Box Article 3.1

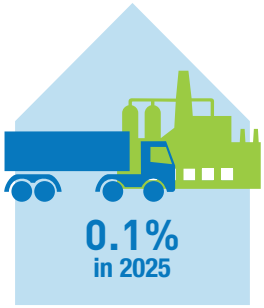
BUSINESS COST CONDITIONS IN SINGAPORE'S MANUFACTURING AND SERVICES SECTORS

OVERVIEW

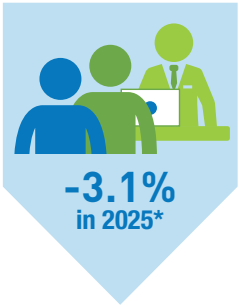
In 2025, unit business cost in the manufacturing sector rose slightly, while unit business cost in the services sector declined.

DEFINITION OF UBC

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



UBC for Manufacturing



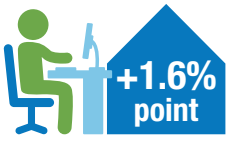
UBC for Services

*Refers to the first three quarters of 2025

KEY DRIVERS

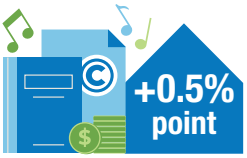
The marginal increase in UBC for manufacturing in 2025 was mainly due to the increase in the cost of work given out, royalty payments and "others", which more than offset the decline in manufacturing unit labour cost and utilities cost.

CONTRIBUTION TO MANUFACTURING UBC IN 2025



Work Given Out

Others



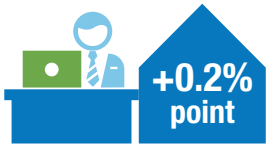
Royalty Payments

Labour Cost

The decline in UBC for services came on the back of a fall in non-labour cost, which outweighed an increase in services unit labour cost .

CONTRIBUTION TO SERVICES UBC IN 2025

Non-Labour Cost



Labour Cost

OUTLOOK

For 2026, the unit labour cost for the overall economy is likely to pick up, due to a projected moderation in productivity growth, even as remuneration per worker is expected to rise at a similar pace as that in 2025. Meanwhile, costs of utilities, fuel and transportation are projected to moderate further in 2026 on the back of a projected decline in oil prices.

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

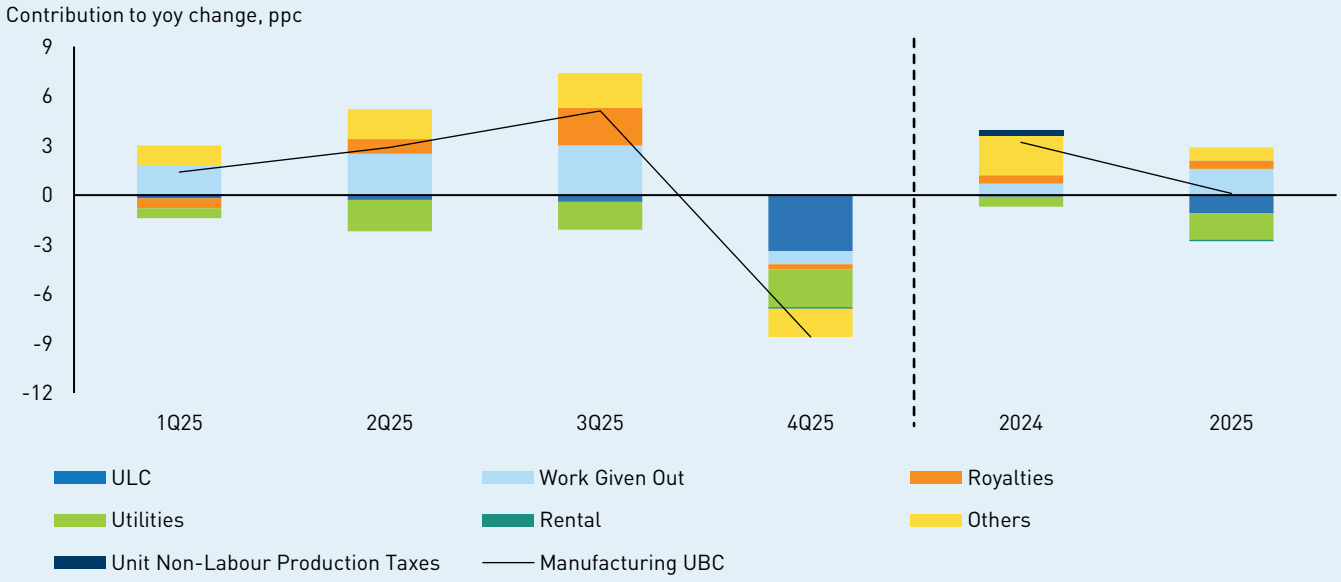
This box article highlights the latest trends in business costs for firms in Singapore's manufacturing and services sectors, as well as the outlook for key components of business costs in 2026.

(I) Unit Business Cost[1] in the Manufacturing and Services Sectors

In 2025, unit business cost in the manufacturing sector rose slightly, while unit business cost in the services sector declined

The unit business cost index of the manufacturing sector (UBCI) edged up by 0.1 per cent in 2025, easing from the 3.2 per cent increase in 2024 (Exhibit 1). The main contributors to the increase in UBCI in 2025 were the cost of work given out, royalty payments[2] and "others"[3] costs, which collectively accounted for 2.9 percentage-points (pp) of the increase. By contrast, declines in the manufacturing unit labour cost (ULC) and utilities cost collectively contributed -2.7 pp to the increase in UBCI. Meanwhile, the remaining cost components such as non-labour production taxes[4] and rental cost[5] 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] declined by 3.1 per cent year-on-year in the first three quarters of 2025, a reversal from the 5.2 per cent year-on-year increase recorded for the same period in 2024 (Exhibit 2).[7] The decline in the UBC-Services Index came on the back of a fall in non-labour costs (-3.2 pp contribution), which outweighed an increase in the services ULC (+0.2 pp). In turn, the fall in non-labour costs was partly driven by lower sea and air freight rates compared to the first three quarters of 2024, which more than offset higher warehousing and storage costs.

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 each 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 *Royalty payments refer to payments to another party (i.e., the licensor or franchisor who owns a particular asset) for the right to the ongoing use of an asset that the latter owns. 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 from year to year*

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

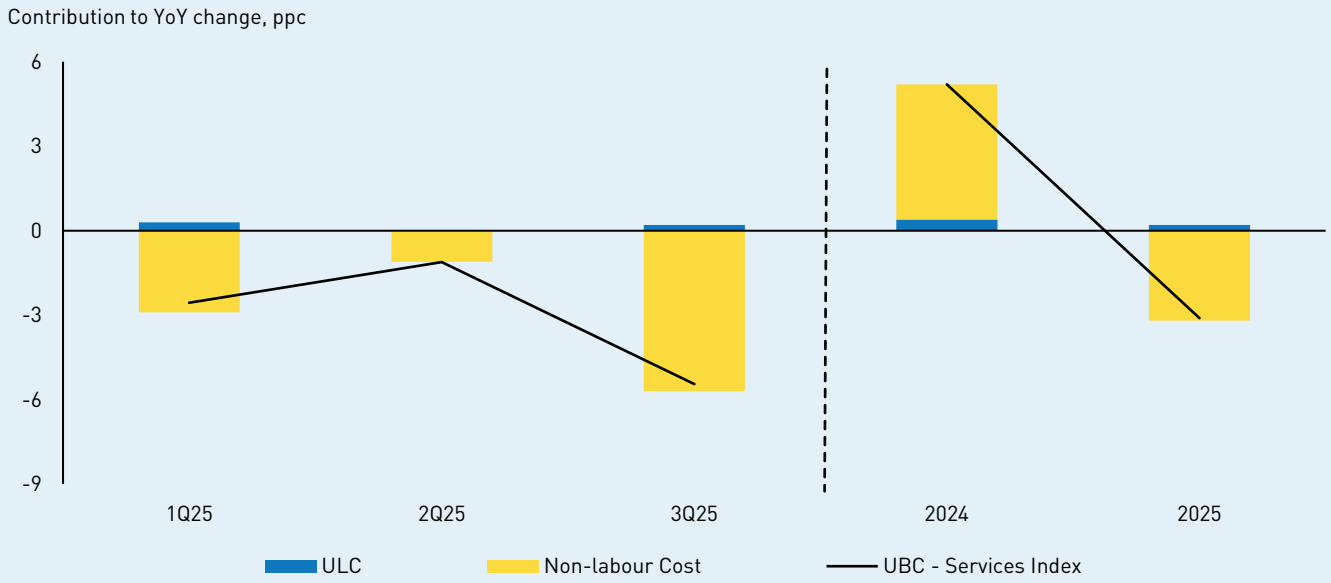
4 *Non-labour production taxes include property, road and other indirect taxes. Labour-related taxes on production (e.g., foreign worker levy) are classified under labour cost. Taxes on income (e.g., corporate income tax) are not included in business costs.*

5 *Industrial rentals rose by 2.2 per cent in 2025, moderating from the 5.6 per cent increase in 2024.*

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 2025*

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



Source: MTI Staff estimates
Notes: (1) The 2024 and 2025 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

While ULC for the overall economy was unchanged in 2025 relative to 2024, it is expected to increase in 2026

The ULC for the overall economy was flat in 2025 (0.0 per cent increase)[8], moderating from the 1.3 per cent increase in 2024. This came about as a rise in total labour cost[9] (TLC) per worker (3.4 per cent) was offset by labour productivity[10] gains (3.5 per cent) (Exhibit 3). In turn, the increase in TLC per worker was mainly driven by higher remuneration per worker (+3.2 pp contribution).

At the broad sectoral level, the ULC of the services producing industries (0.6 per cent) and construction sector (2.9 per cent) both rose in 2025 due to an increase in TLC per worker that outweighed labour productivity growth in the respective sectors (Exhibit 4). By contrast, the manufacturing sector (-4.3 per cent) recorded a fall in ULC as labour productivity gains in the sector more than offset an increase in TLC per worker.

Meanwhile, within the services producing industries, the administrative & support services (5.3 per cent), retail trade (4.0 per cent) and food & beverage services (3.8 per cent) sectors registered the largest ULC increases. The rise in the ULC for the retail trade sector was due to an increase in TLC per worker which outstripped labour productivity gains. For the other two 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 within their respective sectors.

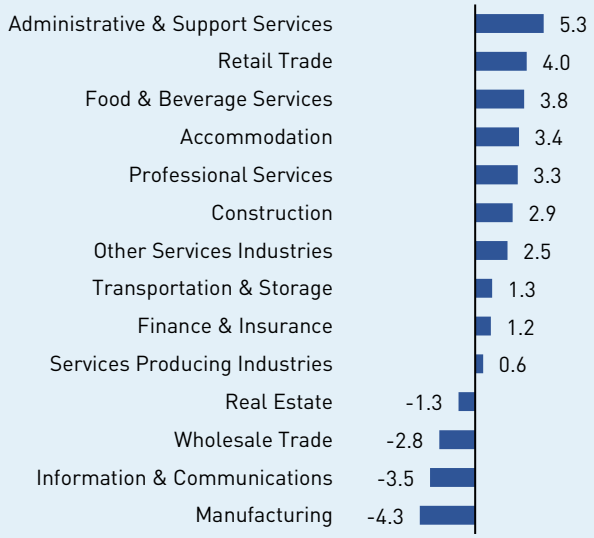
Looking ahead, the ULC for the overall economy is likely to pick up in 2026. This is due to a projected moderation in productivity growth compared to 2025, even as remuneration per worker is expected to rise at a pace that is broadly similar to that in 2025 given stable labour market conditions.

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

Exhibit 3: Decomposition of ULC Growth for Overall Economy, 2025

ULC	**0.0%**
TLC per worker	**3.5%**
Remuneration per worker	+3.2pp
FWL per worker	+0.1pp
Wage subsidies per worker	+0.0pp
Other labour costs	+0.2pp
Gross real labour productivity*	**3.4%**

Exhibit 4: ULC Change by Sectors, 2025



* Measured as real gross value-added per worker.
Source: MTI Staff estimates using data from the Department of Statistics and Ministry of Manpower

Costs of utilities, fuel and transportation are likely to moderate further in 2026

The cost of utilities borne by firms is closely linked to the cost of electricity,[11] which is in turn influenced by global oil prices as Singapore imports almost all our energy needs.[12] Oil prices also contribute to business costs through fuel and transportation costs.

In 2025, the average wholesale electricity price[13] declined by 29 per cent, while the regulated electricity tariff for low tension supplies fell by 6 per cent. These came on the back of a 14 per cent decline in global oil prices last year (Exhibit 5).

Global oil prices are projected to moderate further in 2026 on account of ample oil supplies and inventories given the earlier increases in oil production by the Organisation of Petroleum Exporting Countries and selected non-member countries (i.e., OPEC+), as well as slowing global oil demand. For 2026 as a whole, the US Energy Information Administration (EIA) has projected that global oil prices will average US$56 per barrel (/bbl)[14], lower than the 2025 average of US$69/bbl. Nonetheless, there are upside risks to global oil prices from a re-escalation of geopolitical tensions.

Correspondingly, domestic fuel and transportation costs are expected to moderate in 2026. Similarly, the domestic cost of utilities is likely to ease, notwithstanding the higher carbon tax rate in 2026[15].

11 For example, electricity cost accounted for around 91 per cent of the cost of utilities borne by firms in the manufacturing sector in 2024.
12 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.
13 This is based on the average half-hourly Uniform Singapore Energy Price (USEP), which is a proxy for average wholesale energy prices in the National Electricity Market of Singapore. Data is extracted from the Energy Market Company.
14 EIA Short-Term Energy Outlook Report, January 2026.
15 Singapore's carbon tax rate increased from $25 per tonne of Carbon Dioxide emitted (/tCO2e) to $45/tCO2e with effect from 1 January 2026.

Exhibit 5: Global Oil Prices and Uniform Singapore Energy Prices (USEP) and Regulated Electricity Tariff, 2024-2025

Percentage change, yoy	2024	2025	1Q25	2Q25	3Q25	4Q25
UK Brent	-2.3	-14.5	-9.0	-20.1	-13.9	-14.7
USEP ($/MWh)	-34.2	-28.6	-33.6	-42.0	-3.1	-21.0
Regulated Electricity Tariff (cents/kWh)	6.1	-6.2	-5.9	-5.6	-8.1	-5.3

Source: CEIC, Energy Market Company, SP Group
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. However, unlike the regulated electricity tariff, the USEP does not include third-party charges (e.g., grid charges). The regulated electricity tariff is an electricity price that is set by the Energy Market Authority (EMA) and revised quarterly to reflect the actual cost of electricity. The price of the regulated tariff comprises (i) the fuel cost which is calculated using the average of daily natural gas prices in the first two-and-a-half-month period in the preceding quarter and (ii) the non-fuel cost which mainly comprises the grid charge, and the capital and operating costs of generation companies. The regulated tariff shown here refers to the price charged for the use of non-domestic Low Tension electricity supplies, which is typically paid by households and small businesses.

Conclusion

In 2025, the UBCI for the manufacturing sector rose marginally due to increases in the cost of work given out, royalty payments and "others" costs, which outweighed declines in the manufacturing ULC and utilities cost. On the other hand, the UBC-Services Index fell in the first three quarters of 2025 on account of a decline in non-labour costs which more than offset an increase in the services ULC.

For 2026, the overall ULC for the economy is likely to pick up relative to its level in 2025 due to a projected moderation in productivity growth even as remuneration per worker is expected to rise at a steady pace. 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 2026.

Contributed by:

Ms Mihika Joshi
Economist
Economics Division
Ministry of Trade and Industry

Mr Lim Rei Hrn
Economist
Economics Division
Ministry of Trade and Industry

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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.

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ANNEX: BUSINESS COST STRUCTURE OF MANUFACTURING AND SERVICES SECTORS IN 2024

Manufacturing Sector

In the manufacturing sector, labour cost, cost of work given out and "others" costs constituted the largest components of business costs. These three components collectively accounted for around 87 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 2024.

The remaining cost components, comprising royalties, 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 13 per cent for SMEs and 22 per cent for non-SMEs in 2024. Non-labour production taxes, which include property, road and other indirect taxes, accounted for around 0.6 per cent of the business costs of SMEs and 0.5 per cent of the business costs of 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 for SMEs in the transportation & storage sector, to around 33 per cent or more for SMEs in labour-intensive sectors such as food & beverage services, accommodation and retail trade in 2024.

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 2024. Key exceptions were the accommodation and food & beverage services sectors, where utilities cost constituted 7 per cent and 5 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, food & beverage services and accommodation sectors, where rental costs constituted around 23 per cent, 17 per cent and 16 per cent of the business costs of SMEs in these sectors respectively.

Non-labour production taxes accounted for less than 1 per cent of the business costs of SMEs in most services sectors, except for the accommodation and real estate, professional services and administrative & support services sectors, where the share ranged from 2.5 per cent to 2.7 per cent.

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, 2024

	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	**17.7**	**29.7**	**11.0**	**6.5**	**16.3**	**26.4**	**21.9**	**28.9**	**29.8**	**51.3**	**36.7**	**25.9**	**28.3**	**38.4**
Services Cost	**81.8**	**69.8**	**88.6**	**93.2**	**82.6**	**72.5**	**77.8**	**70.7**	**69.7**	**48.2**	**62.9**	**73.7**	**71.2**	**60.9**
Work given out	16.2	29.5	20.4	53.1	2.2	7.8	1.0	35.1	12.0	13.6	38.1	58.2	8.1	10.0
Royalties	9.5	3.4	7.0	3.7	6.8	4.0	31.9	7.8	7.3	1.7	2.6	1.2	15.5	4.5
Utilities	4.5	2.9	4.1	0.5	10.7	10.5	1.8	1.7	1.7	3.0	2.0	1.0	6.7	2.8
Fuel	5.0	1.3	1.1	0.0	29.4	6.2	0.7	0.4	0.1	0.4	0.4	0.2	2.9	1.7
Rental of building/ premises	0.5	1.9	0.1	0.2	0.2	1.3	0.6	0.8	0.7	2.6	2.3	1.1	0.6	4.1
Charges paid to other firms for inland transportation and ocean/ air/ other freight	2.3	3.3	1.0	0.8	7.1	11.2	1.9	6.6	3.3	2.2	1.4	0.8	3.8	3.3
Others	43.7	27.4	54.9	35.0	26.2	31.5	39.8	18.3	44.6	24.7	16.0	11.3	33.7	34.6
Non-Labour Production Taxes	**0.5**	**0.6**	**0.4**	**0.3**	**1.1**	**1.1**	**0.4**	**0.4**	**0.4**	**0.5**	**0.4**	**0.4**	**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.

Exhibit A2: Business Cost Structure of the Services Sectors by Firm Size, 2024

	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	**17.5**	**13.7**	**36.5**	**37.2**	**50.0**	**33.2**	**42.0**	**54.1**	**10.6**	**4.3**	**11.8**	**16.2**	**9.3**	**13.5**	**30.0**	**31.3**
Services Cost	**77.8**	**85.3**	**62.8**	**62.2**	**47.3**	**64.1**	**57.9**	**45.6**	**89.0**	**95.6**	**87.8**	**83.5**	**90.6**	**86.1**	**67.4**	**66.2**
Utilities	0.4	0.2	3.3	1.5	6.3	7.0	5.3	5.0	0.8	0.2	0.8	0.8	-	0.2	0.5	1.3
Freight & Transport	21.4	37.0	4.0	3.5	-	-	3.2	0.8	56.1	71.1	0.6	1.3	-	-	0.6	1.6
Financial Services	1.6	2.3	2.3	2.3	1.8	2.3	0.4	1.5	0.3	0.4	0.2	0.8	3.3	5.2	0.1	0.8
Communications	0.2	0.2	0.2	0.8	0.3	0.7	0.5	0.3	0.1	0.1	1.3	6.4	0.0	0.1	0.2	0.5
Renting of Premises	1.9	4.1	32.2	22.5	5.1	16.3	17.1	16.6	0.8	0.8	1.0	1.9	0.7	1.0	1.9	3.6
Professional Services	2.5	4.0	1.8	2.4	1.6	2.2	0.8	1.6	0.7	0.6	11.3	15.2	1.9	9.1	5.0	8.2
Other Services	49.9	37.6	18.9	29.0	32.3	35.6	30.8	19.8	30.4	22.4	72.6	57.0	84.7	70.5	59.0	50.4
Advertising & Entertainment	7.3	17.4	4.8	11.2	4.3	4.8	4.0	4.6	0.2	1.2	6.8	21.5	1.2	1.8	0.9	7.2
Admin & Management Fees	14.9	5.3	1.7	3.5	5.8	9.7	4.2	3.6	1.6	1.7	12.8	11.9	4.0	13.7	7.8	9.7
Contract labour & work given out	1.5	1.1	0.4	1.4	1.3	1.6	7.0	1.2	0.7	0.9	4.0	4.9	0.0	0.2	19.8	10.9
Commission	2.8	3.3	1.3	4.0	2.5	4.4	0.2	2.0	2.5	1.1	1.6	2.5	2.6	7.0	0.6	2.8
Royalties	18.3	4.7	1.4	0.7	3.0	0.5	3.9	1.4	0.5	0.4	41.0	5.5	0.1	0.2	0.3	0.5
Maintenance & repairs	0.4	0.7	2.9	1.7	4.2	6.2	3.8	2.5	3.1	1.8	0.5	1.6	0.5	0.4	1.7	3.2
Fuel	0.7	0.5	-	0.1	-	-	0.4	0.1	16.7	11.3	-	-	-	-	-	0.2
Others	4.0	4.6	6.5	6.4	11.1	8.3	7.2	4.5	5.0	3.8	5.9	9.1	76.2	47.1	27.8	15.8
Non-Labour Production Taxes	**4.7**	**0.9**	**0.8**	**0.6**	**2.7**	**2.7**	**0.1**	**0.3**	**0.4**	**0.1**	**0.4**	**0.3**	**0.1**	**0.4**	**2.6**	**2.5**

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.
2. "-" refers to nil or negligible.