITY

[Tables A2.9-A2.10 and Charts 3.5-3.6]

Slower productivity gains as a result of strong employment growth...

Overall labour productivity fell by 3.7 per cent in the fourth quarter of 2007, a reversal from 0.4 per cent gain in the previous quarter. Construction, wholesale and retail trade, and transport and storage saw productivity improvements in the fourth quarter of 2007, while the other industries showed decline in productivity.

In 2007, overall labour productivity fell by 0.9 per cent, down from the 1.5 per cent gains in 2006. This was due in part to the record levels of employment gains in 2007. Productivity growth was strongest in construction sector. Transport and storage, financial services, and wholesale and retail trade also saw modest gains in productivity, while the other industries registered declines.

Productivity in the manufacturing sector declined by 3.2 per cent in 2007, down from the 3.9 per cent gains in 2006. The construction sector, supported by an output surge in 2007, experienced an improvement of 7.5 per cent in productivity, a turnaround from 2.6 per cent decline the previous year.

Wholesale and retail trade also realised productivity gains of 1.4 per cent in 2007. However, this was lower than the 5.7 per cent gains seen in 2006. Transport and storage continued to accrue productivity gains, improving from the 1.1 per cent in 2006 to 2.5 per cent in 2007. In contrast, productivity in hotels and restaurants continued to fall by 6.4 per cent in 2007, following a 2.1 per cent drop the previous year. Similarly, information and communications saw another year of decline in productivity, dropping another 3.2 per cent in 2007, slightly slower than the 3.7 per cent fall in 2006.

Financial services maintained productivity growth at 2.1 per cent in 2007, similar to the 2.2 per cent in 2006. In contrast, productivity in business services continued to fall, posting a 5.0 per cent decline in 2007, a further fall from the 3.2 per cent decline in 2006.

CHANGES IN TOTAL LABOUR PRODUCTIVITY

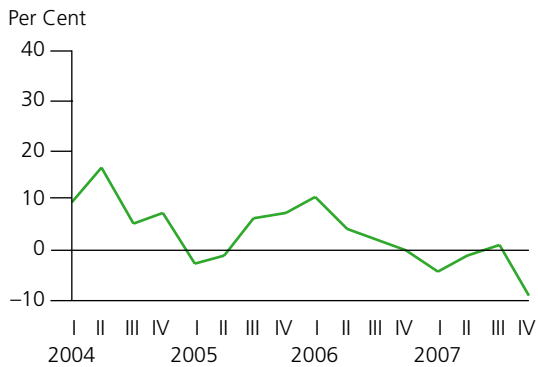
[Chart 3.5]



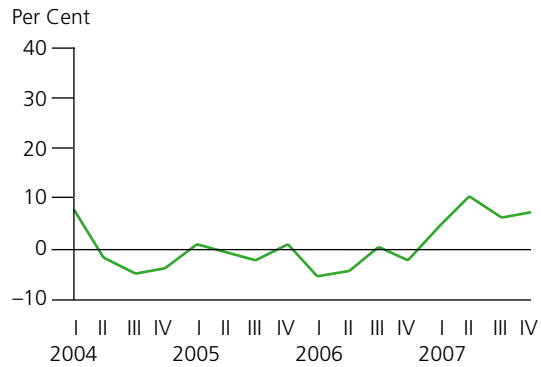
CHANGES IN LABOUR PRODUCTIVITY BY INDUSTRY

[Chart 3.6]

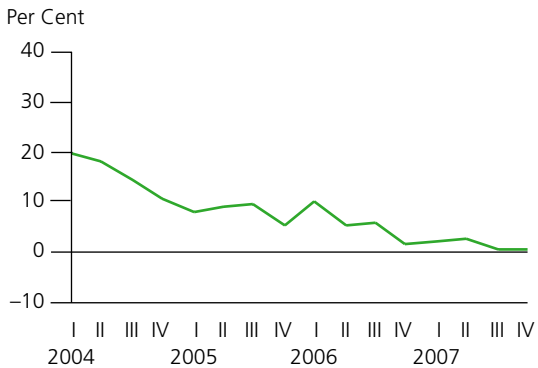
MANUFACTURING



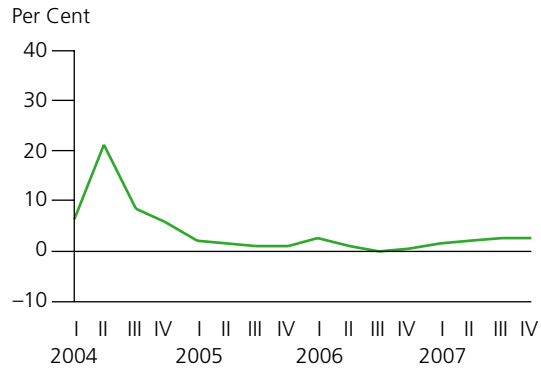
CONSTRUCTION



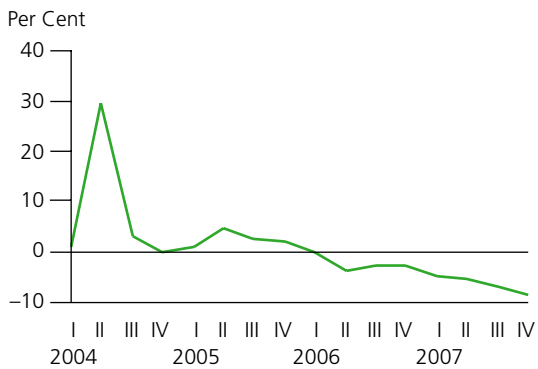
WHOLESALE & RETAIL TRADE



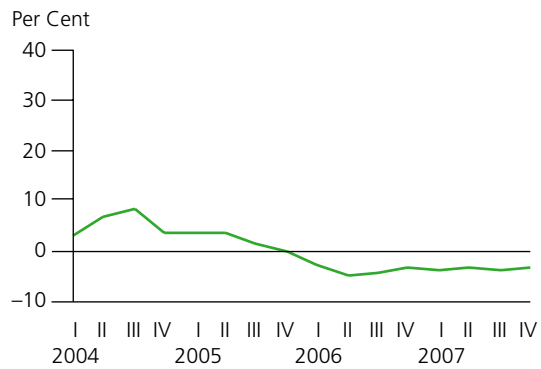
TRANSPORT & STORAGE



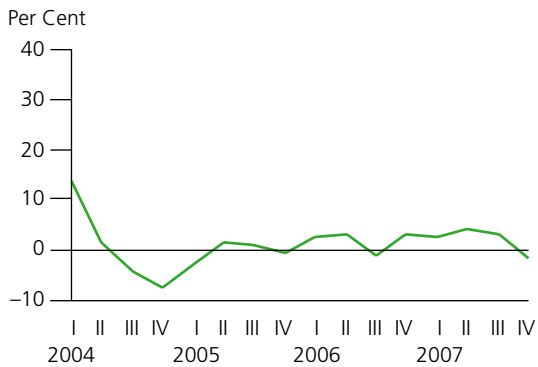
HOTELS & RESTAURANTS



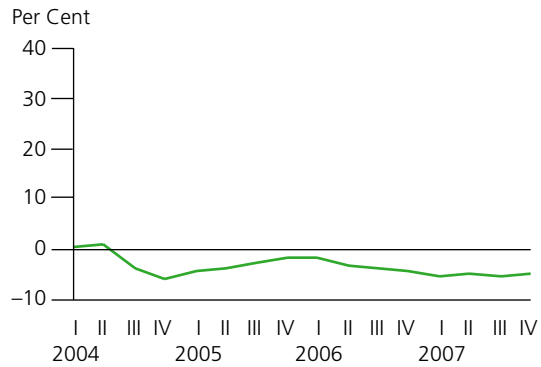
INFORMATION & COMMUNICATIONS



FINANCIAL SERVICES



BUSINESS SERVICES



Similar trends were observed for value added per hour worked. Growth of overall hourly productivity dipped 0.9 per cent in 2007, down from 2.1 per cent in the previous year. Growth was most significant in the construction sector, at 6.7 per cent, followed by transport and storage and financial services, at 3.4 per cent and 2.8 per cent respectively. However, hourly productivity registered declines in manufacturing, hotels and restaurants, information and communications, and business services.

COSTS

[Tables A2.7–A2.8 and Charts 3.7–3.10]

Increases in labour costs and business costs...

Underpinned by a record high in employment growth, a decade low unemployment rate, and tight labour market, wages continued to increase in 2007. Nominal average monthly earnings rose by 6.2 per cent, higher than the 3.2 per cent in the year before. However, the share of wages of nominal GDP remained at 41 per cent. In real terms, earnings growth in 2007 was 2.2 per cent, slightly lower than the 2.6 per cent in 2006.¹

Overall unit labour cost (ULC) increased by 3.8 per cent in the year, higher than the 0.5 per cent in 2006. In the manufacturing sector, unit business cost (UBC) went up by 2.0 per cent, higher than the 0.1 per cent in the previous year. The increase in UBC was caused by increases in the manufacturing ULC, services cost (mainly warehousing and rental of premises), as well as government rates and fees (mainly property prices).

CHANGES IN REAL AVERAGE MONTHLY EARNING AND LABOUR PRODUCTIVITY

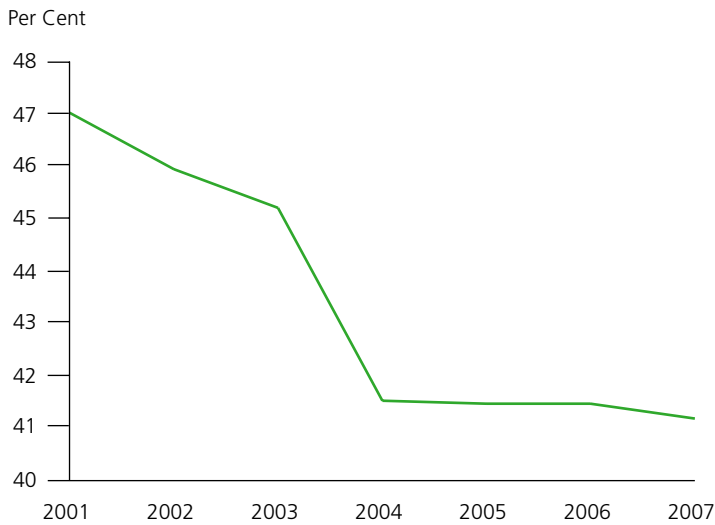
[Chart 3.7]



¹ The GDP deflator measures the price level of the economy's output. Where purchasing power is concerned, it is preferable to deflate nominal wages by the Consumer Price Index, which rose by 2.1 per cent in 2007.

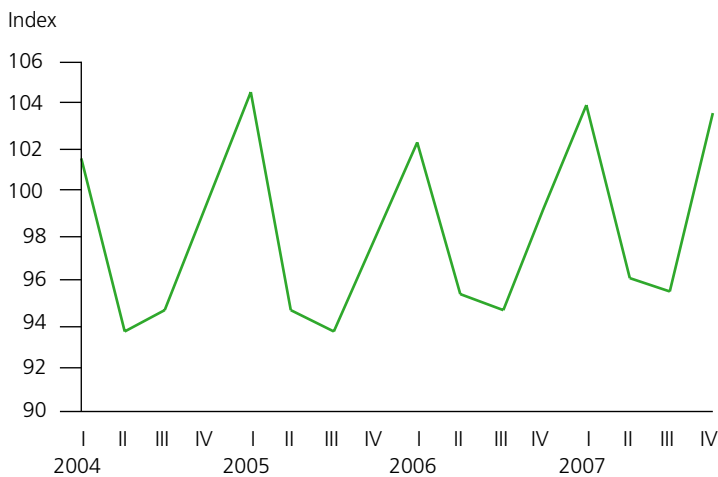
WAGE SHARE IN NOMINAL GDP

[Chart 3.8]



UNIT BUSINESS COST INDEX OF MANUFACTURING (2000=100)

[Chart 3.9]

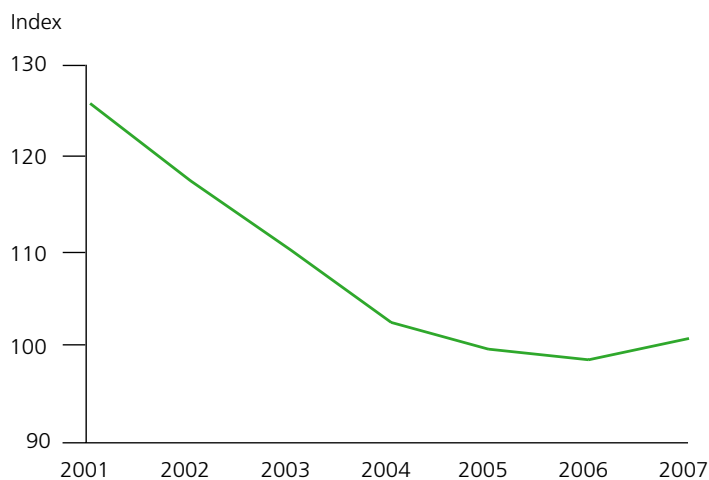


Government rates and fees increased by 7.9 per cent, higher than the 1.7 per cent rise in the previous year. Although there were significant increases in warehousing and rental of premises cost, this was mitigated by falls in the costs of trade and transport, utilities, and port services. Overall services cost rose by 1.2 per cent.

A measure of Singapore's competitiveness against 16 other economies, the relative unit labour cost (RULC) index for manufacturing, rose slightly after five consecutive years of decline. This is due to the increase in Singapore's ULC as well as the appreciation of the Singapore Dollar.

SINGAPORE'S RELATIVE UNIT LABOUR COST IN MANUFACTURING AGAINST SELECTED 16 ECONOMIES

[Chart 3.10]



LABOUR MARKET MEASURES

WAGES AND CENTRAL PROVIDENT FUND (CPF)

National Wages Council (NWC) Recommendations

In view of the strong economic performance in 2006 and tightening labour market, the NWC recommended in its wage guidelines for 2007/2008 that companies should grant wage increases to workers for their contributions to good corporate and economic performance. However, built-in wage increases should continue to be sustainable in the long run and lag behind productivity growth. Where a built-in wage increase may not be sustainable, companies could moderate the increase and grant workers higher variable bonuses. Wage increase and bonus payment should also be more closely linked to company and individual performance. The NWC further urged employers and unions/workers to work together to enhance productivity and innovation so that increases in output and wages can be sustained whilst maintaining our cost competitiveness.

On the employment of older workers, the Council urged companies and unions to work together to implement policies and programmes to recruit and retain more older workers and re-employ workers beyond the age of 62 before legislation is introduced. The NWC also urged companies to (i) move to job-based, competency-based and/or performance-based wage systems, (ii) embark on job redesign to make jobs more suitable for older workers, and (iii) encourage older workers to upgrade their skills and enhance their employability.

To help low-wage and informal workers, the NWC recommended that (i) companies give higher increases to low-wage workers when granting wage increases, (ii) the tripartite partners should continue to work together to help low-wage/informal workers to upgrade their skills and enhance their job value and job security through job re-creation, (iii) a tripartite effort be undertaken to help self-employed and low-wage/informal workers benefit from the Workfare Income Supplement scheme, and (iv) companies outsourcing work to implement best sourcing based on standards and performance and not just price alone.

The NWC also urged companies to step up implementation of flexible wage systems to ensure sustained competitiveness. Noting the good progress made by companies in implementing the key recommendations of the Tripartite Taskforce on Wage Restructuring (2004), the Council recommended that companies continue to narrow the maximum-minimum salary ratio to 1.5 or below. Companies granting built-in wage increase should use the increases to build up the Monthly Variable Component.

CPF Changes and Workfare for Low-Wage Workers

Against the backdrop of an expanding economy, the Government increased employer CPF contribution rates by 1.5 percentage points for the majority of workers on 1 July 2007. This increase did not apply to older low-wage workers who are affected by wage stagnation and structural unemployment. For them, the Government improved their employability by reducing their employer CPF contributions, and increased their take-home pay by reducing their employee CPF contributions.

To complement these CPF changes, the Government implemented the Workfare Income Supplement (WIS) scheme to boost the take-home pay and CPF savings of low-wage workers, with older workers receiving a higher WIS payout. The WIS payouts of up to \$2,400 annually, mostly into their CPF accounts, would more than offset the reduction in CPF contributions for older low-wage workers.

The Government made the first payout under the WIS scheme on 1 January 2008. About 287,000 workers received a total of \$146 million in WIS benefits for work done in the first half of 2007. More workers are expected to receive the second WIS payment in April/May 2008, once work done in the whole of 2007 is taken into account.

A Tripartite Committee on CPF and Work Related Benefits for Low-Wage Workers was formed in June 2007 to spearhead efforts to encourage CPF contributions by low-income, self-employed persons and informal workers. It will also educate employers on the need to contribute CPF for their employees, and look into how to safeguard other basic employment terms and work-related benefits for low-wage workers.

CPF Reforms for Retirement Adequacy

With increasing life expectancy, the Government announced a set of CPF reforms and other measures that aim to help Singaporeans work longer, improve the returns on their CPF savings, and make their CPF savings last for life. The key CPF reforms are as follows:

Improve CPF Returns

CPF interest rates were raised from 1 January 2008. All CPF members will get an additional 1 per cent interest on the first \$60,000 in their CPF accounts including up to \$20,000 from the Ordinary Account. From 1 January 2008, the interest rate for the Special, Medisave and Retirement Accounts (SMRA) was also re-pegged to the yield of 10-year Singapore Government Securities plus 1 per cent. To help CPF members adjust to this floating rate, the Government will keep the 4 per cent floor on the SMRA rate for the first two years. The minimum rate of 2.5 per cent that is guaranteed under the CPF Act will also remain for all CPF accounts. Under the new system, all CPF members will receive higher interest payments.

With the additional interest provided, restrictions will be placed on the use of funds in the Ordinary and Special Accounts. From 1 April 2008, the first \$20,000 in these accounts will no longer be allowed for use in CPF investment schemes. They can, however, still be used for housing, CPF insurance schemes and education. Money that has already been invested under the CPF investment schemes will not be affected.

Make CPF Savings Last for Life

With increasing longevity, the present CPF Draw Down Age (DDA) of 62 years is too early and will result in the majority of members prematurely depleting their savings. Hence, the Government will gradually raise the DDA to 63 years in 2012, 64 in 2015, 65 in 2018 and eventually to 67. This will serve to preserve the CPF savings for a longer period, and allow the savings more time to grow. Together with continued employment, CPF members will be able to have a higher income that lasts longer in retirement.

To encourage more CPF members to defer their draw down, a Voluntary Deferment Bonus (V-Bonus) will be given for each year of voluntary deferment, up to age 65. All CPF members aged 54 to 63 on 31 December 2007, and who have not started to draw down their Retirement Account savings, are eligible for this bonus. To help those aged 50 to 57 in 2007 who will be most affected by the change in DDA, there will be a one-off Deferment Bonus (D-Bonus). Larger bonuses will be given to older workers, as they will have a shorter time to adjust to the new scheme.

With one in two people at age 65 expected to live beyond 85, CPF members need to make financial provisions to ensure a lifelong stream of

income. In this regard, the Government will introduce a National Lifelong Income Scheme for CPF members aged 50 and below. The scheme will offer flexibility for older members to opt-in. A National Longevity Insurance Committee has been formed to work out the structure of such a scheme.

The above CPF reforms will improve Singaporeans' retirement adequacy and give them peace of mind in their golden years.

LABOUR MARKET DEVELOPMENTS

Workforce Skills Qualifications System

The Workforce Skills Qualifications System (WSQ) is a national skills and qualifications framework which sets out the training and certification pathways for workers to enhance their skills. With WSQ, workers benefit from better structured and competency-based training provided by accredited training providers that will lead to industry recognised qualifications. Since its launch in October 2005, WSQ has been put in place for the retail, financial services, security, community and social services sectors, as well as for service excellence skills.

Employability Skills System

The Singapore Employability Skills System (ESS) comprises a set of generic employability skills to raise a worker's effectiveness and improve his work abilities. These foundational skills, portable across all industries, enable workers of all levels to better adapt to new job demands, work challenges and changing work environments. As at September 2007, about 155 companies recognise ESS as an alternative to formal academic qualifications in recruitment. ESS is also recognised by more than 20 training institutions as an alternative requirement for entry into their courses.

Employability of Older Workers

The Tripartite Committee on Employability of Older Workers released its final report in May 2007, with an extensive package of recommendations to enhance the employability of older workers. In line with its recommendations, the Government will introduce legislation by 2012 to require employers to offer re-employment to workers reaching the age of 62, up to age 65 and eventually to 67. The Government has also increased the WIS benefits for workers above 55 years old as mentioned previously.

In addition, the Government has been working with employers and unions to create more employment opportunities for older workers. The Government has enhanced the ADVANTAGE! Scheme to provide funding of up to \$400,000 per company to help companies re-design their job processes or build up other HR capabilities to employ, retain and re-employ older workers. In 2007, about 370 companies came onboard the Advantage! Scheme, committing to recruit 850 mature workers and re-employing more than 1,100 workers beyond their retirement.

A new initiative, Flexi-Works!, was introduced in November 2007 by the Singapore Workforce Development Agency and the National Trades Union Congress for companies to hire new workers aged 35 and above on part-time or flexible work arrangements. This will help to expand labour market opportunities for older people who are currently economically inactive.

A Tripartite Centre for Fair Employment was launched in November 2007 by the Tripartite Alliance for Fair Employment Practices to promote fair employment practices, which include hiring on merit and not on discriminatory criteria such as age.

FOREIGN MANPOWER

Self-Assessment Tool for Employment Pass and S Pass

The Self-Assessment Tool (SAT) for Employment Pass was enhanced in June 2007 to include the S Pass. The enhanced SAT would indicate if the applicant is likely to qualify for an S Pass, if he is unlikely to meet the Employment Pass criteria.

Enhancements to the Personalised Employment Pass Scheme

The Personalised Employment Pass (PEP) scheme, launched in January 2007, facilitates skilled professionals currently holding Employment Passes to continue working in Singapore, as it is granted on the strength of an individual's own merits, rather than being tied to a specific employer. PEP holders are allowed to remain in Singapore for up to six months between jobs to evaluate new employment opportunities. To strengthen Singapore's global talent attraction and retention efforts, the scheme will be refined from March 2008 to allow selected top-tier foreign professionals overseas to be eligible for a PEP upon application.

Work Holiday Programme

As part of ongoing efforts to enhance Singapore's attractiveness as a talent destination, a new Work Holiday Programme was introduced on 1 December 2007. It allows young foreign students and graduates between 17 and 30 years of age to experience living and working in Singapore for up to six months. The Programme is open to those from universities in Australia, France, Germany, Hong Kong, Japan, New Zealand, the United Kingdom and the United States. They are not restricted to specific types of work and are generally not subject to any minimum salary requirements given the short work stint.

Increase in S Pass Quota

The S Pass helps companies to meet their needs for mid-skilled manpower. The S Pass quota was initially raised from 10 per cent to 15 per cent on 1 June 2007. Employers could employ more S Pass holders in-lieu of Work Permit holders, thus addressing their skills needs and improving the

workforce profile. To help meet the growing industry demand for mid-skilled manpower, the S Pass quota was further increased from 15 per cent to 25 per cent on 1 January 2008.

Increased Flexibility for the Manufacturing and Services Sectors

From 1 January 2007, Services sector companies were allowed to employ Work Permit holders up to a Dependency Ratio of 45 per cent. With expected strong employment growth, from 1 January 2008, the Manufacturing and Services Dependency Ratios were increased by 5 percentage points to 65 per cent and 50 per cent respectively. The second tier levy rate of \$310 was reduced to \$280 on 1 April 2007. This rate was extended to Work Permit holders on the 40 per cent to 55 per cent dependency tier for Manufacturing and 30 per cent to 40 per cent dependency tier for Services from 1 January 2008.

Increased Flexibility for the Construction, Process and Marine Sectors

Given projected manpower demand, the Dependency Ratio for the Construction and Process sectors was initially raised from 1:4 to 1:5 from 1 April 2007, and again to 1:7 on 1 January 2008. To help optimise the manpower usage in the Process sector, contractors were allowed to cross-deploy their foreign workers from 1 April 2007.

Similarly, the Dependency Ratio for Marine was raised from 1:3 to 1:5 on 1 January 2008 as it was experiencing strong growth.

Raising the Maximum Employment Period for Work Permit Holders

The maximum employment periods for skilled and unskilled Work Permit holders were increased from 15 to 18 years and from 4 to 6 years respectively from 1 April 2007. This will help employers retain their experienced workers for longer periods.

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