Raising low-income wages: external factors will have bigger role on long-term inflation

But retail, F&B will have to grapple with short-term wage inflation

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MINDY TAN tanmindy@sph.com.sg @MindyTanBT

THE latest moves to raise wages in Singapore might come with teething pains in the short-term but the impact on inflation will still be largely dependent on external factors say economists.

Mohamed Faiz Nagutha, ASEAN economist at BofA Securities, said he does not expect the policy changes to have much impact on inflation in the near-term given the gradual and targeted approach being adopted.

"Over 2021-22, the path of inflation will still overwhelmingly depend on the cyclical developments - such as the reopening process, labour market developments and global price pressures," he said.

Prime Minister Lee Hsien Loong in his National Day Rally speech on Sunday announced that the Progressive Wage Model (PWM), which sets out minimum pay and training requirements for workers at different skill levels, will be extended to more sectors, starting with retail next year and later food services and waste management.

It will also target specific occupations across all sectors, starting with administrative assistants and drivers. The PWM currently covers cleaners, security guards, landscaping workers, and lift maintenance workers.

In addition, companies that employ foreign workers will soon be required to pay all their local employees at least a Local Qualifying Salary (LQS) of S$1,400.

The extended progressive wages, plus the tighter LQS will cover eight in 10 lower-wage workers.

For OCBC head of treasury research and strategy Selena Ling, the devil is in the details. How many additional sectors will be included in the PWM and will the LQS be raised? Are firms in a position to pass on the higher costs to end-consumers?

Today, companies have to pay the LQS to some of their local workers. But this depends on the number of foreigners they hire. The LQS will also be adjusted from time to time, said PM Lee in his speech on Sunday. It was last raised by S$100 to S$1,400 in July last year.

PM Lee also noted that as Singapore looks to better support lower wage workers, consumers will need to "chip in". But Ms Ling pointed out that it might not be easy for these costs to be passed on.

"For those firms in beleaguered sectors like F&B and retail, it may be tough to hike prices in the near term as borders are still closed and restriction measures have not been fully lifted due to the Delta variant," she said.

"The inflation impact would depend on the vaccination progress and whether that allows a further lifting of restriction measures, including the health of the labour market, which could boost consumer confidence and in turn spending."

For DBS economist Irvin Seah, the question of whether or not inflation will rise boils down to companies' pricing power. While companies with a greater competitive edge in terms of market share and/or brand loyalty may be able to pass on the price hike to consumers, he noted that the sectors being impacted next year - retail and F&B - are typically fragmented and competitive.

"The outcome of the price hikes will be mixed; it's not clear cut (as to) whether it will result in higher inflation," said Mr Seah.

Both Mr Seah and Ms Ling agree that these sectors will experience additional pressure.

Covid-19 has dealt a tough blow to both retail and F&B sectors. For retailers, this compounds the increased competition they've been fending off from e-commerce.

"For our retailers, the good thing is they have already pivoted to the online space and that puts them in a much stronger position, henceforth reducing direct head-on impact. The government has also been helping companies invest in tech and automation over the years, which helps them reduce their dependency on workers. That will also help alleviate and soften the pain," said Mr Seah.

Source: https://www.businesstimes.com.sg/government-economy/raising-low-income-wages-external-factors-will-have-bigger-role-on-long-term