

SUPPORTING STATEMENT - PART A

U.S. Department of Commerce

U.S. Census Bureau

Manufacturers' Shipments, Inventories, and Orders to the Department of Defense

Form (M-3DOD)

(OMB Control No. 0607-xxxx)

A. Justification

1. Necessity for Information Collection

The Manufacturers' Shipments, Inventories, and Orders (M3) survey collects monthly data on shipments, inventories, and orders from domestic manufacturing companies. The purpose of the M3 survey is to provide early broad-based monthly statistical data on current economic conditions and indications of future production commitments in the manufacturing sector. The orders, as well as the shipments and inventory data, are used widely and are valuable tools for analysis of business cycle conditions. Major data users include: members of the Council of Economic Advisers (CEA), Bureau of Economic Analysis (BEA), Federal Reserve Board (FRB), Conference Board, Treasury Department, and the business community.

The monthly M3 reflects primarily the month-to-month changes of companies within the survey. The M3 survey collects data for 89 industry categories of which 13 provide defense and non-defense allocations. Those industries include: Small Arms and Ordnance; Communications Equipment; Search and Navigation Equipment; Aircraft; Aircraft Engine and Parts; Missile, Space Vehicle, and Parts Manufacturing; and Ship and Boat Building.

The link relative estimator used in the M3 is not self-correcting. A minor error in the series can be magnified by the multiplicative effect of the estimator. Over time, the M3 estimates can be significantly different than the true universe levels. Consequently, there is a need to re-establish these universe levels on a periodic basis. The Annual Survey of Manufactures (ASM) provides annual benchmarks for the shipments and inventory data for the M3 survey; however, the ASM does not distinguish between defense and non-defense activities. The last collection instrument used to benchmark defense and non-defense data was the Shipments to Federal Agencies Benchmark Survey (MA-9675) conducted in 1992. Since the defense industries have dramatically changed, it is necessary to conduct a benchmark survey to obtain a current allocation of data between defense and non-defense manufacturing activities for the M3 universe levels.

The Manufacturers' Shipments, Inventories, and Orders to the Department of Defense (M3DOD) survey will collect 2006 and 2007 shipments, inventories, and unfilled orders data from domestic manufacturing companies that encompass defense manufacturing

activities. This survey will be conducted every five years to provide correct benchmark levels and preserve the integrity of the estimates for the M3 survey, especially for the closely watched non-defense capital goods series. The monthly M3 data will be adjusted based on the results of the M3DOD survey.

The M3DOD survey will be conducted on a mandatory basis under the authority of Title 13, United State Code, Sections 131, 182, 193 and 224. The proposed M3DOD form, instructions, and major manufacturing activities list are presented in Appendix A. In addition, the M3DOD letter mailed with the form and a contingent follow-up letter for late reporters can be found in Appendix B.

2. Needs and Uses

The M3DOD survey will provide up-to-date shipments, unfilled orders, and inventories data to domestic manufacturing establishments that encompass defense and non-defense manufacturing activities. During the M3's benchmarking process, the data will be applied to adjust shipments, unfilled orders, and inventories for selected M3 industries on a NAICS basis. The M3's current universe will be recalibrated to a new level reflecting the most recent economic condition of defense and non-defense sectors. Once revisions are finalized, the benchmark will take place, revising the M3's historical time series beginning with 1992 for defense and non-defense sectors. The benchmark report will be released to the public electronically. The M3's data users will have more accurate data reflecting short and long-term trends in these manufacturing sectors.

The value of shipments, especially when adjusted for change in inventory, measures current levels of production. Changes in the level of unfilled orders, because of excess or shortfall of new orders compared with shipments, are used to measure the excess (or deficiency) in the demand for manufactured products. Changes in the level of inventories and the relation of these to shipments are used to project future movements in manufacturing activity. These statistics are valuable for analysts of business cycle conditions, including members of the CEA, BEA, FRB, Department of Treasury, business firms, trade associates, private research and consulting agencies, and the academic community.

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

3. Use of Information Technology

The consideration of information technology is not applicable because the M3DOD

survey will be conducted every five years. Few data items are being requested, and the data are generally available in existing company records and require little compilation time. If a company prefers to submit the data in their own format or a computer output hard copy, we will accommodate them.

4. Efforts to Identify Duplication

The U.S. Census Bureau makes a concentrated effort on a continual basis to identify possible duplications, both within and outside the agency, and to eliminate them whenever possible. The monthly M3 survey is the only source of data that covers defense and non-defense activities in the U.S. manufacturing industries. There is no current source of data to provide a benchmark for the defense/non-defense allocation.

5. Minimizing Burden

Each establishment that is eligible for the survey will be assigned a probability of selection that reflects its size relative to its NAICS (6 digit level) industry. Large establishments within an industry will have a higher probability of selection than smaller establishments.

6. Consequences of Less Frequent Collection

The U.S. Census Bureau plans to conduct this survey every 5 years to provide benchmarks for the defense and non-defense allocations. For the years between benchmark surveys, the universe levels will be adjusted based on the ASM shipments data and the relationship to shipments reported in the monthly M3 survey. However, this annual adjustment is not an acceptable substitute for the benchmark data and periodic benchmark surveys are necessary to re-establish the correct universe levels.

7. Special Circumstances

This information collection will be conducted in a manner consistent with OMB guidelines and there are no special circumstances.

8. Consultations Outside the Agency

Consultations with defense and non-defense respondents take place regularly through telephone calls for the M3 survey. These contacts cannot be listed because of their confidential status under Title 13. Through these contacts the U.S. Census Bureau gains considerable insight into the operations of manufacturers and develops a cooperative rapport with respondents and analysts. Fourteen companies were also consulted through cognitive testing of the M3DOD form. More information on cognitive testing can be found in Appendix C.

The U.S. Census Bureau also has continuing contact with the BEA and the International Trade Administration within the Department of Commerce, FRB, CEA, Department of the Treasury, and large numbers of financial and economic advisers, forecasters, and journalists, relative to the adequacy, accuracy, and timeliness of the data. Comments generally show satisfaction with the data.

The U.S. Census Bureau provides M3 data that encompasses defense and non-defense activities to the following:

<u>Organization</u>	<u>Representative and Telephone Number/Email</u>
Bureau of Economic Analysis	Paul Lally (202) 606-9743 Paul.lally@bea.gov
Federal Reserve Board	John Stevens (202) 452-2206 John.J.Stevens@frb.gov
Council of Economic Advisers	Adrienne Pilot (202) 395-5110 apilot@cea.eop.gov

Furthermore, on October 25, 2007, (Volume 72, Page 60627) the U.S. Census Bureau published a notice in the federal register inviting the general public and other federal agencies to comment on the report, form and/or the program to which it relates. We received one comment which the U.S. Census Bureau deemed irrelevant to the collection.

9. Paying Respondents

No payments or gifts are given to respondents as a result of this survey.

10. Assurance of Confidentiality

A notice on the survey form announces to the respondents: "Your response is required by law. Title 13, U.S. Code, requires businesses and other organizations that receive this questionnaire to answer the questions and return the report to the U.S. Census Bureau. By the same law, **YOUR CENSUS REPORT IS CONFIDENTIAL**. It may be seen only by persons sworn to uphold the confidentiality of U.S. Census Bureau information and may be used only for statistical purposes. Further, copies retained in respondents'

files are immune from legal process.” The Census Bureau also informs respondents of this in a letter signed by the Chief of the Census Bureau’s Manufacturing and Construction Division.

11. Justification for Sensitive Questions

There are no sensitive questions.

12. Estimate of Hour Burden

The estimate of respondent burden hours is 2,500 work hours. The survey will involve approximately 5,000 respondents with an average response time of 30 minutes. This estimated time of response is based on the results of cognitive testing of this survey form.

The estimated cost to the respondents is \$65,650. This estimate is based on an average hourly wage of \$26.26 times the annual burden hours (2,500). This rate is the average rate for a level one accountant in the manufacturing sector, according to the Occupational Employment and Wages, 2006 publication, published by The Bureau of Labor Statistics.

13. Estimate of Cost Burden

The U.S. Census Bureau does not expect respondents to incur any cost 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 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 cost to the Federal Government is expected to be \$35, 000, all funded by the U.S. Census Bureau.

15. Reason for Change in Burden

The M3DOD is submitted as a new collection.

16. Project Schedule

The U.S. Census Bureau will mail the form in September 2008, requesting respondents to return the form within 30 days. There will be one mail follow-up at 30 days followed by

phone calls. The U.S. Census Bureau is expecting at least an 80 percent response rate at the time the benchmark report is prepared.

The U.S. Census Bureau will edit and analyze the data, tabulate, and use the results to establish new levels for the NAICS industries that encompass defense activities. The U.S. Census Bureau systems will be used to process the survey.

The following is a schedule for data collection, processing, and publication, assuming the form will be mailed in September 2008.

Data Collection and Publication Schedule

<u>Activity</u>	<u>Days following initial mailing</u>
First mail follow-up	30 days
Phone call follow-ups	45 days
Analyst review and edit returns	Throughout the mailing cycle

<u>Activity</u>	<u>Date</u>
Review of tabulated data	January-April 2009
Annual Benchmark Report	May 2009

17. Request to Not Display the Expiration Date

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

18. Exceptions to the Certification

There are no exceptions.

19. Industries Affected

The survey will cover manufacturing industries defined by NAICS codes. Emphasis will be placed on seven industries (Small Arms and Ordnance Accessories; Communications Equipment; Search and Navigation Equipment; Aircraft; Aircraft Engine and Parts; Missile, Space Vehicle, and Parts Manufacturing; and Ship and Boat Building) with defense and non-defense allocations in the M3 Survey. An attachment showing the affected industries appears in Appendix A.

