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SUMMARY OF REMARKS ON THE QUARTERLY FINANCIAL REPORT AS A
SOURCE OF MANUFACTURING PROFITS DATA

John T. Woodward 1/
Chief, Branch of Financial Reports
Office of Policy Research
Securities and Exchange Commission

The Quarterly Financial Report for Manufacturing Corporations (QFR) provides current quarterly estimates of financial data--including profits--for about 30 major industries within manufacturing (excluding newspapers). These estimates are based on a sample of more than 10,000 corporations which report--to the S.E.C. or the F.T.C.-- quarterly income and balance sheet data for their consolidated company operation. Companies are classified in industry groupings on the basis of the dominant activity of the consolidated company. Thus, some manufacturing activity is not reflected in the Quarterly Financial Report because the company, when considered as a whole, is not engaged primarily in manufacturing. Also, some nonmanufacturing operations are reflected in the QFR data when they are included in a manufacturer's consolidated report. Table 1 of the Quarterly Financial Report is attached as Enclosure 1 and contains the industry categories used in the presentation of the QFR data.

While the sample represents about 6 percent of the total number of manufacturing corporations, it covers almost 90 percent of the total assets

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of the "universe" of such companies. A detailed explanation of the sampling procedures is contained in each of the QFR booklets, and I will not describe these details. However, it should be mentioned that corporations with assets over \$10 million are covered on a 100-percent-sample basis and about three-fourths of the companies in the \$5- to \$10-million-asset size group are included. Companies with assets of less than \$5 million are sampled on a less comprehensive basis with sampling ratios varying from about one-out-of-sixty to one-out-of-four.

In addition to the estimates provided for the 30 industry groups, a table is presented in the Quarterly Report booklet showing data by size of assets, with nine groupings. These data are comparable within a calendar year but not from one year to the next since the composition of each asset size grouping is altered in the first quarter of each year to reflect changes in asset sizes of the reporting firms.

The concept of profits used in the QFR is based on conventional accounting definitions and procedures, with several minor exceptions. The profit figures reported to F.T.C.-S.E.C. are generally consistent with data presented in quarterly and annual reports to stockholders. Adjustments are made by F.T.C.-S.E.C. for nonrecurring credits and charges so that these will not be reflected in the aggregate data. Also, an adjustment is made to include income for minority interest.

The profits data in the Quarterly Financial Report differ in several respects from the Statistics of Income (S.O.I.) profits figures--the other basic source of profits data for manufacturing. The QFR figures reflect

book accounting for depreciation rather than tax accounting. (Mr. Natrella and Mr. Gorman have both commented on this point). The QFR figures are also on a more consolidated basis than the S.O.I. figures. Other differences may result from variations in industry classifications, ordinary sampling variation, and the rotating feature of the quarterly sample segment of the Quarterly Financial Report (one-eighth of the sample group is replaced each quarter). Because of the latter factor, the QFR data theoretically cannot be summed to yield an annual figure consistent with data compiled directly from annual reports. In practice, the differences due to this factor are probably very small compared with other types of differences between the QFR data and annual S.O.I. data. Annual figures are not published in the QFR booklets but are shown for sales and after-tax earnings in a press release available at about the same time that the fourth quarter report is published.

The current quarterly profit figures are used in assessing the profitability of manufacturing as a whole including, as Mr. Gorman has pointed out, estimating the manufacturing segment of the national income profit figures. In addition to such general uses, the amount of detail provided in the data makes them useful for more specific industry and company analyses, market research, etc. Many of the subscribers to the Quarterly Reports are private corporations who apparently use the industry estimates as a yardstick in evaluating their own performance. The usefulness of the profit data is enhanced by the additional financial data that are also provided. It is possible to relate profits not only to sales but also to such items

as stockholders' equity and total invested capital. The profit data may also be combined with depreciation to provide measures of cash flow for the industry groups within manufacturing. The additional data included in the QFR can be seen in Table 8 of the Report attached as Enclosure 2.

Those of you who use the Quarterly Financial Report data regularly know that we have some major problems in preparing the data. Because of the increasing diversification in industry, the distinction between industry groups is becoming less clear. It has become increasingly difficult to classify companies into narrow industry classifications, and even the two-digit groups have become less meaningful.

We are frequently asked about the time lag in the publication of the QFR figures. The present schedule provides profit figures in a press release about 70-75 days after the end of the calendar quarter, except for the October-December quarter when the period is about 95 days. Although we ask that the individual company reports be returned within 30 days after the close of the quarter, it is apparent that this does not allow adequate time for many of the companies having large and geographically diversified operations. A follow-up notice is used about 35 days after the end of the quarter, and telegrams and telephone calls are used between 40 and 45 days after the quarter-end. Some editing is necessary and adjustments must be made to a considerable number of reports. The first edit runs are made on the computer about 55 days following the close of a quarter. The balance of the time is required for checking possible errors or omissions, making final runs, preparing textual material for the press release, typing tables, and printing the release for

distribution and mailing so that it will be in the hands of the financial press a day or two prior to the scheduled release date.

We prepare a preliminary estimate of sales and earnings, based on early responses, between 35 and 40 days after the close of each quarter (65 days after the fourth calendar quarter) which has proved to be reasonably accurate for manufacturing as a whole. However, these estimates are not prepared with the same degree of industry detail as the final report, and the estimates for the industry subgroups have not been as satisfactory as the overall manufacturing figures. The preliminary figures are not published, but would be available on request.

Another problem of concern to many users of the QFR profits data is the comparability of the data from one period to another. The increasing number of mergers, acquisitions, new product lines, etc. has complicated the problem of maintaining a reasonably comparable time series. We have followed the procedure of reflecting changes in the series when we learn of developments that warrant such changes. While we attempt to maintain uniformity and consistency in accounting treatment, changes in the degree of ownership of partially-owned subsidiaries may result in a different degree of consolidation in financial reports. In such cases, data are not usually available on a consistent basis with prior reports. Where mergers or acquisitions result in altered industry classifications of companies, the failure to reflect the changes in the aggregate data would result after a time in unrealistic figures for the various industry groups. Within the limitations of the confidential nature of the data furnished, we try to alert the users to the approximate magnitude of the changes reflected in the aggregate figures.

TABLE 1. RATES OF CHANGE IN SALES AND PROFITS BY

OF ALL MANUFACTURING CORPORATIONS INDUSTRY

Industry	Sales					Net Profit Before Federal Income Taxes					Net Profit After Taxes				
	Sales			Rate of Change		Net Profit Before Federal Income Taxes			Rate of Change		Net Profit After Taxes			Rate of Change	
	4Q 1966	3Q 1967	4Q 1967	4Q 1966 to 4Q 1967	3Q 1967 to 4Q 1967	4Q 1966	3Q 1967	4Q 1967	4Q 1966 to 4Q 1967	3Q 1967 to 4Q 1967	4Q 1966	3Q 1967	4Q 1967	4Q 1966 to 4Q 1967	3Q 1967 to 4Q 1967
(Million Dollars)			(Percent)		(Million Dollars)			(Percent)		(Million Dollars)			(Percent)		
All manufacturing corporations, except newspapers	145,457	141,536	151,776	+ 4	+ 7	13,124	10,970	12,823	- 2	+17	7,933	6,718	7,946	0	+18
Durable goods	77,272	72,587	79,952	+ 3	+10	7,500	5,401	6,971	- 7	+29	4,209	3,099	4,003	- 5	+29
Transportation equipment	20,100	16,963	21,440	+ 7	+26	2,005	649	1,725	-14	2/	1,067	392	961	-10	2/
Motor vehicles and equipment ¹	13,625	9,938	13,290	- 2	+34	1,650	297	1,283	-22	2/	870	193	712	-18	2/
Aircraft and parts ¹	5,112	5,682	6,803	+33	+20	265	269	352	+33	+31	149	150	199	+34	+33
Electrical machinery, equipment, and supplies	13,441	12,949	14,002	+ 4	+ 8	1,126	1,001	1,195	+ 6	+19	617	540	666	+ 8	+23
Other machinery	12,701	12,445	12,982	+ 2	+ 4	1,353	1,267	1,282	- 5	+ 1	748	687	692	- 7	+ 1
Metalworking machinery and equipment ¹	1,766	1,715	1,708	- 3	0	195	174	161	-17	- 7	112	96	84	-25	-12
Other fabricated metal products	7,499	7,311	7,620	+ 2	+ 4	566	542	570	+ 1	+ 5	318	305	322	+ 1	+ 6
Primary metal industries	10,529	9,421	9,886	- 6	+ 5	1,197	638	823	-27	+37	721	418	579	-20	+39
Primary iron and steel ¹	6,383	5,796	6,020	- 6	+ 4	609	342	518	-15	+51	370	227	346	- 6	+52
Primary nonferrous metals ¹	4,146	3,625	3,866	- 7	+ 7	588	297	355	-40	+20	350	192	233	-33	+21
Stone, clay, and glass products	3,541	3,769	3,636	+ 3	- 4	280	360	305	+ 9	-15	173	216	195	+13	-10
Furniture and fixtures	1,832	1,778	1,761	- 4	- 1	125	114	122	- 2	+ 7	68	64	67	- 1	+ 5
Lumber and wood products, except furniture	2,160	2,521	2,650	+23	+ 5	80	152	141	+76	- 7	54	102	98	+81	- 4
Instruments and related products	3,106	3,171	3,585	+15	+13	562	514	576	+ 2	+12	309	280	325	+ 5	+16
Miscellaneous manufacturing and ordnance	2,364	2,259	2,389	+ 1	+ 6	206	163	182	-12	+12	135	95	99	-27	+ 4
Nondurable goods	68,185	68,949	71,825	+ 5	+ 4	5,625	5,570	5,852	+ 4	+ 5	3,724	3,619	3,943	+ 6	+ 9
Food and kindred products	20,467	20,633	21,159	+ 3	+ 3	929	1,047	1,024	+10	- 2	528	584	589	+12	+ 1
Dairy products ^{1/}	3,213	3,074	2,867	-11	- 7	128	138	119	- 7	-14	73	77	66	-10	-14
Bakery products ^{1/}	1,347	1,415	1,361	+ 1	- 4	68	65	74	+ 9	+14	39	35	44	+13	+26
Alcoholic beverages ^{1/}	2,249	2,060	2,247	0	+ 9	173	177	190	+10	+ 7	96	97	103	+ 7	+ 6
Tobacco manufactures	1,702	1,803	1,799	+ 6	0	183	221	207	+13	- 6	98	116	112	+14	- 3
Textile mill products	4,880	4,760	4,965	+ 2	+ 4	293	252	301	+ 3	+19	166	140	171	+ 3	+22
Apparel and other finished products	4,541	4,569	4,804	+ 6	+ 5	187	217	225	+20	+ 4	110	127	138	+25	+ 9
Paper and allied products	4,405	4,229	4,481	+ 2	+ 6	391	311	329	-16	+ 6	240	190	210	-12	+11
Printing and publishing, except newspapers	3,525	3,533	3,720	+ 6	+ 5	300	308	267	-11	-13	171	172	145	-15	-16
Chemicals and allied products	11,184	11,752	12,306	+10	+ 5	1,377	1,346	1,444	+ 5	+ 7	823	767	859	+ 4	+12
Basic chemicals ¹	5,914	5,965	6,231	+ 5	+ 4	676	576	642	- 5	+11	422	346	397	- 6	+15
Drugs ¹	1,890	2,038	2,319	+23	+14	348	402	401	+15	0	199	221	236	+19	+ 7
Petroleum refining and related industries	12,397	12,700	13,371	+ 8	+ 5	1,615	1,569	1,668	+ 3	+ 6	1,383	1,353	1,481	+ 7	+ 9
Petroleum refining ¹	12,055	12,459	13,140	+ 9	+ 5	1,596	1,543	1,661	+ 4	+ 8	1,373	1,335	1,477	+ 8	+11
Rubber and miscellaneous plastics products	3,493	3,415	3,534	+ 1	+ 3	264	216	283	+ 7	+31	158	122	181	+15	+48
Leather and leather products	1,612	1,554	1,685	+ 5	+ 8	85	83	103	+21	+24	48	47	58	+21	+23

^{1/} Included in major industry above.
^{2/} Change in excess of 100 percent.

TABLE 8. FINANCIAL STATEMENT FOR ALL MANUFACTURING CORPORATIONS, BY INDUSTRY
(Million dollars)

	All Manufacturing Corporations, Except Newspapers					Transportation Equipment					Motor Vehicles and Equipment ^{1/}					Aircraft and Parts ^{1/}				
	4Q 1966	1Q 1967	2Q 1967	3Q 1967	4Q 1967	4Q 1966	1Q 1967	2Q 1967	3Q 1967	4Q 1967	4Q 1966	1Q 1967	2Q 1967	3Q 1967	4Q 1967	4Q 1966	1Q 1967	2Q 1967	3Q 1967	4Q 1967
INCOME AND SURPLUS																				
Sales (net of returns, allowances, and discounts)	145,457	136,989	145,126	141,536	151,776	20,100	17,887	20,145	16,963	21,440	13,625	11,764	13,236	9,938	13,290	5,112	4,867	5,387	5,682	6,803
Deduct: Costs and expenses (net of purchase discounts)	132,637	125,640	132,511	130,522	139,046	18,101	16,470	18,273	16,338	19,672	11,994	10,669	11,742	9,673	11,980	4,834	4,622	5,126	5,406	6,432
Net profit from operations	12,820	11,349	12,615	11,014	12,730	1,999	1,417	1,872	625	1,768	1,631	1,096	1,495	265	1,310	278	245	261	275	371
Add: Other income or deductions (net)	304	36	-21	-44	93	6	-6	-17	24	-43	18	14	-3	32	-27	-13	-18	-11	-7	-19
Net profit before Federal income taxes	13,124	11,385	12,594	10,970	12,823	2,005	1,411	1,856	649	1,725	1,650	1,109	1,491	297	1,283	265	227	251	269	352
Deduct: Provision for Federal income taxes	5,191	4,637	4,998	4,252	4,877	938	629	825	257	764	780	489	660	104	571	115	102	115	119	153
Net profit after taxes	7,933	6,748	7,596	6,718	7,946	1,067	782	1,030	392	961	870	620	831	193	712	149	125	136	150	199
Deduct: Cash dividends charged to surplus	3,745	3,185	3,266	3,079	3,732	635	445	452	444	589	565	377	382	373	495	51	49	52	53	74
Net profit retained in business	4,188	3,563	4,330	3,639	4,214	432	337	578	-52	372	305	243	449	-180	217	98	76	84	97	125
Add: Earned surplus and surplus reserves at beginning of period	150,535	153,728	156,431	159,681	162,349	18,311	18,793	19,106	19,744	19,742	14,831	15,200	15,390	15,820	15,521	2,514	2,597	2,714	2,898	3,211
Add: Other direct charges or credits to surplus (net)	-898	-388	-621	-286	-617	8	2	-80	-53	5	28	-8	-21	-43	15	-19	8	-58	-1	-1
Earned surplus and surplus reserves at end of period	153,824	156,904	160,139	163,033	165,943	18,751	19,132	19,604	19,638	20,119	15,165	15,435	15,818	15,597	15,754	2,593	2,681	2,739	2,993	3,335
Depreciation and depletion included above, including accelerated amortization of emergency facilities	4,626	4,628	4,814	4,932	5,155	484	489	512	538	546	357	362	373	381	382	98	100	110	119	136
ASSETS																				
Cash on hand and in bank	21,210	19,613	19,851	20,752	23,097	1,855	1,956	2,013	1,804	2,194	1,241	1,379	1,385	1,125	1,458	419	408	442	459	529
U.S. Government securities, including Treasury savings notes	8,525	7,052	5,690	4,774	6,566	1,638	1,373	1,528	742	1,149	1,531	1,341	1,482	689	1,093	64	14	9	20	22
Total cash and U.S. Government securities	29,735	26,665	25,541	25,526	29,663	3,493	3,329	3,541	2,546	3,343	2,772	2,720	2,867	1,814	2,551	483	422	451	479	551
Receivables from U.S. Government, excluding tax credits	4,137	4,013	4,216	4,261	4,710	1,604	1,539	1,600	1,633	1,790	229	251	271	282	298	1,297	1,214	1,261	1,285	1,420
Other notes and accounts receivable (net)	67,481	67,904	70,079	72,467	71,844	5,843	5,828	6,092	6,009	6,237	4,260	4,203	4,359	4,346	4,361	906	962	1,027	1,068	1,311
Total receivables	71,618	71,917	74,295	76,728	76,554	7,447	7,367	7,692	7,642	8,027	4,489	4,454	4,630	4,628	4,659	2,203	2,176	2,288	2,353	2,731
Inventories	97,783	101,541	101,962	102,438	104,703	15,802	16,440	16,193	17,115	17,974	8,233	8,412	7,702	8,333	8,560	6,323	6,792	7,358	7,731	8,317
Other current assets	12,565	13,428	13,067	13,482	14,054	1,515	1,223	1,397	1,513	1,578	1,100	877	1,057	1,031	1,085	341	283	273	347	355
Total current assets	211,701	213,551	214,865	218,174	224,974	28,257	28,359	28,823	28,816	30,922	16,594	16,463	16,256	15,806	16,855	9,350	9,673	10,370	10,910	11,954
Property, plant, and equipment	307,588	314,388	322,325	329,584	337,188	29,716	30,471	31,314	32,594	33,629	22,621	23,174	23,717	24,575	24,924	4,946	5,127	5,366	5,817	6,459
Deduct: Reserve for depreciation and depletion	149,045	152,326	155,691	159,029	161,768	14,356	14,782	15,169	15,824	16,344	10,949	11,302	11,570	11,987	12,236	2,487	2,579	2,683	2,930	3,181
Total property, plant, and equipment (net)	158,543	162,062	166,634	170,555	175,422	15,360	15,689	16,145	16,770	17,285	11,672	11,871	12,147	12,588	12,688	2,459	2,548	2,683	2,887	3,278
Other noncurrent assets	32,027	33,343	34,856	35,972	36,792	3,998	4,226	4,376	4,707	4,836	3,025	3,104	3,153	3,401	3,309	828	968	1,066	1,138	1,340
Total assets	402,270	408,957	416,353	424,701	437,187	47,616	48,274	49,343	50,294	53,042	31,291	31,438	31,556	31,795	32,852	12,638	13,189	14,119	14,935	16,573
LIABILITIES AND STOCKHOLDERS' EQUITY																				
Short-term loans from banks (original maturity of 1 year or less)	15,590	17,851	18,862	17,997	16,541	2,019	2,325	2,108	2,234	1,978	927	1,067	884	994	925	885	1,090	1,043	1,140	946
Advances and prepayments by U.S. Government	4,232	4,713	5,311	5,589	5,703	3,321	3,525	3,960	4,187	4,328	72	77	81	106	121	2,878	3,098	3,584	3,763	3,869
Trade accounts and notes payable	35,006	32,438	32,639	33,019	36,618	4,994	4,554	4,646	4,812	5,669	3,293	3,020	3,052	3,248	3,477	1,333	1,202	1,240	1,249	1,872
Federal income taxes accrued	13,537	12,828	8,687	9,130	10,228	1,807	1,613	976	838	1,210	1,434	1,276	716	552	880	275	251	187	219	260
Installments, due in 1 year or less, on long-term debt (a) Loans from banks	1,470	1,571	1,634	1,820	1,758	109	104	108	145	136	68	50	51	57	67	31	42	42	44	30
(b) Other long-term debt	2,491	2,454	2,504	2,589	2,873	122	126	140	142	189	65	72	77	83	119	41	40	51	49	55
Other current liabilities	25,652	26,226	27,418	27,805	28,318	4,569	4,574	4,877	4,813	5,172	2,879	2,829	3,067	3,067	3,315	1,461	1,513	1,573	1,519	1,628
Total current liabilities	97,978	98,081	97,055	97,949	102,039	16,941	16,821	16,815	17,171	18,682	8,738	8,391	7,928	8,107	8,904	6,904	7,236	7,720	7,983	8,660
Long-term debt due in more than 1 year (a) Loans from banks	10,984	11,335	12,097	12,159	12,642	883	927	905	912	990	356	349	336	377	387	433	482	470	465	528
(b) Other long-term debt	45,278	47,164	49,836	52,719	55,219	2,932	3,123	3,626	3,711	4,035	1,337	1,506	1,638	1,634	1,665	1,078	1,045	1,401	1,464	1,733
Other noncurrent liabilities	11,215	11,505	11,808	12,222	13,032	1,595	1,635	1,749	1,783	1,886	1,361	1,330	1,434	1,458	1,506	97	157	173	180	232
Total liabilities	165,455	168,085	170,796	175,049	182,932	22,351	22,506	23,095	23,577	25,593	11,792	11,576	11,336	11,576	12,462	8,512	8,920	9,764	10,092	11,153
Reserves not reflected elsewhere	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital stock, capital surplus, and minority interest	82,989	83,967	85,420	86,619	88,312	6,516	6,636	6,646	7,079	7,328	4,335	4,427	4,402	4,621	4,637	1,533	1,587	1,617	1,851	2,084
Earned surplus and surplus reserves	153,824	156,904	160,139	163,033	165,943	18,751	19,132	19,604	19,638	20,119	15,165	15,435	15,818	15,597	15,754	2,593	2,681	2,739	2,993	3,335
Total stockholders' equity	236,813	240,871	245,559	249,652	254,255	25,267	25,768	26,250	26,717	27,447	19,500	19,862	20,220	20,218	20,391	4,126	4,268	4,356	4,844	5,419
Total liabilities and stockholders' equity	402,270	408,957	416,353	424,701	437,187	47,616	48,274	49,343	50,294	53,042	31,291	31,438	31,556	31,795	32,852	12,638	13,189	14,119	14,935	16,573
NET WORKING CAPITAL																				
Excess of current assets over current liabilities	113,723	115,470	117,810	120,225	122,935	11,316	11,538	12,008	11,645	12,240	7,856	8,072	8,328	7,699	7,951	2,446	2,437	2,650	2,927	3,294

^{1/} Included in Transportation Equipment.