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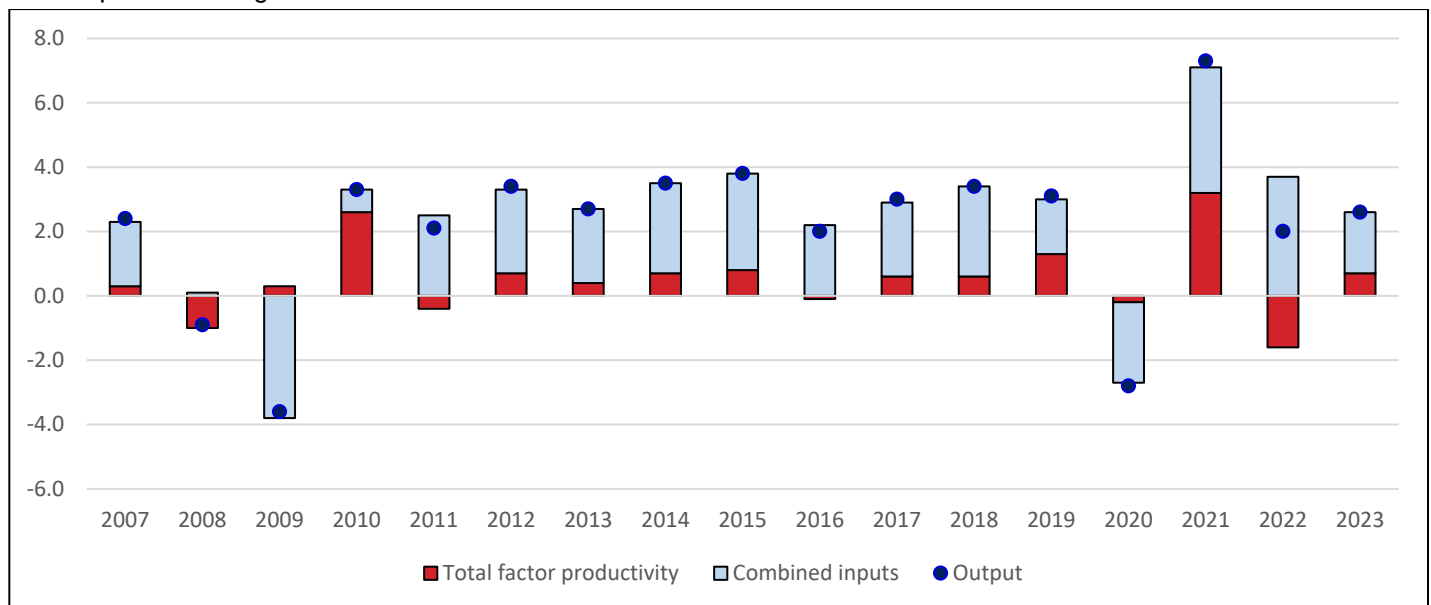
TOTAL FACTOR PRODUCTIVITY – 2023

(NOTE: This release was reissued on Monday, April 1, 2024, correcting the y-axis label in chart 3 to "Index 2017=100.")

Total factor productivity (TFP) in the private nonfarm business sector increased 0.7 percent in 2023, the U.S. Bureau of Labor Statistics reported today. (See chart 1, table A.) The 2023 increase in TFP reflects a 2.6-percent increase in output and a 1.9-percent increase in the combined inputs of capital and labor. Capital input grew by 2.8 percent and labor input—which is the combined effect of hours worked and labor composition—increased by 1.2 percent. The 2023 growth in TFP is in close range with the average annual growth experienced in the pre-pandemic 2011-19 period. (See chart 1.)

Chart 1. Total factor productivity, combined inputs, and output in the private nonfarm business sector, 2007-23

Annual percent change



NAICS and Index Changes

All industry series have been updated to reflect industry definition consistent with the 2017 North American Industry Classification System (NAICS). All indexes are rebased to 2017=100 to reflect the new definitions.

Total factor productivity is calculated by dividing an index of real output by an index of combined units of labor input and capital input. Total factor productivity annual measures differ from BLS quarterly labor productivity (output per hour worked) measures because TFP includes the influences of capital input and shifts in the composition of workers. Measures for the most recent year of this release are preliminary estimates. See the Technical Notes for additional information.

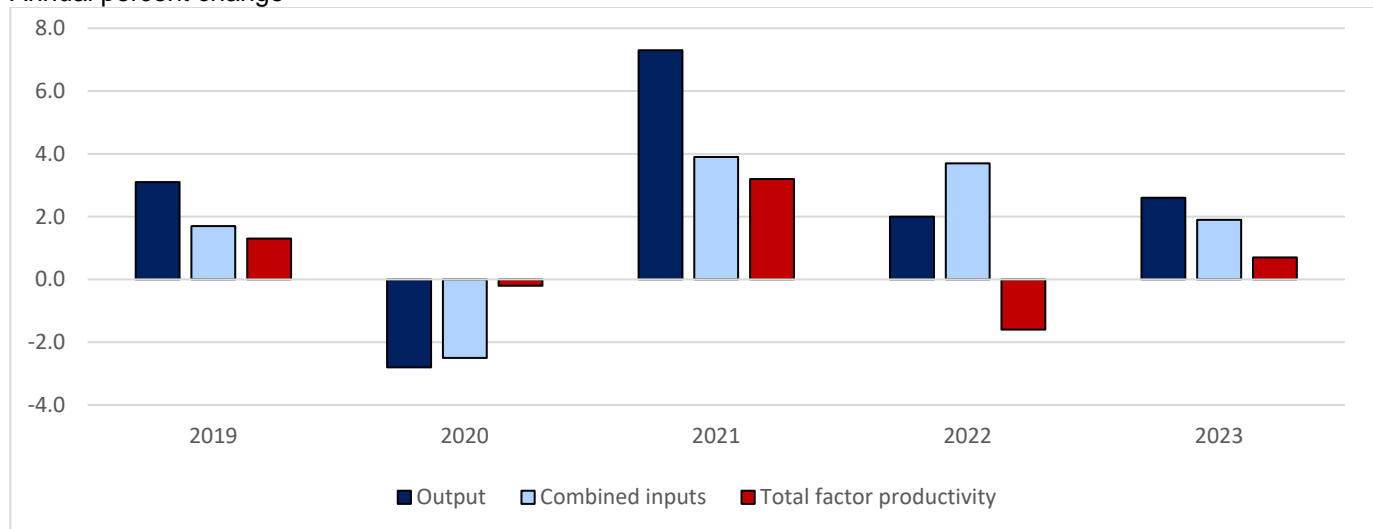
Private business sector total factor productivity also increased 0.7 percent in 2023, as output increased 2.6 percent and combined inputs increased 1.9 percent. (See table A.)

Total Factor Productivity Trends: 2019-23

The 0.7-percent growth in TFP in the private nonfarm business sector in 2023 resulted from the growth in output outpacing the growth in combined inputs. The growth of these three measures shows a similar pattern to growth experienced in 2019. (See chart 2.)

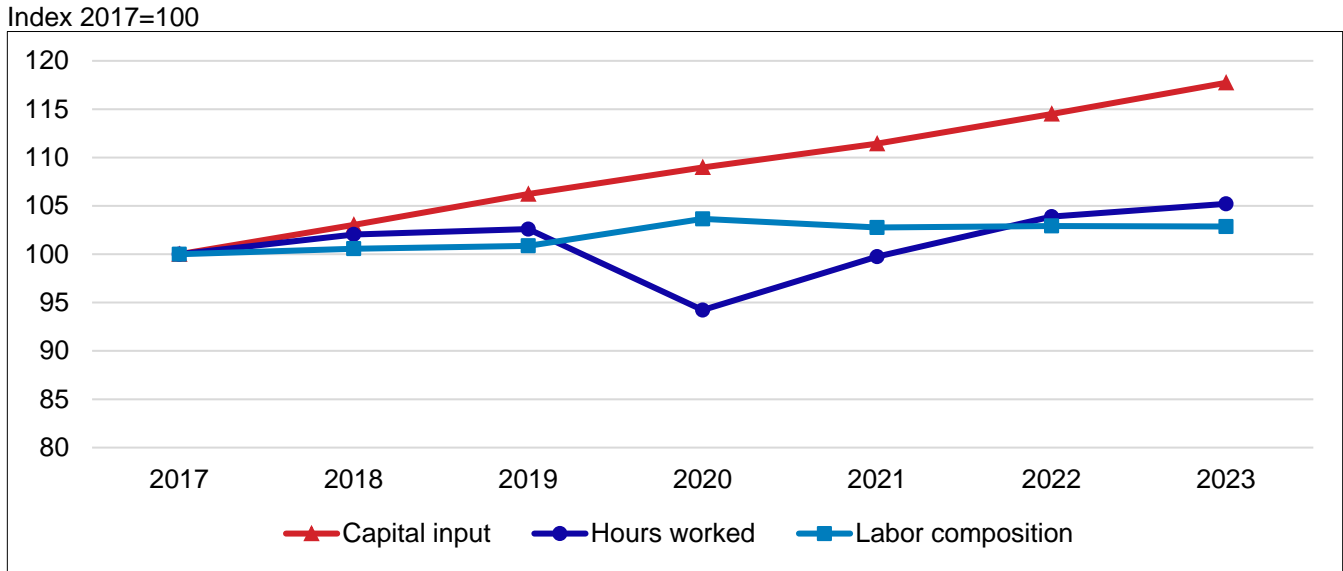
Chart 2. Total factor productivity, combined inputs, and output in the private nonfarm business sector, 2019-23

Annual percent change



Combined input growth is made up of growth in three components: capital input, hours worked, and labor composition. Capital input growth continued to accelerate since the 2.3-percent growth experienced in 2021, growing 2.8 percent in both 2022 and 2023. Hours worked decelerated from the robust 2021 growth of 5.9 percent, continuing to slow from the 4.1-percent growth in 2022 to 1.3-percent growth in 2023. Labor composition decreased 0.1 percent in 2023, but the level of the labor input index has remained consistent above pre-pandemic levels. (See chart 3.)

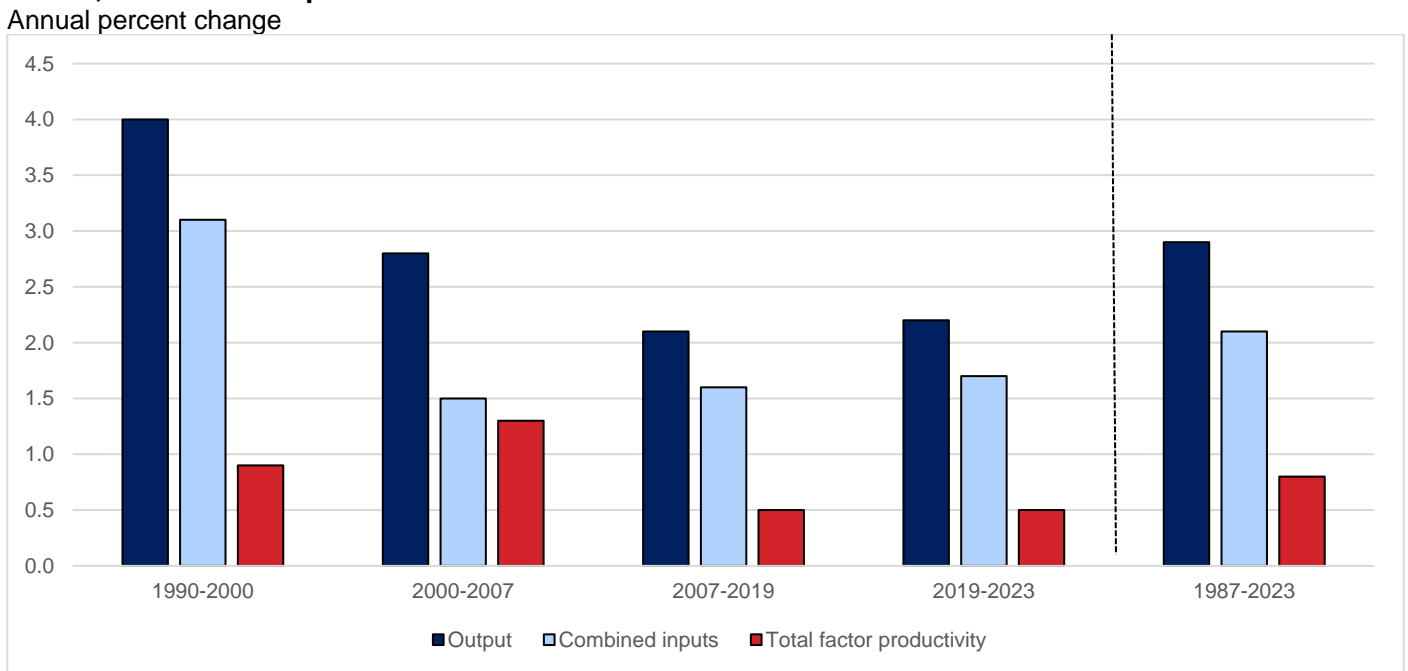
Chart 3. Components of combined inputs: capital input, hours worked, and labor composition, 2017-23



Total Factor Productivity Trends – 1987-2023

Productivity is often best viewed as a long-run measure. TFP grew 0.5 percent per year in the private nonfarm business sector in the current 2019-23 business cycle, the same growth as the previous 2007-19 cycle. However, the growth in both these periods is below the long-run 1987-2023 annual growth of 0.8 percent. (See chart 4 and table A.) The growth in output and combined inputs follow a similar trend, with growth in the current 2019-23 business cycle below their long-run averages. (See chart 4 and table A).

Chart 4. Total factor productivity, combined inputs, and output in the private nonfarm business sector, selected time periods



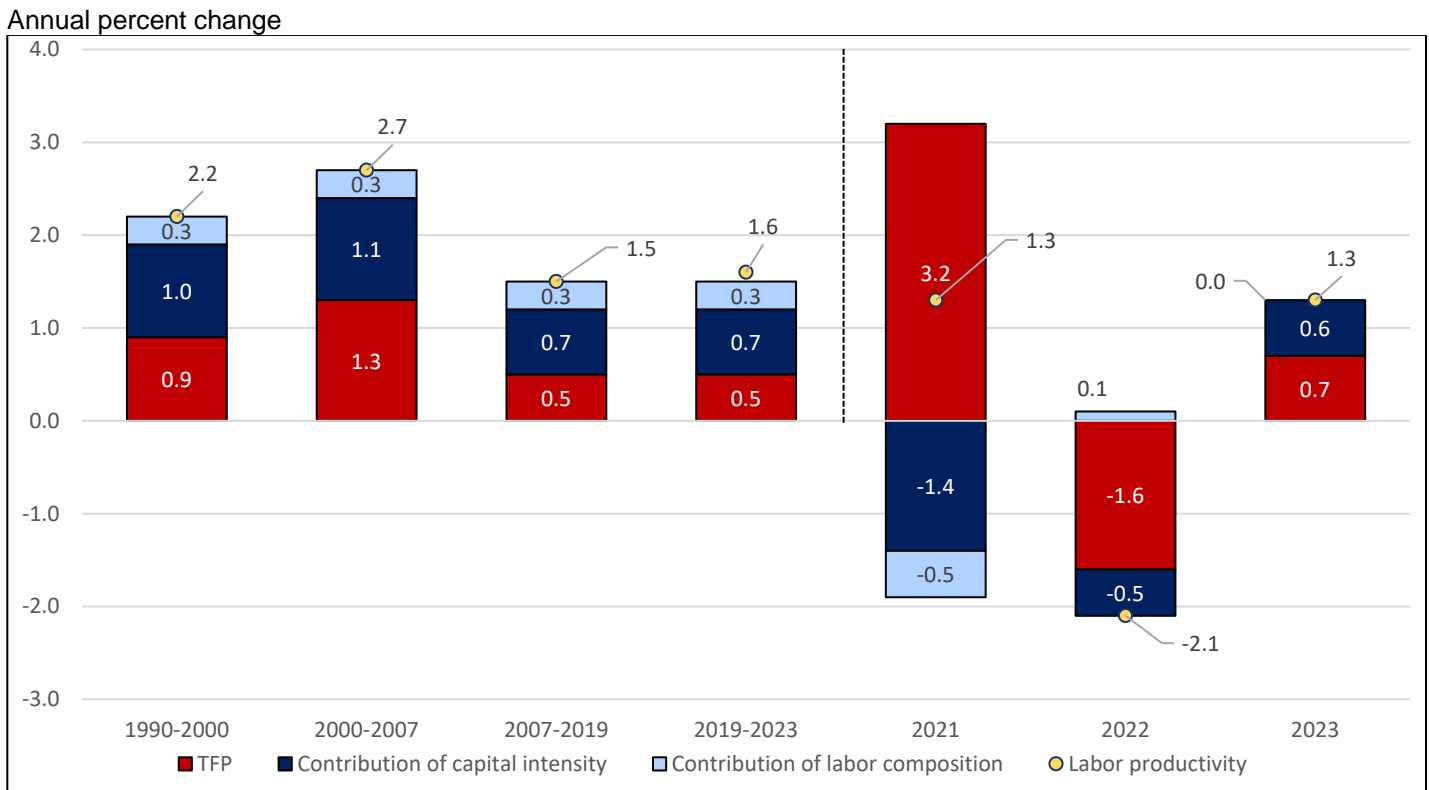
Labor Productivity Trends

Labor productivity growth is the approximate sum of three components: total factor productivity growth, the contribution of capital intensity, and the contribution of shifts in the composition of labor. In 2023, private nonfarm business labor productivity increased 1.3 percent, a rate slower than the 1.6-percent annual growth over the current business cycle, 2019-23 (See chart 5 and table B.)

The 2023 private nonfarm business sector growth in labor productivity was a result of the 0.7-percent increase in total factor productivity, and a 0.6-percent increase in the contribution of capital intensity to labor productivity growth. Capital intensity is the ratio of capital input growth to labor hours growth. The 2023 increase in capital intensity was driven by the growth in capital input of 2.8 percent outpacing hours worked growth of 1.3 percent. (See tables A and B.)

The contribution of labor composition to labor productivity for private nonfarm business was unchanged in 2023. Labor composition estimates the effect of shifts in the age, education, and gender composition of the workforce on hours worked. Over the 2019-23 business cycle, the annual contribution to labor productivity growth from labor composition was 0.3 percent. (See chart 5.)

Chart 5. Contributions to labor productivity growth, private nonfarm business sector, selected time periods



Note: The sum of long-term rates of change of total factor productivity, contribution of capital intensity, and contribution of labor composition may differ from the long-term rate of change in labor productivity.

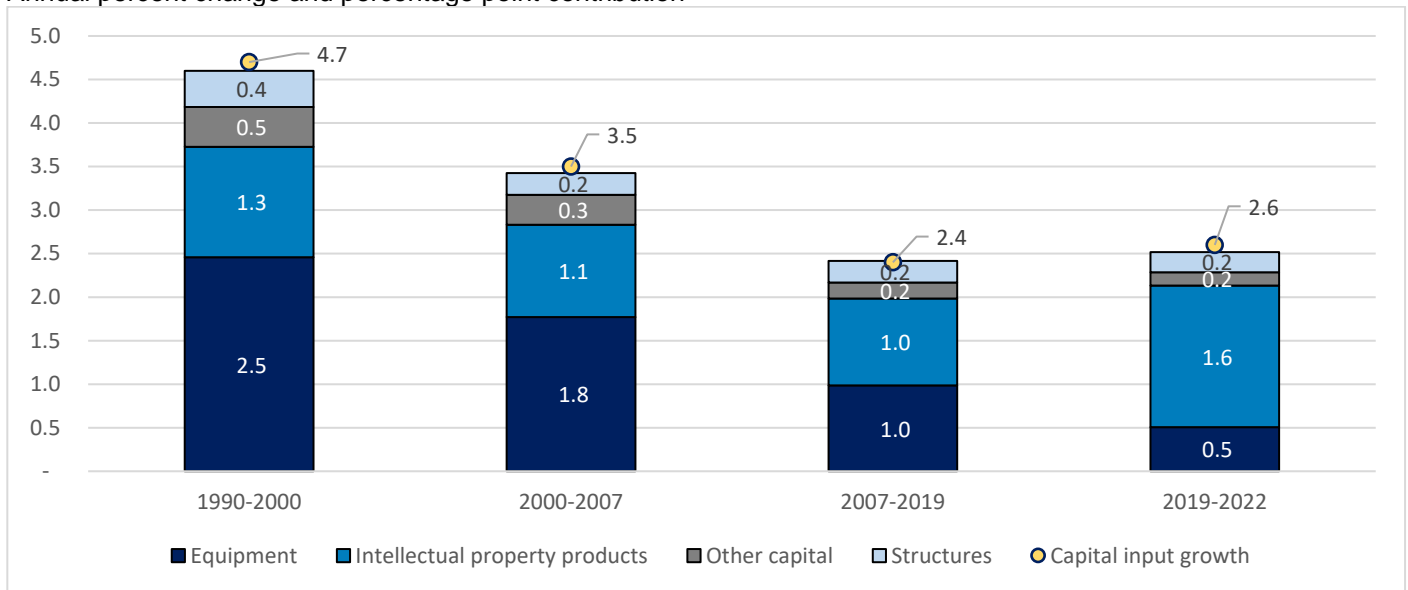
Detailed Capital Input Trends 2022

Capital input in the private nonfarm business sector increased at an annual rate of 2.8 percent in 2022, the latest year of detailed capital data. The 2022 capital input growth accelerated 0.5 percentage point (see table C) from the 2021 annual rate of 2.3 percent. The 2022 capital input growth was driven by the 7.6-percent growth in intellectual property products, the largest growth in this asset category since 2001.

Capital input is made up of different types of capital assets, including equipment, structures, and intellectual property products. The contributions of various asset types to capital input growth over prior business cycles highlights the shift from equipment assets to intellectual property products over the last 30 years. (See chart 6.) Capital input growth peaked in the 1990-2000 business cycle driven by the contributions of equipment and intellectual property products, which consist of software, research and development, and artistic originals assets. However, the contributions from equipment slowed dramatically over the next two business cycles, leading to capital input growth of 2.4 percent per year in the 2007-19 business cycle, half of the annual 4.7-percent growth peak during 1990-2000. Equipment’s contribution to capital growth continued to slow in the current 2019-22 business cycle but was offset by a large increased contribution from intellectual property products.

Chart 6. Asset type contributions to capital input growth in the private nonfarm business sector for selected time periods

Annual percent change and percentage point contribution



Note: The sum of contributions of the rates of change of the asset types may differ from the rate of change in capital growth. Other capital consists of inventories, land and residential structures.

Underlying asset detail within the equipment and intellectual property product asset types allow for examination of the shift from equipment to intellectual property products. The equipment asset type can be further broken down into information processing equipment, motor vehicles including autos, light trucks, and other vehicles, and all other equipment. The contributions of information processing equipment, which includes communication equipment, computers, and other information asset types, contributed 1.6 percentage points to capital input annual growth of 4.7 percent during the 1990-2000 business cycle. However, in the current 2019-22 period, these assets only contributed 0.5 percentage points. (See chart 7a.)

Within intellectual property products, research and development (R&D) is the main contributing asset for all time periods. In the 2019-22 period the increased contributions of R&D and pre-packaged software led to the increased contribution of intellectual property products. (See chart 7b.)

Chart 7a. Equipment asset type contributions to capital input growth in the private nonfarm business sector for selected time periods

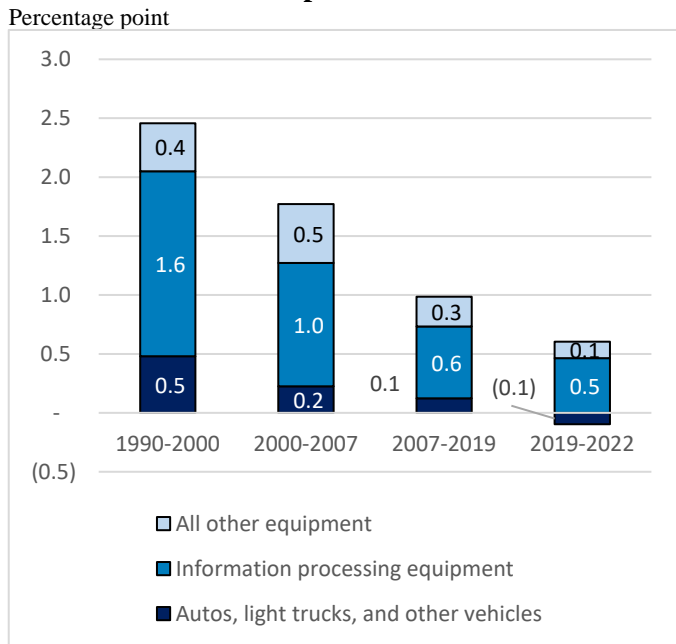
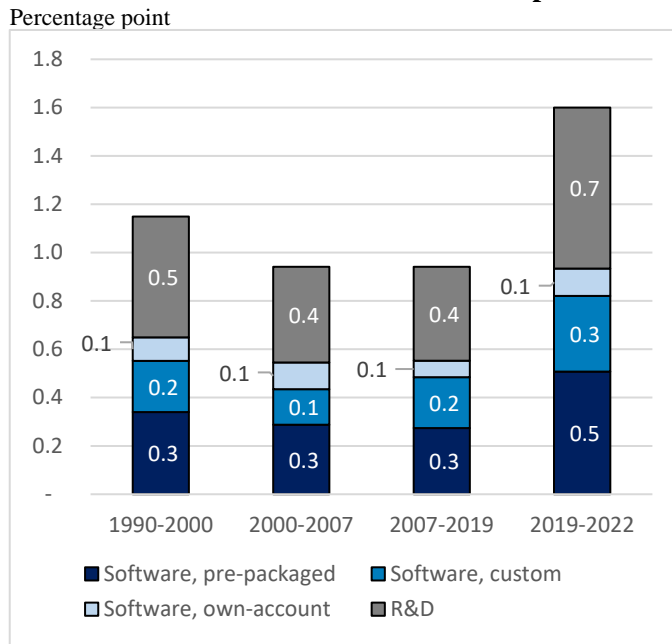


Chart 7b. Select intellectual property product asset type contributions to capital input growth in the private nonfarm business sector for selected time periods



Technical Notes

Capital Input

Capital input is the services derived from the stock of physical assets and intellectual property assets. There are 90 asset types for fixed business equipment, structures, inventories, land, and intellectual property products. Data on investment for fixed assets are obtained from the Bureau of Economic Analysis (BEA). Data on inventories are estimated using information from BEA and the Internal Revenue Service (IRS) Corporation Income Returns. Data for land in the farm sector are obtained from the U.S. Department of Agriculture (USDA). Nonfarm industry detail for land is based on IRS book value data. Current-dollar value-added data, obtained from BEA, are used in estimating capital rental prices.

Additional detail on information processing equipment and intellectual property products are available in table C. Information processing equipment is composed of three broad classes of assets: computers and related equipment, communications equipment, and other information processing equipment. Computers and related equipment include mainframe computers, personal computers, printers, terminals, tape drives, storage devices, and integrated systems. Communications equipment is not further differentiated. Other information processing equipment includes medical equipment and related instruments, electromedical instruments, nonmedical instruments, photocopying and related equipment, and office and accounting machinery. Intellectual property products are composed of three broad classes of assets: software, research and development, and artistic originals. Software is comprised of pre-packaged and custom. Research and development is creative work undertaken to increase the stock of knowledge for the purpose of discovering or developing new products or improving existing ones. Research and Development also includes own-account R&D for software which had previously been classified in software. Artistic originals include theatrical movies, long-lived television programs, books, music, and other forms of entertainment. Structures include nonresidential structures and residential capital that are rented out by profit-making firms or persons. Financial assets are excluded from capital input measures, as are owner-occupied residential structures. The aggregate capital input measures are obtained by Tornqvist aggregation of the capital stocks for each asset type within each of 61 NAICS industry groupings using estimated rental prices for each asset type. Each rental price reflects the nominal rate of return to all assets within the industry and rates of economic depreciation and revaluation for the specific asset; rental prices are adjusted for the effects of taxes. Current-dollar capital costs can be defined as each asset's rental price multiplied by its constant-dollar stock, adjusting for capital composition effects.

Capital input measures constructed for the most recent year are preliminary and are based on less detail than the rest of the series. These measures consist of 6 asset types as opposed to the 90 asset types for fixed business equipment, structures, inventories, land, and intellectual property products included in estimates for all previous years. The assets included in the most recent year are structures, fixed business equipment, intellectual property products, inventories, rental residences, and land. Investments, depreciation, and capital income are estimated for each of these six aggregates. Capital input is calculated by a chained superlative Tornqvist index combining stocks of the six asset categories, weighted by capital income shares. See the June 2005 Monthly Labor Review article, "Preliminary estimates of multifactor productivity growth" located at www.bls.gov/opub/mlr/2005/06/art3full.pdf.

Labor Input

Labor input in private business and private nonfarm business is obtained by a chained superlative Tornqvist aggregation of the hours worked, classified by age, education, and gender with weights determined by each group's share of the total wage bill. Hours worked data for the measures this news release include hours worked for all persons working in the sector—wage and salary workers, the self-employed and unpaid family workers. The primary source of hours data is the BLS Current Employment Statistics (CES) program, which provides monthly survey data on the number of jobs held by and hours paid to wage and salary workers in nonfarm establishments, counting a person who is employed by two or more establishments at each place of employment. Hours of paid time off are excluded from hours paid using data from the National Compensation Survey (NCS) for 1996 forward and data from the BLS Hours at Work survey, conducted for this purpose, prior to 1990. Between 1990 and 1995, hours of paid time off are excluded using a combination of NCS and Hours at Work survey data. Off-the-clock hours are added, yielding hours worked, using data from the Current Population Survey (CPS). To estimate the hours of farm labor, nonfarm proprietors, and nonfarm unpaid family workers the CPS data are used. The hours worked of proprietors, unpaid family workers, and farm employees are derived from the CPS. Hours worked data reflect estimates in the March 7, 2024 “Productivity and Costs” news release (www.bls.gov/news.release/archives/prod2_03072024.pdf) and a new method for estimating hours worked. More information on the method change can be found at <https://www.bls.gov/opub/mlr/2023/article/an-improved-estimate-of-self-employment-hours.htm>.

The estimates of 2023 hours worked for the private nonfarm business and private business sectors are extrapolated from the hours worked reported in the nonfarm business and business sectors, respectively, in the March 7, 2024 “Productivity and Costs” news release (www.bls.gov/news.release/archives/prod2_03072024.pdf). The growth rate of labor composition is defined as the difference between the growth rate of weighted labor input and the growth rate of the hours of all persons. The index of hours worked of all persons including employees, proprietors, and unpaid family workers, classified by age, education, and gender are weighted together using median wages to compute the labor composition estimates reflecting the different skillset of the work force. These cell estimates are smoothed using a three-year moving average to address missing observations and reduce volatility.

Combined Inputs

Labor input and capital input are combined using chained superlative Tornqvist aggregation, applying weights that represent each component's average share of total costs. The chained superlative Tornqvist index uses changing weights; the share in each year is averaged with the preceding year's share. Total costs are defined as the value of output less a portion of taxes on production and imports. Most taxes on production and imports, such as excise taxes, are excluded from costs; however, property and motor vehicle taxes remain in total costs.

Capital Intensity

Capital intensity is the ratio of capital input to hours worked in the production process. The higher the capital to hours ratio, the more capital intensive the production process becomes.

In a production process, profit-maximizing/cost-minimizing firms adjust the factor proportions of capital and labor when the price of one factor is less than the other factor; there is a tendency for the firms to substitute the less expensive factor for the more expensive one. In the short run, changes in hours worked are more variable than changes in capital input. Changes in hours worked in business cycles can result in volatility of the capital intensity ratio over short periods of time. In the long run an increase in wages relative to the price of capital will induce the firm to substitute capital for labor, resulting in an increase in capital intensity.

Rising labor costs are, in fact, an incentive for firms to introduce automated production processes. Industry estimates of capital to hours ratios can be obtained at www.bls.gov/productivity/tables/.

Value-Added Output

Private business sector output is a chain-type, current-weighted index constructed after excluding from gross domestic product (GDP) the following outputs: general government, nonprofit institutions, private households (including owner-occupied housing), and government enterprises. This release presents data for the private business and private nonfarm business sectors. Additionally, the private nonfarm business sector excludes farms from the private business sector but includes agricultural services. Total factor productivity measures exclude government enterprises, while the BLS quarterly Productivity and Costs series include them.

The output measures are based on the National Income and Product Accounts (NIPA) data released by BEA on February 28, 2024. The estimates of 2023 output for the private nonfarm business and private business sectors are extrapolated from the output reported in the nonfarm business and business sectors, respectively, in the March 7, 2024 “Productivity and Costs” news release (www.bls.gov/news.release/archives/prod2_03072024.pdf).

Total Factor Productivity

Total factor productivity measures describe the relationship between output in real terms and the inputs involved in its production. They do not measure the specific contributions of labor or capital, or any other factor of production. Rather, total factor productivity is designed to measure the joint influences of technological change, efficiency improvements, returns to scale, reallocation of resources, and other factors on economic growth, allowing for the effects of capital and labor.

The total factor productivity indexes for private business and private nonfarm business are derived by dividing an output index by an index of combined inputs of capital input and labor input. The output indexes are computed as chained superlative indexes (Fisher Ideal indexes) of components of real output.

Research and Development

The stock of research and development in private nonfarm business is derived by aggregating different vintages of constant dollar measures of research and development expenditures and allowing for depreciation. Current dollar expenditures for privately financed research and development are obtained from annual issues of Research and Development in Industry published by the National Science Foundation. BLS develops price deflators and estimates of the rate of depreciation.

The research and development data in the private nonfarm business sector presented here show the effect of spillovers from economic units that conduct research and development. BEA publishes measures of research and development investments in each industry that include estimates of the direct returns to firms conducting such research and development activities. By combining the direct returns to firms conducting research and development with the spillover effect of other firms, a picture of the total overall effects of research and development can be drawn.

Further description of these data and methods can be found in BLS Bulletin 2331 (September 1989), "The Impact of Research and Development on Productivity Growth" at www.bls.gov/productivity/technical-notes/impact-of-research-and-development-on-productivity-growth-1989.pdf.

BLS measures of year-to-year contributions of research and development to the private nonfarm business sector and measures of the stock of research and development are available at www.bls.gov/productivity/highlights/research-and-development-contribution-to-total-factor-productivity.htm.

Other Information

Detailed information on methods used in this release can be found in the BLS Handbook of Methods. Productivity Measures: Business Sector and Major Sector section at www.bls.gov/pub/hom/msp/home.htm.

Comprehensive tables containing more detailed data than are published in this news release are available upon request at 202-691-5606 or at www.bls.gov/productivity/tables.

Industry specific contributions to output are available at www.bls.gov/productivity/highlights/contributions-of-total-factor-productivity-major-industry-to-output.htm.

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Table A. Productivity, output, and inputs in the private nonfarm business and private business sectors for selected periods, 1987-2023

Average annual growth rates

	1987-2023	1990-2000	2000-07	2007-19	2019-23	2022	2023
<u>Private nonfarm business</u>							
Productivity							
Total factor productivity	0.8	0.9	1.3	0.5	0.5	-1.6	0.7
Labor productivity	1.9	2.2	2.7	1.5	1.6	-2.1	1.3
Capital Productivity	-0.5	-0.7	-0.7	-0.3	-0.4	-0.7	-0.2
Output	2.9	4.0	2.8	2.1	2.2	2.0	2.6
Combined inputs	2.1	3.1	1.5	1.6	1.7	3.7	1.9
Labor input	1.4	2.2	0.5	1.0	1.1	4.3	1.2
Hours Worked	0.9	1.7	0.1	0.6	0.6	4.1	1.3
Labor composition	0.5	0.5	0.4	0.5	0.5	0.1	-0.1
Capital input	3.4	4.7	3.5	2.4	2.6	2.8	2.8
Analytic ratio							
Capital intensity	2.5	2.9	3.4	1.9	2.0	-1.3	1.5
<u>Private business</u>							
Productivity							
Total factor productivity	0.8	1.0	1.3	0.6	0.5	-1.7	0.7
Labor productivity	2.0	2.3	2.7	1.5	1.6	-2.1	1.4
Capital Productivity	-0.4	-0.5	-0.6	-0.3	-0.4	-0.9	-0.3
Output	2.9	4.0	2.8	2.1	2.2	1.9	2.6
Combined inputs	2.0	3.0	1.5	1.5	1.7	3.6	1.9
Labor input	1.4	2.2	0.5	1.1	1.1	4.2	1.2
Hours Worked	0.9	1.7	0.1	0.6	0.6	4.0	1.2
Labor composition	0.5	0.5	0.4	0.5	0.5	0.2	0.0
Capital input	3.3	4.5	3.4	2.4	2.6	2.8	2.9
Analytic ratio							
Capital intensity	2.4	2.8	3.4	1.8	2.0	-1.2	1.6

Table B. Labor productivity growth and the contributions of capital intensity, labor composition, and total factor productivity to labor productivity growth, private nonfarm business and private business sectors

Average annual growth rates/percentage point contributions

	1987-2022	1987-2023	1990-2000	2000-07	2007-19	2019-23	2022	2023
<u>Private nonfarm business</u>								
Labor productivity growth	2.0	1.9	2.2	2.7	1.5	1.6	-2.1	1.3
Contribution of capital intensity	0.9	0.9	1.0	1.1	0.7	0.7	-0.5	0.6
Contribution of information processing equipment (IPE)	0.3	-	0.4	0.4	0.2	-	0.1	-
Contribution of research and development (R&D)	0.1	-	0.1	0.1	0.1	-	0.1	-
Contribution of intellectual property products (IPP) excluding R&D	0.2	-	0.2	0.2	0.2	-	0.2	-
Contribution of capital input excluding IPP & IPE	0.2	-	0.2	0.4	0.2	-	-0.9	-
Contribution of labor composition	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.0
Total factor productivity growth	0.8	0.8	0.9	1.3	0.5	0.5	-1.6	0.7
Contribution of R&D to total factor productivity	0.2	-	0.3	0.3	0.1	-	0.2	-
<u>Private business</u>								
Labor productivity growth	2.0	2.0	2.3	2.7	1.5	1.6	-2.1	1.4
Contribution of capital intensity	0.9	0.8	0.9	1.1	0.7	0.8	-0.5	0.7
Contribution of information processing equipment (IPE)	0.3	-	0.4	0.4	0.2	-	0.1	-
Contribution of research and development (R&D)	0.1	-	0.1	0.1	0.1	-	0.1	-
Contribution of intellectual property products (IPP) excluding R&D	0.2	-	0.2	0.2	0.2	-	0.2	-
Contribution of capital input excluding IPE & IPP	0.2	-	0.2	0.4	0.1	-	-0.9	-
Contribution of labor composition	0.3	0.3	0.3	0.3	0.3	0.3	0.1	0.0
Total factor productivity growth	0.8	0.8	1.0	1.3	0.6	0.5	-1.7	0.7

*- Data for the most recent year not available

Note: Total factor productivity plus contribution of capital intensity and labor composition may not sum to labor productivity due to independent rounding. Contributions of the components of capital intensity may not sum to the total contribution of capital intensity due to independent rounding.

Table C. Real capital input growth by asset type, private nonfarm business and private business sectors

Average annual growth rates

	1987-2022	1990-2000	2000-07	2007-19	2019-22	2022
<u>Private nonfarm business</u>						
All assets	3.4	4.7	3.5	2.4	2.5	2.8
Equipment	4.4	6.6	4.9	3.3	1.7	1.5
Information processing equipment (IPE)	9.2	13.0	9.5	6.9	6.1	6.6
Computers & related equipment	14.7	28.1	14.4	5.7	6.7	7.5
Communication equipment	9.3	8.0	9.7	11.2	8.5	8.7
Other IPE	3.0	3.3	3.2	2.8	3.0	3.4
All other equipment	2.3	3.5	2.9	1.8	0.2	-0.2
Structures	1.5	2.1	1.3	0.9	0.8	0.6
Intellectual property products (IPP)	6.1	7.5	5.4	4.8	7.1	7.6
Research and development	4.6	5.5	4.1	3.7	5.4	5.9
Software	10.5	14.0	8.1	7.3	10.9	11.7
Artistic originals	2.9	3.7	3.6	2.0	1.2	1.0
Rental residential capital	1.2	1.5	2.3	0.2	1.1	1.2
Inventories	2.7	3.6	2.2	2.4	2.0	6.6
Land	0.6	0.9	0.6	0.3	0.0	-0.6
<u>Private business</u>						
All assets	3.3	4.5	3.4	2.4	2.5	2.8
Equipment	4.4	6.4	4.9	3.3	1.7	1.5
Information processing equipment (IPE)	9.2	13.0	9.6	7.0	6.1	6.6
Computers & related equipment	14.7	28.1	14.4	5.7	6.7	7.5
Communication equipment	9.3	8.0	9.7	11.2	8.5	8.7
Other IPE	3.1	3.4	3.4	2.9	3.0	3.4
All other equipment	2.3	3.4	2.8	1.8	0.2	-0.2
Structures	1.4	2.0	1.2	0.9	0.8	0.6
Intellectual property products (IPP)	6.1	7.5	5.4	4.8	7.1	7.6
Research and development	4.6	5.5	4.1	3.7	5.4	5.9
Software	10.5	14.0	8.1	7.3	10.9	11.7
Artistic originals	2.9	3.7	3.6	2.0	1.2	1.0
Rental residential capital	1.2	1.5	2.3	0.2	1.1	1.2
Inventories	2.6	3.5	2.1	2.2	1.9	6.3
Land	0.6	0.5	0.5	0.1	0.7	0.8

Note: Real capital input by asset type is not available for the most recent reference year. For a brief discussion of methods used in preparing these data see the Technical Notes in this release.