

# News

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Historical, technical  
information: (202) 523-9261  
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## PRODUCTIVITY AND COSTS

### Second Quarter 1986

Revisions 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 1986. Based on information now available, the seasonally-adjusted annual rates of productivity change in the second quarter were:

minus 0.3 percent in the business sector,  
minus 0.5 percent in the nonfarm business sector,  
plus 2.2 percent in manufacturing,  
minus 0.3 percent in durable goods manufacturing, and  
plus 6.3 percent in nondurable goods manufacturing.

Second-quarter measures are summarized in table A and appear in detail in tables 1 through 5. In nonfinancial corporations, productivity declined 2.3 percent in the second quarter, as output declined 3.0 percent and all-employee hours were cut back 0.7 percent (tables B and 6).

### Business

Productivity declined at a 0.3 percent annual rate during the second quarter of 1986 in the business sector, as output fell 0.4 percent and hours of all persons engaged in the sector decreased 0.1 percent (seasonally adjusted annual rates). The declines in output and hours during the second quarter of 1986 were the first since the fourth quarter of 1982. Compared with the second quarter of 1985, productivity increased 0.8 percent as output rose 2.3 percent and hours of all persons increased 1.6 percent (table 1).

Hourly compensation increased at a 2.7 percent annual rate during the second quarter of 1986, compared with a 2.5 percent gain during the first quarter. This measure includes wages and salaries, supplements, employer contributions to employee-benefit plans, and taxes. Unit labor costs, which reflect changes in hourly compensation and productivity, increased at a 3.0 percent annual rate during the second quarter, compared with a 0.7 percent decline during the first quarter.

Real hourly compensation, which takes into account changes in the Consumer Price Index for All Urban Consumers (CPI-U), increased 4.5 percent in the second quarter, compared with a 1.0 percent increase in the first quarter of 1986. The second-quarter increase was the largest since 1982. An 1.7 percent decline in the CPI-U marked the first quarterly drop in these prices since

Table A. Productivity and costs: Revised second quarter 1986 measures  
(Seasonally adjusted annual rates)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
Percent change from preceding quarter						
Business	-0.3	-0.4	-0.1	2.7	4.5	3.0
Nonfarm business	-0.5	-0.3	0.2	2.2	3.9	2.8
Manufacturing	2.2	-1.3	-3.4	2.5	4.3	0.4
Durable	-0.3	-4.9	-4.6	2.6	4.3	2.9
Nondurable	6.3	4.7	-1.5	2.8	4.5	-3.3
Percent change from same quarter a year ago						
Business	0.8	2.3	1.6	3.3	1.7	2.6
Nonfarm business	0.6	2.4	1.8	3.1	1.4	2.5
Manufacturing	1.9	1.8	-0.1	3.3	1.6	1.3
Durable	1.8	0.7	-1.1	4.0	2.3	2.1
Nondurable	2.3	3.6	1.3	2.3	0.6	0.0

The implicit price deflator for the business sector, which reflects changes in unit labor costs and unit nonlabor payments, increased 1.7 percent in the second quarter, its smallest rise since 1970.

#### Nonfarm business

Productivity declined 0.5 percent in the nonfarm business sector during the second quarter of 1986, as output fell 0.3 percent and hours of all persons --employees, proprietors, and unpaid family workers-- increased 0.2 percent. The decline in output was the first since the fourth quarter of 1982, and the gain in nonfarm hours was the smallest in the period. During the past 4 quarters, productivity rose 0.6 percent (table 2).

Hourly compensation increased 2.2 percent in the second quarter, but rose 3.9 percent when the drop in the CPI-U is taken into account. Unit labor costs increased 2.8 percent.

The implicit price deflator for the nonfarm business sector rose 1.5 percent in the second quarter, compared with a 2.3 percent increase one quarter earlier.

## Manufacturing

Productivity increased at a 2.2 percent seasonally adjusted annual rate in manufacturing in the second quarter of 1986, as output fell 1.3 percent and hours of all persons decreased 3.4 percent. This was the first quarter in which manufacturing output and hours both declined since the recovery began in 1983.

Hourly compensation of manufacturing workers increased 2.5 percent during the second quarter, or 4.3 percent when the decrease in consumer prices is taken into account. Unit labor costs edged up at a 0.4 percent annual rate, compared with a 0.6 percent increase during the first quarter of 1986.

Movements in output and hours were widely divergent in the durable and nondurable sectors during the second quarter. Productivity increased strongly among nondurables producers and declined for durables (table A). Over the past 4 quarters, productivity movements in the two sectors had not diverged greatly. From the second quarter of 1985 to the second quarter of 1986, nondurables productivity increased 2.3 percent, while durables showed a 1.8 percent gain (tables 4, 5). Durable goods industries account for 60 percent of the manufacturing sector.

## **Nonfinancial corporations**

Preliminary second-quarter 1986 measures of productivity and costs also were announced today for the nonfinancial corporate sector (tables B and 6). Output per all-employee hour declined 2.3 percent from the first to the second quarter of 1986, as output decreased 3.0 percent and hours of all employees fell 0.7 percent. Productivity has declined in the past 3 quarters in these corporations (table 6). Nonfinancial corporations include all corporations doing business in the United States, except banks, stock and commodity brokers, and finance and insurance agencies.

Hourly compensation increased 1.5 percent (the smallest quarterly increase since 1983) and increased 3.2 percent when the drop in the CPI-U is taken into account. Unit labor costs rose 3.8 percent, unit nonlabor costs decreased 0.5 percent, and unit profits fell 9.4 percent. The implicit deflator for nonfinancial corporate output increased 1.4 percent in the second quarter.

Table B. Nonfinancial corporations: Preliminary second-quarter productivity and cost measures  
Quarterly change at seasonally adjusted annual rate  
Percent

Period	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs	Unit profits	Implicit price deflator
1986 I to 1986 II	-2.3	-3.0	-0.7	1.5	3.2	3.8	-9.4	1.4
1985 II to 1986 II	-0.2	1.5	1.7	2.6	0.9	2.8	-1.4	1.3

Revised measures

Preliminary and revised productivity and cost measures for the second quarter are compared in table C for the business and manufacturing sectors. Revised output measures show declines for the business and nonfarm business sectors rather than the increases which had been reported on July 30, based on preliminary information then available. Hours of labor input have been revised upwards slightly.

Table C. Preliminary and revised productivity and related measures, second quarter 1986  
Percent change from preceding quarter  
(Seasonally adjusted annual rates)

Sector	Productivity	Output	Hours	Hourly compensation	Real hourly compensation	Unit labor costs
<b>Business:</b>						
Preliminary	1.6	1.3	-0.3	2.7	4.5	1.1
Revised	-0.3	-0.4	-0.1	2.7	4.5	3.0
<b>Nonfarm business:</b>						
Preliminary	1.7	1.7	0.0	2.2	3.9	0.5
Revised	-0.5	-0.3	0.2	2.2	3.9	2.8
<b>Manufacturing:</b>						
Preliminary	1.9	-1.5	-3.4	1.9	3.6	0.0
Revised	2.2	-1.3	-3.4	2.5	4.3	0.4

**Next release date**

The next issue of Productivity and Costs is scheduled for release at 10:00 AM EST Wednesday, October 29, 1986, and will contain preliminary third-quarter measures for business, nonfarm business, and manufacturing.

#### TECHNICAL NOTES

Business sector output is equal to gross national product in constant 1982 dollars, less the rest-of-the-world sector, general government, output of nonprofit institutions, output of paid employees of private households, 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 nondurables 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 these 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, food, 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 in constant 1982 dollars, 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 dwelling, the output of corporations engaged in baking, 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 contribution 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									
1985	I	105.7	121.3	114.8	172.3	98.4	163.1	158.3	161.4
	II	106.4	122.3	115.0	174.5	98.7	164.0	160.0	162.6
	III	107.3	123.5	115.2	176.4	99.1	164.4	161.4	163.4
	IV	106.4	123.8	116.4	178.0	99.0	167.3	159.6	164.6
	ANNUAL	106.4	122.7	115.3	175.3	98.8	164.8	159.7	163.0
1986	I	107.3	125.3	116.8	179.1	99.2	167.0	162.2	165.3
	II	r107.2	r125.2	r116.8	r180.4	100.3	r168.2	r161.9	r166.0
Percent change from previous quarter at annual rate(5)									
1985	I	0.9	3.6	2.6	4.2	1.0	3.3	1.6	2.7
	II	2.7	3.3	0.6	5.1	1.0	2.4	4.2	3.0
	III	3.4	4.1	0.7	4.4	1.8	1.0	3.7	1.9
	IV	-3.2	1.0	4.3	3.8	-0.5	7.2	-4.3	3.0
	ANNUAL	1.0	3.3	2.2	4.3	0.7	3.2	2.2	2.9
1986	I	3.3	4.7	1.4	2.5	1.0	-0.7	6.6	1.8
	II	r0.3	r0.4	r-0.1	2.7	4.5	r3.0	r-0.7	r1.7
Percent change from corresponding quarter of previous year									
1985	I	0.8	3.8	3.0	3.9	0.3	3.1	2.7	3.0
	II	0.8	2.8	2.0	4.5	0.7	3.6	2.0	3.1
	III	1.7	3.4	1.7	4.4	1.0	2.6	2.8	2.7
	IV	0.9	3.0	2.1	4.4	0.8	3.4	1.2	2.7
	ANNUAL	1.0	3.3	2.2	4.3	0.7	3.2	2.2	2.9
1986	I	1.5	3.3	1.8	3.9	0.8	2.4	2.5	2.4
	II	r0.8	r2.3	r1.6	3.3	1.7	r2.6	r1.2	r2.1

See footnotes following table 6.

r=revised  
p=preliminary

August 27, 1986

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									
1985	I	104.4	121.1	116.0	172.1	98.2	164.8	158.9	162.7
	II	104.9	122.1	116.4	174.0	98.4	165.9	160.8	164.1
	III	105.4	123.3	116.9	175.4	98.5	166.3	163.0	165.2
	IV	104.5	123.6	118.2	177.0	98.4	169.3	160.3	166.2
	ANNUAL	104.8	122.5	116.9	174.6	98.4	166.7	160.6	164.6
1986	I	105.6	125.1	118.5	178.3	98.8	168.8	163.9	167.1
	II	r105.5	r125.0	r118.5	179.3	99.7	r170.0	r163.5	r167.7
Percent change from previous quarter at annual rate(5)									
1985	I	0.3	3.2	2.9	3.9	0.7	3.6	2.5	3.2
	II	1.8	3.0	1.2	4.6	0.5	2.7	4.7	3.4
	III	2.2	4.0	1.8	3.2	0.7	1.0	5.7	2.6
	IV	-3.5	1.0	4.6	3.7	-0.6	7.4	-6.6	2.4
	ANNUAL	0.5	3.0	2.6	4.0	0.4	3.5	2.9	3.3
1986	I	4.3	5.1	0.8	3.1	1.6	-1.2	9.3	2.3
	II	r-0.5	r-0.3	r0.2	2.2	3.9	r2.8	r-0.9	r1.5
Percent change from corresponding quarter of previous year									
1985	I	0.5	3.6	3.1	3.9	0.3	3.4	3.7	3.5
	II	0.2	2.5	2.3	4.2	0.5	4.0	2.8	3.6
	III	1.0	3.1	2.1	4.0	0.6	3.0	3.7	3.2
	IV	0.2	2.8	2.6	3.9	0.3	3.7	1.5	2.9
	ANNUAL	0.5	3.0	2.6	4.0	0.4	3.5	2.9	3.3
1986	I	1.2	3.3	2.1	3.6	0.5	2.5	3.1	2.7
	II	r0.6	r2.4	1.8	3.1	1.4	r2.5	r1.7	r2.2

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

August 27, 1986  
 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							
1985	I	119.3	118.8	99.6	173.8	99.2	145.7
	II	121.7	119.9	98.5	175.6	99.3	144.3
	III	123.0	121.2	98.5	178.1	100.0	144.8
	IV	122.9	121.9	99.1	179.3	99.7	145.8
	ANNUAL	121.7	120.4	98.9	176.7	99.5	145.1
1986	I	123.4	122.4	99.3	180.2	99.8	146.1
	II	124.0	r122.1	98.4	r181.4	r100.0	r146.2
Percent change from previous quarter at annual rate(5)							
1985	I	3.9	3.2	-0.6	5.5	2.2	1.5
	II	8.2	3.7	-4.2	4.3	0.3	-3.6
	III	4.4	4.3	-0.1	5.6	3.0	1.2
	IV	-0.3	2.4	2.7	2.8	-1.4	3.0
	ANNUAL	4.4	3.8	-0.5	5.0	1.4	0.6
1986	I	1.4	1.9	0.4	2.1	0.6	0.6
	II	r2.2	r-1.3	-3.4	r2.5	r4.3	r0.4
Percent change from corresponding quarter of previous year							
1985	I	4.0	4.8	0.8	5.1	1.4	1.1
	II	5.2	4.0	-1.2	5.3	1.6	0.1
	III	4.4	3.2	-1.2	5.3	1.9	0.9
	IV	4.0	3.4	-0.6	4.5	1.0	0.5
	ANNUAL	4.4	3.8	-0.5	5.0	1.4	0.6
1986	I	3.4	3.1	-0.3	3.7	0.6	0.3
	II	1.9	r1.8	-0.1	r3.3	r1.6	r1.3

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

August 27, 1986  
 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						
1985	I	121.4	122.6	100.9	172.0	141.6
	II	124.4	124.1	99.8	173.2	139.2
	III	126.3	125.6	99.5	176.5	139.8
	IV	126.4	126.4	100.0	178.0	140.8
	ANNUAL	124.6	124.7	100.1	174.9	140.3
1986	I	126.7	126.5	99.9	178.9	141.2
	II	r126.6	r125.0	98.7	r130.1	r142.2
Percent change from previous quarter at annual rate(5)						
1985	I	8.2	7.2	-0.9	6.1	-1.9
	II	10.2	5.1	-4.6	3.0	-6.5
	III	6.1	4.9	-1.1	7.8	1.6
	IV	0.5	2.7	2.2	3.3	2.9
	ANNUAL	6.8	6.6	-0.2	5.0	-1.7
1986	I	0.9	0.3	-0.6	2.2	1.2
	II	r-0.3	r-4.9	r-4.6	r2.6	r2.9
Percent change from corresponding quarter of previous year						
1985	I	6.5	8.7	2.0	4.8	-1.6
	II	7.8	7.4	-0.4	4.8	-2.8
	III	6.7	5.4	-1.2	5.6	-1.1
	IV	6.2	5.0	-1.1	5.0	-1.1
	ANNUAL	6.8	6.6	-0.2	5.0	-1.7
1986	I	4.3	3.2	-1.1	4.1	-0.3
	II	r1.8	r0.7	r-1.1	r4.0	r2.1

See footnotes following table 6.

r=revised

p=preliminary

August 27, 1986

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						
1985	I	116.0	113.2	97.6	176.5	152.1
	II	117.5	113.6	96.7	179.4	152.7
	III	118.0	114.5	97.0	180.4	152.8
	IV	117.6	115.1	97.9	181.3	154.1
	ANNUAL	117.3	114.1	97.3	179.4	152.9
1986	I	118.3	116.4	98.3	182.2	154.0
	II	r120.2	r117.7	98.0	183.5	r152.7
Percent change from previous quarter at annual rate(5)						
1985	I	-2.6	-2.8	-0.2	4.4	7.2
	II	5.2	1.5	-3.5	6.9	1.7
	III	1.8	3.3	1.5	2.1	0.3
	IV	-1.4	1.9	3.4	1.9	3.4
	ANNUAL	0.7	-0.3	-1.0	5.0	4.3
1986	I	2.4	4.5	2.0	2.2	-0.2
	II	r6.3	r4.7	r-1.5	2.8	r-3.3
Percent change from corresponding quarter of previous year						
1985	I	0.1	-0.9	-1.0	5.3	5.2
	II	1.2	-1.1	-2.3	6.1	4.8
	III	0.9	-0.3	-1.1	4.9	4.0
	IV	0.7	1.0	0.3	3.8	3.1
	ANNUAL	0.7	-0.3	-1.0	5.0	4.3
1986	I	2.0	2.8	0.8	3.3	1.3
	II	r2.3	r3.6	1.3	2.3	r0.0

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

August 27, 1986  
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											
1985	I	106.0	123.1	116.1	169.9	97.0	160.3	178.5	164.9	129.3	160.6
	II	106.5	124.2	116.6	171.6	97.0	161.1	179.8	165.8	130.2	161.6
	III	107.8	126.0	116.8	173.1	97.2	160.5	178.3	165.0	141.7	162.2
	IV	107.0	126.1	117.8	174.5	97.0	163.0	179.8	167.2	131.2	162.9
	ANNUAL	106.8	124.8	116.9	172.3	97.0	161.2	179.1	165.8	133.1	161.8
1986	I	106.9	126.9	118.7	175.4	97.1	164.0	181.1	168.3	131.7	164.0
	II	p106.3	p126.0	p118.5	p176.0	p97.9	p165.6	p180.9	p169.4	p128.4	p164.5
Percent change from previous quarter at annual rate(5)											
1985	I	0.8	3.2	2.4	3.8	0.6	3.0	2.2	2.8	-3.6	2.2
	II	2.2	3.7	1.4	4.2	0.2	2.0	3.0	2.3	3.0	2.3
	III	4.9	5.9	1.0	3.4	0.9	-1.4	-3.3	-1.9	40.1	1.7
	IV	-2.8	0.5	3.4	3.3	-0.9	6.3	3.3	5.5	-26.4	1.7
	ANNUAL	1.2	3.7	2.5	3.9	0.3	2.7	2.6	2.7	-0.2	2.4
1986	I	-0.5	2.6	3.1	2.0	0.5	2.5	3.1	2.7	1.3	2.5
	II	p-2.3	p-3.0	p-0.7	p1.5	p3.2	p3.8	p-0.5	p2.6	p-9.4	p1.4
Percent change from corresponding quarter of previous year											
1985	I	0.6	4.1	3.5	3.8	0.2	3.2	4.3	3.5	-3.8	2.7
	II	0.6	3.1	2.5	4.1	0.4	3.5	3.9	3.6	-5.9	2.6
	III	2.2	4.2	2.0	3.9	0.5	1.6	1.1	1.5	8.7	2.2
	IV	1.2	3.3	2.1	3.7	0.2	2.4	1.3	2.1	0.6	2.0
	ANNUAL	1.2	3.7	2.5	3.9	0.3	2.7	2.6	2.7	-0.2	2.4
1986	I	0.9	3.2	2.2	3.2	0.2	2.3	1.5	2.1	1.8	2.1
	II	p-0.2	p1.5	p1.7	p2.6	p0.9	p2.8	p0.6	p2.2	p-1.4	p1.8

r=revised  
p=preliminary

August 27, 1986  
Source: Bureau of Labor Statistics

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: Productivity and cost measures are regularly revised as more complete information becomes available. Preliminary results are published 30 days after the close of the reference period; revisions appear 30 days later, and second revisions after an additional 60 days. In the business sector, the probability is 0.95 that the third publication (second revision) of a quarterly index of output per hour of all persons will differ from the preliminary value by between -1.7 and +1.9 index points. This interval is based on the performance of this measure between the first quarter of 1976 and the second quarter of 1985.

Footnotes, Tables 1-6

- (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) Unit nonlabor payments include profits, capital consumption allowances, interest, rental income of persons, 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 manufacturing output measures are based on the index of industrial production prepared monthly by the Board of Governors of the Federal Reserve adjusted by BLS to annual manufacturing output levels (gross product originating) from the National Income and Product Accounts prepared by the Bureau of Economic Analysis of the U.S. Department of Commerce.
- (7) Unit nonlabor cost includes capital consumption allowances, interest, rental income of persons, and indirect taxes.
- (8) Total unit cost is the sum of labor and nonlabor costs.
- (9) Unit profits include corporate profits with inventory valuation and capital consumption adjustments.