

# News

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Historical, technical  
information: (202) 523-9261  
Current data: (202) 523-1221 or 1208  
Media contact: (202) 523-1913

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## PRODUCTIVITY AND COSTS

Second Quarter 1985

Revised Data for Business, Nonfarm Business, and Manufacturing,  
and Preliminary Measures for Nonfinancial Corporations

The Bureau of Labor Statistics of the U.S. Department of Labor today reported revised productivity data--as measured by output per hour of all persons--for the second quarter of 1985. The measures show these seasonally adjusted annual rates of productivity change for the second quarter of 1985:

- 1.3 percent in the business sector,
- 1.0 percent in the nonfarm business sector,
- 7.5 percent in manufacturing,
- 7.1 percent in durable goods manufacturing, and
- 8.3 percent in nondurable goods manufacturing.

Second-quarter measures are summarized in table A and appear in detail in tables 1 through 6. Preliminary measures announced today indicate that productivity in nonfinancial corporations declined 0.3 percent in the second quarter (tables B and 6).

### Business

Productivity advanced 1.3 percent in the second quarter of 1985, as output rose 2.4 percent and hours of all persons engaged in the sector increased 1.1 percent (seasonally adjusted annual rates). This was the smallest gain in hours of all persons since the recovery began in the fourth quarter of 1982. During the first quarter, productivity declined 3.9 percent and output showed no growth at all (table 1). The slower rate of increase in hours during the second quarter reflected both slower employment gains and a decline in average weekly hours compared with the first quarter.

Hourly compensation measures the cost to employers of wages and salaries, supplements, payments to employee-benefit plans, and taxes. During the second quarter, these outlays increased at a 3.3 percent annual rate in the business sector, compared with a 4.8 percent rise during the first quarter. After allowing for the increase in the Consumer Price Index for All Urban Consumers (CPI-U), real hourly compensation declined 0.9 percent in the second quarter. Unit labor costs (compensation per unit of output) increased 1.9 percent in the second quarter. This was a considerably smaller increase than the 9.1 percent gain during the first quarter and partly reflected the resumption of productivity growth in the second quarter.

The price deflator for business output increased 2.0 percent in the second quarter, compared with a 5.0 percent gain during the first quarter of 1985.

Table A. Productivity and costs: Percent change at annual rate  
(Seasonally adjusted)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
REVISED						
First quarter 1985 to second quarter 1985						
Business	1.3	2.4	1.1	3.3	-0.9	1.9
Nonfarm business	1.0	2.2	1.2	3.3	-0.8	2.3
Manufacturing	7.5	2.6	-4.5	4.8	0.6	-2.5
Durable	7.1	1.5	-5.2	4.9	0.7	-2.0
Nondurable	8.3	4.5	-3.6	4.8	0.6	-3.3
Second quarter 1984 to second quarter 1985						
Business	0.3	2.3	2.0	4.2	0.5	3.9
Nonfarm business	-0.3	2.0	2.3	3.9	0.2	4.2
Manufacturing	3.5	2.5	-0.9	4.8	1.1	1.3
Durable	3.5	3.1	-0.4	4.8	1.1	1.3
Nondurable	3.3	1.5	-1.8	4.7	1.0	1.4

#### Nonfarm business

Nonfarm business productivity increased at a 1.0 percent annual rate during the second quarter, as output rose 2.2 percent and hours of all persons increased at a 1.2 percent annual rate. During the first quarter, productivity declined in this sector as output grew little but hours increased 3.7 percent (table 2).

Hourly compensation increased at a 3.3 percent annual rate in the second quarter, compared with a 5.0 percent gain from January to March. After allowing for the increase in the CPI-U, real hourly compensation declined at a 0.8 percent annual rate in the second quarter. Unit labor costs rose at a 2.3 percent annual rate, compared with an 8.4 percent gain during the first quarter. The implicit price deflator for the nonfarm business sector rose 2.8 percent, compared with a 5.5 percent rise in the first quarter.

#### Manufacturing

Productivity increased at an annual rate of 7.5 percent in the second quarter in manufacturing, much more rapidly than in the larger and more comprehensive business sectors reported above. (Manufacturing accounts for about 25 percent of the business sector.) Output of durable and nondurable

manufacturing businesses rose at a 2.6 percent annual rate during the second quarter. At the same time, hours of all persons engaged in manufacturing declined. The productivity increase was the largest quarterly gain since the third quarter of 1983. The decline in hours reflected both employment cuts and reductions in the length of the average work week in both durable and nondurable subsectors (tables 3-5).

Hourly compensation increased at a 4.8 percent annual rate in the second quarter compared with a 5.6 percent gain in the first quarter. However, when the rise in the CPI-U is taken into account, real hourly compensation increased 0.6 percent in the second quarter and 2.2 percent in the first. Unit labor costs declined at a 2.5 percent annual rate during the second quarter, after having posted a 5.1 percent gain during the first quarter.

Table B. Productivity and costs in nonfinancial corporations:  
Percent change at annual rate  
(Seasonally adjusted)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs	Unit profits
PRELIMINARY							
First quarter 1985 to second quarter 1985							
Nonfinancial corporations	-0.3	1.8	2.1	2.9	-1.2	3.2	-2.7
Second quarter 1984 to second quarter 1985							
Nonfinancial corporations	-0.7	1.9	2.7	3.5	-0.2	4.2	-1.2

#### Nonfinancial corporations

Productivity of employees of nonfinancial corporations declined at a 0.3 percent annual rate in the second quarter, according to preliminary measures also reported today (table B). During the first quarter, nonfinancial corporate productivity fell 2.5 percent. Hourly compensation increased 2.9 percent in the second quarter, but fell 1.2 percent when the rise in the CPI-U is taken into account. Unit labor cost rose 3.2 percent in the second quarter, while unit nonlabor payments increased 2.0 percent. Unit profits fell at a 2.7 percent annual rate during the second quarter, compared with a 1.0 percent decline in the first quarter. The implicit price deflator for nonfinancial corporate output rose 2.8 percent in the second quarter (table 6).

# Revised measures

The latest productivity and cost measures for the second quarter of 1985 show larger gains in business sector productivity than had been reported on July 25, based on information then available. The upward revision in output in the business sector partly reflects improved information on farm output which is reflected in the measure for the business sector. Table C compares preliminary and revised productivity and cost measures for the second quarter.

Table C. Preliminary and revised productivity and related measures, second quarter 1985  
Percent change from previous quarter at annual rate  
(Seasonally adjusted)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
Business:						
Preliminary	0.5	1.8	1.3	3.3	-0.8	2.8
Revised	1.3	2.4	1.1	3.3	-0.9	1.9
Nonfarm business:						
Preliminary	0.5	1.9	1.4	3.4	-0.7	2.9
Revised	1.0	2.2	1.2	3.3	-0.8	2.3
Manufacturing:						
Preliminary	7.5	2.5	-4.7	4.7	0.5	-2.6
Revised	7.5	2.6	-4.5	4.8	0.6	-2.5

### TECHNICAL NOTES

Business sector output is equal to gross national product, less the rest-of-the-world sector, general government, output of paid employees of private households and nonprofit institutions, rental value of owner-occupied dwellings, and the statistical discrepancy in computing the national income accounts. Corresponding exclusions are also made in labor inputs. Business output has accounted for about 77 percent of gross national product in recent years.

Total manufacturing measures are computed by summing series prepared for the durable and nondurable goods sectors.

The durable sector includes the following 2-digit SIC industries: Primary metals; fabricated metal products; nonelectrical machinery; electrical machinery; transportation equipment; instruments; lumber and lumber products; furniture and fixtures; stone, clay, and glass products; and miscellaneous manufactures. The nondurable sector includes the following 2-digit SIC industries: Textile mill products, apparel products, leather and leather products, printing and publishing, chemical and chemical products, petroleum products, rubber and plastic products, foods, and tobacco products.

Manufacturing output has accounted for about 24 percent of gross national product in recent years.

Nonfinancial corporate output is equal to gross national product, less the rest-of-the-world sector, general government, unincorporated business, output of paid employees of private households and nonprofit institutions, rental value of owner-occupied dwellings, the output of corporations engaged in banking, finance, stock and commodity trading, and credit and insurance agencies, and the statistical discrepancy in computing the national income accounts. Nonfinancial corporate output has accounted for about 59 percent of gross national product in recent years.

The productivity and associated cost measures in this news release describe the relationship between output in real terms and the labor time involved in its production. They show the changes from period to period in the amount of goods and services produced per hour. Although these measures relate output to hours of all persons engaged in a sector, they do not measure the specific contributions of labor, capital, or any other factor of production. Rather, they reflect the joint effects of many influences, including changes in technology; capital investment; level of output; utilization of capacity, energy, and materials; the organization of production; managerial skill; and the characteristics and effort of the work force.

Table 1. Business sector: Productivity, hourly compensation, unit labor cost, and prices, seasonally adjusted

Year and quarter		Output per hour of all persons	Output	Hours of all persons	Compensation per hour(1)	Real compensation per hour(2)	Unit labor cost	Unit non-labor payments(3)	Implicit price deflator(4)
Indexes 1977=100									
1984	I	105.7	117.8	111.4	166.7	98.6	157.7	151.6	155.6
	II	107.0	121.0	113.0	167.5	98.2	156.5	157.2	156.7
	III	107.2	121.5	113.4	169.3	98.3	158.0	158.5	158.1
	IV	108.0	123.0	113.9	171.1	98.5	158.4	160.2	159.0
	ANNUAL	107.0	120.8	112.9	168.6	98.4	157.6	157.0	157.4
1985	I	106.9	123.0	115.0	173.1	98.9	161.9	159.1	160.9
	II	107.3r	123.7r	115.3r	174.5r	98.6r	162.7r	160.0r	161.7r
Percent change from previous quarter at annual rate(5)									
1984	I	4.0	11.4	7.2	6.2	0.8	2.1	7.0	3.7
	II	4.9	11.2	6.0	1.9	-1.8	-2.9	15.4	2.9
	III	0.6	1.8	1.2	4.4	0.7	3.7	3.4	3.6
	IV	3.1	5.0	1.8	4.4	0.8	1.2	4.3	2.2
	ANNUAL	3.2	8.8	5.4	4.2	0.0	1.0	7.9	3.2
1985	I	-3.9	0.0	4.1	4.8	1.4	9.1	-2.6	5.0
	II	1.3r	2.4r	1.1r	3.3	-0.9r	1.9r	2.3r	2.0r
Percent change from corresponding quarter of previous year									
1984	I	3.5	10.2	6.5	4.1	-0.4	0.6	8.4	3.0
	II	3.3	9.9	6.4	4.0	-0.3	0.7	8.7	3.3
	III	2.7	8.0	5.1	4.6	0.4	1.9	7.1	3.6
	IV	3.2	7.3	4.0	4.2	0.1	1.0	7.4	3.1
	ANNUAL	3.2	8.8	5.4	4.2	0.0	1.0	7.9	3.2
1985	I	1.1	4.4	3.2	3.8	0.3	2.7	4.9	3.4
	II	0.3r	2.3r	2.0r	4.2	0.5	3.9r	1.8r	3.2

See footnotes following table 6.

r=revised

p=preliminary

August 27, 1985

Source: Bureau of Labor Statistics

Table 2. Nonfarm business sector: Productivity, hourly compensation, unit labor cost, and prices, seasonally adjusted

Year and quarter		Output per hour of all persons	Output	Hours of all persons	Compensation per hour(1)	Real compensation per hour(2)	Unit labor cost	Unit non-labor payments(3)	Implicit price deflator(4)
Indexes 1977=100									
1984	I	105.2	118.0	112.3	166.5	98.4	158.3	152.2	156.3
	II	106.6	121.0	113.6	168.0	98.4	157.6	156.8	157.3
	III	106.3	121.3	114.1	169.5	98.4	159.5	158.0	159.0
	IV	106.9	122.7	114.8	171.0	98.5	160.0	160.3	160.1
	ANNUAL	106.2	120.7	113.6	168.7	98.4	158.8	156.9	158.2
1985	I	106.0	122.8	115.8	173.1	98.9	163.3	160.3	162.3
	II	106.3r	123.5r	116.2	174.5r	98.7	164.2r	161.7r	163.4
Percent change from previous quarter at annual rate(5)									
1984	I	2.9	10.3	7.2	6.1	0.7	3.1	2.3	2.8
	II	5.5	10.6	4.8	3.7	0.0	-1.7	12.5	2.8
	III	-1.1	0.7	1.8	3.6	-0.1	4.7	3.1	4.2
	IV	2.2	4.7	2.4	3.7	0.1	1.4	5.9	2.9
	ANNUAL	2.7	8.5	5.7	4.1	-0.1	1.4	6.7	3.1
1985	I	-3.1	0.5	3.7	5.0	1.7	8.4	0.1	5.5
	II	1.0r	2.2r	1.2r	3.3r	-0.8r	2.3r	3.6r	2.8r
Percent change from corresponding quarter of previous year									
1984	I	3.5	10.6	6.9	4.0	-0.5	0.4	8.3	2.9
	II	2.9	9.7	6.6	4.0	-0.3	1.1	7.1	3.0
	III	2.1	7.6	5.4	4.4	0.2	2.3	5.7	3.4
	IV	2.4	6.5	4.0	4.3	0.2	1.9	5.9	3.2
	ANNUAL	2.7	8.5	5.7	4.1	-0.1	1.4	6.7	3.1
1985	I	0.8	4.0	3.2	4.0	0.4	3.1	5.3	3.8
	II	-0.3r	2.0r	2.3	3.9	0.2r	4.2r	3.2r	3.8

See footnotes following table 6.

r=revised

p=preliminary

August 27, 1985

Source: Bureau of Labor Statistics

Table 3. Manufacturing sector: Productivity, hourly compensation, and unit labor cost, seasonally adjusted

Year and quarter		Output per hour of all persons	Output (6)	Hours of all persons	Compensation per hour(1)	Real compensation per hour(2)	Unit labor cost
Indexes 1977=100							
1984	I	114.2	113.0	98.9	167.1	98.8	146.3
	II	114.8	114.9	100.1	168.3	98.6	146.6
	III	116.7	116.7	100.0	169.9	98.7	145.5
	IV	116.5	116.7	100.2	172.1	99.1	147.7
	ANNUAL	115.6	115.3	99.8	169.4	98.8	146.5
1985	I	116.7	117.0	100.3	174.4	99.6	149.5
	II	118.8	117.8r	99.1	176.5r	99.7	148.6r
Percent change from previous quarter at annual rate(5)							
1984	I	5.5	14.8	8.8	6.2	0.8	0.6
	II	2.2	6.9	4.6	2.9	-0.8	0.7
	III	6.8	6.5	-0.2	3.7	0.1	-2.8
	IV	-0.6	0.0	0.7	5.2	1.6	5.9
	ANNUAL	3.5	10.5	6.7	3.6	-0.6	0.1
1985	I	0.4	0.9	0.4	5.6	2.2	5.1
	II	7.5	2.6r	-4.5r	4.8r	0.6r	-2.5r
Percent change from corresponding quarter of previous year							
1984	I	3.8	13.9	9.7	2.7	-1.7	-1.0
	II	3.6	12.2	8.3	3.3	-1.0	-0.3
	III	3.3	9.3	5.8	3.9	-0.3	0.6
	IV	3.4	7.0	3.4	4.5	0.4	1.0
	ANNUAL	3.5	10.5	6.7	3.6	-0.6	0.1
1985	I	2.1	3.5	1.4	4.4	0.8	2.2
	II	3.5	2.5r	-0.9r	4.8	1.1	1.3

See footnotes following table 6.

r=revised

p=preliminary

August 27, 1985

Source: Bureau of Labor Statistics



Table 4. Durable manufacturing sector: Productivity, hourly compensation, and unit labor cost, seasonally adjusted

Year and quarter		Output per hour of all persons	Output (6)	Hours of all persons	Compensation per hour(1)	Real compensation per hour(2)	Unit labor cost
Indexes 1977=100							
1984	I	115.3	114.1	98.9	165.8	98.1	143.8
	II	116.1	116.6	100.4	167.0	97.8	143.8
	III	118.3	119.4	101.0	168.1	97.6	142.1
	IV	117.7	119.5	101.5	170.1	97.9	144.4
	ANNUAL	116.9	117.4	100.4	167.7	97.9	143.5
1985	I	118.2	119.8	101.4	172.9	98.7	146.3
	II	120.2r	120.3	100.0	175.0	98.9	145.6r
Percent change from previous quarter at annual rate(5)							
1984	I	8.4	20.3	10.9	6.1	0.8	-2.2
	II	2.8	9.2	6.2	2.8	-0.9	0.0
	III	7.6	9.9	2.1	2.6	-1.0	-4.6
	IV	-1.8	0.3	2.1	4.9	1.3	6.8
	ANNUAL	4.8	14.4	9.1	3.2	-1.0	-1.6
1985	I	1.5	1.2	-0.4	6.9	3.5	5.3
	II	7.1r	1.5r	-5.2r	4.9r	0.7r	-2.0r
Percent change from corresponding quarter of previous year							
1984	I	5.5	18.5	12.3	2.2	-2.2	-3.1
	II	5.1	16.7	11.1	2.9	-1.4	-2.0
	III	4.6	13.4	8.4	3.4	-0.8	-1.2
	IV	4.2	9.7	5.3	4.1	0.0	-0.1
	ANNUAL	4.8	14.4	9.1	3.2	-1.0	-1.6
1985	I	2.5	5.0	2.5	4.3	0.7	1.8
	II	3.5r	3.1r	-0.4	4.8	1.1	1.3r

See footnotes following table 6.

r=revised

p=preliminary

August 27, 1985

Source: Bureau of Labor Statistics

Table 5. Nondurable manufacturing sector: Productivity, hourly compensation, and unit labor cost, seasonally adjusted

Year and quarter		Output per hour of all persons	Output (6)	Hours of all persons	Compensation per hour(1)	Real compensation per hour(2)	Unit labor cost
Indexes 1977=100							
1984	I	112.5	111.4	99.0	169.5	100.2	150.6
	II	112.9	112.3	99.5	170.6	100.0	151.2
	III	114.4	112.8	98.6	172.7	100.3	151.1
	IV	114.7	112.7	98.2	175.1	100.8	152.7
	ANNUAL	113.6	112.3	98.9	171.9	100.3	151.4
1985	I	114.3	112.8	98.7	176.6	100.8	154.5
	II	116.6r	114.0r	97.8r	178.7r	101.0	153.2r
Percent change from previous quarter at annual rate(5)							
1984	I	1.3	7.1	5.8	5.8	0.5	4.5
	II	1.2	3.6	2.4	2.7	-1.0	1.5
	III	5.4	1.5	-3.7	5.1	1.4	-0.3
	IV	1.1	-0.4	-1.5	5.5	1.9	4.3
	ANNUAL	1.5	4.9	3.3	3.8	-0.4	2.3
1985	I	-1.3	0.4	1.7	3.5	0.2	4.9
	II	8.3r	4.5r	-3.6r	4.8r	0.6r	-3.3r
Percent change from corresponding quarter of previous year							
1984	I	1.3	7.5	6.1	3.0	-1.4	1.7
	II	1.3	5.9	4.5	3.3	-1.0	2.0
	III	1.3	3.4	2.1	4.3	0.1	2.9
	IV	2.2	2.9	0.7	4.8	0.7	2.5
	ANNUAL	1.5	4.9	3.3	3.8	-0.4	2.3
1985	I	1.6	1.3	-0.3	4.2	0.6	2.6
	II	3.3r	1.5r	-1.8	4.7	1.0	1.4

See footnotes following table 6.

r=revised

p=preliminary

August 27, 1985

Source: Bureau of Labor Statistics

Table 6. Nonfinancial corporations: Productivity, hourly compensation, unit labor cost, unit profits, and prices, seasonally adjusted

Year and quarter	Output per all-employee hour	Output	Employee hours	Hourly compensation (1)	Real hourly compensation (2)	Unit labor cost	Unit non-labor cost (7)	Total unit cost (8)	Unit profits (9)	Implicit price deflator (4)
Indexes 1977=100										
1984	I	108.1	120.2	111.2	164.8	97.5	152.5	162.0	155.0	143.2
	II	108.9	123.1	113.1	165.8	97.2	152.3	162.8	155.0	151.1
	III	108.2	123.1	113.8	167.1	97.1	154.5	165.9	157.5	145.3
	IV	108.8	124.7	114.6	168.7	97.1	155.0	166.4	158.0	150.7
	ANNUAL	108.5	122.8	113.2	166.6	97.2	153.6	164.3	156.4	147.6
1985	I	108.1	124.9	115.5	170.3	97.3	157.5	168.1	160.2	150.4
	II	108.1p	125.5p	116.1p	171.6p	97.0p	158.8p	169.8p	161.6p	149.3p
Percent change from previous quarter at annual rate(5)										
1984	I	3.6	11.6	7.7	5.7	0.4	2.0	-3.2	0.6	23.4
	II	2.8	9.8	6.8	2.4	-1.3	-0.4	2.0	0.2	23.8
	III	-2.5	0.2	2.8	3.2	-0.4	5.9	8.0	6.5	-14.5
	IV	2.5	5.2	2.6	3.7	0.2	1.2	1.1	1.2	16.0
	ANNUAL	2.3	9.0	6.6	3.5	-0.8	1.1	-0.4	0.7	25.9
1985	I	-2.5	0.6	3.3	3.9	0.6	6.6	4.0	5.9	-1.0
	II	-0.3p	1.8p	2.1p	2.9p	-1.2p	3.2p	4.1p	3.5p	-2.7p
Percent change from corresponding quarter of previous year										
1984	I	4.0	11.8	7.5	3.6	-0.9	-0.4	-3.0	-1.1	54.8
	II	2.9	10.5	7.5	3.3	-1.0	0.4	-1.4	-0.1	35.2
	III	0.9	7.4	6.4	3.3	-0.9	2.4	0.9	2.0	14.7
	IV	1.6	6.6	5.0	3.8	-0.3	2.2	1.9	2.1	10.9
	ANNUAL	2.3	9.0	6.6	3.5	-0.8	1.1	-0.4	0.7	25.9
1985	I	0.0	3.9	3.9	3.3	-0.2	3.3	3.8	3.4	5.0
	II	-0.7p	1.9p	2.7p	3.5p	-0.2p	4.2p	4.3p	4.2p	-1.2p

See footnotes following table 6.  
r=revised  
p=preliminary

August 27, 1985  
Source: Bureau of Labor Statistics

Footnotes, Tables 1-6

SOURCE: Output data from Bureau of Economic Analysis, U.S. Department of Commerce, and the Federal Reserve Board. Compensation and hours data from the Bureau of Labor Statistics, U.S. Department of Labor, and the Bureau of Economic Analysis.

RELIABILITY: Based on data covering the period from the first quarter of 1976 to the second quarter of 1984, the probability is 0.95 that the interval between -1.8 and 2.0 index points contains the revision of the index of productivity in the business sector from the first to the third quarterly publication of the estimate.

- (1) Wages and salaries of the employees plus employers' contributions for social insurance and private benefit plans. Except for nonfinancial corporations, where there are no self-employed, data also include an estimate of wages, salaries, and supplemental payments for the self-employed.
- (2) Compensation per hour adjusted for changes in the Consumer Price Index for All Urban Consumers.
- (3) Nonlabor payments include profits, depreciation, interest, rental income, and indirect taxes.
- (4) Current dollar gross product divided by constant dollar gross product.
- (5) Quarterly changes: percent change compounded at annual rate from the original data rather than index numbers. Annual changes: percent change between annual average levels.
- (6) Quarterly measures adjusted to annual estimates of output (gross product originating) from the Bureau of Economic Analysis, U.S. Department of Commerce.
- (7) Unit nonlabor cost includes depreciation, interest, and indirect taxes.
- (8) Total unit cost is the sum of labor and nonlabor costs.
- (9) Unit profits include corporate profit and inventory valuation adjustment.

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