

Supporting Statement - Part A
Survey of Plant Capacity Utilization
(Form MQ-C1 & MQ-C2)

A. Justification

1. Necessity of the Information Collection

The U. S. Census Bureau requests a revision of approval for the Survey of Plant Capacity Utilization (SPC), OMB number 0607-0175. The current survey is conducted annually and collects fourth quarter production data. The survey provides information on use of industrial capacity in manufacturing and publishing plants as defined by the North American Industry Classification System (NAICS). It is the only source of capacity rates at the 6-digit NAICS industry levels. Changes in capacity utilization are considered important indicators of investment demand and inflationary pressure. For these reasons, the estimates of capacity utilization are closely monitored by government and private policy makers.

The Census Bureau conducts this mandatory survey under the authority of Title 13, United States Code, Sections 182 and 225. We conduct the survey using a mail-out/mail-back form. The survey collects the value of fourth quarter production and the value of production that could have been achieved if operating under “full production” and “emergency production” levels. The ratios of the actual to the full and emergency production levels are the basis of the estimates of capacity utilization. The survey also collects information by shift, on work patterns at actual production and full production levels. Appendix A is a copy of the 2005 MQ-C1 form and instructions. The MQ-C1 form remains unchanged.

With support from the Federal Reserve Board (FRB), the Census Bureau is requesting approval to collect capacity utilization data on a quarterly basis in addition to the annual collection. Response to the quarterly survey would be voluntary. Response to the annual survey is mandatory. The quarterly survey would collect a subset of the data collected on the annual survey. Appendix B is a copy of the proposed quarterly form, MQ-C2.

2. Need and Uses

The FRB is the primary user of the current SPC data and have expressed the need for these quarterly data. The FRB publishes measures of industrial production (IP) that are either estimated from physical product data or estimated from monthly data on inputs to the production process, specifically production worker hours and an indicator of capital input. For many years, data on electric power use was used as the indicator of industry capital input. The deregulation of electricity markets led to the deterioration in the coverage and quality of the

electricity data. As a result, in November 2005, the FRB discontinued its use of the industrial electric power data in the current estimates of IP. In order to maintain the quality of the IP index, the collection of these quarterly utilization data, such as the workweek of capital, become critical indicators of capital input use and industry output.

The FRB will use these data in several ways. First, the capital workweek data will be used as an indicator of capital use in the estimation of monthly output (IP). Second, the workweek data will also be used to improve the projections of labor productivity that are used to align IP with comprehensive benchmark information in the Economic Census covering the Manufacturing sector and Annual Survey of Manufactures. Third, the utilization rate data will assist in the assessment of recent changes in IP, as most of the high-frequency movement in utilization rates reflect production changes rather than capacity changes.

The Defense Logistics Agency uses the data to assess readiness to meet demand for goods under selected national emergency scenarios.

Information quality is an integral part of the pre-dissemination review of the information disseminated by the Census Bureau (fully described in the Census Bureau's Information Quality Guidelines). Information quality is also integral to the information collections conducted by the Census Bureau and is incorporated into the clearance process required by the Paperwork Reduction Act.

3. Use of Information Technology

The Census Bureau is developing a web-based version of the quarterly survey. Electronic reporting will allow the Census Bureau to receive the data in a more timely manner and will allow for data checks within the instrument to verify reported data are accurate, resulting in less follow-up. We expect to have this web-based version of the form available for the first quarterly mailing in March 2007.

We will also continue to use other options such as fax and telephone to retrieve data from our respondents as well as other Census Bureau technologies, such as automated check-in to collect and process the data.

3. Efforts to Identify Duplication

The Census Bureau maintains ongoing contact with other government agencies that use these statistics to avoid duplication. The SPC data is the only source of detailed information on industry-level manufacturing utilization rates and the only source of data on the workweek of capital.

The Institute for Supply Management does conduct a semiannual survey of utilization rates, but the sample is very small and it is neither a probability sample

nor is it representative of NAICS industries.

5. Minimizing Burden

If a respondent requests to report in a format other than the paper form, we will accept the alternative. We offer this option in the instructions.

All plants with fewer than 5 employees are excluded from the survey. For the annual, we select a new sample every 5 years. While the total burden is not decreased, the burden on individual plants is decreased. For the quarterly survey, a new sample will be selected approximately every two to three years.

The sample is selected from the Economic Census rather than the Annual Survey of Manufactures (ASM). This reduces the probability of ASM plants being selected for multiple surveys and spreads the burden across a larger number of plants.

6. Consequences of Less Frequent Collection

Less frequent collection would result in the inability to monitor short term effects on growth rates, productivity changes, and price changes.

7. Special Circumstances

We are requesting response to the quarterly data in 20 days. In order to meet the timely release of the quarterly estimates, 75 days from mailing, we feel it is necessary to collect the data in 20 days rather than the 30 days we allow for annual collections. Based on response from our consultation outside the agency, respondents can provide this data in 20 days.

8. Consultations Outside the Agency

The Census Bureau announced its intention to conduct the quarterly survey in the Federal Register on April 10, 2006 (volume 71 page 18064). No comments were received from this announcement.

The Census Bureau contacted 9 potential respondents and asked questions pertaining to the new quarterly survey. Appendix C includes both the questionnaire and the results.

During the development of the quarterly survey we were in contact with John Stevens, Economist, Division of Research and Statistics (202) 452-2206 at the FRB to discuss the scope and content.

During the data collection process, we consult with respondents to determine how well they can provide the information requested, where any potential reporting

problem may lie and the amount of time needed to complete the form.

9. Paying Respondents

No payments or gifts are given to respondents of the survey.

10. Assurance of Confidentiality

The law, Title 13 Section 9, United States Code, guarantees the confidentiality of the information collected in this survey. We inform respondents in a letter signed by the Director of the Census Bureau, on the form itself, and in the instructions sent to all participants that responses are confidential. Appendix D is a copy of the 2005 annual cover letter.

11. Justification for Sensitive Questions

There are no sensitive questions.

12. Estimate of Hour Burden

For the MQ-C2, the number of quarterly respondents will be approximately 6,000. For the MQ-C1, the number of respondents will remain the same, 17,000. The estimated time per response is 1.5 hours for form MQ-C2 and 2.25 hours for form MQ-C1. Total annual burden hours for form MQ-C2 is 36,000, and for form MQ-C1, it remains 38,250 for a total of 74,250.

The estimated annual cost to the respondents is \$1,368,428. This estimate is based on an average hourly wage of \$18.43 for a Level 1 accountant in the manufacturing sector, times the total annual burden hours of 74,250.

13. Estimate of Cost Burden

We do not expect respondents to incur any costs other than that of their time to respond. The information requested is of the type and scope normally carried in company records and no special hardware or accounting software or system is necessary to provide answers to this information collection. Therefore, respondents are not expected to incur any capital and start-up costs or system maintenance costs in responding. Further, purchasing of outside accounting or information collection services, if performed by the respondent, is part of usual and customary business practices and not specifically required for this information collection.

14. Cost to Federal Government

The total annual cost to the Federal Government is \$1,050,000. This total includes the cost of the quarterly survey of \$500,000 and the annual survey of \$550,000.

The cost of the quarterly survey is funded by the FRB and the cost of the annual survey is shared by the Census Bureau, the FRB and the Defense Logistics Agency.

15. Reason for Change in Burden

The increase in burden hours is due to the addition of the quarterly survey.

16. Project Schedule

The Census Bureau will mail the MQ-C2 at the end of each quarter. We will ask that the respondents return the quarterly form within 20 days and the annual form within 30 days. Establishments that do not respond within that time period receive a follow-up. The resulting estimates for the quarterly will be published in the Current Industrial Reports Series approximately 75 days after the quarter ends. The schedule for the annual survey does not change; the Census Bureau will release the Advance report in August (based on 70 percent response) and the Final report in December.

The following is a tentative schedule for data collection, processing and publication for the quarterly and annual surveys.

Data Collection and Publication Schedule

Activity	Date
1 st quarter mailing	March current year
First quarter follow-up	20 days after mailout
1 st quarter release of data	June current year
2 nd quarter mailing	June current year
Second quarter follow-up	20 days after mailout
2 nd quarter release of data	September current year
3 rd quarter mailing	September current year
Third quarter follow-up	20 days after mailout
3 rd quarter release of data	December current year
4 th quarter mailing	December current year
Fourth quarter follow-up	20 (qtr.) and 30 (ann.) days after mailout
4 th quarter release of data	March (qtr.) and December (ann.)following

year

Two fourth quarter reports will be released. A quarterly report, comparable to the first three quarters, will be released in March of the following year with a more comprehensive report in December.

17. Request to Not Display the Expiration Date

The expiration date and OMB number will be displayed on the forms.

18. Exceptions to the Certification

There are no exceptions.

19. Industries Affected

The survey will cover all manufacturing and publishing industries defined by the North American Industry Classification System (NAICS). For the quarterly survey, industry groups will be represented. These are NAICS industries or combinations thereof. The annual survey will not change. Emphasis will be placed on priority industries as defined by the Defense Logistic Agency and the Federal Reserve Board. See Section B Collection of Information Employing Statistical Methods for a more comprehensive breakdown of scope and sampling strategy.