

Box Article 3.1

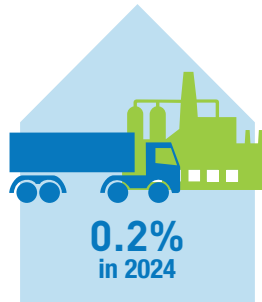
BUSINESS COST CONDITIONS IN SINGAPORE'S MANUFACTURING AND SERVICES SECTORS

OVERVIEW

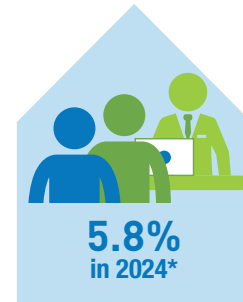
In 2024, unit business cost (UBC) in the manufacturing and services sectors rose.

DEFINITION OF UBC

$$\text{UBC} = \frac{\text{Total Business Cost}}{\text{Gross Real Value-Added}}$$



UBC for Manufacturing



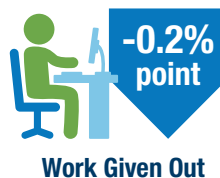
UBC for Services

*Refers to the first three quarters of 2024

KEY DRIVERS

The marginal increase in UBC for manufacturing in 2024 was due to the increase in the "others" cost component, which offset the declines in royalty payments, unit labour cost and the costs of work given out.

CONTRIBUTION TO MANUFACTURING UBC IN 2024



The increase in services UBC in 2024 came on the back of increases in both non-labour costs and unit labour cost.

CONTRIBUTION TO SERVICES UBC IN 2024



OUTLOOK

For 2025, the overall unit labour cost for the economy is likely to continue to rise at a pace that is broadly similar to that in 2024. Against the backdrop of rising global economic uncertainty, increases in remuneration per worker are likely to slow over the course of the year, even as productivity growth is expected to moderate in tandem with a slower pace of growth in the Singapore economy. At the same time, the costs of utilities, fuel and transportation are likely to moderate, in line with the outlook for global oil prices in 2025.

BOX 3.1: BUSINESS COST CONDITIONS IN SINGAPORE'S MANUFACTURING AND SERVICES SECTORS

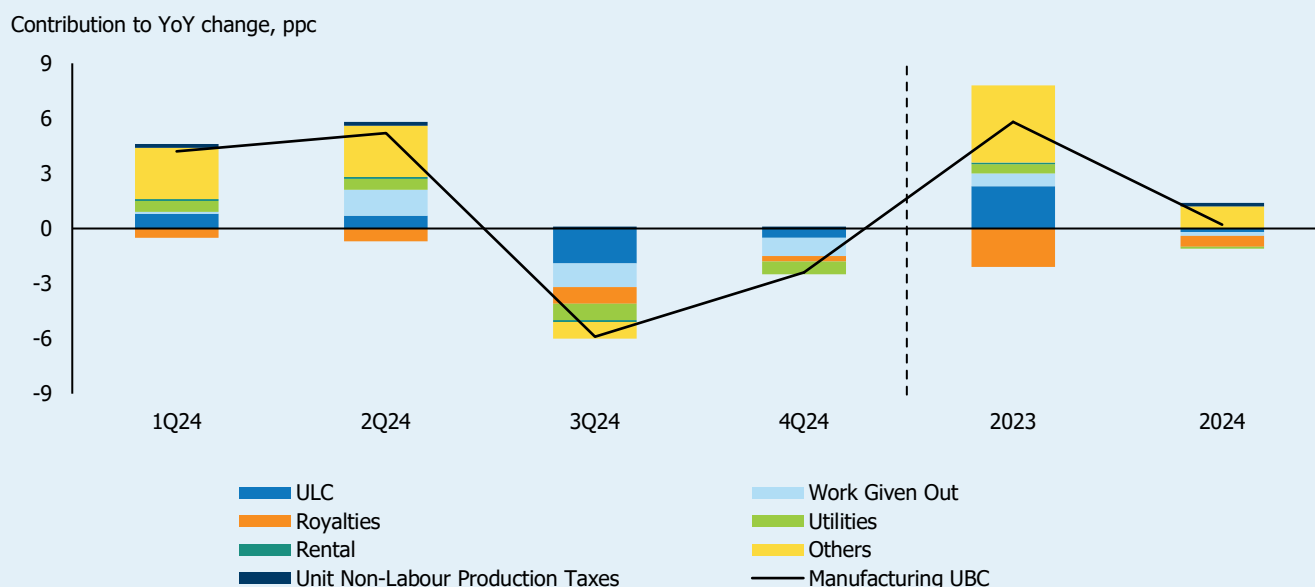
This box article highlights the latest trends in business costs for firms in Singapore's manufacturing and services sectors, as well as the outlook for key components of business costs in 2025.

(I) Unit Business Cost¹ in the Manufacturing and Services Sectors

In 2024, unit business cost in the manufacturing and services sectors rose

In 2024, the unit business cost index for the manufacturing sector (UBCI) rose marginally by 0.2 per cent, easing from the 5.8 per cent increase in 2023 (Exhibit 1). The main contributor to the increase in UBCI in 2024 was the "others" cost component², which accounted for 1.2 percentage-points (pp) of the increase. This offset the declines in royalty payments³, manufacturing unit labour cost (ULC) and the costs of work given out, which collectively contributed -1.0 pp to the UBCI increase. Meanwhile, the remaining cost components such as non-labour production taxes⁴, utilities and rental costs⁵ had a relatively small impact on the UBCI, in part due to their small shares in overall business costs. (Please refer to the Annex for the business cost structure of firms in the manufacturing and services sectors.)

Exhibit 1: Contribution to the UBCI Change by Key Cost Components



Source: Department of Statistics

As for the overall services sector, its unit business cost index (UBC-*Services Index*)⁶ rose by 5.8 per cent year-on-year in the first three quarters of 2024, a reversal from the 3.9 per cent year-on-year decline recorded for the same period in 2023 (Exhibit 2).⁷ The pickup in the UBC-*Services Index* came on the back of increases in both non-labour costs (+5.1 pp contribution) and services ULC (+0.8 pp). In turn, the increase in non-labour costs was partly driven by higher sea freight rates compared to the first three quarters of 2023, which more than offset lower air freight rates over the same period.

1 Business costs tend to increase when firms produce a higher amount of output to meet demand. Unit business cost accounts for the change in output by measuring the business costs incurred to produce one unit of output. Only operating expenses (i.e., excluding materials costs and depreciation) are included in business costs based on the definition adopted by the Department of Statistics (DOS) in its computation of the Unit Business Cost for Manufacturing. See DOS's Information Paper, "Methodological Review on the Unit Business Cost Index for Manufacturing Industry (Base Year 2010=100)", at <https://www.singstat.gov.sg/-/media/files/publications/economy/ip-e38.pdf>.

2 "Others" costs include professional fees, advertising, commission & agency fees, sundry expenses etc.

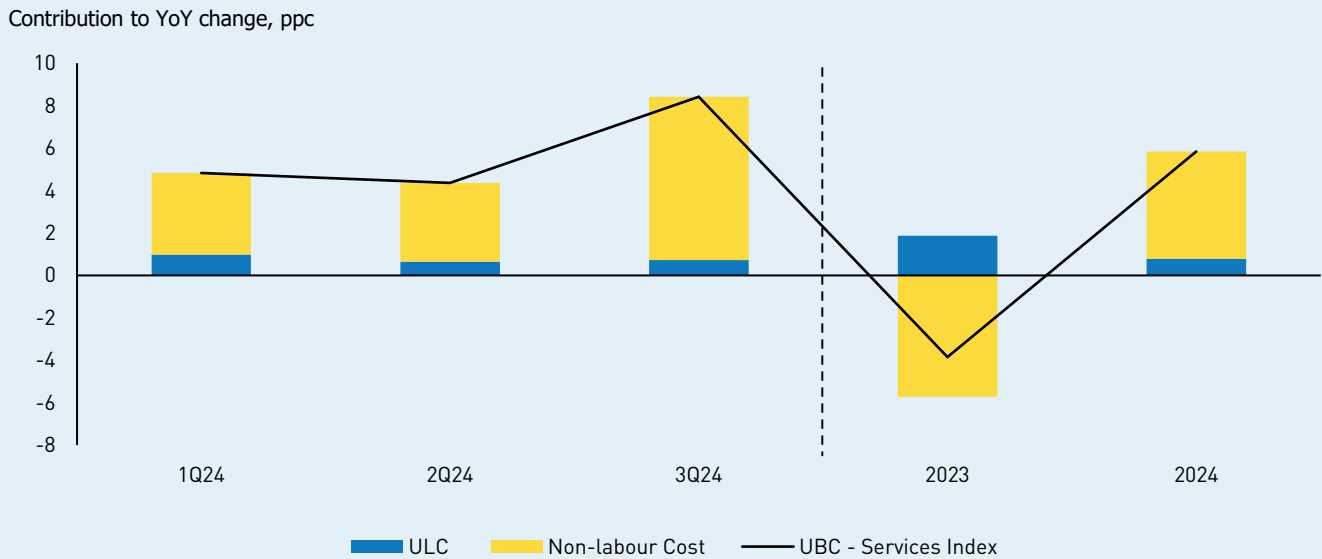
3 Royalty payments refer to payments to another party (the licensor or franchisor who owns a particular asset) for the right to the ongoing use of that asset. There could be many reasons for changes in royalty payments. For instance, royalty payments vary with company-specific licensing agreements which could differ from year to year. Furthermore, royalties are usually computed as a percentage of sales, which could be volatile each year.

4 Non-labour production taxes include property, road and other indirect taxes. Labour-related taxes on production (e.g., foreign worker levy) are classified under labour cost. Taxes on income (e.g., corporate income tax) are not included in business costs.

5 Industrial rentals rose by 3.5 per cent in 2024, moderating from the 8.9 per cent increase in 2023.

6 The UBC-*Services Index* assesses cost conditions in the services sector. It is a composite index of proxy cost indicators for each component of business costs, combined using weights estimated from expenditure data in DOS' *Services Survey Series 2019*, as well as the 2019 Input-Output tables.

7 The latest available UBC-*Services Index* is up to the third quarter of 2024.

Exhibit 2: Contribution to UBC-Services Index Changes by Cost Components

Source: MTI Staff estimates

Notes: (1) The 2023 and 2024 figures refer to the average of the UBC-Services Index for the first three quarters of the respective years; (2) Detailed cost component breakdown of the UBC-Services Index is not available; (3) Non-labour costs include air & sea freight costs, cargo handling costs and warehousing & storage costs.

(II) Latest Trends and Outlook for Key Cost Components**Following a moderation in its pace of increase in 2024, the ULC for the overall economy is expected to rise at a broadly similar pace in 2025**

The ULC for the overall economy rose by 1.2 per cent in 2024, moderating from the 6.5 per cent increase in 2023 largely because of a pickup in productivity growth in 2024.^{8,9} The increase in the overall ULC in 2024 was due to a rise in total labour cost¹⁰ (TLC) per worker (4.0 per cent) which outstripped the increase in labour productivity¹¹ (2.7 per cent) (Exhibit 3). In turn, the increase in TLC per worker was mainly driven by higher remuneration per worker (+3.3 pp contribution).

At the broad sectoral level, the ULC of the services producing industries (1.5 per cent) and construction sector (1.6 per cent) both increased in 2024 due to a rise in TLC per worker that outweighed labour productivity growth within the sector (Exhibit 4). By contrast, the manufacturing sector (-0.8 per cent) recorded a fall in ULC as labour productivity gains more than offset an increase in TLC per worker.

Meanwhile, within the services producing industries, the food & beverage services (10.2 per cent), retail trade (6.2 per cent) and administrative & support services (6.2 per cent) sectors registered the largest ULC increases. For these three sectors, the increase in their ULCs was due to the combined effects of an increase in TLC per worker and a fall in labour productivity.

For 2025, the ULC for the overall economy is likely to continue to rise at a pace that is broadly similar to that in 2024. Against the backdrop of rising global economic uncertainty, increases in remuneration per worker are likely to slow over the course of the year as employers turn more cautious and tightness in the labour market continues to ease. This will be broadly offset by an expected moderation in productivity growth in tandem with a slower pace of growth in the Singapore economy.

⁸ A change in the ULC can be approximately decomposed as the change in total labour cost per worker minus the change in labour productivity (proxied by gross real value-added per worker). The approximation holds better when the changes are small.

⁹ In 2024, labour productivity growth came in at 2.7 per cent, a reversal from the 2.8 per cent decline in 2023.

¹⁰ TLC comprises remuneration, wage subsidies and other labour-related costs, which include the skills development levy, foreign worker levy, and recruitment and net training costs.

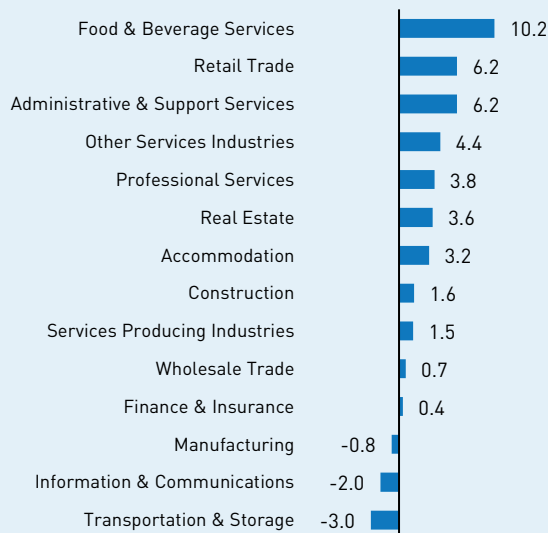
¹¹ Labour productivity in this decomposition is proxied by real gross value-added per worker.

Exhibit 3: Decomposition of ULC Growth for Overall Economy, 2024

ULC	1.2%
TLC per worker	4.0%
<i>Remuneration per worker</i>	+3.3pp
<i>FWL per worker</i>	+0.1pp
<i>Wage subsidies per worker</i>	+0.3pp
<i>Other labour costs</i>	+0.3pp
Gross real labour productivity*	2.7%

* Measured as real gross value-added per worker.

Source: MTI Staff estimates using data from the Department of Statistics and Ministry of Manpower

Exhibit 4: ULC Change by Sectors, 2024

Costs of utilities, fuel and transportation are likely to moderate in 2025

The cost of utilities borne by firms is closely linked to electricity costs,¹² which are in turn influenced by global oil prices.¹³ Oil prices also contribute to business costs through fuel and transportation costs.

In 2024, the average wholesale electricity price declined by 35 per cent (i.e., from \$251/MWh in 2023 to \$163/MWh in 2024), in part reflecting the moderation in global oil prices in the second half of 2024 (Exhibit 5).

Global oil prices are projected to ease further in 2025 as the Organisation of Petroleum Exporting Countries and selected non-member countries (i.e., OPEC+) gradually unwind their oil production cuts over the course of the year and global oil demand moderates. For 2025 as a whole, the US Energy Information Administration (EIA) has projected that global oil prices will average US\$74 per barrel (/bbl)¹⁴, lower than the 2024 average of US\$81/bbl.

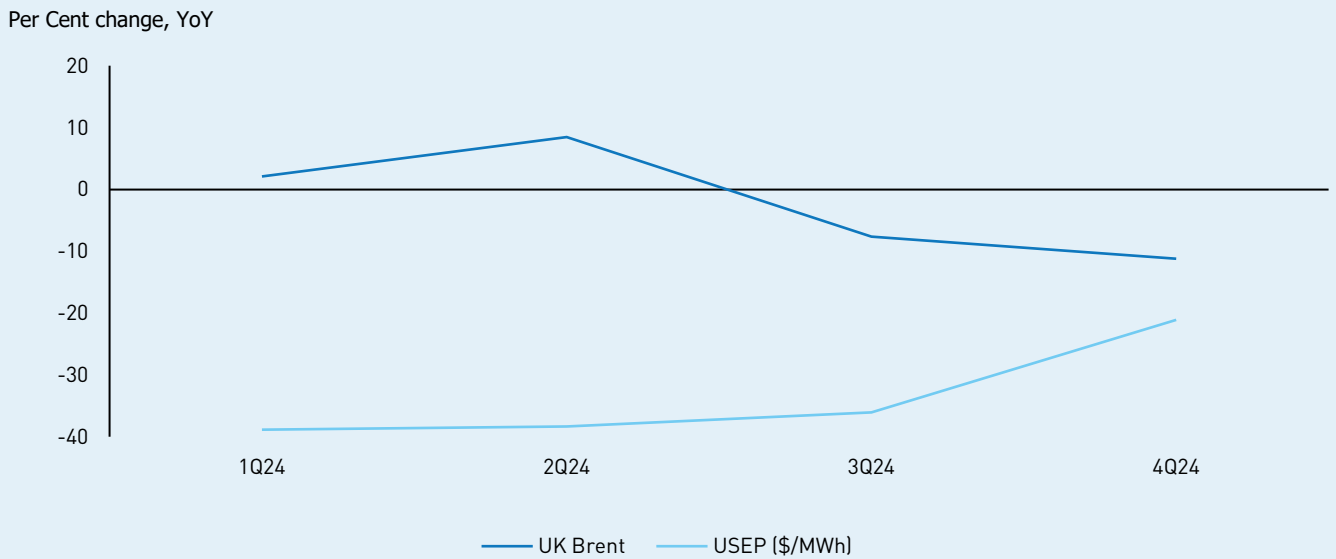
Correspondingly, domestic fuel and transportation costs are expected to moderate in 2025. Similarly, the domestic cost of utilities is expected to ease, notwithstanding the phased increase in water price¹⁵ in 2025.

¹² For example, electricity cost accounted for around 89 per cent of the cost of utilities borne by firms in the manufacturing sector in 2023.

¹³ Around 95 per cent of Singapore's electricity is generated from natural gas, the price of which is indexed to oil prices. This is a common market practice in Asia.

¹⁴ EIA Short-Term Energy Outlook Report, February 2025.

¹⁵ As announced earlier by MSE, to meet the higher costs of supplying and producing water, the potable water price will increase by 50 cents per cubic metre in two phases over 2024 and 2025. This represents an increase in the water price of about 2.5 per cent per year since the last round of price revision in 2018.

Exhibit 5: Global Oil Prices and Uniform Singapore Energy Prices (USEP), 1Q24 – 4Q24

Source: International Monetary Fund, CEIC, Energy Market Company

Note: The USEP is the wholesale price of electricity determined in the Singapore Wholesale Electricity Market. The USEP fluctuates every half-hour and is determined by various factors. Besides fuel costs, the USEP is also influenced by prevailing demand and supply conditions which may fluctuate significantly within the day.

Conclusion

In 2024, the UBCI for the manufacturing sector rose marginally as an increase in the “others” cost component outweighed the declines in royalty payments, manufacturing ULC and the costs of work given out. Meanwhile, the UBC-Services Index increased in the first three quarters of 2024 on account of an increase in non-labour costs and services ULC.

For 2025, the overall ULC for the economy is likely to continue to rise at a pace that is broadly similar to that in 2024. Against the backdrop of rising global economic uncertainty, increases in remuneration per worker are likely to slow over the course of the year, even as productivity growth is expected to moderate in tandem with a slower pace of growth in the Singapore economy. At the same time, the costs of utilities, fuel and transportation are likely to moderate, in line with the outlook for global oil prices in 2025.

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Singapore Department of Statistics (2014), “Methodological Review on the Unit Business Cost Index for Manufacturing Industry (Base Year 2010=100)” November. <https://www.singstat.gov.sg/-/media/files/publications/economy/ip-e38.pdf>.

U.S. Energy Information Administration (2025), “Short-Term Energy Outlook (STEO)” February. <https://www.eia.gov/outlooks/steo/>.

ANNEX: BUSINESS COST STRUCTURE OF MANUFACTURING AND SERVICES SECTORS IN 2023

Manufacturing Sector

In the manufacturing sector, labour cost, work given out and “others” constituted the largest components of business costs. These three components collectively accounted for around 84 per cent of the business costs of small- and medium-sized enterprises (SMEs) and around 78 per cent of the business costs of non-SMEs in the sector in 2023.

The remaining cost components, including utilities, fuel, rental of building/premises and charges paid to other firms for inland transportation and ocean/air/other freight, made up a smaller share of business costs, at around 16 per cent for SMEs and 22 per cent for non-SMEs in 2023. Non-labour production taxes, which include property, road and other indirect taxes, accounted for around 0.5 per cent of the business costs of both SMEs and non-SMEs over the same period.

Details of the business cost structure of SMEs and non-SMEs in the various manufacturing clusters are in Exhibit A1.

Services Sectors

Labour cost constituted a major cost component for firms in the services sectors, with its share of business costs ranging from around 4 per cent on average for SMEs in the transportation & storage sector, to around 36 per cent or more for SMEs in labour-intensive sectors such as food & beverage services, accommodation and retail trade in 2023.

On the other hand, utilities cost was a relatively small cost component for services firms, accounting for less than 2 per cent of the business costs of SMEs in most services sectors in 2023. Key exceptions were the accommodation and food & beverage services sectors, where utilities cost constituted 8 per cent and 6 per cent of the business costs of SMEs in these sectors respectively. Similarly, rental cost accounted for a small share of the business costs of SMEs in most services sectors. Key exceptions were the retail trade and food & beverage services sectors, where rental costs constituted around 23 per cent and 21 per cent of the business costs of SMEs in these sectors respectively.

Similar to the manufacturing sector, non-labour production taxes accounted for less than 1 per cent of the business costs of firms in most services sectors.

Details of the business cost structure of SMEs and non-SMEs in the various services sectors are in Exhibit A2.

Exhibit A1: Business Cost Structure of the Manufacturing Sector by Firm Size, 2023

	Total		Electronics		Chemicals		Biomedical Manufacturing		Precision Engineering		Transport Engineering		General Manufacturing	
	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs
Labour Cost	18.5	32.7	11.8	8.4	16.2	25.6	27.1	14.0	30.3	51.6	28.5	51.7	31.3	48.2
Services Cost	81.0	66.8	87.9	91.5	82.7	73.6	72.5	85.7	69.2	47.7	71.1	47.7	68.1	51.1
Work given out	19.6	21.1	23.2	44.8	2.4	7.4	4.6	25.8	12.0	14.1	48.6	16.1	6.0	11.4
Royalty Payments	8.2	4.9	6.5	4.2	5.4	5.5	29.8	18.8	7.0	1.3	2.1	2.8	13.6	1.0
Utilities	5.3	3.8	5.4	0.7	10.7	12.5	2.4	1.0	2.2	3.3	2.2	1.8	7.2	3.9
Fuel	5.1	1.4	1.4	0.1	28.8	5.7	0.9	0.2	0.1	0.4	0.3	0.4	1.1	1.9
Rental of building/ premises	0.3	1.9	0.1	0.2	0.3	1.3	0.8	0.4	0.8	2.5	0.6	2.1	1.0	4.5
Charges paid to other firms for inland transportation and ocean/ air/ other freight	2.7	3.7	1.3	1.2	6.6	9.3	3.5	4.5	4.3	2.2	1.3	1.6	3.8	4.2
Others	39.8	30.1	50.1	40.4	28.6	31.9	30.5	35.0	42.8	23.8	16.2	22.8	35.5	24.2
Non-Labour Production Taxes	0.5	0.5	0.3	0.1	1.1	0.8	0.4	0.3	0.5	0.7	0.4	0.6	0.5	0.7

Source: Economic Development Board

Notes:

1. SMEs refer to enterprises with operating receipts of not more than \$100 million or employment of not more than 200 workers. Non-SMEs refer to enterprises with operating receipts of more than \$100 million and employment of more than 200 workers.
2. "Others" consists of sub-components such as professional fees, advertising, commission and agency fees, sundry expenses, etc.
3. "-" refers to nil or negligible.

Exhibit A2: Business Cost Structure of the Services Sectors by Firm Size, 2023

	Wholesale Trade		Retail Trade		Accommodation		Food & Beverage Services		Transportation & Storage		Information & Communications		Finance & Insurance		Real Estate, Professional Services and Administrative & Support Services	
	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs	Non-SMEs	SMEs
Labour Cost	18.5	15.1	36.9	39.2	51.5	36.3	44.6	47.5	13.1	4.1	13.5	17.9	9.4	12.1	32.0	30.8
Services Cost	76.9	84.4	62.3	60.1	45.6	61.2	55.1	52.2	86.6	95.7	86.2	81.6	90.4	87.6	65.6	66.9
Utilities	0.4	0.2	3.4	1.5	7.1	7.7	6.1	5.5	1.1	0.2	0.8	1.1	-	0.1	0.6	1.5
Freight & Transport	31.1	39.5	3.9	3.1	-	-	2.0	1.2	52.9	68.9	0.2	0.3	-	-	1.0	1.2
Financial Services	2.1	1.9	2.4	2.3	1.7	2.3	1.1	1.4	0.4	0.5	0.3	1.7	3.1	3.8	0.1	0.7
Communications	0.3	0.2	0.3	0.8	0.3	0.9	0.2	0.3	0.1	0.1	0.7	6.5	-	0.1	0.1	0.4
Renting of Premises	2.5	3.0	28.9	23.2	5.3	13.8	17.9	20.9	0.7	1.5	0.8	2.1	0.5	0.9	2.0	3.3
Professional Services	5.1	3.3	2.1	2.4	1.8	2.1	0.6	1.4	1.1	0.6	9.6	15.1	1.5	5.5	3.7	6.7
Other Services	35.4	36.3	21.3	26.8	29.5	34.4	27.2	21.4	30.4	24.0	73.8	54.8	85.2	77.2	58.1	53.2
<i>Advertising & Entertainment</i>	5.2	14.5	5.6	9.1	4.0	4.0	3.9	2.6	0.3	0.7	6.2	16.4	1.2	1.2	0.7	6.8
<i>Admin & Management Fees</i>	13.2	6.0	3.2	3.7	5.9	9.7	2.6	3.6	0.8	1.9	14.7	10.4	4.0	10.0	8.6	9.0
<i>Contract labour & work given out</i>	2.0	1.3	0.5	1.7	1.9	1.5	2.3	2.5	0.7	0.8	3.6	6.4	-	0.2	21.9	14.4
<i>Commission</i>	2.8	3.3	1.0	3.7	2.4	5.3	1.2	2.5	2.0	1.3	1.7	2.9	2.4	5.7	0.7	3.0
<i>Royalties</i>	7.4	4.8	1.1	0.9	2.7	0.9	6.6	2.6	-	0.3	40.5	7.4	0.1	0.2	0.4	0.6
<i>Maintenance & repairs</i>	0.6	0.9	2.8	1.7	3.9	5.5	4.9	2.8	3.5	1.7	0.5	1.5	0.5	0.3	1.6	3.0
<i>Fuel</i>	0.6	0.6	0.1	0.1	-	-	0.1	0.2	20.2	13.2	-	-	-	-	-	0.2
<i>Others</i>	3.5	4.9	7.0	5.9	8.7	7.4	5.6	4.7	3.0	4.0	6.5	9.9	77.1	59.8	24.2	16.3
Non-Labour Production Taxes	4.5	0.5	0.9	0.7	2.9	2.5	0.3	0.3	0.3	0.1	0.3	0.5	0.2	0.4	2.4	2.3

Source: Department of Statistics and Monetary Authority of Singapore

Notes:

1. SMEs refer to enterprises with operating receipts of not more than \$100 million or employment of not more than 200 workers. Non-SMEs refer to enterprises with operating receipts of more than \$100 million and employment of more than 200 workers.

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