

## CHAPTER 3

# COSTS, INVESTMENTS AND PRICES





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# CHAPTER 3

## COSTS, INVESTMENTS AND PRICES

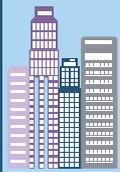
### Investment Commitments in 2017

**\$9.4 billion**



Fixed Asset Investment Commitments

**\$6.5 billion**



Total Business Expenditure Commitments

### OVERALL UNIT LABOUR COST



### WITHIN THE MANUFACTURING SECTOR



**-8.0%**  
in 2017  
Unit Labour Cost

**+3.4%**  
in 2017  
Unit Business Cost



The Consumer Price Index (CPI) increased by

**0.6%**  
in 2017

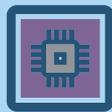
### CPI-ALL ITEMS INFLATION



### CLUSTERS THAT ATTRACTED THE HIGHEST FIXED ASSET INVESTMENT COMMITMENTS



Services Clusters



Electronics



Chemicals

### THE INCREASE IN CPI WAS MAINLY DRIVEN BY INCREASES IN PRICES OF...

TRANSPORT



0.4%-point contribution

FOOD



0.3%-point contribution

### CLUSTERS THAT ATTRACTED THE HIGHEST TOTAL BUSINESS EXPENDITURE COMMITMENTS



Headquarters & Professional Services



Engineering & Environmental Services



Information Communication & Media

### BUT THIS WAS PARTIALLY OFFSET BY DECLINES IN PRICES OF...

HOUSING & UTILITIES



-0.6%-point contribution

## OVERVIEW

Overall Unit Labour Cost (ULC) rose by 0.9 per cent in the fourth quarter of 2017, reversing the decline of 2.0 per cent in the preceding quarter. For the whole of 2017, the ULC fell by 0.3 per cent on the back of strong productivity gains.

Total investment commitments in the manufacturing and services sectors moderated from 2016's level, but remained healthy in 2017. 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 cluster was the biggest contributor to commitments in total business expenditure (TBE).

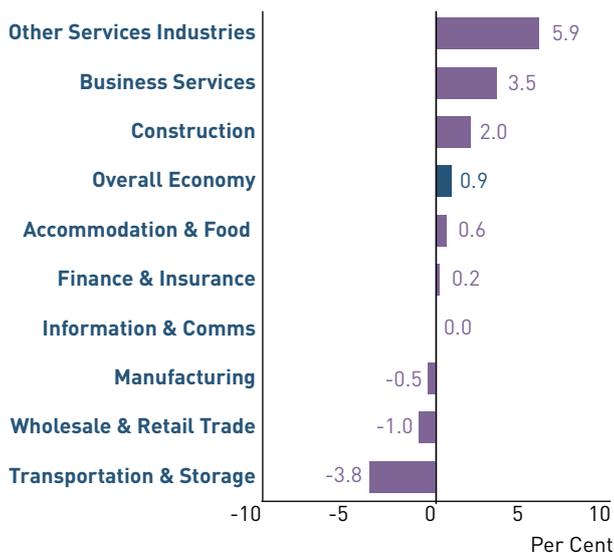
The Consumer Price Index-All Items (CPI-All Items) increased by 0.5 per cent in the fourth quarter on a year-on-year basis, higher than the 0.4 per cent increase in the previous quarter. For 2017 as a whole, CPI-All Items inflation came in at 0.6 per cent, after two consecutive years of negative inflation.

Producer prices, as measured by the domestic supply price index (DSPI), Singapore manufactured products price index (SMPPPI) and import prices, rose in the fourth quarter, while export prices declined. For 2017 as a whole, the DSPI, SMPPPI, import and export price indices increased by 7.0 per cent, 3.8 per cent, 5.8 per cent and 2.9 per cent respectively.

## COSTS

After falling by 2.0 per cent in the third quarter, overall ULC for the economy registered gains of 0.9 per cent in the fourth quarter, the highest recorded for the year as the rise in total labour cost per worker exceeded labour productivity gains.

Exhibit 3.1: Changes in Unit Labour Cost in 4Q 2017

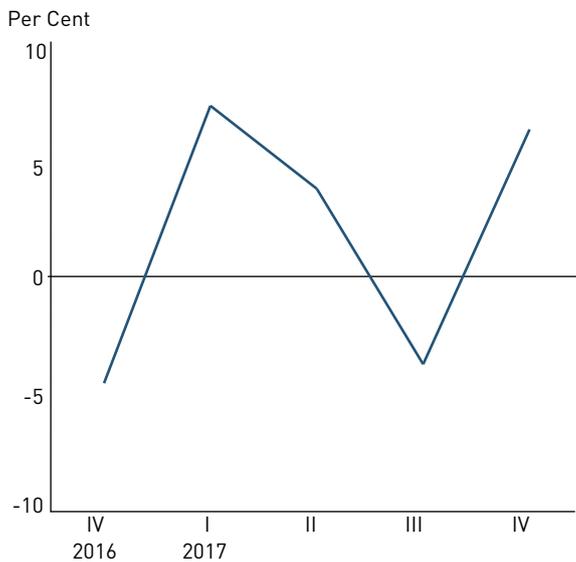


By broad sectors, the ULC for the manufacturing sector declined by 0.5 per cent, the eighth consecutive quarter of decline. The continued fall in the manufacturing ULC was due to sustained productivity gains in the sector. By contrast, the ULC for the construction sector and the overall services sector increased by 2.0 per cent and 1.5 per cent respectively. Most services sectors registered positive ULC growth, with the largest increases observed in the other services (5.9 per cent) and business services (3.5 per cent) sectors. Only the wholesale & retail trade and transportation & storage sectors registered ULC declines of 1.0 per cent and 3.8 per cent respectively (Exhibit 3.1).

For the whole of 2017, the overall ULC fell by 0.3 per cent as a result of strong labour productivity gains.

Manufacturing unit business cost (UBC) rose by 6.2 per cent in the fourth quarter, a reversal of the 3.7 per cent decline in the previous quarter (Exhibit 3.2). The increase in manufacturing UBC was driven by an increase in unit services cost (including royalties, utilities and other services costs such as professional and advertising fees), which more than offset the decline in the manufacturing ULC. For the whole of 2017, the manufacturing UBC rose by 3.4 per cent, reversing the 1.5 per cent decline in 2016.

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<sup>1</sup> – declined in 2017 as compared to 2016 (Exhibit 3.3). The decline in the manufacturing RULC came on the back of a fall in Singapore's manufacturing ULC relative to other economies.

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

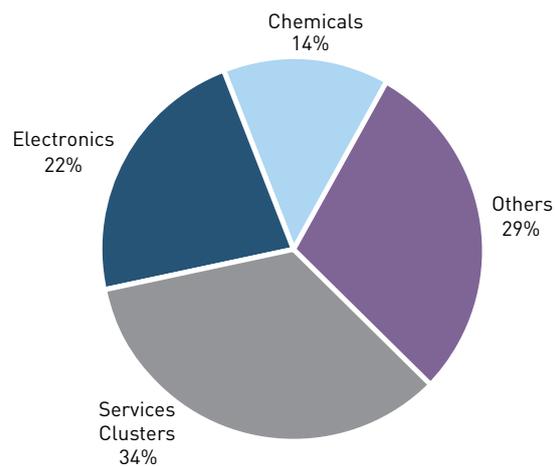


## INVESTMENT COMMITMENTS

In 2017, the Singapore economy received a healthy level of investment commitments, although it represented a moderation from the level received in 2016. For the full year, FAI and TBE commitments came in at \$9.4 billion and \$6.5 billion respectively.

The manufacturing sector garnered the most FAI commitments. Within the manufacturing sector, the electronics cluster attracted the largest amount of commitments, at \$2.1 billion, mainly in the semiconductors segment. This was followed by the chemicals cluster, which received \$1.3 billion in commitments (Exhibit 3.4). Investors from the United States were the largest source of FAI commitments (38 per cent). They were followed by investors from Europe who contributed about \$2.7 billion of FAI commitments (29 per cent).

Exhibit 3.4: Fixed Asset Investments by Industry Clusters in 2017

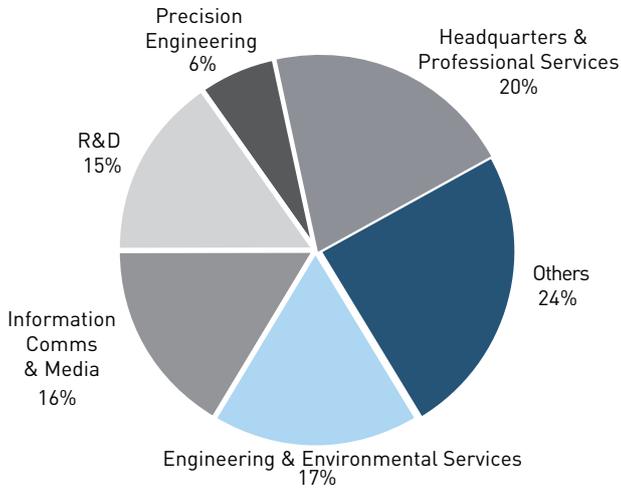


For TBE, the headquarters & professional services cluster attracted the highest amount of commitments in 2017, at \$1.3 billion. The engineering & environmental services cluster came next, contributing about \$1.1 billion in TBE commitments (Exhibit 3.5). Investors from the United States contributed \$2.5 billion, or 38 per cent of the total TBE commitments, followed by investors from Asia Pacific (ex-Japan) who accounted for \$1.3 billion, or 20 per cent of total TBE commitments.

When fully operational, these FAI and TBE commitments are estimated to generate \$17 billion of value-added per annum and create approximately 22,481 jobs.

<sup>1</sup> 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 Cluster in 2017

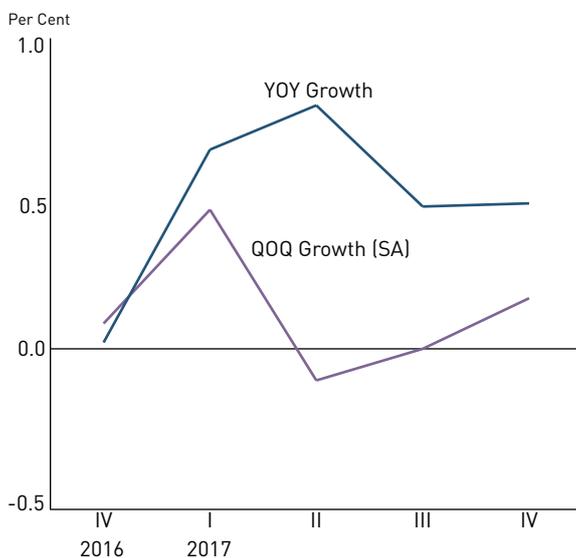


## CONSUMER PRICE INDEX

Singapore's CPI-All Items increased by 0.5 per cent on a year-on-year basis in the fourth quarter, extending the 0.4 per cent rise in the third quarter (Exhibit 3.6). On a quarter-on-quarter seasonally-adjusted basis, the CPI-All items increased by 0.2 per cent, after remaining unchanged in the previous quarter.

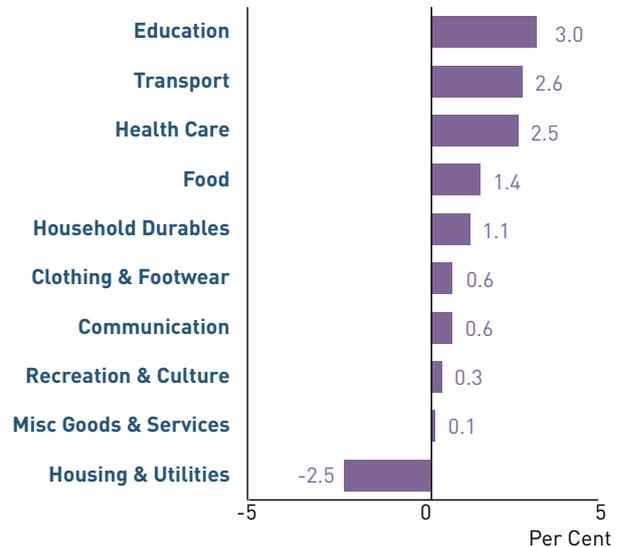
For 2017 as a whole, CPI-All Items inflation came in at 0.6 per cent, after two consecutive years of negative inflation. Among the CPI categories, the largest positive contributor to CPI inflation was transport costs, which rose by 2.6 per cent (Exhibit 3.7). This was on account of higher petrol prices and parking charges as well as the expiry of the road tax rebate, which more than offset the effect of lower bus and train fares.

Exhibit 3.6: Changes in Overall CPI



Food prices rose by 1.4 per cent due to price increases for food servicing services like hawker food and restaurant meals as well as non-cooked food items such as fish and sea-food, fruits and vegetables. Meanwhile, education costs increased by 3.0 per cent as a result of higher fees at commercial institutions, universities, kindergartens, childcare centres and polytechnics. Healthcare costs went up by 2.5 per cent due to more expensive hospital and outpatient services. Prices of household durables and services increased by 1.1 per cent as a rise in the salaries of foreign maids more than offset a drop in the prices of household durables. Recreation and culture costs rose by 0.3 per cent because of the higher costs of holiday travel.

Exhibit 3.7: Changes in CPI by Category in 2017



Communications costs edged up by 0.6 per cent due to the higher cost of telecommunication services. Clothing and footwear costs rose by 0.6 per cent because of more expensive footwear and ready-made garments. Lastly, the prices of miscellaneous goods and services increased by 0.1 per cent on account of a rise in the cost of personal effects items.

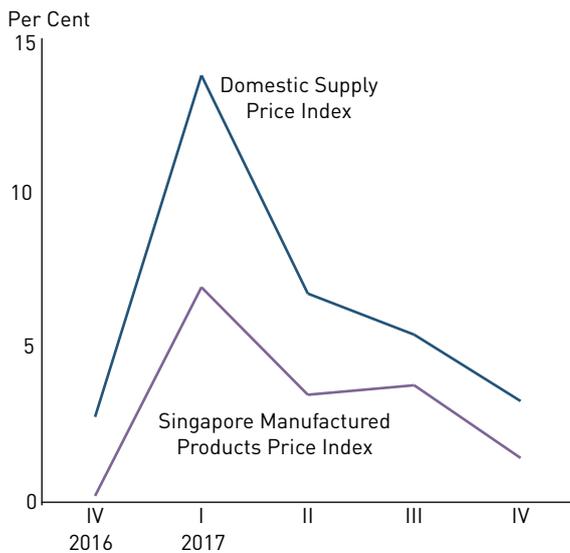
The price gains in these CPI categories were partially offset by a 2.5 per cent fall in the cost of housing and utilities. In turn, the lower cost of housing and utilities was due to a decline in accommodation costs, which had more than offset the increase in electricity tariffs, water price and housing maintenance charges for both HDB and non-HDB flats.

## 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). These increases were largely due to an increase in the price of diesel fuels, reflecting the pickup in oil prices. On the other hand, the export price index fell on account of a drop in the prices of integrated circuits, disk drives, semiconductor memories and parts of office and data processing machines.

For the whole of 2017, the DSPI and SMPPI rose by 7.0 per cent and 3.8 per cent respectively, mainly on account of an increase in the prices of diesel fuels and kerosene. Likewise, the higher prices of diesel fuel and high speed diesel fuel contributed to the bulk of the increase in import prices (5.8 per cent) and export prices (2.9 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*

