

1SUPPORTING STATEMENT - PART A
U.S. Department of Commerce
U.S. Census Bureau
Manufacturers' Shipments, Inventories, and Orders Survey
Form M-3(SD)
(OMB Control No. 0607-0008)

A. Justification

1. Necessity of the Information Collection

The U.S. Census Bureau is requesting an extension of the currently approved collection for the Manufacturers' Shipments, Inventories, and Orders (M3) survey. This survey collects monthly data from domestic manufacturers on Form M-3 (SD), which is mailed at the end of each month. The form and transmittal letter are shown in Appendices A and B respectively. Data requested are shipments, new orders, unfilled orders, and inventories by stage of fabrication. It is currently the only survey that provides broad-based monthly statistical data on the economic conditions in the domestic manufacturing sector. The survey is designed to measure current industrial activity and to provide an indication of future production commitments. The value of shipments measures the value of goods delivered during the month by domestic manufacturers. Estimates of new orders serve as an indicator of future production commitments and represent the current sales value of new orders received during the month, net of cancellations. Substantial accumulation or depletion of backlogs of unfilled orders measures excess (or deficient) demand for manufactured products. The level of inventories, especially in relation to shipments, is frequently used to monitor the business cycle.

The M3 survey has been conducted monthly by the U.S. Census Bureau since 1957. The Advance Report on Durable Goods, Manufacturers' Shipments, Inventories and Orders is an advance snapshot of the current value of manufacturing in the U.S. It is available about 18 working days after each month. The M3 survey also produces the Full Report on Manufacturers' Shipments, Inventories and Orders. This report details information on the durable goods industries, and also includes the non-durable goods industries. In addition, the Full Report captures late receipts, and is available about 23 working days after each month.

This survey provides an essential component of the current economic indicators needed for assessing the evolving status of the economy and formulating economic policy. The Office of Information and Regulatory Affairs (OIRA), Office of Management and Budget (OMB) has designated this survey as a principal federal economic indicator. The shipments and inventories data are essential inputs to the gross domestic product (GDP), while the orders data are direct inputs to *The Conference Board Leading Economic Index (LEI)*, which is a

composite index of ten key elements designed to monitor the business cycle (<https://www.conference-board.org/data/bcicountry.cfm?cid=1>). The GDP and the LEI would be incomplete without these data. Orders for durable goods are an important leading economic indicator. Businesses and consumers generally place orders for durable goods when they are confident the economy is improving. A durable goods report showing an increase in orders is a sign that the economy is trending upwards. Durable goods orders tell investors what to expect from the manufacturing sector, a major component of the economy. The M3 survey also provides valuable and timely domestic manufacturing data for economic planning and analysis to business firms, trade associations, research and consulting agencies, and academia. The M3 survey is authorized by Title 13, United States Code, Sections 131, 182, and 193.

2. **Needs and Uses**

The data are used for analyzing short- and long-term trends, both in the manufacturing sector and as related to other sectors of the economy. The data on value of shipments, especially when adjusted for change in inventories, measure current levels of production. New orders figures serve as an indicator of future production commitments. 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 Council of Economic Advisers (CEA), the Bureau of Economic Analysis (BEA), the Federal Reserve Board (FRB), the Department of the Treasury, The Conference Board, business firms, trade associations, 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 Census Bureau (fully described in the Census Bureau's Information Quality Guidelines). Information quality is also integral to 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**

One of the strategic objectives of the Census Bureau is to pursue the least burdensome means of collecting necessary information. To ease respondent burden, we permit companies to submit data in a format compatible with their internal computerized bookkeeping accounts. Respondents further are encouraged to submit data through the Centurion Internet Reporting System. The M3 collects ninety percent of its data electronically.

Respondents have been submitting data through the Centurion Reporting System

since November 2009. Respondents select a link on our web page or type the URL to allow them to enter data. Data received via the Internet are converted to an ASCII file and downloaded to our company database. This method of data collection is cost-effective as it reduces the number of monthly forms faxed or mailed. We currently receive about 2,600 reports monthly through the Centurion Reporting System.

4. Efforts to Identify Duplication

The Census Bureau makes a concentrated effort on a continuing basis to identify possible duplications, both within the agency and outside the agency, and to eliminate them whenever possible. The M3 survey is the only survey that provides broad-based monthly shipments, inventories, and orders statistics on the entire domestic manufacturing sector, as well as specific important industrial categories.

The Institute for Supply Management (ISM) collects opinion and directional information on shipments, inventories, and orders from a small sample of companies. The ISM Report is based on data compiled from 350 purchasing and supply executives nationwide. There are other monthly surveys that cover narrowly defined subsectors of manufacturing, but no other public or private survey provides comprehensive monthly statistics for the entire U.S. manufacturing sector.

5. Minimizing Burden

For this survey, we generally do not request reports from companies with less than \$500 million in annual shipments. However, for some of the industries made up primarily of small companies, the inclusion of several small companies is necessary to obtain sufficient coverage levels to produce reliable estimates.

6. Consequences of Less Frequent Collection

The data collected in this monthly survey provide policy makers with timely, current information essential to assessing the strength of the economy and analyzing short-term trends in the manufacturing sector. If the survey was conducted less frequently, timely knowledge, especially of unexpected developments, would be missing. Monthly data are needed by the BEA to make early estimates of quarterly GDP and by the Conference Board for calculations of *The Conference Board Leading Economic Index*, as mentioned in Section 1.

7. Special Circumstances

The M3 survey is conducted monthly to meet the timeliness requirements documented in Section 6 above. As soon as the data can be accurately compiled, they are released in order to assist government policy makers, business decision-

makers, and other data users in monitoring the direction of the economy.

8. Consultations Outside the Agency

Consultations with survey respondents take place regularly through company visits and telephone calls. These contacts cannot be listed because of their confidential status under Title 13, United States Code, Section 9. Through these contacts, we gain considerable insight into the operations of manufacturers and have developed a cooperative rapport with respondents and analysts.

We also have continuing contact with the BEA within the Department of Commerce, the FRB, the CEA, the 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. Consultations with outside consultants were for the purpose of receiving individual opinions and not for the purpose of forming a group opinion. Comments generally show satisfaction with the data. In a 1997 correspondence from OMB, we were authorized to prerelease our aggregate non-individual identifiable data to the BEA to improve the coverage and accuracy of the GDP estimates.

Specific representatives to whom we provide data and have discussed the M3 programs are:

<u>Organization</u>	<u>Representative and Telephone Number/E-Mail</u>
Bureau of Economic Analysis	Michael Armah (202) 606-9721 Michael.armah@bea.gov
Federal Reserve Board	1Robyn Zevin 1(202) 452-3898 ocdo-dmid@frb.gov
Council of Economic Advisers	1Brian Amorosi 1(202) 395-5062 1bamorosi@cea.eop.gov

The Conference Board

Ataman Ozyildirim
(212) 339-0399
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We published a notice in the Federal Register on October 20, 2017 (Volume 82, No. 202, Pages 48789-48790) inviting the public to comment on our plans to submit this request. Two comments were received during the 60-day comment period.

The first comment was from the Bureau of Economic Analysis (BEA) stating that the BEA strongly supports this data collection because data collected in this survey are crucial to key components of BEA's economic statistics. BEA's letter of support can be found in Appendix C. We followed up with BEA and thanked them for their support.

The second comment was from Mr. David S. Addington, Senior Vice President and General Counsel, National Federation of Independent Business (NFIB). This comment was a complaint regarding the estimated total annual cost to the public being reported as \$0 in the Federal Register Notice. The comment suggests that this estimate seriously underestimates the costs incurred by respondents to the M3 survey in terms of the time they spend completing the questionnaire. The full comment can be found in Appendix D. The Census Bureau recognizes that business owners take time out of their busy schedules to complete Census Bureau surveys; time that could be spent growing their businesses. The Census Bureau also recognizes there is a cost associated with this time. The Census Bureau reports on the annualized "Hour Burden" cost to respondents within this request for OMB review, found in *Section 12 – Estimate of Hour Burden* of this document.

The \$0 cost estimate reported in the October 20, 2017 Federal Register notice was not intended to represent the cost of the "hour burden" incurred by respondents. The OMB prescribes that agencies also estimate the "cost burden" of surveys. It was this "cost burden" which was reported in the notice. This separately-calculated estimate includes costs which respondents may incur other than their time. These other costs might include: purchases of software, hardware, or capital equipment specifically required for gathering information for or responding to the survey; the maintenance of such reporting systems; or purchases of outside accounting, reporting or record storage services required specifically for responding to the survey. The M3 survey imposes no such costs and therefore, the "cost burden" was reported as \$0. In the future, the Census Bureau will add a notation explaining what the "cost to the public" reported in its Federal Register notices represents.

9. Paying Respondents

No respondents are paid or given gifts to report on our survey.

10. Assurance of Confidentiality

All data collected in the M3 survey are confidential under Title 13, United States Code, Section 9 and may be used only for statistical purposes. We inform respondents of the voluntary and confidential nature of this survey on the annual letter that we send to our contacts (see Appendix B) and on our website in various locations (see Appendix E for the instruction manual that is found online, and Appendix F for screenshots of the electronic collection instrument).

11. Justification for Sensitive Questions

There are no sensitive questions.

12. Estimate of Hour Burden

The estimate of total respondent burden hours to respond to this survey is 20,000 hours annually. This estimate was derived as follows:

Survey Form	Number of Reporting Units	Annual Frequency	Total Number of Responses Annually	Minutes per Response	Burden Hours
Current panel M3	5,000	12	60,000	20	20,000

We estimated the burden hours based on extensive contact with survey respondents. The estimated annual cost to the respondents is \$737,800. We calculated this annual cost by multiplying the total burden hours by the average hourly wage of \$36.89. (Occupational Employment and Wages - Bureau of Labor Statistics May 2016 National Occupational Employment and Wage Estimates; \$36.89 represents the mean hourly wage of the full-time wage and salary earnings of accountants and auditors, SOC code 13-2011.)

<http://stats.bls.gov/oes/current/oes132011.htm>

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 systems

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 for this program is expected to be relatively fixed over the upcoming three years at approximately \$3,300,000, all paid from Census Bureau appropriations. This estimate includes the cost for such things as data collection, processing, review of tabulated data, publication, equipment, overhead, printing, support staff, etc.

15. Reason for Change in Burden

We adjusted the burden in the collection upward to reflect the increase in the current number of respondents to the survey.

16. Project Schedule

At the end of each month, we mail forms to the survey respondents requesting data for the month that just ended. Although the due date printed on the report form is 10 days after its receipt, long-standing arrangements exist with most major companies for filing dates that are consistent with the closing of their books.

We tabulate, review, and analyze responses beginning about the 7th working day following the close of the report period.

The monthly publication of the data generally follows the schedule shown:

<u>Report</u>	<u>Scheduled Release Date</u>
Advance Report on Durable Goods	18 working days after the end of the reporting period at 8:30 a.m., or if the 18th day is a Monday, the report is issued on the 19th day
Manufacturers' Shipments, Inventories, and Orders Report	23 working days after the end of the reporting period at 10:00 a.m. (5 working days after the Advance Report)
Annual Benchmark Report	as benchmark data become available (the most recent was issued in May 2017)

An example of the Advance Report on Durable Goods is shown in Appendix G

and an example of the Manufacturers' Shipments, Inventories, and Orders Report is shown in Appendix H.

The scheduled release dates occasionally do not match the above criteria due to scheduling conflicts with other government press releases.

17. Request to Not Display Expiration Date

We will continue to display the expiration date and OMB number on the collection instruments.

18. Exceptions to the Certification

There are no exceptions.

19. North American Industry Classification System (NAICS) Codes Affected

Data are collected for all manufacturing industries. Data are collected for NAICS subsectors 311 - 339. Under NAICS, we collect and tabulate data for 92 industry groupings. See NAICS industry groupings in Appendix E.