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Productivity and Costs
Fourth Quarter 1971

Productivity (output per man-hour) for the private economy rose at an annual rate of 3.5 percent in the fourth quarter, the U.S. Department of Labor's Bureau of Labor Statistics announced today. This increase exceeded the average gain over the past 2 decades of 3 percent a year but was lower than the 4 percent gain in the third quarter. In the nonfarm sector, productivity rose at an annual rate of 4.9 percent--substantially above both the third quarter gain of 2.3 percent and the 20 year average increase of 2.6 percent a year.

Recent changes in productivity, hourly compensation, and unit labor costs, at annual rates, are summarized below.

PERCENT CHANGE AT ANNUAL RATE

	3rd Quarter 1971 to 4th Quarter 1971	4th Quarter 1970 to 4th Quarter 1971	Year 1970 to Year 1971
<u>Total Private</u>			
Output per man-hour	3.5	3.9	3.6
Compensation per man-hour	4.3	6.3	6.9
Unit labor costs	0.8	2.3	3.2
Real compensation per man-hour	2.0	2.7	2.5
<u>Private Nonfarm</u>			
Output per man-hour	4.9	4.1	3.4
Compensation per man-hour	5.1	6.4	6.9
Unit labor costs	0.2	2.2	3.4
Real compensation per man-hour	2.8	2.8	2.5
<u>Manufacturing</u>			
Output per man-hour	2.4	4.6	3.6
Compensation per man-hour	3.7	5.1	6.2
Unit labor costs	1.2	0.5	2.6
Real compensation per man-hour	1.3	1.6	1.8

Productivity growth in the private and nonfarm sectors reflected sizable increases in both output and man-hours. By comparison, the productivity increases in the third quarter were accompanied by an actual decline in man-hours. The lower productivity growth in the private sector reflected the decline in agricultural productivity in the fourth quarter, following a rapid rise in the third quarter.

From the fourth quarter of 1970 output per man-hour rose by 3.9 percent in the private economy and 4.1 percent in the nonfarm sector.

In the manufacturing sector, productivity rose by 2.4 percent in the fourth quarter, compared to a gain of 1 percent in the third quarter and a 20-year average gain of 2.8 percent a year. Although man-hours in manufacturing increased at the same rate as in the private economy and slightly more than in the nonfarm sector, the output gain was somewhat less. As a result, output per man-hour in manufacturing also increased less than either of the other two sectors.

Productivity in manufacturing rose by 4.6 percent from the fourth quarter of 1970.

For 1971 as a whole, the average gain in productivity in the three sectors of the economy was significantly greater than the very small increases for the previous 2 years; moreover, it exceeded the average growth rates for the past 2 decades. The 1971 average increases in output per man-hour were 3.6 percent in the private economy, 3.4 percent in the nonfarm sector, and 3.6 percent in manufacturing. The last year that productivity growth exceeded these gains was 1966 for the private and nonfarm sectors and 1968 for manufacturing.

In the fourth quarter, gains in hourly compensation were the lowest for any quarter of the year. This slowdown in wage gains reflects the impact of the economic stabilization program established in mid-August. In the private

economy, compensation per man-hour increased by a 4.3 percent annual rate compared with the third quarter gain of 6.1 percent. For the year as a whole, the average increase in hourly compensation for all three sectors was slightly less than the 1970 rate.

Because productivity rose sharply and hourly compensation gains fell off, unit labor costs increased only moderately in the fourth quarter. In the private economy, the unit labor cost increase was only 0.8 percent, compared with 2.1 percent in the third quarter. A similar pattern of deceleration occurred in both the nonfarm and manufacturing sectors. For 1971, average unit labor cost increases were cut almost in half compared with 1970. The average increase in the private economy in 1971 was 3.2 percent compared with 6.3 percent in 1970. The difference between the two rates largely reflects the difference in productivity growth in both years.

Prices, as measured by the implicit price deflator, in the private economy did not increase much in the fourth quarter; for the nonfarm sector, the implicit price deflator declined slightly. The 1.1 percent gain in the private sector resulted primarily from sharp increases in farm prices which were not covered under the economic stabilization program.

Real hourly compensation rose by about 2 percent in the fourth quarter as hourly compensation gains exceeded those of consumer prices. The fourth quarter increase was slightly higher than the third quarter. The annual gain in 1971 was 2.6 percent, more than 2-1/2 times the annual gain for 1970.

Table 1. Output per Man-Hour, Hourly Compensation, Unit Costs, and Prices in the Private Economy, Seasonally Adjusted, (Indexes 1967=100)

Year and quarter	Output per man-hour	Output	Man-hours	Compensation per man-hour <u>1/</u>	Real compensation per man-hour <u>2/</u>	Unit labor cost	Unit non-labor payments <u>3/</u>	Implicit price deflator <u>4/</u>
1970								
1st...	103.0	106.7	103.7	121.1	106.3	117.7	102.1	111.6
2nd...	103.7	106.9	103.1	122.5	105.9	118.1	104.4	112.8
3rd...	105.3	107.3	102.0	125.3	107.1	119.0	106.4	114.1
4th...	105.3	106.1	100.8	127.2	107.2	120.7	105.4	115.9
Annual Ave.	104.3	106.8	102.4	124.0	106.6	118.9	105.3	113.6
1971								
1st...	106.9 r	108.3 r	101.3	129.8 r	108.6 r	121.4 r	110.4 r	117.1 r
2nd...	107.4 r	109.3 r	101.7	131.7 r	109.0 r	122.6 r	111.7 r	118.4 r
3rd...	108.5 r	110.0 r	101.4	133.7 r	109.6 r	123.3 r	112.6 r	119.1 r
4th...	109.4 p	111.8 p	102.2 p	135.1 p	110.1 p	123.5 p	113.0 p	119.4 p
Annual Ave.	108.1 p	109.9 p	101.7 p	132.6 p	109.3 p	122.7 p	111.9 p	118.5 p
Percent Change Over Previous Quarter at Annual Rate <u>5/</u>								
1970								
1st...	- 1.6	- 3.0	- 1.4	7.9	1.5	9.7	- 1.9	5.4
2nd...	3.1	0.8	- 2.2	4.7	- 1.7	1.6	9.0	4.2
3rd...	6.1	1.5	- 4.3	9.4	4.6	3.1	8.2	4.9
4th...	0.2	- 4.4	- 4.5	6.1	0.7	6.0	6.6	6.2
Annual Ave. <u>6/</u>	0.9	- 0.7	- 1.6	7.2	1.2	6.3	2.6	4.9
1971								
1st...	6.2 r	8.5 r	2.1	8.5 r	5.1 r	2.1 r	8.7 r	4.4 r
2nd...	1.9 r	3.6 r	1.7	6.2 r	1.7 r	4.1 r	4.6 r	4.3 r
3rd...	4.0 r	2.7 r	- 1.2 r	6.1 r	2.0 r	2.1 r	3.3 r	2.5 r
4th...	3.5 p	6.5 p	2.9 p	4.3 p	2.0 p	0.8 p	1.4 p	1.1 p
Annual Ave. <u>6/</u>	3.6 p	2.9 p	- 0.7 p	6.9 p	2.5 p	3.2 p	6.4 p	4.3 p
Percent Change Over Previous Year <u>7/</u>								
1971								
1st...	3.8 r	1.5 r	- 2.3	7.1 r	2.1 r	3.2 r	8.1 r	4.9 r
2nd...	3.6 r	2.2 r	- 1.3	7.5 r	3.0 r	3.8 r	7.0 r	5.0 r
3rd...	3.1 r	2.5 r	- 0.5	6.7 r	2.4 r	3.6 r	5.8 r	4.4 r
4th...	3.9 p	5.3 p	1.4 p	6.3 p	2.7 p	2.3 p	4.5 p	3.1 p

See footnotes at end of table 3.

r = revised
p = preliminary

Table 2. Output per Man-Hour, Hourly Compensation, Unit Costs, and Prices in the Private Nonfarm Sector, Seasonally Adjusted, (Indexes 1967 = 100)

Year and quarter	Output per man-hour	Output	Man-hours	Compensation per man-hour <u>1/</u>	Real compensation per man-hour <u>2/</u>	Unit labor cost	Unit non-labor payments <u>3/</u>	Implicit price deflator <u>4/</u>
1970								
1st...	102.1	107.1	104.9	119.7	105.0	117.2	101.3	111.2
2nd...	103.1	107.2	104.0	121.5	105.0	117.8	104.0	112.6
3rd...	104.6	107.7	103.1	124.1	106.0	118.7	106.6	114.1
4th...	104.1	106.2	102.0	125.7	106.0	120.7	108.8	116.2
Annual Ave.	103.5	107.1	103.5	122.7	105.5	118.6	105.2	113.5
1971								
1st...	105.8 r	108.5 r	102.5	128.4 r	107.4 r	121.3 r	110.9 r	117.4 r
2nd...	106.5 r	109.5 r	102.8	130.4 r	108.0 r	122.4 r	112.2 r	118.6 r
3rd...	107.1 r	110.0 r	102.6	132.1 r	108.3 r	123.3 r	112.9 r	119.4 r
4th...	108.4 p	112.0 p	103.3 p	133.8 p	109.0 p	123.4 p	112.6 p	119.3 p
Annual Ave.	107.0 p	110.0 p	102.8 p	131.2 p	108.1 p	122.6 p	112.1 p	118.7 p
<u>Percent Change Over Previous Quarter at Annual Rate <u>5/</u></u>								
1970								
1st...	- 1.5	- 2.7	- 1.2	7.5	1.1	9.1	- 3.4	4.5
2nd...	4.3	0.6	- 3.6	6.3	- 0.2	1.9	11.2	5.1
3rd...	5.6	2.0	- 3.5	8.7	4.0	2.9	10.4	5.5
4th...	- 1.6	- 5.6	- 4.0	5.5	0.1	7.2	8.2	7.6
Annual Ave. ^{6/}	0.7	- 0.7	- 1.4	7.0	1.0	6.3	2.8	5.0
1971								
1st...	6.6 r	8.8 r	2.1	8.6 r	5.2 r	1.9 r	8.1 r	4.1 r
2nd...	2.7 r	3.7 r	1.0	6.6 r	2.1 r	3.8 r	4.6 r	4.1 r
3rd...	2.3 r	1.8 r	- 0.5 r	5.3 r	1.3 r	3.0 r	2.6 r	2.8 r
4th...	4.9 p	7.5 p	2.5 p	5.1 p	2.8 p	0.2 p	- 0.9 p	- 0.2 p
Annual Ave. ^{6/}	3.4 p	2.7 p	- 0.7 p	6.9 p	2.5 p	3.4 p	6.6 p	4.5 p
<u>Percent Change Over Previous Year <u>7/</u></u>								
1971								
1st...	3.7 r	1.3 r	- 2.3	7.3 r	2.2 r	3.5 r	9.5 r	5.5 r
2nd...	3.3 r	2.1 r	- 1.2	7.3 r	2.8 r	3.9 r	7.8 r	5.3 r
3rd...	2.5 r	2.0 r	- 0.4	6.5 r	2.2 r	3.9 r	5.9 r	4.6 r
4th...	4.1 p	5.4 p	1.2 p	6.4 p	2.8 p	2.2 p	3.6 p	2.7 p

See footnotes at end of table 3.

r = revised
p = preliminary

Table 3. Output per Man-Hour, Hourly Compensation and Unit Labor Costs in the Manufacturing Sector, Seasonally Adjusted, (Indexes 1967 = 100)

Year and quarter	Output per man-hour	Output <u>8/</u>	Man-hours	Compensation per man-hour <u>1/</u>	Real compensation per man-hour <u>2/</u>	Unit labor costs
1970						
1st...	105.9	107.5	101.5	118.4	104.0	111.8
2nd...	108.1	107.3	99.3	120.3	104.0	111.4
3rd...	109.2	106.5	97.5	122.9	105.1	112.6
4th...	107.9	101.4	94.0	124.7	105.1	115.6
Annual Ave.	107.7	105.7	98.1	121.6	104.6	112.9
1971						
1st...	110.1	104.2	94.6	127.2 r	106.5 r	115.6 r
2nd...	111.9	106.0	94.7	128.6 r	106.4 r	114.9 r
3rd...	112.2 r	105.3 r	93.9	129.9 r	106.5 r	115.8 r
4th...	112.9 p	106.7 p	94.5 p	131.1 p	106.8 p	116.1 p
Annual Ave.	111.6 p	105.4 p	94.4 p	129.1 p	106.5 p	115.7 p
<u>Percent Change Over Previous Quarter at Annual Rate <u>5/</u></u>						
1970						
1st...	- 0.8	- 7.1	- 6.3	6.0	- 0.1	6.7
2nd...	8.6	- 0.7	- 8.5	6.5	0.0	- 1.4
3rd...	4.1	- 2.9	- 6.9	9.1	4.3	4.4
4th...	- 4.7	-17.8	-13.8	5.8	0.2	11.1
Annual Ave. <u>6/</u>	1.5	- 3.8	- 5.3	6.6	0.6	5.0
1971						
1st...	8.5 r	11.5	2.8	8.4 r	5.2 r	- 0.0 r
2nd...	6.7	7.1	0.4	4.2 r	- 0.3 r	- 2.4 r
3rd...	1.0 r	- 2.6 r	- 3.6 r	4.2 r	0.2 r	3.1 r
4th...	2.4 p	5.4 p	2.9 p	3.7 p	1.3 p	1.2 p
Annual Ave. <u>6/</u>	3.6 p	- 0.3 p	- 3.7 p	6.2 p	1.8 p	2.6 p
<u>Percent Change Over Previous Year <u>7/</u></u>						
1971						
1st...	4.0	- 3.1	- 6.8	7.5 r	2.4 r	3.3 r
2nd...	3.6 r	- 1.2	- 4.6	6.9 r	2.4 r	3.2 r
3rd...	2.7 r	- 1.1 r	- 3.8 r	5.6 r	1.3 r	2.8 r
4th...	4.6 p	5.2 p	0.6 p	5.1 p	1.6 p	0.5 p

See footnotes at end of table 3.

r = revised
p = preliminary

FOOTNOTES, TABLES 1 TO 3

Source: Output data from the Office of Business Economics, U.S. Department of Commerce and the Federal Reserve Board. Compensation and man-hours data from the Bureau of Labor Statistics, U.S. Department of Labor and the Office of Business Economics.

1/ Wages and salaries of employees plus employers' contributions for social insurance and private benefits plans. Also includes an estimate of wages, salaries, and supplemental payments for the self-employed.

2/ Compensation per man-hour adjusted for changes in the Consumer Price Index.

3/ Nonlabor payments include profits, depreciation, interest, rental income and indirect taxes.

4/ Current dollar gross product divided by constant dollar gross product.

5/ Percent change compounded at annual rate from original data.

6/ Percentage change of annual average.

7/ Current quarter divided by comparable quarter a year ago.

8/ Quarterly measures adjusted to annual estimates of output (gross product originating) from the Office of Business Economics, U.S. Department of Commerce.