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PRODUCTIVITY AND COSTS IN THE PRIVATE ECONOMY, FIRST QUARTER 1974
(and Data for Nonfinancial Corporations, Fourth Quarter 1973)

Productivity (output per man-hour) in the private economy declined at an annual rate of 5.5 percent during the first quarter of 1974, the Bureau of Labor Statistics of the U.S. Department of Labor announced today. The decrease resulted from a 6.5 percent decline in output and a 1.1 percent decline in man-hours. This was the second successive quarter in which productivity declined. In the fourth quarter of 1973, the decline was 0.8 percent at an annual rate.

In the nonfarm sector, output per man-hour declined at a 3.5 percent annual rate during the first quarter, compared with a 1.9 percent decline one quarter earlier.

In manufacturing, output per man-hour declined at a 2.5 percent annual rate during the quarter, a somewhat smaller decline than the 3.3 percent which occurred in the previous quarter.

From the first quarter of 1973 to the first quarter of 1974, output per man-hour fell 1.8 percent in the total private economy, 1.1 percent in the nonfarm sector, and rose 0.7 percent in manufacturing. A summary of the first quarter data appears in table A. Details are given in tables 1-3.

Table A. Percent Changes at Annual Rates in Productivity and Costs
(Preliminary Data, Seasonally Adjusted)

	4th Quarter 1973 to <u>1st Quarter 1974</u>	1st Quarter 1973 to <u>1st Quarter 1974</u>
<u>Total Private Economy</u>		
Output per man-hour	-5.5	-1.8
Compensation per man-hour	5.2	6.7
Unit labor costs	11.3	8.7
Real compensation per man-hour	-5.6	-2.8
<u>Nonfarm Sector</u>		
Output per man-hour	-3.5	-1.1
Compensation per man-hour	7.2	7.2
Unit labor costs	11.2	8.4
Real compensation per man-hour	-3.8	-2.4
<u>Manufacturing</u>		
Output per man-hour	-2.5	0.7
Compensation per man-hour	5.6	7.1
Unit labor costs	8.3	6.4
Real compensation per man-hour	-5.3	-2.5

The substantial productivity decline in the private sector resulted from a sharp fall-off in output associated with a modest decline in man-hours. The decline in output was the largest quarterly decrease since 1958. The man-hour decline resulted entirely from reduced average weekly hours -- down 1.4 percent to 37.5 hours per week -- since employment was nearly unchanged (up 0.3 percent).

In the private nonfarm sector, a similar pattern prevailed in the first quarter; the decline in productivity (3.5 percent) stemmed from a larger decline in output (6.2 percent) than in man-hours (2.8 percent). Employment stayed nearly steady (down 0.8 percent) while the major adjustment in man-hours was accomplished through a reduction in average weekly hours, down 2.0 percent, to 37.2 hours per week. The decline in nonfarm productivity was the largest since the first quarter of 1956, and the drop in output was the largest since the first quarter of 1958.

Manufacturing output per man-hour fell 2.5 percent (at an annual rate), compared with a 3.3 percent decline one quarter earlier. Here, both output and man-hours declined substantially (7.9 percent and 5.6 percent respectively). Also, in contrast to the other sectors, the decline in man-hours reflected a greater reduction in employment (down 3.4 percent) than in average weekly hours (down 2.0 percent). The declines in man-hours and in output were the largest since 1970 in this sector.

Compensation per man-hour (which reflects wage costs, employer Social Security contributions, and other fringe benefits) rose 5.2 percent in the total private sector in the first quarter of 1974, somewhat less than the 8.1 percent rise in the previous quarter. The first quarter increase was the smallest since the third quarter of 1972. Despite the deceleration in hourly compensation gains, unit labor costs increased 11.3 percent in the first quarter (the largest increase since the first quarter of 1956), reflecting the decline in output per man-hour.

In the nonfarm sector, compensation per man-hour increased 7.2 percent, down from the 8.4 percent increase one quarter earlier. Unit labor costs rose 11.2 percent -- the largest since 1951.

In manufacturing, the increase in compensation per man-hour was 5.6 percent in the first quarter of 1974, about the same as in the fourth quarter of 1973. Coupled with the decline in output per man-hour (2.5 percent), this produced an increase in unit labor costs of 8.3 percent, which was smaller than the fourth quarter increase in these costs (9.0 percent).

Real compensation per man-hour (compensation per man-hour adjusted by the Consumer Price Index) declined 5.6 percent (at an annual rate) in the first quarter in the private economy. As a result of four consecutive quarters of decline, real compensation per man-hour in the first quarter stood at its lowest level in two years. The decline in real compensation per man-hour at a time when money compensation is increasing reflects the greater rate of increase in the CPI.

In the nonfarm sector, real compensation per man-hour declined 3.8 percent in the first quarter, after decreasing 1.3 percent in the fourth quarter of 1973. The first quarter marked the fourth consecutive quarterly decrease in this measure, and the largest since 1951.

In manufacturing, real compensation per man-hour decreased 5.3 percent, after declining 4.1 percent in the preceding quarter. This was the second consecutive decrease in real compensation per man-hour in this sector, and the largest in the postwar period.

Unit nonlabor payments (which include capital consumption allowances, net interest, indirect business taxes, and profits) increased 10.7 percent in the private sector in the first quarter of 1974, after increasing 8.2 percent in the preceding quarter. In the nonfarm sector, unit nonlabor payments rose 9.7 percent in the first quarter.

The implicit price deflator (which reflects changes in unit labor costs and unit nonlabor payments) increased 11.1 percent in the private economy and 10.6 percent in the nonfarm sector. These were the largest increases since 1951.

Preliminary figures on output per man-hour and related measures in nonfinancial corporations for the fourth quarter of 1973 were also released today. See table B for summary, table 4 for details.

Table B. Percent Change in Productivity and Costs
At Annual Rates
(Preliminary Data, Seasonally Adjusted)

	3rd Quarter 1973 to <u>4th Quarter 1973</u>	4th Quarter 1972 to <u>4th Quarter 1973</u>
<u>Nonfinancial Corporations</u>		
Output per man-hour	-3.3	2.3
Compensation per man-hour	6.0	8.4
Unit labor costs	9.7	5.9
Real compensation per man-hour	-3.4	0.0

TABLE 1. TOTAL PRIVATE ECONOMY: OUTPUT PER MAN-HOUR
HOURLY COMPENSATION, UNIT COST, AND PRICES, SEASONALLY ADJUSTED

YEAR AND QUARTER	OUTPUT PER MAN-HOUR	OUTPUT	MAN-HOURS	COMPENSA-TION PER MAN-HOUR (1)	REAL COMPENSA-TION PER MAN-HOUR (2)	UNIT LABOR COSTS	UNIT NON-LABOR PAY-MENTS (3)	IMPLICIT PRICE DEFLATOR (4)
INDEXES 1967=100								
1973								
I	116.4	124.2	106.7	149.6	116.2	128.5	118.9	124.8
II	116.1	125.0	107.7	151.9	115.6	130.9	121.1	127.1
III	116.2	126.1	108.6	154.6	115.1	133.1	123.4	129.3
IV	115.9	126.6	109.2	157.7	114.6	136.0	125.9	132.0
ANNUAL	116.2 R	125.5	108.0	153.5	115.4 R	132.2	122.3	128.3
1974								
I	114.3P	124.5P	108.9P	159.7P	112.9P	139.7P	129.1P	135.6P
PERCENT CHANGE OVER PREVIOUS QUARTER AT ANNUAL RATE (5)								
1973								
I	5.8	9.3	3.3	11.3	5.2	5.2	6.6	5.7
II	-1.2	2.6	3.8	6.3	-2.3	7.6	7.4	7.5
III	0.4	3.6	3.2	7.3	-1.7	6.9	7.9	7.3
IV	-0.8	1.5	2.3	8.1R	-1.6	8.9	8.2	8.6
ANNUAL	3.0 R	6.2	3.2	7.8	1.5	4.7	6.6	5.4
1974								
I	-5.5P	-6.5P	-1.1P	5.2P	-5.6P	11.3P	10.7P	11.1P
PERCENT CHANGE OVER PREVIOUS YEAR (6)								
1973								
I	5.2	8.5	3.1	7.3	3.2	2.1	5.6	3.4
II	3.2	6.5	3.2	7.4	1.9	4.1	6.1	4.9
III	2.5	5.9	3.3	8.0	1.1	5.4	7.0	6.0
IV	1.0	4.2	3.2R	8.2	-0.2	7.2 R	7.5R	7.3
ANNUAL	3.0 R	6.2	3.2	7.8	1.5 R	4.7	6.6	5.4
1974								
I	-1.8P	0.2P	2.0P	6.7P	-2.8P	8.7P	8.6P	8.6P

SEE FOOTNOTES AT END OF TABLE 4.
R=REVISED
P=PRELIMINARY

APRIL 25, 1974
SOURCE: BUREAU OF LABOR STATISTICS

TABLE 2. PRIVATE NONFARM ECONOMY: OUTPUT PER MAN-HOUR
HOURLY COMPENSATION, UNIT COST, AND PRICES, SEASONALLY ADJUSTED

YEAR AND QUARTER	OUTPUT PER MAN-HOUR	OUTPUT	MAN-HOURS	COMPEN- TION PER MAN-HOUR (1)	REAL COMPEN- TION PER MAN-HOUR (2)	UNIT LABOR COSTS	UNIT NON- LABOR PAY- MENTS (3)	IMPLICIT PRICE DEFLATOR (4)
INDEXES 1967=100								
1973								
I	115.6	125.1	108.2	147.9	114.9	127.9	116.4	123.6
II	115.3	126.3	109.5	149.8	113.9	129.8	118.0	125.4
III	115.9	127.6	110.2	152.7	113.6	131.8	118.6	126.8
IV	115.3	127.6	110.7	155.8	113.2	135.1	119.6	129.2
ANNUAL	115.6 R	126.6	109.6	151.6	113.9	131.2	118.2	126.3
1974								
I	114.3P	125.6P	109.9P	158.5P	112.1P	138.7P	122.4P	132.5P
PERCENT CHANGE OVER PREVIOUS QUARTER AT ANNUAL RATE (5)								
1973								
I	5.0	9.2	4.0	10.7	4.6	5.4	2.4	4.3
II	-0.8	3.9	4.8	5.3	-3.3	6.2	5.4	5.9
III	1.8	4.4	2.6	8.0	-1.1	6.1	2.2	4.7
IV	-1.9	-0.1	1.9 R	8.4	-1.3	10.5 R	3.4	7.9
ANNUAL	3.1	6.6	3.4 R	7.6	1.3	4.4	3.6	4.1
1974								
I	-3.5P	-6.2P	-2.8P	7.2P	-3.8P	11.2P	9.7P	10.6P
PERCENT CHANGE OVER PREVIOUS YEAR (6)								
1973								
I	5.3	8.9	3.4	7.3	3.2	1.9	3.5	2.5
II	3.6	7.1	3.4	7.3	1.8	3.6	3.9	3.7
III	2.6	6.4	3.7	7.7	0.8	4.9	3.6	4.4
IV	1.0	4.3	3.3	8.1	-0.3	7.0	3.3	5.7
ANNUAL	3.1	6.6	3.4 R	7.6	1.3	4.4	3.6	4.1
1974								
I	-1.1P	0.4P	1.6P	7.2P	-2.4P	8.4P	5.1P	7.2P

SEE FOOTNOTES AT END OF TABLE 4.

R=REVISED
P=PRELIMINARY

APRIL 25, 1974
SOURCE: BUREAU OF LABOR STATISTICS

Table 3. Manufacturing Compensation, Unit Labor Cost, Output per Man-hour, Hourly Costs, Seasonally Adjusted

Year and Quarter	Output per man-hour	Output (7)	Man-hours	Compensation per man-hour (1)	Real Compensation per man-hour (2)	Unit Labor Cost
1973						
I	126.1	127.5	101.1	145.6	113.1	115.4
II	127.3	129.9	102.0	148.5	112.9	116.6
III	128.9r	131.5r	102.0	151.8	113.0	117.8r
IV	127.8r	131.9r	103.2	153.8	111.8	120.4r
Annual Avg. 1973	127.5	130.2	102.1	149.9	112.7	117.6
1974						
I	127.0p	129.2p	101.7p	155.9p	110.3p	122.8p
<u>Percent Change Over Previous Quarter at Annual Rate (%)</u>						
1973						
I	3.9	10.3	6.2	10.8	4.7	6.6
II	3.8	7.7	3.8	8.2	-0.7	4.2
III	5.0r	5.0r	-0.0	9.3	0.2	4.1r
IV	-3.3r	1.2r	4.7	5.4	-4.1	9.0r
Annual Avg. 1973	4.7	9.7	4.8	7.9	1.6	3.1
1974						
I	-2.5p	-7.9p	-5.6p	5.6p	-5.3p	8.3p
<u>Percent Change Over Previous Year (%)</u>						
1973						
I	6.4	12.8	6.1	6.7	2.6	0.3
II	5.5	10.9	5.2	7.5	2.0	1.9
III	4.6r	9.3r	4.5	8.8	1.8	4.0r
IV	2.3r	6.0r	3.6	8.4	-0.0	6.0r
Annual Avg. 1973	4.7	9.7	4.8	7.9	1.6	3.1
1974						
I	0.7p	1.3p	0.6p	7.1p	-2.5p	6.4p

See footnotes at end of table 4

p = preliminary

r = revised

Table 4. Nonfinancial Corporations: Output per Man-hour, Hourly Compensation
Unit Labor Costs, Unit Profits and Prices, Seasonally Adjusted

Year and Quarter	Output per man-hour	Output	Man-hours	Compensation per man-hour (1)	Real Compensation per man-hour (2)	Unit labor cost	Unit Non-labor Costs (8)	Total Unit Cost (9)	Unit Profits (10)	Implicit price deflator
1973										
I	121.4	129.0	106.2	148.2	115.1	122.0	125.9	123.0	91.4	118.2
II	121.7	130.6	107.3	150.5	114.5	123.7	126.5	124.4	92.7	119.6
III	123.1	132.5	107.7	153.8	114.4	124.9	126.7	125.4	94.8	120.7
IV	122.1p	132.7p	108.7p	156.1p	113.4p	127.8p	129.3p	128.2p	90.9p	122.6p
Annual Avg.	122.0r	131.2r	107.5r	152.1r	114.2	124.6	127.2r	125.2r	92.5r	120.3
<u>Percent Change Over Previous Quarter at Annual Rate (5)</u>										
1973										
I	7.3	11.6	4.0	12.1	5.9	4.4	-2.0	2.8	11.6	3.8
II	1.0	5.0	4.0	6.6	-2.1	5.5	1.7	4.6	5.5	4.7
III	4.6	6.1	1.5	9.0	-0.2	4.2	0.6	3.3	9.4	4.0
IV	-3.3p	0.5p	3.9p	6.0p	-3.4p	9.7p	8.6p	9.4p	-15.6p	6.1p
Annual Avg.	3.5r	7.7	4.0	7.6	1.3r	3.9	0.4r	3.0r	9.0r	3.7
<u>Percent Change Over Previous Year (6)</u>										
1973										
I	4.2	8.9	4.5	6.7	2.6	2.5	-0.3	1.8	10.2	2.7
II	3.8	8.0	4.0	7.3	1.8	3.4	-0.6	2.4	12.3	3.4
III	4.0	8.2	4.0	8.1	1.2	3.9	0.2	2.9	11.6	3.9
IV	2.3p	5.7p	3.3p	8.4p	-0.0p	5.9p	2.1p	5.0p	2.1p	4.6p
Annual Avg.	3.5r	7.7	4.0	7.6	1.3r	3.9	0.4r	3.0r	9.0r	3.7

See footnotes at end of table 4.

r = revised

p = preliminary

FOOTNOTES, TABLES 1 TO 4

Source: Output data from the Bureau of Economic Analysis, 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 Bureau of Economic Analysis.

1/ Wages and salaries of employees plus employers' contributions for social insurance and private benefit plans. Except for nonfinancial corporations, where there are no self-employed, data 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 rather than index numbers.

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

7/ Quarterly measures adjusted to annual estimates of output (gross product originating) from the Bureau of Economic Analysis, U.S. Department of Commerce.

8/ Unit nonlabor costs include depreciation, interest and indirect taxes.

9/ Total unit costs is the sum of labor and non-labor costs.

10/ Unit profits include corporate profits and inventory valuation adjustment.

CHART 1. PRODUCTIVITY, HOURLY
 COMPENSATION, UNIT COSTS AND PRICES
 TOTAL PRIVATE ECONOMY
 (PERCENT CHANGE FROM PRECEDING
 QUARTER AT ANNUAL RATE)

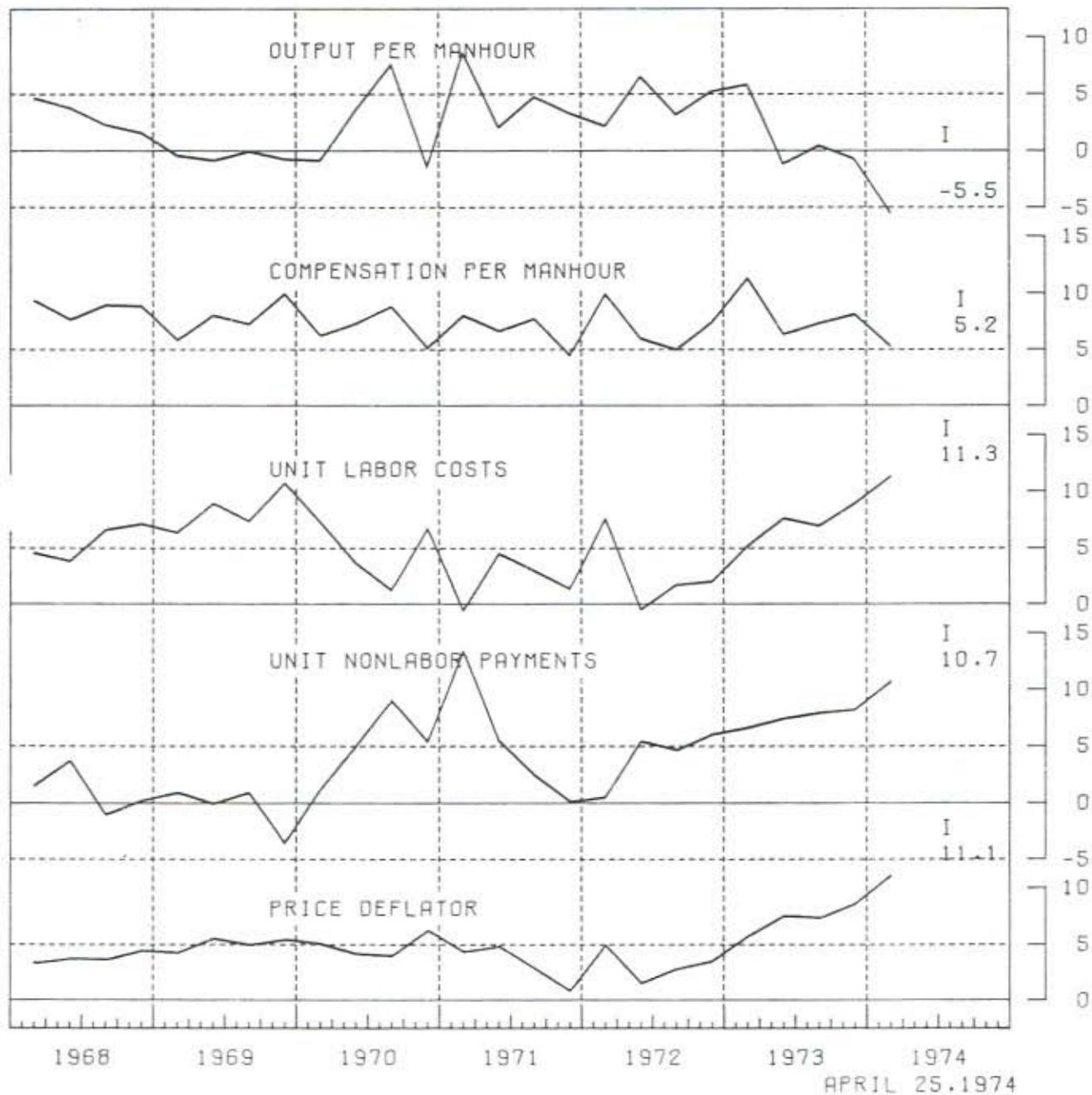


CHART 2. PRODUCTIVITY, HOURLY
 COMPENSATION, UNIT COSTS AND PRICES
 PRIVATE NONFARM SECTOR
 (PERCENT CHANGE FROM PRECEDING
 QUARTER AT ANNUAL RATE)

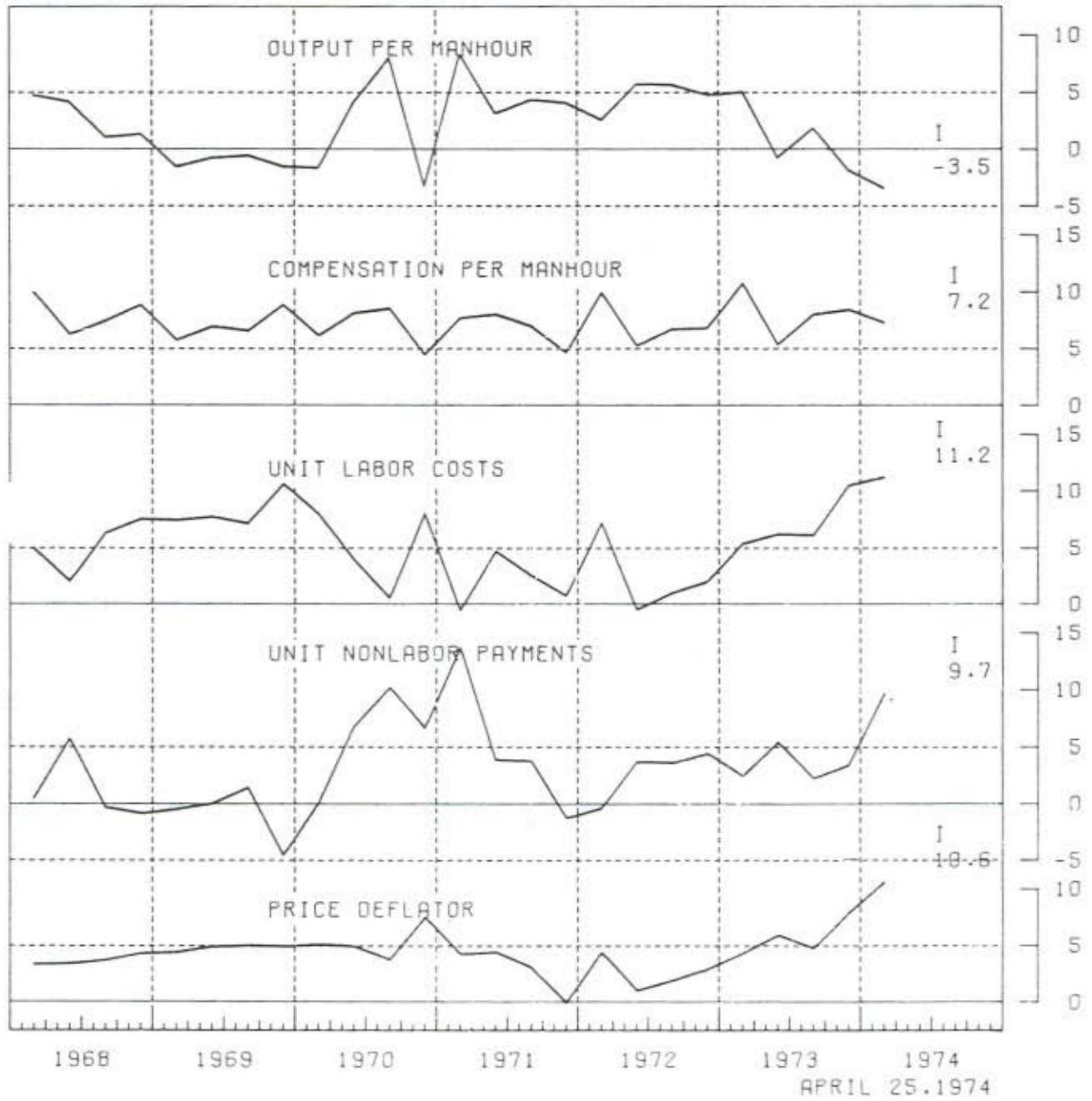


CHART 3. PRODUCTIVITY, HOURLY
 COMPENSATION, UNIT COSTS AND PRICES
 NONFINANCIAL CORPORATIONS
 (PERCENT CHANGE FROM SAME
 QUARTER A YEAR AGO)

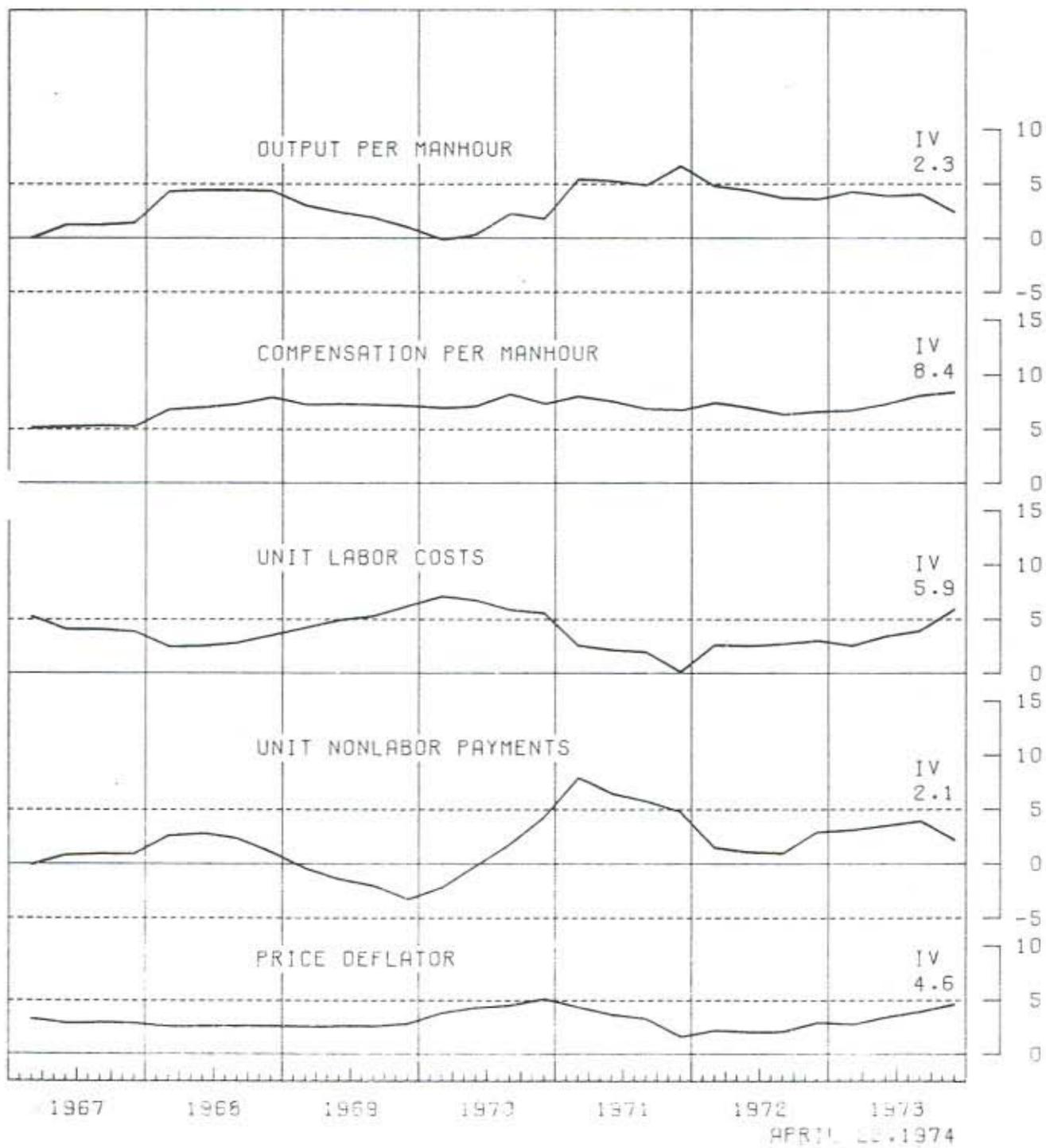


CHART 4.
 UNIT COSTS, UNIT PROFITS, AND PRICES
 NONFINANCIAL CORPORATIONS
 (PERCENT CHANGE FROM SAME
 QUARTER A YEAR AGO)

