CHAPTER 3
Costs, Investments and Prices


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CHAPTER 3

COSTS, INVESTMENTS AND PRICES

Overall Unit Labour Cost grew by

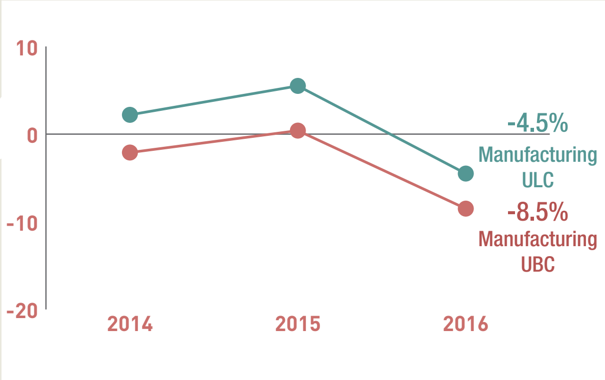
2.4% in 2016

Within the manufacturing sector

-4.5% in 2016
Unit Labour Cost

-8.5% in 2016
Unit Business Cost

GROWTH RATES OF UNIT LABOUR COST (ULC) AND UNIT BUSINESS COST (UBC)



INVESTMENT COMMITMENTS

Manufacturing and Services attracted

$9.4 billion
Fixed Asset Investment Commitments

$8.3 billion
Total Business Expenditure Commitments

Clusters that attracted the highest Fixed Asset Investment commitments

- Services Cluster
- Electronics
- Chemicals

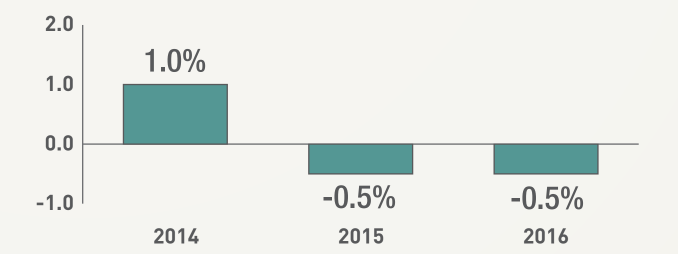
Clusters that attracted the highest Total Business Expenditure commitments

- Headquarters & Professional Services
- Transport Engineering
- Logistics

The Consumer Price Index (CPI) decreased by

0.5% in 2016

CPI-ALL ITEMS INFLATION



The increase in CPI was mainly driven by INCREASES in prices of...

- Food: 0.5%-point contribution
- Education: 0.2%-point contribution

But this was partially offset by DECLINES in prices of...

- Housing & Utilities: -1.0%-point contribution
- Transport: -0.4%-point contribution

OVERVIEW

Overall Unit Labour Cost (ULC) rose at a slower pace of 0.7 per cent in the fourth quarter of 2016, compared to 3.1 per cent in the preceding quarter. For the whole of 2016, the ULC increased by 2.4 per cent, as the rise in total labour cost per worker exceeded labour productivity gains.

Total investment commitments in the manufacturing and services sectors were stable in 2016. Among the manufacturing clusters, the electronics cluster attracted the largest amount of commitments in fixed asset investments (FAI). On the other hand, the headquarters & professional services segment was the biggest contributor to commitments in total business expenditure (TBE).

The Consumer Price Index-All Items (CPI-All Items) was unchanged on a year-on-year basis in the fourth quarter. For the full year, the CPI-All Items fell by 0.5 per cent, the same rate of inflation as in 2015.

Producer prices, as measured by the domestic supply price index (DSPI) and Singapore manufactured products price index (SMPPI), as well as import prices, rose in the fourth quarter. On the other hand, export prices remained unchanged. For the whole of 2016, the DSPI, SMPPI, import and export price indices fell by 6.9 per cent, 5.5 per cent, 5.3 per cent and 5.4 per cent respectively.

COSTS

Overall ULC rose by 0.7 per cent in the fourth quarter, a slowdown from the 3.1 per cent increase in the third quarter. The slowdown in ULC growth came on the back of an improvement in labour productivity growth.

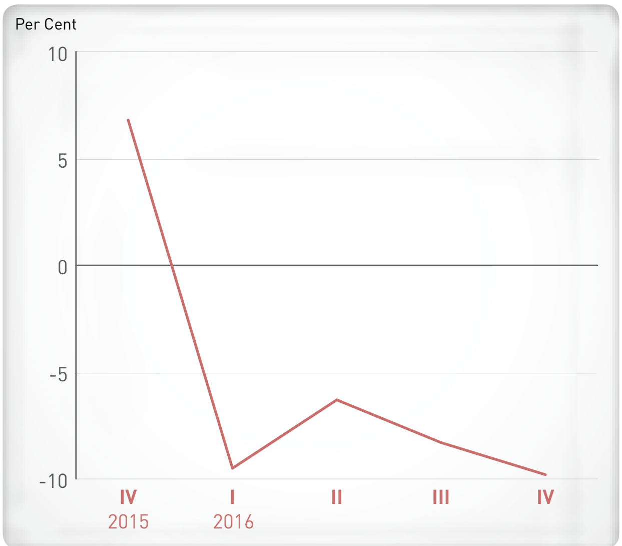
Exhibit 3.1: Changes in Unit Labour Cost in 4Q 2016

Across broad sectors, the ULC for the manufacturing sector declined by 11 per cent, the fourth consecutive quarter of decline. The fall in the manufacturing ULC was due to productivity gains in the sector. By contrast, the construction and services ULCs increased by 4.4 per cent and 3.4 per cent respectively. All the services sectors registered positive ULC growth, with the largest increases seen in the business services (8.1 per cent) and accommodation & food services (6.1 per cent) sectors (Exhibit 3.1).

For the whole of 2016, overall ULC rose by 2.4 per cent, as the increase in total labour cost per worker outpaced the growth in labour productivity for the economy.

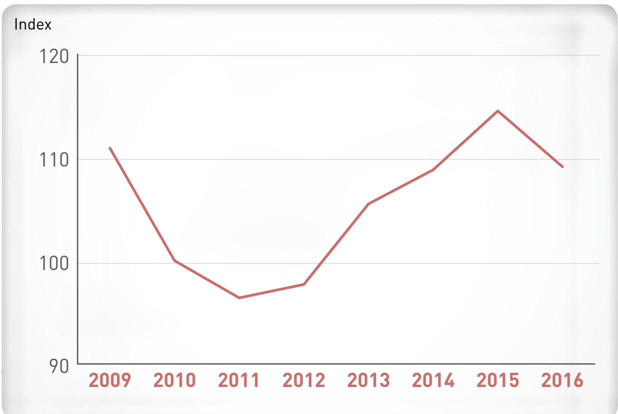
Manufacturing unit business cost (UBC) fell by 9.8 per cent in the fourth quarter, extending the 8.3 per cent decline in the previous quarter (Exhibit 3.2). All components of the UBC (i.e., manufacturing ULC, unit services cost and unit non-labour production taxes) fell. For the whole of 2016, the manufacturing UBC decreased by 8.5 per cent, a reversal from the 0.4 per cent increase in 2015.

Exhibit 3.2: Changes in Unit Business Cost for Manufacturing



Singapore's relative unit labour cost (RULC) for manufacturing – a measure of Singapore's competitiveness against 16 economies[1] – declined in 2016 compared to 2015 (Exhibit 3.3). This was due to a decline in Singapore's manufacturing ULC compared to other economies, which more than offset the effect of the appreciation of the Singapore dollar against the trade-weighted currencies of our competitors.

Exhibit 3.3: Singapore's Relative Unit Labour Cost in Manufacturing Against Selected 16 Economies

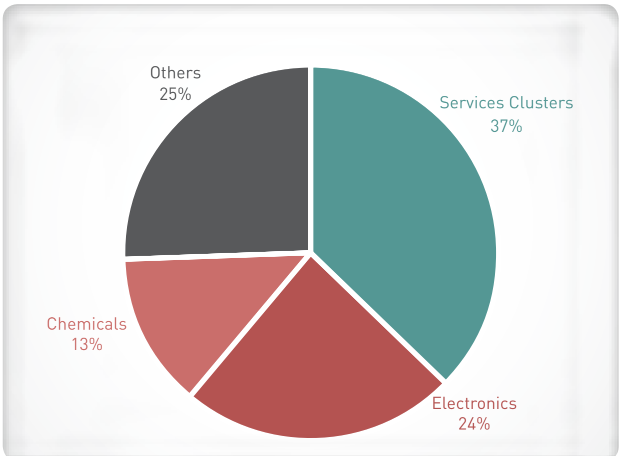


INVESTMENT COMMITMENTS

On the whole, investment commitments were stable in 2016, amidst slower global growth. In particular, investment commitments were supported by total TBE which increased to $8.3 billion, up from $5.6 billion in 2015. By contrast, total FAI attracted fell to $9.4 billion from $11 billion a year ago.

The manufacturing sector garnered the most FAI commitments. Within the manufacturing sector, the electronics cluster attracted the largest amount of commitments, at $2.2 billion, mainly in the semiconductors segment. This was followed by the chemicals cluster, which registered $1.3 billion in commitments (Exhibit 3.4). Investors from the United States were the largest source of FAI commitments (37 per cent). They were followed by investors from Asia Pacific (ex-Japan) who contributed about $1.8 billion of total FAI commitments (19 per cent).

Exhibit 3.4: Fixed Asset Investments by Industry Clusters in 2016

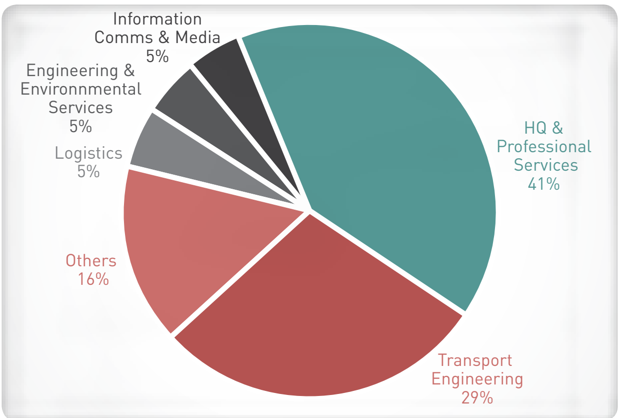


For TBE, the headquarters & professional services segment attracted the highest amount of commitments in 2016, at $3.4 billion, or 41 per cent of total TBE commitments. The transport engineering cluster came next, contributing about $2.4 billion in TBE commitments (Exhibit 3.5). Investors from Asia Pacific (ex-Japan) contributed $1.6 billion, or 19 per cent of the total TBE commitments, followed by investors from the United States who accounted for $1.5 billion, or 18 per cent of total TBE commitments.

When fully operational, these FAI and TBE commitments are estimated to generate $13 billion of value-added per annum and create approximately 20,075 jobs.

[1] *The 16 economies are Australia, China, France, Germany, Hong Kong, India, Indonesia, Japan, Malaysia, Netherlands, South Korea, Taiwan, Thailand, the United Kingdom, the United States and Vietnam.*

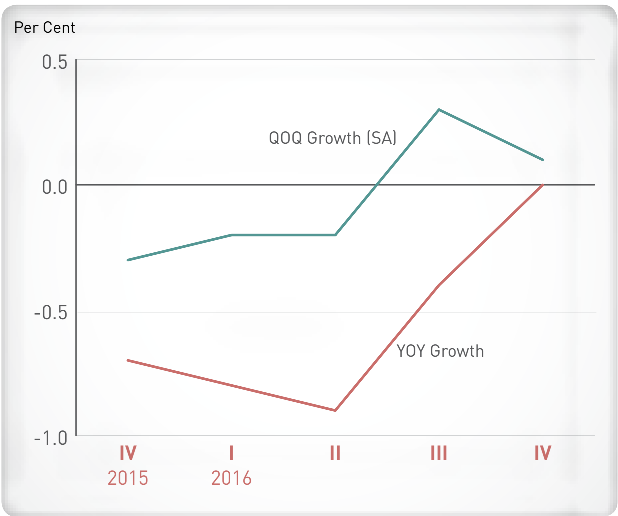
Exhibit 3.5: Total Business Expenditure by Industry Clusters in 2016



CONSUMER PRICE INDEX

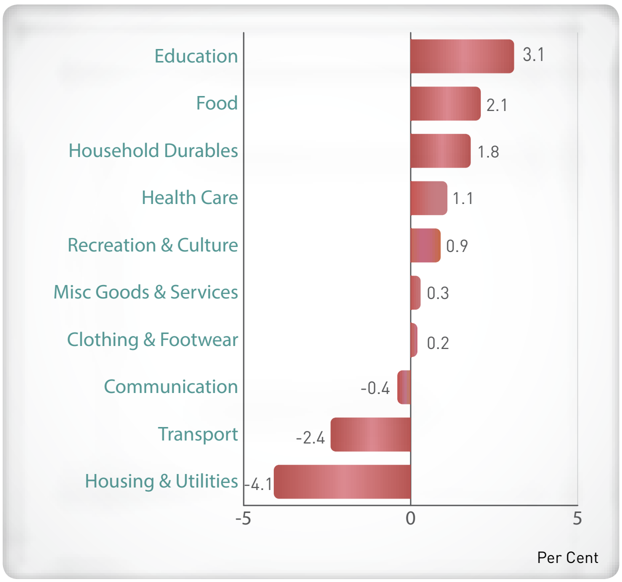
Singapore's CPI-All Items was unchanged on a year-on-year basis in the fourth quarter, following the 0.4 per cent decline in the third quarter (Exhibit 3.6). On a quarter-on-quarter seasonally-adjusted basis, the CPI-All Items rose by 0.1 per cent, easing from the 0.3 per cent increase in the preceding quarter.

Exhibit 3.6: Changes in Overall CPI



For 2016 as a whole, the CPI-All Items fell by 0.5 per cent, the same rate of inflation as in 2015. Among the CPI categories, food was the largest positive contributor to headline inflation, with prices increasing by 2.1 per cent (Exhibit 3.7). This was on account of more expensive hawker food and restaurant meals, as well as non-cooked food items such as fish & seafood, vegetables and meat.

Exhibit 3.7: Changes in CPI by Category in 2016



Education costs increased by 3.1 per cent as a result of higher fees at commercial institutions, universities, polytechnics, kindergartens and childcare centres. The prices of household durables & services rose by 1.8 per cent as higher salaries for foreign domestic workers outweighed the dampening effect of lower concessionary levies for these workers. Recreation & culture costs increased by 0.9 per cent on account of the higher costs of holiday travel and newspapers, which more than offset the fall in the cost of cinema tickets. Healthcare costs rose by 1.1 per cent on the back of the higher costs of outpatient and hospital services.

The prices of miscellaneous goods & services edged up by 0.3 per cent due to the higher cost of personal effects. Prices of clothing & footwear increased by 0.2 per cent as more expensive ready-made garments more than offset the impact of cheaper footwear.

The price gains in these CPI categories were outweighed by price declines in other categories. In particular, housing & utilities posed the largest drag on headline inflation, with prices declining by 4.1 per cent as the fall in accommodation costs and electricity tariffs more than offset the increase in housing maintenance charges. Transport costs fell by 2.4 per cent as lower petrol and car prices outweighed the effect of higher vehicle repair & maintenance fees. Communications costs fell by 0.4 per cent due to the lower cost of telecommunication services.

PRODUCER PRICE INFLATION

Producer prices - as measured by the DSPI and SMPPI - as well as the import price index rose in the fourth quarter (Exhibits 3.8 and 3.9). This was largely due to an increase in the prices of mineral fuels on the back of the pick-up in oil prices. On the other hand, the export price index remained unchanged as the increase in the prices of mineral fuels was offset by a fall in the prices of machinery & transport equipment and chemicals & chemical products.

For the whole of 2016, the DSPI and SMPPI fell by 6.9 per cent and 5.5 per cent respectively, mainly on account of the lower prices of mineral fuels. The fall in the prices of mineral fuels also contributed to the bulk of the decline in import prices (-5.3 per cent) and export prices (-5.4 per cent).

Exhibit 3.8: Changes in Domestic Supply Price and Singapore Manufactured Products Price Indices

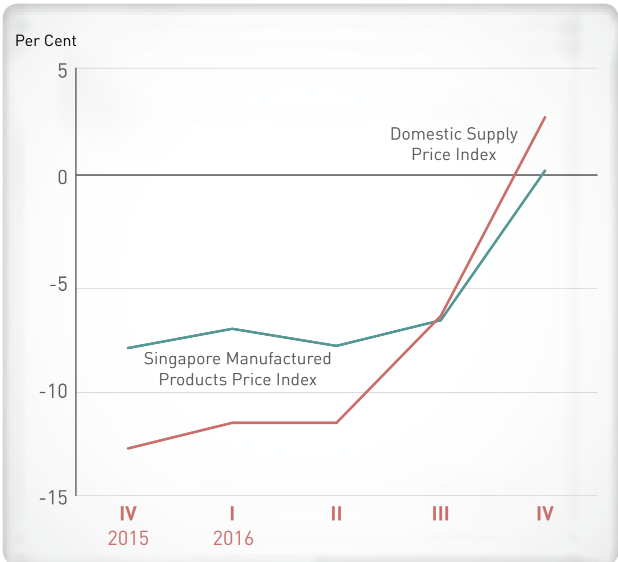


Exhibit 3.9: Changes in Import and Export Price Indices