

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date November 30, 1937

To Chairman Eccles

Subject: _____

From Mr. Goldenweiser 

Attached is a proposed plan for improving our information about current business developments. This plan has been worked out in response to a request from you and other Board members. A copy is also being sent to Mr. Ransom.

November 30, 1937

IMPROVEMENT OF INFORMATION ON BUSINESS CONDITIONS

For the purpose of supplementing available statistics, which necessarily reflect events that have already taken place, and providing the System with a reflection of business policies that are still in the making, it is proposed to develop the current flow of information along two lines:

(1) More contact with business men by Federal Reserve officials.

These contacts may be made by the officers and members of the research staffs of the Federal Reserve banks and also by members of the Board and its staff. Although interviews can not produce precise and comprehensive information that may be relied upon as definite measures of business developments, they can give prompter results; they may also provide suggestions as to developments to be watched and investigated more thoroughly and help explain trends shown by available statistics. They may be used to obtain some information regarding developments not shown by available statistics, for example, regarding inventories, unfilled orders, cancellations, and plans for expansion or contraction. There is attached a proposed form setting forth specific questions to which answers should be sought in these interviews. This form is intended to be a guide to the interviewers, not a questionnaire that should be filled out by respondents. It calls for information on a monthly basis, because weekly records are often not available and may be more influenced by special developments, but it is contemplated that interviews will be spread through the month.

CURRENT INQUIRY AS TO BUSINESS CONDITIONS

(This form is a guide to interviewers; it is not a questionnaire or statistical schedule to be filled in by respondents.)

- I. For this concern compare latest month* with previous month and with same month last year as to:
- | | Approximate percentage of increase or decrease from | |
|--|---|----------------------|
| | Previous month | Same month last year |
| 1. Output or sales | | |
| 2. New orders received | | |
| 3. Cancellations | | |
| 4. Unfilled orders at end of month | | |
| 5. Inventories at end of month | | |
| a. Finished goods | | |
| b. Materials, supplies, and goods in process | | |
| 6. Expenditures for plant and equipment | | |
| 7. Profits | | |
- II. What are expectations of this concern for next three months compared with same period last year as to:
- | | Approximate percentage of increase or decrease | |
|--|--|--|
| 1. Output or sales | | |
| 2. New orders to be received | | |
| 3. Inventories | | |
| a. Finished goods | | |
| b. Materials, supplies, and goods in process | | |
| 4. Expenditures for plant and equipment | | |
| 5. Profits | | |
- III. What changes have been made in the past month in the plans of this concern as to future --
1. Purchases of materials and supplies or of goods for resale?
 2. Expenditures for plant and equipment?
- IV. What is outlook for general business in locality of this concern during next three months?
- V. Give principal reasons for any important changes indicated in above answers:

* May be latest complete calendar month, latest 4 or 5 week period, or elapsed portion of current month.

(2) Since interviews can only be suggestive and the results must be checked against more precise statistical information, it is essential for a better understanding of current business developments that statistics of business be improved. This can be accomplished by cooperating with the Central Statistical Board and other Government agencies in aggressively promoting a program toward this end. Specific plans and programs have already been carefully worked out. The problem is one of providing adequate organization and sufficient appropriations. For the purposes of current business analysis expansion and improvement of statistical information is most needed along three lines, as follows:

(a) Production statistics.- There are a considerable number of statistical series available as to the physical volume of production, but for many important industries such information is lacking or is inadequate. This is particularly true of building materials and chemicals. This is a task for the Department of Commerce.

(b) Statistics of orders and inventories.- For practically no important industries are there available adequate current statistics of the volume of orders and inventories, and information along these lines is absolutely essential for predicting the course of the current business cycle. This need is illustrated by the events of 1937, when new orders were declining while production was maintained on the basis of orders previously received and inventories were presumably increasing. This should also be done by the Department of Commerce, which, however, is at present inadequately staffed to handle such a task.

(c) Financial statistics of industry.- Compilation of figures from income and balance sheet statements of large corporations would provide valuable information regarding the flow of funds into and out of industry and the purposes for which the funds are used -- for current costs, plant expansion, payment of debts, or accumulation of idle funds. Many corporations publish quarterly income and balance sheet statements but some important ones do not. Certain significant information, moreover, is not given on all of the published statements and the methods of reporting are not sufficiently standardized to permit the building up of totals. Some agency, perhaps the Securities and Exchange Commission, should obtain quarterly income and balance sheet statements on a standardized basis from a representative sample of industrial corporations. If necessary to obtain reports some items could be reported confidentially and published only in the form of totals for groups of corporations.

Various aspects of this program are discussed in somewhat more detail in the following paragraphs.

Inquiries by Federal Reserve banks

Officials of Federal Reserve banks should keep in constant contact with the leading business concerns in their districts for the purpose of learning of important changes in business developments. Information obtained in this manner can not be statistical, partly because it should be obtained by interviews or by telephone and not by questionnaires sent to business concerns to be filled out. A statistical project for this purpose would be expensive and would also involve duplication of activities of other agencies. The information to be obtained, although not statistical, should be specific. The questions on the proposed form are designed to cover the most important information that would be useful in analyzing current business developments and that could be obtained in fairly precise form through verbal inquiry. No specific questions are included about labor relations, costs, or prices, but it is expected that information on these matters will be brought forth in the explanation of changes in the other items, particularly profits.

This form should not be given to the business concerns to be filled out, nor need the questions be asked directly or in a formal manner; rather the answers should be brought forth in the course of conversation. Some of the questions would not apply to all lines of trade and industry. For example, it would not be necessary to ask retailers about new orders received or inventories of raw materials, or to ask utilities about orders or finished goods inventories. There should be frequent interviews and reports sent to the Board at least twice a month. No one concern, however, should be questioned more than once each month or two, unless relations are such that more frequent contacts would not be annoying.

Before beginning such a program there should be a conference of Reserve bank officials with the Board and its staff to discuss the information needed and the best ways of obtaining it.

Interviews by the members of Board's staff

In addition to obtaining information through Federal Reserve banks it would be desirable also for members of the Board and its staff to interview business men rather frequently, working in cooperation with the Reserve banks. A member or members of the Board's research staff should visit the Federal Reserve banks to check up on how they are conducting their inquiries, to coordinate the activities of the various Reserve banks, and to see whether the most useful possible information is being obtained. Some of the people in the Reserve banks available for making interviews may not be familiar with the technique of current business analysis or with important questions that need to be answered. The Board's representatives could also through interviews with business men make special inquiries into important matters for which information is not available, such as accumulation of inventories, plans for plant expansion, and possible price policies.

Limitations of interviews as a source of information

Interviewing business men is not an entirely satisfactory method of obtaining information about current business developments. It has been the experience of the Federal Reserve banks and of others who have followed this method that either the answers obtained give information already of common knowledge or they are so diverse and lacking in precision as to make it impossible to determine from them the general trend of events. Reports can not be obtained in this manner from a sufficient number of concerns to be sure that the answers are representative of developments in the industry as a whole. The information thus obtained is also not precise enough to make corrections for usual seasonal developments and it is not possible to make comparisons with

earlier periods. The best that can be expected of such inquiries is that they will provide an indication of developments before accurate statistics are available, that they may suggest developments not shown by available statistics, and that they will help explain some known developments.

Additional statistics needed

In view of the limitations of data that may be obtained by interview and direct inquiry, ultimate reliance for determining the trend of events must be placed upon currently published statistics. Current business statistics now available are collected by a variety of agencies -- mostly the Government, trade associations, and trade journals. The development of these statistics has been largely haphazard, depending upon the interest and energy of particular individuals, agencies, or industries in starting and maintaining the various series. Enough information is available to provide the basis for a fairly good general analysis of the trend of business developments, but there are many important gaps and discrepancies, the correction of which would help to improve current analysis. These corrections will have to be made slowly because statistical agencies are not in a position to undertake so large a task all at once. The program also involves questions of the inter-relationship of Government agencies and trade associations, of allocation of work among the various agencies, of obtaining cooperation of industry or of requiring reports by legislation, and of supplying the necessary funds to cover the cost of collection and presentation. It is possible, however, to make some improvements in the immediate future if sufficient pressure is brought to bear upon the responsible Government agencies. The more important statistics needed and obtainable without too much trouble and expense are discussed in the following paragraphs.

Production statistics. - Statistics of physical volume of production provide about the most useful general information regarding industrial trends. Most of the production statistics available cover basic products the output of which are roughly indicative of industrial activity in general. Output of these products, however, fluctuates more widely than output of more finished products and also varies in timing. Available production statistics, therefore, give a somewhat exaggerated idea of fluctuations in business activity.

There are some important industries for which satisfactory monthly production statistics are not available. The chief of these are -

(1) Building materials, particularly lumber and brick.- Such

statistics are needed as indicators of building activity.

Some statistics are available regarding these products

but they are not adequate. Owing to the large number of

small concerns in the lumber and brick industries reports

received from a few large firms are not representative of

the industry in general and therefore the task of collecting

adequate data is difficult and expensive. It will have to

be done at least in part by a Government agency.

(2) Chemicals.- This is the most important group of industries

for which practically no production statistics are available.

(3) Paper.- Figures are reported by trade associations but are

not satisfactory.

(4) Copper.- A trade association collects figures on copper out-

put and stocks, but it has varied its policy of publishing

them according to whether the statistical position of the

product is favorable or unfavorable.

In recent years weekly production or activity figures have been reported for a few important industries and they are invaluable in determining current trends. Weekly statistics are needed, however, for a few more important industries to give a better picture of developments. The most important data needed are for cotton consumption, and figures for wool consumption and copper production would also be helpful. These could probably be obtained with a relatively small amount of work and expense. The weekly lumber series might also be improved somewhat.

Orders and stocks. - Production statistics give a measurement of what has happened, but they are frequently late in reflecting important changes in buying or in inventories, which changes are indicative of future trends in activity. There are practically no important industries for which adequate statistics are available as to orders received, unfilled orders, cancellations, and stocks on hand. The greatest need for improvement is along these lines.

Dollar value statistics. - There are many important industries for which physical volume statistics either can not be reported or would have to be given in considerable detail to be useful. This is true where a great variety of products are made or sold, as in retail trade, or where products are not sufficiently standardized to be expressed in comparable physical volume, e.g. machinery. From these industries it would be desirable to obtain statistics of dollar value of sales, orders, inventories, etc. The Department of Commerce is now collecting dollar statistics of sales, accounts receivables, and collections from a large number of wholesalers and manufacturers and is adding a question regarding inventories. The figures that are now being obtained from

manufacturers, however, cover too small a number of large producers to give representative results for many important lines of industry. The figures from wholesalers are somewhat more representative.

Income and balance sheet statements. - Compilation of totals from corporation income and balance sheet statements would give statistics of considerable value in analyzing current business developments, especially with reference to sources and uses of funds and to costs and profits. At present, however, published statements are not available quarterly for some important corporations and most of those available do not provide all the information needed for current business analysis. Fairly standardized quarterly reports from 500 or 1,000 of the largest corporations should be sufficient to give a representative indication of developments in a number of important industries. The items shown on the statements should be such as to provide information along the following lines:

- (1) Source of funds -- sales and borrowings
- (2) Expenditures -- labor, materials, plant and equipment,
and payment of debts
- (3) Earnings -- dividends and undistributed profits
- (4) Inventories
- (5) Cash position

These reports should be obtained by the Securities and Exchange Commission, but since this Commission is interested more in regulation than in current business analysis it probably will need special urging to undertake the task.