

6 PRICES AND COSTS IN MANUFACTURING INDUSTRIES

A numerical example will demonstrate the use of the unit cost indexes.

Food and kindred products

[Billions of dollars]

	1947	1957
Compensation.....	4,282	7,085
Net business income.....	1,489	1,866
Capital consumption allowance.....	345	722
Indirect taxes.....	2,654	3,438
Gross product originating current prices.....	8,770	13,111
Gross product originating 1947 prices.....	8,770	10,419

	1947	1957	Point change	Percent change
Index of total unit costs.....	100.0	125.8	25.8	25.8
Compensation.....	48.8	68.0	19.2	39.3
Net business income.....	17.0	17.9	.9	5.3
Capital consumption allowance.....	3.9	6.9	3.0	76.9
Indirect taxes.....	30.3	33.0	2.7	8.9

In this example total unit costs rose 25.8 percent in the period 1947-57. The increase in unit compensation cost contributed 19.2 points of this rise, net business income 0.9 point, capital consumption 3 points, and indirect taxes 2.7 points. (All of these numbers can perhaps be better understood as simply the cost of producing, in 1957, an amount of output valued in 1947 at \$1. Thus the total cost of producing that output rose to \$1.258 in 1957; unit labor costs rose from 49 cents to 68 cents, etc.). The last column shows the percent change in each individual component rather than its contribution to the total unit cost change. These percent change figures show which of the individual components have changed relatively faster or slower than the total or other components.

The indexes for 19 manufacturing industries are given in table 5. The industries for which the data are presented are the two-digit manufacturing industries of the Standard Industrial Classification (SIC), except for petroleum and coal products, and with ordnance and fabricated metals combined. Table 3 shows the total unit cost indexes for each industry in the form of points which add up to a unit cost index for all manufacturing except petroleum and coal products. The points for each industry are simply its unit cost index weighted by its relative contribution to total output in the weight year, 1954. Thus food and kindred products points for 1958 are 14.53 which is equal to its 1958 unit cost index, 125.8, multiplied by its proportion of total manufacturing output (except petroleum and coal products) in 1954, 0.1155.

It should be noted that the indexes explained above are not ordinary price indexes for the goods produced by an industry. They are calculated from the value *added* in an industry, and are therefore indexes only of the costs *originating* in the industry. The cost of raw materials, fuel, and anything else purchased *outside* the industry are not reflected in these indexes for they are neither part of the returns to the factors used in the industry nor indirect taxes levied on the industry. Hence these indexes may move differently from a price index of the prices charged for goods produced by the industry.